SIX-YEAR FISCAL PROGRAM
2025 – 2030

Municipality of Anchorage

Suzanne LaFrance
Mayor

October 2, 2024

MUNICIPALITY OF ANCHORAGE

Six-Year Fiscal Program

2025 – 2030

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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

2025 – 2030

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1. 6-Year Outlook

Our team has focused on building a budget that establishes long-term strategies to address the community's big challenges while delivering quality public services each day. The 2025 operating budget includes key investment to address homelessness head-on, expand and improve crisis response services, strengthen road-plowing capacity, invest in childcare and early education, and rebuild the Municipality's workforce to safeguard critical service delivery for the people of Anchorage.

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

The last several years have been full of surprises – a mixed bag of bad and good economic news. Perhaps none has been so surprising as the United States' ability to avoid an economic recession following years of disruption and uncertainty. The steps taken by the U.S. Federal Reserve to combat high inflation seem to be working. While these interest rate spikes have dampened private investment, price stability is expected to have a positive overall economic impact.

The national economy's growth while prices stabilized should be good news for key sectors in Anchorage which rely on the strength of the Lower 48 economy. U.S. demand for goods fuels much of the cargo throughput of Ted Stevens Anchorage International Airport, and American travelers' confidence in the economy, and willingness to spend, are critical to Alaska's visitor industry. These sectors will continue to bring money into the city in the years ahead.

Other mainstays of Anchorage's economy, oil and gas and federal funding, will also bring a surge of activity into Alaska over the next several years. Long-awaited projects are underway on Alaska's North Slope. Anchorage's architects, engineers, and construction companies should see high demand for years as funding from the 2021 federal Infrastructure Investment and Jobs Act, and Inflation Reduction Act, is awarded to projects statewide.

Over the coming year, we expect modest growth by most measures. Our outlook for the number of working-age people living in Anchorage is a notable exception. Anchorage has lost more than 17,000 working-age residents over the past decade, an 8.5% decline. This population loss has likely contributed to staffing shortages across multiple industries. Early retirements during the COVID-19 pandemic likely exacerbated this issue. Statewide, Alaska continues to have fewer than one unemployed person for every two job openings. This change in population is significantly related to a noticeable slowdown in the number of people moving to our city over the last several years. High housing costs, perceptions of public safety, school quality, and other community factors all impact Anchorage's ability to pull new residents north.

The avoidance of a national recession, large new oil developments, and federal infrastructure funding are all bright signals for the Anchorage economy. Yet, the condition of our community remains of utmost importance to capture these opportunities. Investments in housing, public safety, education, and redevelopment across the community are still needed to retain residents and attract new working-age people to Anchorage.

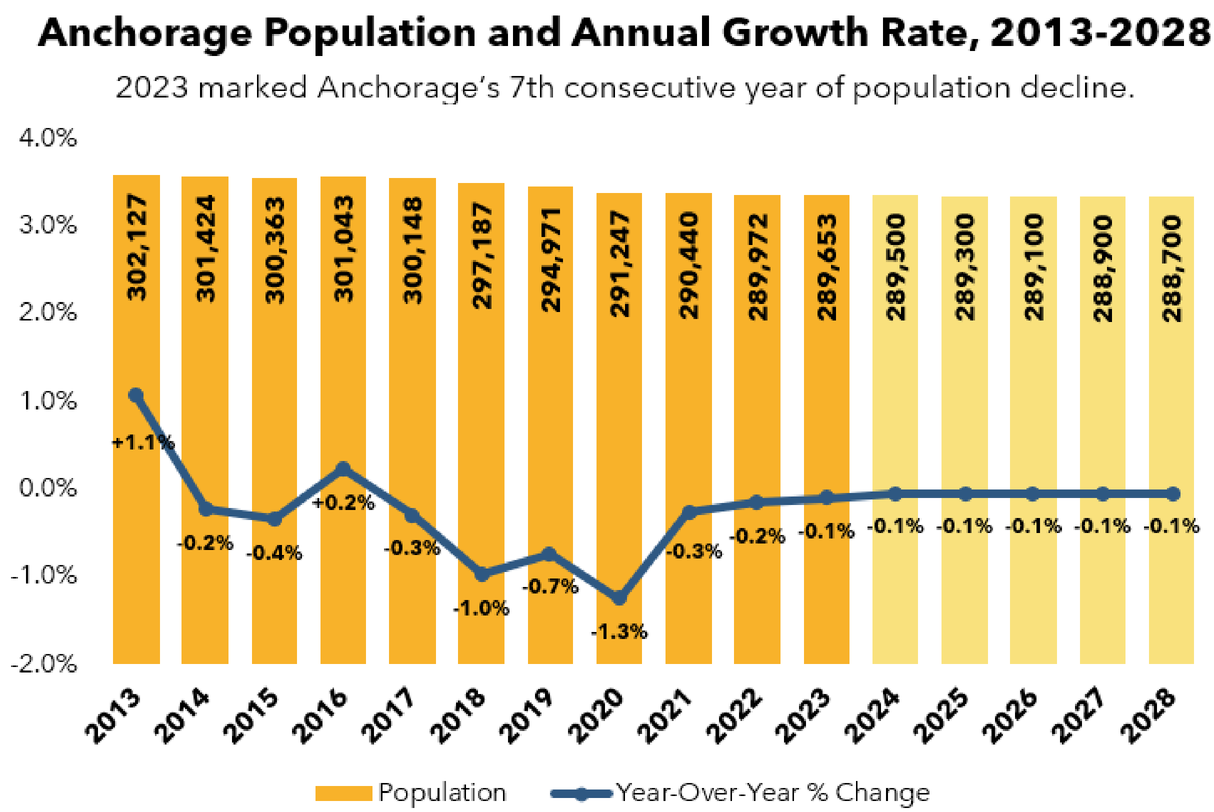
Demographics and Employment

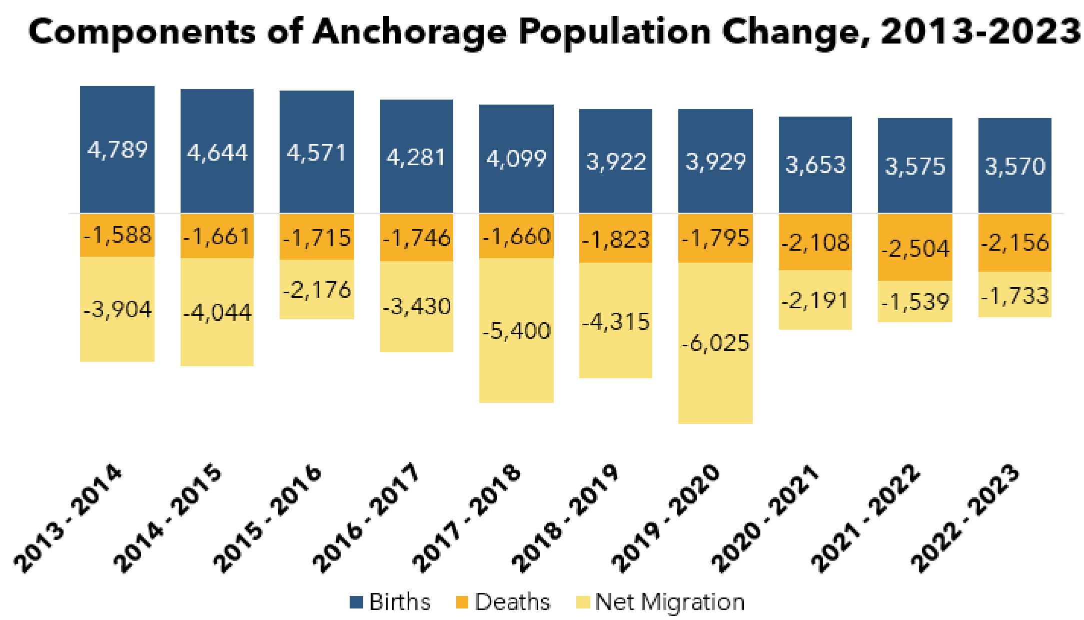
Population

Anchorage's population is expected to continue declining at low rates over the next five years.

Factors Contributing to the Forecast

- The number of births in Anchorage continues to decline with a lower working age population and continued low birth rates.
- Anchorage is seeing signs of slowing net outmigration, a leading contributor to population decline over the last decade, compared to the pace of population loss during the Alaska statewide recession (2015-2018).
- Demographic shifts and net outmigration will likely outweigh the number of new residents drawn to Anchorage over the next several years amid development activity on Alaska's North Slope.





Current Trends		
	2022-2023 Change	2022-2023 % Change
Total Population	-319	-0.1%
Net Migration	-1,733	+13%
Natural Increase	+1,414	+32%
Births	+3,570	-0.1%
Deaths	-2,156	-14%

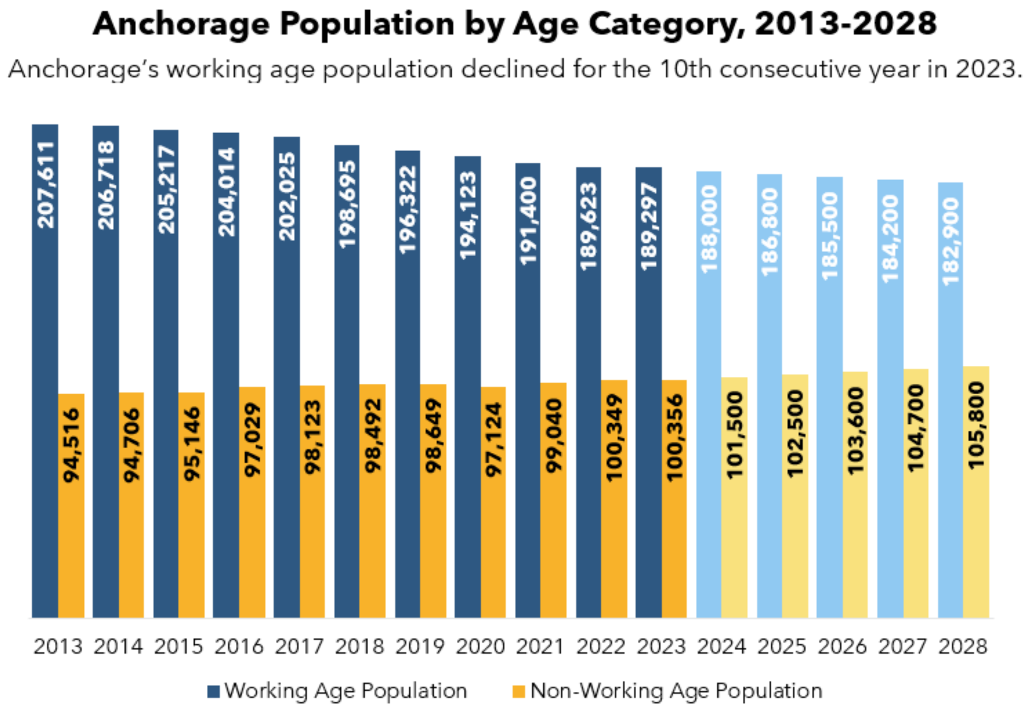
Source: Alaska Department of Labor and Workforce Development (2013-2023); McKinley Research Group estimates (2024-2028)

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.

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.
- Typically a source of new working-age residents, in-migration to Anchorage has slowed over the last decade.
- Less than half of people born in Alaska stay in Alaska long-term. With 48.7% of those born in the state living in Alaska as of 2021, Alaska has the second lowest population retention rate in the nation.
- New residents moving to Anchorage for jobs in the oil industry are not expected to outpace the rate of baby boomers aging out of the working-age population.
- Working-age residents represent 65% of Anchorage's total population in 2023, down from 69% in 2014.



Current Trends		
	2022-2023 Change	2022-2023 % Change
Total Working-Age Population	-325	-0.2%
		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

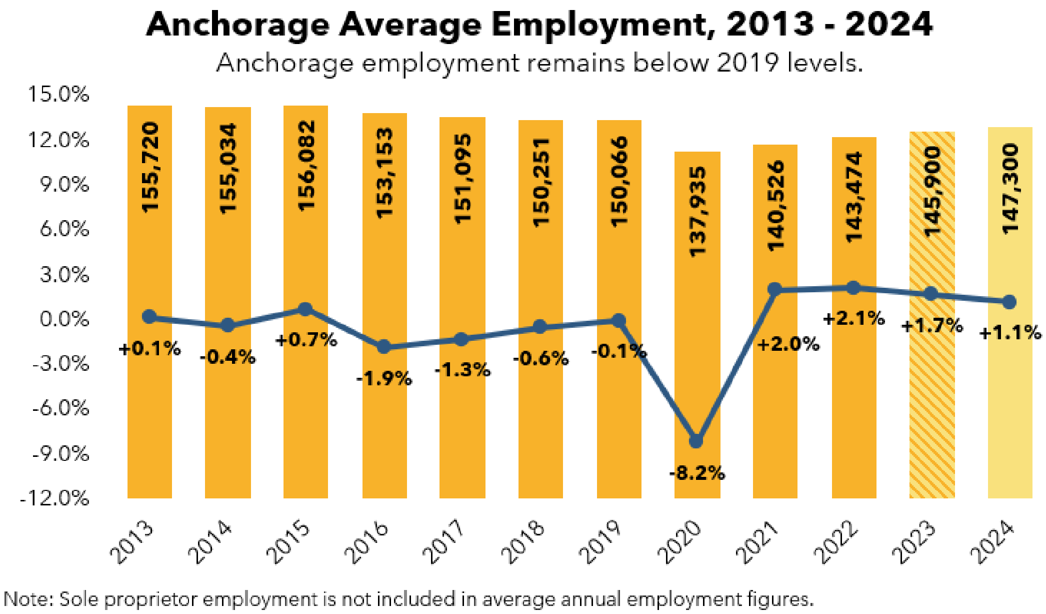
Source: Alaska Department of Labor and Workforce Development (2013-2023); McKinley Research Group estimates (2024-2028); Federal Reserve Bank of Dallas

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

- Slow population growth and lower working-age population continue to constrain employment growth.
- Professional and business services employment is expected to grow as the flow of federal infrastructure funding ramps up in the Alaska economy.
- The strength of the national economy will continue to impact demand for transportation services through, and visitor travel to, Anchorage.
- Work on Alaska's North Slope will require additional oil and support services employment in Anchorage.



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

Current Trends			
Top 3 Sectors (2022-2023)		**Bottom 3 Sectors (2022-2023)**	
Leisure & Hospitality (+719 jobs, +5%)		Financial Services (-191 jobs, -3%)	
Transportation & Warehousing (+558 jobs, +5%)		Government (-33 jobs, -0.1%)	
Healthcare (+404 jobs, +2%)		Oil & Gas (+15 jobs, +1%)	
	Wage & Salary Employment	**Self-Employment**	
2018	150,251	37,933	
2022	143,474	43,469	
2018 – 2022 % Change	-5%	+15%	
	Alaska Residents		**Non-Alaska Residents**
2021 Workforce Residency	**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 (2018, 2022), McKinley Research Group estimates (2023-2024)
Note: Rows may not add to 100% due to rounding.

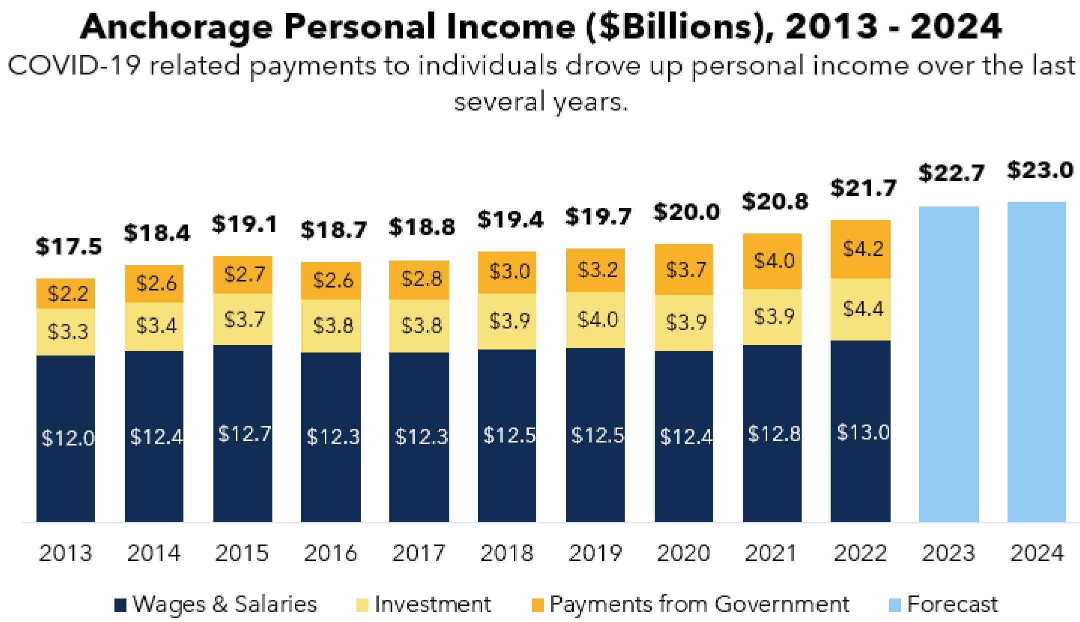
Purchasing Power

Personal Income

Wage growth is expected to outweigh reductions in COVID-19 related support to individuals, resulting in higher personal income in 2024.

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).



Current Trends			
	2022 ($Billion)	% of 2022 Total	2021- 2022 % Change
Salaries, wages, and proprietors' income (including benefits)	$13.0	60%	+2.9%
Payments from the government (i.e., unemployment insurance, social security, PFD)	$4.4	20%	+7.5%
Investment income	$4.1	19%	+3.0%

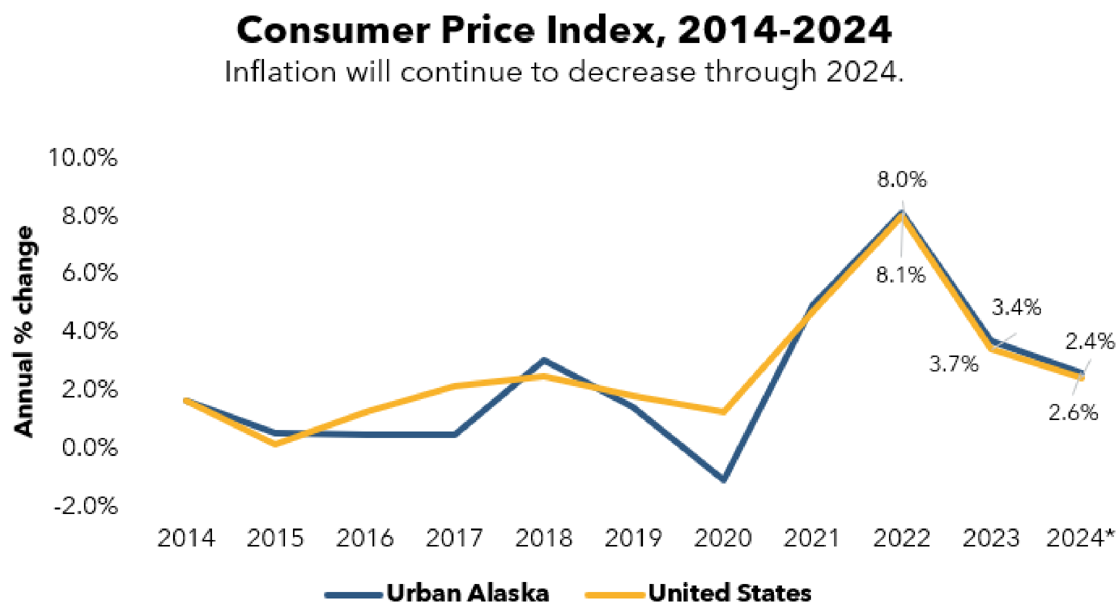
Source: U.S. Bureau of Economic Analysis (2013-2022), McKinley Research Group Estimates (2023 – 2024)

Inflation

Steady interest rates and fuel prices will help to keep inflation decreasing over the next year.

Factors Contributing to the Forecast

- Steady increases in interest rates through 2023 have successfully reduced inflation down to 3.1% as supply chains have returned to normal post-COVID19 pandemic.
- Expectations that the Federal Reserve will keep interest rates high, possibly with small reductions, through 2024 will put continued downward pressure on inflation.
- Fuel prices are expected to be steady around $80 per barrel, minimizing additional inflationary pressures.



Current Urban Alaska Trends			
Top 3 Price Increases (2022-2023)		**Top 3 Price Decreases (2022-2023)**	
Motor Vehicle Insurance	20.3%	Fuel Oil	-14.7%
Rent	6.5%	Piped Natural Gas	-13.8%
Food Away From Home	5.2%	Airline Fares	-9.4%

Source: U.S. Bureau of Economic Analysis (2013-2023)

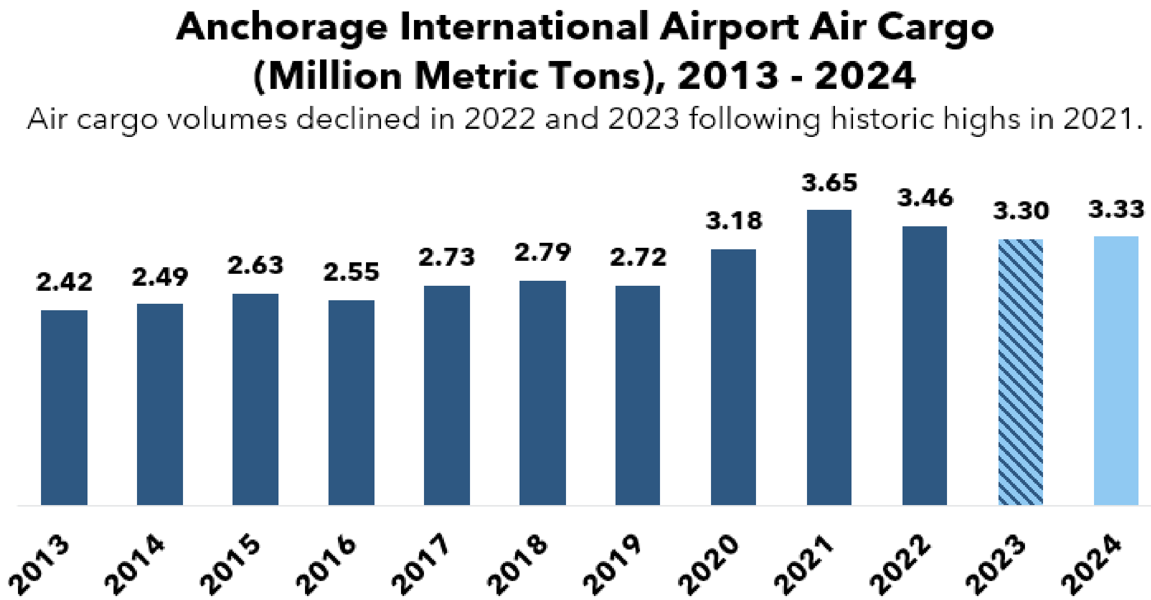
Transportation Industry

Anchorage Air Cargo

Air cargo volume will stabilize with modest growth as supply chains continue to readjust to pre-pandemic patterns.

Factors Contributing to the Forecast

- National consumer confidence and resulting demand for goods increases the volume transiting the Asia-North America route.
- Nationally, air cargo volume declined following historic highs in 2021.This trend coincides with a reduction in online shopping following significant pandemic-era increases.
- Completion of new FedEx sorting facility will increase capacity for air cargo at ANC.
- International events are contributing to increased passage of material through Anchorage enroute to Europe and the Middle East.



Current Trends			
	2023	2022-2023 Change	2022-2023 % Change
Metric tons of air cargo	3.3 M	-161,000	-5%
Cargo landings	53,388	-1,476	-3%
		2022 Rank	
Global airport rank by cargo volume		3rd	

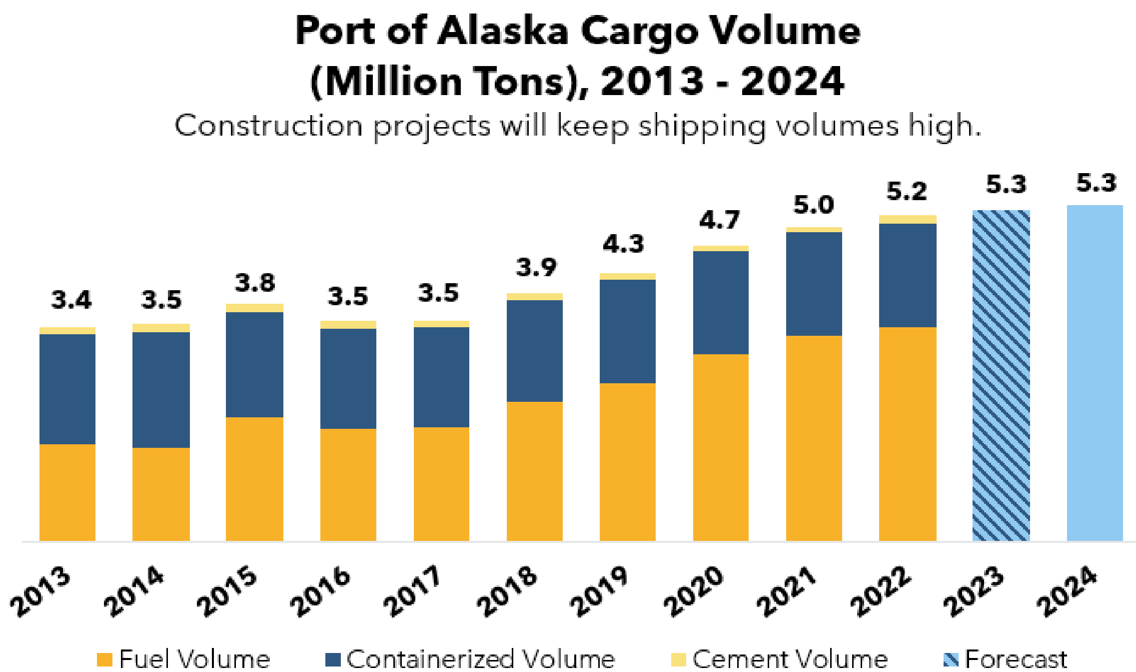
Source: State of Alaska Department of Transportation and Public Facilities (2013 – 2022), McKinley Research Group Estimates (2023 – 2024)

Port of Alaska Marine Cargo

Shipping through the Port of Alaska will continue at historically high volumes through the next year.

Factors Contributing to the Forecast

- Construction projects throughout the state are supporting strong cement demand, resulting in a nearly 50% increase in shipping volume over last year.
- Stable population rates in Anchorage will mean little to no increase in demand for consumer goods.
- Construction projects at the Port in 2024 may increase capacity in future years, but shipping volume will likely remain stable through the next year.



Current Trends			
	2023 Tons	% of 2023 Total	2022-202 % 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%

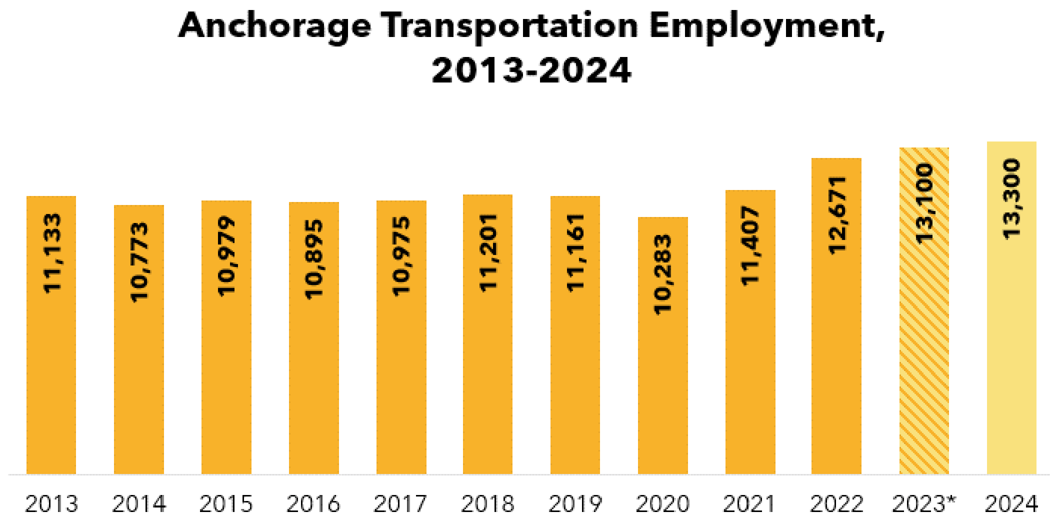
Source: Municipality of Anchorage, Port of Alaska (2013 – 2022), McKinley Research Group Estimates (2023 – 2024)

Transportation Employment

Transportation employment will continue to expand in 2024.

Factors Contributing to the Forecast

- The opening of new facilities such as the FedEx facility and Amazon sorting facility will increase demand for employees in the Transportation sector.
- FedEx plans to close its MD-11 freighter crew base in Anchorage, relocating pilots to other crew bases in their network, as part of a companywide cost saving initiative and ongoing retirement of the MD-11 fleet.



Source: Alaska Department of Labor and Workforce Development (2013 – 2022), McKinley Research Group Estimates (2023 – 2024)
* Employment estimate is preliminary

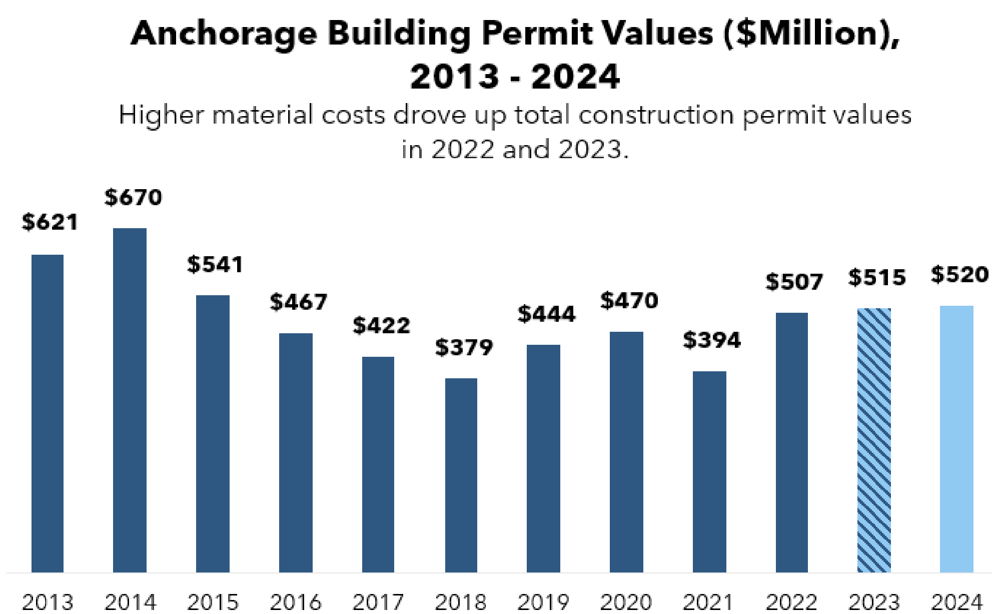
Construction Industry

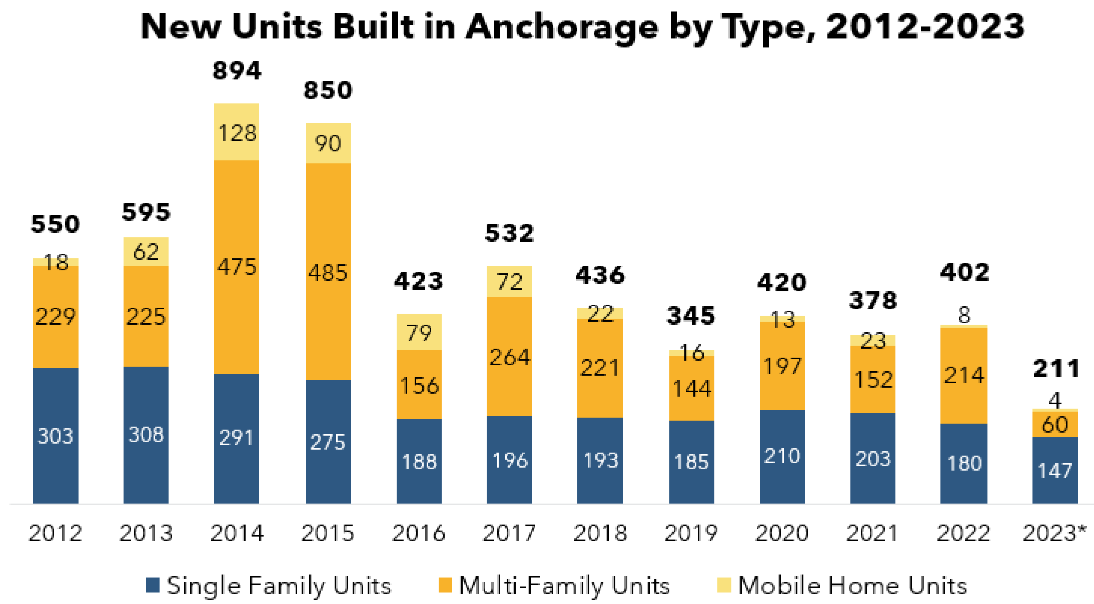
Building Permit Values

Anchorage construction permits in 2024 are expected to increase slightly, despite facing downward pressure from high interest rates and material prices.

Factors Contributing to the Forecast

- The pace of federal interest rate hikes has slowed. However, rates remain high, exerting downward pressure on residential and private, commercial construction activity.
- Material costs remain high due to inflationary pressures.
- Several commercial projects, including modernization work at the Port of Alaska and cargo projects at the Anchorage International Airport, will help sustain permit values in the near term.





Note: 2023 data includes a Q4 forecast.

Current Trends		
	2023 Permit Values	2022-2023 % Change
Total activity	$514.9 million	+1.6%
	2023	2022 - 2023 % Change
Average homes sales price	$481,181	+5%
	2019, YTD Q3	2023, YTD Q3
Anchorage – Mat-Su average home sales price difference	$105,005	$64,884

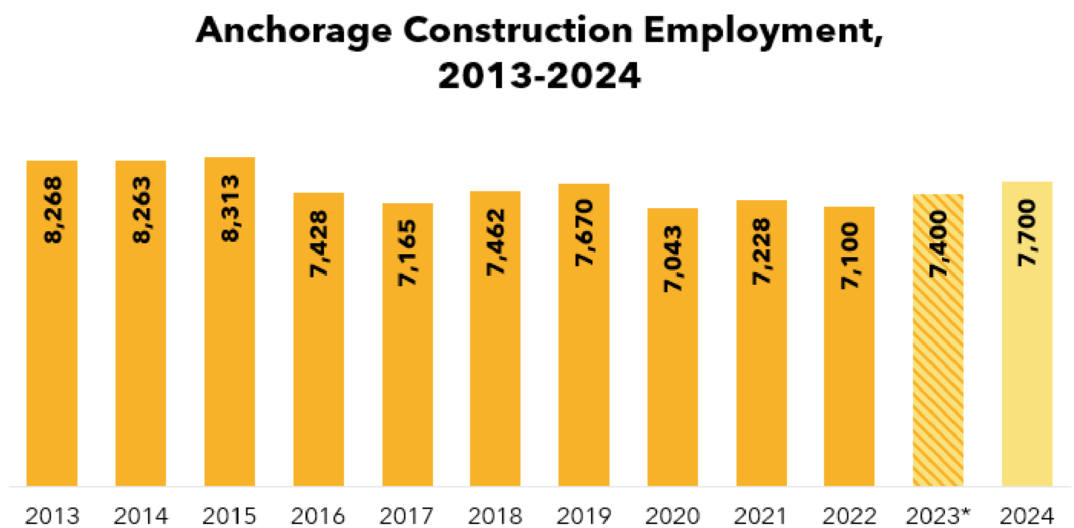
Source: Municipality of Anchorage (2013 – 2023), Alaska Housing Finance Corporation (2013 - 2023), Alaska Multiple Listing Service (2019 – 2023), McKinley Research Group Estimates (2023 – 2024).

Construction Employment

Increased construction activity across Alaska will drive an increase in Anchorage construction employment in 2024.

Factors Contributing to the Forecast

- Over $6 billion in infrastructure funding authorized by the federal Infrastructure Investment and Jobs Act has been awarded to Alaska organizations. Anchorage is a hub of the statewide construction industry, and local employers will see increased demand for their services statewide.
- As in other sectors, the construction industry has contended with workforce shortages for several years which will likely constrain the pace of employment growth in the industry in the near-term.



Source: Alaska Department of Labor and Workforce Development (2013 – 2022), McKinley Research Group Estimates (2023 – 2024)
* Employment estimate is preliminary

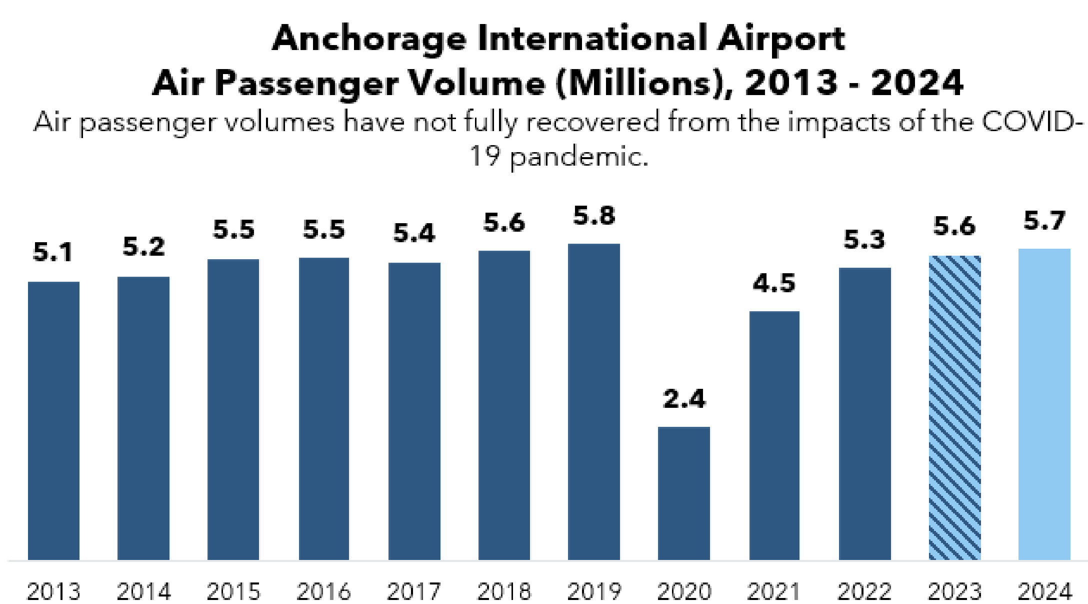
Visitor Industry

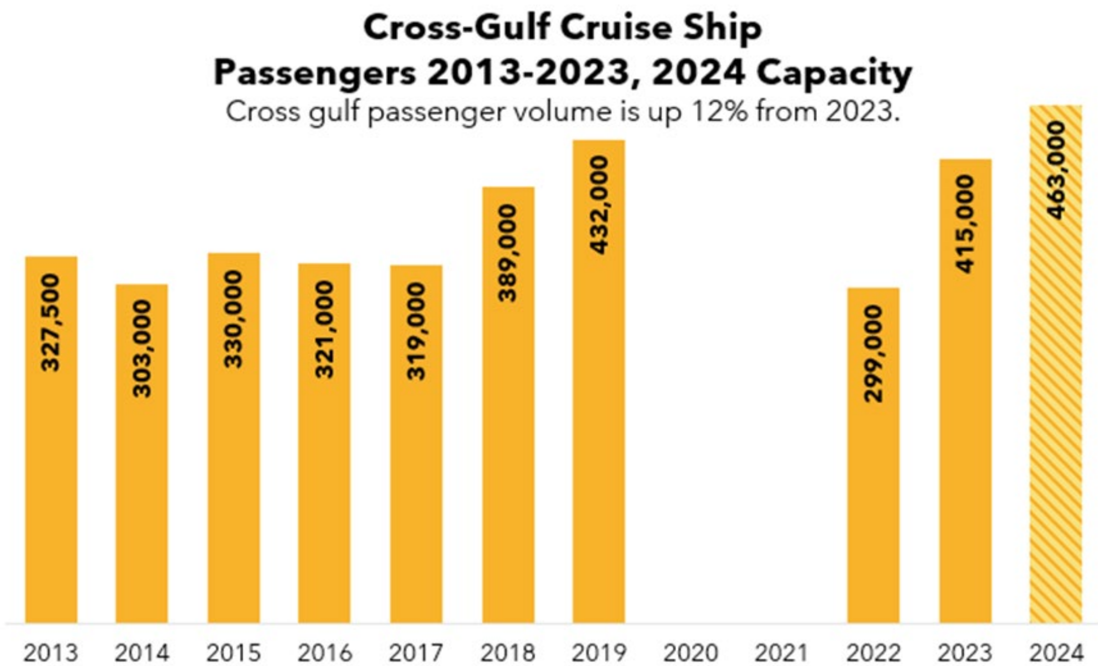
Anchorage Air Passengers

Air passengers volume through Anchorage International Airport will continue to recover from pandemic-era lows.

Factors Contributing to the Forecast

- Cross-gulf cruise ship passenger volume is expected to increase by 12% in 2024. Cruise lines plan to increase 2024 capacity beyond pre-pandemic visitation levels.
- Strong 2023 Anchorage convention and meeting attendance indicate a rebound in business travel.
- Non-cruise related visitor volumes may stabilize to pre-pandemic levels as the post-COVID travel boom stabilizes.





Current Trends		
Municipal Tax Receipts	**YTD (Jan-Sep) 2023**	**YTD (Jan-Sep) 2022 - 2023 % Change**
Room Tax	$38.2M	+9%
Rental Vehicle Tax	$9.8M	-4%
Anchorage Air Passengers	**YTD (Jan-Nov) 2023**	**YTD (Jan–Nov) 2022 - 2023 % Change**
Passenger volume	5.2M	+5%
Cross-Gulf Cruise Volume (Whittier, Seward)	**2023**	**2022- 2023 % Change**
Passenger volume	415,000	+39%

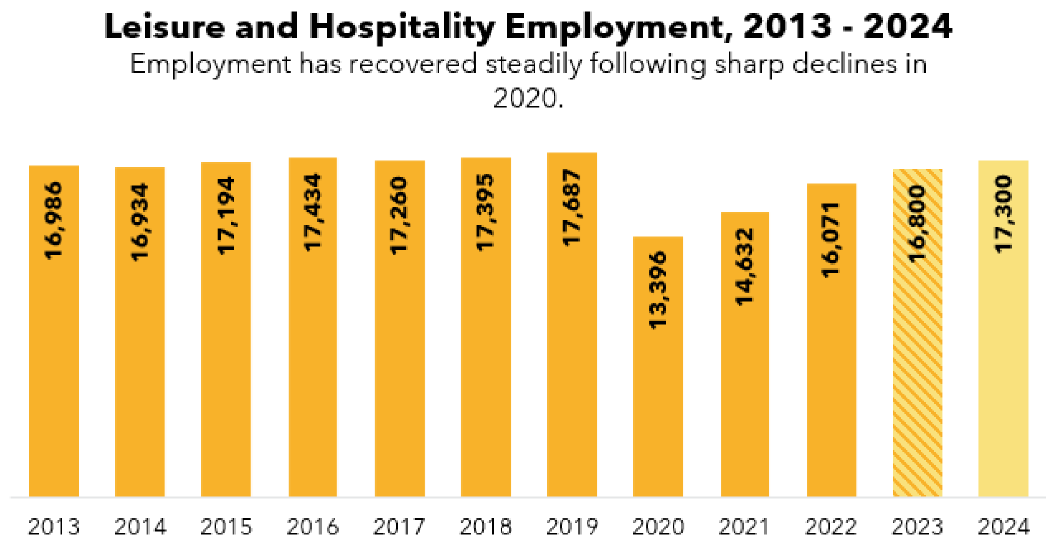
Source: Municipality of Anchorage; Cruise Line Agencies of Alaska; McKinley Research Group Estimates

Leisure and Hospitality Employment

Leisure and hospitality employment will continue to recover in 2024 yet is expected to fall short of pre-pandemic levels due to labor force constraints.

Factors Contributing to the Forecast

- Continued strength in consumer spending and the visitor industry will support industry demand.
- New Anchorage hotels under construction will increase employment.
- Statewide participation in the foreign summer visa program (J-1 exchange worker program) remains below pre-pandemic levels.



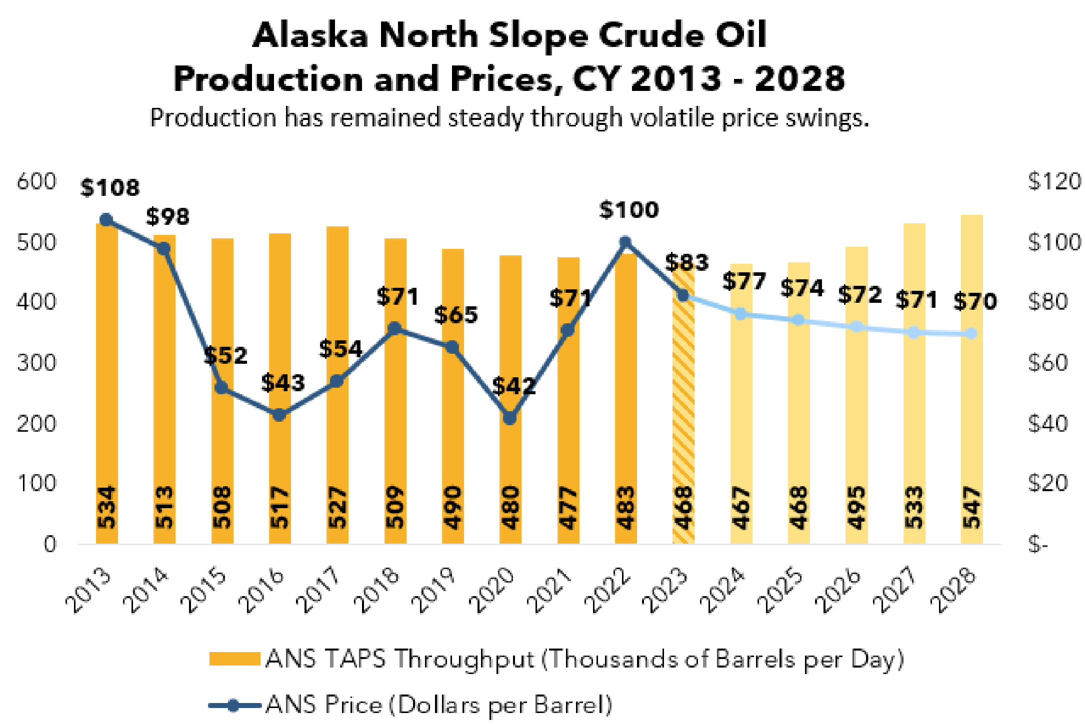
Oil and Gas Industry

Alaska North Slope Oil Price and Production

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

- Construction is underway on two large new developments on Alaska's North Slope, with new production expected in 2026.
- Political instability in Russia and the war in Ukraine will continue to impact global pricing.
- Alaska North Slope oil prices averaged approximately $83 per barrel in 2023, a decrease of 18% compared to 2022.



Current Trends		
	CY 2023 Average	CY 2022 – CY 2023 % Change
ANS oil price/barrel	$82.60	-18%

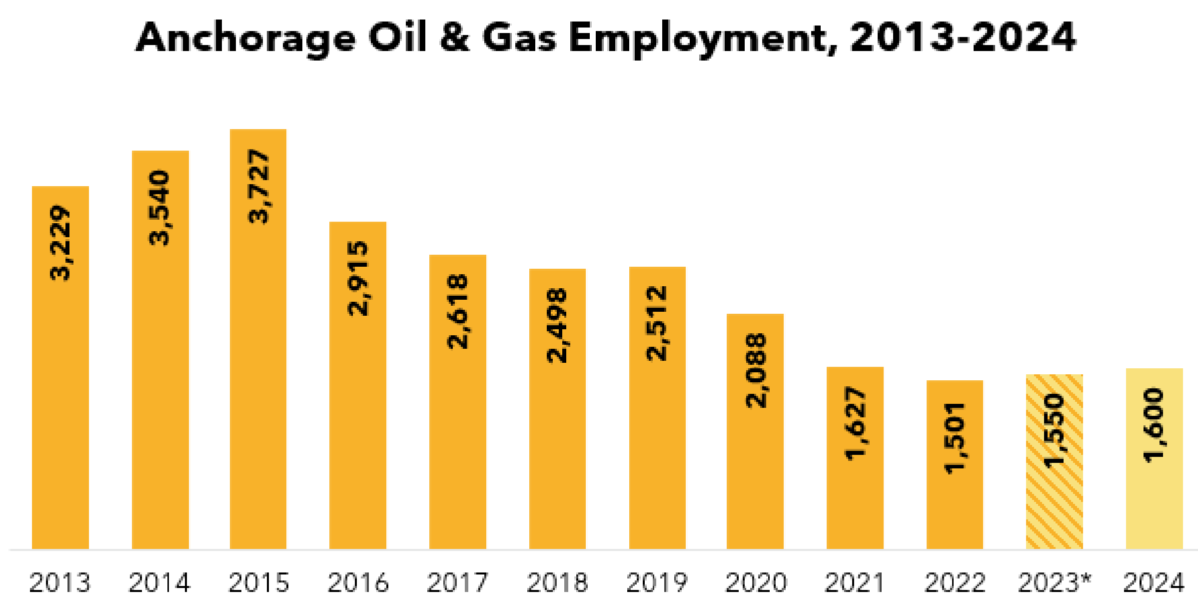
Sources: Alaska Department of Revenue, Energy Information Administration, CME Group, McKinley Research Group calculations

Oil and Gas Employment

Projects under development on Alaska's North Slope will drive modest Oil & Gas employment growth in Anchorage.

Factors Contributing to the Forecast

- High oil price environments and increased activity on Alaska's North Slope will generate modest additional oil and gas and support services employment in Anchorage in 2024.
- Additional jobs are expected to be added in Anchorage later in the decade as construction and development is finalized on new projects.
- Oil industry employment was slow, yet positive through the first half of 2023.



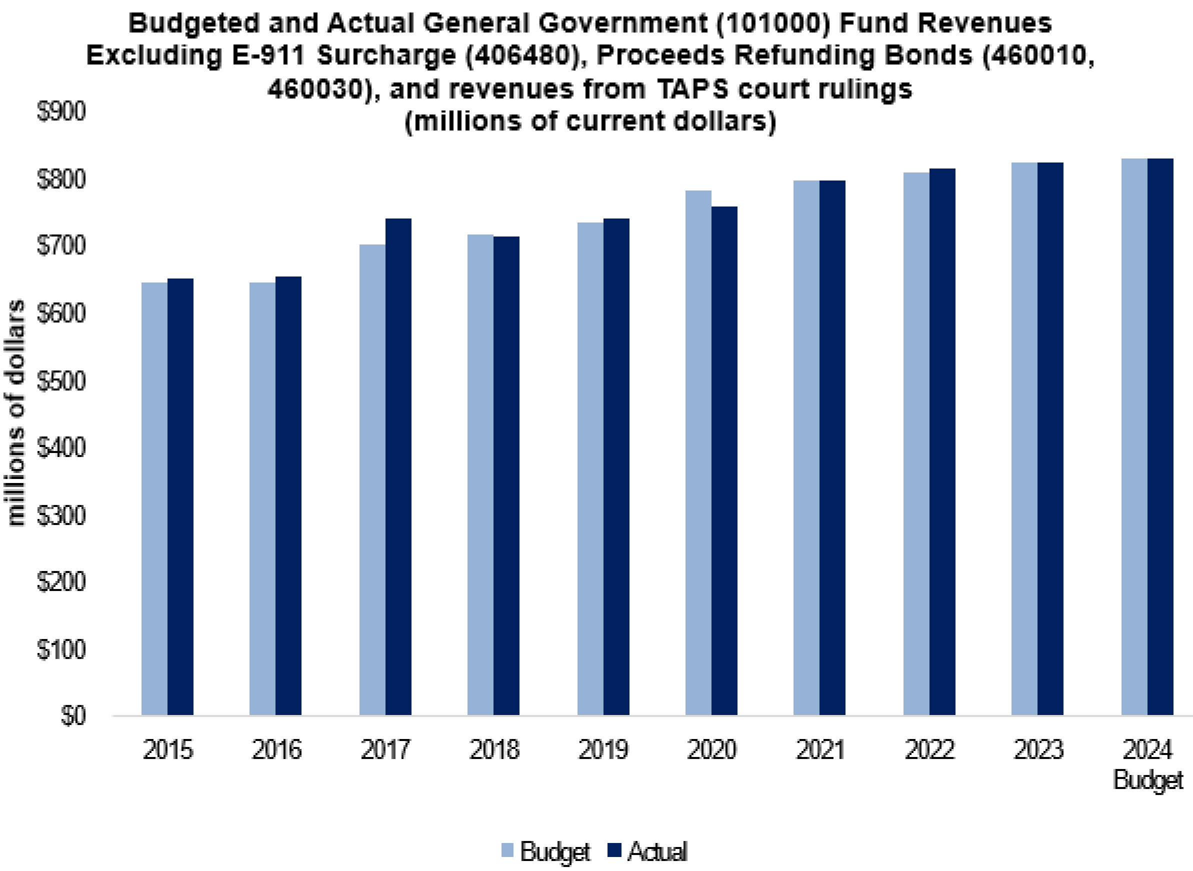
Source: Alaska Department of Labor and Workforce Development (2013 – 2022), McKinley Research Group Estimates (2023 – 2024)
* Employment estimate is preliminary

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 generally increased from 2015 to 2023. Revenues for 2023 were basically unchanged compared to the same period in 2022 as the local economy plateaued after the recovery of the pandemic. Overall revenues in 2024 are budgeted to be flat to slightly lower than 2023.



Source: MOA Treasury Division
*Alcohol Tax Fund 206000 not included

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-four years from 2000 through 2024. 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 and now marijuana retail taxes (beginning in 2024), are not included as they are allocated to separate non-operating funds.

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.

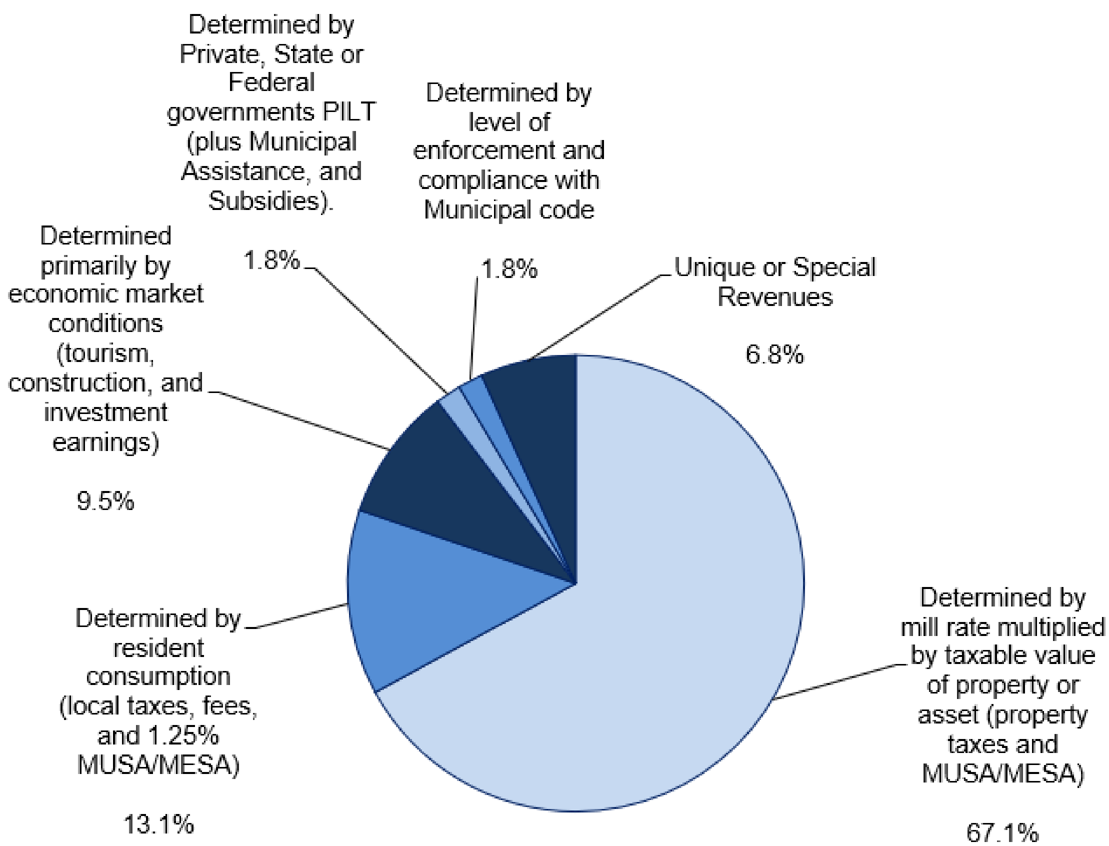
5. **Determined by Level of Compliance and Enforcement of Municipal Code (Code):** Revenues from collections of delinquent taxes, as well all types of fines, penalties and interest paid on delinquent taxes, are determined by the level of Code compliance, enforcement and collection efforts.

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 67 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 of about 13 percent. Approximately 9.5 percent of revenues are determined by economic market conditions. Approximately 2 percent is determined by the actions of State or Federal governments and another 2 percent of revenues are driven by compliance and enforcement of Municipal Code. The remaining 6.8 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)



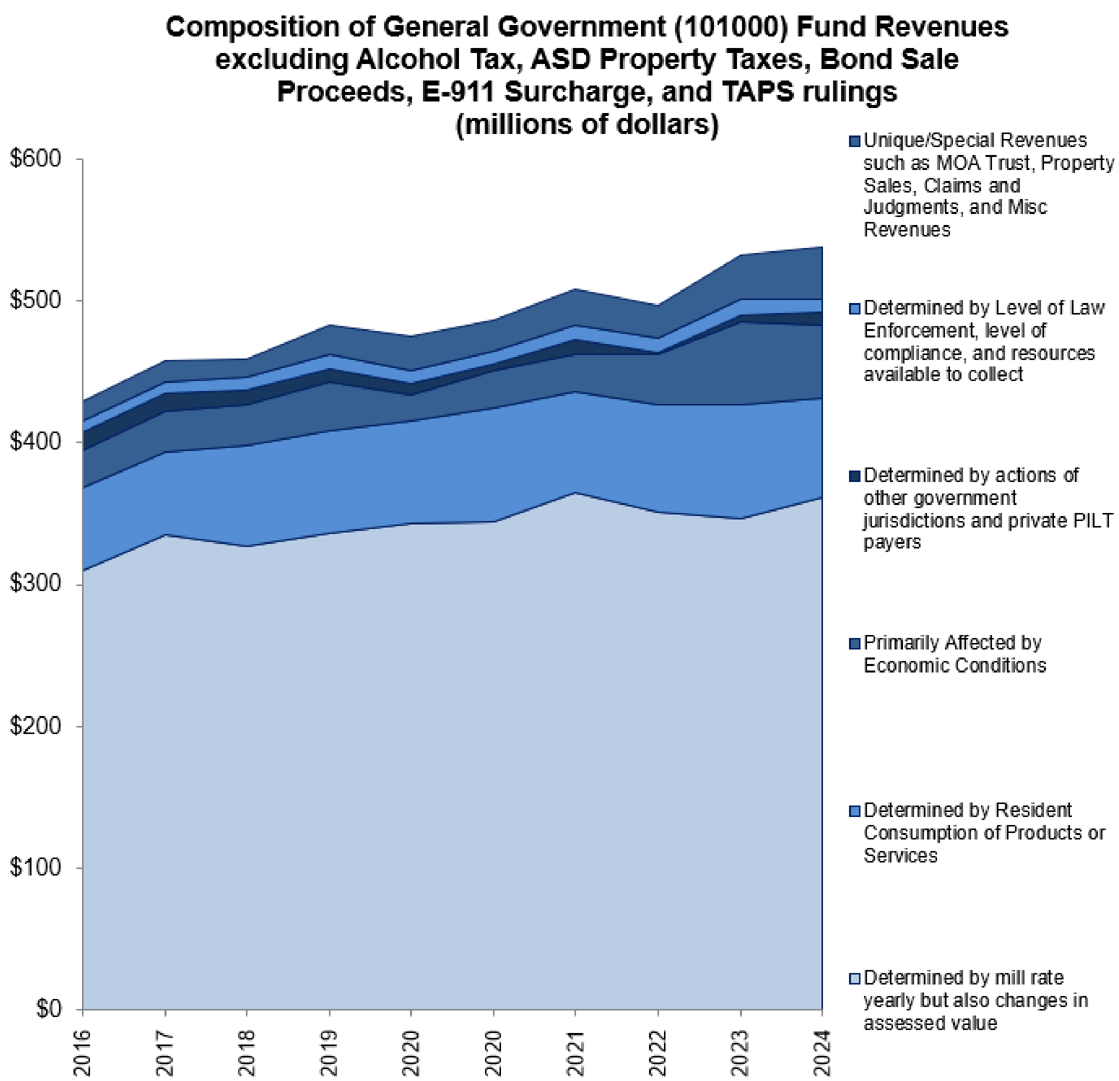
Source: MOA Treasury Division
*Excludes Alcohol Tax Special Revenue Fund 206000

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, and the motor fuel excise tax. Not included are alcoholic beverage and marijuana retail sales tax, which are 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, but subsequest recovery in toruism taxes resulted in record revenue for this category for 2023 and 2024.

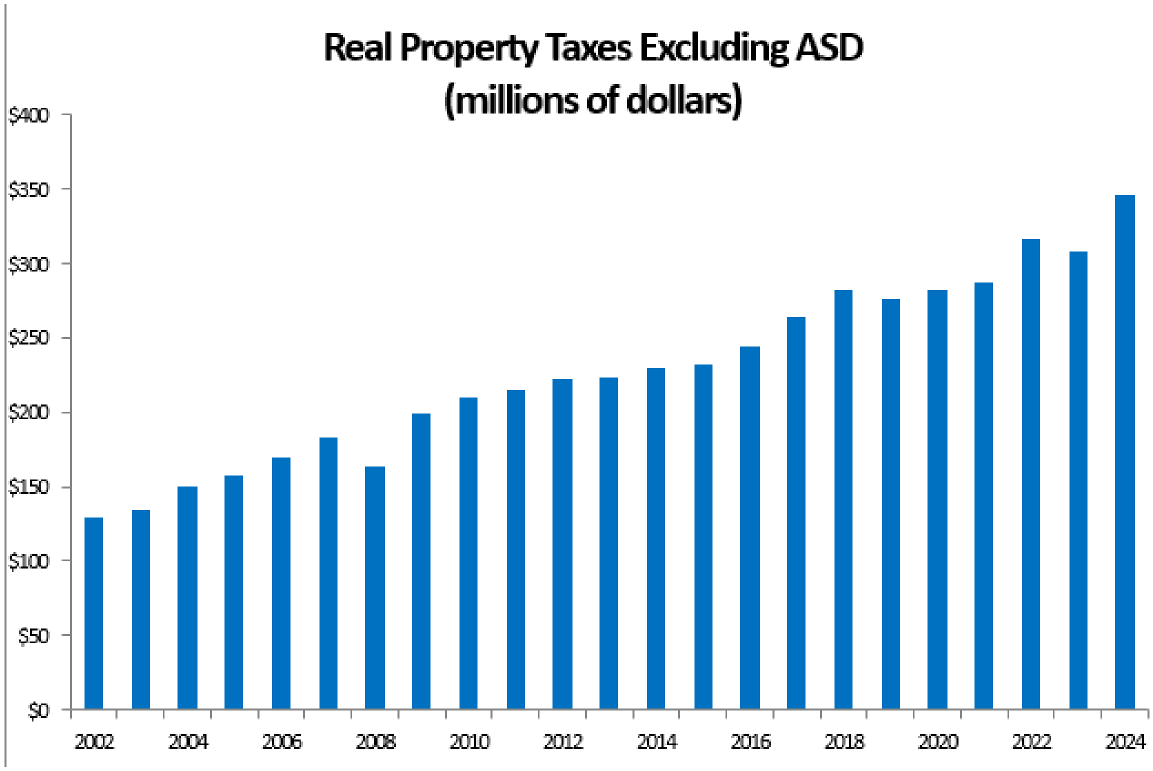


Source: MOA Treasury Division

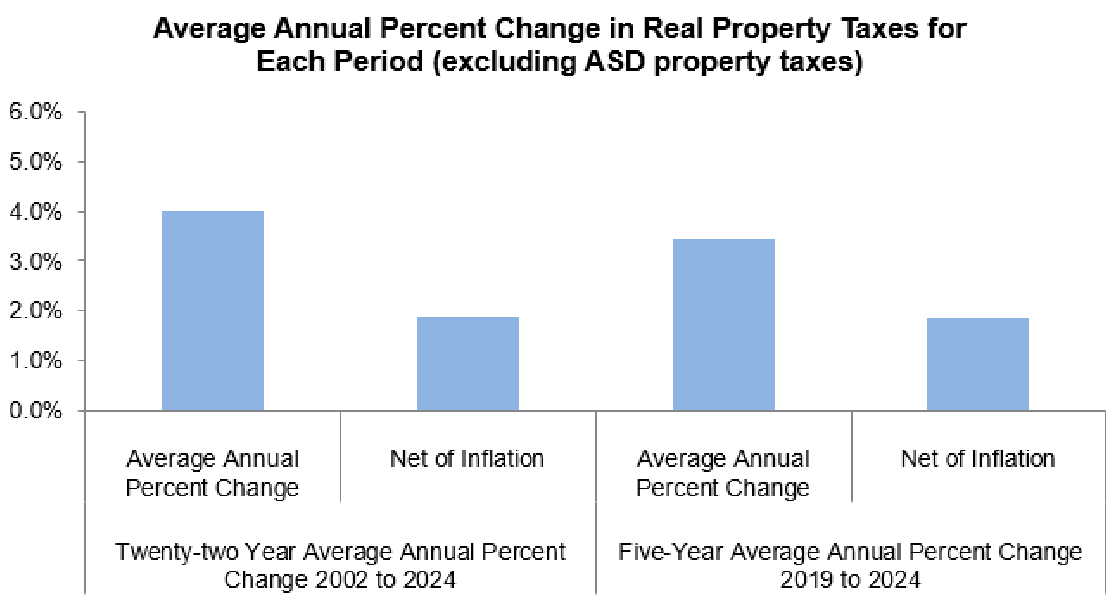
Key Revenue Determinant Categories

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. Real property valuations and hence, tax revenues, have steadily increased from 2000 to 2024.

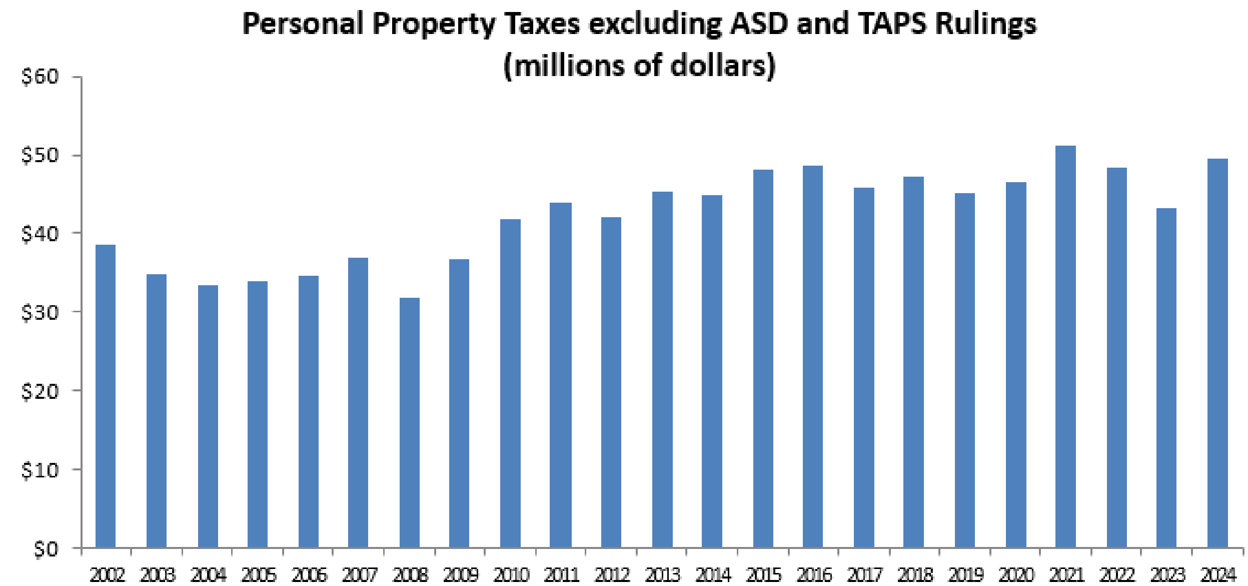


Source: MOA Treasury Division

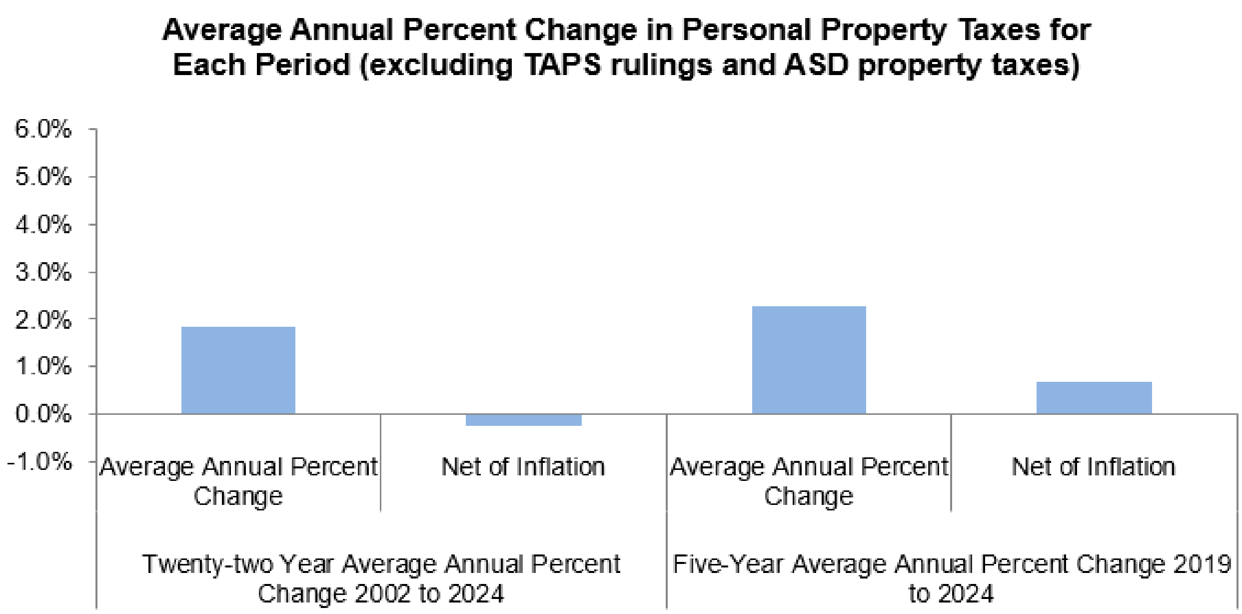


Source: MOA Treasury Division

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. In 2024, this trend reversed significantly. 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.

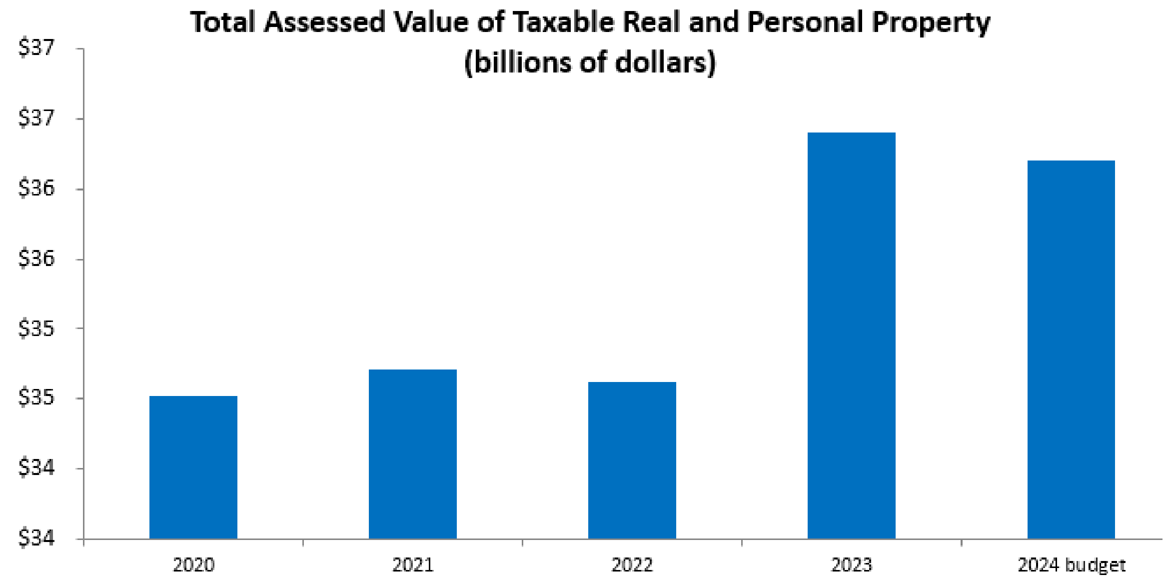


Source: MOA Treasury Division

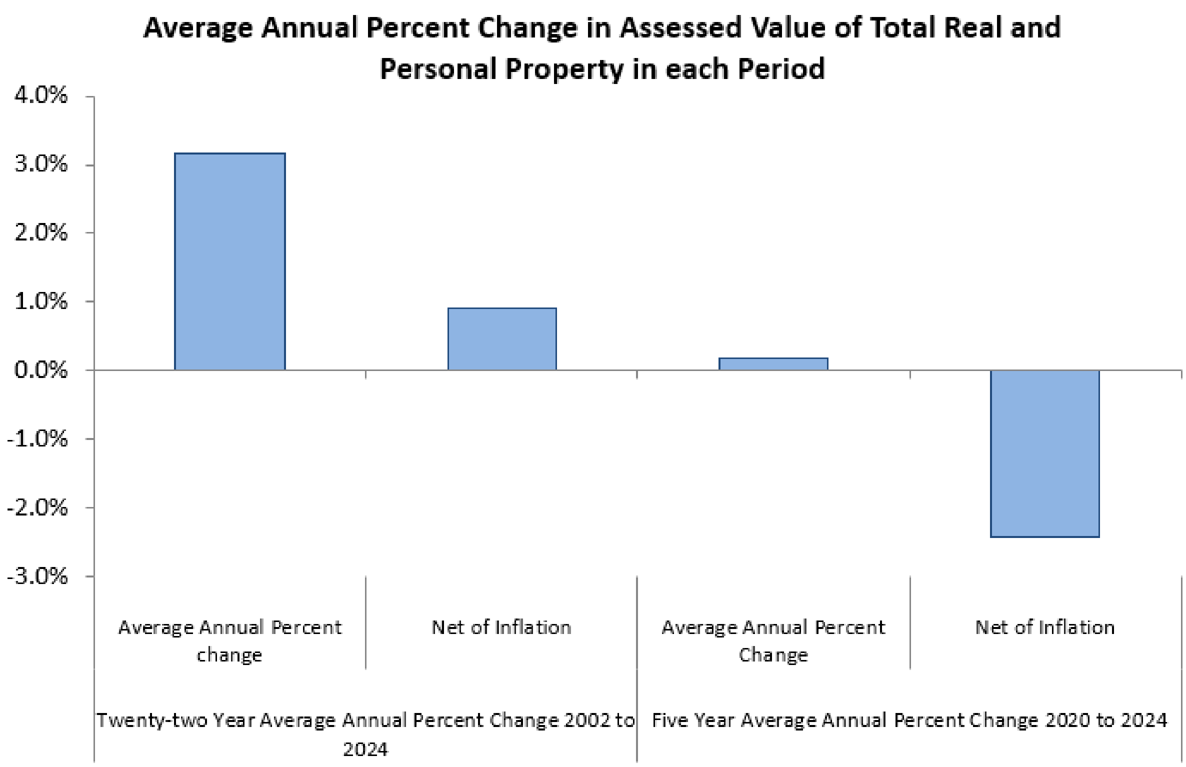


Source: MOA Treasury Division

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 subsequently declined in 2017 and 2018. Assessed values rose notably in 2023 and 2024.



Source: MOA Treasury Division



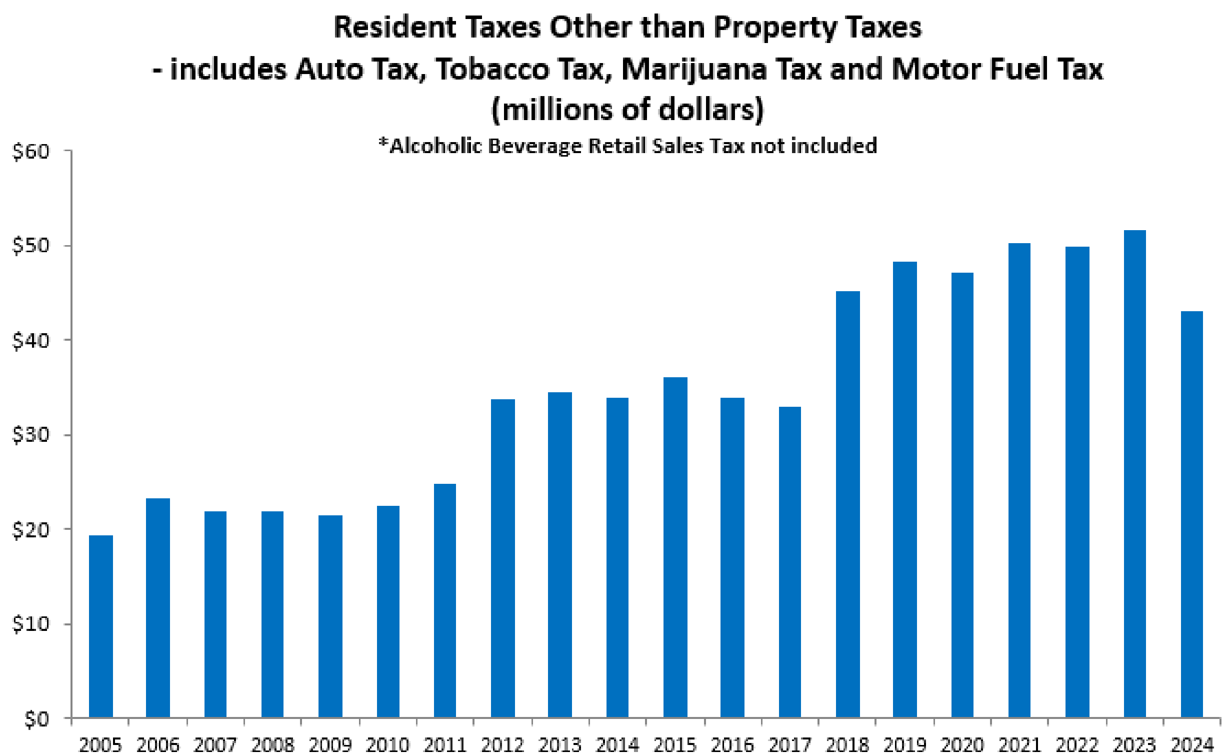
Source: MOA Treasury Division

Revenues Determined Primarily by Resident Consumption

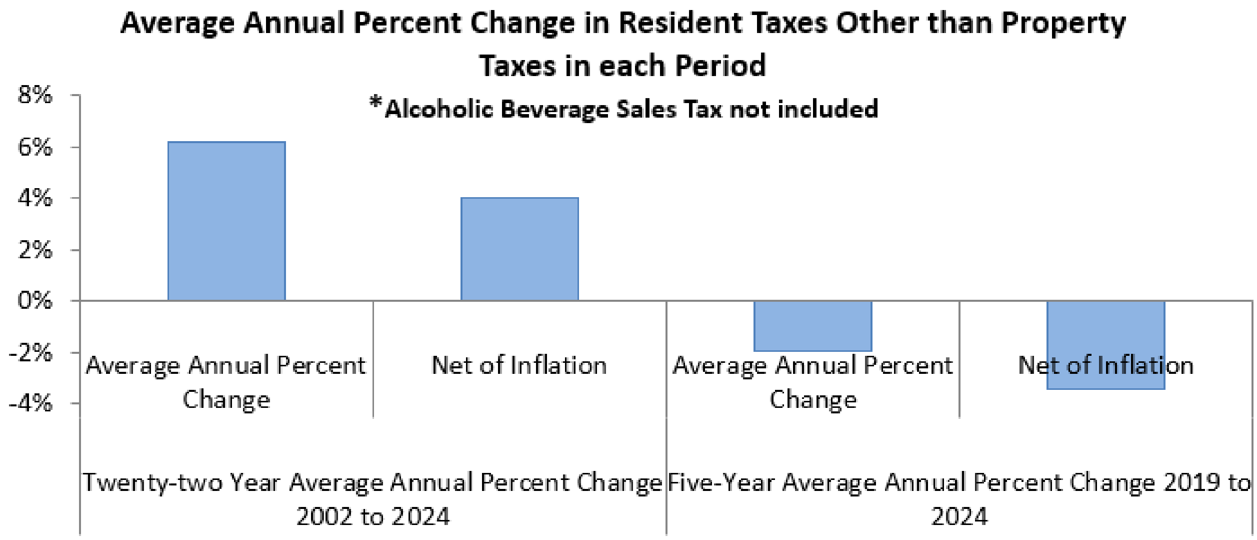
These revenues include fees paid by residents for municipal services and facility rentals. Also included are residents' payments of tobacco taxes, motor vehicle registration taxes, motor fuel taxes, and marijuana sales taxes. This category of revenues contributes approximately 16 percent of the total general government (101000 Fund) revenues, excluding ASD property taxes and alcoholic beverage and now marijuana retail sales taxes (beginning in 2024).

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 is not included in these figures nor are marijuana retail sales tax in 2024.

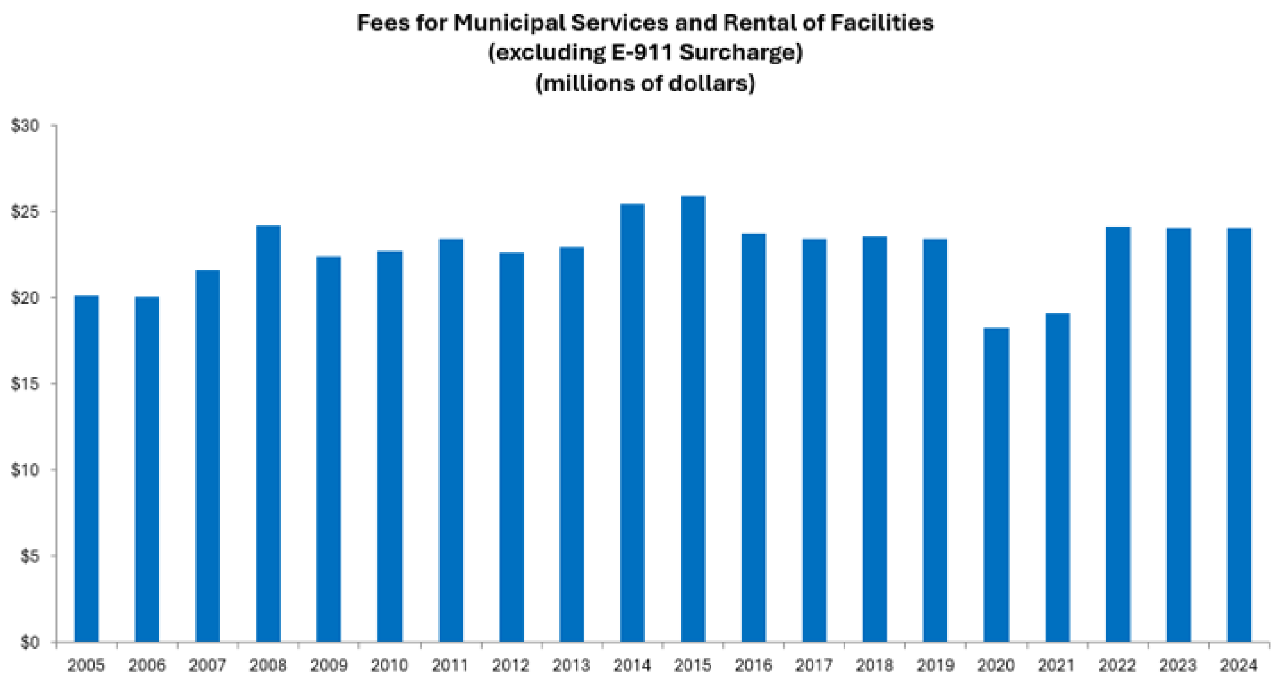


Source: MOA Treasury Division

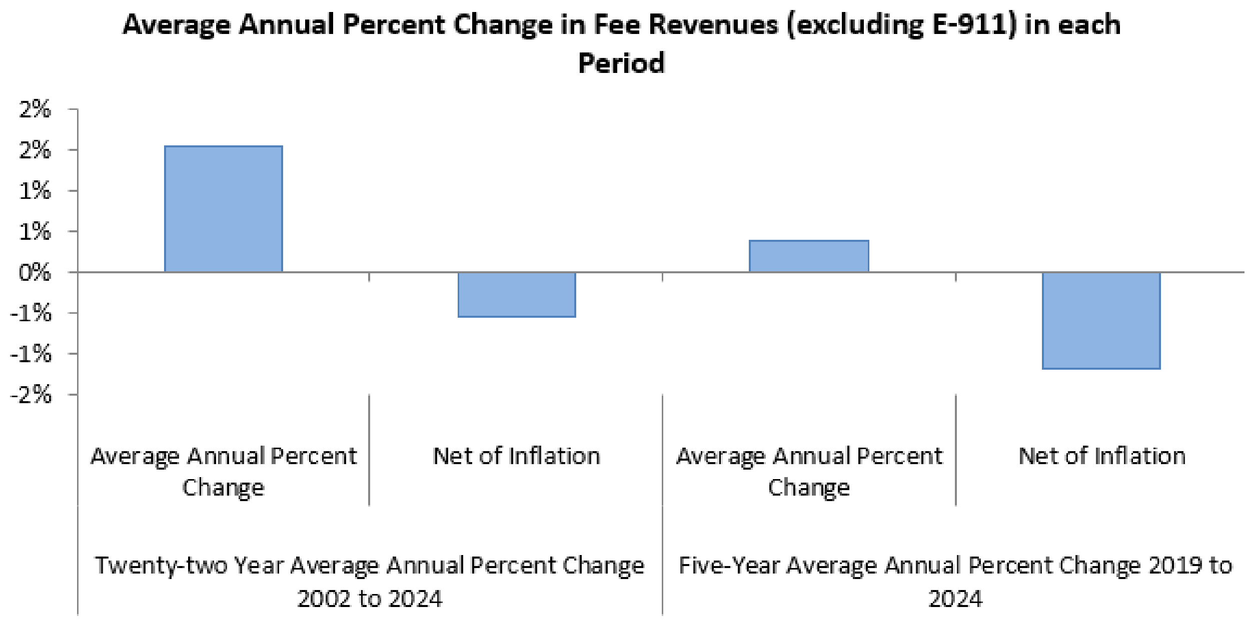


Source: MOA Treasury Division

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.



Source: MOA Treasury Division



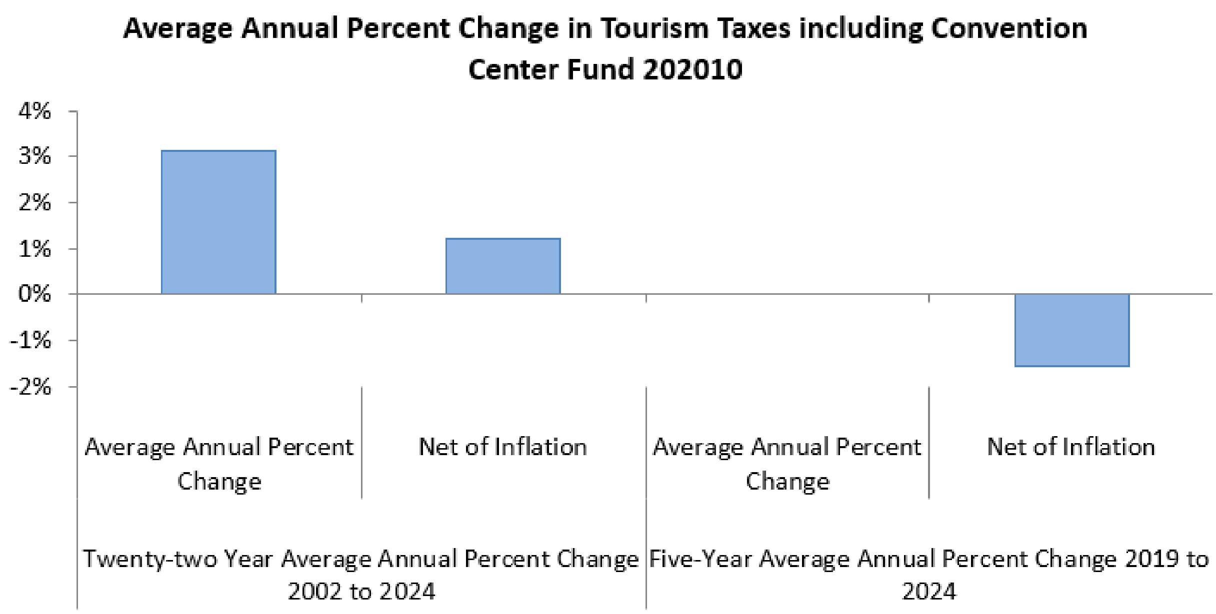
Source: MOA Treasury Division

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 9.5 percent of total general government (series 101000 Funds) revenues, excluding ASD property taxes.

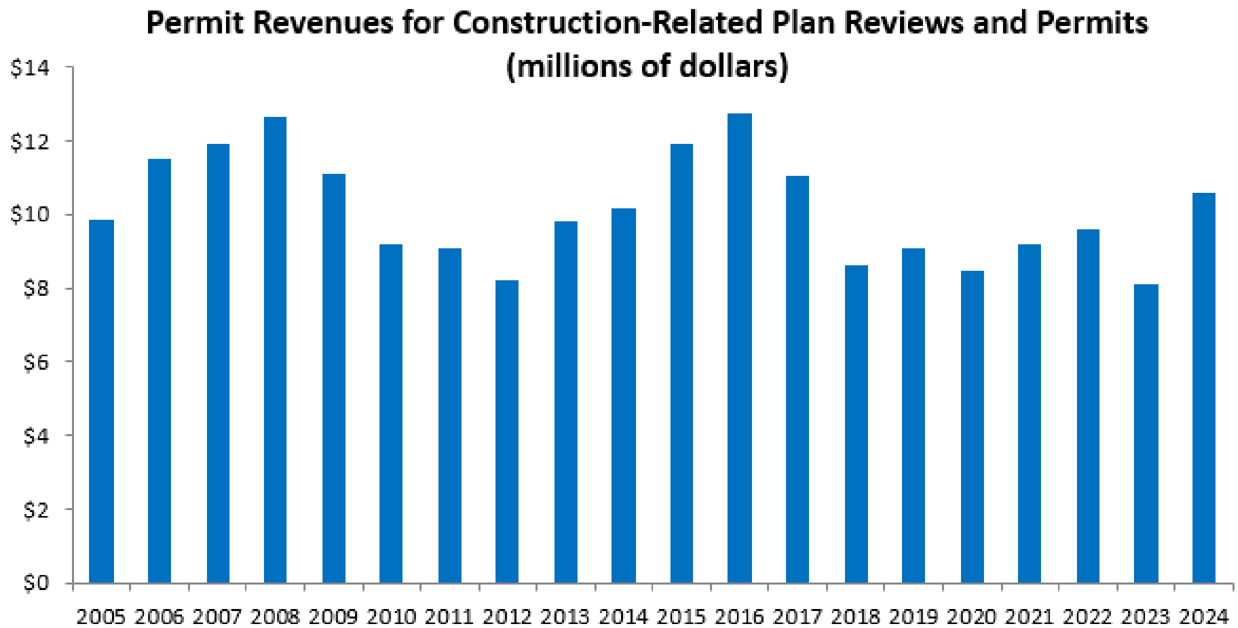
Tourism-related revenues from room tax and the rental vehicle tax are affected by the tax rate, the number of visitors coming to Anchorage, length of stay, and the price levels for hotel rooms and rental vehicles. Tourism revenues increased substantially in 2007 due to a tax rate increase then decreased in 2010 due to the national recession. Tourism revenues 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 2021 was because of fewer visitors coming to Anchorage during the COVID-19 pandemic. Revenues began to recover in 2022 as the post pandemic recovery of the tourism industry began and, as a result, higher than normal seasonal increases in hotel room prices and rental vehicle rates were seen in 2023 and 2024. Tourism related revenues in 2023 reached records levels. 2024 budgeted tourism related revenue reflects a marginal increase over the previous year.

Source: MOA Treasury Division
*2024 Reflects Budget Amounts

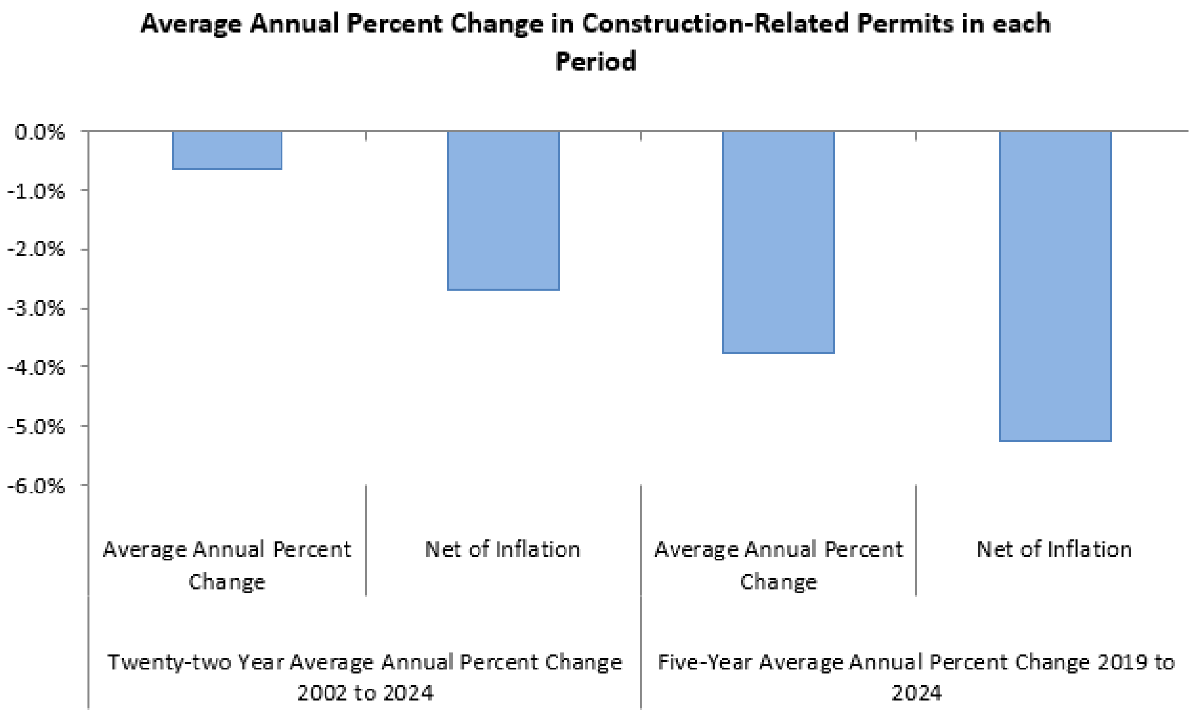


Source: MOA Treasury Division

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 were higher in 2022 and 2024.

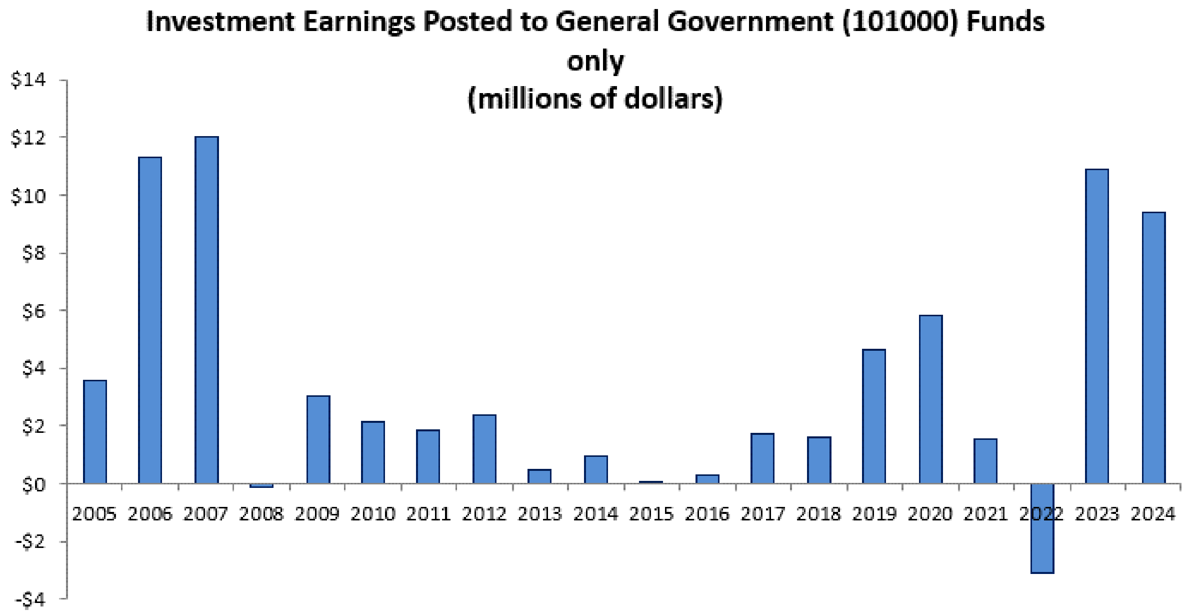


Source: MOA Treasury Division

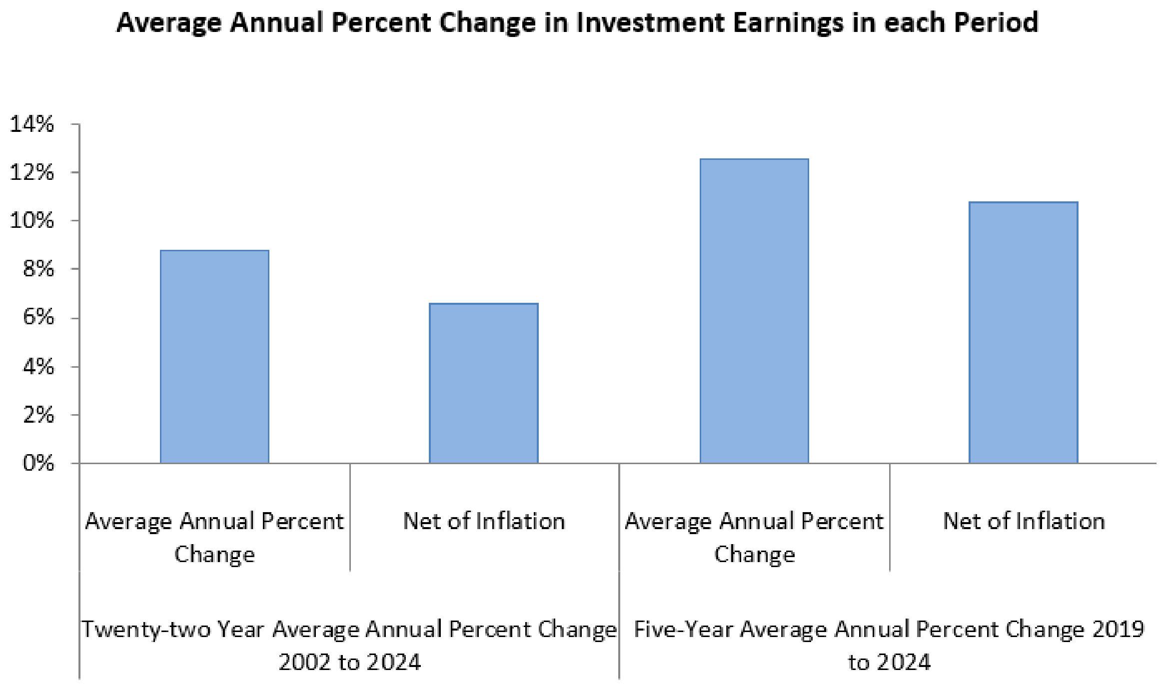


Source: MOA Treasury Division

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 higher than 2019 due to declines in interest rates. Rising interest rates in FY 2022 created unrealized losses in the pool, however revenues recovered in 2023 and 2024 as fixed income valuations adjusted to a higher interest rate environment.



Source: MOA Treasury Division



Source: MOA Treasury Division

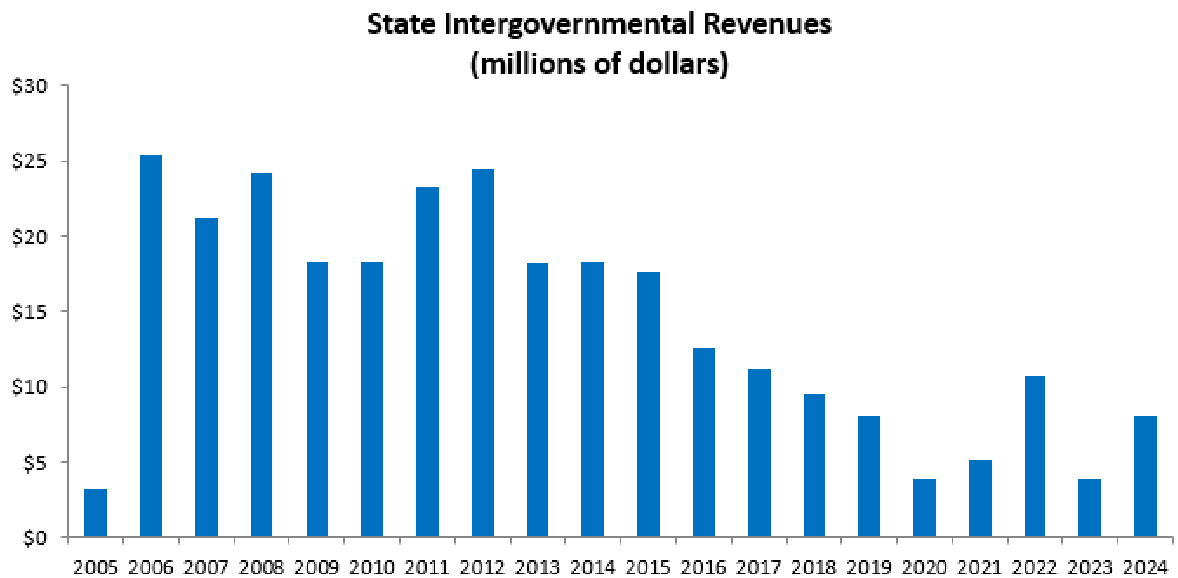
Revenues Determined by Actions of Other Governments

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.

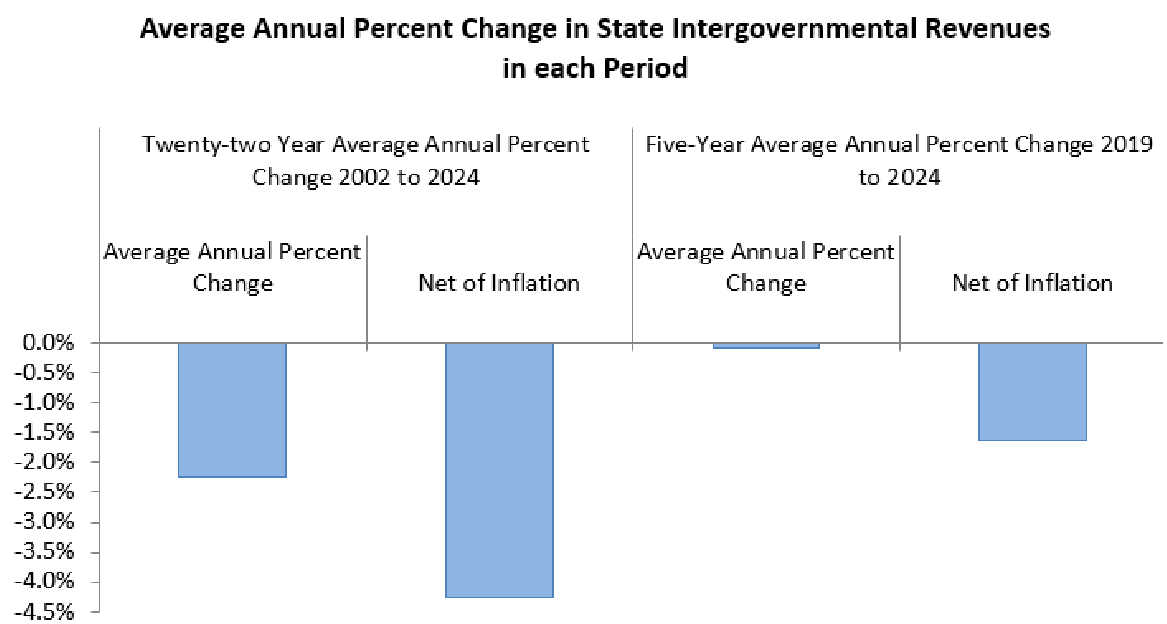
State Intergovernmental Revenues: Most of the revenues in this category have come from the State of Alaska's Revenue Sharing Program (through 2016) and Community Assistance Program (2017 to the present). The Municipality also receives revenues from the State for the Fisheries Tax, Liquor Licenses, Traffic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

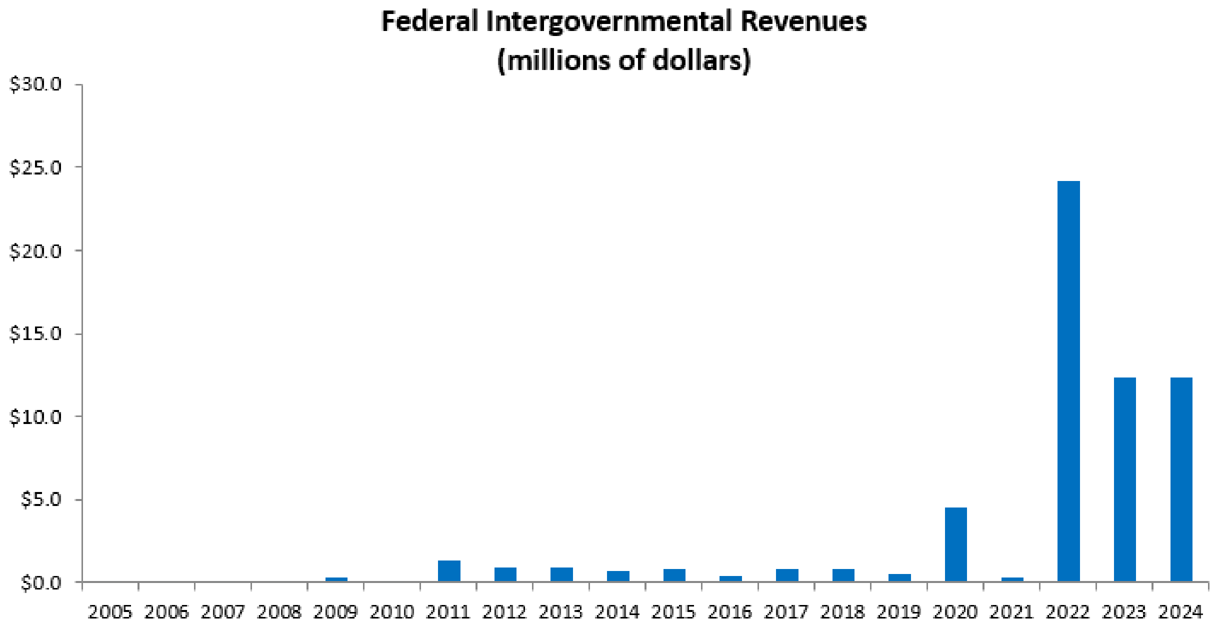


Source: MOA Treasury Division

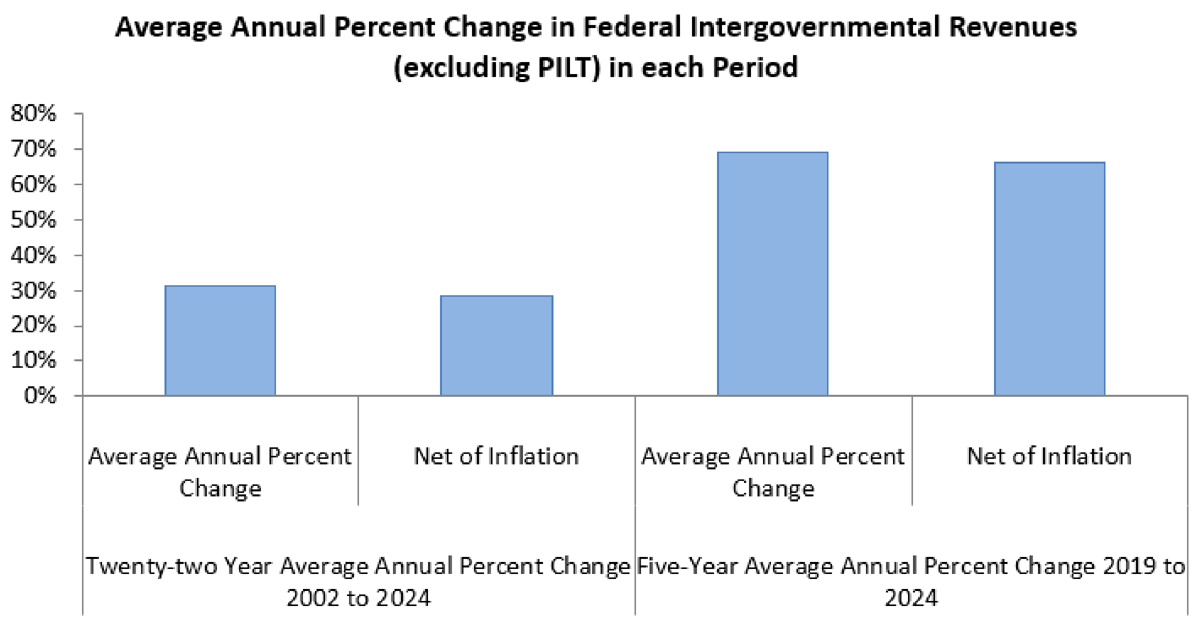


Source: MOA Treasury Division

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. Since 2020, these Federal revenues have remained elevated.



Source: MOA Treasury Division



Source: MOA Treasury Division

Expenditures

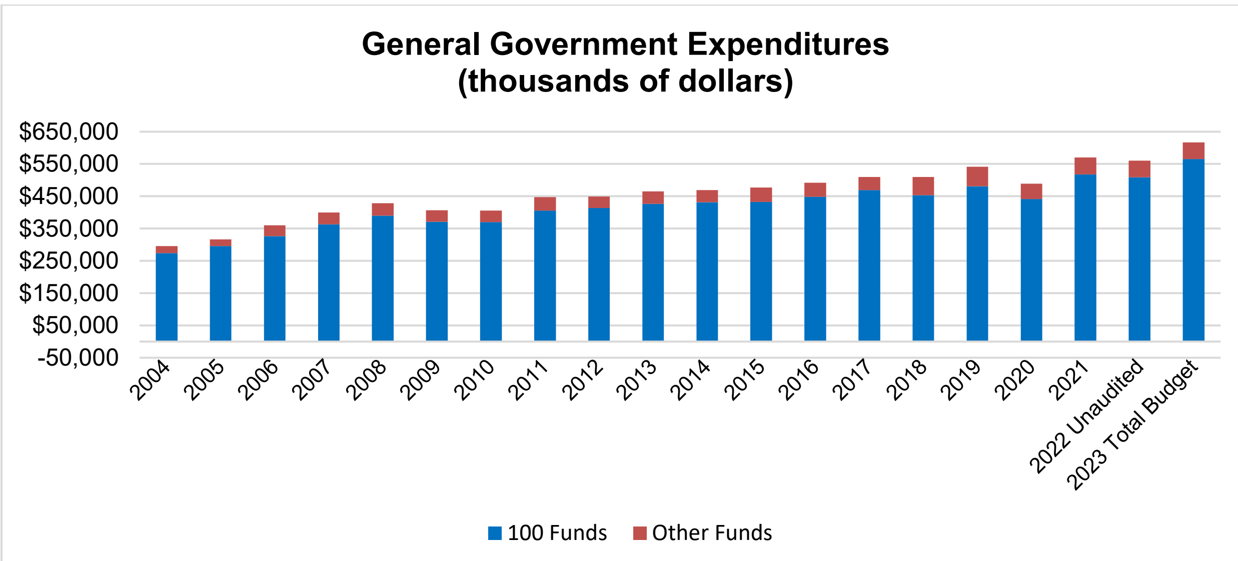
The graph below depicts the actual direct expenditure trends from 2004 to 2022 for Anchorage's general government. 2023 budget is projected, based on 2023 Revised Budget and supplemental budget changes through September 2023.

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.



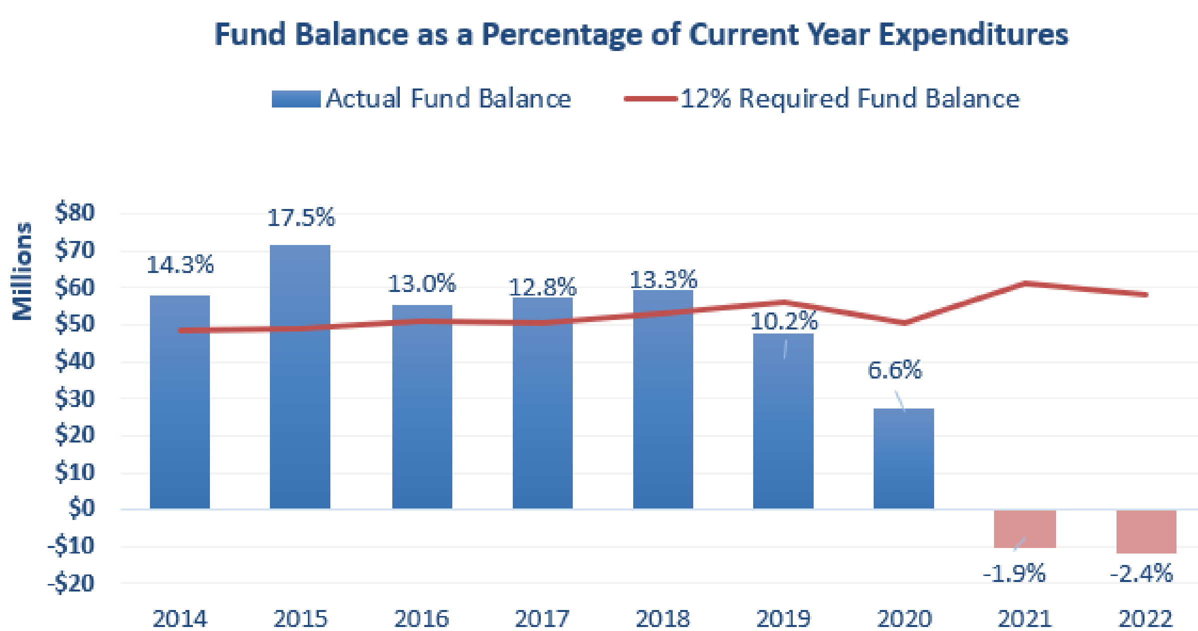
Source: MOA Office of Management & Budget

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 2022 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 significant amount of fund balance was recovered due to receipt of FEMA reimbursements, however, it was offset by an unexpected $27 million liability related to the Information Technology (IT) fund (607000) that put downward stress on the General Fund Balance.



Source: MOA ACFR Required Supplementary Information and Note 14 Fund Balance.

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”.

2022 Audited ACFR Fund Balance Summary Table

Total Nonspendable	**$ 59,655,420**
Total Restricted	**2,173,665**
Committed:	
10% Bond Rating	47,841,911
Other Committed	2,726,773
Total Committed	**50,568,684**
Total Assigned	**0**
Unassigned:	
2% Working Capital Reserve	10,515,206
Other Unassigned	(70,119,867)
Total Unassigned	**(59,604,661)**
Total Fund Balance (Deficit)	**$ 52,793,108**

The above table summarizes the 2022 Audited ACFR Fund Balance information. The above chart and table both show that for 2022 the Municipality was unsuccessful at both meeting its 12% Required 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 $70.1 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 Stable 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 did not change from its previous rating and reflects the implementation of Fitch's new U.S. Public Finance Local Government Rating Criteria. In their July 19, 2024 rating review of the Municipality they commented on the Municipality's:

- Midrange' budgetary flexibility;
- Delayed ACFR due to high turnover in the finance department, slow ability to hire new staff, alongside a heavy workload documenting reimbursements in preparation for the audit;
- Economic and institutional strength due to Anchorage being the population hub of the state, and home to numerous institutional anchors include military presence, robust healthcare sector, and the state's largest university;
- Depletion of fund balance reserves and reliance on federal government reimbursements to restore its fiscal cushion; and
- Getting back to the 12% unrestricted reserve policy will depend on strict budgetary maintenance of aligning expenditures with revenues and speed of remaining reimbursements.

They also commented about their revenue framework assessment. "Fitch expects revenues will resume pre-pandemic growth between inflation and U.S. GDP. Anchorage's economy, like that of the state, is driven primarily by the energy and government sectors. The municipality also has significant tourism, health care, transportation and trade industries. Hotel taxes have recovered to exceed pre-pandemic levels by fiscal 2022 due to the full return of cruises, reopening of international borders, and robust traveling spending. Municipality project continued growth in hotel taxes followed by a level trend for fiscal 2024."

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

S&P currently rates the Municipality AA- with a Stable Outlook, which was a downgrade from its previous rating of AA. In their most recent rating summary dated July 19, 2024, S&P's analyst noted that the downgrade reflects their view of Anchorage's weakened financial management practices, the trend of negative fund balances in the general fund in fiscal years 2021 and 2022, and the delayed release of the 2022 ACFR.

The analyst also noted the following regarding Anchorage:

- Management's lack of proactive adjustments to the budget to manage the declines;
- Material declines in unassigned reserves in recent years due to multiple factors include delay in FEMA receipts for the 2018 earthquake, and the avalanche disaster;
- While significant reimbursements towards COVID-19 expenditures have been received and should be reflected in the general fund, the 2022 revised projections were lower than expected due to a liability which officials did not expect to be reflected in the general fund;
- Management team has seen turnover recently and the delay in release of the 2022 audited ACFR was due to both a decline in staffing and increase in documentation requirements;
- Broad and diverse economy, albeit with a declining population, which serves as Alaska's logistics, distribution, and tourism hub;
- Weak reserve position, with a still-negative available general fund balance that is expected to grow to positive levels in 2023;

- Good management policies with a leadership team in transition, and strong institutional framework; and
- Manageable debt burden, but relatively large pension and other postemployment benefit (OPEB) liabilities.

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 continue 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 2025 – 2030 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:

2025 - 2030 Capital Improvement Program
Operations & Maintenance Estimate

(In Thousands)

Department	2025	2026	2027	2028	2029	2030	Total
Information Technology	23	247	257	253	238	219	1,237
Maintenance & Operations	2	2	2	13	11	11	41
Parks & Recreation	245	249	266	218	221	240	1,439
Project Management & Engineering	143	189	47	47	47	97	570
Traffic Engineering	304	304	304	304	304	294	1,814
Total	**717**	**991**	**876**	**835**	**821**	**861**	**5,101**

Source: 2025 Proposed General Government Capital Improvement Program

6. 6-Year Projection Model Based on 2025 Proposed Budget

Six Year Fiscal Program
General Government Operating Budget
Projections of Financing Sources and Uses ($ thousands)
2025 to 2030

	Total Budget	Proposed Budget	Projections with % Change from Prior Year									
Financing Sources	**2024**	**2025**	**2026**		**2027**		**2028**		**2029**		**2030**	
Federal Revenues	13,129	14,637	14,930	2%	15,228	2%	15,533	2%	15,843	2%	16,160	2%
State Revenues	7,982	4,324	4,337	0%	4,416	2%	4,496	2%	4,578	2%	4,662	2%
Local Revenues	210,036	221,018	214,205	-3%	218,100	2%	221,767	2%	225,747	2%	229,754	2%
Property Taxes	305,486	316,140	328,013	4%	337,560	3%	348,907	3%	360,591	3%	373,797	4%
Property Taxes - GO Bond Debt	55,482	57,809	57,581	0%	57,588	0%	53,066	-8%	48,472	-9%	48,478	0%
New Revenues			-	0%	-	0%	-	0%	-	0%	-	0%
Fund Balance Applied	(812)	1,418	(3,049)	-315%	(3,095)	1%	(3,141)	1%	(3,188)	1%	(3,236)	1%
IGCs Outside General Gvt.	29,470	30,485	31,060	2%	31,475	1%	32,139	2%	32,603	1%	33,072	1%
Total Financing Sources	**620,773**	**645,831**	**647,078**		**661,273**		**672,766**		**684,646**		**702,687**	
Change from prior year	**-2.5%**	**4.0%**	**0.2%**		**2.2%**		**1.7%**		**1.8%**		**2.6%**	
Financing Uses												
Salaries and Benefits	343,587	355,863	366,648	3.0%	378,137	3.1%	385,138	1.9%	394,790	2.5%	404,728	2.5%
Debt Service	65,172	72,335	60,338	-16.6%	59,893	-0.7%	55,105	-8.0%	50,188	-8.9%	49,995	-0.4%
Depr/Amort	9,300	9,300	9,440	1.5%	9,452	0.1%	10,052	6.3%	10,046	-0.1%	10,035	-0.1%
Other	208,424	208,333	208,248	0.0%	214,695	3.1%	222,006	3.4%	228,742	3.0%	235,658	3.0%
Total Financing Uses	**626,482**	**645,831**	**644,674**		**662,176**		**672,301**		**683,766**		**700,416**	
Change from prior year	**2.7%**	**3.1%**	**-0.2%**		**2.7%**		**1.5%**		**1.7%**		**2.4%**	
Revenues Over/(Under) Expenditu	**(5,710)**	**-**	**2,404**		**(903)**		**465**		**880**		**2,271**	

2024 Total Budget

- Includes 2024 Revised Budget and supplemental appropriations through September 17, 2024

2025-2030 Projections - Overall Assumptions

- 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.)
- 2025 Proposed is the base for 2026 through 2030 projections
- Population - per Anchorage Economic & Community Development (AEDC) 2024 Anchorage Economic Forecast Report - 2024: 289.5K; 2025: 289.3K; 2026: 289.1K; 2027: 288.9K; 2028: 288.7K and then flat thereafter
- CPI - 1.5% in 2024, 3% in 2025 and thereafter
- Does not include any adjustment for funding emergency ordinances that are not reimbursed by FEMA
- Assumes City Hall lease continues at 2025 rate

Financing Sources

- Federal / State Revs - Assumes no stimulus grant impacts
- State Revs - Community Assistance at $0.4 million in 2025 and thereafter
- Property Taxes - Tax under the cap each year to match funding needs: 2026 - 2030: $0.2M
- Property Taxes - Assumes no new Operations & Maintenance (O&M) in 2026 and thereafter
- Taxes - MESA/MUSA/Dividends from Enterprise/Utilities are from respective 8-Year summaries provided in 2025 Proposed Budget documents
- Fund Balance - Use for 100 Funds: 2026 - 2030: $0M
- Most other revenues increase 2% in 2026 and thereafter

Financing Uses

- Position count stays the same from 2025 through 2030
- Salaries and Benefits - Work hours: 2026: 2096; 2027: 2112; 2028: 2096; 2029: 2096; 2030: 2096
- Salaries and Benefits - Current contract changes then last approved rate change thereafter, except: Assembly: flat; EXE and Non-Rep 1.5% in 2026 and thereafter; Mayor: flat. Does not account for AMEA and NON step progressions to steps above 7
- Salaries and Benefits - Medical at 4% increase per year
- Salaries and Benefits - Assumes non-calculated (Vacancy Factor, Overtime, etc.) increasing at average annual salary and medical rate
- 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