



## 2018 Credit Review & State Debt Summary

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## 1. State Debt Capacity

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# Debt Affordability Analysis

- Annual analysis required by AS 37.07.045 to be delivered by January 31
- Discusses credit ratings current levels and history
- Relies upon debt ratios for issued debt and debt that the state supports at the local level
- Identifies currently authorized, but unissued debt
- Establishes refinancing parameters
- Determines a long term debt capacity at current rating level
- Discusses, but doesn't define a capacity for short term debt
  - Revenue Anticipation Notes are limited by statutory definition and would not be included in capacity



# January 2017 Debt Affordability Analysis

Fiscal Year	Fall 2016 Unrestricted General Fund Revenue	Percentage of UGF Committed to State Debt (5% cap)	Percentage of UGF Committed to Total State Supported Debt (8% cap)	Percentage of UGF Committed to Expected Payment on Behalf of PERS/TRS	Percentage of UGF Committed to State Debt or PERS/TRS
2017	1,446,700,000	7.50%	15.63%	14.92%	30.55%
2018	1,624,100,000	7.13%	14.21%	11.43%	25.64%
2019	1,872,700,000	5.97%	11.76%	12.91%	24.68%
2020	1,906,700,000	5.26%	10.51%	15.77%	26.28%
2021	1,943,700,000	5.11%	10.10%	17.70%	27.80%
2022	2,012,400,000	4.42%	8.61%	17.79%	26.41%
2023	2,039,000,000	4.35%	8.49%	18.34%	26.83%
2024	2,074,500,000	4.27%	7.60%	18.83%	26.43%
2025	2,174,300,000	3.85%	6.60%	18.82%	25.42%
2026	2,224,800,000	3.75%	5.90%	19.31%	25.21%



# January 2018 Debt Affordability Analysis

Fiscal Year	Fall 2017 Unrestricted General Fund Revenue	Percentage of UGF Committed to State Debt (5% cap)	Percentage of UGF Committed to Total State Supported Debt (8% cap)	Percentage of UGF Committed to Expected special Payment on Behalf of PERS/TRS	Percentage of UGF Committed to State Debt or PERS/TRS
2018	2,081,600,000	5.4%	10.8%	8.9%	19.7%
2019	2,047,100,000	5.5%	10.7%	14.6%	25.2%
2020	2,063,200,000	4.9%	9.6%	16.8%	26.4%
2021	2,155,700,000	4.6%	9.2%	17.8%	26.8%
2022	2,218,900,000	4.0%	7.7%	17.7%	25.4%
2023	2,275,200,000	3.9%	7.6%	17.7%	25.3%
2024	2,297,100,000	3.9%	6.9%	18.0%	24.9%
2025	2,426,800,000	3.4%	5.8%	17.6%	23.4%
2026	2,641,300,000	3.2%	5.0%	16.7%	21.7%
2027	2,839,800,000	3.0%	4.5%	16.1%	20.6%



# Debt Capacity

- Projected annual revenue increased of approximately \$600 million in FY 2018 vs FY 2017
- Ratios are still at or above capacity in both categories each of the next two years
- Increased capacity of approximately \$150 to \$200 million to total capacity of \$3-400 million
- Creating or using existing “restricted” revenues to fund state government will increase capacity.
- Historically, PF earnings have been classified as restricted by custom rather than unrestricted
- A shift of this revenue stream to unrestricted would have a significant impact
- For every \$100 million of recurring revenue that is added at this point we expect a current market increase in long term debt capacity of \$60-\$70 million





## **2. State Debt and General Fund Obligations**

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# State Debt Obligation Process

- All Forms of State Debt are Authorized First by law
  - May be a one-time issuance amount or a not-to-exceed issuance limit in statute
  - General obligation bonds must then also be approved by a majority of voters
- All State Debt must be structured and authorized by the State Bond Committee
  - Includes general obligation bonds, subject to appropriation issues, & state revenue bonds
- The State Bond Committee determines method and timing of debt issues to best utilize the state's credit and debt capacity while meeting the authorized projects cash flow needs
- The State has established other debt obligations
  - Reimbursement Programs
    - The School Debt Reimbursement Program or HB 528 reimbursement
      - Communities issue bonds and the State agrees to reimburse at a certain level
      - Not currently authorized for new debt and periodically partially funded
  - Retirement Systems
    - Unfunded actuarially assumed liability (UAAL) for defined benefit employees is guaranteed by the Constitution
    - Annual payments on the UAAL of other employers is reflected as State debt in the CAFR
    - Some flexibility in how payments are made





# Total Debt in Alaska at June 30, 2017

	principal outstanding	interest to maturity	total debt service to maturity
<b>State Debt</b>			
State of Alaska General Obligation Bonds	776.8	350.7	1,127.5
<b>State Guaranteed Debt</b>			
Alaska Housing Finance Corporation State Guaranteed Bonds (Veterans' Mortgage Program)	49.4	17.5	66.9
<b>State Supported Debt</b>			
Certificates of Participation	25.9	8.8	34.7
Lease Revenue Bonds with State Credit Pledge and Payment	211.7	94.0	305.7
<b>Total State Supported Debt</b>	237.6	102.8	340.4
<b>State Supported Municipal Debt</b>			
State Reimbursement of Municipal School Debt Service	863.6	275.1	1,138.7
State Reimbursement of capital projects	29.5	11.8	41.3
<b>Total State Supported Municipal Debt</b>	893.1	286.9	1,180.0
<b>Pension System Unfunded Actuarial Accrued Liability (UAAL)<sup>3</sup></b>			
Public Employees' Retirement System UAAL	4,901.0	N/A	4,901.0
Teachers' Retirement System UAAL	1,707.0	N/A	1,707.0
<b>Total UAAL</b>	6,608.0	N/A	6,608.0
<b>State Moral Obligation Debt</b>			
Alaska Municipal Bond Bank:			
2005, 2010, & 2016 General Resolution General Obligation Bonds	1,187.6	611.8	1,799.4
Alaska Energy Authority:			
Power Revenue Bonds #1 through #6	53.5	7.3	60.8
Alaska Student Loan Corporation			
Student Loan Revenue Bonds	14.9	0.2	15.1
Education Loan Backed Notes	69.7	2.6	72.3
<b>Total State Moral Obligation Debt</b>	1,325.7	621.9	1,947.6
<b>State Revenue Debt</b>			
Sportfish Revenue Bonds	19.8	3.6	23.4
International Airports Revenue Bonds	411.2	209.1	620.3



# Total Debt in Alaska at June 30, 2017

## University of Alaska Debt

University of Alaska Revenue Bonds	293.0	170.4	463.4
University Lease Liability and Notes Payable	17.2	4.8	22.0
Installment Contracts	0.8	0.0	0.8
<b>Total University of Alaska Debt</b>	<u>311.0</u>	<u>175.2</u>	<u>486.2</u>
<b>Total State Revenue and University Debt</b>	<u>742.0</u>	<u>387.9</u>	<u>1,129.9</u>

## State Agency Debt

Alaska Housing Finance Corporation:			
Commercial Paper	82.6	N/A	82.6
Alaska Municipal Bond Bank Coastal Energy Loan Bonds	10.1	2.3	12.4
Alaska Railroad	130.3	20.3	150.6
Northern Tobacco Securitization Corporation			
2006 Tobacco Settlement Asset-Backed Bonds <sup>1</sup>	330.3	419.6	749.9
<b>Total State Agency Debt</b>	<u>553.3</u>	<u>442.2</u>	<u>995.5</u>

## State Agency Collateralized or Insured Debt

Alaska Housing Finance Corporation:			
Collateralized Home Mortgage Revenue Bonds & Mortgage Revenue Bonds:			
2002 Through 2011 (First Time Homebuyer Program)	760.2	383.3	1,143.5
General Mortgage Revenue Bonds II -2012	212.7	87.3	300.0
Government Purpose Bonds 1997 & 2001	117.0	27.2	144.2
State Capital Project Bonds, 2002-2011 <sup>2</sup>	135.8	34.1	169.9
State Capital Project Bonds, II 2012-2015	795.8	301.4	1,097.2
Alaska Industrial Development and Export Authority:			
Revolving Fund Bonds	45.9	15.7	61.6
Power Revenue Bonds, 2015 Series (Snettisham Hydro Project)	62.2	30.6	92.8
<b>Total State Agency Collateralized or Insured Debt</b>	<u>2,129.6</u>	<u>879.6</u>	<u>3,009.2</u>
<b>Total State and State Agency Debt</b>	<u>13,315.5</u>		

## Municipal Debt

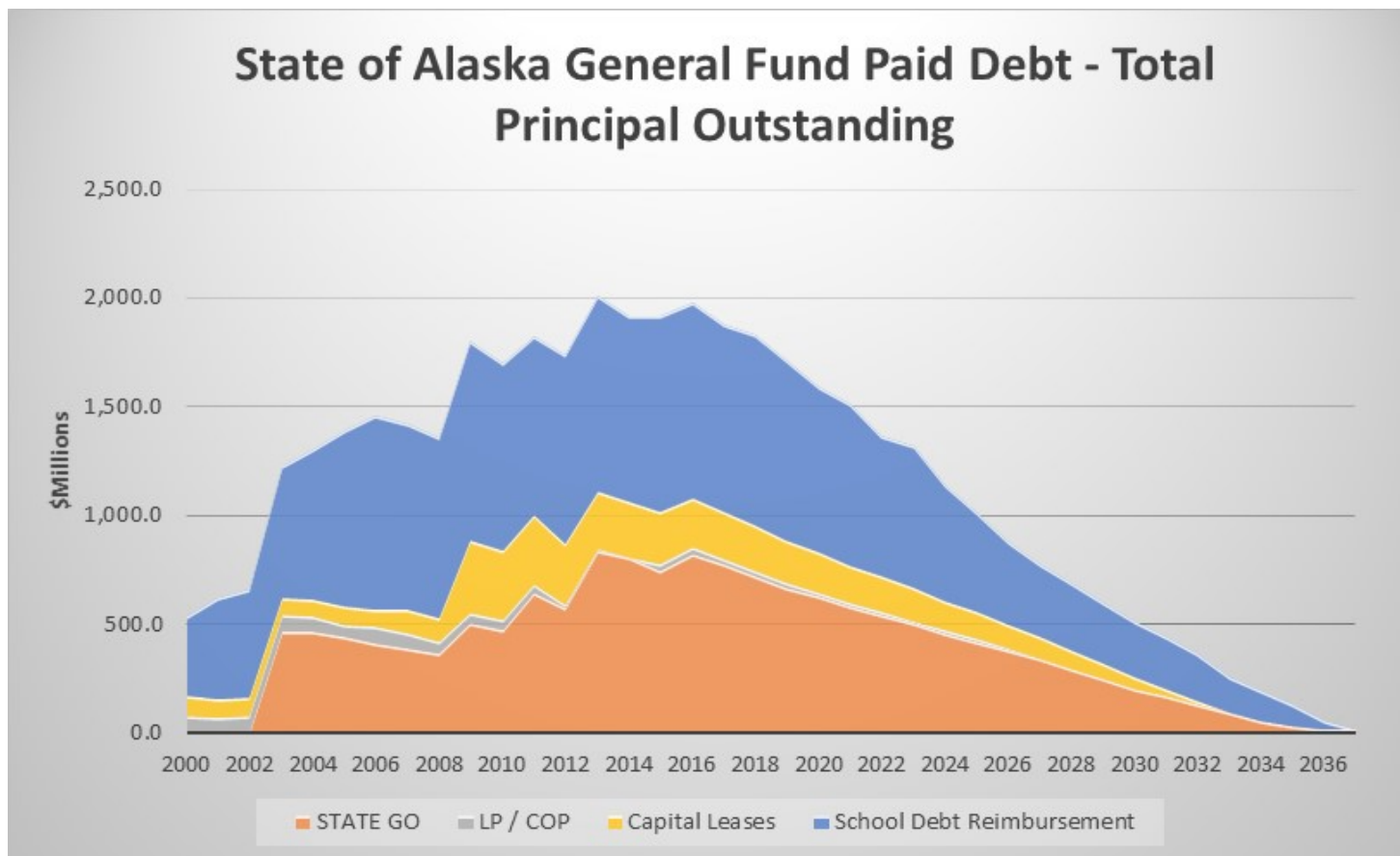
School G.O. Debt	1,286.7	N/A	N/A
Other G.O. Debt	1,006.5	N/A	N/A
Revenue Debt	941.1	N/A	N/A
<b>Total Municipal Debt</b>	<u>3,234.3</u>		



# State Debt Obligations Outstanding

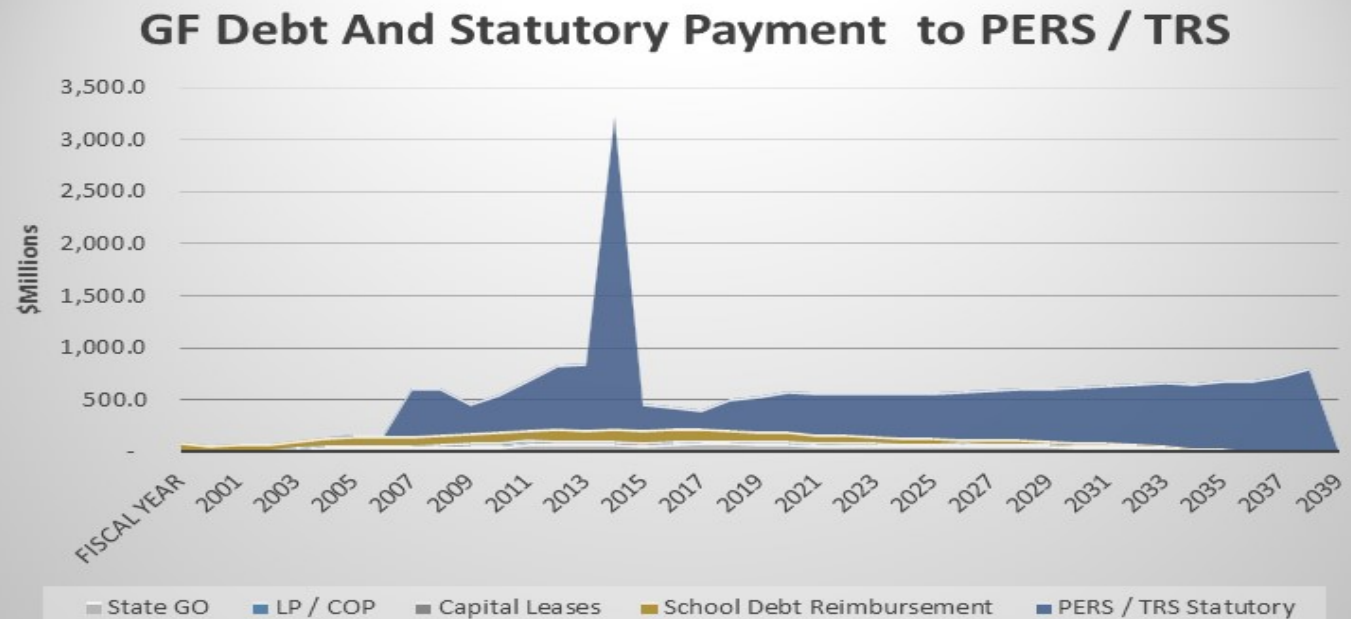
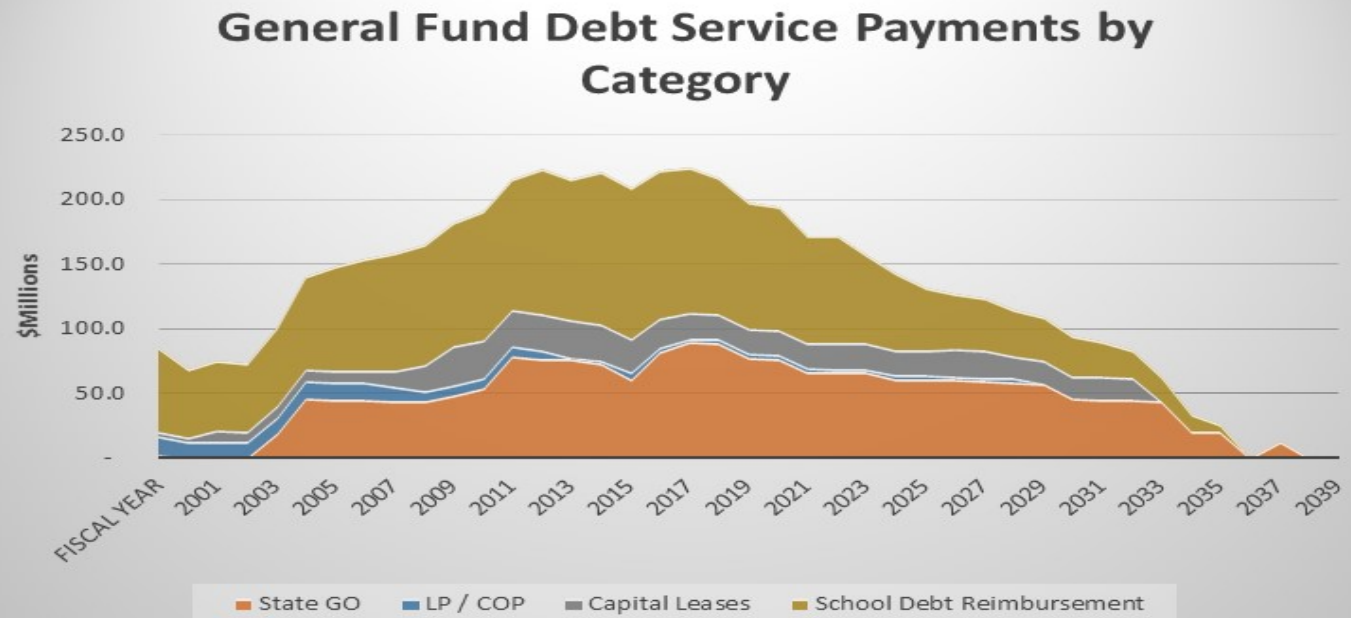
*Annual Position as of June 30*

- Balance outstanding peaked in 2016 at \$1,919.9 million
- Declining principal balances in every year (50% repaid by 2026)
- \$110 million of unissued general obligation bond authority



# Current General Fund Annual Payment Obligation

- GF Payment peaked in 2018 at \$225.2 million
- Declining payment in every year (50% of peak in 2029)
- PERS/TRS special funding payments grow every year
- PERS/TRS special funding is many times all other state commitments
- Existing Authorizations for \$300 million for Knik Arm Crossing, \$110 GO bonds, \$5 billion POB Corporation



# Existing State Short Term Debt Obligation Alternatives

- Bond Anticipation Notes (AS 37.15.300-390)
  - May be used when long term debt is authorized by law
  - While short term, it is expected to be a precursor of long term debt
  - May be used to avoid negative carry in construction funds, better match long-lived projects and their financing, or as an additional budget management tool
  - Directly impacts long term debt affordability
- Revenue Anticipation Notes (AS 43.08.010)
  - May borrow money when it becomes necessary in order to meet appropriations for any fiscal year in anticipation of the collection of the revenues for that year
  - All notes and interest thereon shall be paid from revenue by the end of the fiscal year next succeeding the year in which the notes were issued
  - May be tax-exempt if a bona fide revenue deficit occurs during the fiscal year
    - Earnings of the Permanent Fund and other available fund earnings, will need to be included in determining if a revenue deficit occurs
  - The State has not used since the late 1960's





### 3. State Debt Rating Overview

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# Evolution of State of Alaska Credit Story

- FY 2010-2014 – high levels of unrestricted general fund revenue greatly exceed budgetary needs, growing reserve positions, pre-funding of budget items, large capital budgets, highest credit ratings with stable outlook.
- FY 2015-2017 significantly diminished unrestricted general fund, use of pre-fundings, Statutory Budget Reserve and Constitutional Budget Reserve to balance budget, reductions to capital and operating budgets, discontinuation of following statutory formula for determining Permanent Fund Dividends, consideration of various tax proposals, consideration of use of earnings of the Permanent Fund to pay for government, State downgraded four times followed by three additional downgrades in FY 2018.
- FY 2018 advocating shifting the state's credit analysis towards an endowment model rather than the state models that rely almost exclusively on annual tax and fee collection.



# Good News and Bad News Rating Agency Views – State of Alaska

**MOODY'S**

Aa3 (Stable)



AA (Negative)

**FitchRatings**

AA (Stable)

## POSITIVES

- Recognition of the efforts of the Legislature and Governor to diminish spending
- Recognition of the new revenue options available to fund government expenditures (Permanent Fund and untapped taxes)
- Recognition that from a credit perspective Alaska is more like an endowed university than it is like most other states.
- November 2, 2017 Fitch Ratings “upgrades” the state’s outlook from negative to stable
- December 1, 2017 Moody’s Investor Service “upgrades” the state’s outlook from negative to stable

## Negatives

- Downgraded by Moody’s on July 13, 2017, by S & P on July 18, 2017, and Fitch on November 1, 2017 (7<sup>th</sup> downgrade since AAA in 2015)
- Historic concerns related to narrow economy that is in recession, actuarially assumed pension liabilities, and over reliance on oil production.







## **4. Excerpts from Last Rating Agency Presentation**

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# Executive Summary

## *The State has been migrating towards a fiscal plan*

### Budget Reductions

- FY 2018 Budget passed with \$145.6 million of additional reductions in operating appropriation
  - Unrestricted General Fund operating expense reductions from FY 2015: \$1.3 billion
- Permanent Fund Dividend: 50% of statutory formula - \$760 million (down from \$1,373 million in FY 2015)
  - Cut 50% by Veto in FY 2017 & no legislative over ride
  - Cut 50% by Legislature in FY 2018 with support of Governor
- No appropriation from Earnings Reserve to Principal in 2017 or 2018 as required by State statute for inflation proofing

### Substantial Existing Revenues and Evolving but Stable Reserve Position

- Significant liquidity in the General Fund with an asset value as of August 31, 2017<sup>1</sup> of \$3.6 billion
- State has maintained the practice of labelling available current year revenues as restricted for savings
  - Includes Permanent Fund and CBRF revenues
- Oil, gas and resource-based industries continue to provide substantial revenue that is available for appropriation
  - Currently no broad based tax on Alaska's economy
- Governor has called for a special session starting Oct. 23 to discuss wage tax and crime bill
- Stable available reserves projected at \$17.6 billion for 6/30/2017<sup>2</sup> compared to \$17.3 billion at 6/30/2015
  - Permanent Fund Earnings Reserve increased \$4.2 billion from FY 2016 to FY 2017

### Progressively Closer to Long Term Solution

- FY 2015 – Initial budget reductions
- FY 2016 – Significant budget reductions
- FY 2017 – Additional budget reductions, diminished PFD by Governor's veto
- FY 2018 – Additional budget reductions, diminished PFD by legislative action with Governor's support
  - Both House and Senate passed versions of the budget using PF Earnings Reserve

1. Fund asset values as of August 31, 2017 are unaudited.

2. Reserve balances shown here include the CBRF and the PFER. FY2017 CBRF balance subject to year-end closeout, audit adjustments, and finalized results of the FY2017 CAFR, and uses a projection for FY2017 with best available information at this time. PFER based on APFC's June 30, 2017 fund financial history monthly report



# Revenue Forecast & Budget Outlook

## Compilation of Available Revenue and Recent Budgeting Practice Shows Surplus and Reserve Growth

	2016 (Actual)	2017 (Preliminary Actuals)	2018 (Enacted)	2019	2020	2021	2022	2023	2024	2025	2026
<b>FISCAL YEAR REVENUES (\$ millions)</b>											
<b>Oil Price and Production</b>											
Forecast ANS West Coast Price (\$/barrel)	\$ 43.18	\$ 49.47	\$ 54.00	\$ 60.00	\$ 63.00	\$ 67.00	\$ 71.00	\$ 75.00	\$ 78.00	\$ 84.00	\$ 88.00
Forecast ANS Production (000's Barrels per Day)	514.9	526.5	459.9	437.3	420.2	405.9	389.2	371.8	356.5	340.7	326.9
<b>Revenue vs. Spending</b>											
Unrestricted General Fund Revenue (UGFR)	1,532.7	1,329.7	1,831.9	1,919.8	1,922.5	1,962.7	2,027.9	2,045.7	2,066.3	2,143.7	2,180.9
General Fund Expense	5,213.4	4,497.9	4,336.3	4,350.0	4,350.0	4,350.0	4,350.0	4,350.0	4,350.0	4,350.0	4,350.0
<b>Surplus / (Deficit) using only UGFR</b>	<b>(3,680.7)</b>	<b>(3,168.2)</b>	<b>(2,504.4)</b>	<b>(2,430.2)</b>	<b>(2,427.5)</b>	<b>(2,387.3)</b>	<b>(2,322.1)</b>	<b>(2,304.3)</b>	<b>(2,283.7)</b>	<b>(2,206.3)</b>	<b>(2,169.1)</b>
<b>Available Revenue</b>											
CBRF Investment Earnings Projection	-	94.2	61.5	12.0	-	-	-	-	-	-	-
CBRF Oil and Gas Dispute Resolutions	-	480.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Permanent Fund Fiscal Year Net Assigned Change	-	4,246.0	846.0	1,454.0	1,507.0	1,459.0	1,511.0	1,535.0	1,615.0	1,701.0	1,792.0
half of forecasted PF dividend statutory calculation	-	-	785.5	797.5	851.5	952.5	1,010.0	1,083.0	1,133.0	1,184.0	1,236.5
Permanent Fund Statutory Inflation Proofing	-	-	903.0	931.0	960.0	990.0	1,020.0	1,051.0	1,083.0	1,116.0	1,150.0
<b>Subtotal Available Revenues</b>	-	4,820.2	2,696.0	3,294.5	3,418.5	3,501.5	3,641.0	3,769.0	3,931.0	4,101.0	4,278.5
<b>Surplus / (Deficit) using Available Revenues</b>		<b>\$ 1,652.0</b>	<b>\$ 191.6</b>	<b>\$ 864.3</b>	<b>\$ 991.0</b>	<b>\$ 1,114.2</b>	<b>\$ 1,318.9</b>	<b>\$ 1,464.7</b>	<b>\$ 1,647.3</b>	<b>\$ 1,894.7</b>	<b>\$ 2,109.4</b>

	2016 (Actual)	2017 (Preliminary for CBRF)	2018 (Forecast)	2019	2020	2021	2022	2023	2024	2025	2026
<b>FY (\$ millions)</b>											
<b>Reserves FY Ending Balances</b>											
<b>Constitutional Budget Reserve Fund</b>	7,343.4	4,749.4	2,406.5	88.3	100.0	200.0	300.0	400.0	500.0	600.0	700.0
<b>Permanent Fund Earnings Reserve</b>	8,570.0	12,815.5	15,350.0	18,532.5	19,511.8	20,526.0	21,744.9	23,109.6	24,656.9	26,451.6	28,461.0
<b>Total Reserve Balances</b>	<b>\$ 15,913.4</b>	<b>\$ 17,564.9</b>	<b>\$ 17,756.5</b>	<b>\$ 18,620.8</b>	<b>\$ 19,611.8</b>	<b>\$ 20,726.0</b>	<b>\$ 22,044.9</b>	<b>\$ 23,509.6</b>	<b>\$ 25,156.9</b>	<b>\$ 27,051.6</b>	<b>\$ 29,161.0</b>

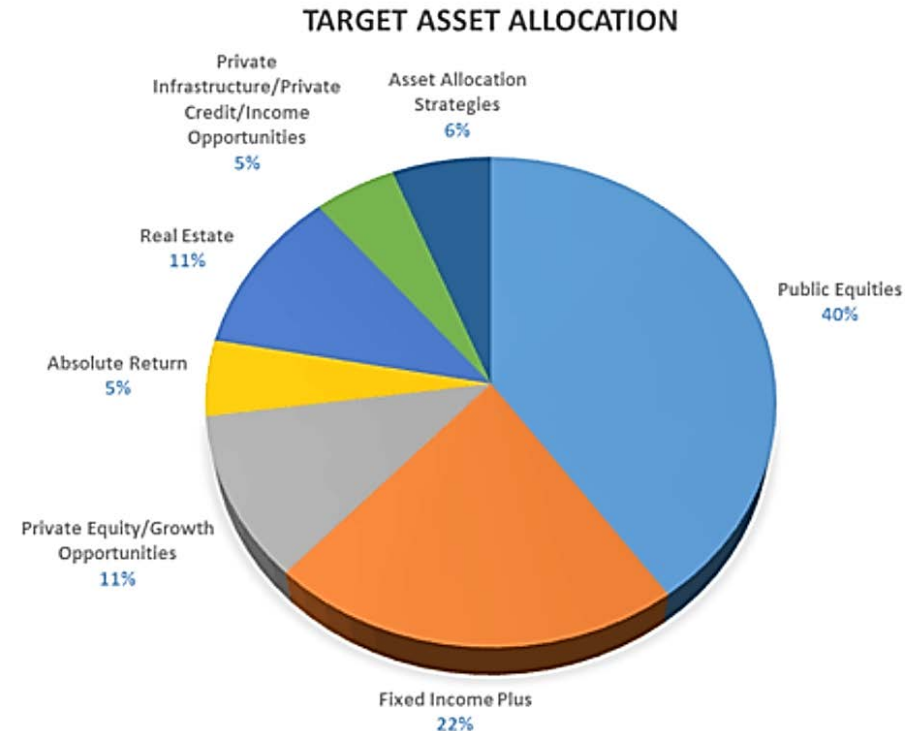
- Oil price, production, and unrestricted revenue for FY2017 and forecast period as of the Spring 2017 Revenue Sources Book with preliminary actuals where available. Projections in the table do not represent a commitment by the Administration to propose spending or generate revenue, and use internal DOR projections for all future years. All stated FY2017 balances and future projections subject to year-end closeout, audit adjustments, and finalized results of the FY2017 CAFR. PFER based on APFC's June 30, 2017 fund financial history and projections report for FY2017, and forecasted years use the July 31, 2017 report. Short-term reserves shown in the CBRF use a projection for FY2017-FY2019 that includes a forecast for earnings and oil and gas dispute resolutions extended through the forecast period. See all assumptions listed in the appendix.



# Revenue Forecast & Budget Outlook

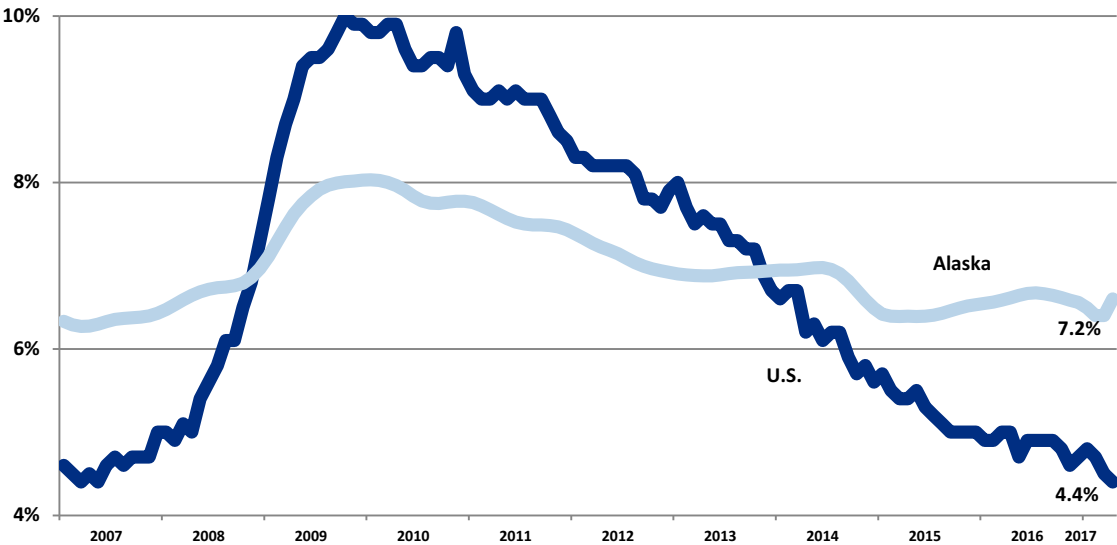
*Unlike other State's, the State of Alaska's Revenue Generation is Not Limited to Alaska's Economy*

- The Alaska Permanent Fund Provides Alaska Unparalleled Revenue Source Diversification
- As of August 31, 2017 Alaska's Permanent Fund endowment had an unaudited total fund balance of **\$61.5 billion.**
  - The State's Permanent Fund Revenue is generated from the national and world economies
  - The Permanent Fund does not rely on Alaska's economy for revenue generation – prohibited investment
  - The APFC Board independently directs investments and has established a 10-year total return projection of 6.50%
  - The Permanent Fund owns shares in more than 3,000 corporations around the world
  - Fixed Income holdings include both US and International securities
  - The Real Estate allocation provides inflation protection and enhanced diversification worldwide
- **Investment income has tended to be countercyclical to oil, the source of the State's other largest revenue stream**

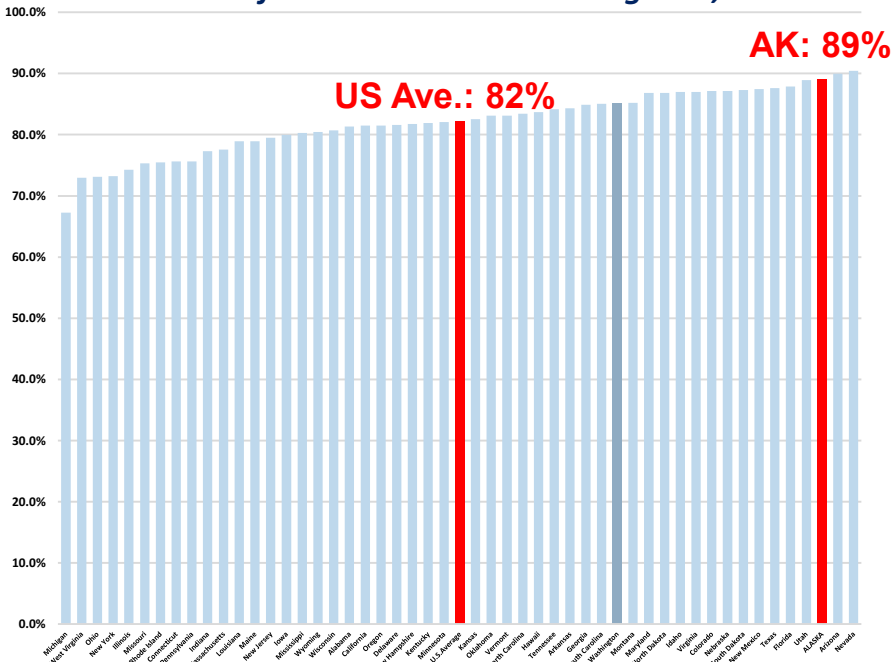


# Alaska's Economy Has Been More Stable than U.S.

Unemployment Rates, Alaska and US – January 2007 to August 2017



Percent of Time States were Adding Jobs, 1961-2016





## **5. Alaska Tax Credit Certificate Bond Corporation**

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# Alaska Tax Credit Purchase Proposal

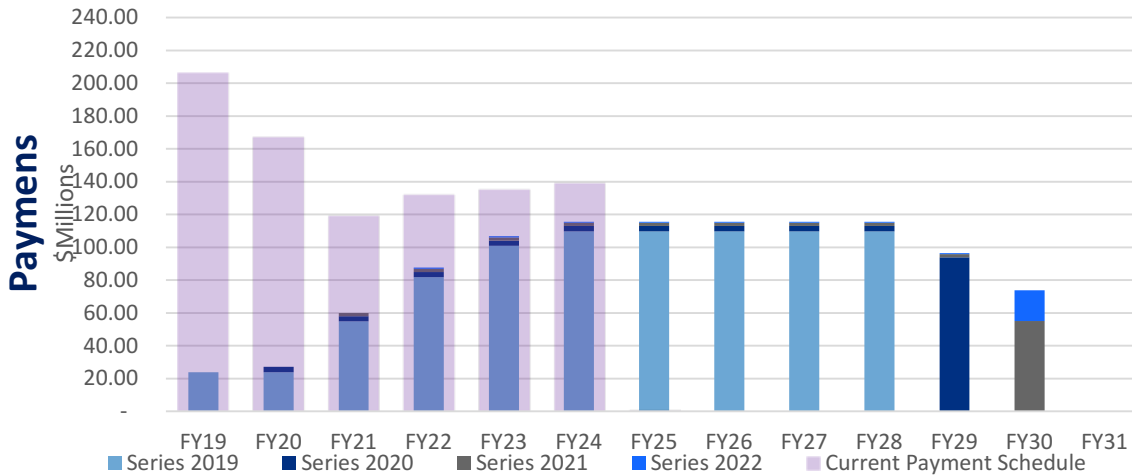
- Existing liability included in the State's Comprehensive Annual Financial Report
- Payable through an offset to state tax liability or by appropriation
- Historical practice of annually appropriating all accrued credits until FY 2016
- Appropriation of annual payment based on formulaic statutory framework
- Governor has proposed paying for accrued credits based on discounted value from the statutory framework's payment projection
- Payment would be provided by issuing bonds to refinance the existing liability
- The combination of discounting and borrowing at lower rates than existing fund balance will earn is anticipated to result in a financial benefit to the State



# Alaska Tax Credit Purchase Proposal

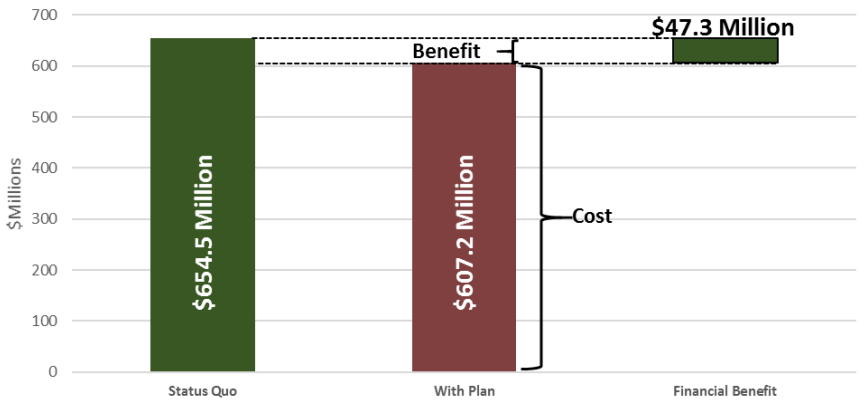
## Current Payments vs. Proposed Payments Cash Flow

Forecasted Base Case Using 5.1% Discount on Credits



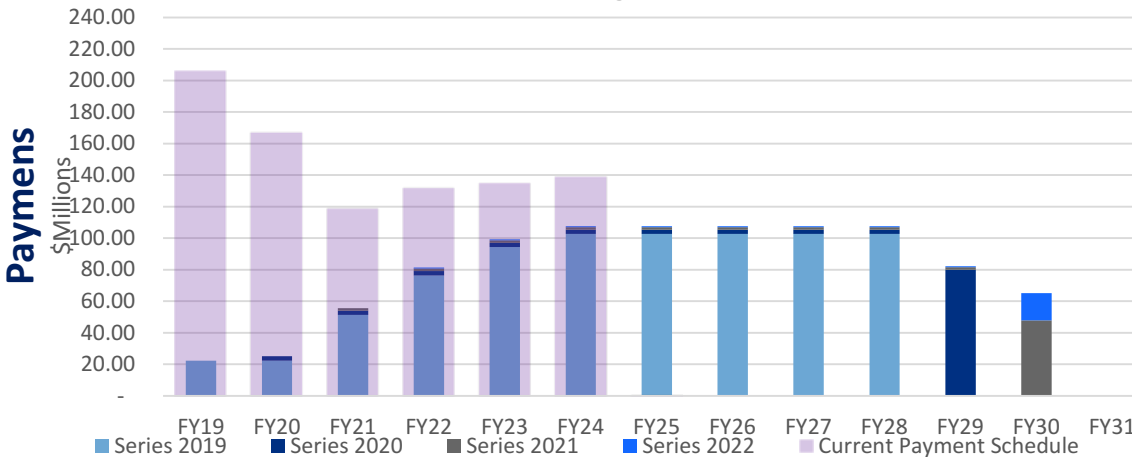
## Cohort One

Projected Base Case Financial Summary

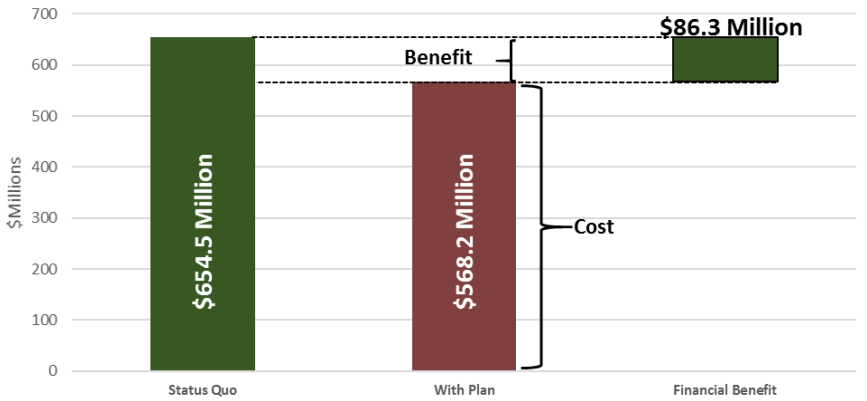


## Current Payments vs. Proposed Payments Cash Flow

Forecasted Max Case Using 10% Discount on Credits



Projected Max Case Financial Summary







## 6. Questions

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