



## 2017 Credit Review & State Debt Summary

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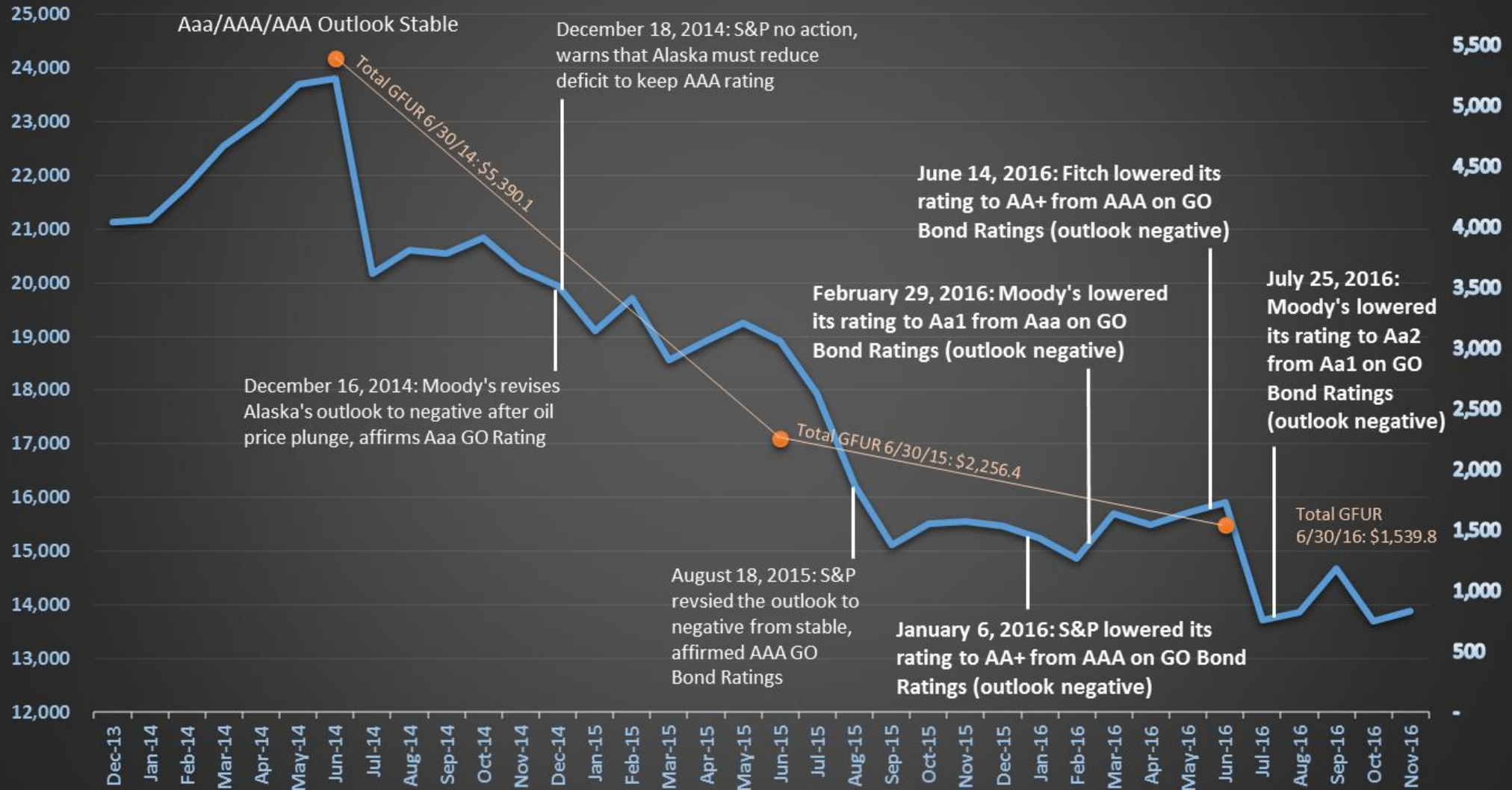
## 1. State Debt Rating Overview

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# Alaska Ratings Timeline

## Savings Accounts, GFUR, and Ratings Timeline

(all values in \$millions)



# Rating Agency Views – State of Alaska

**MOODY'S**

Aa2 (Negative)



AA+ (Negative)

**FitchRatings**

AA+ (Negative)

## POSITIVES

- Large Reserves provide time to determine what fiscal future will look like
- Some combination of re-casting the treatment of various available revenue streams currently restricted, creating new revenue, or reducing expenditures can resolve funding gap
- Baseline assumption that the State will correct deficit trend before coming close to reserve depletion
- Strong management of financial operations

## Negatives

- Future of Alaska's creditworthiness hinges on the ability of its political leaders to reach agreement on substantive fiscal reforms during the 2017 Legislature
- Narrow revenue sources continue to reflect economic volatility
- Alaska's share of the PERS/TRS net pension liabilities translates to a very high \$7,402 per capita





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

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# Executive Summary

*The State continues to make progress in implementing a sustainable fiscal plan.*

## Fiscal and Budget Update

- Budget passed with substantial reductions in operations and capital spending
- The Governor showed strong fiscal discipline, cutting costs and exercising his veto powers to significantly reduce state spending
  - Unrestricted General Fund expense reductions from FY2015: \$1.2 billion
  - Oil and gas tax credits: \$430 million
  - Paused capital projects totaling \$250 million and closed down mega-projects
  - Permanent Fund Dividend: \$665 million
- The State is continuing to drive towards long term solutions

## Substantial Reserves and Resources

- General Fund balance: \$3.5 billion<sup>1</sup>
- Constitutional Budget Reserve (“CBRF”): \$7.3 billion<sup>1</sup>
- Permanent Fund: \$52.8 billion, comprised of \$44.2 billion corpus and \$8.6 billion Earnings Reserve<sup>2</sup>
- Oil, gas and other resource-based industries provide substantial annual revenue that is available for appropriation
- Alaska has taken extraordinary steps to improve pension funding over the past ten years including \$3 billion deposit from its CBRF in FY 2015

1. Fund asset value as of June 30, 2016  
2. As of June 30, 2016



# Revenues & Expenses: The Status Quo and Future Flexibility

*Absent other action, the State will continue to draw down substantial accumulated reserves.*

FY (\$ millions)	Spring 2016 Revenue Forecast <sup>1</sup>		2018	2019	2020	2021
	2016 (Actual)	2017 (Enacted)				
<b>Oil Price and Production</b>						
Forecast ANS West Coast Price (\$/barrel)	\$43.18	\$38.89	\$43.79	\$48.89	\$54.48	\$60.29
Forecast ANS Production (000's Barrels per Day)	514.4	507.1	488.8	484.4	454.1	418.6
<b>Revenue versus Spending</b>						
Unrestricted General Fund Revenue	\$1,292.8	\$1,186.5	\$1,346.3	\$1,445.9	\$1,522.6	\$1,605.5
General Fund Expense	5,213.4	4,364.4	4,400.0	4,400.0	4,400.0	4,400.0
<b>Surplus / (Deficit)</b>	<b>(3,920.6)</b>	<b>(3,177.9)</b>	<b>(3,053.7)</b>	<b>(2,954.1)</b>	<b>(2,877.4)</b>	<b>(2,794.5)</b>
<b>Short-term Reserves</b>						
Constitutional Budget Reserve (CBRF)	\$6,468.8	\$3,290.9	\$237.2	-	-	-
Permanent Fund Earnings Reserve (PFER)	8,570.0	8,984.0	9,514.9	\$7,504.1	\$5,446.7	\$3,505.2
<b>Short-term Reserve Balances</b>	<b>\$15,038.8</b>	<b>\$12,274.9</b>	<b>\$9,752.1</b>	<b>\$7,504.1</b>	<b>\$5,446.7</b>	<b>\$3,505.2</b>

- Short-term balances reflect “status quo” projections (i.e., no change in dividend payout, General Fund expense, or reserve drawdown)
  - Earnings Reserve balance 2017 and beyond assumes dividend is based on statutory formula and total return of 6.9%
- However, under the “do-nothing” scenario, the State would still have access to substantial incremental revenue that is currently restricted by custom only **and is not included in the analysis above**<sup>(2)</sup>
  - Includes (i) additional royalties beyond 25% Permanent Fund dedication; (ii) Designated General Fund Revenue; and (iii) annual investment income currently used to inflation proof the Permanent Fund, pay the Dividend and fund the Earnings Reserve

## Total Revenues Subject to Appropriation<sup>2</sup>

FY (\$ millions)	2016	2017	2018	2019	2020	2021
<b>Total Revenue Subject to Appropriation</b>	<b>\$3,862.1</b>	<b>\$4,261.2</b>	<b>\$4,364.6</b>	<b>\$4,471.0</b>	<b>\$4,551.8</b>	<b>\$4,631.8</b>
Unrestricted General Fund Revenue	\$1,292.8	\$1,186.5	\$1,346.3	\$1,445.9	\$1,522.6	\$1,605.5
<b>Additional Rev. Available/Subject to Approp.</b>	<b>\$2,569.3</b>	<b>\$3,074.7</b>	<b>\$3,018.3</b>	<b>\$3,025.1</b>	<b>\$3,029.2</b>	<b>\$3,026.3</b>

1. Oil price, production, and unrestricted revenue forecast as of the Spring 2016 Revenue Sources Book. Projections in the table do not represent a commitment by the Administration to propose spending or generate revenue, and use best available information for FY2016 and all future years. General Fund expense projections are held constant at approximately the same authorization to spend as the enacted fiscal summary released by OMB 7/1/2016. All stated FY2016 balances and resulting forecasts subject to year-end closeout and audit adjustments. Short-term reserves shown in the CBRF use a projection for FY2016-FY2021 using best available information at this time. PFER projections as of APFC's June 30, 2016 fund financial history and projections report.

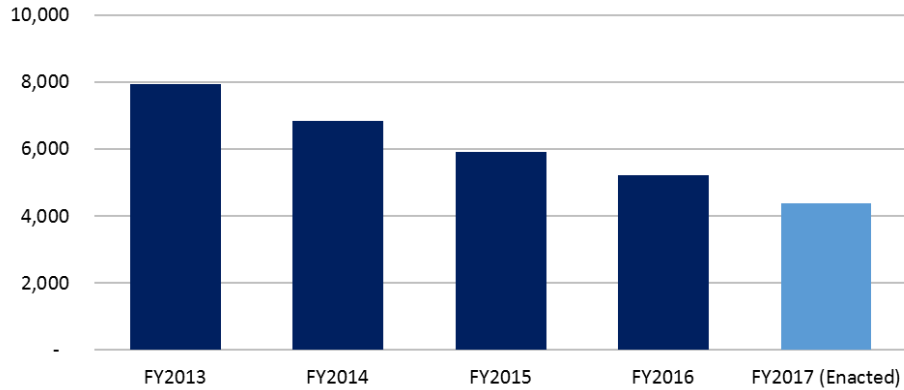
2. See appendix for additional detail on total revenues subject to appropriation, including FY2016 and FY2017 adjustments for Revenue Adjustments, Carryforward and Re-appropriations.



# FY2017 (Enacted) Budget Overview

*Spending has been significantly reduced over the last five years from \$8 billion to less than \$4.4 billion while maintaining essential services.*

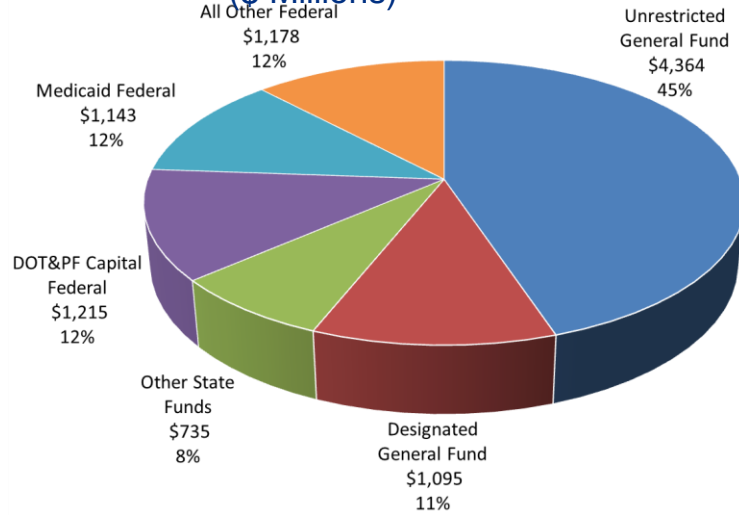
**Unrestricted General Fund Spending**  
(Total Authorization to Spend by Fiscal Year \$ Millions)



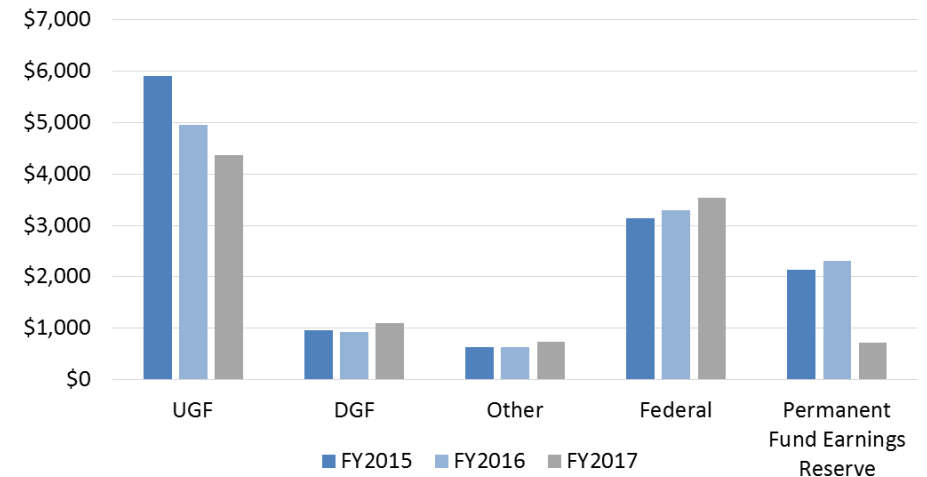
**FY2017 Capital Budget**  
( \$ Millions)

Priority Area	All Funds	Unrestricted General Fund
Federal Match / Leverage	\$1,463.5	\$41.6
Energy & Energy Efficiency	5.2	1.0
Deferred Maintenance	21.6	9.6
All Other	92.0	43.9
<b>TOTAL</b>	<b>\$1,582.3</b>	<b>\$96.1</b>

**FY2017 Budget by All Fund Sources**  
( \$ Millions)



**FY2015-2017 Funding by Type**  
( \$ Millions)





# PERS and TRS Funding Status

*FY2016 returns are expected to impact funding levels; however, the State's longer-run trend of improving funding levels continues.*

- FY2015 valuations illustrate the State's improved funding status across all areas of its PERS and TRS programs<sup>(1)</sup>
- FY2015 figures reflect the impact of the State's \$3 billion transfer from the CBRF
  - \$1 billion PERS / \$2 billion TRS
- Defined Benefit OPEB funding is near or above 100% for both PERS and TRS
- FY2015 final valuations were adopted by the ARM Board in June, were used for the purpose of determining the FY2018 funding amount, and will be included in the FY2016 CAFR

Funded Status as of June 30 (\$ in 000s)	PERS		TRS	
	2014	2015	2014	2015
<b>DB - Pension</b>				
a. Actuarial Accrued Liability	\$ 12,947,759	\$ 13,337,929	\$ 6,921,362	\$ 7,051,724
b. Valuation Assets	7,731,438	8,931,160	3,771,139	5,422,651
c. Funded Ratio based on Valuation Assets (b)/(a)	59.7%	67.0%	54.5%	76.9%
<b>DB - Healthcare</b>				
a. Actuarial Accrued Liability	\$ 7,949,613	\$ 7,310,734	\$ 2,919,670	\$ 2,677,393
b. Valuation Assets	6,913,160	7,242,299	2,248,135	2,686,272
c. Funded Ratio based on Valuation Assets (b)/(a)	87.0%	99.1%	77.0%	100.3%
<b>DB - Total</b>				
a. Actuarial Accrued Liability	\$ 20,897,372	\$ 20,648,663	\$ 9,841,032	\$ 9,729,117
b. Valuation Assets	14,644,598	16,173,459	6,019,274	8,108,923
c. Funded Ratio based on Valuation Assets (b)/(a)	70.1%	78.3%	61.2%	83.3%

## Preliminary FY2016 Results

- Preliminary FY2016 returns were -0.36%, well below actuarial assumptions, but consistent with other national pension returns
  - Estimated funded ratio of approximately 76.9% (PERS) and 81.9% (TRS)
- Draft FY2016 actuarial valuation incorporating FY2016 returns is expected to be available in early 2017

<sup>1</sup>The FY2015 actuarial valuation was adopted by the ARM Board on June 24, 2016. Final FY2015 valuation will be included in the FY2016 CAFR.





### **3. 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 issues 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 creating a state debt
    - 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, 2016

	principal outstanding	interest to maturity	total debt service to maturity
<b>State Debt</b>			
State of Alaska General Obligation Bonds	<u>823.2</u>	<u>386.8</u>	<u>1,210.0</u>
<b>State Guaranteed Debt</b>			
Alaska Housing Finance Corporation State Guaranteed Bonds (Veterans' Mortgage Program)	<u>11.6</u>	<u>8.0</u>	<u>19.6</u>
<b>State Supported Debt</b>			
Certificates of Participation	27.5	10.1	37.6
Lease Revenue Bonds with State Credit Pledge and Payment	<u>228.2</u>	<u>104.1</u>	<u>332.2</u>
<b>Total State Supported Debt</b>	<u>255.6</u>	<u>114.2</u>	<u>369.8</u>
<b>State Supported Municipal Debt</b>			
State Reimbursement of Municipal School Debt Service	901.0	298.6	1,199.6
State Reimbursement of capital projects	<u>32.8</u>	<u>13.1</u>	<u>45.9</u>
<b>Total State Supported Municipal Debt</b>	<u>933.8</u>	<u>311.7</u>	<u>1,245.5</u>
<b>State Supported Unfunded Pension Liability</b>			
Unfunded Actuarially Assumed Liability	<u>5,801.0</u>	<u>5,429.0</u>	<u>11,230.0</u>
<b>Total State Unfunded Pension Liability</b>	<u>5,801.0</u>	<u>5,429.0</u>	<u>11,230.0</u>
<b>State Moral Obligation Debt</b>			
Alaska Municipal Bond Bank:			
2005, 2010, & 2016 General Resolution General Obligation Bonds	1,090.4	541.7	1,632.1
Alaska Energy Authority:			
Power Revenue Bonds #1 through #6	62.6	10.4	73.0
Alaska Student Loan Corporation			
Student Loan Revenue Bonds	26.9	0.3	27.2
Education Loan Backed Notes	<u>85.6</u>	<u>2.1</u>	<u>87.7</u>
<b>Total State Moral Obligation Debt</b>	<u>1,265.5</u>	<u>554.5</u>	<u>1,820.0</u>
<b>State Revenue Debt</b>			
Sportfish Revenue Bonds	27.9	8.0	35.9
International Airports Revenue Bonds	<u>487.3</u>	<u>215.5</u>	<u>702.8</u>



# Total Debt in Alaska at June 30, 2016

	principal outstanding	interest to maturity	total debt service to maturity
<b>University of Alaska Debt</b>			
University of Alaska Revenue Bonds	270.3	156.5	426.8
University Lease Liability and Notes Payable	16.2	4.2	20.4
Installment Contracts	1.3	0.1	1.4
<b>Total University of Alaska Debt</b>	<b>287.8</b>	<b>160.8</b>	<b>448.6</b>
<b>Total State Revenue and University Debt</b>	<b>803.0</b>	<b>376.3</b>	<b>1,179.3</b>
<b>State Agency Debt</b>			
Alaska Housing Finance Corporation:			
Commercial Paper	71.6	N/A	71.6
Alaska Municipal Bond Bank Coastal Energy Loan Bonds	10.3	2.5	12.8
Alaska Railroad	147.9	26.5	174.4
Northern Tobacco Securitization Corporation			
2006 Tobacco Settlement Asset-Backed Bonds (1)	338.6	435.5	774.1
<b>Total State Agency Debt</b>	<b>568.4</b>	<b>464.5</b>	<b>1,032.9</b>
<b>State Agency Collateralized or Insured Debt</b>			
Alaska Housing Finance Corporation:			
Collateralized Home Mortgage Revenue Bonds & Mortgage Revenue Bonds:			
2002 Through 2011 (First Time Homebuyer Program)	799.4	423.7	1,223.1
General Mortgage Revenue Bonds II -2012	121.6	59.7	181.3
Government Purpose Bonds 1997 & 2001	122.8	30.7	153.5
State Capital Project Bonds, 2002-2011 (2)	147.6	44.8	192.4
State Capital Project Bonds, II 2012-2015	818.5	303.3	1,121.8
Alaska Industrial Development and Export Authority:			
Revolving Fund Bonds	55.6	18.5	74.1
Power Revenue Bonds, First Series (Snettisham Hydro Project)	64.4	33.8	98.2
<b>Total State Agency Collateralized or Insured Debt</b>	<b>2,129.9</b>	<b>914.5</b>	<b>3,044.4</b>
<b>Total State and State Agency Debt</b>	<b>12,592.1</b>		
<b>Municipal Debt</b>			
School G.O. Debt	1,338.8	N/A	N/A
Other G.O. Debt	1,047.8	N/A	N/A
Revenue Debt	960.2	N/A	N/A
<b>Total Municipal Debt</b>	<b>3,346.8</b>		



# State Debt Obligations Outstanding

*As of June 30, 2016*

Type of Debt Obligation	Par Amount or Current Valuation	Year of Final Payment	FY 2018 UGF Payment	Total Debt Service to Maturity
<b>General Obligation*</b>				
	\$823,235,000	2038	\$85,214,000	\$1,142,700,061
<b>Subject to Appropriation (COP/Lease Revenue)</b>				
	\$310,600,000	2033	\$25,000,000	\$410,000,000
<b>State Supported Unfunded Actuarially Assumed Liability (if the State Earns 8% on prefunded amounts)</b>	\$5,801,000,000	2039	185,000,000	11,230,775,000
<b>State Support of Municipal Debt</b>				
<b>School Debt Reimbursement **</b>	\$823,200,000	2036	\$110,400,000	\$1,063,600,000
<b>Other State Reimbursements (Capital Projects)</b>	\$32,800,000	2031	\$4,600,000	\$46,000,000
<b>Total</b>				

\*Does not include estimates of debt service on future issuances of \$110,348,242 of remaining 2012 Transportation Act authority, all dates assume fiscal year basis. G.O. bonded debt service is shown net of BAB and QSCB subsidy

\*\*This is only the portion of the local communities outstanding general obligation bonds paid by the State of Alaska



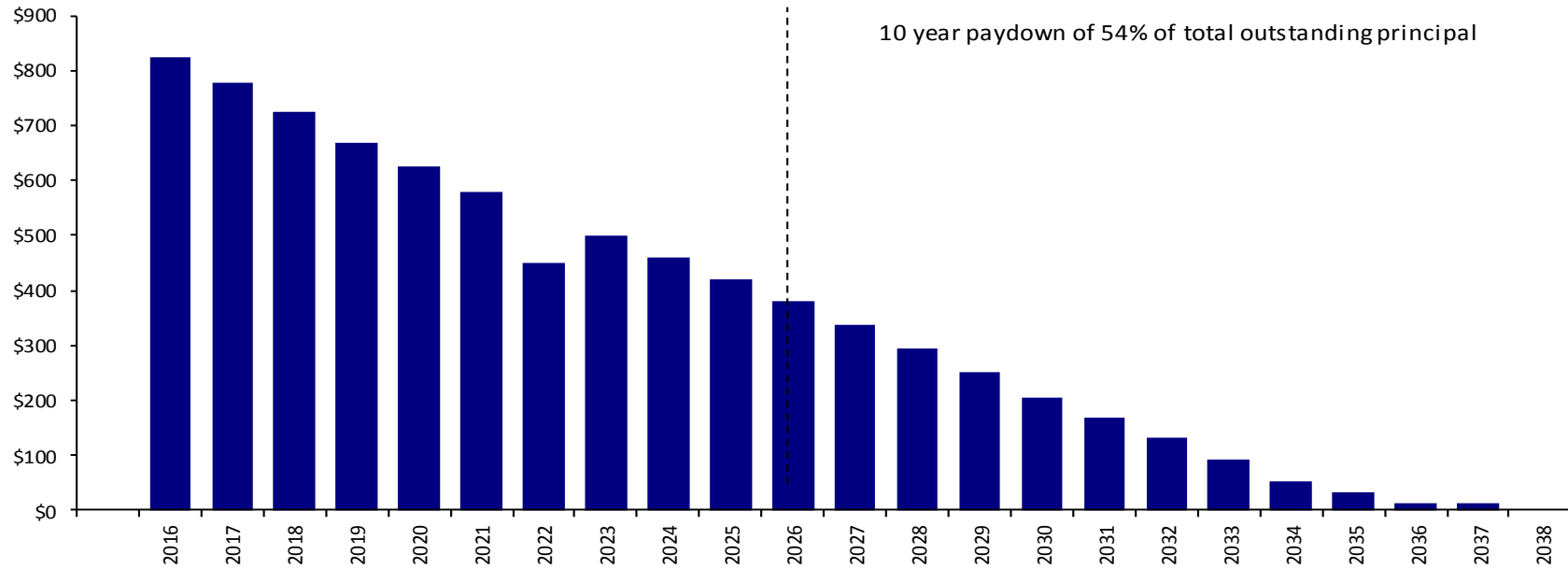
# General Obligation bonds Current Financings

## *G.O. bonds outstanding gradually decline*

### Recent Activity:

- To date, \$342.8million of the State's 2012 GO bond authorization (\$453.2 million) has been funded
- Remaining \$110.4 million won't be issued before fiscal year 2018

### Total General Obligation Debt Currently Outstanding at June 30\* (\$ millions)



\*Source: State of Alaska, Department of Revenue, does not include BAN issue or any additional future issuances, all dates assume fiscal year basis. G.O. bonded debt service is shown net of BAB and QSCB subsidy

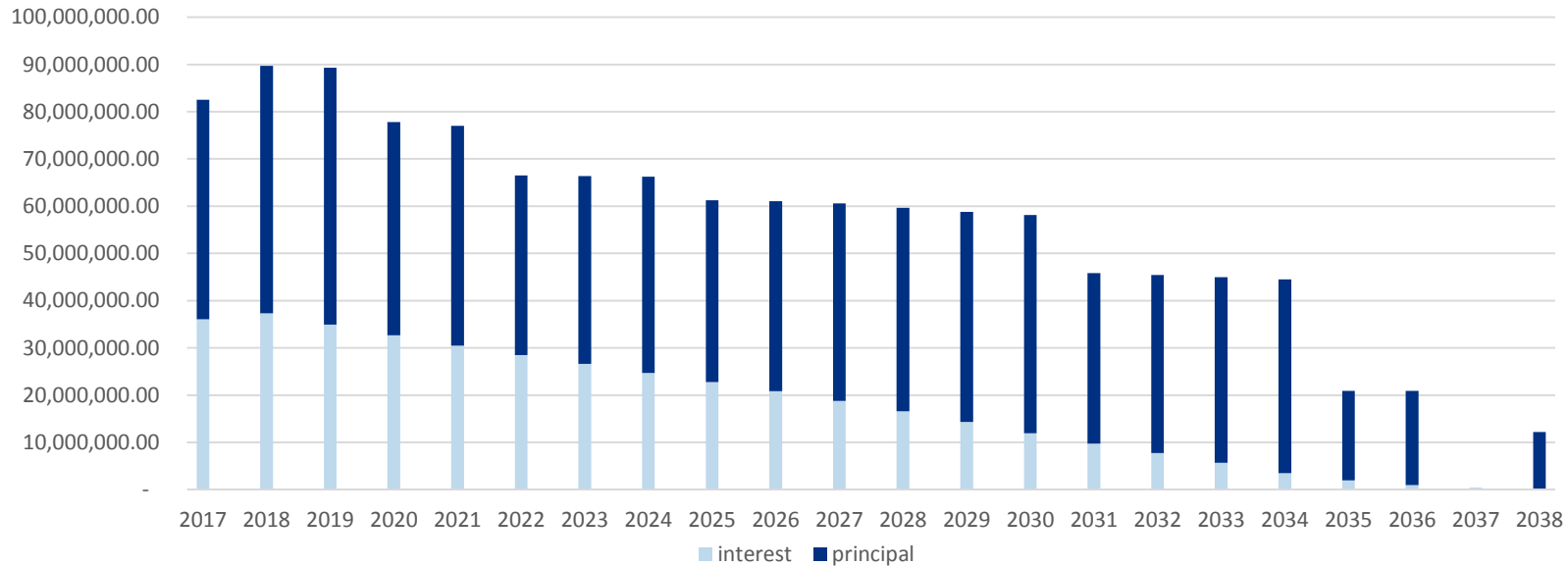


# General Obligation Bonds

## *Existing G.O. debt service stable and expected to gradually decline*

- Annual debt service remains well below the 1985 peak of \$169.5 million
- G.O. debt service represent 5.4% of projected unrestricted revenue for FY 2017, but declines to 2.5% by 2026

**General Obligation Outstanding Debt Service**



\*Source: State of Alaska, Department of Revenue, does not include BAN issue or any additional future issuances, all dates assume fiscal year basis. G.O. bonded debt service is shown net of BAB and QSCB subsidy



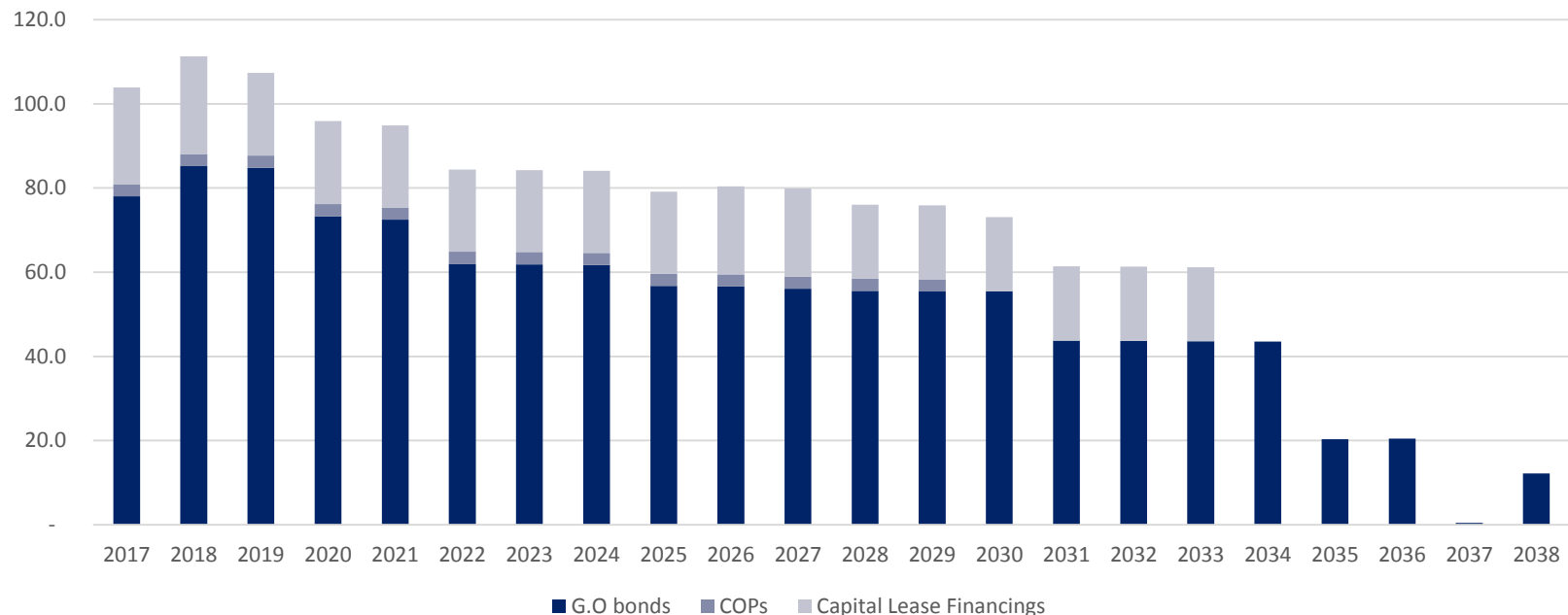


# Bonds Authorized by Law and Paid from General Fund

## *Existing State debt service stable and expected to gradually decline*

- Annual debt service remains well below the 1985 peak of \$182.2 million
- debt service represent 7.5% of projected unrestricted revenue for FY 2017, but declines to 3.7% by 2026
- Currently exceeds Debt Affordability Policy of 5%

**Outstanding State Debt Annual Payments**



\*Source: State of Alaska, Department of Revenue, does not include BAN issue or any additional future issuances, all dates assume fiscal year basis. G.O. bonded debt service is shown net of BAB and QSCB subsidy

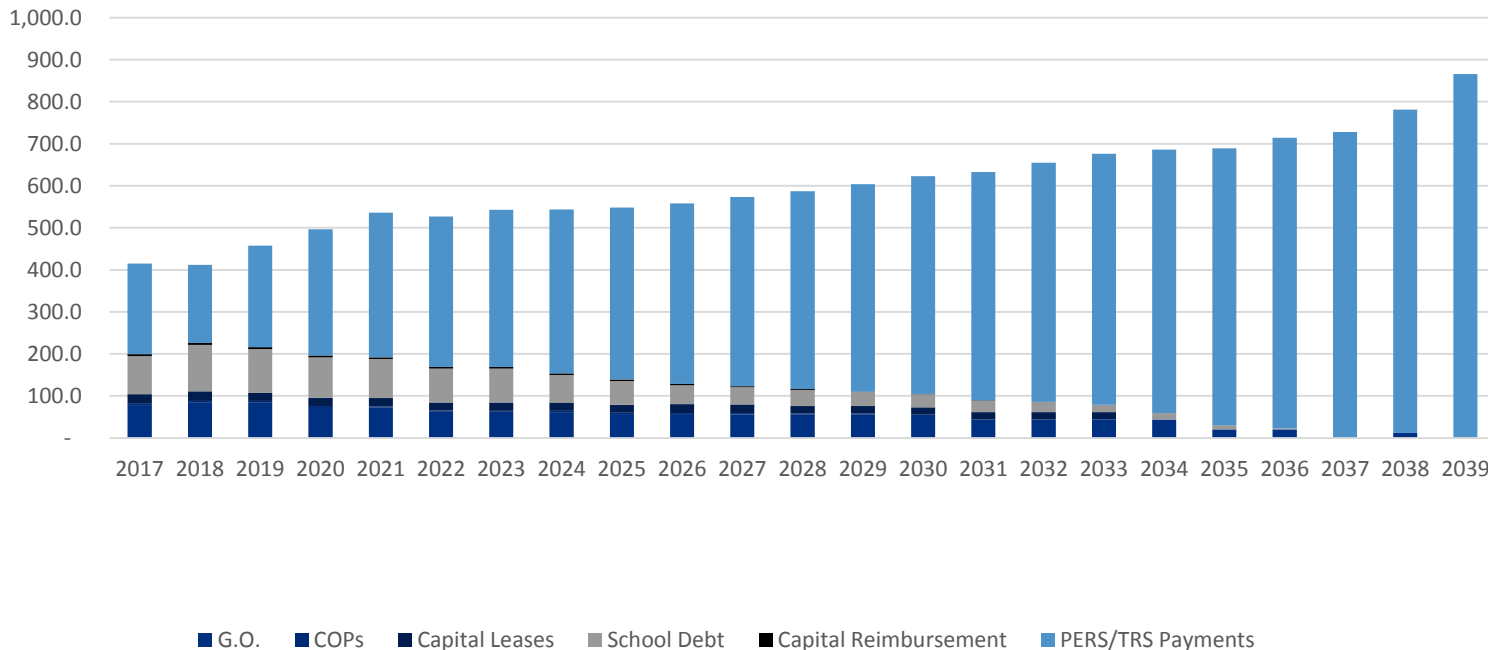


# Bonds, Bond Reimbursements & Statutory UAAL Debt

## *Bonds/Bond Reimbursements are Stable and declining versus Volatile and Growing UAAL Debt*

- The impact of UAAL debt dwarfs other debt and reimbursement commitments
- Annual payments grow by 108% over the next 23 years
- Annual payments represent 28.7% of projected unrestricted revenue for FY 2017, and remain over 25% through 2026
- Exceeds Debt Affordability limit of 8%

Total State Debt Payments



\*Source: State of Alaska, Department of Revenue, does not include BAN issue or any additional future issuances, all dates assume fiscal year basis. G.O. bonded debt service is shown net of BAB and QSCB subsidy

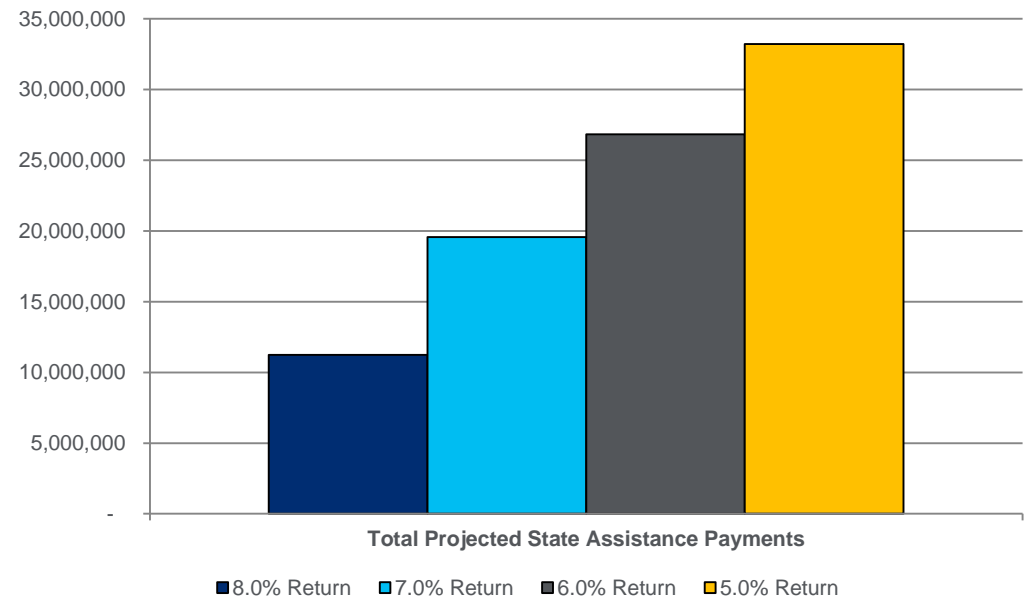
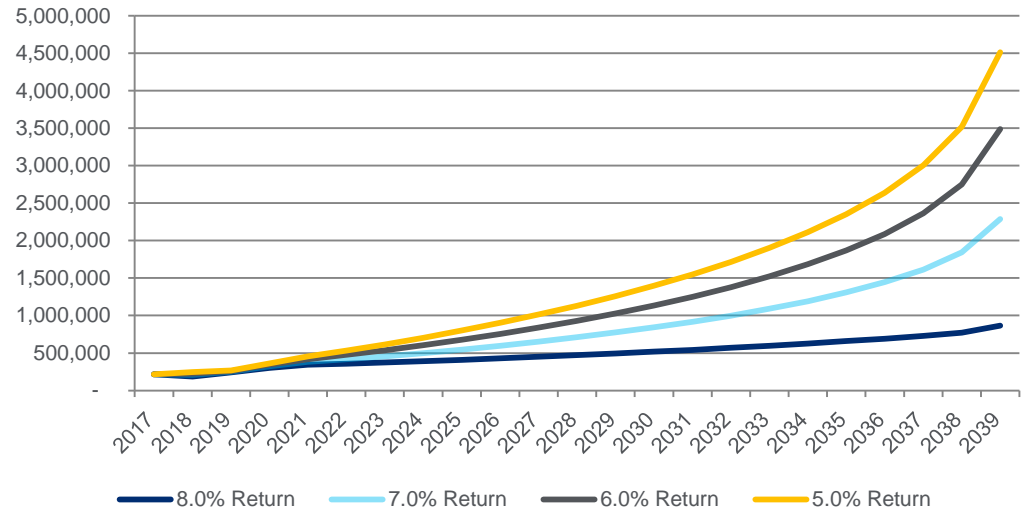


# Largest State Debt Payment Volatility

Annual State Assistance Payment Sensitivity (\$000)

FY	8.0% Return	7.0% Return	6.0% Return	5.0% Return
2017	215,866	215,866	215,866	215,866
2018	185,612	205,474	225,655	245,760
2019	241,846	250,705	259,726	268,584
2020	300,608	321,275	341,943	362,191
2021	344,070	381,470	418,090	454,276
2022	358,051	417,178	475,239	531,150
2023	373,879	457,081	537,062	614,560
2024	390,607	499,545	603,554	703,604
2025	409,147	546,071	676,273	799,752
2026	429,602	597,749	755,763	903,932
2027	450,068	652,157	839,653	1,013,900
2028	470,594	709,445	929,293	1,131,636
2029	493,945	773,607	1,028,608	1,260,466
2030	518,178	842,532	1,135,303	1,399,428
2031	542,567	916,917	1,251,497	1,550,665
2032	568,929	999,064	1,379,667	1,716,796
2033	597,086	1,090,837	1,523,058	1,901,893
2034	627,095	1,192,191	1,683,926	2,111,336
2035	658,380	1,308,666	1,869,250	2,352,408
2036	691,641	1,445,082	2,089,494	2,640,578
2037	727,836	1,613,213	2,365,389	3,005,085
2038	769,492	1,842,327	2,749,771	3,519,139
2039	865,676	2,289,082	3,490,261	4,513,272
<b>Total</b>	<b>11,230,775</b>	<b>19,567,534</b>	<b>26,844,341</b>	<b>33,216,277</b>

Annual State Assistance Payments at Various Earnings Thresholds (\$000)



\*Preliminary, subject to change. As of October 2016. Projected UAAL as reflected in Buck Consultants Financial Projection Studies, October 17, 2016. State Assistance Payments projected at annual return rates as illustrated above are estimates and are subject to market returns and should be reviewed.



# State Debt Obligations Authorized But Unissued

*As of January 1, 2017*

Type of Debt Obligation	Amount	Potential Issuance Date(s)	Expected Term	Annual Debt Service or estimate
<b>General Obligation</b>	\$110,348,242	FY 18	20 years	\$8,500,000
<b>Subject to Appropriation (COP/Lease Revenue)</b>	0	n/a		
<b>Knik Arm Crossing (subject to appropriation)</b>	\$300,000,000	uncertain		\$25,000,000
<b>Pension Obligation Bonds (subject to appropriation)**</b>	Up to \$5 billion	uncertain		Replaces SB 125 State Assistance Payments
<b>School Debt Reimbursement (projects authorized prior to 1-1-2015 only)</b>	Limited	FY 17-18	At least 10 years	Limited
<b>Other State Reimbursements (Capital Projects)</b>	0	n/a		
<b>Total</b>	<b>5,410,348,242</b>			

No Known/anticipated bond issues in fiscal year 2017

