



Alaska Public Debt Report

A Presentation to the Senate Finance Committee

February 13, 2014

Department of Revenue

Michael Pawlowski
Deputy Commissioner

Deven Mitchell
State Debt Manager

Discussion Agenda

- State Debt Issued and Currently Authorized
- State Credit Issues
- Current Market Condition
- Summary



State Debt Issued and Currently Authorized

\$6.6 to 8.1 Billion in Outstanding State Debt 1999-2014 Summarized by category in millions

	<u>1999</u>	<u>2014</u>
• General Obligation	2.4	840.2 (additional \$303 million authorized but unissued)
• State Supported (leases & school debt reimbursement)	459.1	1,195.0
• State Guaranteed (Veteran's Mortgage Program)	391.0	383.9 (additional \$695 million authorized but unissued)
• State Moral Obligation (AMBBA, AEA, ASLC)	763.1	1,200.7
• State Revenue (AIAS & Sport Fishing Hatcheries)	210.4	595.7
• University	85.7	190.5
• State Agency (AHFC, AMBBA, ARR, NTSC)	767.5	543.3
• State Agency Collateralized (AHFC, AIDEA)	1,983.8	2,312.2
• Municipal	2,303.4	3,150.6

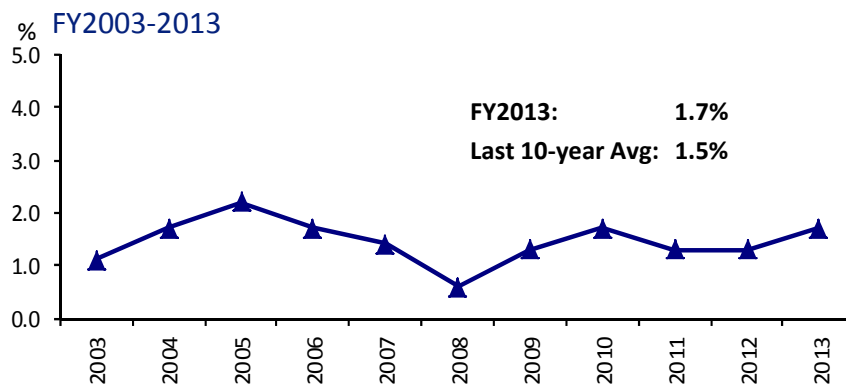
Source: Alaska Public Debt Book – Table 1.1

Financial Management and Debt Metrics

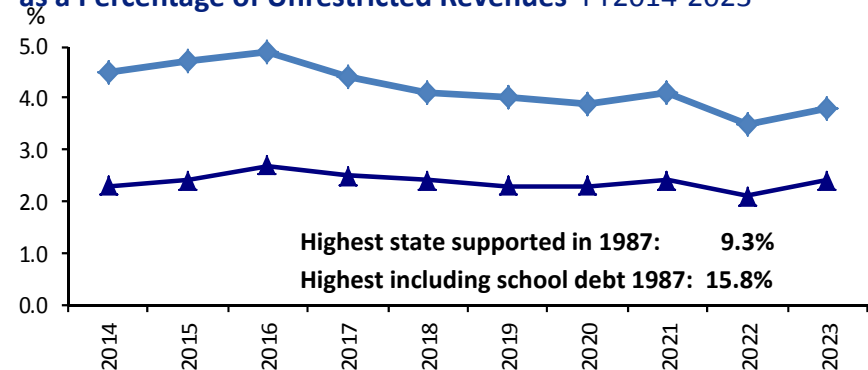
Current Debt service costs remain below 5% of General Fund unrestricted revenues

- In 2013, a \$35 million Certificate of Participation authorization to fund a residential housing facility co-located with the Alaska Native Medical Hospital
- The State is expected to benefit from higher use of the ANMC and reduced Medicare co-payments
- The School Debt Reimbursement Program continues to grow with open ended authorization

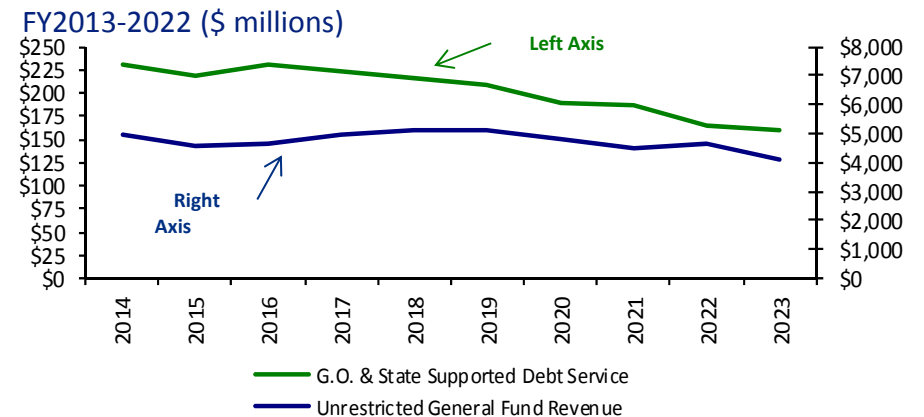
Historical Total State Debt Service (G.O. and State Supported) as a Percentage of Unrestricted Revenues¹



Projected State Debt Service (G.O. Plus State Supported compared to G.O., State Supported, & School Debt Reimbursement) as a Percentage of Unrestricted Revenues¹ FY2014-2023



Projected Total State Debt Service (G.O., State Supported, & School Debt Reimbursement) and Unrestricted Revenues¹



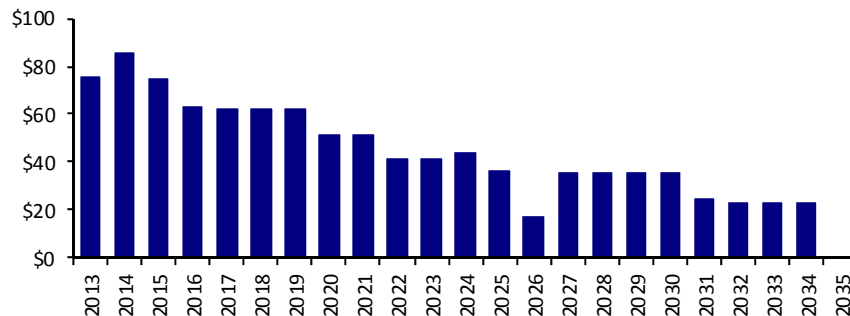
(1) Source: State of Alaska Revenue Sources Book Fall 2013, Does not include debt service for the \$453 million 2012 Authorization or other future issues all dates assume fiscal year basis. G.O. bond debt service is shown net of BAB and QSCB subsidy

Financial Management and Debt Metrics

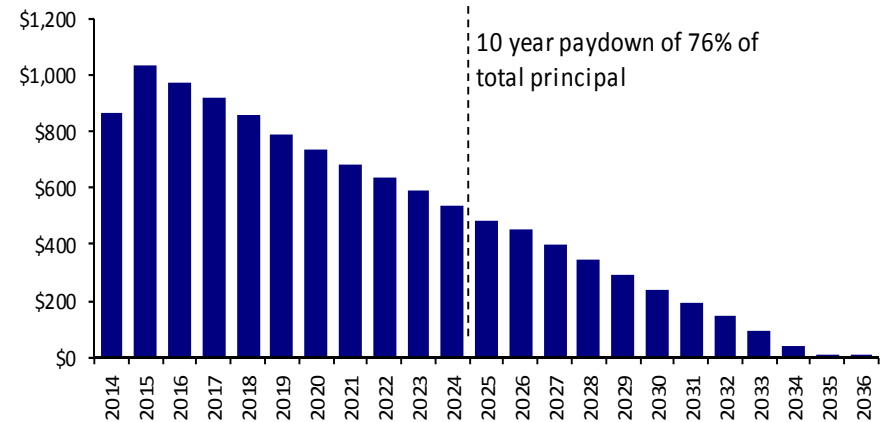
G.O. debt service is low, especially when compared to unrestricted revenues

- On November 6, 2012, the 2012 \$453 million Transportation G.O. bond authorization was passed by voters
 - \$149.6 million of Bond anticipation Notes sold in March 2013
 - Balance of Authorization is projected to be sold over the next 18 months

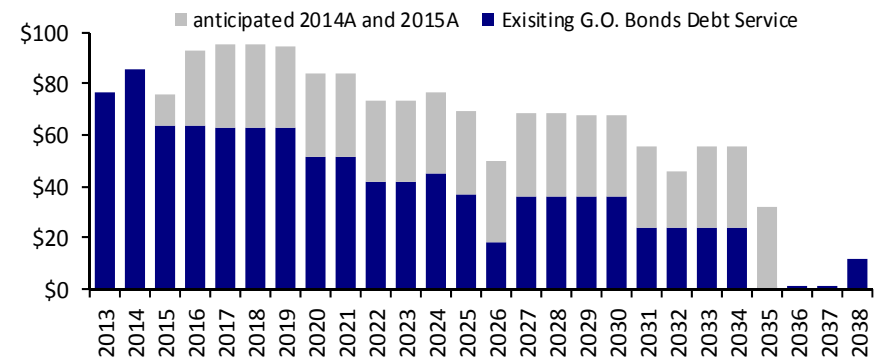
General Obligation Outstanding Debt Service Before Anticipated Issuance of 2012 Authorization²
(\$ millions)



Total General Obligation Debt Currently Outstanding or Authorized¹⁻² (\$ millions)



General Obligation Outstanding Debt Service After Projected Series 2014A and 2015A Issuances²
(\$ millions)



(1) Source: State of Alaska, Department of Revenue, Alaska Public Debt 2013-2014 /Treasury Division Data, all presentation is done on an end of fiscal year basis

(2) Includes planned 2014A BAN issuance and a 2015 A long term issuance for the balance of the 2012 Transportation Act authorization

Financial Management and Debt Metrics

The State has a long track record of conservative debt practices

- G.O. bonds carry pledge of full faith, credit and resources of the State
 - State policy limits debt service to less than 8% of General Fund unrestricted revenue
 - Debt service as a percentage of unrestricted General Fund revenues has remained low for 15 years
 - FY2013 was 1.7% (3.3% including school debt reimbursements)
- Use of executive power to control expenses
- Historical Preference for utilizing pay-go funding versus debt
- Future borrowing:
 - 2012 G.O. Authorization for State transportation projects (up to \$453 million)
 - Issued \$149.6 million Bond Anticipation Note in March 2013
 - Anticipate issuing up to \$230 million Bond Anticipation Note in March 2014 and \$35 million Certificate of Participation in April 2014
- State financial support has been discussed for a number of strategic capital initiatives
- Every \$100 million borrowed costs \$7 to 9 million in debt service over 20 years (3-6% range)



State Credit Issues

Investment Grade Rating Categories

- Bond ratings for the majority of municipal bonds are in the investment grade categories

Investment Grade Rating Symbols for the Three Major Rating Agencies

	<u>Moody's</u>	<u>Standard & Poor's</u>	<u>Fitch</u>
Prime Grade	Aaa	AAA	AAA
High Grade	Aa1	AA+	AA+
	Aa2	AA	AA
	Aa3	AA-	AA-
Upper Medium High Grade	A1	A+	A+
	A2	A	A
	A3	A-	A-
Medium Grade	Baa1	BBB+	BBB+
	Baa2	BBB	BBB
	Baa3	BBB-	BBB-

- 10 states have AAA credit rating
- California lowest rated at A/A1/A

State of Alaska's Credit Rating History

Rating History for the Three Major Rating Agencies

State of Alaska Credit Rating History					
ratings as of date shown					
Moody's Investor Service		Standard and Poor's Corp.		Fitch Investors Service	
July 13, 1961	Baa	June 4, 1971	A	May 3, 1994	AA
September 12, 1969	Baa1	January 23, 1975	A+	March 25, 2010	AA+
August 29, 1974	A1	June 14, 1980	AA-	January 7, 2013	AAA
June 13, 1980	Aa	August 5, 1992	AA		
November 26, 1998	Aa2	March 27, 2008	AA+		
November 22, 2010	Aaa	January 5, 2012	AAA		

- Certificates of participation or subject to appropriation debt is rated Aa1/AA+/AA+

Example of Rating Criteria

US States			
Broad Rating Factors	Weighting	Rating Sub-Factors	Weighting
Economy	20%	Income	10%
		Industrial Diversity	5%
		Employment Volatility	5%
Governance	30%	Financial Best Practices	15%
		Financial Flexibility/Constitutional Constraints	15%
Finances	30%	Revenues	10%
		Balances and Reserves	10%
		Liquidity	10%
Debt	<u>20%</u>	Bonded Debt	10%
		Adjusted Net Pension Liabilities	<u>10%</u>
Total	100%	Total	100%

- The criteria are not static as each state is unique, and Alaska is in particular different from most other states.
- Additional factors include growth expectations, poverty rates, conservative governance, political polarization, structural imbalance, cash flow borrowing, pension liabilities/funding efforts, borrowing on behalf of local governments

Typical State of Alaska Highlights of Rating Presentations

Continuing Alaska's Tradition of Fiscal Discipline

Revenues	<ul style="list-style-type: none">• Highlight conservative and proactive forecasting of resource-based revenue – Revenue Sources Book• Any disruptions or anticipated adjustments – Infrastructure issues or tax revision
Spending	<ul style="list-style-type: none">• Proposed budget compared to both revenue and current budget• Major goals of budget cycle• Current highlights include• Pre-funding of core government obligations such as education and pension costs including significant proposals like transfer \$3 billion from reserves (CBRF) to address Alaska's unfunded pension liability
Financial Reserves	<ul style="list-style-type: none">• Highlight current reserve balances - \$64.6 billion as of 12/31/2013• Short term SBR, CBRF, Earnings Reserve \$21.1 billion• Long Term Permanent Fund \$43.55 billion• The State has built an extraordinary constitutional and statutory framework of forced savings to CBRF and Permanent Fund
Resource Development	<ul style="list-style-type: none">• Discuss proactive global efforts to market Alaska resource development opportunities• Strategy includes mineral resources
Oil & Gas Tax Structure	<ul style="list-style-type: none">• Plan designed to induce long-term investment in Alaska• Goal is to enhance production from major Alaska North Slope (ANS) oil reservoirs

Typical State of Alaska Highlights of Rating Presentations

Alaska's strong credit profile provides flexibility moving forward

Abundant Natural Resources

- Proactive natural resource development strategy
- Substantial proven oil, gas, and mineral reserves
- Conservative production forecasting

Unparalleled Reserves

- Total funds over \$64 billion
- Legislatively available reserve balances of \$21.1 billion as of December 31, 2013¹

Strong Management with Proven Fiscal Discipline

- Conservative revenue forecasting and budgets
- State Executive branch and Legislature cooperation
- Pre-funding of strategic expenditures

Debt Metrics

- Low State debt load
- Conservative capital structure

(1) Total reserve balances calculated as the sum of the Statutory Budget Reserve, Constitutional Budget Reserve, and Permanent Fund Earnings Reserve

Rating agencies focus on total liabilities has evolved over the last 10 years to include unfunded pensions and OPEB

- Rating agencies have changed their views on pensions and OPEBs placing greater weighting as a key rating driver
- OPEB liabilities and costs should be addressed with the rating agencies
- Fitch notes in their 2014 State Outlook that the four states with Negative Rating Outlook “share pensions as a common concern”
 - Connecticut (AA), Illinois (A-), Mississippi (AA+), Pennsylvania (AA)
- Rating agencies focused on whether the states are fully funding their ARC and implementing pension plan design changes that will moderate annual growth in pension costs
- Alaska has high but manageable liabilities among the AAA/Aaa states

AAA-rated States Comparison of Debt and Pension Liability as a % of GDP

	Debt	Unfunded Pension Liability	Combined Debt and Unfunded Pension Liability
Alaska	1.8	18.4	20.1
Maryland	3.3	11.1	14.5
Virginia	2.4	8.8	11.2
Delaware	3.5	5.0	8.6
Indiana	0.9	7.7	8.6
Missouri	1.6	5.6	7.2
Georgia	2.4	2.7	5.2
Utah	2.8	2.4	5.2
North Carolina	1.8	1.5	3.4
Iowa	0.6	1.5	2.1

Source: Barron's "The Best and Worst States" October 14, 2013 (Sourced from Eaton Vance analysis assuming a discount rate of 5.5%)

Revenue Forecast and Budget Outlook

Long-term outlook – forecast reflects both strong reserves and out-year challenges:

Fall 2013 Revenue Forecast and Projected Reserve Balances

(\$ millions)	2014 (Authorized)	2015 (Proposed)	2016	2017	2018	2019	2020
Oil Price and Production							
Forecast ANS West Coast Price (\$/barrel)	\$105.68	\$105.06	\$107.69	\$110.38	\$115.40	\$121.19	\$122.43
Forecast Production (000's Barrels per Day)	508.2	498.4	487.6	482.7	459.5	429.1	399.6
Revenue versus Spending							
General Fund Revenues	\$4,964.6	\$4,532.0	\$4,609.5	\$4,980.6	\$5,105.0	\$5,135.4	\$4,810.0
General Fund Expenses	\$6,914.6	\$5,640.9	\$5,600.0	\$5,600.0	\$5,600.0	\$5,600.0	\$5,600.0
Budget Surplus / (Deficit)	(\$1,949.7)	(\$1,108.9)	(\$990.5)	(\$619.4)	(\$495.0)	(\$464.6)	(\$790.0)
Reserve Balances							
Constitutional Budget Reserve*	\$12,249.2	\$9,696.5	\$10,174.3	\$10,687.3	\$10,802.8	\$10,912.6	\$10,720.1
Permanent Fund Earnings Reserve**	\$4,130.3	\$4,661.0	\$4,940.0	\$5,202.0	\$5,598.0	\$6,104.0	\$6,661.0
Statutory Budget Reserve	\$2,783.4	\$1,674.5	\$684.0	\$64.6	\$0.0	\$0.0	\$0.0
Total Reserve Balances	\$19,162.9	\$16,032.0	\$15,798.3	\$15,953.9	\$16,400.8	\$17,016.6	\$17,381.1

*Transfer of \$3.0B in FY15 from CBRF to PERS/TRS

**FY2014 PF Earnings Reserve Balance uses December 31, 2013 actuals, placing assumption for FY2014 year end assigned balance at its current level between the mid quartile of \$4.4 billion and the lower 25% quartile of \$3.7 billion.

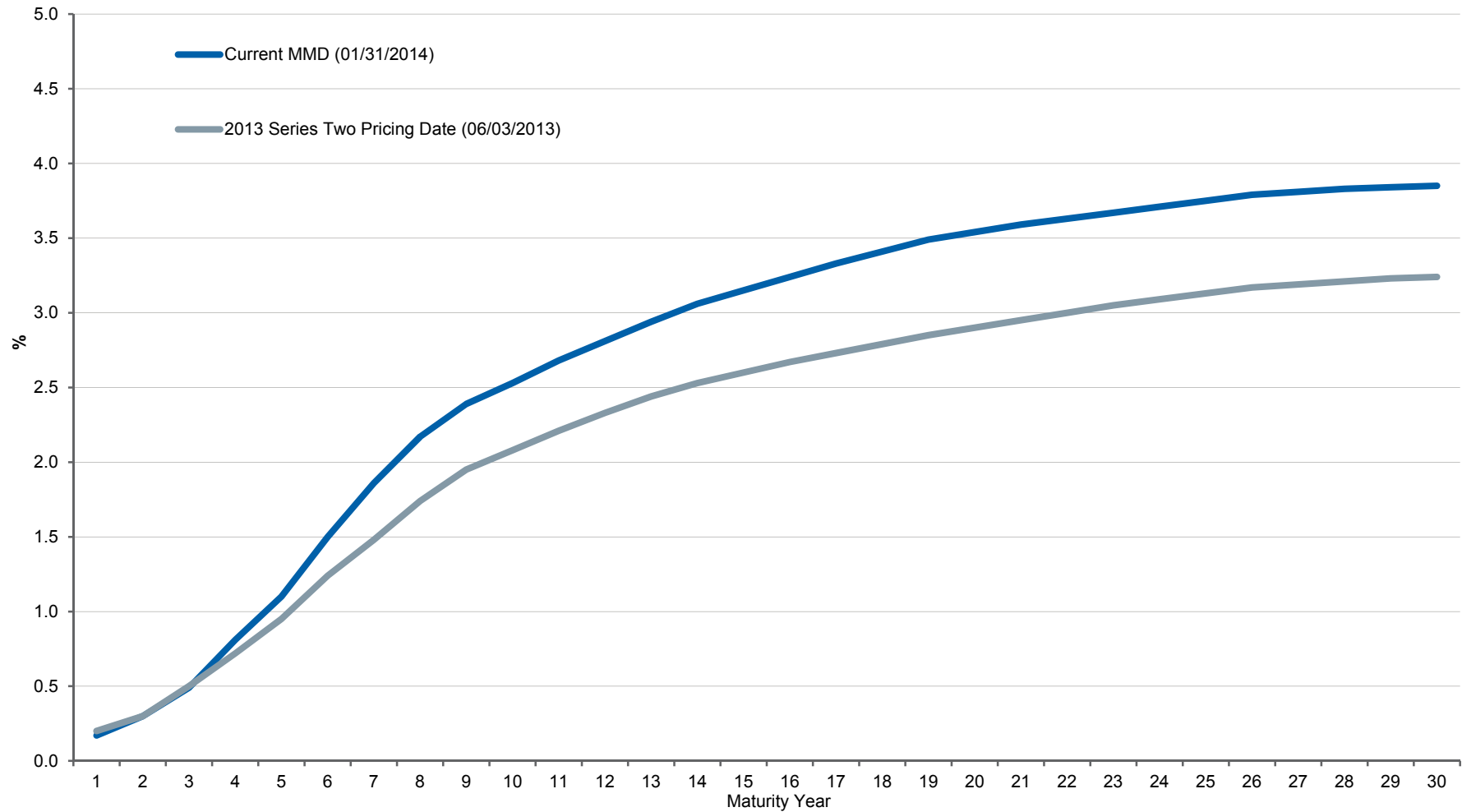
Source: State of Alaska Fall 2013 Revenue Sources Book, FY2015 Governor's Budget, APFC Fin. History & Projections as of Dec. 31, 2013



Current Municipal Market

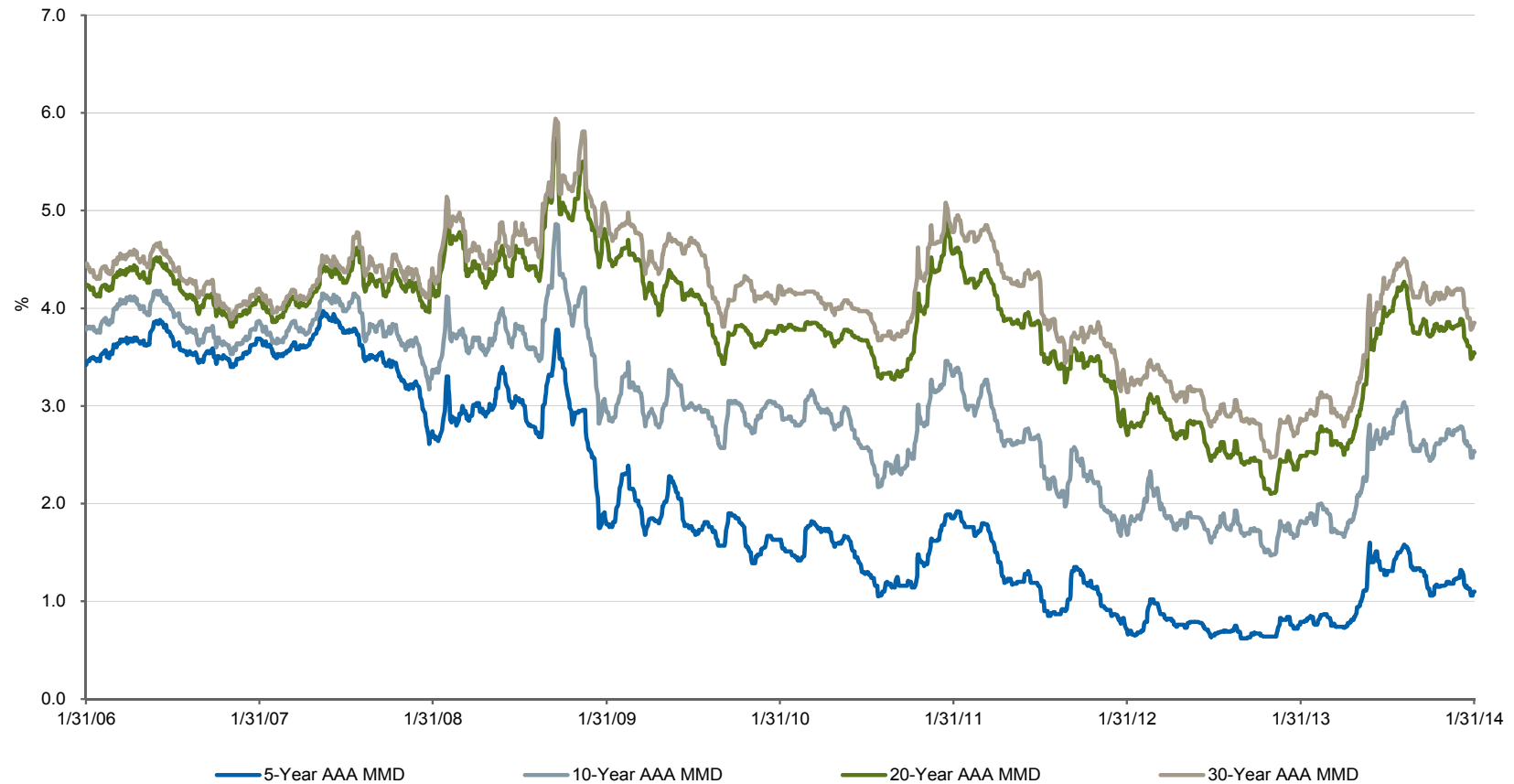
MMD Movement

AAA Municipal Market Data (MMD) Yield Curve



MMD Movement

Change in AAA Municipal Market Data (MMD) Yield





Conclusion

Summary

- **The State has the Highest Credit Rating**
 - **While Strongly Positioned the State Faces Fiscal Challenges**
 - **The State has Capacity to Consider Additional Borrowing at the AAA level**
 - **Holistic Approach Should be used for New Debt**
 - **Estimate \$1 to \$1.5 billion in Total Additional Capacity at Current Credit Rating**
 - **Interest Rates Remain Low**
-

THANK YOU

Please find our contact information below:

Michael Pawlowski
Deputy Commissioner
Department of Revenue
Michael.Pawlowski@alaska.gov

Deven Mitchell
Debt Manager
Department of Revenue
Deven.Mitchell@alaska.gov

