STANDARD & POOR'S RATINGS SERVICES

RatingsDirect®

Alaska; Appropriations; General Obligation; Moral Obligation

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Credit Profile		
US$153.215 mil GO bnds ser 2013B due 08/01/2025		
Long Term Rating	AAA/Stable	New
US$11.945 mil GO bnds (Qscb) ser 2013A due 08/01/2035		
Long Term Rating	AAA/Stable	New
Alaska GO		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
Alaska Mun Bnd Bank, Alaska Alaska		
Alaska Mun Bnd Bank GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to Alaska's $11.9 million series 2013A (taxable qualified school construction) and $153 million series 2013B general obligation (GO) bonds. We also affirmed our 'AAA' rating on Alaska's previously issued GO bonds, our 'AA+' rating on the state's appropriation-backed certificates of participation, and our 'AA' rating on the state's moral-obligation-backed debt. The outlook on all the ratings is stable.

The ratings reflect our view of the state's:

- Strong financial management and frequently accurate forecasting, which we view as beneficial to credit because of the state's reliance on volatile oil-derived revenue (which fluctuate with the price of oil);
- Financial flexibility enhanced by the maintenance of large reserves derived from windfall oil revenue since fiscal 2008 and the prefunding of a substantial portion of the proceeding years' expenditures with current year revenue; and
- Moderate debt burden, significant pay-as-you-go financing of capital needs, and closed defined-benefit retirement system, despite a relatively large lingering unfunded actuarial accrued liability (UAAL).

The GO bonds are backed by the state's full faith, credit, and resources.

Alaska's economy and finances are highly resource dependent, with more than 90% of general fund revenue being oil-related. To a significant extent, the state's financial management has helped offset the risk of revenue volatility, which is inherent to an oil-based economy, by constructing a fiscal structure layered with reserves and extensive operating flexibility. Among the most prominent of these are:

- An accumulation of multiple budget reserves equal to well over 200% of the general fund budget;
- A high level of pay-as-you-go financing of capital needs, which could be reduced to fund operations if the state deems doing so necessary;

- Extensive forward-funding of significant areas of the state's operating budget, a practice that could be halted in an underperforming revenue environment;
- Twice the constitutionally required contributions to the state permanent fund of revenue from oil and gas rentals, royalties, and leases; and
- Untapped potential sources of tax revenue, such as statewide sales or personal income taxes, neither of which the state levies at present.

State financial performance in fiscal years 2012 and 2013 and the governor's proposed budget for fiscal 2014 exhibit the manner in which the above features benefit the state's financial position. As of June 30, 2012, available state budget reserves totaled $17.96 billion, or 183% of the state's total general fund spending on a budgetary basis (170% of general fund spending on an audited basis, including spending of federal funds and for capital). Measured against just the state's general fund operating budget, total budget reserves equaled 293% (not including capital or spending of federal dollars from the general fund). For fiscal 2013, the state projects total reserves of $19.04 billion -- 227% of total general fund spending, or 295% when excluding capital spending.

Considering the importance of oil-related revenue to the state's budget, the state's forecasts of both oil prices and production are crucial to its fiscal condition. The state's department of revenue (DOR) has a good track record forecasting year-ahead prices and production levels. In recent years, the state's forecasts have tended to err slightly on the low side (except for fiscal 2009, when actual Alaska North Slope, or ANS, West Coast oil prices came in at $68.34, almost 18% below the $83.04 that the state had forecast the year prior). Similarly, the state's forecast of production levels has been highly accurate for the one-year horizon. For fiscal 2012 the state forecast was less than one percentage point below actual production, and for fiscal 2013 the state estimates that its forecast from the previous fall will prove to have been just 0.43% higher than the actual price.

A bigger issue for the state is measuring the long-term rate of oil production decline. Since peaking in 1988, the average annual rate of decline in production has been around 5.5%. However, the state's long-term forecasts have consistently projected a long-term rate of annual production decline of just 2.5% or less. As a result, the state's long-term forecast has tended to overestimate actual production levels. With its fall 2012 forecast, the DOR has revised the methodology used to develop its longer-term production forecast. The new approach applies risk factors to discount the projected oil production from oil fields that are still under development or in the evaluation stage. Previously, production estimates in the forecast from such fields were not adjusted downward to account for their higher level of uncertainty.

For fiscal 2014, the governor's recently proposed budget rests on projected ANS West Coast spot price per barrel of $109.61 and 538,000 barrels per day (bpd) in production. At these levels, the state is assuming a small 0.87% price increase and a 2.7% decline in production compared with fiscal 2013. Despite the very strong reserves, the governor's spending proposal for state general fund operations is restrained and would increase by just 0.8% if enacted. Total general fund spending, including for capital projects, would actually decline by 14.2% under the governor's proposal because of his request for less capital spending. For the fiscal year, the governor's budget proposal would include $10.9 billion in total spending. Of this, general fund outlays would total $7.36 billion, or $6.5 billion if capital spending is not included.

State revenue in fiscal 2012 produced a $2.9 billion budgetary surplus after cash funding of more than $1.66 billion in capital projects. Pay-as-you-go capital funding in fiscal 2013 increased to $1.92 billion, and the state still had essentially break-even fiscal results.

Beyond its budget reserves, the state has regularly prefunded some of its major expense items, including education and municipal revenue sharing. For example, in fiscal 2013 the state's prefunding activity totaled $1.4 billion. Of this, the state is prefunding education spending for fiscal 2014 of $1.1 billion in fiscal 2013. The governor's budget proposal for fiscal 2014 includes $1.2 billion in education funding for fiscal 2015. If, in any given year, the state anticipates weaker revenue, it could discontinue the prefunding practice and immediately recognize a like amount of increased one-time budget capacity. Since 2005, the state has prefunded almost $7 billion of operating expenses.

In the event of a revenue decline, the state could reduce the amount it appropriates for capital funding or the amount of operating budget expenses it prefunds before tapping its reserves. Finally, significant revenue potential resides in a possible statewide sales or personal income tax, which the state does not currently levy.

The unrestricted general fund balance includes the constitutional budget reserve fund (CBRF), which holds the proceeds of disputed oil tax settlement revenue and is available for general fund purposes but requires a three-quarters vote of the legislature for appropriation. However, the state has borrowed against it for general fund expenditures. This fund held $10.9 billion as of Oct. 31, 2012. In addition, the state constitution requires 25% of all mineral lease rentals and royalties to be deposited into a state permanent fund, with an additional 25% deposit required under state statute. Permanent fund principal can only be invested, but accumulated retained earnings from the fund are available for appropriation by a simple majority vote of the legislature. At the end of October 2012, the total permanent fund had a balance of $42.37 billion, up 5% since June 30, 2012. The October balance included $39.4 billion in the restricted principal and $2.98 billion in the unrestricted permanent fund earnings reserve. The state distributes 50% of the five-year average earnings of the permanent fund each year to residents, but deposits 50% of the fund's earnings into the unrestricted permanent fund earnings reserve (PFER).

Total state net tax-supported GO and general-fund-supported lease debt is moderate, in our view, at $1,203 per capita (not including municipal school debt and local government capital projects that the state has reimbursed or self-supporting GO bonds that the state has issued through its housing corporation and that are backed by veterans' housing loans). Fiscal 2012 tax-supported GO and appropriation debt service was moderate at 1.2% of general fund and non-major special governmental fund expenditures, not including discretionary state reimbursement for local school debt.

The state has taken steps to reform its pension and retirement systems, which will limit the accumulation of new liabilities. The state closed its defined-benefit retirement plans to new employees in 2006 in favor of a defined-contribution retirement plan. Nevertheless, the remaining unfunded pension liability in the state's multi-employer Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), and three smaller plans is large and, on a combined basis, equals $7.07 billion, or $9,788 per capita. However, the liabilities include the participation of local governments and school districts. The pension funding level as of the most recent actuarial valuation, June 30, 2011, was low, in our opinion, at 61.9% for PERS and 54.0% for TRS. Alaska is amortizing the unfunded pension liability over a 25-year period. The state funds its other post-employment benefits (OPEB) obligations within the retirement systems through a retirement health care trust fund. The separate PERS and TRS unfunded OPEB liabilities total $4.04 billion and $2.04 billion, respectively. These amounts are, on a combined basis, down $120 million from 2010, when they were $4.6 billion and $1.6 billion, respectively. The more significant decline was in 2010, when the combined unfunded liabilities were $11.8 billion. The reduced actuarial liabilities reflect the application of a new higher assumed rate of return, of 7.2% instead of the prior 4.7%, on invested OPEB assets. As with pensions, the reported OPEB liabilities include the liabilities of the participating local governments and school districts, enlarging their value relative to those of most other states.

Based on the analytic factors we evaluate for states, on a four-point scale on which '1' is the strongest, Standard & Poor's has assigned a composite score of '1.7' to Alaska.

Outlook

The stable outlook reflects our anticipation that the state will manage its windfall from historically high oil prices, which have produced unprecedented budget surpluses, with a long-term focus, but that its unfunded pension and other postemployment liabilities will remain high for the foreseeable future despite the closure of its defined-benefit plans to new entrants. The state has built up substantial reserves to provide essential services in the event of a revenue downturn, while hedging against declines in North Slope oil production and fluctuations in oil prices. Outside of its oil economy, the federal government is an important economic actor, both through military and civilian employment as well as support for specific projects and various state programs. And yet, although the ongoing negotiations surrounding federal fiscal consolidation represent a material risk to the state economy, we believe the state's fiscal position is strong enough to cushion potential direct fiscal or indirect economic effects from reduced federal funding flowing into the state. As such, we continue to view the state's credit outlook as stable despite the threat posed by a reduced federal presence in the state.

Economy

Alaska's economy is largely dependent on the oil extraction and mining industry, but the fishing, timber, and tourism industries are also present. Current high energy prices indicate that economic growth could continue faster than the national average. However, Alaska's high cost of living and dispersed population could restrain growth in non-oil-and-gas-related industries. IHS Global Insight Inc. estimates that construction and mining together account for about 10% of state employment. Employment sectors differ from those of the nation as a whole in some key respects. Alaska's manufacturing employment is 4.0% of total employment compared with 8.1% for the nation, its business and professional services are 8.3% compared with the nation's 11.7%, and its governmental employment 25.8% compared with 15.7% for the nation. This introduces potential exposure to employment losses from federal fiscal consolidation efforts.

Although the state's population has been increasing faster than that of the U.S. as a whole, this fluctuates from year to year. Alaska's population increased 13.3% in 2000 to 2010 compared with 9.7% for the U.S. The state's age dependency ratio -- the ratio of dependent population to total population -- is 51.8% compared with the nation's rate of 58.9%.

Because of its sizable rural population, Alaska's unemployment rate has historically been higher than that of the nation, but in recent years, as national unemployment has increased and the state's unemployment rate has held steady, its seasonally adjusted unemployment rate has fallen below national rates. Alaska's unemployment rate in 2011 was 7.6% compared with 8.9% for the nation. The most recent monthly unemployment rate, for November 2012, was 6.8% compared with the national rate of 7.7%.

As the state's economy has gradually matured, the composition of its employment base has shifted. In recent years, new jobs in health care, construction, and government have offset job losses in timber and seafood processing. In addition to oil, gold and metal ore mining and the possible construction of a major natural gas line could also prove promising for new jobs.

We believe high value mineral production has helped boost Alaska's real gross state product per capita to 147% of per capita U.S. GDP in 2011. State GDP growth has also been strong in recent years, increasing by 2.47% a year on average since 2000 compared with 1.42% for the nation. The federal Bureau of Economic Analysis' 2011 estimate of Alaska's per capita personal income is $45,665, or 109.9% of the nation's.

Relative to other states, Alaska's income figures are more prone to volatility because of the economic linkages to oil prices, which tend to fluctuate in response to global economic and geopolitical forces. Alaska suffered a severe recession in the mid-1980s following a collapse in oil prices, but since 2004 higher oil prices have contributed to economic growth we consider strong.

Oil production on the North Slope of Alaska occurs primarily at the principal oil fields of Prudhoe Bay and Kuparak River. Production on the North Slope peaked in 1988 at 2.01 million bpd. Since 1989, production from the North Slope has fallen, offset by a more-than-tripling price of oil. Oil production on the North Slope averaged approximately 579,000 bpd in fiscal 2012. The state's fall 2012 forecast projects average production to continue to gradually decline to 458,000 bpd by 2021.

Alaska continues to exploit its potential for natural resources production aggressively, in our view. The state is exploring the possibility of developing a natural gas pipeline to derive economic benefit from an estimated 36.2 trillion cubic feet of natural gas reserves. The state awarded a license to TransCanada PipeLines Ltd. (A-/Stable) for development of such a pipeline. Through the Alaska Gasline Inducement Act, the state agreed to provide as much as $500 million in matching funds for the development costs of the project. Shifting market dynamics have led to changes in estimates about the timing and nature of the final project. Separately, in 2010, the legislature created the Alaska Gasline Development Corp. to ultimately deliver natural gas from the North Slope to south central Alaska. The goal of the project is to make deliveries to south central Alaska by 2016.

On a four-point scale, on which '1' is the strongest, Standard & Poor's has assigned a score of '1.4' to Alaska's economic structure.

Governmental Framework

The Alaska constitution requires the governor to submit a balanced budget proposal to the state legislature by Dec. 15

for each fiscal year, which begins on July 1. The governor is required to submit three budgets -- an annual operating budget, a mental health budget, and a six-year capital budget. The governor can line-item veto legislatively approved budget bills. An enacted state budget is not required to stay in balance during the course of the fiscal year after budget adoption, but the governor can hold back expenditures when revenue is below budget.

The state does not have an individual income tax or sales tax, but has occasionally adjusted its formula for oil production and other mining-related tax rates. The state legislature can impose new taxes by majority vote, but a qualifying referendum petition could be filed to challenge new tax legislation. Alaska has the legal authority to re-impose an income tax (which it had in place before 1978) or to impose a sales tax if it so chooses.

Alaska's constitution provides that proceeds of state taxes or licenses "shall not be dedicated to any special purpose" except for restricted federal revenue, money dedicated before statehood, and money required to be placed in the state's permanent fund. As a result, most revenue is placed in Alaska's general fund although the state has created numerous subaccounts within the general fund.

The state's permanent fund was established as a constitutional amendment in 1977, which requires that at least 25% of all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral sharing revenue and bonuses be placed in the fund. An additional 25% is currently deposited to the fund per state statute. Its principal is restricted, but income from the fund is available for use by the general fund.

Alaska has wide legal latitude to cut disbursements as it chooses. It has an appropriation limit and reserves one-third of the amount within the limit for capital projects and loan appropriations. Because state appropriations have never significantly approached the limit, Alaska does not believe the reservation has constrained state operations. The appropriation limit does not apply to the permanent fund.

Voter initiatives may be placed on the ballot upon collection of enough petition signatures to equal 10% of the votes cast at the latest general election. However, successful voter initiatives have the effect of only statutory law and can be overridden or repealed by the legislature after two years. Voter initiatives may not amend the state constitution. In Standard & Poor's opinion, voter initiative activity has not historically affected or hindered state operations.

The state issues GO debt, lease-secured debt secured by annual appropriations, moral obligation debt, and dedicated tax revenue bonds. GO bond authorization requires a simple majority voter approval. GO bonds may be issued only for capital purposes, except for veterans' mortgage guaranteed bonds. The state has issued moral obligation debt for its Bond Bank, for the Alaska Energy Authority, and for the Alaska Student Loan Corp. The state can also legally issue cash flow notes, but has not done so in the past 35 years because of its historically strong cash position.

The Alaska constitution does not specify a priority of payment for GO debt service compared with other expenditures, but annual GO debt service, as a constitutionally authorized debt, could be paid in absence of a specific annual budget appropriation. Generally, the state has appropriated both GO and lease-secured debt service under a separate line-item appropriation.

The state provides assistance to school districts, including discretionary payments since 1970 to subsidize pre-qualified local school district debt service, but also can cut funding if it deems doing so necessary, as long as cuts are distributed so as to preserve equitable per-pupil funding across the state. The state has provided 60% to 100% reimbursement, depending on different factors.

On a four-point scale on which '1' is the strongest, Standard & Poor's has assigned a '1.5 ' to the state's governmental framework.

Financial Management

Financial management assessment: 'Good'

We consider Alaska's formal management practices "good" under our financial management assessment (FMA) methodology. An FMA of "good" indicates our view that the state maintains many best practices deemed as critical to supporting credit quality, particularly within the finance department. These practices, however, may not be institutionalized or formalized in policy, may lack detail or long-term elements, or may have little recognition by decision makers outside of the finance department.

The state has a statutory budget reserve within its general fund that, although not always funded, is available to provide liquidity. In addition, the state has also established the constitutional budget reserve fund (CBRF), which voters approved. Funds may be appropriated for certain purposes by a vote of three-fourths of each house of the legislature, but money can be used for interfund borrowing for general fund expenditures. All appropriations from the fund are recorded as a general fund liability.

Budget assumptions are conservative, in Standard & Poor's opinion. The leading predictor of state revenue, the price per barrel of oil, is generally forecast at lower levels than in the current fiscal year. A level of production is forecast as part of this, and budget amendments can occur throughout the year.

Alaska produces detailed revenue forecasts, with the focus being the price of oil, the leading determinant of general fund revenue. Other revenue sources are also included in the revenue source book, which is released twice each year. The tax division of the Alaska Department of Revenue prepares the book, using numerous outside sources of information to help predict the price of oil. Alaska projects expenditures to rise at the rate of inflation.

The state's debt management policy is updated annually with the public debt report. The debt report describes the different types of debt that Alaska issues, mainly certificates of participation and GO bonds. For general-fund-supported bonds, the state has a debt capacity that it determines, by policy, to be 8% of unrestricted revenue.

Investment management is also covered by the investment policy statement, and the performance of the state's investment portfolio is monitored daily. Each year the fund undergoes a fiduciary audit, which includes a review of legal and administrative constraints for each invested fund. The audit policy's stated goal is to keep Alaska's investment process intact during periods of market upheaval.

Alaska enacts an annual capital budget. Expenditure assumptions for the state's operating budget are adjusted as appropriate when capital projects begin. A transportation agency capital plan provides an annually prioritized plan detailing three years of projects and funding sources.

Budget Management Framework

The Alaska Department of Revenue issues formal revenue forecasts twice a year, in the spring and fall. The forecast is based on consultation with an engineering firm and the state department of natural resources. As noted above, the methodology for forecasting oil production has been revised to incorporate the greater variability associated with production forecasts from some oil fields that are still under development or are in the evaluation phase of development. The net effect of these changes has been to increase the long-term rate of production decline. The revenue forecast has historically been used as presented for budget adoption and not adjusted during the budget adoption process.

The state has a recent history of advance funding part of a following year's expenditures for both operating and capital expenditures because of, in our view, the high level of mineral-related revenue Alaska has received. However, in the past, the state has used existing high fund balances to carry deficits, and is not legally required to make midyear budget adjustments in the event a midyear gap develops. The governor has the discretion to hold back spending in the middle of the fiscal year if a budget gap appears to be developing. Such adjustments were last made in fiscal 2009, during oil price fluctuations. The governor can unilaterally prioritize such holdbacks, but the holdbacks have no formal requirement or schedule.

On a four-point scale on which '1' is the strongest, Standard & Poor's has assigned a '2.0' to Alaska's financial management.

Budgetary Performance

The state has no legal requirement to fund reserves at any specified level. However, historically it has held what we believe to be very high total general fund balances, and for the past five years these balances were higher than annual expenditures. With its exceptionally strong cash liquidity, the state's intrayear cash flows are positive, averting the need for it to borrow for cash flow purposes. On an audited basis, the general fund held a $20.79 billion cash and investment position at fiscal year-end 2012, equal to 222% of general fund expenditures. Although the state has no legal minimum budget reserve requirement, it has created a CBRF that holds money received by the state as a result of legal settlement, administrative proceedings, or litigation of mineral-related revenue. For liquidity purposes, in the past the state has used the CBRF for temporary borrowing within the year or to balance the budget at the end of the year. The CBRF is also available for general expenditures with a three-fourths vote of the legislature and approval of the governor. The most recent borrowing from the CBRF was in fiscal 2005, and the cumulative loan balance from the CBRF was repaid in fiscal 2009; at fiscal year-end 2012, the CBRF held $10.6 billion.

In addition, the state's statutory budget reserve fund held $5.2 billion, but the budget reserve has not always been funded in the past. To the extent that the statutory budget reserve has an available balance, Alaska plans to use this reserve first for liquidity purposes before borrowing from the CBRF.

Alaska has no legal requirement to fund services at a specified level, but we believe that its annual distribution to residents of a permanent fund "dividend" might be politically difficult to cut even though it is under no legal requirement to make this annual payment. Although state per capita income is above the national level, rural areas have pockets of poverty. Nevertheless, we believe state expenditures are relatively predictable, and many in recent years have been funded from prior-year appropriations. In general, Alaska has had a policy of prudently maintaining high fund balances, in light of volatile oil-derived revenue, significant one-time capital and other spending, and the use of surplus revenue to prefund future years' operating expenditures.

The fiscal year ended June 30, 2012 had a significant generally accepted accounting principles general fund operating surplus of $3 billion, or 33% of expenditures. This left what we consider to be a very high fiscal year-end committed and unassigned general fund balance of $21.3 billion, or 228% of expenditures. The state has had either an unreserved or unrestricted general fund balance higher than annual expenditures since fiscal 2008, when it produced a record $7 billion financial windfall from high oil prices and a new tax structure that effectively increased tax rates.

On a four-point scale on which '1' is the strongest, Standard & Poor's has assigned a '1.3' to Alaska's budgetary performance.

Debt And Liability Profile

We calculate Alaska's tax-supported debt per capita as moderate at $1,203. The state has about $755.9 million of GO debt, but about $180.1 million of this is considered self-supporting veteran's-mortgage-revenue-secured debt, leaving about $575.8 million net tax-supported GO debt. At the end of fiscal 2012, Alaska also had about $292.6 million of annual appropriation-supported debt. Tax-supported debt (GO and appropriation) to personal income is 2.6%, and tax-supported debt to gross state product is somewhat lower at 1.7%. We believe this is because of the level of mining and resource extraction activity. Tax-supported debt service as a percentage of general government spending was about 1.2% in fiscal 2012, but increases to 2.3% when including the local municipal-school- and capital-reimbursement-related debt paid by the state on behalf of local jurisdictions. About 51% of combined GO and lease debt matures in the next 10 years. Following the planned issuance, Alaska anticipates having capacity for $453 million of unissued GO debt that voters authorized in November 2012 for transportation-related projects. The governor's fiscal 2014 budget proposal includes approximately $1.8 billion (all funds) in capital funding.

In 2006, Alaska moved all new employees to a defined-contribution retirement plan from a defined-benefit plan, but employees hired before that continue under the state's defined-benefit pension plan. The Alaska PERS multi-employer plan had a 62% pension-funded ratio at fiscal year-end 2011, the most recent fiscal year for which actuarial date are available, and an unfunded pension liability of $4.16 billion, which includes the unfunded obligations of other participating local governments. Beginning with the fiscal 2011 valuation, PERS revised down to 8.00% from 8.25% its assumed actuarial investment rate of return.

The separate TRS had a $2.85 billion unfunded pension liability and 54% funding ratio at its June 30, 2011 actuarial valuation date. We include the TRS liability in this total for across-state comparison purposes although Alaska does not have a direct obligation to fund TRS.

Combined with much smaller unfunded liabilities for public elected officials, judicial officials, and retired national guard and naval militia members, the total PERS, TRS, elected, and judicial officials' unfunded multi-employer actuarial pension liability was $7.07 billion as of June 30, 2011, which is 59% funded on a combined basis -- high in our view, at $9,708 per capita, and 29% of total state personal income.

The state's defined-benefit OPEB liability for PERS was $4.04 billion and 55.3% funded by health care trust funds as of the most recent, June 30, 2012, audit. This represents a marked improvement from 2009, when the funded ratio was 32% and the UAAL was $8.6 billion. The OPEB liability also includes those of other participating local governments. The state is required by statute to fund the annual contributions to the pension system at the actuarially recommended level. The state's judicial retirement system had an unfunded OPEB of $2.7 million, and the elected officials' retirement system had an unfunded OPEB of $4.7 million. The TRS defined-benefit OPEB liability was 43.8% funded as of 2011, up from 29.5% as of 2009. At these levels, the OPEB UAAL for TRS was $2.04 billion in 2010, down from $3.20 billion in 2009. The combined state and local governmental employers' unfunded OPEB for PERS, STRS, and other plans equals a much smaller $6.1 billion through 2011 as compared with the $11.9 billion as of the 2009 valuation date.

Alaska reports its PERS unfunded OPEB costs for its legacy defined-benefit plan as part of its combined reporting of the defined-benefit pension system's unfunded retirement costs. PERS defined-benefit pension and OPEB contributions in fiscal 2012 equaled 78% of the combined annual required contribution (ARC) of $745.5 million for the PERS pension and OPEB obligations. For TRS, the combined ARC for fiscal 2012 was $335.7 million, of which the state and other employers contributed 80%, or $272 million. However, on July 1 of each year or as soon as funds are available thereafter, the state is required by statute to contribute sufficient additional funds to bring the total pension contribution for the prior fiscal year to the ARC.

In addition to the state's direct debt, since 1970 Alaska has supported the bonds issued by pre-qualified school districts, with the legislature able to reimburse municipalities for 60% to 100% of debt service costs. The actual program funding depends on annual legislative appropriations, and although not contractually obligated to do so, Alaska has always made the payments. In fiscal 2012, it appropriated $100.9 million of payments to school districts on total local school district obligations of approximately $872.6 million.

The state also has about $1.1 billion of self-supporting state moral obligation debt issued by the Alaska Bond Bank, the Alaska Energy Authority, and the Alaska Student Loan Corp.

On a four-point scale on which '1' is the strongest, Standard & Poor's has assigned a score of '2.4' to Alaska's debt and liability profile.

The Alaska Permanent Fund

Recognizing that over the long term the state's oil reserves would eventually be depleted, voters approved in 1976 a constitutional amendment to effectively monetize the state's natural resource assets. Since then, the state has managed an investment fund that is one of the largest of its kind in the world although principal balances are not available for budgetary purposes. Alaska's permanent fund is capitalized with royalties paid by oil companies.

The Alaska constitution requires that "at least 25% of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments, and bonuses received by the state will be placed in a permanent fund." The state legislature subsequently added by statute another 25% deposit, raising the combined rate to 50%, on mineral leases issued after Dec. 1, 1979, and for bonuses on mineral leases issued after Feb. 15, 1990. The combined rate was reduced back to 25% as of July 1, 2003, but raised again to 50% on Oct. 1, 2008. The state legislature has also made special appropriations to the principal account from other oil revenue and fund earnings. As a result, the Alaska permanent fund balance increased to $40.3 billion at the end of fiscal 2012 from an initial deposit of $734,000 in 1977. This includes both $38.3 billion restricted as to principal and the $2 billion unrestricted PFER, representing cumulative permanent fund earnings and past transfers from other sources. The PFER can be spent for any purpose by a simple majority vote of the legislature.

Alaska residents, particularly in poor rural areas, reap significant economic benefits from the fund through the state's politically popular annual dividend program, under which a portion of the permanent fund's annual earnings is distributed as dividends to every resident of the state. In fiscal 2012, Alaska paid a permanent fund dividend of $878 per state resident, not including PFER payments to maintain "dividend" payments to state residents. This is down from 2009, when the state paid a dividend payment of $2,069 plus a one-time, $1,200 per-resident "Alaska resource rebate" from accumulated nonrestricted permanent fund earnings reserves. Also, the state has made transfers to the PFER to "inflation-proof" the permanent fund's principal. PFER balances have also been paid out at other times to the general fund.

Before fiscal 2008, the permanent fund increased in every year except during the 2001-2002 bear market, when declines of 3% and 2%, respectively, were recorded. The permanent fund is managed by both the in-house staff of the state-owned Alaska Permanent Fund Corp. (established in 1980) and by external money managers.

Alaska's Oil Tax Structure

The state changed its method of taxing petroleum from a gross tax on petroleum production to a net income tax in 2006, with a modification in 2007 to its current form known as Alaska's Clear And Equitable Share (ACES). During the past several legislative sessions, the governor and legislature have debated various types of reforms to the state's tax regime, which ranks among the highest in the world, according to the state DOR. The current method of taxation was intended to promote exploration (by allowing for the deduction of development costs) while also generating more revenue for Alaska when oil prices are especially high. The tax is implemented at a progressive rate whereby the tax rate will rise with oil prices. The production tax rate is 25% of the value of the petroleum minus costs. A progressive surcharge of 0.4% is added for every dollar of per-barrel net income in excess of $30, increased by 0.1% for every dollar of net income in excess of $92.50. Alaska estimated previously that for every dollar that the per-barrel price of oil increased, the state would receive $122 million to $194 million in additional general purpose revenue. Although the current level of taxation has led to windfall-like revenue for the state in recent years of sustained higher oil prices, the DOR believes it discourages new development. In addition, under ACES various tax credits are granted to companies for certain types of expenditures. State officials are not clear that the tax credits are incentivizing enough exploration or development to warrant the estimated $850 million to $1 billion (in fiscal years 2013 and 2014, respectively) in forgone tax revenue. The governor, therefore, is supportive of reforming the oil tax structure to make it more globally competitive (less progressive with price) while encouraging new development. Specific elements of reforms he may support would include incentives for oil fields with special challenges, such as location far from existing infrastructure.

Related Criteria And Research

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Moral Obligation Bonds, June 27, 2006
- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011

Ratings Detail (As Of January 7, 2013)		
Alaska GO		
Long Term Rating	AAA/Stable	Affirmed
Alaska certs of part (Seafood & Food Safety Lab Fac) ser 2003A dtd 08/01/2003 due 01/15/2005-2019		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Alaska COPs ser 2005A		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Alaska COPs (State Virology Lab Facs)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Alaska Energy Auth, Alaska		
Alaska		
Alaska Energy Auth (Alaska) pwr rev (Bradley Lake Hydroelectric Proj)		
Long Term Rating	AA/Stable	Affirmed
Alaska Mun Bnd Bank, Alaska		
Alaska		
Alaska Mun Bnd Bank (Alaska) GO		
Long Term Rating	AA/Stable	Affirmed
Alaska Mun Bnd Bank (Alaska) GO moral oblig (MBIA) (National)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Alaska Mun Bnd Bank (Alaska) GO (AMBAC)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Alaska Mun Bnd Bank (Alaska) GO (Moral Ob)		
Long Term Rating	AA/Stable	Affirmed
Alaska Mun Bnd Bank GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Alaska Mun Bnd Bank (Alaska) GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Anchorage Municipality, Alaska		
Alaska		
Anchorage Municipality (Alaska) lse rev rfdg bnds (Correctional Facility) ser 2005		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Ratings Detail (As Of January 7, 2013) (cont.)		
Matanuska-Susitna Boro, Alaska		
Alaska		
Matanuska-Susitna Boro (Alaska) lse rev (Goose Creek Correctional Facs) (ASSURED GTY)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.