MEMORANDUM

STATE OF ALASKA
DEPARTMENT OF REVENUE

TO: Senate Finance Committee

DATE: March 27, 2014

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FROM: Deven Mitchell
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Department of Revenue

SUBJECT: Debt Ratio

On March 18, 2014 during discussion of Senate CS for 2d CS for House Bill No. 23 (FIN) Senator Hoffman requested a summary of how the proposed Knik Arm Bridge, the proposed Susitna-Watana Hydroelectric project, and the Alaska natural gas project authorized by SB 138 would impact the State's ratio of debt to unrestricted revenue. This analysis has proven difficult as two of the proposals' plans of finance are still being developed, two of the projects have potential to generate revenue that results in their being self-sustaining, and one of the projects is being pursued as it is expected to generate significant general fund revenue. Additional considerations that don't translate into the limited ratio analysis well are that historically the largest movement in this ratio have been the result of revenue volatility rather than debt service fluctuation and that the State's annual debt service declines relatively quickly following the forecast period. That said the answer is being provided in three parts.

First, the potential impact of a $300 million state supported bond issue to fund KABATA is shown in the table below. In the table below total authorized State supported debt includes general obligation bonds, annual appropriation reliant debt, and the school & transportation debt reimbursement programs. The plan of finance for the project assumes that the tolls are only sufficient to pay for operations and maintenance and the senior lien debt in the form of a TIFIA loan. The debt service increment would increase the ratio by approximately ½% beginning in FY 2017. If tolls exceeded O&M and TIFIA payments this impact would diminish.

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Total Unrestricted Revenues based on Spring 2014 Revenue Forecast	**6,928.50**	**5,338.88**	**4,522.93**	**4,744.16**	**5,097.81**	**5,258.12**	**5,242.35**	**4,925.70**	**4,586.07**	**4,715.27**	**4,230.53**	**4,108.00**
Total Annual Payments on Current and Authorized State Supported Debt	**229.50**	**229.90**	**233.70**	**249.08**	**248.32**	**244.42**	**243.62**	**231.42**	**231.22**	**221.02**	**221.12**	**224.02**
Current and Authorized Percentage of Annual Debt Payments to GFUR	**3.31%**	**4.31%**	**5.17%**	**5.25%**	**4.87%**	**4.65%**	**4.65%**	**4.70%**	**5.04%**	**4.69%**	**5.23%**	**5.45%**
Potential Debt Service on KABATA ($300 Million Par Amount)	-	-	-	-	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00
Total Annual Payments on Current and Authorized State Supported Debt Plus $300 Million	229.50	229.90	233.70	249.08	273.32	269.42	268.62	256.42	256.22	246.02	246.12	249.02
Percentage of Debt : GFUR with KABATA Projection	3.31%	4.31%	5.17%	5.25%	5.36%	5.12%	5.12%	5.21%	5.59%	5.22%	5.82%	6.06%

Second, the current preliminary plan of finance for the Susitna-Watana Hydroelectric project doesn't include a direct reliance on the State's general fund for the annual payment of debt service and so the impact is zero. The project would be financed through a combination of direct revenue supported debt and AEA debt that would carry a moral obligation commitment of the State. The moral obligation of the state would be intended for use as a credit enhancement only and any future use of UGF to replenish the AEA debt service reserve would only be due to a financial default of the project. Given the size of the proposed project this issue would at least triple the amount of moral obligation debt that the State of Alaska has outstanding resulting in a considerable increase and concentration of risk in this category of state contingent liability.

Third, the natural gas pipeline project as envisioned by Senate Bill 138. The plan of finance for the project is quite uncertain at this time. Debate on how much the state should participate in the proposed project, and how that participation would be achieved is in the process of being determined. As this proposed financing is anticipated to result in a sizable amount of debt and also generate significant excess revenue it is not something that the Department believes should be examined in isolation on the expense side. The firm of Black and Veatch has conducted analysis on the various permutations and the debt requirements as well as potential impact on future revenue. The latest analysis of this firm is attached.