



2019 Credit Review & State Debt Summary

Deven Mitchell
Debt Manager
(907) 465-3750
deven.mitchell@alaska.gov



1. State Debt Capacity

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 limit of 5% for state debt and 8% when combined with municipal debt that the state supports
 - With SB 26 change to revenue generation, and uncertainty about available revenue in future, reductions of 1% to debt ratio limits have been made
- 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



January 2018 Debt Affordability Analysis

Fiscal Year	Fall 2017 Unrestricted General Fund Revenue Forecast	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%



January 2019 Debt Affordability Analysis

Fiscal Year	Fall 2018 Unrestricted General Fund Revenue Forecast	Percentage of UGF Committed to State Debt (4% cap)	Percentage of UGF Committed to Total State Supported Debt (7% cap)	Percentage of UGF Committed to Expected Payment on Behalf of PERS/TRS	Percentage of UGF Committed to State Debt or PERS/TRS
2019	5,495,000,000	2.12%	4.02%	4.79%	8.81%
2020	5,198,000,000	2.02%	3.87%	5.78%	9.66%
2021	5,393,800,000	1.91%	3.66%	5.77%	9.43%
2022	5,344,800,000	1.73%	3.25%	5.61%	8.87%
2023	5,500,200,000	1.68%	3.18%	5.57%	8.74%
2024	5,596,300,000	1.65%	2.84%	5.61%	8.46%
2025	5,670,400,000	1.54%	2.55%	5.69%	8.24%
2026	5,864,900,000	1.47%	2.26%	5.68%	7.94%
2027	6,074,300,000	1.43%	2.12%	5.67%	7.79%
2028	6,320,700,000	1.36%	1.97%	5.68%	7.65%



Debt Capacity

- Projected annual unrestricted revenue increase of approximately \$3.1 billion in FY 2019 vs FY 2018
- Shift is primarily due to SB 26 and categorization of Permanent Fund earnings transfer as Unrestricted General Fund Revenue
- Historically, PF earnings have been classified as restricted by custom rather than unrestricted, and these earnings may, in whole or part, revert to restricted
 - Due to uncertainty of UGF in future years, reductions of 1% to debt ratio limits have been made
- Projected ratios are below reduced ratio limits in both categories for the forecast period
- Increased capacity of approximately \$1.5 to \$1.6 billion to total capacity of \$1.9-2.0 billion
- 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 Rating Overview

State of Alaska Credit Ratings and Recent History Agency Views

MOODY's

Aa3 (STABLE)

S&P Global Ratings

AA (STABLE)

Fitch Ratings

AA (STABLE)

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. Upgraded to highest credit ratings.

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 2018-2019 rating stabilization, 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.

Recent Financial Market/Credit Rating Challenges

INVESTORS FALSE PERCEPTIONS ON THE STATE OF ALASKA:

Alaska's Economy Totally Reliant On Oil And Is In Free Fall

- In 2016 the oil and gas sector represents about 13% of Alaska's GDP (\$6.75 billion of \$50.7 billion GDP) and represented approximately 4% of employment <http://labor.alaska.gov/trends/jul17.pdf>
- Oil and gas is the only industry in Alaska whose GDP is less in 2016 than in 2012 while other sectors have experienced moderate declines, stability or growth <http://labor.alaska.gov/trends/jul17.pdf>
- The State of Alaska does not currently rely on the broader economy for revenue as there is no broad based tax in Alaska
- The State benefits from the national and international economy through the investments of the Permanent Fund in securities of national and international firms

Reserves Are Dwindling

- The reserve position of Alaska at 6/30/2017 is above the 6/30/2015 position
- Permanent Fund Earnings Reserve increased \$4.2 billion from FY 2016 to FY 2017
- Often discussed draws on reserves (SBR and CBRF) have been offset by deposits into the Earnings Reserve
 - The Net Position of Alaska increased as a result of FY 2017 activity
 - The Net Position of Alaska is projected to increase in each of the next nine years

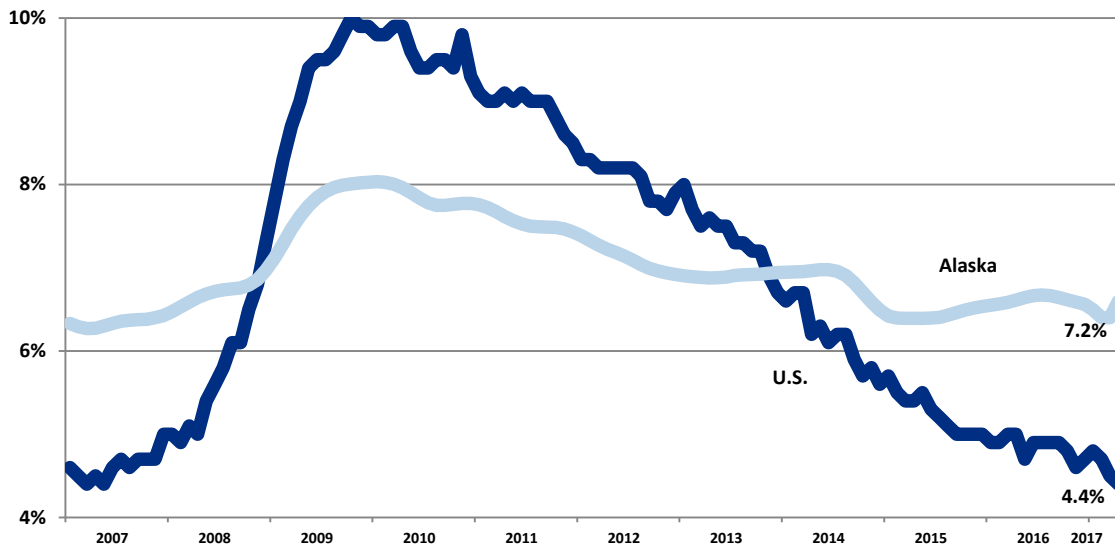
The State Wont Be Able To Balance It's Budget

- SB26 was passed
- Expenditures have been significantly reduced and may be reduced further
- In 2017 and 2018 the Governor and Legislature have ignored the statutory formula for determining the Permanent Fund Dividend and inflation proofing appropriations
- Just like the CBRF the Earnings Reserve of the Permanent Fund may be appropriated without statutory change
 - Alaska's oil and gas tax credit structure has been changed
 - Considering available revenues to the State, the budget has been in balance

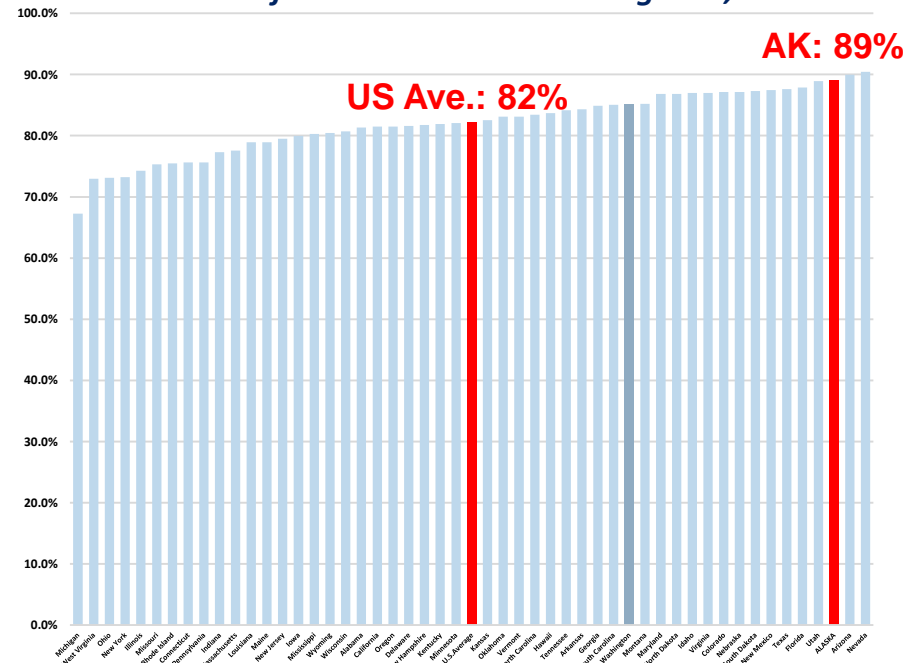


Alaska's Economy Has Been More Stable than U.S.

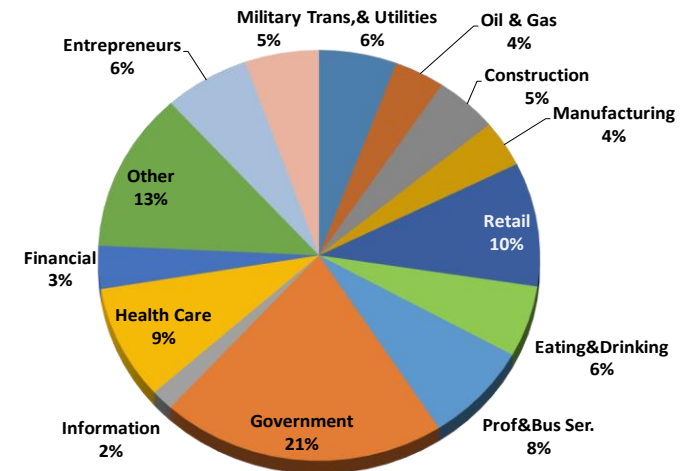
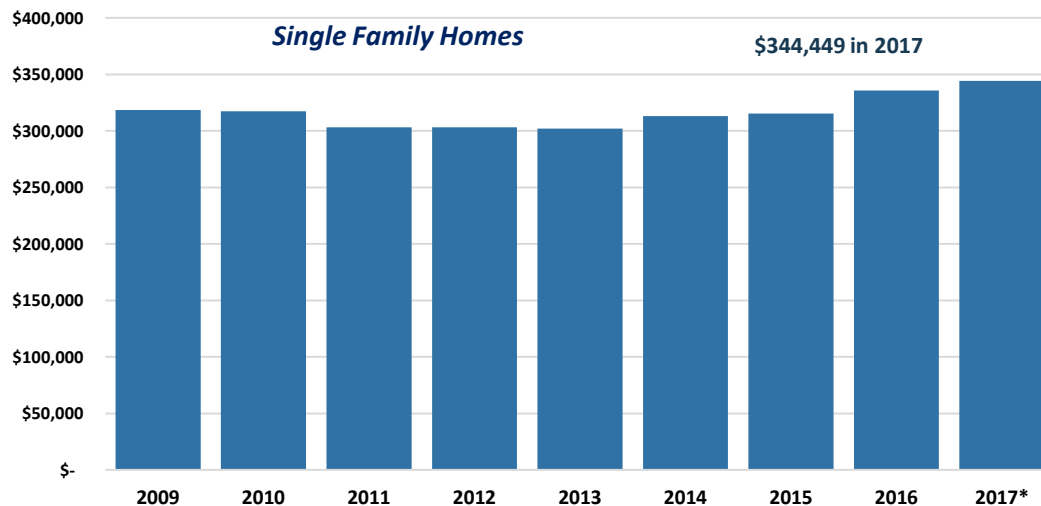
Unemployment Rates, Alaska and US – January 2007 to August 2017



Percent of Time States were Adding Jobs, 1961-2016



Alaska Home Prices Changed Little in Recent Years



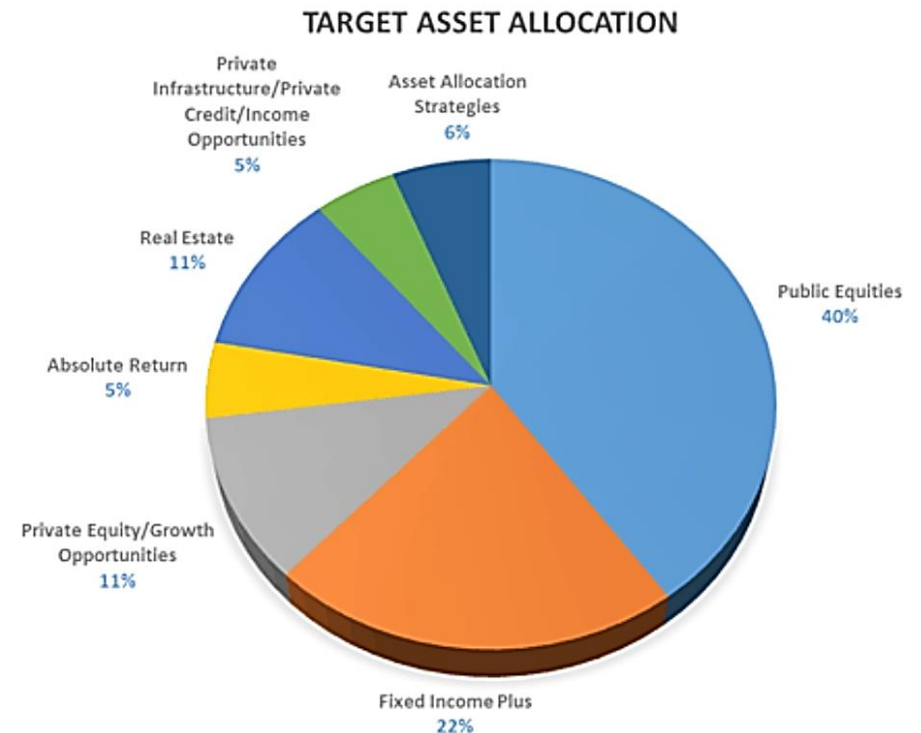
Where the Jobs are in Alaska



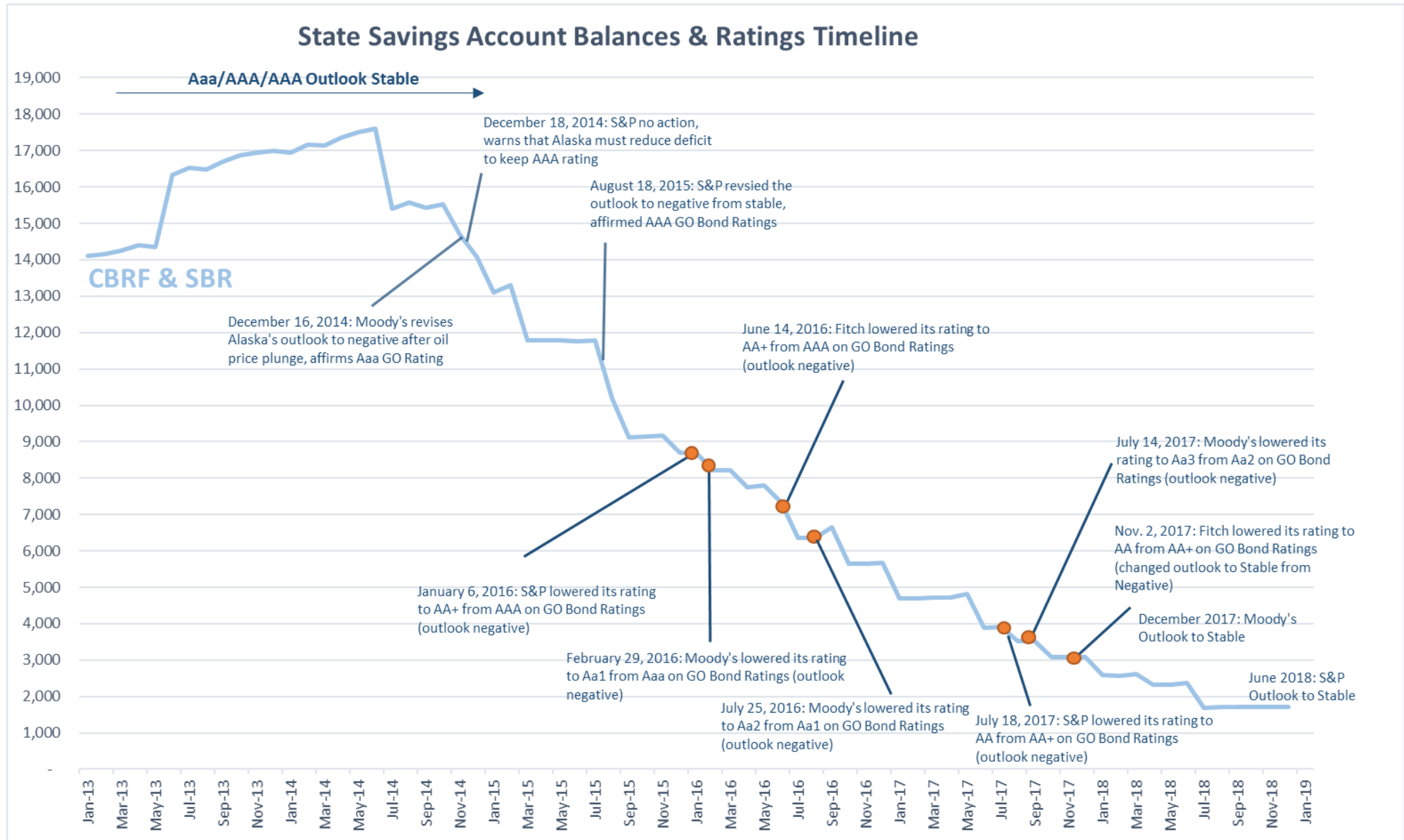
Alaska's Economy is Diversified by Our Endowment

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

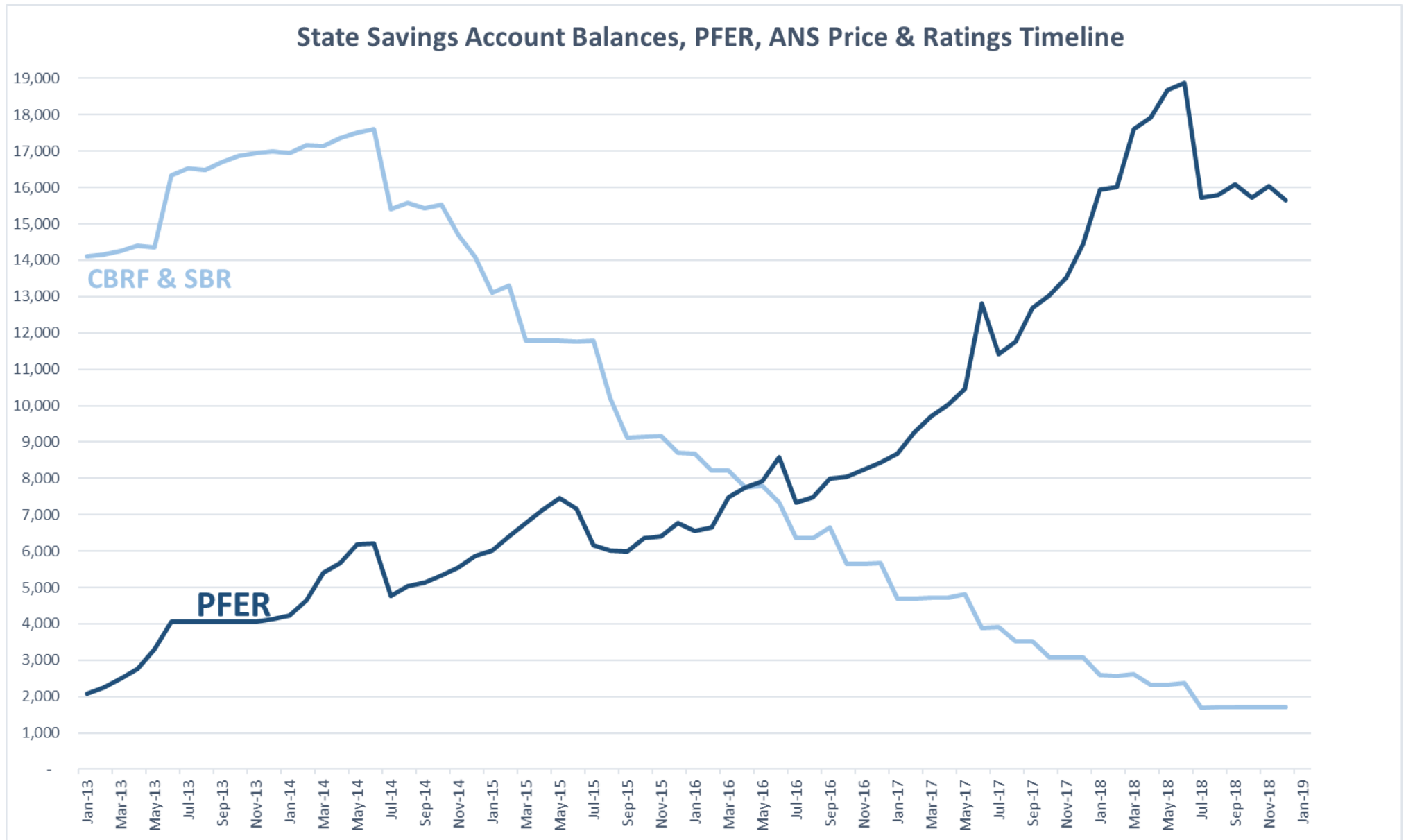
- The Alaska Permanent Fund Provides Alaska Unparalleled Revenue Source Diversification
- As of March 31, 2018 Alaska's Permanent Fund endowment had an unaudited total fund balance of **\$64.6 billion.**
 - The State's Permanent Fund Revenue is generated from the national and world economies
 - The Permanent 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**



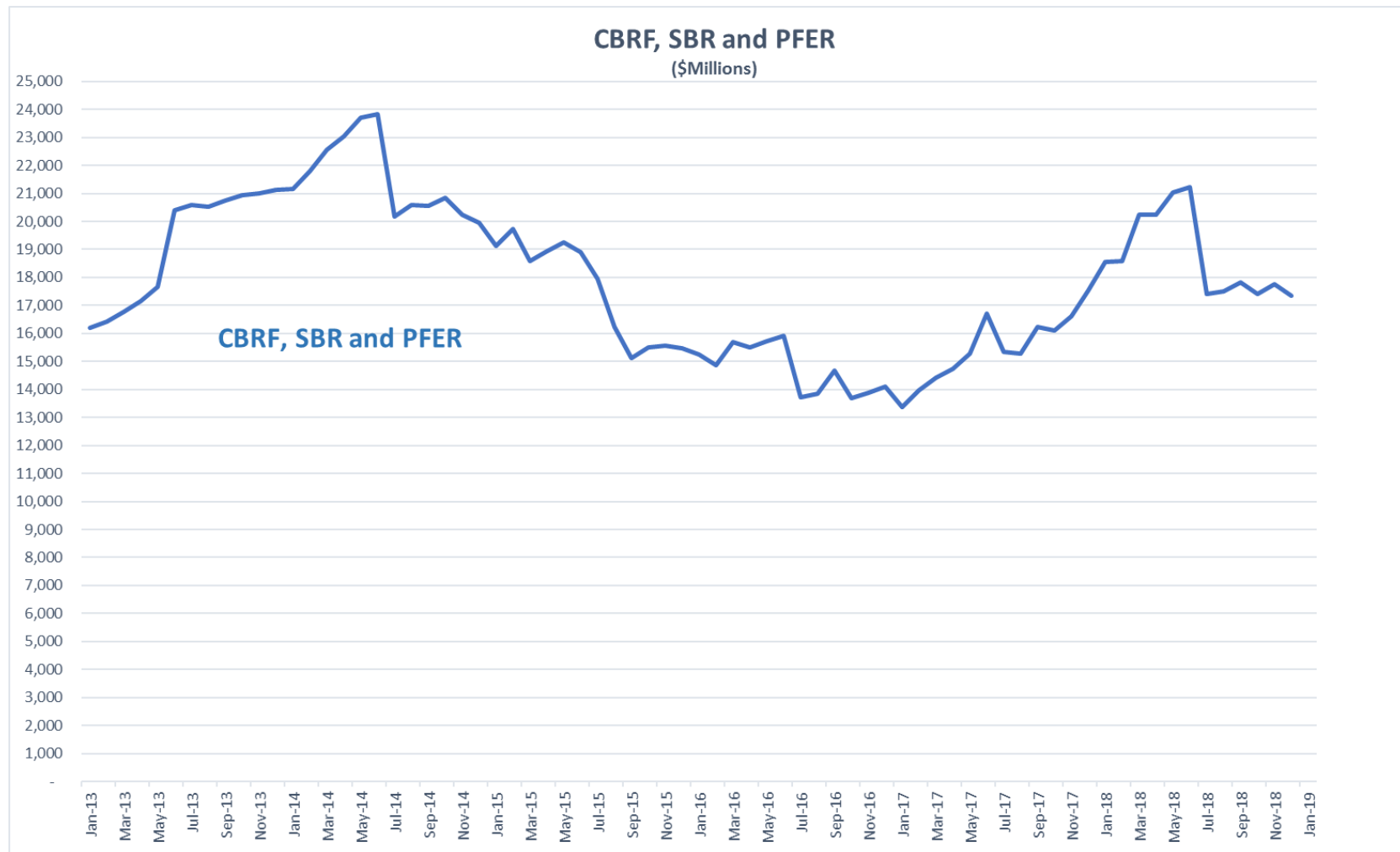
CBRF/SBR Balance and Credit Rating Timeline



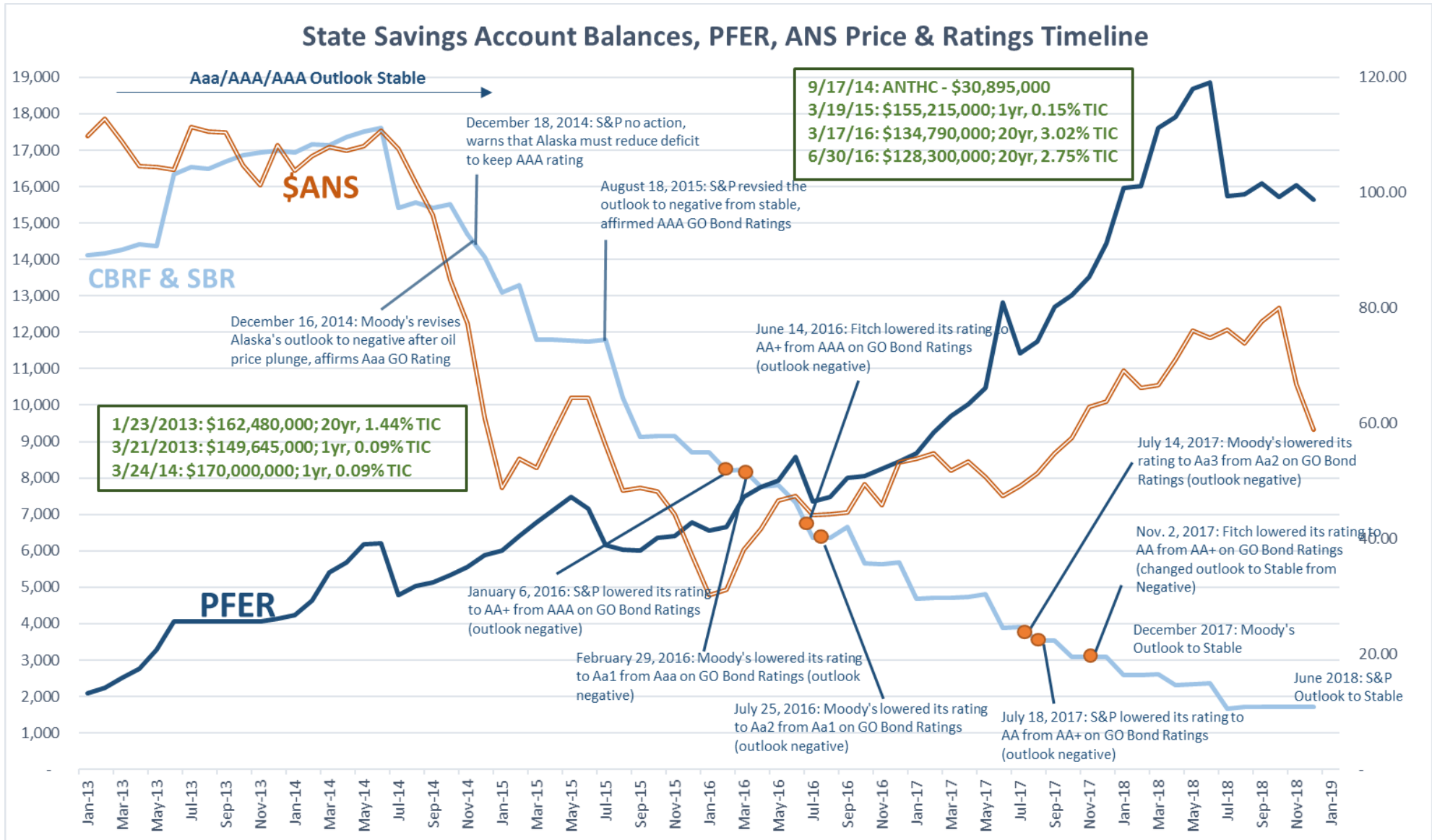
CBR/SBR And PF Earnings Reserve Balances Timeline



State of Alaska Available Reserves Balance Timeline



State of Alaska Credit Ratings and Recent History Agency Views





3. State Debt and General Fund Obligations

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
 - General obligation bonds are the only debt secured by full faith credit and taxing authority
- 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
 - 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, 2018

	principal outstanding	interest to maturity	total debt service to maturity
State Debt			
State of Alaska General Obligation Bonds	724.4	313.4	1,037.8
State Guaranteed Debt			
Alaska Housing Finance Corporation State Guaranteed Bonds (Veterans' Mortgage Program)	48.1	16.3	64.4
State Supported Debt			
Certificates of Participation	24.2	7.6	31.8
Lease Revenue Bonds with State Credit Pledge and Payment	202.5	83.5	286.0
Total State Supported Debt	226.7	91.1	317.8
State Supported Municipal Debt			
State Reimbursement of Municipal School Debt Service	769.0	231.5	1,000.5
State Reimbursement of capital projects	26.1	10.7	36.8
Total State Supported Municipal Debt	795.1	242.2	1,037.3
Pension System Unfunded Actuarial Accrued Liability (UAAL)³			
Public Employees' Retirement System UAAL	5,094.0	N/A	5,094.0
Teachers' Retirement System UAAL	1,831.0	N/A	1,831.0
Total UAAL	6,925.0	N/A	6,925.0
State Moral Obligation Debt			
Alaska Municipal Bond Bank:			
2005, 2010, & 2016 General Resolution General Obligation Bonds	1,141.7	569.1	1,710.8
Alaska Energy Authority:			
Power Revenue Bonds #1 through #8	85.2	36.2	121.4
Alaska Student Loan Corporation			
Student Loan Revenue Bonds	6.9	0.1	7.0
Education Loan Backed Notes	55.5	3.2	58.7
Total State Moral Obligation Debt	1,289.3	608.6	1,897.9
State Revenue Debt			
Sportfish Revenue Bonds	16.9	2.6	19.5
International Airports Revenue Bonds	375.5	187.0	562.5



Total Debt in Alaska at June 30, 2018

University of Alaska Debt			
University of Alaska Revenue Bonds	283.4	157.2	440.6
University Lease Liability and Notes Payable	16.3	4.2	20.5
Installment Contracts	0.2	0.0	0.2
Total University of Alaska Debt	299.9	161.4	461.3
Total State Revenue and University Debt	692.3	351.0	1,043.3
State Agency Debt			
Alaska Housing Finance Corporation:			
Commercial Paper	53.4	N/A	53.4
Alaska Municipal Bond Bank Coastal Energy Loan Bonds	10.0	2.2	12.2
Alaska Railroad	113.1	14.5	127.6
Northern Tobacco Securitization Corporation			
2006 Tobacco Settlement Asset-Backed Bonds ¹	304.3	402.1	706.4
Total State Agency Debt	480.8	418.8	899.6
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)	718.9	341.8	1,060.7
General Mortgage Revenue Bonds II -2012 & 2016	201.0	77.6	278.6
Government Purpose Bonds 1997 & 2001	111.3	25.0	136.3
State Capital Project Bonds, 2002-2011 ²	35.4	3.8	39.2
State Capital Project Bonds, II 2012-2018 ²	1,140.6	473.4	1,614.0
Alaska Industrial Development and Export Authority:			
Revolving Fund Bonds	43.0	13.3	56.3
Power Revenue Bonds, 2015 Series (Snettisham Hydro Project)	59.7	27.6	87.3
Total State Agency Collateralized or Insured Debt	2,309.9	962.5	3,272.4
Total State and State Agency Debt	13,491.6		

NOTES

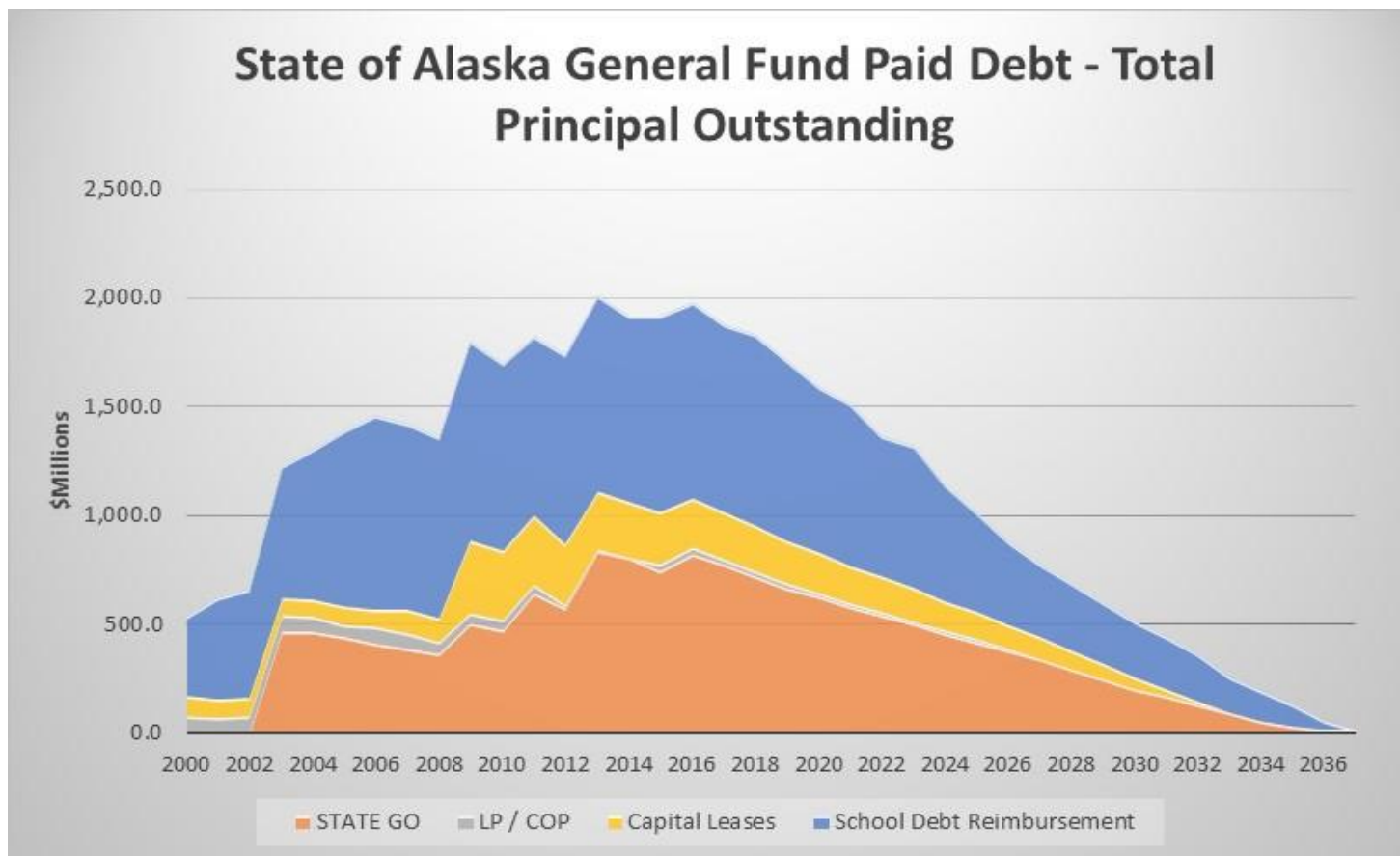
1. "Interest to Maturity" and "Total Debt Service to Maturity" includes accreted interest due at maturity of \$125.2 million
2. Does not include defeased bonds
3. From most recent 6/30/2017 valuation. See table 5.3 for a summary of the Retirement System's Funding Levels



State Debt Obligations Outstanding

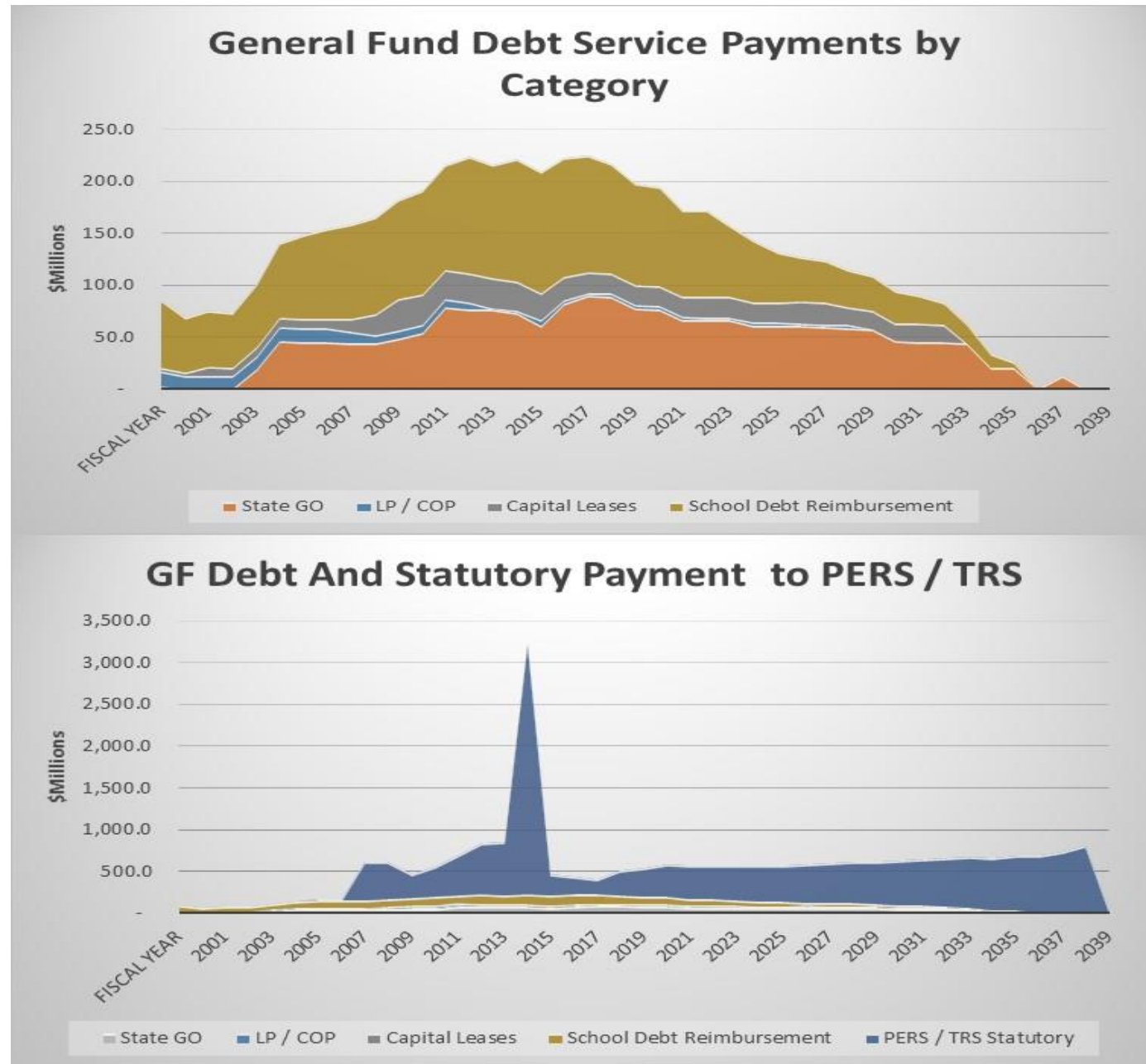
Annual Position as of June 30

- 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, \$1.5 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





4. Existing but unissued State Debt Authority

Authorized Bonding Authority

	Authority	Estimated Debt Service	Term
General Obligation	\$110,348,242	\$10,000,000	20 years
Subject to Appropriation			
Knik Arm Crossing	\$300,000,000	N/A	N/A
Pension Obligation Bonds	\$1,500,000,000	N/A	N/A
Tax Credit Certificate Bond Corporation	\$1,000,000,000	Uncertain up to \$125 million	10 years
School Debt Reimbursement	Limited	Limited	
TOTAL	\$2,910,348,242	\$10,000,000	





5. Questions
