



## January 2021 Credit Review & State Debt Summary

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## 1. State Debt Rating Overview

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# STATE OF ALASKA AND OTHER 49 STATES' RATINGS

**MOODY's**

Aa3 (Negative)

**S&P Global**  
Ratings

AA- (Negative)

**FitchRatings**

A+ (Negative)

Alabama Aa1/AA/AA+ Sta/Sta/Sta  
**Alaska Aa3/AA-/A+ Neg/Neg/Neg**  
 Arizona\* Aa2/AA/NR Sta/Sta/NR N/A  
 Arkansas Aa1/AA/NR Sta/Sta/NR N/A  
 California Aa3/AA-/AA Pos/Sta/Sta  
 Colorado\* Aa1/AA/NR Sta/Sta/NR N/A  
 Connecticut A1/A/A+/AA  
 Sta/Pos/Sta/Neg  
 Delaware Aaa/AAA/AAA/AAA  
 Sta/Sta/Sta/Sta  
 Florida Aaa/AAA/AAA Sta/Sta/Sta  
 Georgia Aaa/AAA/AAA Sta/Sta/Sta  
 Hawaii Aa1/AA+/AA Sta/Sta/Pos  
 Idaho\* Aa1/AA+/AA+ Sta/Sta/Sta  
 Illinois Baa3/BBB-/BBB Sta/Sta/Sta  
 Indiana\* Aaa/AAA/AAA Sta/Sta/Sta  
 Iowa\* Aaa/AAA/AAA Sta/Sta/Sta

Kansas\* Aa2/AA-/NR Sta/Sta/NR N/A  
 Kentucky\* Aa3/A/AA- Sta/Sta/Sta  
 Louisiana Aa3/AA-/AA- Sta/Sta/Sta  
 Maine Aa2/AA/AA\* Sta/Sta/Sta  
 Maryland Aaa/AAA/AAA Sta/Sta/Sta  
 Massachusetts Aa1/AA/AA+ Sta/Sta/Sta  
 Michigan Aa1/AA/AA Sta/Sta/Sta  
 Minnesota Aa1/AAA/AAA Sta/Sta/Sta  
 Mississippi Aa2/AA/AA Sta/Neg/Sta  
 Missouri Aaa/AAA/AAA Sta/Sta/Sta  
 Montana Aa1/AA/AA+ Sta/Sta/Sta  
 Nebraska\* Aaa/AAA/NR Sta/Sta/NR N/A  
 Nevada Aa2/AA/AA+ Sta/Sta/Sta  
 New Hampshire Aa1/AA/AA+ Sta/Sta/Sta  
 New Jersey A3/A-/A/A Sta/Sta/Sta/Sta  
 New Mexico Aa2/AA/NR Sta/Sta/NR N/A  
 New York Aa1/AA+/AA+/AA+ Sta/Sta/Sta/Sta

North Carolina Aaa/AAA/AAA Sta/Sta/Sta 3  
 North Dakota\* Aa1/AA+/NR Sta/Sta/NR N/A  
 Ohio Aa1/AA+/AA+ Sta/Sta/Sta  
 Oklahoma Aa2/AA/AA Sta/Sta/Sta  
 Oregon Aa1/AA+/AA+ Sta/Sta/Sta  
 Pennsylvania Aa3/A+/AA- Sta/Sta/Sta  
 Rhode Island Aa2/AA/AA Sta/Sta/Sta  
 South Carolina Aaa/AA+/AAA Sta/Sta/Sta  
 South Dakota\* Aaa/AAA/AAA Sta/Sta/Sta  
 Tennessee Aaa/AAA/AAA Sta/Sta/Sta  
 Texas Aaa/AAA/AAA/AAA Sta/Sta/Sta/Sta  
 Utah Aaa/AAA/AAA Sta/Sta/Sta  
 Vermont Aa1/AA+/AAA Sta/Sta/Sta  
 Virginia Aaa/AAA/AAA Sta/Sta/Sta  
 Washington Aaa/AA+/AA+ Sta/Sta/  
 Wisconsin Aa1/AA/AA+/AA+ Sta/Sta/Sta/Sta  
 Wyoming\* NR/AA+/NR NR/Sta/NR N/A



# RATING CHALLENGES IN 2021

## Political Challenge

- Failure to resolve the ongoing structural deficit during the 2021 Legislative Session will likely result in additional State credit downgrades
- Oil price declines have reduced state revenues and created significant fiscal imbalance since 2015
- Constitutional Budget Reserve Fund (CBRF) allowed difficult decisions to be deferred over the last five years, this is no longer an option
- Reductions to general fund spending while significant, have been difficult to achieve and haven't eliminated the ongoing structural deficit
- Gridlock over use of Permanent Fund earnings – Permanent Fund Dividend vs. public services

## Financial Policies

- Structured 5% Percent of Market Value (POMV) draw insufficient to fully fund the budget and the dividend
- Statutory conflict between POMV draw and PFD formula
- Lack of consensus on long-term options for either spending less money or generating more revenue

## Rating Agency Concerns

- Ongoing structural UGF imbalance and reliance on near depleted one-time financial resources (CBRF)
- Comparatively large net pension liability
- Narrow economy that is relatively small
- Perception that the State's economy and operating revenues are primarily reliant on petroleum development



# Alaska's Most Pressing Credit Rating Challenge

Every year since 2013 Alaska spent more than it generated in available revenue (\$millions):

Fiscal Year	General Purpose UGF Revenue	Dividend Payment (from POMV Transfer) <sup>1</sup>	Recurring & Discretionary GF Expenditures	Unrestricted Surplus / (Deficit)	CBRF Asset Balance	SOA Total Primary Government Net Position	Change in Net Position (YOY)
2013	6,929	-	7,455	(526)	11,564	76,005	5,882
2014	5,390	-	7,314	(1,924)	12,780	82,103	6,098
2015	2,256	-	4,760	(2,504)	10,101	73,540	(8,563)
2016	1,533	-	5,213	(3,680)	7,331	68,078	(5,462)
2017	1,355	-	4,498	(3,143)	3,896	71,997	3,919
2018	2,414	-	4,489	(2,075)	2,360	74,203	2,206
2019	5,350	(1,024)	4,889	(563)	2,294*	76,743	2,540
2020	4,537	(1,069)	4,805	(1,337)	1,762*	TBD	TBD
2021	4,428	(680)	4,616	(868)	931*	TBD	TBD

- The CBRF receives additional dispute resolution deposits and restricted earnings
- Post FY2019, it was determined that adjustments to the CBRF account balance was necessary for dispute resolution deposits originally deposited to the General Fund
- The Governor's budget has proposed drawing just \$39.6 million from the CBRF for FY2022

1. Dividend Payment represents a portion of the annual POMV ERA draw. For FY2020, a portion of the dividend payment was the remaining account balance in the SBRF.

\* Fiscal Year 2019-2021 use projected revenues as of the Fall 2020 RSB. The dividend payment appropriations, adjustments, and estimated expenditures are projections from OMB fiscal summaries. Stated CBRF balance in the FY2019 CAFR did not have adjustments. FY2020 CBRF balance per OMB projections, and for FY2021 the Governor's budget proposed drawing approximately \$40 million from the CBRF for FY2022. 'TBD' signifies an unreleased CAFR.





## 2. 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
    - 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 project's 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 funded (was most recently partially funded in 2017 and 2020, no appropriation in the FY2021 Budget)
  - 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, 2020 (\$millions)

**TABLE 1.1**  
**State and State Agency Debt by Type at 6/30/20**  
\$ (millions)

	Principal Outstanding	Interest to Maturity	Service to Maturity
<b>State Debt</b>			
State of Alaska General Obligation Bonds	624.9	245.8	870.7
<b>State Guaranteed Debt</b>			
Alaska Housing Finance Corporation State Guaranteed Bonds (Veterans' Mortgage Program)	94.3	45.3	139.6
<b>State Supported Debt</b>			
Certificates of Participation	20.6	5.4	26.0
Lease Revenue Bonds with State Credit Pledge and Payment	182.6	64.1	246.7
<b>Total State Supported Debt</b>	203.2	69.5	272.7
<b>State Supported Municipal Debt<sup>1</sup></b>			
State Reimbursement of Municipal School Debt Service	625.1	164.0	789.1
State Reimbursement of capital projects	19.6	8.1	27.7
<b>Total State Supported Municipal Debt</b>	644.7	172.1	816.8
<b>Pension System Unfunded Actuarial Accrued Liability (UAAL)<sup>3</sup></b>			
Public Employees' Retirement System UAAL	4,803.7	N/A	4,803.7
Teachers' Retirement System UAAL	1,395.2	N/A	1,395.2
<b>Total UAAL</b>	6,198.9	N/A	6,198.9
<b>State Moral Obligation Debt</b>			
Alaska Municipal Bond Bank:			
2005, 2010, & 2016 General Resolution General Obligation Bonds	1,034.2	489.5	1,523.7
Alaska Energy Authority:			
Power Revenue Bonds #1 through #8	63.7	32.7	96.4
Alaska Student Loan Corporation			
Education Loan Backed Notes	35.9	0.7	36.6
<b>Total State Moral Obligation Debt</b>	1,133.8	522.9	1,656.7
<b>State Revenue Debt</b>			
Sportfish Revenue Bonds	1.8	0.2	2.0
International Airports Revenue Bonds	333.4	133.2	466.6





# Total Debt in Alaska at June 30, 2020 (\$millions)

	Principal Outstanding	Interest to Maturity	Total Debt Service to Maturity
<b>University of Alaska Debt</b>			
University of Alaska Revenue Bonds	258.6	132.1	390.7
University Lease Liability and Notes Payable	14.4	3.2	17.6
Installment Contracts	0.3	0.0	0.3
<b>Total University of Alaska Debt</b>	<b>273.3</b>	<b>135.3</b>	<b>408.6</b>
<b>Total State Revenue and University Debt</b>	<b>608.5</b>	<b>268.7</b>	<b>877.2</b>
<b>State Agency Debt</b>			
Alaska Housing Finance Corporation:			
Commercial Paper	115.4	N/A	115.4
Alaska Municipal Bond Bank Coastal Energy Loan Bonds	9.7	2.0	11.7
Alaska Railroad	64.5	4.9	69.4
Northern Tobacco Securitization Corporation			
2006 Tobacco Settlement Asset-Backed Bonds <sup>5</sup>	299.8	372.5	672.3
<b>Total State Agency Debt</b>	<b>489.4</b>	<b>379.4</b>	<b>868.8</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)	569.1	247.1	816.2
General Mortgage Revenue Bonds II -2012 & 2016	460.2	202.4	662.6
Government Purpose Bonds 1997 & 2001	84.2	16.7	100.9
State Capital Project Bonds, 2002-2011 <sup>2</sup>	19.9	1.2	21.1
State Capital Project Bonds, II 2012-2019 <sup>2</sup>	1,271.7	315.5	1,587.2
Alaska Industrial Development and Export Authority:			
Power Revenue Bonds, 2015 Series (Snettisham Hydro Project)	54.6	21.9	76.5
<b>Total State Agency Collateralized or Insured Debt</b>	<b>2,459.7</b>	<b>804.8</b>	<b>3,264.5</b>
<b>Total State and State Agency Debt</b>	<b>12,457.4</b>		

## NOTES

1. In the Enacted FY2021 Budget, School Debt and Capital Project Reimbursements were funded at 0%.

See description in Section 1(E) above, and Table 5.0 for outstanding debt levels

2. Does not include defeased bonds

3. From most recent 6/30/2019 actuarial valuation. See table 5.3 for a summary of the Retirement System's Funding Levels

4. 'Other G.O. Debt' includes certain information sourced directly from municipal CAFRs, and Alaska Taxable January 2021

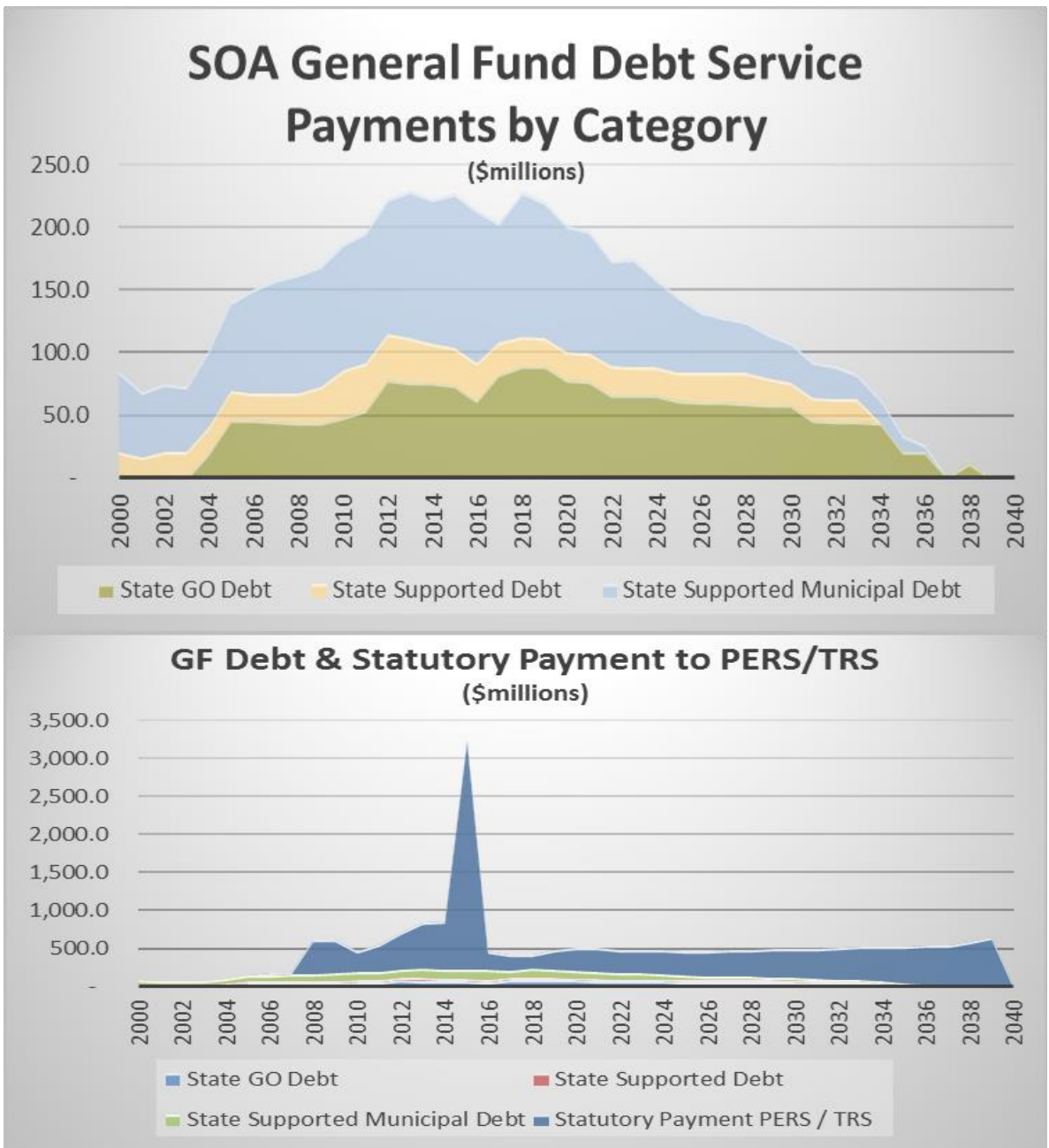
5. "Interest to Maturity" and "Total Debt Service to Maturity" includes accreted interest due at maturity of \$125.2 million

Sources: Annual reports and financial statements of AHFC, AMBBA, AIDEA, AEA, UofA, AKRR, AIAS, and directly from State Agencies



# 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, but less dramatically
- PERS/TRS special funding is many times all other state commitments



# UGF Budget Impact

## UGF Budget Impact of ~\$350M GO & \$100M AHFC Revenue Bond Proposals

- GO BOND –
  - Full Faith and credit of SOA
  - Requires Legislative and Voter approval
  - First bond issuance likely in FY 2023
- Revenue Bond
  - Debt service is paid via revenues generated

### 10 year UGF Budget Impact:

<b>GO Bond - Impact to Budget</b>		<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>	<b>2031</b>	<b>2032</b>	<b>2033</b>
Current Annual Debt Service	\$	79.1	73.8	73.6	73.4	68.4	68.1	67.5	66.6	65.6	64.8	52.4	51.9	51.4
Proposed \$350M Bond, Annual Debt Service		-	-	22.4	22.4	22.4	22.4	22.4	22.4	22.4	22.4	22.4	22.4	22.4
<b>Total Debt Service if Proposal is Approved</b>	<b>\$</b>	<b>79.1</b>	<b>73.8</b>	<b>96.0</b>	<b>95.8</b>	<b>90.8</b>	<b>90.5</b>	<b>89.9</b>	<b>89.0</b>	<b>88.0</b>	<b>87.2</b>	<b>74.8</b>	<b>74.3</b>	<b>73.8</b>
<b>Revenue Bond</b>														
AHFC - Reduction to UGF Dividend														
Proposed \$100M Bond, AHFC Annual Debt Service	\$	-	-	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9
<b>Total Impact (Increase) to UGF Budget from Proposals</b>	<b>\$</b>	<b>-</b>	<b>-</b>	<b>29.3</b>	<b>29.3</b>	<b>29.3</b>	<b>29.3</b>	<b>29.3</b>	<b>29.3</b>	<b>29.3</b>	<b>29.3</b>	<b>29.3</b>	<b>29.3</b>	<b>29.3</b>



# Limited 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





### 3. State Debt Capacity

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# Debt Affordability Analysis

- Annual analysis required by AS 37.07.045 to be delivered by January 31
- Discusses credit ratings, current debt levels, history and projections
- Relies upon debt ratios, limit of 4% for directly paid state debt, and 7% when combined with municipal debt that the state supports
  - Beginning in FY 2019 UGF revenue increased significantly due to reclassification of certain Permanent Fund earnings. Uncertainty about this revenue in future years warranted reductions of 1% to debt ratios.
- 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
- Does not include State Agency GO or Revenue Bonds, or SOA Revenue Bonds



# Authorized Bonding Authority

- The State had no authorized but unissued general fund obligations (post GO Series 2020A issuance)
- As of June 30, 2020, the State had debt obligations secured and paid by the general fund of approximately \$727.3 million
  - \$624.9 million of general obligation bonds,
  - \$20.6 million of Certificates of Participation, and
  - \$182.6 million of lease-revenue bond conduit issues of political subdivisions.
- The 2020 A general obligation bonds closed on August 5, 2020 in the amount of \$84.56 million to generate \$110.3 million of project funding.
- The 2020 A bonds annual debt service is approximately \$7 million per year.

## General Obligation Bonds Authorized, Issued, and Outstanding Since 1996

Fiscal Year	\$ (thousands)		Outstanding at 6/30
	Authorized	Issued	
1996	-	-	39,101
1997	-	-	24,206
1998	-	-	10,891
1999	-	-	2,376
2000	-	-	-
2001	-	-	-
2002	-	-	-
2003	463,525	461,935	461,935
2004	-	-	461,935
2005	-	-	438,370
2006	-	-	414,250
2007	-	-	389,505
2008	-	-	364,065
2009*	315,050	165,000	502,845
2010	-	-	475,740
2011	397,200	201,110	643,770
2012	-	-	575,825
2013	453,499	343,151	840,249
2014	-	28,878	803,790
2015	-	1,009	744,160
2016	-	161,157	823,235
2017	-	-	776,785
2018	-	-	724,415
2019	-	-	670,060
2020**	-	-	624,905
<b>Total *</b>	<b>\$ 1,479,224</b>	<b>\$ 1,362,240</b>	

\* In FY 2012 the State Legislature appropriated \$150,050,000 to fund the FY 2009 authorization, extinguishing this remaining bond issuance authority

\*\* Subsequent to 6/30/20, the State issued GO Bonds to fund the remaining authorization under the 2012 Transportation Bond Act (\$110.3 million)

Source: Department of Revenue Bond Documents





# January 2021 Debt Affordability Analysis

## Payments on General Fund Paid Debt as of June 30, 2020

Fiscal Year	GO	Lease Purchase	Capital Leases	School Debt Reimbursements	Capital Projects Reimbursements	State expected payments on behalf to PERS / TRS
2021	79,100,000	2,900,000	19,500,000	92,700,000	3,600,000	338,600,000
2022	73,800,000	2,900,000	19,500,000	81,400,000	3,600,000	313,700,000
2023	73,600,000	2,900,000	19,500,000	82,400,000	3,600,000	321,500,000
2024	73,400,000	2,900,000	19,500,000	66,800,000	3,600,000	329,500,000
2025	68,400,000	2,900,000	19,500,000	57,100,000	3,600,000	335,100,000
2026	68,100,000	2,900,000	19,500,000	47,000,000	2,800,000	341,400,000
2027	67,500,000	2,900,000	20,900,000	42,400,000	2,600,000	348,600,000
2028	66,600,000	2,900,000	20,900,000	39,700,000	2,200,000	357,000,000
2029	65,600,000	2,900,000	17,600,000	34,900,000	900,000	365,700,000
2030	64,800,000	-	17,600,000	32,200,000	900,000	376,200,000

## STATE OF ALASKA PROJECTED DEBT CAPACITY (Including Perm Fund transfer)

### FISCAL YEARS 2021 Through 2030 (in millions)

Fiscal Year	Projected GF Revenues	4% of Total	7% of Total	G.O./Subject to approp. service	G.O./Lease as a % of Revenues	G.O./lease/ State Reimbursements	Total as a % of Revenues	PERS/TRS On Behalf \$\$	Total of All as a % of Revenues
2021	4,331.8	173.3	303.2	101.5	2.3%	197.8	4.6%	331.6	12.22%
2022	4,271.9	170.9	299.0	96.2	2.3%	181.2	4.2%	313.8	11.59%
2023	4,638.5	185.5	324.7	96.0	2.1%	182.0	3.9%	321.5	10.85%
2024	4,859.7	194.4	340.2	95.8	2.0%	166.2	3.4%	329.5	10.20%
2025	4,964.7	198.6	347.5	90.8	1.8%	151.5	3.1%	335.1	9.80%
2026	5,023.1	200.9	351.6	90.5	1.8%	140.3	2.8%	341.4	9.59%
2027	5,102.7	204.1	357.2	91.3	1.8%	136.3	2.7%	348.6	9.50%
2028	5,220.3	208.8	365.4	90.4	1.7%	132.3	2.5%	357.0	9.37%
2029	5,365.6	214.6	375.6	86.1	1.6%	121.9	2.3%	365.7	9.09%
2030	5,475.0	219.0	383.3	82.4	1.5%	115.5	2.1%	376.2	8.98%

\*Source: State of Alaska – Department of Revenue & Fall 2020 RSB. GO Debt includes the Series 2020A, which closed post 6/30/2020





# Authorized but Unissued State Debt

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## **Currently there is no authorized but unissued direct State debt (paid from the General Fund):**

- The final \$110,348,242 in authorized GO bond funding was issued on August 5, 2020, This was the final tranche of funding for the 2012 Transportation Bond Act. There is no remaining GO bond issuance authority at this time.
- The authorized \$300 million Knik Arm Crossing State supported bond structure was invalidated by the September 4, 2020 decision of the Alaska Supreme Court.
- The authorized \$1 billion Alaska Tax Credit Certificate Bond Corporation State supported bond structure was invalidated by the September 4, 2020 decision of the Alaska Supreme Court.
- The authorized \$1.5 billion Alaska Pension Obligation Bond Corporation State supported bond structure was invalidated by the September 4, 2020 decision of the Alaska Supreme Court.
- While not State debt, the school debt reimbursement program is not currently authorized.

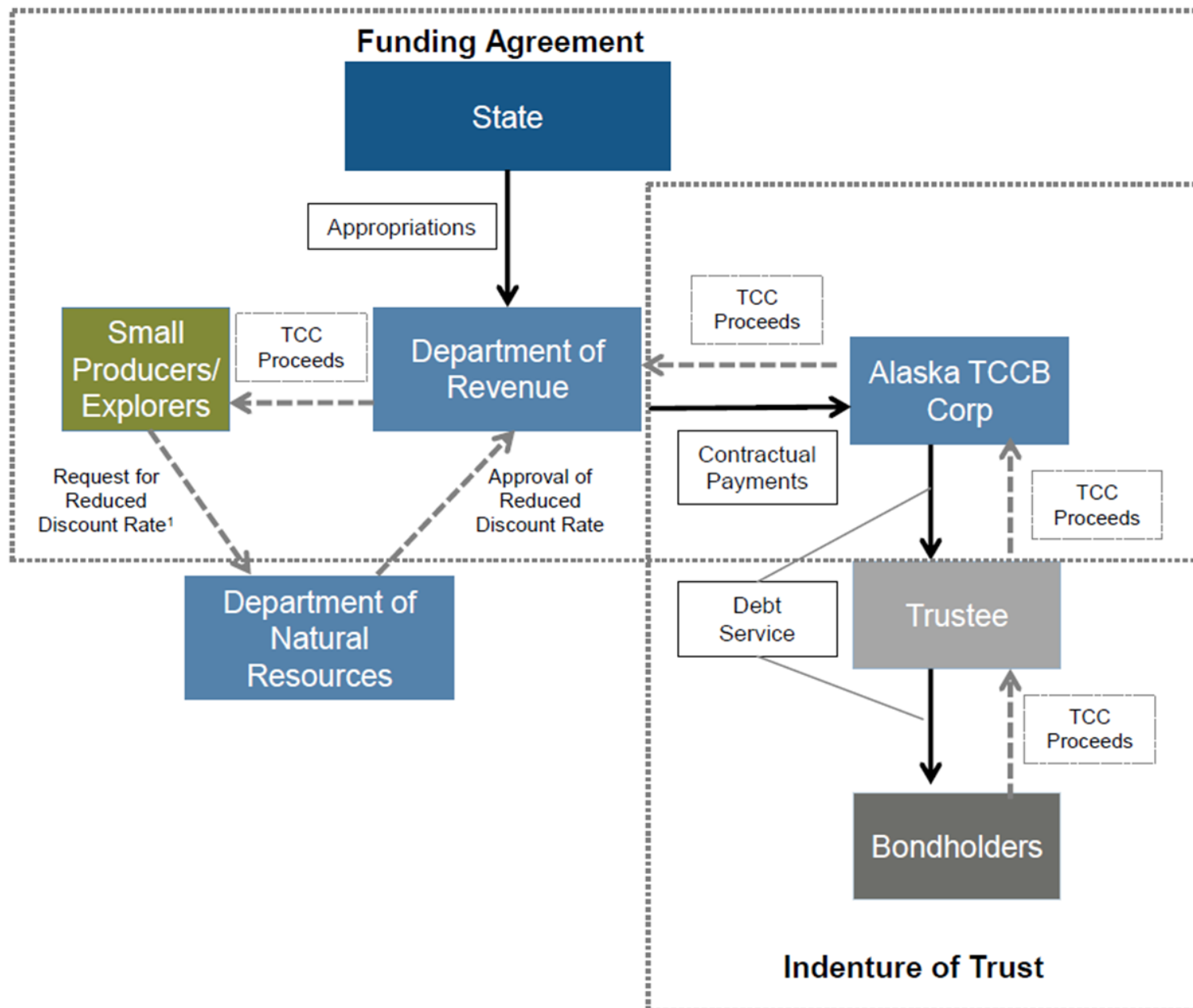


# ATCCBC & Other Subject to Appropriation Debt

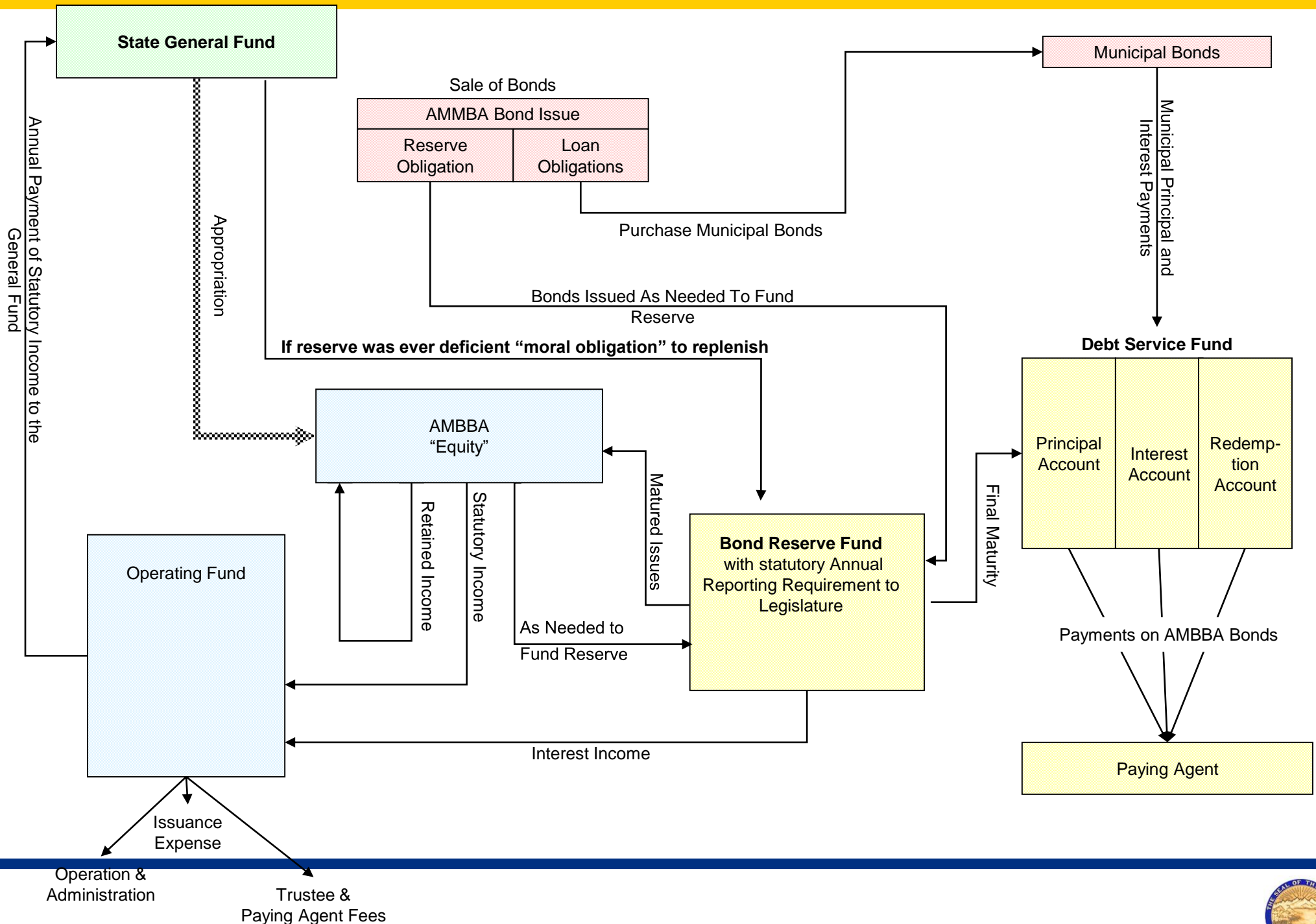
- The Alaska Tax Credit Certificate Bond Corporation ('ATCCBC') was created to re-finance up to \$1 billion of oil and gas tax credits using a state subject to appropriation credit pledge bond structure, but with statutes that also allowed a state moral obligation pledge even though it wouldn't likely be used.
- On September 4, 2020, the Alaska Supreme Court issued a decision that disallowed the structure contemplated for the Alaska Tax Credit Certificate Bond Corporation and placed additional limitations on when the State can issue State Supported debt
- The decision reaffirmed the Carr-Gottstein Supreme Court decision allowing for lease-purchase of real property arrangements like certificates of participation or lease revenue bonds.
- The expected ATCCBC structure involved the ATCCBC entering a contract with the State of Alaska, Department of Revenue to provide funds for the purchase of the discounted credits in exchange for future payments (subject to appropriation). The funds provided would be bond proceeds and the future payments would be equal to ATCCBC's bonds' debt payments which would be subject to annual appropriation.
- Due to similarity of structure it is clear that the decision also rendered the Pension Obligation Bond Corporation, and the Toll Bridge Revenue Bonds for the Knik Arm Bridge, illegal
- The inclusion of the moral obligation construct in the ATCCBC's statutory structure resulted in certain broad references in the decision which may impact other bond programs with constructs that while fundamentally different from the ATCCBC in both public purpose and bond structure use moral obligation debt.
- On September 28, 2020, the State of Alaska Department of Law filed a Petition for Rehearing with the Supreme Court in an attempt to obtain clarity on the scope of the Court's intent in their decision
- The Court has not yet responded to the Petition for Rehearing



# State Supported Debt Structure – ATCCBC



# Moral Obligation Structure – Alaska Municipal Bond Bank





#### 4. Questions

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