



## January 2022 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 (Stable)

S&P Global  
Ratings

AA- (Stable)

FitchRatings

A+ (Negative)

Alabama Aa1/AA/AA+

**Alaska Aa3/AA-/A+ (Sta/Sta/Neg)**

Arizona\* Aa1/AA/NR

Arkansas Aa1/AA/NR

California Aa2/AA-/AA

Colorado\* Aa1/AA/NR

Connecticut Aa3/A/A+

Delaware Aaa/AAA/AAA

Florida Aaa/AAA/AAA

Georgia Aaa/AAA/AAA

Hawaii Aa2/AA+/AA

Idaho\* Aa1/AA+/AAA

Illinois Baa2/BBB/BBB-

Indiana\* Aaa/AAA/AAA

Iowa\* Aaa/AAA/AAA

Kansas\* Aa2/AA-/NR

Kentucky\* Aa3/A/AA-

Louisiana Aa3/AA-/AA-

Maine Aa2/AA/AA

Maryland Aaa/AAA/AAA

Massachusetts Aa1/AA/AA+

Michigan Aa1/AA/AA

Minnesota Aa1/AAA/AAA

Mississippi Aa2/AA/AA

Missouri Aaa/AAA/AAA

Montana Aa1/AA/AA+

Nebraska\* Aa1/AAA/NR

Nevada Aa1/AA+/AA+

New Hampshire Aa1/AA/AA+

New Jersey A3/BBB+/A-

New Mexico Aa2/AA/NR

New York Aa2/AA+/AA+

North Carolina Aaa/AAA/AAA

North Dakota\* Aa1/AA+/NR

Ohio Aa1/AA+/AA+

Oklahoma Aa2/AA/AA

Oregon Aa1/AA+/AA+

Pennsylvania Aa3/A+/AA-

Rhode Island Aa2/AA/AA

South Carolina Aaa/AA+/AAA

South Dakota\* Aaa/AAA/AAA

Tennessee Aaa/AAA/AAA

Texas Aaa/AAA/AAA/

Utah Aaa/AAA/AAA

Vermont Aa1/AA+/AA+

Virginia Aaa/AAA/AAA

Washington Aaa/AA+/AA+

Wisconsin Aa1/AA+/AA+

Wyoming\* NR/AA/NR

NR=Not Rated

\*Denotes this state does not have general obligation (GO) debt outstanding; the state's issuer credit rating is listed in place of a GO bond rating.

Sources: Moody's Investors Service, Standard & Poor's, and Fitch Ratings listed as of May 2021 for other 49 States' Ratings



# Municipal Market Update

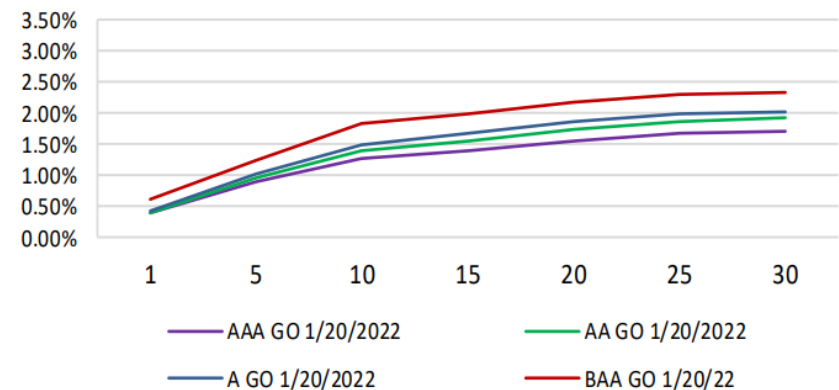
## MARKET COMMENTARY

- From January 13<sup>th</sup> to January 20<sup>th</sup>, AAA MMD increased 8 to 10 basis points across the curve.
- MMD/UST ratios for the 5Y, 10Y and 30Y increased to approximately 56%, 70% and 84%, respectively.
- For the week ending January 20<sup>th</sup>, municipal bond funds experienced outflows of \$238 million after experiencing inflows of \$231 million the previous week. This marks the first reported outflows since March 2021.
- The new issue calendar for next week shows approximately \$6.3 billion in total par, composed of \$5.1 billion in negotiated deals and \$1.2 billion in competitive sales.

### Market Movement

	1/20/2021	1/13-1/20	12/20-1/20	12/31-1/20
	Current	Change Over the Last Week	Change Over the Past Month	Change YTD
5-year UST	1.62%	14 bps	45 bps	36 bps
10-year UST	1.83%	12 bps	43 bps	32 bps
30-year UST	2.04%	-1 bp	22 bps	14 bps
5-year MMD	0.91%	10 bps	32 bps	32 bps
10-year MMD	1.28%	10 bps	25 bps	25 bps
30-year MMD	1.72%	8 bps	24 bps	23 bps
5-year MMD / UST	56.17%	2.64%	11.39%	19.96%
10-year MMD / UST	69.95%	1.36%	-4.93%	2.54%
30-year MMD / UST	84.31%	5.39%	3.68%	7.51%

### MMD Yield Curves



\*Update from Acacia Financial Group, Inc. as of January 21, 2022



# LONG TERM CHALLENGES REMAIN, BUT IMPROVEMENT IN 2022

## Same Challenges

- How to spend the structured percent of market value draw from the Alaska Permanent Fund – Permanent Fund Dividend versus State services
- How to manage the state's budget into the future, there is a general consensus that there is a need to either spend less or generate more revenue at the State level but finding common ground on options has proven difficult
- The 10 year fiscal outlook still reflects deficits from fiscal year 2024 through 2029
- Assumptions on investment income assumptions and budget inflation questioned
- Reserve flexibility diminished, Constitutional Budget Reserve balance was approximately \$1.2 billion on 6-30-21

## Improvements since 2015

- Significant reduction in state general fund spending
- The transfer from the Permanent Fund has been defined through a Percent of Market Value structure
- Even though they include one time revenues, projected balanced budgets for fiscal years 2022 and 2023
- Improved oil price environment and production expectations in Fall 2021 Revenue Sources Book
- Significant improvement in the funding ratios of PERS and TRS which actuarially is 85.5 and 92.5% respectively
- The large balance of the Constitutional Budget Reserve Fund allowed decisions on how to change how (and how much) the State spends, or how it generates revenue to be deferred for the last six years

## Long-term Rating Agency Concerns

- Comparatively large net pension liability
- Narrow economy that is relatively small
- Perception that the majority of operating revenues and the State's economy are primarily reliant on petroleum development
- Difficulty in building consensus for financial structure change



# Alaska's Most Pressing Credit Rating Challenge

From 2013-2021 Alaska spent more than it generated in available revenue (\$millions):

Fiscal Year	Historical General Purpose UGF Revenue	Permanent Fund POMV Transfer	Dividend Payment (from POMV Transfer) <sup>1</sup>	Recurring & Discretionary GF Expenditures <sup>2</sup>	Unrestricted Surplus / (Deficit)	CBRF 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	2,745	2,723	(1,023)	4,889	(444)	1,832	76,743	2,540
2020	1,628	2,933	(897)	4,805	(1,141)	1,983	75,610	(1,133)
2021	1,668	3,092	(680)	5,032	(952)	1,176*	TBD	TBD
2022	1,993	3,069	(409)	4,579	74	1,351*	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
- In FY2021, GF expenditures include a transfer to the SBRF of \$325 million

1. Represents a portion of the annual POMV ERA draw used for Permanent Fund Dividends.

2. For FY2021: Final Budget of \$4,706.3 million, and a transfer to the SBRF of \$325 million.

\* Estimated Fiscal Year 2021-2022 balances are a projection as of the Fall 2021 RSB, and carryforward and adjustments per 12/15/21 OMB fiscal summary.

'TBD' signifies an unreleased ACFR





## **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, 2020 and 2022, and no appropriation in 2021)
  - 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, 2021 (\$millions)

**TABLE 1.1**  
**State and State Agency Debt by Type at 6/30/21**  
\$ (millions)

	Principal Outstanding	Interest to Maturity	Service to Maturity
<b>State Debt</b>			
State of Alaska General Obligation Bonds	663.0	262.3	925.3
<b>State Guaranteed Debt</b>			
Alaska Housing Finance Corporation Collateralized Bonds (Veterans' Mortgage Program)	59.5	21.8	81.3
<b>State Supported Debt</b>			
Certificates of Participation	18.7	4.4	23.1
Lease Revenue Bonds with State Credit Pledge and Payment	172.1	55.1	227.2
<b>Total State Supported Debt</b>	190.8	59.5	250.3
<b>State Supported Municipal Debt<sup>1</sup></b>			
State Reimbursement of Municipal School Debt Service	561.0	133.3	694.3
State Reimbursement of capital projects	19.0	4.0	23.0
<b>Total State Supported Municipal Debt</b>	580.0	137.3	717.3
<b>Pension System Unfunded Actuarial Accrued Liability (UAAL)<sup>3</sup></b>			
Public Employees' Retirement System UAAL	4,613.0	N/A	4,613.0
Teachers' Retirement System UAAL	1,328.4	N/A	1,328.4
<b>Total UAAL</b>	5,941.4	N/A	5,941.4
<b>State Moral Obligation Debt</b>			
Alaska Municipal Bond Bank:			
2005 & 2016 General Resolution General Obligation Bonds	1,027.4	400.7	1,428.1
Alaska Energy Authority:			
Power Revenue Bonds #1 through #10	69.1	33.4	102.5
<b>Total State Moral Obligation Debt</b>	1,096.5	434.1	1,530.6
<b>State Revenue Debt</b>			
International Airports Revenue Bonds	319.4	117.9	437.3



# Total Debt in Alaska at June 30, 2021 (\$millions)

**TABLE 1.1**  
**State and State Agency Debt by Type at 6/30/21**  
\$ (millions)

	Principal Outstanding	Interest to Maturity	Service to Maturity
<b>University of Alaska Debt</b>			
University of Alaska Revenue Bonds	251.5	120.8	372.3
University Lease Liability and Notes Payable	14.2	3.8	18.0
<b>Total University of Alaska Debt</b>	<u>265.7</u>	<u>124.6</u>	<u>390.3</u>
<b>Total State Revenue and University Debt</b>	<u>585.1</u>	<u>242.5</u>	<u>827.6</u>
<b>State Agency Debt</b>			
Alaska Housing Finance Corporation:			
Commercial Paper	130.7	N/A	130.7
State Capital Project Bonds	10.4	0.4	10.8
State Capital Project Bonds II	1,160.9	219.2	1,380.1
Alaska Municipal Bond Bank Coastal Energy Loan Bonds	9.6	1.9	11.5
Alaska Railroad	49.5	3.8	53.3
Northern Tobacco Securitization Corporation			
2006 Tobacco Settlement Asset-Backed Bonds <sup>5</sup>	297.3	357.9	655.2
<b>Total State Agency Debt</b>	<u>1,658.4</u>	<u>583.2</u>	<u>2,241.6</u>
<b>State Agency Collateralized or Insured Debt</b>			
Alaska Housing Finance Corporation:			
Home Mortgage Revenue Bonds	478.0	208.5	686.5
General Mortgage Revenue Bonds II	497.4	193.9	691.3
Governmental Purpose Bonds	77.6	13.9	91.5
Alaska Industrial Development and Export Authority:			
Power Revenue Bonds, 2015 Series (Snettisham Hydro Project)	51.8	19.2	71.0
<b>Total State Agency Collateralized or Insured Debt</b>	<u>1,104.8</u>	<u>435.5</u>	<u>1,540.3</u>
<b>Total State and State Agency Debt</b>	<u>11,879.5</u>		

## NOTES

1. In the Enacted FY2022 Budget, School Debt was funded at 42% and Capital Project Reimbursements only included certain UofA reimbursements  
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 6/30/2020 actuarial valuation. See table 5.3 for a summary of the Retirement System's Funding Levels

4. 'Other G.O. Debt' includes information sourced from the Office of the State Assessor, and certain municipal ACFRs

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 other State Agencies





### 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
- 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
- The 2022 analysis determined that the State conservatively had a debt capacity of \$1,350 million
  - Adjustments made to base analysis to account for POMV split for PFDs vs state budget, special funding for PERS/TRS and future budget uncertainty



# Authorized Bonding Authority & Outstanding Obligations

- The State currently has no legally authorized but unissued general fund obligations
- As of June 30, 2021, the State had debt obligations secured and paid by the general fund of approximately \$663.0 million of general obligation bonds
  - \$18.7 million of Certificates of Participation
  - \$172.1 million of lease-revenue bond conduit issues of political subdivisions
- The State's liability under the SDRP was \$560.9 million
- Annual principal repayments over the next five years are:
  - GO bonds \$40 to \$50 million
  - Lease bonds \$14 to \$20 million
  - SDRP approximately \$60 million

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

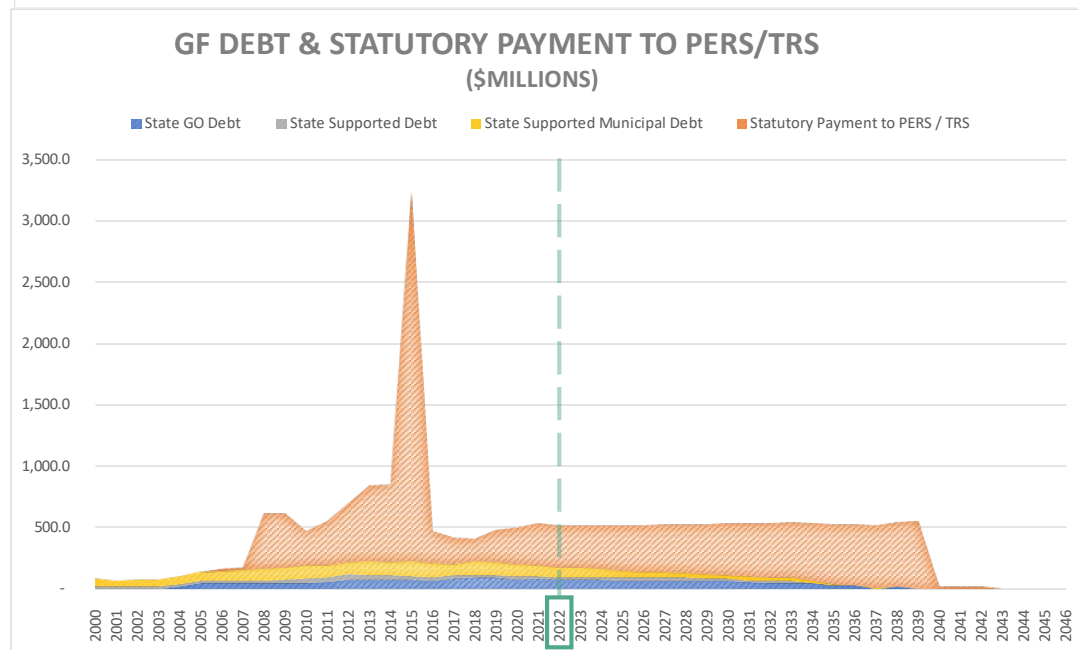
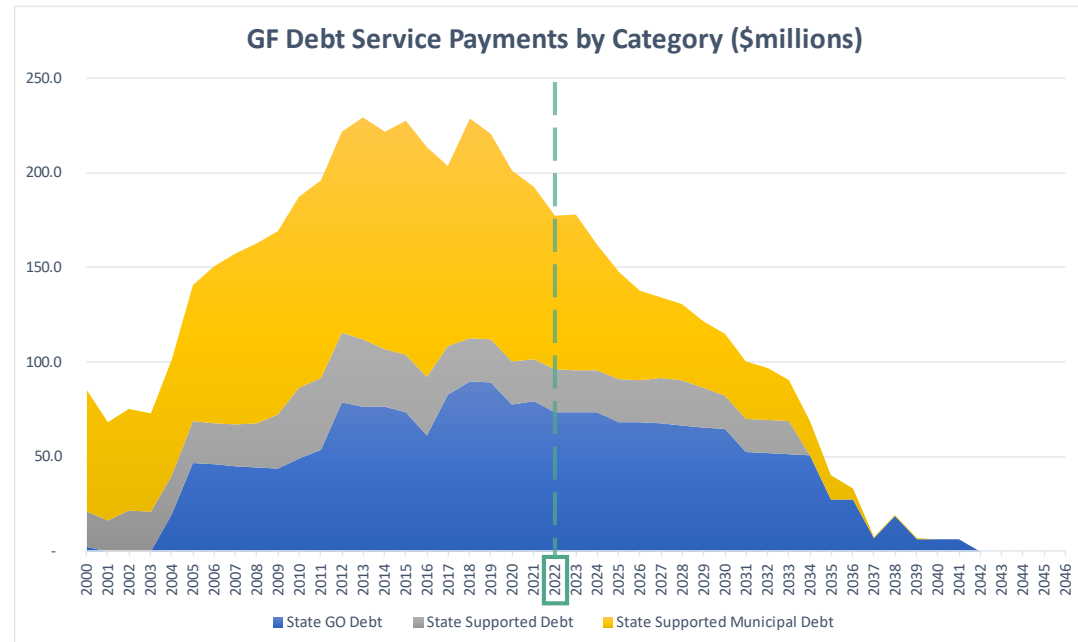
Fiscal Year	\$ (thousands)			Outstanding at 6/30
	Authorized	Authorization Issued	Remaining Authorization	
1996	-	-	-	39,101
1997	-	-	-	24,206
1998	-	-	-	10,891
1999	-	-	-	2,376
2000	-	-	-	-
2001	-	-	-	-
2002	-	-	-	-
2003	463,525	461,935	1,590	461,935
2004	-	-	-	461,935
2005	-	-	-	438,370
2006	-	-	-	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
2021	-	110,352	-	662,975
<b>Total*</b>	<b>\$ 1,479,224</b>	<b>\$ 1,472,592</b>		

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



# Current General Fund Annual Payment Obligation

- GF Payment peaked in 2018 at \$225.2 million
- FY2022 GF Debt service payments include approximately \$96.2 million in State GO and State Supported debt, and approximately \$35 million for State Supported municipal debt
- PERS/TRS special funding is many times all other state commitments





## 4. Questions

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