



State of Alaska

Credit Rating Outlook and Debt Summary

February 6, 2024



Introduction

Fadil Limani

Deputy Commissioner, DOR

- Appointed Deputy Commissioner of the DOR in January 2023
- North Slope Borough School District – CFO – 3 years
- North Slope Borough - Deputy Director of Finance – 7 years
- KPMG LLP – 5 years

Ryan Williams

Debt Manager, DOR

- Alaska Department of Revenue – 14 years
- Alaska Department of Revenue – State Debt Manager – 1 year
- Alaska Municipal Bond Bank Authority – Executive Director – 1 year



- **State's Bond Rating Overview**
- **Recent Bond Rating Meetings**
- **Credit Rating and Market Feedback**
- **Current Municipal Market Update**
- **State's Debt Profile**
- **State's Debt Capacity**

State's Bond Rating Overview

Bond Rating General Information

- A bond rating is a way to measure the creditworthiness of a bond, which corresponds to the cost of borrowing for an issuer. These ratings typically assign a letter grade to bonds that indicates their credit quality.
- Bond ratings are provided by third-party independent rating agencies such as:
 - Standard & Poor's Global Ratings
 - Moody's Investors Service
 - Fitch Ratings Inc.
 - Kroll Bond Rating Agency
- Rating Agencies conduct a thorough financial analysis of the issuer based on their published Public Finance Criteria that generally focus on different but similar primary credit factors
 - Government Framework
 - Financial Management
 - Economy
 - Budgetary Performance
 - Debt and Liability profile
- Bond ratings are critical to alerting investors to the quality and stability of the bonds and the issuer
 - Higher rated bonds “investment grade” provide lower risk and lower borrowing cost
 - Lower rated bonds “non-investment grade” provide for higher risk and higher borrowing cost

State's Bond Rating Overview

Importance of Credit Ratings to State of Alaska

- Cost of Borrowing on Capital Improvement Projects
- State Bond Rating Benefits and or Impacts the Alaska Municipal Bond Bank and underlying issuers
- Positive Bond Rating attract national and global investors to the State

State's Bond Rating Overview

Bond Rating Scale

Rating Description	Kroll Bond Rating	Moody's Investor Services	S&P Global Ratings	Fitch Ratings
Investment Grade – Top Level	AAA	Aaa	AAA	AAA
Investment Grade – Very High Quality	AA	Aa	AA	AA
Investment Grade – High Quality	A	A	A	A
Investment Grade – Good Quality	BBB	Baa	BBB	BBB
Speculative Quality	BB	Ba	BB	BB
High Speculative	B	B	B	B
Very High Risk	CCC	Caa	CCC	CCC
Close to Default	CC	Ca	CC	CC
In Default	C	C	C	C

State's Bond Rating Overview

State of Alaska Current and Historical Ratings

MOODY'S

Aa3
(Stable)

S&P Global
Ratings

AA-
(Positive)

FitchRatings

A+
(Stable)

KBRA KROLL BOND
RATING AGENCY

AA
(Stable)

State of Alaska Credit Rating History rating changes as of date shown

Moody's Investor Service		S&P Global Ratings		Fitch Ratings		Kroll Bond Rating Agency	
July 13, 1961	Baa	June 4, 1971	A	May 3, 1994	AA	July 20, 2023	AA
September 12, 1969	Baa1	January 23, 1975	A+	March 25, 2010	AA+		
August 29, 1974	A1	June 14, 1980	AA-	January 7, 2013	AAA		
June 13, 1980	Aa	August 5, 1992	AA	June 14, 2016	AA+		
November 26, 1998	Aa2	March 27, 2008	AA+	November 2, 2017	AA		
November 22, 2010	Aaa	January 5, 2012	AAA	September 5, 2019	AA-		
February 29, 2016	Aa1	January 5, 2016	AA+	May 6, 2020	A+		
July 25, 2016	Aa2	July 18, 2017	AA				
July 13, 2017	Aa3	April 17, 2020	AA-				

- April 22, 2021: Outlook revised from Negative to Stable by Moody's Investors Service
- May 4, 2021: Outlook revised from Negative to Stable by Standard & Poor's
- March 21, 2022: Outlook revised from Stable to Positive by Standard & Poor's
- April 12, 2022: Outlook revised from Negative to Stable by Fitch Ratings
- July 20, 2023: Kroll initiated on State of Alaska GO debt at 'AA,' with Stable Outlook

State's Bond Rating Overview

State of Alaska Compared to Other States

MOODY'S

Aa3
(Stable)

S&P Global
Ratings

AA-
(Positive)

FitchRatings

A+
(Stable)

KBRA KROLL BOND
RATING AGENCY

AA
(Stable)

Alabama Aa1/AA/AA+
Alaska Aa3/AA-/A+/AA
(Sta/Pos/Sta/Sta)
Arizona* Aa1/AA/NR
Arkansas Aa1/AA/NR
California Aa2/AA-/AA
Colorado* Aa1/AA/NR
Connecticut Aa3/A/AA-
Delaware Aaa/AAA/AAA
Florida Aaa/AAA/AAA
Georgia Aaa/AAA/AAA
Hawaii Aa2/AA+/AA
Idaho* Aaa/AA+/AAA
Illinois A3/A-/A-
Indiana* Aaa/AAA/AAA
Iowa* Aaa/AAA/AAA
Kansas* Aa2/AA-/NR

Kentucky* Aa3/A+/AA
Louisiana Aa2/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 A1/A/A+
New Mexico Aa2/AA/NR
New York Aa2/AA+/AA+
North Carolina Aaa/AAA/AAA

North Dakota* Aa1/AA+/NR
Ohio Aaa/AAA/AAA
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+
West Virginia Aa2/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: Wikipedia combining multiple reports from separate agencies, may not include recent activity on State Ratings from individual rating agencies

Bond Rating Upgrade

JUSTIFICATION

- Very Strong Financial Position
 - Ample Reserves: Constitutional Budget Reserve Fund (CBRF) \$2.7 billion, Perm Fund Balance \$76 billion
- Low Debt Load and No New Authorization
 - Well Funded Pension Obligations
- Fiscal Discipline and Budget Management
 - Budget Surplus for main operating fund
- Ample Oil and Gas Natural Resources
 - Estimated to have 52 billion barrels of technically recoverable oil and over 300 trillion cubic feet of undiscovered, technically-recoverable natural gas, plus heavy and viscous oil and shale oil and gas
 - Large Mineral Deposits
 - 12% of the world's coal
 - 33.5% of the world's zinc
 - 3.5 % of the world's gold
 - 2.0% of the world's lead
 - 1.8% of the world's silver and copper

Recent Bond Rating Meetings-Continued

Bond Rating Upgrade

JUSTIFICATION

- Prominent Resource Development Projects on the Horizon
 - Willow Development Project – \$10 billion investment with projected revenues of \$6.3 billion to the State and more than \$5 billion to local municipality and impacted communities
 - Pikka Development Project - \$4.6 billion in operating expenditures and \$4.3 billion in capital expenditures
 - Alaska Liquefied Natural Gas (LNG) Project - \$41 billion initial investment, billions of dollars in projected State revenues
 - Letters of intent currently in place for front-end development capital
- Other Economic Development Prospects
 - Carbon Credits and Carbon Capture, Utilization, and Storage (CCUS)
 - Alternative Energy Transition Projects Estimated Capital Outlay \$105-\$175 billion
 - Grid Resilience and Innovation Project (GRIP) \$206 million Grant from US Department of Energy
- Commitment towards a sustainable and long-term comprehensive Fiscal Plan
- Diversification of State Revenues
 - Only 24.7% of revenues is based on oil and gas
 - 15.1% of revenues is based on diverse world-wide income

Credit Rating and Market Feedback

Initial Rating Agency Feedback

- The transfer from the Permanent Fund has been defined through a Percent of Market Value statutory structure and has been in place since FY2019
- Recent budgetary surplus and deposits to state savings accounts, including the Constitutional Budget Reserve Fund
- Significant reduction in state general fund spending since 2013
- Improved oil price environment and significant available natural resources under development
- Well Funded Pension Obligations including low debt service outstanding
- Improved Alaska's Economic Demographics

Market Feedback on Recent Transaction

- Institutional investors “love” Alaskan paper, very high-quality credit, highly secured
- More frequency in the market and larger bond issuances

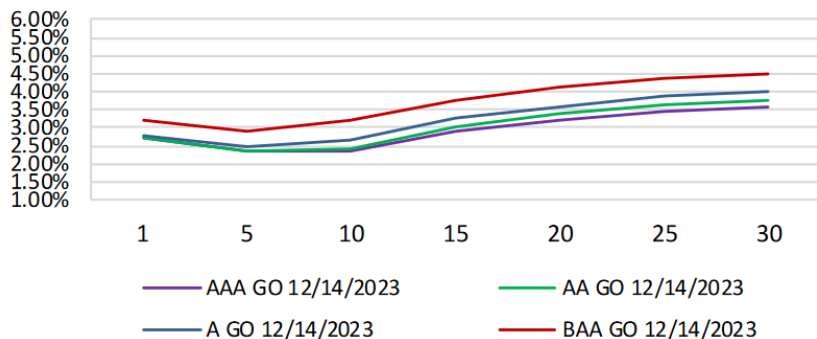
Current Municipal Market Update

MUNICIPAL MARKET TRENDS

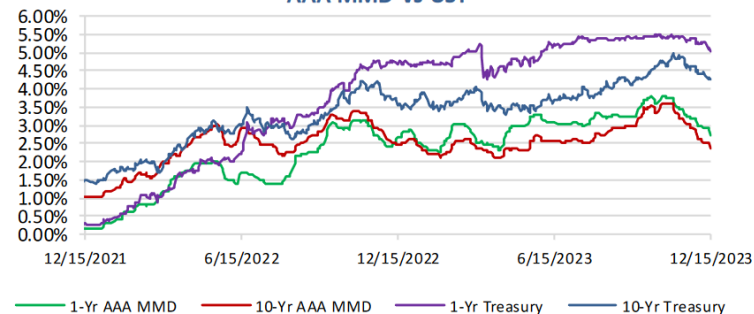
Market Movement

	12/14/2023	12/7-12/14	11/14-12/14	12/31-11/14
	Current	Change Over the Past Week	Change Over the Past Month	Change YTD
5-year UST	3.90%	-24 bps	-54 bps	-12 bps
10-year UST	3.92%	-23 bps	-53 bps	-52 bps
30-year UST	4.04%	-21 bps	-58 bps	66 bps
5-year MMD	2.33%	-14 bps	-67 bps	7 bps
10-year MMD	2.36%	-14 bps	-74 bps	-27 bps
30-year MMD	3.57%	-14 bps	-55 bps	1 bp
5-year MMD / UST	59.74%	-64.36%	-59.63%	-62.55%
10-year MMD / UST	60.20%	-63.73%	-58.06%	-59.19%
30-year MMD / UST	88.37%	-22.86%	-21.20%	-20.11%

MMD Yield Curves



AAA MMD vs UST



*Update from Acacia Financial Group, Inc. as of December 15, 2023

Authorization 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 (SDRP) or HB 528 reimbursement, administered by the Department of Education and the Department of Transportation, respectively
 - SDRP: Not currently authorized for new debt and periodically funded (was most recently partially funded in 2017, 2020 and 2022, and no appropriation in 2021; however, supplemental budget appropriations offset prior year reductions)
 - 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 ACFR
 - Some flexibility in how payments are made

Types of Alaska Public Debt

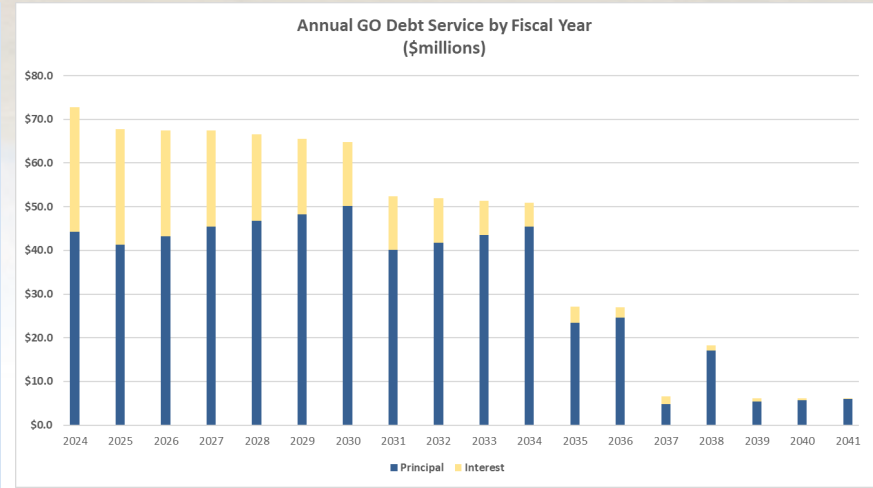
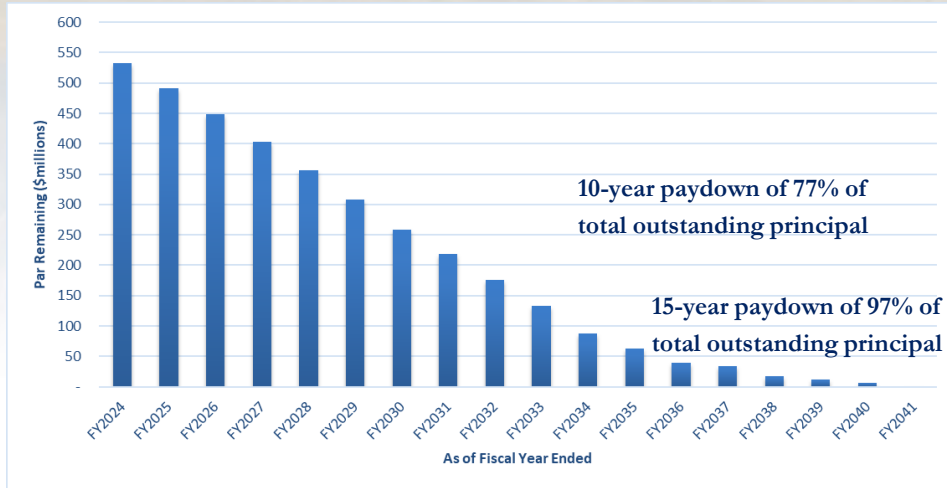
- State Debt
- State Guaranteed Debt
- State Supported Debt
- Unfunded Actuarial Accrued Liability (UAAL)
- State Supported Municipal Debt - Eligible for State Reimbursement
- State Moral Obligation Debt
- State and University Revenue Debt
- State Agency Debt
- State Agency Collateralized or Insured Debt
- Municipal Debt

State's Debt Profile

Outstanding Debt as of June 30, 2023

Type of Debt Obligation	Par Remaining	Int. Remaining	Year of Final Maturity (FY)	FY 2024 UGF Payment	Total Debt Service to Maturity
General Obligation	\$577,240,000	\$198,916,000	2041	\$72,719,000	\$776,156,000
Subject to Appropriation (COPs/Lease Revenue)	\$163,970,000	\$41,650,000	2033	\$22,353,000	\$205,620,000
Total	\$741,210,000	\$240,566,000		\$95,072,000	\$981,776,000

Total General Obligation Debt Currently Outstanding as of June 30*



State's Debt Profile

Outstanding Debt as of June 30, 2023 -By Type

TABLE 1.1
State and State Agency Debt by Type at 6/30/23
 \$ (millions)

	Principal Outstanding	Interest to Maturity	Total Debt Service to Maturity
State Debt			
State of Alaska General Obligation Bonds	577.2	198.9	776.1
State Guaranteed Debt			
Alaska Housing Finance Corporation Collateralized Bonds (Veterans' Mortgage Program)	41.3	11.5	52.8
State Supported Debt			
Certificates of Participation	14.7	2.7	17.4
Lease Revenue Bonds with State Credit Pledge and Payment	149.3	39.0	188.3
Total State Supported Debt	164.0	41.7	205.7
State Supported Municipal Debt			
State Reimbursement of Municipal School Debt Service	433.6	77.0	510.6
State Reimbursement of capital projects	13.6	3.4	17.0
Total State Supported Municipal Debt	447.2	80.4	527.6
Pension System Unfunded Actuarial Accrued Liability (UAAL)¹			
Public Employees' Retirement System UAAL	2,810.0	N/A	2,810.0
Teachers' Retirement System UAAL	710.0	N/A	710.0
Total UAAL	3,520.0	N/A	3,520.0
State Moral Obligation Debt			
Alaska Municipal Bond Bank:			
2005 & 2016 General Resolution General Obligation Bonds	1,016.7	420.5	1,437.2
Alaska Energy Authority:			
Power Revenue Bonds #1 through #11	204.0	193.5	397.5
Total State Moral Obligation Debt	1,220.7	614.0	1,834.7
State Revenue Debt			
International Airports Revenue Bonds	237.7	85.6	323.3

NOTES

1. From most recent 6/30/2022 actuarial valuation. See table 5.3 for a detailed summary of the Retirement System's Funding Levels.

2. "Interest to Maturity" and "Total Debt Service to Maturity" includes accreted interest due at maturity of \$335.7 million

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

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

State's Debt Profile

Outstanding Debt as of June 30, 2023 - By Type

University of Alaska Debt			
University of Alaska Revenue Bonds	229.1	100.3	329.4
University Lease Liability and Notes Payable	12.3	2.7	15.0
Total University of Alaska Debt	241.4	103.0	344.4
Total State Revenue and University Debt	479.1	188.6	667.7
State Agency Debt			
Alaska Housing Finance Corporation:			
Commercial Paper	129.6	N/A	129.6
State Capital Project Bonds II	1,117.7	529.8	1,647.5
Alaska Municipal Bond Bank Coastal Energy Loan Bonds	9.3	1.4	10.7
Alaska Railroad	17.3	0.4	17.7
Northern Tobacco Securitization Corporation			
2021 Tobacco Settlement Asset-Backed Bonds ²	260.9	444.2	705.1
Total State Agency Debt	1,534.8	975.8	2,510.6
State Agency Collateralized or Insured Debt			
Alaska Housing Finance Corporation:			
Home Mortgage Revenue Bonds	445.9	171.4	617.3
General Mortgage Revenue Bonds II	598.5	256.7	855.2
Governmental Purpose Bonds	63.6	10.3	73.9
Total State Agency Collateralized or Insured Debt	1,108.0	438.4	1,546.4
Total State and State Agency Debt	9,092.3		

NOTES

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2. "Interest to Maturity" and "Total Debt Service to Maturity" includes accreted interest due at maturity of \$335.7 million

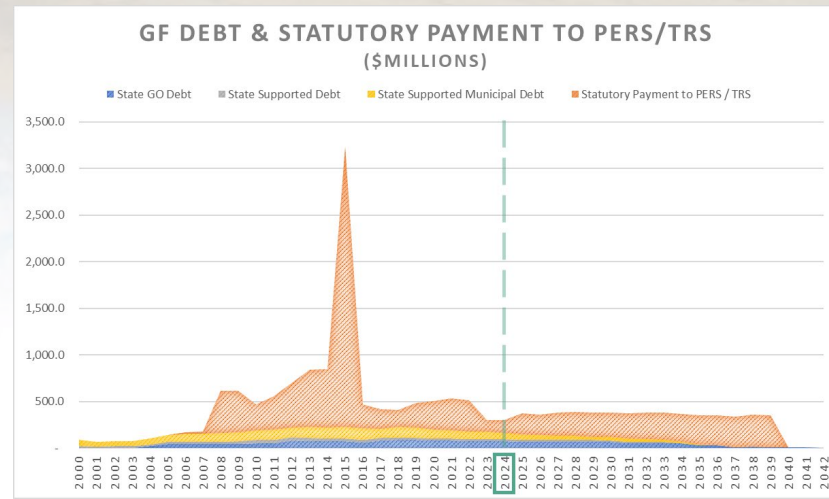
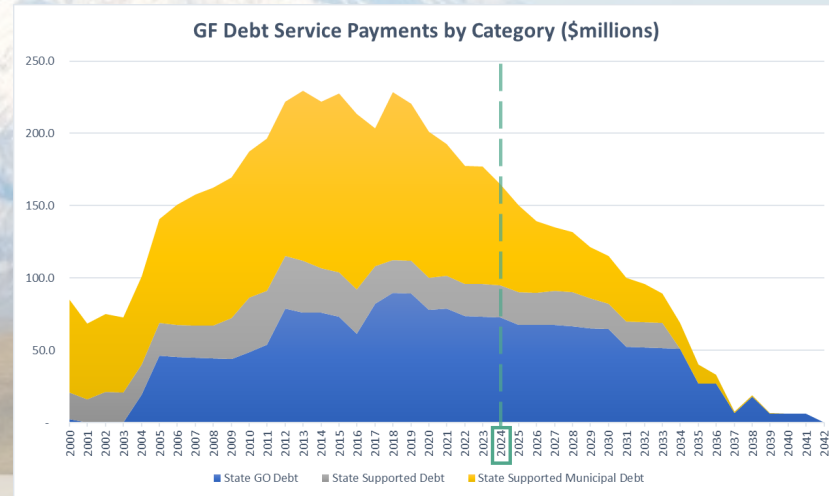
3. 'Other G.O. Debt' includes information sourced from the Office of the State Assessor, and certain municipal ACFRs

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

State's Debt Profile

Historical and Future Debt Service

- General Fund (GF) Payment peaked in 2018 at approximately \$229 million
- FY2023 GF Debt service payments include approximately \$95.9 million in State General Obligation (GO) and State Supported debt, and approximately \$81.2 million for State Supported municipal debt
- \$776.1 million in remaining debt service to maturity of outstanding GO debt (principal + interest)



State's Debt Capacity

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 2023-2024 analysis determined that the State had a debt capacity of \$1,400 million
 - Adjustments made to base analysis to account for recognition of a percent of market value split for PFDs vs state budget, special funding for PERS/TRS and future budget uncertainty and volatility in the State's revenue sources

Questions?

Contact:

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Ryan.Williams@alaska.gov**