



# **Credit Review & State Debt Summary**

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**House Finance Committee**  
**February 7, 2023**

# Introduction

## Fadil Limani

Deputy Commissioner, DOR

- Appointed Deputy Commissioner of the DOR in January 2023
- North Slope Borough School District – CFO – 3 Years
- AAA Financial and Business Consulting Services – 3 Years
- North Slope Borough - Deputy Director of Finance – 7 Years
- KPMG LLP-Senior Audit Associate – 5 Years

## Ryan Williams

Debt Manager, DOR

- Alaska Department of Revenue – 13 Years
- Alaska Department of Revenue – State Debt Manager
- Alaska Municipal Bond Bank Authority – Executive Director



# Agenda

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## 1. State Bond Rating Overview

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# 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
  - Moody's Investors Service
  - Fitch Ratings Inc.
- Rating Agencies conduct a thorough financial analysis of the issuer based on their published Public Finance Criteria that generally focus on five primary credit factors
  - Government Framework
  - Financial Management
  - Economy
  - Budgetary Performance
  - Debt and liability profile

- Credit Rating Scale

	Investment Grade				Non-Investment Grade			
Standard & Poor's	AAA	AA	A	BBB	BB	B	CCC	CC/C/D
Moody's Investors Service	Aaa	Aa	A	Baa	Ba	B	Caa	Ca/C
Fitch Ratings	AAA	AA	A	BBB	BB	B	CCC	RD/D

- Bond ratings are critical to altering 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 OF ALASKA RATINGS

**MOODY's**

Aa3 (Stable)

**S&P Global**  
Ratings

AA- (Positive)

**Fitch**Ratings

A+ (Stable)

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## State of Alaska Credit Rating History ratings as of date shown

Moody's Investor Service		S&P Global Ratings		Fitch Ratings	
July 13, 1961	Baa	June 4, 1971	A	May 3, 1994	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-		

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- 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



# STATE OF ALASKA AND OTHER 49 STATES' RATINGS

MOODY's

Aa3 (Stable)

S&P Global  
Ratings

AA- (Positive)

FitchRatings

A+ (Stable)

Alabama Aa1/AA/AA+

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

Arizona\* Aa1/AA/NR

Arkansas Aa1/AA/NR

California Aa2/AA-/AA

Colorado\* Aa1/AA/NR

Connecticut Aa3/AA-/AA-

Delaware Aaa/AAA/AAA

Florida Aaa/AAA/AAA

Georgia Aaa/AAA/AAA

Hawaii Aa2/AA+/AA

Idaho\* Aaa/AA+/AAA

Illinois Baa1/BBB+/BBB+

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 Aaa/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 A2/A-/A

New Mexico Aa2/AA/NR

New York Aa1/AA+/AA+

North Carolina Aaa/AAA/AAA

North Dakota\* Aa1/AA+/NR

Ohio Aa1/AA+/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: Moody's Investors Service, Standard & Poor's, and Fitch Ratings



# LONG TERM CHALLENGES REMAIN, BUT IMPROVEMENT IN FY2022

## Rating Agency Challenge /Concerns

- Structurally balanced budget and the reliance of the Alaska Permanent Fund Earnings Reserve
  - How to manage the State's budget into the future
  - Addressing high inflation and rising interest rate environment
- Large net pension liability in relation to GDP
- Concentrated Economy and Tax Base-Primarily reliant on Oil and Gas development

## Improvements since 2015

- Significant reduction in state general fund spending since 2013
- Budgetary surplus in FY2022 and a deposit to the Constitutional Budget Reserve
- The transfer from the Permanent Fund has been defined through a Percent of Market Value statutory structure
- Improved oil price environment and significant available natural resources under development
- Improvement in the funding ratios of PERS and TRS, on an actuarial basis, of 87.7% and 93.1%, respectively (FY2022, unaudited)
- Modest debt levels and accelerated principal paydown of outstanding GO debt

## Goal Moving Forward

- Aligning our rating presentation and related information to mere the rating evaluation criteria framework
- Looking at a possibility of engaging an up and coming rating agency that does a more through review and analysis on unique credits





## 2. Current Market Update

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# Current Municipal Market Update

## MARKET COMMENTARY

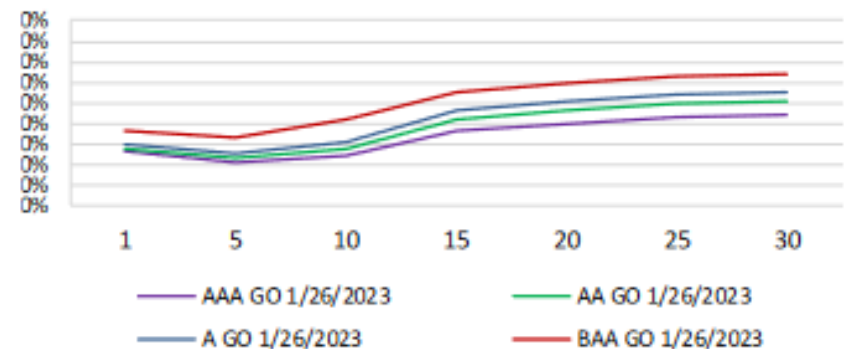
- From January 19<sup>th</sup> to January 26<sup>th</sup>, the 5Y and 10Y AAA MMD decreased 2 basis points, while the 30Y increased 4 basis points.
- US Treasuries increased 6 to 11 basis points across the curve over the same timeframe.
- MMD/UST ratios for the 5Y, 10Y and 30Y finished at approximately 57%, 63% and 88%, respectively.
- For the week ending January 25<sup>th</sup>, municipal bond funds experienced inflows of \$1.28 billion after experiencing inflows of \$1.51 billion the week prior.
- The new issue calendar for next week shows very light supply of approximately \$800 million in total par, composed of \$650 million in negotiated deals and \$150 million in competitive sales.

### MUNICIPAL MARKET TRENDS

#### Market Movement

	1/26/2023	1/19-1/26	12/23-1/26	12/30-1/26
	Current	Change Over the Last Week	Change Over the Past Month	Change YTD
5-year UST	3.59%	11 bps	-27 bps	-43 bps
10-year UST	3.49%	9 bps	-26 bps	-39 bps
30-year UST	3.63%	6 bps	-19 bps	-33 bps
5-year MMD	2.05%	-2 bps	-43 bps	-47 bps
10-year MMD	2.19%	-2 bps	-35 bps	-44 bps
30-year MMD	3.18%	4 bps	-31 bps	-40 bps
5-year MMD / UST	57.10%	-4.00%	-11.12%	-8.91%
10-year MMD / UST	62.75%	-3.46%	-7.36%	-7.42%
30-year MMD / UST	87.60%	-0.40%	-4.11%	-3.10%

#### MMD Yield Curves





### 3. State's Current Debt Refunding

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# State Debt - Recent Refunding Transaction

## G.O. refunding transaction: 2012A and 2013B Bonds

### Summary of refunding activity from pricing:

- The 2012A Bonds are subject to optional redemption (~\$7.4 million, 8/1/2023 maturity)
- The 2013B Bonds are subject to optional redemption (~\$50.2 million, 8/1/2023 – 8/1/2025 maturities)
- GO Refunding pricing analysis: \$1.7 million in NPV savings or approximately 3.04%
- The refunding transaction reduces debt service associated with these bond series in every year through 8/1/2025 and the final maturity date remains intact

State of Alaska  
General Obligation Refunding Bonds  
Series 2023A

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Priced on 1/30/2023  
\*Final Verified Cash Flows\*

Date	Prior Debt Service	Refunding Debt Service	Savings	Annual Savings	Present Value to 02/07/2023 @ 2.3992166%
08/01/2023	22,820,050.00	22,240,916.67	579,133.33		572,495.87
02/01/2024	899,075.00	875,250.00	23,825.00		23,272.76
06/30/2024				602,958.33	
08/01/2024	18,529,075.00	17,935,250.00	593,825.00		573,184.73
02/01/2025	461,475.00	448,750.00	12,725.00		12,137.10
06/30/2025				606,550.00	
08/01/2025	19,001,475.00	18,398,750.00	602,725.00		568,064.53
06/30/2026				602,725.00	
	61,711,150.00	59,898,916.67	1,812,233.33	1,812,233.33	1,749,154.99

#### Savings Summary

PV of savings from cash flow	1,749,154.99
Plus: Refunding funds on hand	3,074.99
Net PV Savings	1,752,229.98





## **4. 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 (“SDRP”) or HB 528 reimbursement
      - 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, FY2023 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

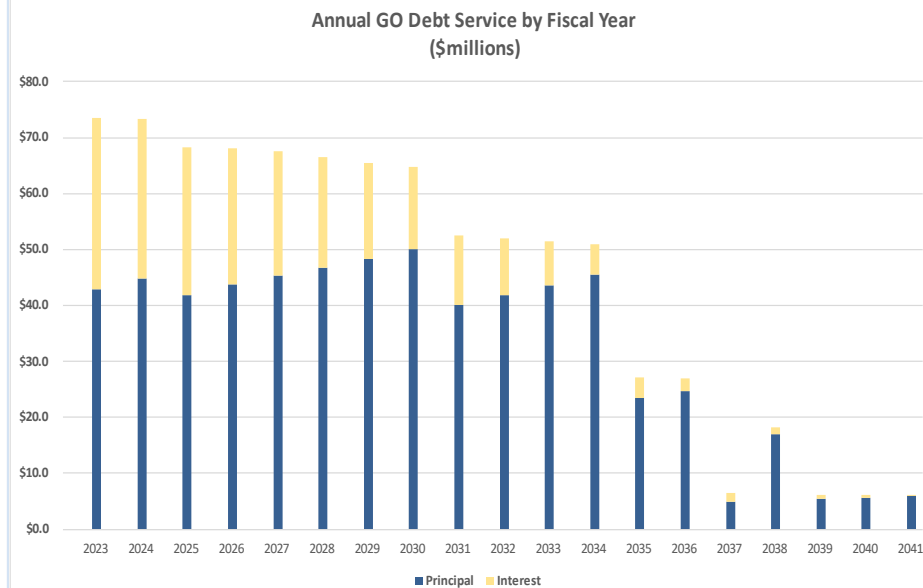
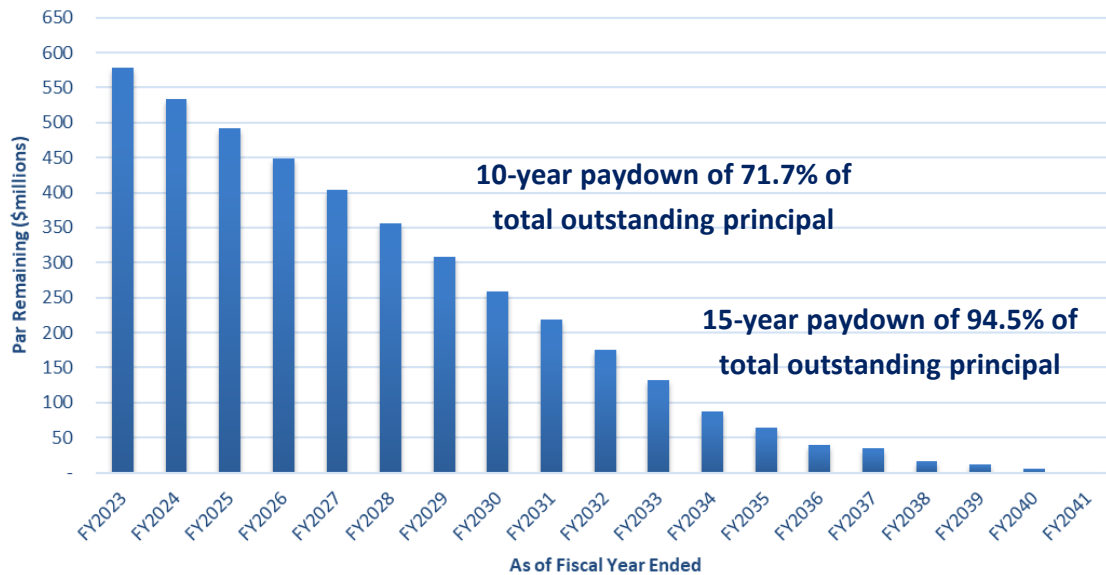


# State GO, COP, Lease Revenue and SDRP

As of June 30, 2022

Type of Debt Obligation	Par Remaining	Int. Remaining	Year of Final Maturity (FY)	FY 2023 UGF Payment	Total Debt Service to Maturity
General Obligation	\$621,875,000	\$229,630,000	2041	\$73,538,000	\$851,505,000
Subject to Appropriation (COPs/Lease Revenue)	\$177,695,000	\$50,287,000	2033	\$22,362,000	\$227,982,000
<b>Total</b>	<b>\$799,570,000</b>	<b>\$279,917,000</b>		<b>\$95,900,000</b>	<b>\$1,079,487,000</b>

Total General Obligation Debt Currently Outstanding as of June 30\*



# Total Debt in Alaska as of June 30, 2022 (\$millions)

**TABLE 1.1**  
**State and State Agency Debt by Type at 6/30/22**  
\$ (millions)

	Principal Outstanding	Interest to Maturity	Total Debt Service to Maturity
<b>State Debt</b>			
State of Alaska General Obligation Bonds	621.9	229.6	851.5
<b>State Guaranteed Debt</b>			
Alaska Housing Finance Corporation Collateralized Bonds (Veterans' Mortgage Program)	46.0	14.3	60.3
<b>State Supported Debt</b>			
Certificates of Participation	16.7	3.5	20.2
Lease Revenue Bonds with State Credit Pledge and Payment	161.0	46.8	207.8
<b>Total State Supported Debt</b>	177.7	50.3	228.0
<b>State Supported Municipal Debt</b>			
State Reimbursement of Municipal School Debt Service	440.2	66.5	506.7
State Reimbursement of capital projects	16.8	3.8	20.6
<b>Total State Supported Municipal Debt</b>	457.0	70.3	527.3
<b>Pension System Unfunded Actuarial Accrued Liability (UAAL)<sup>1</sup></b>			
Public Employees' Retirement System UAAL	3,228.0	N/A	3,228.0
Teachers' Retirement System UAAL	733.0	N/A	733.0
<b>Total UAAL</b>	3,961.0	N/A	3,961.0
<b>State Moral Obligation Debt</b>			
Alaska Municipal Bond Bank:			
2005 & 2016 General Resolution General Obligation Bonds	993.1	387.3	1,380.4
Alaska Energy Authority:			
Power Revenue Bonds #1 through #10	45.9	26.7	72.6
<b>Total State Moral Obligation Debt</b>	1,039.0	414.0	1,453.0
<b>State Revenue Debt</b>			
International Airports Revenue Bonds	243.8	97.3	341.1

1. From most recent 6/30/2021 actuarial valuation. See table 5.3 for a 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, ALAS, and other State Agencies



# Total Debt in Alaska as of June 30, 2022 (\$millions)

## University of Alaska Debt

University of Alaska Revenue Bonds	240.5	110.3	350.8
University Lease Liability and Notes Payable	13.3	3.2	16.5
<b>Total University of Alaska Debt</b>	<b>253.8</b>	<b>113.5</b>	<b>367.3</b>
<b>Total State Revenue and University Debt</b>	<b>497.6</b>	<b>210.8</b>	<b>708.4</b>

## State Agency Debt

### Alaska Housing Finance Corporation:

Commercial Paper	149.8	N/A	149.8
State Capital Project Bonds I	3.5	0.0	3.5
State Capital Project Bonds II	1,068.7	362.0	1,430.7
Alaska Municipal Bond Bank Coastal Energy Loan Bonds	9.5	1.6	11.1
Alaska Railroad	33.8	1.7	35.5
Northern Tobacco Securitization Corporation			
2021 Tobacco Settlement Asset-Backed Bonds <sup>2</sup>	272.6	458.7	731.3
<b>Total State Agency Debt</b>	<b>1,537.9</b>	<b>824.0</b>	<b>2,361.9</b>

## State Agency Collateralized or Insured Debt

### Alaska Housing Finance Corporation:

Home Mortgage Revenue Bonds	462.5	190.3	652.8
General Mortgage Revenue Bonds II	542.3	203.5	745.8
Governmental Purpose Bonds	70.8	11.3	82.1

### Alaska Industrial Development and Export Authority:

Power Revenue Bonds, 2015 Series (Snnettisham Hydro Project)	48.8	16.7	65.5
<b>Total State Agency Collateralized or Insured Debt</b>	<b>1,124.4</b>	<b>421.8</b>	<b>1,546.2</b>
<b>Total State and State Agency Debt</b>	<b>9,462.5</b>		

1. From most recent 6/30/2021 actuarial valuation. See table 5.3 for a 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





## 5. 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 2023 analysis determined that the State conservatively had a debt capacity of \$1,650 million <sup>(1)</sup>
  - Adjustments made to base analysis to account for recognition of a POMV split for PFDs vs state budget, special funding for PERS/TRS and future budget uncertainty and volatility in the State's revenue sources

1) The respective Debt Capacity includes the scheduled debt service for FY2023.



# Authorized Bonding Authority & Outstanding Obligations

## General Obligation Bonds Authorized, Issued, and Outstanding Since 1996 \$ (thousands)

- The State currently has no legally authorized but unissued general fund obligations
- As of June 30, 2022, the State had debt obligations secured and paid by the general fund of approximately \$622.0 million of general obligation bonds
  - \$16.7 million of Certificates of Participation
  - \$161.0 million of lease-revenue bond conduit issues of political subdivisions
- The State's liability under the SDRP was \$440.2 million
- Annual principal repayments over the next five years are:
  - GO bonds \$40 to \$50 million
  - Lease bonds \$17 to \$24 million

Fiscal Year	Authorized	Authorization Issued	Remaining Authorization	Outstanding at 6/30
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
2022	-	-	-	621,875
<b>Total*</b>	<b>\$ 1,629,274</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

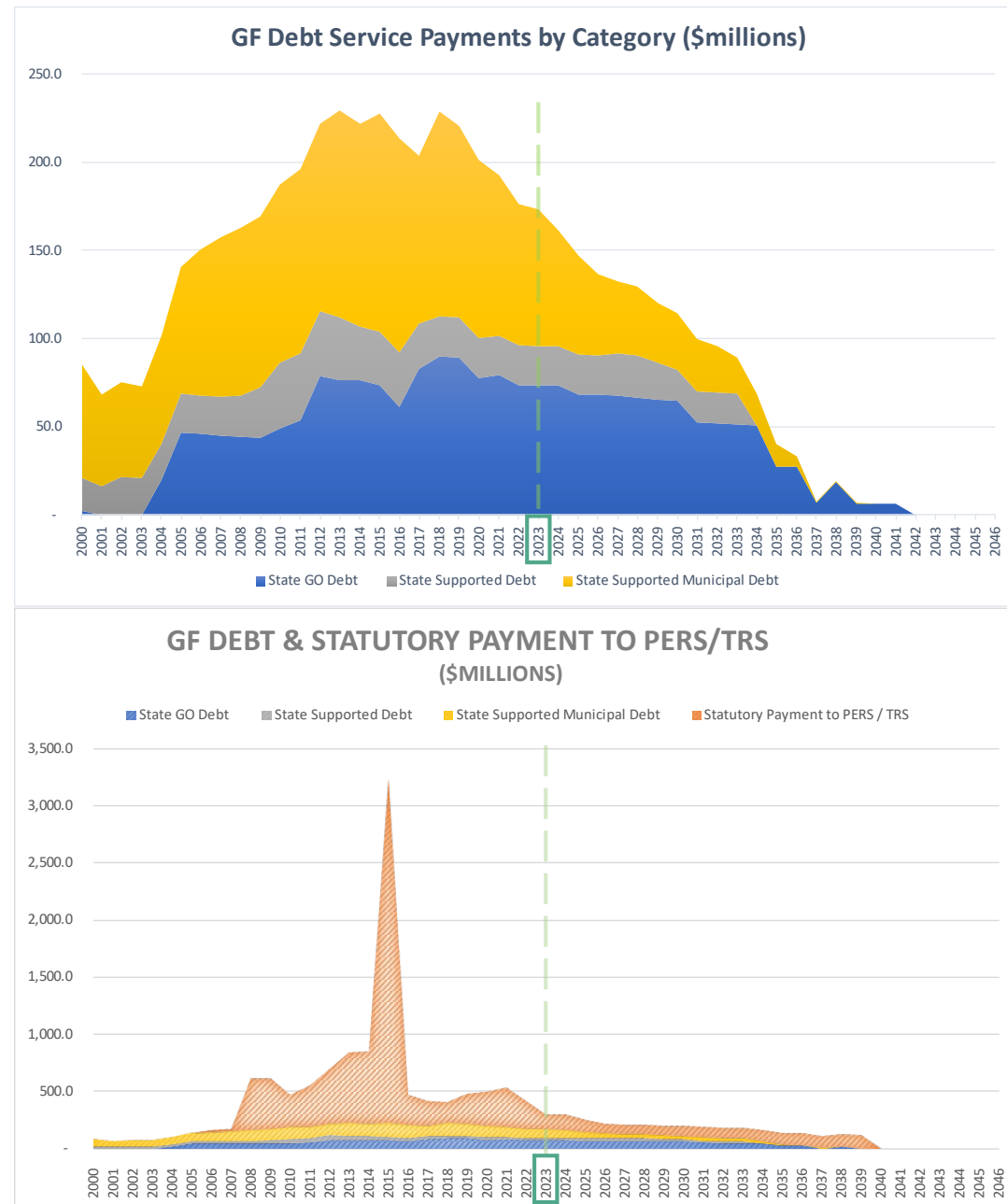
\*\*During Fiscal Year 2021, the State issued GO Bonds (approx. \$110.3 million total funding) for the remaining authorization under the 2012 Transportation Bond Act

Source: Department of Revenue Bond Documents



# Current General Fund Annual Payment Obligation

- GF Payment peaked in 2018 at approximately \$229 million
- FY2023 GF Debt service payments include approximately \$95.9 million in State GO and State Supported debt, and approximately \$81.2 million for State Supported municipal debt
- \$851.5 million in remaining debt service to maturity of outstanding GO debt<sup>(1)</sup>



1) The State conducted a GO Refunding transaction for a portion of outstanding bonds, expected to close 2/7/2023, which reduces debt service in every fiscal year through 2026





## 6. Questions

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