

SENATE FINANCE COMMITTEE  
February 1, 2023  
9:00 a.m.

[9:00:57 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:00 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair  
Senator Donny Olson, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Click Bishop  
Senator Jesse Kiehl  
Senator Kelly Merrick  
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Neil Steininger, Director, Office of Management and Budget, Office of the Governor; Kate Sheehan, Director, Division of Personnel and Labor Relations, Department of Administration; Fadil Limani, Deputy Commissioner, Department of Revenue; Ryan Williams, Debt Manager, Department of Revenue.

SUMMARY

PRESENTATION: ADMINISTRATION RESPONSE TO PRIOR MEETINGS - OFFICE OF MANAGEMENT & BUDGET

PRESENTATION: STATE DEBT SUMMARY and CREDIT REVIEW

[9:01:27 AM](#)

Co-Chair Stedman explained that the committee would hear a continuation of the previous days' presentation by Office of Management and Budget (OMB) Director Neil Steininger. He explained that Mr. Steininger would review questions that

the committee had asked in a previous meeting. After the OMB presentation, the committee would consider information on state debt.

^PRESENTATION: ADMINISTRATION RESPONSE TO PRIOR MEETINGS - OFFICE OF MANAGEMENT & BUDGET

9:02:25 AM

NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, resumed a presentation from the previous day. He addressed a presentation entitled "State of Alaska Office of Management and Budget - Follow Up to January 24 Hearing," (copy on file). He addressed slide 1, "Question 1":

Senators Stedman and Bishop asked about pension and healthcare funding.

The Defined Benefit Pension funding ratio is 78.2% for the Teacher Retirement System (TRS) and 68.1% for the Public Employee Retirement System (PERS), and the Defined Benefit Health Care ratio is 140.7% for TRS and 134.9% for PERS. The Alaska Retirement Management Board decision to forego the health care normal cost contribution results in FY24 savings of \$79.3 million. Attached FY2019 to 2022 PERS TRS funded ratios document provides additional information (attachment 1). Please also see the FY 2024 PERS TRS Savings document for additional information (attachment 2 and 2b).

Mr. Steininger relayed that the slides corresponded to a letter to the committee addressing member's questions from January 31, 2023 (copy on file). He relayed that the first question asked about pension and healthcare funding, funded ratios, as well as the change in contribution as a result of the Alaska Retirement Management (ARM) Board decision relating to the healthcare side of the contribution. He explained that the pension systems were broken into two systems, the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). He explained that PERS covered the vast majority of state employees as well as municipal and city employees, while TRS covered teachers and school districts. Both of the systems were managed separately with separate funding ratios. The funding ratios represented the amount of money that was currently in the

pension account as compared to the actuarially-determined amount that should be present to consider the account fully funded.

Mr. Steininger cited that TRS was currently funded at 78.2 percent for the pension portion of the fund. The PERS system was funded at 68.1 percent for the pension portion, which covered benefits paid to retirees as an income replacement. He addressed the healthcare portion of the two pension systems, which covered retiree healthcare. He cited that the TRS healthcare portion was funded at 140.7 percent, which meant there was significantly more money in the account than was required to make payments for retiree healthcare.

Mr. Steininger continued that in the PERS system, healthcare was funded at 134.9 percent. As a result of the funded ratios indicating there was no additional contributions and more money than necessary, the Alaska Retirement Management (ARM) Board had decided to forego the healthcare "normal" cost, which was the base level cost before additional contributions might be needed. As a result of the decision, there was a savings of \$79.3 million in the FY 24 budget. He noted that the following three slides had attachments with more detail from the actuaries' reports.

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Senator Kiehl appreciated Mr. Steininger's response, and he had questions about the recommendation to forego the normal cost. He considered that the normal cost was the amount the state needed to put in in a given year to pre-fund the benefits earned in the year. He noted there were statutes that required payment of the normal cost, with no exceptions for overfunding. He thought there were other options available to the ARM Board, such as getting into safer investments or reducing the return expectation. He asked Mr. Steininger to explain the financial thinking behind not making a statutorily required contribution.

Mr. Steininger qualified that he did not want to speak for the ARM Board, as he was not a member. He mentioned that the decision to forego the health care normal cost contribution was made by the board after consideration of information from the actuaries and projection of the funded ratio on the health side. He furthered that continuing to

make the normal contribution would result in the funded ratio continuing to go up. He noted that once money was placed into the health portion of the retirement trust, it was very challenging to move it out of that side. He asserted that the additional funds did not benefit retirees and were not needed. He explained that the \$79.3 million could be put to "higher and better use" elsewhere in the budget. He thought everyone was aware that there were sometimes conflicts between appropriation and state statute, and it must sometimes be contended with.

Co-Chair Stedman contemplated that the committee would delve into the issue of healthcare being overfunded when the ARM Board was before the committee. He commented that the same issue had come up the previous year. He noted that the pension side was underfunded. He commented on the difficulty of changing the funding ratio. He asserted that the topic would be an ongoing discussion, perhaps with a final decision well into the budget process. He commented that the committee might agree with OMB or conversely take the same amount as the previous year.

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Co-Chair Stedman asked Mr. Steininger to address the total unfunded liability in the pension systems.

Mr. Steininger spoke to slide 3, which addressed Question 1 and showed an excerpt from Attachment 1 (copy on file), which had several additional columns and rows. He directed attention to the unfunded actuarial accrued liability based on the actuarial value of assets. He pointed out row C, and cited \$5 billion in unfunded liability in PERS, and \$1.7 billion in unfunded liability in TRS for FY 22 on the pension side.

Co-Chair Stedman asked if the PERS pension went from 77 percent funding level down to a 67 percent funded ratio because of market conditions the previous year.

Mr. Steininger answered "yes."

Co-Chair Stedman pondered the table on slide 3 and the increase in unfunded liability. He commented on line F.

Mr. Steininger answered in the affirmative.

Co-Chair Stedman remarked that there was a significant alteration and expansion on the state's unfunded liability. He thought the previous year the unfunded liability had been discussed as lasting until the end of the century.

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Mr. Steininger spoke to slide 4, which addressed Question 1 and showed an excerpt from Attachment 2 (copy on file) that showed additional detail to the question regarding reports from the ARM Board related to the healthcare portion. He pointed out under the yellow header, it showed the original amount that included the payment of the healthcare portion. The green area labelled 'final' was what the ARM Board had recommended. He pointed out the difference, showing \$60,940,000 for the PERS portion, and the next line would show the recommendation not to make the healthcare contribution for TRS, which roughly added up to \$70 million.

Mr. Steininger spoke to slide 6, "Question 2":

Senator Wilson asked about efforts made toward addressing recruitment and retention.

There are five key initiatives the Department of Administration is actively working to address this matter:

1. Increase the use of internships to build pathways towards permanent employment.
2. Updating and expanding job class minimum qualifications. The department believes doing so may increase applicant pools.
3. Increasing recruitment and retention initiatives. This process will involve creating Letter of Agreement (LOA) templates that can be more readily administered.
4. Returning recruitment services back to departments for a better focused approach.
5. Contracting out certain work for vital state programs.

Mr. Steininger discussed item 2 on the slide, and consideration of whether there were overly restrictive qualifications in jobs that were beyond what was required to do work. He discussed the Letters of Agreement with unions as a means of offering incentives. He discussed

recruiting staff moving back to departments after being consolidated.

Senator Wilson suggested that Division of Personnel and Labor Relations Director Kate Sheehan could provide a report on some of the efforts listed on the slide. He discussed the use of key words on job applications, and asked if staff were doing a more in-depth review of applicants.

Mr. Steininger deferred the question to Director Sheehan.

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KATE SHEEHAN, DIRECTOR, DIVISION OF PERSONNEL AND LABOR RELATIONS, DEPARTMENT OF ADMINISTRATION, addressed Senator Wilson's question. She explained that the division was working towards competency-based minimum qualifications. She noted that some of the state's minimum qualifications requirements were very outdated. The department was looking at whether a college degree was needed, and looking at removing requirements for specific program experience. The department had hired a non-permanent employee with the goal of moving towards the competency-based qualifications and moving away from key word requirements or things that did not necessarily have meaning if an applicant was coming from out of state.

Mr. Steininger discussed slide 7, "Question 3":

Senators Kiehl and Wilson asked about the changes in cost resulting from the loss of enhanced FMAP.

The change in cost resulting from the FMAP decreasing to 2.5% on July 1st will result in an estimated loss of \$10.3 million for the first quarter of FY24. On October 1st, the rate will further decrease to 1.5% resulting in a \$13 million loss for the second quarter. In the 3rd and 4th quarters, the enhanced FMAP will entirely go away resulting in a loss of \$34.4 million for the remainder of FY24.

Mr. Steininger explained that FMAP signified federal medical assistance percentage, and there had been an enhancement of 6.4 percent to the rate the federal government matched into Medicaid, which had happened under the health emergency for Covid-19. The enhancement had

begun to taper down after being announced on December 29, 2021. The enhancement had provided about \$17.2 million in additional federal revenues to the state per quarter. The taper-down would happen on a quarterly basis. He explained that the administration was working with the Department of Health to determine the General Fund need would be in FY 24 after changes in federal funds and changes due to the health emergency expiration. He affirmed that the administration would be coming to the committee with more information regarding the impact on the Medicaid Program.

Co-Chair Stedman asked for a rough estimate in expected additional funding needs for Medicaid.

Mr. Steininger estimated that there was about \$57 to \$58 million in lost federal revenue in FY 24 from what would have come in had the public health emergency been extended for the entire year. He noted that the administration had not expected the public health emergency to be extended for the full year so it anticipated a need in the range of \$20 million to \$40 million.

Co-Chair Stedman affirmed that the committee would put a finer point on the numbers when finishing up the budget with the help of the administration.

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Senator Wilson suggested that since the state was aware that FMAP would end, the funds did not really constitute "lost revenue." He considered that the state should have had a plan for the costs in the budget. He pondered that there had been a lack of foresight on the part of the administration.

Mr. Steininger reviewed slide 8, "Question 4":

Senator Kiehl asked about potential federal penalties for not meeting eligibility redetermination deadlines.

Federal partners have indicated states could be subject to sanctions for not meeting eligibility redetermination deadlines but there has been no communication around what that will mean. The Department of Health will start its bi-annual review by the Feds this May and more information is anticipated at that time.

Mr. Steininger explained that in the federal programs in the Department of Health Division of Public Assistance, there were deadlines for redetermining beneficiaries' eligibility in the program. If the state failed to meet the deadlines there could be repercussions with federal partners. He mentioned challenges in the Division of Public Assistance and an indication of a biannual review in May. He indicated providing more information later in the session or during the following summer.

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Mr. Steininger referenced slide 9, "Question 5":

Senator Wilson inquired about a summary of cost savings resulting from SB55, and what the current actuarial rates are.

Current PERS actuarial rates are 25.10% of payroll, or \$611.8 million for all employers. Prior to passage of SB55 during the 2021 session the state would have directly paid all cost greater than 22% of payroll for all employers. Under the policy implemented in SB55 the state now is able to charge the 3.10% difference between the 25.10% actuarial rate and the 22% cap to state programs, sharing that cost with federal funding partners. In FY24 this represents a savings of approximately \$19 million UGF. Below is a table illustrating the projected FY24 savings from this policy change.

Mr. Steininger discussed current actuarial rates listed on the slide. He mentioned the funded ratios of the pension plans, and explained that the actuaries that worked with the ARM Board took the funded ratios to determine a percentage of payroll required to pay into the pension systems to keep a healthy balance and work down the unfunded liability. For FY 24, for PERS, the rate was determined to be 25.1 percent of overall payroll for state employees and municipal or other public employees.

Mr. Steininger continued that prior to the passage of SB 55, the state had a cap of 22 percent of payroll for what an employer would have to pay into the system. Under SB 55, the cap was removed only for the State of Alaska as an employer. Municipalities and other public employees paid up

to the 22 percent cap. The change allowed for the removal of a part of the state obligation and shift the funds over to state programs. The change helped bill some of the rate out to federal partners in the state programs, as well as some other fund sources.

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Mr. Steininger discussed slide 10, "Question 6":

Senator Olson asked what the success rate is for litigation relating to statehood defense, and what the running total is for such costs.

Currently, Department of Law has many cases still pending in district courts or on appeal, please see attached list of current litigations funded with the multi-year appropriations for Statehood Defense. Out of all these cases four were lost in the district court and are currently on appeal (attachments 3 & 4).

Mr. Steininger informed that the deputy attorney general had spoken to Co-Chair Olson's question in the meeting the previous day.

Co-Chair Olson relayed that he did not have additional questions but noted that when a decision from a lower court was appealed, the appellate court would affirm that the law had been followed and the chance of a reversal was small. He doubted the state would prevail in such an appeal. He considered the United States Supreme Court, which he thought was more conservative. He did not see the advantage of spending hundreds of thousands of dollars for out-of-state lawyers to appeal some of the court decisions. He thought the matter was appropriate for the budget subcommittee.

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Mr. Steininger looked at slide 11, "Question 7":

There was a question regarding what the \$2.5 million for the Alaska State Defense Force would be used for.

Expanded operations of the Alaska State Defense Force necessitates additional funding to enable recruitment efforts, training, travel, supplies, and other

operating costs associated with a division. Also added is a Director position as well as three administrative support staff.

Mr. Steininger noted that the Alaska State Defense Force was within the Department of Military and Veterans Affairs (DMVA). He explained that there were some operating costs associated with expanding the state defense force into a full division within DMVA, including adding a director as well as three administrative support staff.

Co-Chair Stedman relayed that the matter would be addressed in the budget subcommittee process.

Mr. Steininger showed slide 12, "Question 8":

On January 23, 2023 the committee asked the Department of Revenue to provide the minimum balance or minimum range for the Constitutional Budget Reserve Fund (CBRF). The department deferred that question to the Office of Management and Budget.

There is no statutory or constitutional direction, or objective criteria, for a minimum balance of the CBRF. However, there are two key balance points agreed upon by OMB and DOR. Drawing below \$500 million would likely result in adverse operational impacts from difficulties in managing daily cash flow, however \$2 billion is the generally agreed upon prudent minimum balance.

Mr. Steininger contemplated that the amount of funds the state had in reserves would correlate to the amount of time needed to resolve a problem should the state have a crash in revenue. He thought a minimum balance of \$2 billion would allow for time to come to the legislature in session and discuss how to deal with a precipitous unanticipated drop in revenue. He thought when looking at the overall budget proposal, the administration was looking at keeping the CBR balance at around \$2 billion and not going far below the amount.

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Senator Wilson thought there was an memorandum of agreement (MOU) for \$400 million that was signed in 2017 by OMB, the Department of Revenue (DOR), and the Department of Law. He

wondered if it was time to update the MOU to better reflect the current time's numbers.

Mr. Steininger informed that the administration sat down and reviewed the MOU on an annual basis with OMB, the Treasury, and the Division of Finance to determine if anything significant had changed that would require an update to the memo. The \$400 million amount in the memo looked at a cash balance in the General Fund to meet day to day cash needs in the state, which he thought still held "relatively true." He explained that the memo itself dictated where the cash should come from based on availability, and noted that no significant changes had been made to the structure of the state's accounts or funds that would necessitate a change in where to go for cash needs.

Co-Chair Stedman relayed that the committee had asked LFD to look at what other states used as a minimum targeted cash balance. He recognized that Alaska was different in not having a steady property tax or sales tax flowing into the treasury. The committee would spend time on the matter when considering the fiscal modelling from LFD. He thought the \$2 billion minimum balance seemed reasonable, and thought the committee would have the related policy discussion forthcoming.

Mr. Steininger showed to slide 13, "Item 9":

The vacancy rates by department presented on slide 7 of the January 24th presentation contained errors. A corrected table is attached and a corrected version of the slide is included on the next slide

Mr. Steininger showed slide 14, "Budget Challenges - Vacancy," which showed the information being clarified from the previous slide was correctly shown in the table on the left. He noted that the overall vacancy had been correct, but the numbers had been mistakenly shifted for some departments.

Co-Chair Stedman thanked Mr. Steininger for his presentation.

^PRESENTATION: STATE DEBT SUMMARY and CREDIT REVIEW

[9:37:50 AM](#)

Co-Chair Stedman relayed that the committee would hear a presentation from the state debt manager and the deputy commissioner of DOR.

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FADIL LIMANI, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE, relayed that he had recently been appointed as the deputy commissioner of DOR. He discussed his background. He had started his career 15 years previously in public accounting with one of the largest accounting firms in the state. He had worked for the North Slope Borough and oversaw all elements of finance including the treasury, the borough's permanent fund, debt management, and property tax. After leaving the borough he had owned his own company, providing financial and business consulting services. He had served as the chief Financial Officer for the North Slope School District before being hired by DOR.

[9:40:46 AM](#)

RYAN WILLIAMS, DEBT MANAGER, DEPARTMENT OF REVENUE, introduced himself. He shared that he was also the executive director of the Municipal Bond Bank Authority. He had been with the Treasury Division for 13 years and had been in the debt management section for the majority of the time.

Mr. Limani discussed a presentation entitled "Credit Review & State Debt Summary," (copy on file). He addressed slide one and the roles of the Department of Revenue Deputy Commissioner and the DOR Debt Manager.

Mr. Limani dicussed slide two, "Agenda":

1. State Bond Rating Overview Page 3
2. Current Market Update Page 8
3. State's Current Debt Refunding Page 10
4. State Debt and General Fund Obligations Page 12
5. State Debt Capacity Page 17

Mr. Limani discussed slide 4 and general information on bond rating. He explained that a bond rating was simply a credit score that was provided through an issuer that provided the credit worthiness of a bond and the credit quality of the issuer. The assessments were provided by reputable rating agencies such as Standard and Poor (S and P) Global Ratings and Moody's. He mentioned a new rating agency, which he would address later in the presentation.

Mr. Limani explained that generally when rating agencies conducted an analysis of an issuer, it would provide official statements of the underlying disclosure which provided financial information about the issuer. He explained that bond rating agencies had established rating criteria by which they measured metrics to issue a rating. Each agency had different published criteria, however the agencies mostly focused on government framework, financial management, the economy, budgetary performance, and the debt and liability profile. He discussed the credit rating scale as divided into "investment grade" and "non-investment grade" rating categories. He explained that anything from a "BBB" to an "AAA" rating was considered a very high grade and was a low risk to bond buyers. He noted that the non-investment grade bonds had a moderate to high risk and were sometimes referred to as "junk bonds."

Mr. Limani continued to address bond ratings. He discussed benefits of ratings including an overview to the market, potential interest in borrowing costs, and credibility to the market. He cited that lower ratings could result in increased borrowing costs and a more aggressive market.

Mr. Limani discussed slide 5 and the state's credit ratings with Moody's, S and P, and Fitch. The state currently had a AA3 with a stable outlook with Moody's, a AA- with a positive outlook from S and P, and an A-plus rating with a stable outlook from Fitch. Currently the state utilized Moody's and S and P ratings, however Fitch only evaluated the credit for the state based on historical bonds outstanding. He explained that the state's historical ratings showed a great deal of fluctuation. He made note of improvements in recent years, and noted that much of the changes in 2021 and 2022 was driven by the adoption of SB 26 and the percent of market value (POMV) draw from the Permanent Fund, coupled with the surplus the state had in FY 22 as well as the increase in the oil price environment.

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Co-Chair Stedman suggested considering only one rating agency to discuss the state's highest and lowest ratings from S and P.

Mr. Limani relayed that the highest rating the state had received from S and P Global was in 2012, where the state received an AAA rating. at the same time, Moody's also gave the state an AAA rating, which was the highest rating the state could receive. He noted that in 1961, Moody's had given the state it's lowest rating of BBB.

Co-Chair Stedman asked about the economy as a focus area for ratings. He asked what matrix the agencies used, and whether the gross domestic product (GDP) was considered.

Mr. Limani replied that many criteria were considered, and noted that later slides would address the topic. He commented that from the rating agency's perspective, Alaska was unique and did not fit into matrices that rating agencies had established. He used the example of consideration of state's pension obligations. He described that while Alaska's pension systems were well funded, the agencies considered the funding in comparison to GDP as opposed to how well the plans themselves were funded. He mentioned the state's population and thought the evaluation was unfair considering the well-funded status of the pension systems. He thought the state compensated for the fact by having a sovereign welfare fund and having the necessary reserves.

Co-Chair Stedman clarified that the Permanent Fund was not a sovereign welfare fund but rather a sovereign wealth fund.

Mr. Limani continued to address Alaska's uniqueness with regard to rating criteria, and considered the general governance of the state, which rating agencies might see differently. He noted that agencies had a point-based evaluation system for ratings. He cited that the fluctuation of oil price and having a structurally balanced budget was always a component of concern.

[9:50:30 AM](#)

Mr. Limani discussed slide 6 and Alaska's ratings compared to other states. He pointed out that the state still had a high-quality rating compared to other states, and noted that some other state's had relatively lower credit. He mentioned the fluctuation in oil prices in Alaska, and that other states might have more flexibility in the tax base.

Mr. Limani showed slide 7, "LONG TERM CHALLENGES REMAIN, BUT IMPROVEMENT IN FY2022," and noted that rating agencies viewed the state differently when it came to rating criteria. He mentioned consideration of the state budget, the Permanent Fund, and utilization of reserves. The state had been able to make some ratings improvements since 2015. He mentioned amortization of new debt and increased funding levels for PERS and TRS. He mentioned the improved price of oil and additional resources deposited into the CBR, which had been viewed favorably by rating agencies. He discussed long-term impacts, and noted the rating agencies still believed that the state was heavily focused on the oil and gas economy, which was volatile. He mentioned the Permanent Fund and the diversified investments, which yielded one-third of state revenues.

Mr. Limani noted that one of the goals related to rating agencies was prorating agencies, which could provide a more comprehensive review of unique issuers. He thought the prorating agencies could be more favorable to the state as compared to others.

[9:54:11 AM](#)

Co-Chair Olson mentioned the percent of market value (POMV) draw and split between the Permanent Fund Dividend (PFD) and state government spending. He asked if DOR had an opinion on the matter, whether the PFD should be favored over government services or vice versa.

Co-Chair Stedman thought Mr. Limani might want to think twice before answering the question.

Mr. Limani deferred the question to the administration. He reminded that he was relatively new to his position.

Mr. Limani addressed slide 9, "Current Municipal Market Update," and explained that the slide showed a snapshot of market activity for the past month. He noted that the information was included because the state had recently

refunded some bonds. He observed that the market had been relatively volatile over the previous month. He directed attention to a chart that showed interest rates from the United States Treasury for ten years and thirty years. He directed attention to municipal market data. He pointed out rates in basis points. He directed attention to the chart on the right-hand side, which provided the yield curves for different ratings over a thirty-year term.

Mr. Limani discussed the state going out to market for refunding of bonds and explained that there had not been that much supply in the market earlier in the week, nor were there any other issuers within the state, which had made it favorable for the state's bonds to be sold. The following slide would provide an overview of the bond refunding.

[9:57:20 AM](#)

Mr. Limani spoke to slide 11, "State Debt - Recent Refunding Transaction":

- G.O. refunding transaction: 2012A and 2013B Bonds
- Summary of refunding activity from pricing:
  - o The 2012A Bonds are subject to optional redemption (~\$7.4 million, 8/1/2023 maturity)
  - o The 2013B Bonds are subject to optional redemption (~\$50.2 million, 8/1/2023 - 8/1/2025 maturities)
  - o GO Refunding pricing analysis: \$1.7 million in NPV savings or approximately 3.04%
  - o 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

Mr. Limani highlighted that the state manager had done a superlative job refunding the bonds. He highlighted that the tax cut and jobs act that had been passed in 2017 had changed rules around advanced refunding. Historically issuers could take the benefit of future maturities and have call option provisions on bonds. To the extent to which the market provided, it was possible to call on bonds. Under the new law, in the event of an advanced refunding, 90 days of maturity or less was required, which provided a challenge for issuers. He mentioned refunding the bonds earlier in the week, when there had been significant interest and all the bonds were sold within an

hour. He recounted that large institutions had been reluctant to do any investing because of ESG policies, but the past week had been shown to be contrary and showed institutions purchasing bonds.

Co-Chair Stedman asked what ESG signified.

Mr. Limani deferred to the debt manager.

Co-Chair Stedman asked for a definition of ESG.

Mr. Williams explained that ESG signified environmental, social, and governance, which were focus areas for rating agencies and other entities for the previous three years. There had been environmental factors, social factors, and governmental factors that contributed to activity on both a state and community level.

Co-Chair Stedman asked if in a nutshell, EGS made it more difficult for energy producing states such as Alaska, which relied on hydrocarbons, and favored other areas.

Mr. Williams answered in the affirmative.

Senator Bishop had noticed hypocrisy from lending agencies, especially since the run-up in energy prices. He thought some of the big lending institutions were starting to backpedal from ESG compliance and were getting back into energy stocks. He asked if Mr. Limani and Mr. Williams had observed the same.

Mr. Limani affirmed that a lot of institutions were "softening in tone" pertaining to the renewable energy market.

[10:02:24 AM](#)

Co-Chair Stedman stated that the issue of hindering the state's resource extraction was a sore spot with the committee. He considered that the state relied on oil and fisheries to function. He referenced Senator Bishop's comment and thought it was important to know if institutions were modifying their position regarding ESG. He mentioned the reinsurance market, which could restrict development and was a concern of the state. He noted that the state had the ability to restrict where it invested state funds, including which banks were utilized. He asked

for further discussion on the calling and reissuance of debt and the 90-day window.

Mr. Limani relayed that the window was usually 90 days of maturity in question for a particular issuance.

Co-Chair Stedman asked if Mr. Limani was referring to the call date.

Mr. Limani answered affirmatively.

Co-Chair Stedman asked about extending a maturity date on bonds.

Mr. Limani relayed that there was no extension of the maturity, rather the bonds still provided for the previous structure, and DOR had just looked at things from an interest-saving perspective.

Co-Chair Stedman mentioned reviewing municipalities and requests for refinancing and emphasized caution when considering extension of maturity dates. He mentioned significant assets in the state that had been refinanced but never paid off, which he found unacceptable. He mentioned a hydro-power project that was built 40 years previously and should have been paid off. He described trying to expand energy generation while still being affected by old infrastructure being built. He stressed looking beyond net present value when working with local assemblies and councils.

[10:06:00 AM](#)

Co-Chair Olson asked about the decision to refund some of the general obligation (GO) bonds and asked if it had been a departmental decision or if legislative approval was required.

Mr. Limani relayed that when considering the transactions, DOR was not looking to change the terms. He recounted that in the early part of December, there was volatile movement in the interest rate environment and it had not been feasible to look at the refunding options. In January greater savings materialized, even though the terms were not changed. He noted that the authority lay within DOR.

Mr. Williams added that the State Bond Committee approved a series resolution to issue the GO refunding bonds. There was a minimum threshold savings percentage of two percent. He relayed that usually one would see a higher savings threshold of three percent or higher, but the state was past the redemption call date on the 2012 A bonds and was coming up on the call date for the 2013 B bonds. He continued that the savings threshold was a little lower as the state reached or passed the optional redemption date, there was potential that additional savings would not be gained.

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Mr. Limani showed slide 12, "State Debt and General Fund Obligations."

Mr. Williams showed slide 13, "State Debt Obligation Process," and explained that all forms of state debt were first authorized by law. Any GO debt was authorized by voters through a ballot initiative. All state debt was structured and authorized by the state bond committee once authorized once first authorized by law and voters. He mentioned state guaranteed debt and state supported debt. He discussed state supported debt subject to appropriation and explained that the state had outstanding certificates of participation that funded the Alaska Tribal Health Consortium's housing facility project, which had been issued in 2014.

Mr. Williams explained that there were also lease revenue bonds issued by the state and supported by lease revenue for the Goose Creek Correctional Facility. There were other outstanding state debt programs that were included as reimbursement programs such as the school debt reimbursement program and the transportation infrastructure development program. He recalled that the SDRP was partially funded in 2017, 2020, and 2022, with no funding in 2021. With appropriations in the 2023 budget, there was 100 percent coverage and offsets for prior fiscal year reductions.

Senator Wilson asked Mr. Williams to discuss the Alaska Supreme Court ruling regarding the state's issuance of bonds.

Mr. Williams explained that in September 2020 there was a decision surrounding the Alaska Tax Credit Certificate Bond Corporation (ATCCBC) whereby the structure was deemed invalid. He continued that in general the decision would support state debt if backed by a physical lease obligation for instance, which was not only an appropriation to pay such as in the ATCCBC. He relayed that certain structures had been invalidated, including the Pension Obligation Bond Corporation, where the construct was such that the debt payment would have been (if issued) a general appropriation that was not backed by something such as physical lease revenue.

Mr. Williams spoke to slide 14 and addressed state GO debt and subject-to-appropriation debt. He cited that there was about \$621.9 million outstanding in GO debt, and about \$177.7 million in subject-to-appropriation debt. He looked at the bar graph on the bottom left of the slide and noted that the GO program was in accelerated paydown. He qualified that with no authorization currently outstanding and the current payment schedule, there was a fairly modest debt program.

[10:12:50 AM](#)

Mr. Williams spoke to slide 15 and 16, which showed a table of total state and state agency debt in Alaska as of June 30, 2022. He noted that the values on the table corresponded to those in the Alaska Public Debt book (copy on file). He highlighted the top three items listed by credit pledge including GO Bonds, state guaranteed debt, and state supported debt. He highlighted that under state guaranteed debt, the Alaska Housing Finance Corporation (AHFC) had issued collateralized debt for Veteran's Mortgage Program Bonds with about \$46 million outstanding. He cited total state supported debt at \$177.7 million. He discussed state supported municipal debt, which totaled about \$457 million. He mentioned \$440.2 million for the SDRP, which was the portion subject to appropriation. The total amount outstanding through the municipalities was \$657 million.

Mr. Williams addressed the unfunded actuarially assumed liability. He noted that he had not used updated data from the most recent ARM Board report, which had not yet been approved by the board. The international airport system had about \$243 million outstanding, which was a significant

reduction over FY 21, which was also a refunding transaction and a restructuring through cash payment to pay down a portion of the debt. The University of Alaska debt was about \$253 million. He pointed out that there was also state agency collateralized or insured debt, and that the majority of the types of credit issuances were through AFHC. There was also Alaska Railroad debt outstanding, as well as debt through the Northern Tobacco Securitization Corporation in tobacco asset-backed bonds.

Senator Kiehl referenced a footnote on slide 15, regarding "Interest to Maturity" and "Total Debt Service to Maturity," as well as "interest due at maturity." He asked if "interest due at maturity" was indicative of a balloon payment, and wondered which categories the payment would be in.

Mr. Williams asked to get back to the committee with further information and a more thorough response.

Co-Chair Stedman agreed.

[10:17:07 AM](#)

Mr. Williams spoke to slide 18, "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 - 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

Mr. Williams mentioned that he had provided the committee members with a copy of the Alaska Public Debt Book the previous evening as a preamble to the slide. He noted that he should have also shared the Debt Affordability Analysis and avowed to send the material at a later time. He explained that the analysis was required each year and would provide more discussion on the state's credit rating, debt levels, as well as history and projections. He reminded that the publication relied on debt ratios from prior years compared to UGF revenues. With transfer of the POMV draw, state revenues available for debt service had to be slightly discounted since a portion went to PFD payments.

Mr. Williams conveyed that the 2023 analysis indicated that there was conservatively a debt capacity of about \$1.65 billion, which was a modest increase from the prior year's amount of approximately \$1.35 billion. He recalled that the previous report was issued in January of 2022, and since that time oil price was slightly higher. Overall, the forecast in the RSB showed better revenue over the ten-year forecast period.

Co-Chair Stedman commented that the state would not issue over \$1.65 billion in bonds just because it had the capacity. He relayed that there had been legislative discussions pertaining to paying off bonds.

Senator Bishop mentioned the \$1.6 billion in debt capacity, and thought the state owed about \$900 million.

Co-Chair Stedman thought the state owed \$600 million, and the communities owed \$900 million. He asked for clarification.

Mr. Williams explained that the current analysis considered outstanding GO debt and state-supported debt. The debt capacity was in addition to the current state debt outstanding.

Co-Chair Stedman asked how much debt the state owed versus how much debt was held by the Municipal Bond Bank for the municipalities and inquired about GO bonds for the state.

Mr. Williams relayed that the GO bonds, certificates of participation (COPs), and lease revenue totaled approximately \$800 million.

Co-Chair Stedman asked about the GO portion.

Mr. Williams answered that the GO portion was approximately \$622 million.

Co-Chair Stedman estimated that roughly \$600 million would retire the GO debt, and approximately \$900 million would retire all municipality debt issued to the bond bank.

Mr. Williams answered affirmatively, and specified that the bond bank had approximately \$993 million outstanding. He continued that underlying the bond bank amount of \$993 million, there were regional health organizations and joint action agencies.

[10:21:47 AM](#)

Mr. Williams addressed slide 19, "Authorized Bonding Authority & Outstanding Obligations," and highlighted that the debt service for GO bonds was approximately \$40 million to \$50 million over the following five years. The revenue bonds ranged from \$17 million to \$24 million.

Mr. Williams showed slide 20, "Current General Fund Annual Payment Obligation," and noted that the top graph depicted the somewhat accelerated principal paid down for the debt programs mentioned earlier. The slide also included state-supported municipal debt projections that were obtained through the Department of Education and Early Development.

Co-Chair Stedman discussed the importance of staying abreast of the state's debt and debt capacity.

Senator Wilson asked if Mr. Williams saw any trends in high inflation and interest rates in terms of communities seeking issuance of bonds.

Mr. Williams stated that the trend varied. He mentioned other revenue projects such as long-awaited capital projects for school refurbishment, as well as projects for docks and harbors, electric utilities, and water and sewer. He relayed that he saw demand for issuance regardless of interest rates, but thought the interest rate needed to be

carefully considered because of annual debt service paid by communities. He discussed variables related to analysis of particular bonds.

Co-Chair Stedman thanked the presenters. He discussed the agenda for the following day.

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ADJOURNMENT

[10:25:37 AM](#)

The meeting was adjourned at 10:25 a.m.