

**04/24/15
PRESENTATIONS
ALASKA PUBLIC
DEBT AND DEBT
MANAGEMENT
POLICIES &
STATE DEBT
CAPACITY**

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ALASKA PUBLIC DEBT



STATE OF ALASKA
Bill Walker, Governor
Bryon Mallott, Lieutenant Governor

Department of Revenue

January 2015

ALASKA PUBLIC DEBT

2014-2015

**State of Alaska
Bill Walker, Governor**

**Department of Revenue
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**This publication was prepared
by the Treasury Division**

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State of Alaska
ALASKA PUBLIC DEBT
2014-2015

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I. Types of Alaska Public Debt

The State has liability or potential exposure for repayment of principal and interest in nine categories. In descending order of the State's liability, the types of obligations are:

- State Debt
- State Supported Debt
- State Guaranteed Debt
- State Moral Obligation Debt
- State and University Revenue Debt
- State Agency Debt
- State Agency Collateralized or Insured Debt
- Municipal Debt
- Industrial Development Bonds

On the following pages, each type of State obligation is briefly discussed and defined. Table 1.1 summarizes Alaska's \$8.1 billion of public debt by type.

In Section II, Alaska issuers of public debt are described and statistical tables are provided for each issuer.

A. State Debt

State Debt includes revenue anticipation notes (RAN's) and general obligation bonds (GOB's). The full faith, credit and resources of the State are pledged to the payment of principal and interest on this debt. If future State revenues are insufficient to make the required principal and interest payments to bondholders and note holders, the State is legally required by its contract with bondholders and note holders to raise taxes in order to meet these obligations.

1. Revenue Anticipation Notes (RAN's)

Short-term State borrowing in anticipation of revenues is permitted under AS 43.08.010. RAN's may be issued and renewed from time to time, but all such notes, renewals and interest thereon shall be paid from revenues by the end of the fiscal year following the year in which the notes were issued. The full faith, credit, resources, and taxing power of the State are pledged to the payment of RAN's and interest thereon. To further secure such payment, and if necessary to effect advantageous borrowing to the State, collateral may also be pledged. There are no State RAN's issued or outstanding at June 30, 2014.

2. General Obligation Bonds (GOB's)

The State Constitution provides that GOB's must be authorized by law and ratified by the voters. Generally, the Constitution permits authorization of GOB's only for capital improvements. The legal provisions regarding GOB's are contained in Section 8, Article IX of the Alaska Constitution and AS 37.15, the State Bonding Act. The amount and timing of a bond sale must be approved by the State Bond Committee. There is no statutory limit on the amount of State GOB's that may be authorized. \$274,081,000 in authorized GOB's remain unissued at June 30, 2014. The State anticipates issuing up to an additional \$50 million of the remaining authority in FY 2015.

As of June 30, 2014 the State had issued GOB's 56 times since statehood, raising over \$2.5 billion. In addition, the State assumed the outstanding debt of the Territory of Alaska as GOB's of the State. In 1959, the Territorial debt was \$2.9 million. As of June 30, 2014, the State had \$803.8 million in GOB's outstanding.

The interest cost on State bond issues is determined by several factors, the major factor being the general level of interest rates in the global economy. However, the credit rating assigned to an issuer and the related investor assessment of credit risk are important factors. The State's credit ratings improved from Baa1/A in 1973 to

Aaa/AAA/AAA at June 30, 2014. The State's credit ratings was upgraded to Aaa by Moody's in FY 2011, to AAA by Standard & Poor's in FY 2012, and in FY 2013 to AAA by Fitch Ratings. Significant factors behind the credit rating are the State's oil-based revenues, conservative budget practices, significant reserve positions, and slow steady economic growth.

B. State Supported Debt

State Supported Debt is debt for which the ultimate source of payment is, or may include, appropriations from the State's General Fund. The debt does not have the full faith and credit of the State pledged to it but, it may have the full faith and credit of another public issuer, as in the case of municipal school debt.

State Supported Debt is not considered debt under the Alaska Constitution because the State's payments on the debt obligations, even if they are the subject of a contractual commitment, are subject to annual legislative appropriation. As a result, voter approval of such debt is not required.

State Supported Debt includes lease-purchase financing obligations (structured as certificates of participation (COP's)), the share of municipal G.O. bonds issued for school construction which is reimbursable by the State, the portion of university or municipal G.O. bonds issued for certain capital projects which is reimbursable by the State, and Capital Leases the State has entered for the Atwood Office Building and Parking Garage with AHFC, the Anchorage Jail with the Municipality of Anchorage, and the Goose Creek Correctional Center with the Matanuska Susitna Borough.

Historically, State Supported Debt has been authorized by voter referendum as in the case of municipal school debt, by law as in the case of the University, by legislative resolution pursuant to AS 37.05.280 (now repealed) as in the case of ASHA, and by action of the State Bond Committee as in the case of some COP's.

In 1986, legislation increased legislative control over lease-financing. Chapter 106, SLA 1986, effective January 1, 1988, requires approval by law of any executive branch lease-financing agreements with annual lease payments exceeding \$1 million. Chapter 73, SLA 1992, effective September 14, 1992, adds the requirement of approval by law of leases with total lease payments exceeding \$10 million. Chapter 75, SLA 1994, effective June 7, 1994, generally requires prior legislative approval of all lease-purchase agreements, other than the refinancing of outstanding balances on existing lease purchase agreements and certain University of Alaska transactions.

At June 30, 2014, State Supported Debt was \$1,140.1 million as shown in Table 1.1.

C. State Guaranteed Debt

In the 1982 general election, voters approved an amendment to Article IX, Section 8 of the Alaska Constitution that permits the State to guarantee unconditionally as a general obligation of the State, the payment of principal and interest on revenue bonds issued by AHFC for the purpose of purchasing mortgage loans made for residences of qualifying veterans. This is the only purpose for which State Guaranteed Bonds may be issued. Because the bonds are general obligations of the State, they must be authorized by law, ratified by the voters, and approved by the State Bond Committee. In six elections from 1982 through 2010 voters approved propositions authorizing \$3.3 billion of State Guaranteed Bonds for veterans' mortgages.

These bonds are known to investors as "double-barreled" because there are two distinct forms of security behind the bonds. Their first lien is on the revenue stream generated by payments on the mortgage loans made from bond sale proceeds. Additional security to bondholders is provided by the general obligation pledge of the State to make the required debt service payments in the event that revenues are insufficient. In recognition of the creditworthiness of the veterans' bonds, they have been rated AAA; equivalent to State G.O. bonds.

The constitutional amendment permitting the State general obligation pledge on veterans' mortgage bonds was necessary only to gain tax-exempt status for the bonds. The Mortgage Subsidy Bond Tax Act passed by Congress in 1980 restricted the ability of states or public corporations to sell tax-exempt housing bonds above specified ceilings unless they were also general obligations of the issuing state and the proceeds were used for housing loans for veterans. After the 1980 legislation and before the 1982 constitutional amendment, AHFC had been issuing more expensive taxable bonds for veterans' as well as non-veterans' loans.

Because of the strong support behind the bonds, independent of the State's general obligation pledge, this debt is not counted by the rating agencies as general obligation debt. However, if problems in meeting debt service on veterans' bonds were to arise, the bonds would be treated as general obligation debt for credit rating purposes.

At June 30, 2014, State Guaranteed Debt was \$73.5 million, as shown in Table 1.1.

D. State Moral Obligation Debt

This type of debt consists of bonds issued by State agencies which are secured, in part, by a reserve fund to which is attached a discretionary replenishment provision. Such a reserve fund is typically called a capital reserve fund. The discretionary replenishment provision typically reads:

The chairman of the authority (or corporation) shall annually, no later than January 1, certify in writing to the Governor and the Legislature the amount, if any, required to restore the capital reserve fund to the capital reserve fund requirement. The Legislature may appropriate to the authority (or corporation) the amount certified by the chairman of the authority (or corporation). Nothing in this section creates a debt or liability of the state.

A capital reserve fund is generally equal in size to the maximum amount of debt service required in any year. Alaska's discretionary replenishment provision means that if the reserve fund should fall below its required level, the State Legislature may, but is not legally required to, appropriate funds sufficient to restore the capital reserve fund to its required level. The most likely reason that such a reserve fund would fall short of the required level is if agency revenues were insufficient to meet a given debt service payment and the reserve fund had to be used to make the payment.

The authority to issue moral obligation bonds is contained in the enabling legislation of Alaska Aerospace Development Corporation, Alaska Housing Finance Corporation, Alaska Industrial Development and Export Authority, Alaska Student Loan Corporation, Alaska Municipal Bond Bank, & Alaska Energy Authority. Such authority is not granted to the other State agencies.

At June 30, 2014, State Moral Obligation Debt was \$1,245.0 million, as shown in Table 1.1.

E. State Revenue and University Debt

This type of debt Issued by the State on behalf of the Sportfish Program and the Alaska International Airport System or by the University is secured only by revenues derived from the issuing enterprise. Revenue Debt is not a general obligation of the State or the University and does not require voter approval. Such debt is authorized by law and issued by the University or by the State Bond Committee. This type of debt includes International Airports Revenue Bonds, Sport Fish Revenue Bonds, Clean Water and Drinking Water Fund Bonds, various University Revenue Bonds and Notes, and Toll Facilities Revenue Bonds. While the State hasn't issued any long term Clean Water or Drinking Water Fund Revenue Bonds, it does undertake an annual overnight borrowing to provide for operational goals of the Funds.

At June 30, 2014, State Revenue and University Debt was \$720.0 million, as shown on Table 1.1.

F. State Agency Debt

State Agency Debt is secured by revenues generated from the use of bond proceeds or the assets of the agency issuing the bonds. The debt is not a general obligation of the State nor does the State provide security for the debt in any other manner, i.e., by appropriations, guarantees, or moral obligation pledges. The State has, however, in the past appropriated funds to subsidize the interest rate to the underlying borrowers in the case of certain AHFC debt listed as State Agency Debt in Table 1.1.

Nevertheless, if default threatened on any such State Agency Debt, there is some possibility the State would provide relief. The ties between these agencies and the State -- such as their statutory origin and authority, subjection to the executive budget act and State contracting procedures, cabinet membership on boards, legislative approval of bond issuance, and, most fundamentally, achievement of their missions as a political goal of the State -- may mean that the State would consider providing support for such debt even though it has no legal requirement to do so. A default on any State Agency Debt may affect interest costs on unrelated State and State Agency and certain municipal debt.

The exception to any expectation of State response in the event of a default is the Tobacco Settlement Asset Backed Bonds issued by the Northern Tobacco Securitization Corporation. These bonds were deliberately structured without any implication of State support to divest the State of a portion of its position with the settlement. Investors in these bonds have received a commensurately higher yield than for other types of State Agency Debt.

At June 30, 2014, State Agency Debt was \$571.2 million, as shown on Table 1.1.

G. State Agency Collateralized or Insured Debt

As security for this type of debt, the State agency pledges mortgage loans or other securities which may be 100% insured or guaranteed by another party of superior credit standing. This upgrades the credit rating on the debt and lowers the interest cost. It also makes very remote any likelihood of the State having to consider assumption of responsibility for the debt. The details of such debt are explained in the section on AHFC.

At June 30, 2014, State Agency Collateralized or Insured Debt was \$2,350.3 million, as shown on Table 1.1.

H. Municipal Debt

Political subdivisions within the State of Alaska are termed "municipalities." The five categories of municipality are home rule city, general law city, home rule borough, general law borough, and unified municipality.

Alaska municipalities had 2.4 billion in general obligation bonds outstanding at June 30, 2014. Alaska municipalities' general obligation debt has remained relatively stable over the last five years, and remains below its peak of \$2.67 billion reached in 1986.

In addition to general obligation debt that is supported by local taxes, cities and boroughs may issue debt that is supported by the revenues generated by the project financed through the issuance of debt. At June 30, 2014, approximately \$887.6 million in municipal revenue bonds was outstanding. These revenue bonds accounted for 26.9 % of all local debt outstanding in Alaska.

I. Industrial Development Bonds (IDB's)

The City of Valdez, Alaska issued approximately \$1.7 billion of Industrial Development Bonds (IDB's), from 1976 - 1986, to finance construction of the Trans Alaska Pipeline System. These bonds, repaid solely by revenues from major oil companies, are not obligations of the State of Alaska or the City of Valdez. These Industrial Development Bonds are not included in the amounts of Alaska public debt in this publication.

TABLE 1.1
State and State Agency Debt by Type at 6/30/14
 \$ (millions)

	principal outstanding	interest to maturity	total debt service to maturity
State Debt			
State of Alaska General Obligation Bonds	803.8	300.2	1,104.0
State Supported Debt			
Lease-Purchase Financings	3.3	0.2	3.5
State Reimbursement of Municipal School Debt Service	859.6	269.6	1,129.2
State Reimbursement of capital projects	22.4	7.5	29.9
Capital Leases	254.8	149.7	404.5
Total State Supported Debt	1,140.1	427.0	1,567.1
State Guaranteed Debt			
Alaska Housing Finance Corporation State Guaranteed Bonds (Veterans' Mortgage Program)	73.5	50.9	124.4
State Moral Obligation Debt			
Alaska Municipal Bond Bank:			
1976, 2005, & 2010 General Resolution General Obligation Bonds	919.0	464.9	1,383.9
2004 General Revenue Bonds	4.4	2.6	7.0
Alaska Energy Authority:			
Power Revenue Bonds #1 through #5	78.9	18.2	97.1
Alaska Student Loan Corporation			
Student Loan Revenue Bonds	116.6	7.8	124.4
Education Loan Backed Notes	123.1	3.0	126.1
Student Capital Project Revenue Bonds	3.0	0.0	3.0
Total State Moral Obligation Debt	1,245.0	496.5	1,741.5
State Revenue Debt			
Sportfish Revenue Bonds	35.3	11.7	47.0
International Airports Revenue Bonds	503.1	239.9	743.0
University of Alaska Debt			
University of Alaska Revenue Bonds	140.6	46.8	187.4
University Lease Liability and Notes Payable	39.5	17.5	57.0
Installment Contracts	1.6	0.1	1.7
Total University of Alaska Debt	181.6	64.4	246.0
Total State Revenue and University Debt	720.0	304.3	1,024.3
State Agency Debt			
Alaska Housing Finance Corporation:			
Commercial Paper	65.0	N/A	65.0
Alaska Municipal Bond Bank Coastal Energy Loan Bonds	10.6	2.9	13.5
Alaska Railroad	142.4	31.7	174.1
Northern Tobacco Securitization Corporation			
2006 Tobacco Settlement Asset-Backed Bonds	353.2	468.8	822.0
Total State Agency Debt	571.2	503.4	1,074.6
State Agency Collateralized or Insured Debt			
Alaska Housing Finance Corporation:			
Collateralized Home Mortgage Revenue Bonds & Mortgage Revenue Bonds:			
2002 Through 2011 (First Time Homebuyer Program)	928.4	545.7	1,474.1
General Mortgage Revenue Bonds II -2012	186.5	76.4	262.9
Housing Development Bonds 2004	0.1	0.1	0.2
General Housing Purpose Bonds 2005	257.9	173.7	431.6
Government Purpose Bonds 1997 & 2001	133.4	37.9	171.3
State Capital Project Bonds, 2002-2011	296.3	140.5	436.8
State Capital Project Bonds, II 2012-2014	402.4	180.4	582.8
Alaska Industrial Development and Export Authority:			
Revolving Fund and Refunding Revolving Fund Bonds	73.2	25.5	98.7
Power Revenue Bonds, First Series (Snettisham Hydro Project)	72.1	46.3	118.4
Total State Agency Collateralized or Insured Debt	2,350.3	1,226.5	3,576.8
Total State and State Agency Debt	6,903.9		

TABLE 1.1 (Continued)
State and State Agency Debt by Type at 6/30/14
 \$ (millions)

Municipal Debt			
<i>School G.O. Debt</i>	1,273.3	N/A	N/A
<i>Other G.O. Debt</i>	1,144.4	N/A	N/A
Revenue Debt	887.6	N/A	N/A
Total Municipal Debt	<u>3,305.3</u>		
Less: State Reimbursable Debt and Capital Leases *	-1,136.8		
Less: Alaska Municipal Bond Bank debt included in municipal debt	<u>-934.1</u>		
	1,234.5		
Total Alaska Public Debt	<u>\$ 8,138.4</u>		

NOTES

1. University debt owed to AHFC is double counted in detail, but eliminated from Total Alaska Public Debt

* Reimbursable school G.O. debt is included in "state supported debt"

Capital Leases are included in State Agency Collateralized or Insured Debt

State Reimbursement of Capital Projects is included in University and Municipal Debt

Sources: Annual reports and financial statements of AHFC, AMBBA, AIDEA, AEA, U of A, AKRR, and directly from agencies.

II. Issuers of Alaska Public Debt

In Section I, the nine types of Alaska public debt are described. In this section, the issuers of Alaska public debt are described. Issuers include the State, State Agencies and University, and Municipalities.

At June 30, 2014, total public debt of Alaska issuers stood at \$8.13 billion, as follows:

	<u>\$ (millions)</u>
State of Alaska Revenue and GO Debt	1,342.2
State Supported Debt	1,140.1
State Agencies and University Debt	4.4
Municipalities Debt	3,305.3
Less duplicate reporting *	(2,070.9)
Total Alaska Public Debt	<u>\$ 8,138.4</u>

* \$934.1 million of Alaska Municipal Bond Bank debt issued to purchase municipal debt, \$859.6 million of State reimbursable debt, and \$254.8 million in capital leases.

A. State of Alaska

State debt includes general obligation bonds, International Airport System revenue bonds, sport fish revenue bonds, toll facility revenue bonds, and revenue anticipation notes.

1. General Obligation Debt

Tables 2.1-2.5 below summarize the State's general obligation debt issued and outstanding.

TABLE 2.1
General Obligation Bonds Annual Debt Service
 \$ (thousands)

balance outstanding at 6/30/14	payments made during year ending 6/30/14		
	principal	interest	total
\$803,800	\$ 56,350	\$ 34,028	\$ 90,378

Source: Department of Revenue bond documents

TABLE 2.2
General Obligation Bonds Authorized, Issued, and Outstanding
 \$ (thousands)

fiscal year	authorized	authorization	
		issued	outstanding at 6/30
1957	\$ 2,932	-	-
1958	-	\$ 1,290	\$ 1,290
1959	-	1,642	2,932
1960	-	-	2,902
1961	30,500	-	2,806
1962	-	13,975	23,405
1963	17,325	14,429	30,336
1964	-	7,865	37,614
1965	7,000	-	36,737
1966	-	-	35,535
1967	62,585	31,585	65,872
1968	13,185	26,000	90,094
1969	44,700	19,000	105,333
1970	-	32,231	133,834
1971	146,200	69,380	195,203
1972	-	53,445	238,943
1973	124,500	47,000	274,578
1974	-	31,000	293,114
1975	189,575	112,300	392,508
1976	-	82,915	462,923
1977	200,981	80,000	530,008
1978	-	85,000	596,213
1979	271,355	100,000	670,503
1980	-	-	631,723
1981	289,712	125,000	701,178
1982	-	200,000	842,413
1983	-	185,000	946,183
1984	-	78,000	924,008
1985	-	-	816,148
1986	(993)	-	706,883
1987	-	-	598,503
1988	-	-	489,818

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TABLE 2.2 (Continued)
General Obligation Bonds Authorized, Issued, and Outstanding
 \$ (thousands)

fiscal year	authorization		outstanding at 6/30
	authorized	issued	
1989	(2,500)	-	386,091
1990	-	-	290,531
1991	-	-	213,032
1992	-	-	159,383
1993	-	-	108,020
1994	-	-	78,192
1995	-	-	57,971
1996	-	-	39,101
1997	-	-	24,206
1998	-	-	10,891
1999	-	-	2,376
2000	-	-	-
2001	-	-	-
2002	-	-	-
2003	463,525	461,935	461,935
2004	-	-	461,935
2005	-	-	438,370
2006	-	-	414,250
2007	-	-	389,505
2008	-	-	364,065
2009	315,050	165,000	502,845
2010	-	-	475,740
2011	397,200	201,110	643,770
2012	-	-	575,825
2013	453,499	348,203	840,249
2014	-	28,895	803,790
Total	<u>\$ 2,876,281</u>	<u>\$ 2,602,200</u>	

In FY 2012 the State Legislature appropriated \$150,050,000 to fund the FY 2009 authorization, extinguishing this remaining bond issuance authority
 Source: Department of Administration, Comprehensive Annual Reports and Department of Revenue bond documents.

TABLE 2.3
General Obligation Bond Sales Since 1973

date of bonds	average life in years	effective interest rate	underlying ratings Moody's, Standard & Poor's, & Fitch Ratings
Jan. 13, 1973	15.30	5.12%	Baa1/A
Jan. 13, 1973	14.80	5.10%	Baa1/A
Aug. 1, 1973	16.70	5.80%	Baa1/A
Sept. 1, 1974	15.60	6.85%	A1/A
Feb. 1, 1975	14.60	5.98%	A1/A+
May 1, 1975	15.10	6.52%	A1/A+
Oct. 1, 1975	12.50	6.85%	A1/A+
Mar. 1, 1976	9.50	5.86%	A1/A+
July 1, 1976	9.50	5.80%	A1/A+
Feb. 1, 1977	9.50	5.08%	A1/A+
Oct. 1, 1977	7.00	4.50%	A1/A+
Apr. 1, 1978	7.00	4.86%	A1/A+
Jan. 1, 1979	5.50	5.52%	A1/A+
May 1, 1979	5.50	5.59%	A1/A+
July 1, 1980	5.50	5.76%	Aa/AA-
Apr. 1, 1982	5.00	9.98%	Aa/AA-
Nov. 1, 1982	5.00	7.72%	Aa/AA-
Oct. 1, 1983	5.00	7.47%	Aa/AA-
May 1, 1994	2.30	4.88%*	Aa/AA/AA
April 1, 2003	9.09	3.84%*	Aa2/AA/AA
April 14, 2009	12.22	4.06%*	Aa2/AA+/AA
December 7, 2010	16.07	2.77%*	Aaa/AA+/AA+
Feb. 8, 2012	5.87	1.21%*	Aaa/AAA/AA+
January 15, 2014	8.99	1.44%	Aaa/AAA/AAA
March 27, 2013	0.99	0.09%	MIG1/SP-1+/F1+
March 24, 2014	0.99	0.09%	MIG1/SP-1+/F1+

Source: Department of Administration and Department of Revenue bond files

* True interest cost

TABLE 2.4
Original Issue General Obligation Bond Issues

date	purpose	\$ (thousands) par issued	ANIC or TIC ¹
June 1, 1958 ²	University of Alaska	\$ 1,290	2.97%
Aug. 1, 1958 ²	Military	65	3.09%
Dec. 1, 1958 ²	University of Alaska	537	3.51%
Dec. 1, 1958 ²	Military	1,040	3.25%
July 1, 1961	Transportation	12,500	3.56%
July 1, 1961	University of Alaska	1,200	3.54%
July 1, 1961	Airport	275	3.00%
July 1, 1962	Transportation	5,500	3.56%
July 1, 1962	University of Alaska	800	3.23%

TABLE 2.4 (continued)
Original Issue General Obligation Bond Issues

date	purpose	\$ (thousands) par issued	ANIC or TIC ¹
July 1, 1962	Airport	275	2.94%
July 1, 1962	Hospital	354	2.94%
April 1, 1963	University of Alaska	2,650	3.33%
April 1, 1963	Education	2,700	3.33%
April 1, 1963	Airport	1,550	3.33%
April 1, 1963	Education	600	3.10%
Jan. 1, 1964	Various	7,865	3.56%
Oct. 1, 1966	Various	12,485	3.75%
Oct. 1, 1966	Various	2,600	3.75%
May 1, 1967	Various	16,500	4.50%
Sept. 1, 1967	Transportation	10,500	4.90%
April 1, 1968	Various	15,500	5.18%
Oct. 1, 1968	Various	10,500	5.24%
May 1, 1969	Transportation	8,500	5.73%
July 1, 1969	Various	10,500	5.69%
Sept. 1, 1969	Various	8,200	5.62%
Oct. 1, 1969	University	2,030	3.00%
Mar. 1, 1970	Various	11,501	5.49%
July 1, 1970	Various	12,900	5.91%
Sept. 1, 1970	Various	11,325	5.87%
Feb. 1, 1971	Various	21,325	5.07%
June 1, 1971	Various	18,880	6.03%
June 1, 1971	University	3,750	6.04%
June 1, 1971	University	1,200	6.00%
Feb. 1, 1972	Various	23,445	5.23%
May 1, 1972	Various	30,000	5.15%
Jan. 1, 1973	Transportation	20,000	5.12%
June 1, 1973	Various	27,000	5.10%
Aug. 1, 1973	Various	31,000	5.80%
Sept. 1, 1974	Various	30,000	6.85%
Feb. 1, 1975	Various	40,300	5.98%
May 1, 1975	Various	42,000	6.52%
Oct. 1, 1975	Various	42,915	6.85%
March 1, 1976	Various	40,000	5.86%
July 1, 1976	Various	40,000	5.80%
Feb. 1, 1977	Various	40,000	5.08%
Oct. 1, 1977	Various	40,000	4.50%
April 1, 1978	Various	45,000	4.86%
Jan. 1, 1979	Various	40,000	5.52%
May 1, 1979	Various	60,000	5.59%
July 1, 1980	Various	125,000	5.76%
April 1, 1982	Various	200,000	9.98%
Nov. 1, 1982	Various	185,000	7.72%
Oct. 1, 1983	Various	78,000	7.47%
April 1, 2003	Various	461,935	3.84%
April 14, 2009	Transportation	165,000	4.06%
Dec. 7, 2010	Education	200,000	2.77%
Jan. 23, 2013	Education	162,480	1.44%
March 27, 2013	Transportation	149,645	0.09%
March 24, 2014	Transportation	170,000	0.09%
Total		\$ 2,706,117	

¹ ANIC - Average Net Interest Cost until October 1, 1983
all subsequent sales are true interest cost.

² State assumed obligation of Territory.

Source: State Bond Committee records.

TABLE 2.5
General Obligation Debt
Issued by Purpose
 \$ (thousands)

purpose	authorization issued	percentage
Transportation	\$ 1,114,471	42.8%
Education	1,021,122	39.2%
Water and Sewer	135,640	5.2%
Fish, Game, and Recreation	93,099	3.6%
Public Safety (Fire and Corrections)	86,544	3.3%
Flood Control and Harbor Development	75,790	2.9%
Health and Housing	75,534	2.9%
Total	\$ 2,602,200	100.0%

2. Lease-Purchase Financing

a. General

Lease-purchase financing involves the issuance, by a lessor, of debt which is secured by the lease payments from the lessee (State) and by the leased facilities.

Lease-purchase obligations and capital leases may provide for the acquisition of the property by the lessee by the end of the lease. Alternatively, the term of the lease, the lease payments, or purchase option price are such that the lessee (State) is considered the owner of the property for accounting, credit, or federal tax purposes from the outset of the lease. As a result, the interest portion of the lease payments is treated as tax-exempt interest income under the federal income tax.

A lease-purchase financing obligation may take the form of either revenue bonds or certificates of participation. In cases where the State is the lessee, the fact that the lease payments are subject to annual appropriations precludes the obligations from being considered State debt under the Constitution and thus requiring voter approval. However, because the debt obligation is paid from the State's General Fund, these obligations are counted by the rating agencies in measuring the State's debt burden.

b. Certificates of Participation (COP's)

Certificates of participation in rent (COP's) are similar to lease revenue bonds. The certificates represent fractional interests or shares in lease payments from lessees, in this case the State, and are sold to finance construction or purchase of the leased facilities. The issuer can be a private developer, public agency, or other party acting as lessor. It can be the State itself, utilizing a trustee to hold title to the property and serve as lessor.

COP's are payable solely from the annual lease payments made by the State. These payments are subject to legislative appropriation. Therefore, COP's are not considered State debt and are not subject to voter approval.

c. Capital Leases

The State is a lessee in four facilities that qualify as capital leases and have associated lease financing, the Atwood Building and parking garage financed by general obligation bonds of the Alaska Housing Finance Corporation, the Anchorage Jail financed by lease revenue bonds of the Municipality of Anchorage, and the Goose Creek Correctional Facility financed by lease revenue bonds of the Matanuska Susitna Borough. In

these financings, legislation authorized the leases to be pledged as security. The State may acquire the Atwood Building at the term of the lease, the State will own the Goose Creek Correctional Facility at the term of the lease, and the State will pay the full cost of the constructing the Anchorage Jail. Accordingly, the financings qualify as lease-purchase from an accounting, credit, or federal tax standpoint. In other state facility leases, the leases do not qualify as lease-purchases, and are called operating leases.

The following Table 2.6 summarizes issued and outstanding COPs.

TABLE 2.6
State of Alaska Lease-Purchase Financing
Outstanding \$ (thousands)

<u>Certificates of Participation (COP's)</u>				
	date	amount issued	6/30/2014	final maturity
State Virology Laboratory Facility 2005 B	10/1/2005	24,000	4,910	2/1/2017
Total Certificates of Participation		\$ 24,000	\$ 4,910	

Source: Department of Revenue

International Airport System Revenue Bonds

Bonds have been issued to finance improvements to the State's two international airports and are secured by a first lien on gross revenues derived from airport operations. The Commissioner of Transportation and Public Facilities is required by each bond resolution to fix and collect fees, charges, and rentals for the use of facilities of the International Airports sufficient each year to provide adjusted net revenues at least equal to 125 percent of debt service requirements during that year. Table 2.8 indicates that over the past ten fiscal years, adjusted net revenues have exceeded the amount required to pay debt service. In 2013, the State entered into a new rate and fee agreements with air carriers using the airports. The rents and fees calculated according to the agreements are airline terminal building rental rates, landing fees, international terminal docking fees, passenger loading bridge fees, and charges relating to federal inspection services. The agreements also establish procedures for review and adjustment of airline rents and fees for each fiscal year to ensure that revenues are sufficient to meet operations and maintenance expenses, debt service requirements of the revenue bonds and other funding requirements established by the resolution authorizing issuance of the revenue bonds.

The Alaska International Airport System bonds carry ratings of A1 by Moody's and A+ by Fitch Ratings.

The following Tables 2.7 and 2.8 provide additional information on the Airport Revenue Bonds.

TABLE 2.7
International Airports System
Debt Outstanding
\$ (thousands)

revenue bonds	date	amount issued	outstanding at 6/30/14	interest rate (%)	final maturity
Series 1999 A	1/15/1999	162,500	11,290	5.00	10/1/2024
Series 1999 B	1/15/1999	16,675	735	4.60	10/1/2015
Series 1999 C	10/1/1999	25,000	1,915	6.22	10/1/2024
Series 2003 A	12/3/2003	73,025	505	5.00	10/1/2024
Series 2003 B	12/3/2003	21,900	21,900	5.00	10/1/2028
Series 2006 A	3/14/2006	118,975	77,600	4.88	10/1/2022
Series 2006 B	3/14/2006	70,760	70,760	5.00	10/1/2027
Series 2006 D	3/14/2006	104,860	103,845	4.93	10/1/2027
Series 2009 A	1/6/2009	50,000	50,000	variable	10/1/2030
Series 2010 A	9/29/2010	117,271	117,270	4.96	10/1/2027
Series 2010 B	9/29/2010	21,685	15,215	4.65	10/1/2018
Series 2010 C	9/29/2010	12,565	12,565	5.00	10/1/2033
Series 2010 D*	9/29/2010	19,540	19,540	6.28	10/1/2035
Total Bonds		<u>\$ 814,756</u>	<u>\$ 503,140</u>		

*The 2010 D bonds are Build America Bonds eligible for a 35% federal interest rate subsidy
Source: State of Alaska financial statements, International Airports.

TABLE 2.8
International Airports System Revenue Bonds

fiscal year	net revenue (\$ millions)	debt service (\$ millions) ¹	ratio net revenues to debt service ²
1995	15.6	5.6	2.79
1996	17.9	5.7	3.14
1997	19.7	5.7	3.46
1998	20.7	5.7	3.63
1999	16.3	5.7	2.86
2000	18.9	4.8	3.94
2001	37.4	15.2	2.46
2002	30.5	15.2	2.01
2003	33.9	17.6	1.93
2004	33.0	22.1	1.49
2005	48.7	31.1	1.57
2006	43.7	32.4	1.35
2007	58.4	45.4	1.29
2008	62.7	49.1	1.28
2009	38.0	24.9	1.52
2010	51.3	24.6	2.09
2011	44.5	31.7	1.40
2012	41.6	31.2	1.33
2013	41.6	31.2	1.33
2014	51.7	41.2	1.25

1 Required coverage of 1.3 until 1999.

2 Since 1999 coverage of 1.25 is required.

Excludes debt service bonds which are defeased

Source: AIAS, Comprehensive Annual Report

3. Revenue Anticipation Notes (RAN's)

There have been no RAN's issued.

4. Toll Facilities' Revenue Bonds

Legislation enacted in 1984 authorizes the issuance of State revenue bonds for toll bridges, tunnels, highways, roads, crossings, and causeways. Under AS 37.15.610, the maximum amount of toll facilities bonds that may be issued is \$500 million. No bonds have been issued. Legislative approval of bonds to be issued and an appropriation of bond proceeds are required before any project proceeds.

B. State Agencies (Alphabetically)

1. Alaska Aerospace Development Corporation

The Alaska Aerospace Development Corporation was created in 1991 as a public corporation of the State. It is located for administrative purposes within the Department of Commerce and Economic Development and affiliated with the University of Alaska but with a separate and independent legal existence. The purpose of the Corporation is to allow the State to take a lead role in the exploration and development of space, to enhance

human and economic development, to provide a unified direction for space-related economic growth, education, tourism, research development, and improve the entrepreneurial atmosphere in the State.

The Corporation may issue moral obligation bonds and otherwise incur indebtedness in order to pay the cost of a project or projects to construct or improve launch facilities or other space and aerospace projects or in order to provide money for the Corporation's purposes. Original bond issues in excess of \$1,000,000 each calendar year must have legislative approval. In addition, legislative approval is required if the annual debt service on all outstanding bonds issued and bonds proposed to be issued exceeds \$1,000,000 in a fiscal year. The Corporation has not issued any bonds.

2. Alaska Energy Authority

The Alaska Energy Authority (AEA) was created by the Alaska State Legislature in 1976 to finance, construct, and operate power production and transmission facilities. In May of 1993, the Alaska Legislature passed a bill which set in motion a fundamental change in the State's role in energy programs and oversight of State owned power projects.

In May of 1993, Governor Hickel signed legislation that substantially revised the duties and responsibilities of the independent corporate entity that was AEA and created a new Division of Energy within the Department of Community and Regional Affairs. Effective August 18, 1993, this new division took on the Authority's rural programs and planning as well as the responsibility and management for a number of small electrical and waste heat recovery systems located throughout Alaska. The Board of the Alaska Industrial Development and Export Authority (AIDEA) also became the Board of AEA and the ability to have employees was eliminated. AEA continues to exist as a public corporation responsible for, among other things, its outstanding bonds, but its ability to construct and acquire projects was eliminated.

From 1993 through mid-1999 AEA existed for the purpose of owning and operating power production and transmission facilities with original costs in excess of \$1 billion. AEA's assets currently include the Bradley Lake hydroelectric project and the Alaska Intertie. The Four Dam Pool hydroelectric facilities (Swan Lake, Tyee Lake, Terror Lake and Solomon Gulch) were sold in January 2002. The Larsen Bay hydroelectric project was transferred to the City of Larsen Bay in September 2010.

Pursuant to legislation effective July 1, 1999 rural energy programs previously administered by the former Department of Community and Regional Affairs, Division of Energy, were transferred to AEA for administration as part of a larger reorganization of state agencies. Five general energy programs, including the rural energy programs originally part of AEA prior to the 1993 reorganization, comprising more than twenty smaller programs were moved to AEA. Effective July 14, 2011, the Legislature empowered AEA to acquire, construct, own and operate a hydroelectric project located on the Susitna River. Under this legislative authorization, AEA is working on the planning, design and licensing of the Susitna-Watana Hydroelectric Project

a. Debt Issued and Outstanding

Legislation that became effective in August, 1981 established an Energy Program for Alaska administered by AEA. Under the Energy Program, AEA was able to acquire or construct power projects with money appropriated by the Legislature to the Power Development Fund. Debt issued under the Energy Program was secured by power sales contracts which provided that each project constructed under the program bore charges to service the debt based on its pro-rata share of the construction costs of all projects of the program.

AEA issued short-term debt in the amount of \$200 million to finance construction of three hydroelectric projects known as the Four Dam Pool Hydroelectric Projects under the Energy Program for Alaska. In 1984, a State appropriation was enacted to the Department of Commerce and Economic Development for a loan to AEA

to refinance the short-term debt. A loan agreement eventually totaling \$192,847,000 was executed on September 27, 1984 to meet the maturities of the short-term debt.

In 1982, AEA assumed \$44,858,858 of debt payable to the Rural Electrification Association (REA) in connection with the Solomon Gulch hydroelectric project, the fourth dam in the Four Dam Pool. At the same time that AEA assumed the REA debt, it deposited an amount with a trustee sufficient to defease the debt.

Legislation enacted into law in 1985 exempted Four Dam Pool wholesale power rates from provisions of the Energy Program for Alaska that tie rates to total debt issued under the program. As a result, power sales agreements effective October 28, 1985 were signed that provided the means for AEA to repay the State loans.

A new loan agreement for \$187,480,249 effective concurrently with the power sales agreements was executed providing for repayment of State loans at approximately 6 percent interest with a 45-year term. On September 22, 1986, the State lent AEA an additional \$1 million under the loan agreement to reimburse local communities for their costs in negotiating the power sales agreements. The loan was secured by the hydroelectric facilities of the Pool and any AEA revenues from power sales from the facilities.

In January 2002, pursuant to legislation enacted in 2000 and 2001, the Four Dam Pool projects were sold to The Four Dam Pool Power Agency, a joint action agency. At the time of sale the Agency's membership was composed solely of the utilities that purchase power from the Four Dam Pool projects. Under the terms of the Sale, the Agency was assigned all of AEA's interest and assumed all of AEA's obligations in the Four Dam Pool projects and the Power Sales agreement. As part of the transaction, the remaining balance of debt owed to the State was forgiven.

On November 20, 1985, \$267,500,000 of AEA bonds were issued to provide interim financing for a fifth project under the Energy Program for Alaska, the Bradley Lake hydroelectric project. The bonds were general obligations of the Authority and were secured by bank letters of credit and a capital reserve fund. The bonds were retired in fiscal year 1991.

Power Revenue Bonds, First and Second Series, were issued in September, 1989 and August, 1990, respectively. They were used to refund AEA's Variable Rate Demand Bonds for the long term financing of the construction costs of the Bradley Lake Hydroelectric Project.

On April 6, 1999 AEA issued \$59,485,000 of Power Revenue Refunding Bonds, Third Series, for the purpose of refunding \$59,110,000 of the First Series Bonds. The refunded First Series Bonds were called on July 1, 1999.

On April 13, 1999, AEA issued \$30,640,000 of Power Revenue Refunding Bonds, Fifth Series, for the purpose of refunding \$28,910,000 of the First Series Bonds. The refunded First Series Bonds were called on July 1, 1999.

On April 4, 2000, AEA issued \$47,710,000 of Power Revenue Refunding Bonds, Fourth Series, for the purpose of refunding \$46,235,000 of the Second Series Bonds. The refunded Second Series Bonds were called on July 1, 2000.

In July 2010 AEA issued \$28,800,000 of Power Revenue Refunding Bonds, Sixth Series, to refund \$30,640,000 aggregate outstanding principal amount of the AEA Power Revenue Bonds, Fifth Series, and to pay costs of issuing the bonds. The refunded bonds were called on August 2, 2010.

The bonds related to the Bradley Lake project are general obligations of AEA and have a capital reserve fund backed by the moral obligation of the State of Alaska. The project and all of the revenues derived by AEA from the operation of the Bradley Lake Project and all moneys, securities and funds (except the excess earnings fund), including a capital reserve fund, held or set aside are pledged and assigned to secure the payment of principal, redemption premium, if any, and interest on the Bradley Lake bonds. AEA has covenanted to notify

the State Legislature of any failure to maintain the capital reserve fund at its required level. The bonds are further secured by bond insurance. AEA collects from each power purchaser a percentage share of annual project costs. A portion of the outstanding Bradley Lake bonds mature annually each July 1 through the year 2021 with interest rates ranging from 2.5% to 6.25%.

In 1991, a power sales agreement was signed between AEA and the City of Larsen Bay. Bonds totaling \$855,000 were issued to provide funds to complete the financing and construction of an earth filled dam to generate power for Larsen Bay. The bonds were secured by a letter of credit. In June 2002, all remaining outstanding bonds were defeased and the bonds were called on October 1, 2002.

In May 1992, AEA issued \$56,890,000 of tax-exempt bonds that allowed the City and Borough of Sitka (Sitka) to refinance its 1979 municipal bonds, resulting in significant debt service savings to Sitka. In November 1997, AEA issued \$22,080,000 of tax-exempt bonds to advance refund and defease \$20,145,000 of the Series 1992 bonds (collectively with the Series 1992 bonds, the Sitka Bonds). In December 2010, the Alaska Municipal Bond Bank issued bonds, the proceeds of which were used to refund and defease the Sitka Bonds. The Series 1992 Bonds were defeased and \$8,200,000 remained outstanding at June 30, 2013. The Series 1997 bonds were called and redeemed in January 2011.

At June 30, 2014, AEA's outstanding debt was \$78.9 million, as shown below in Table 2.9.

TABLE 2.9
Alaska Energy Authority
Debt Issued and Outstanding
\$ (thousands)

	date	amount issued	outstanding at 6/30/14	final maturity
Variable Rate Demand Note (Bradley Lake Hydroelectric Project)	9/7/1989	111,755	100	7/1/2021
Power Revenue Bonds, Third Series (Bradley Lake Hydroelectric Project)	4/6/1999	59,485	21,050	7/1/2017
Power Revenue Bonds, Fourth Series (Bradley Lake Hydroelectric Project)	4/4/2000	47,710	28,940	7/1/2021
Power Revenue Bonds, Fifth Series (Bradley Lake Hydroelectric Project)	7/1/2011	28,800	28,800	7/1/2021
Total		<u>\$ 247,750</u>	<u>\$ 78,890</u>	

Source: Alaska Energy Authority financial statements.

3. Alaska Housing Finance Corporation

The Alaska Housing Finance Corporation (AHFC) is a public corporation administratively located within the Department of Revenue but with a separate and independent legal existence. AHFC was chartered in 1971 to provide financing for low and moderate income housing and housing located in remote, underdeveloped, or blighted areas of the State. Effective July 1, 1992, the Alaska State Housing Authority (ASHA) was abolished and the duties assigned to it were transferred to the Alaska Housing Finance Corporation.

Since 1980, when AHFC's powers were expanded by removing borrower income restrictions, the Corporation has emerged as a major supplier of mortgage funds in the State, in addition to being the largest issuer of debt (taxable and tax-exempt). Table 3.0 indicates the amounts of AHFC borrowing since 1973.

TABLE 3.0
Alaska Housing Finance Corporation
Debt Issued by Fiscal Year Ending June 30
 \$ (thousands)

fiscal year	debt issued
1973-1980	\$ 655,395
1981-1990	7,065,380
1991	806,104
1992	452,760
1993	200,000
1994	384,060
1995	365,000
1996	365,000
1997	599,836
1998	470,405
1999	92,365
2000	883,435
2001	409,670
2002	884,150
2003	382,710
2004	287,200
2005	412,730
2006	333,675
2007	1,192,873
2008	234,290
2009	287,640
2010	354,840
2011	248,345
2012	229,055
2013	482,015
2014	124,400
Total	<u><u>\$ 18,203,333</u></u> ¹

Source: Alaska Housing Finance Corporation

Includes AHFC sponsored conduit and subsidiary issued debt but not public housing (ASHA)

The bonds issued by AHFC are secured by the general obligation pledge of the Corporation and mortgages purchased with bond proceeds or, in the case of collateralized debt, by mortgage-backed securities as more fully explained below. AHFC subsidiary issued debt is not secured by the general obligation of the corporation but rather by pledged receipts paid to the state under the Master Settlement Agreement.

Additional security features on various AHFC debt obligations may include federal or private mortgage insurance on individual mortgage loans, mortgage pool insurance, bank loan facility or letter of credit arrangements in the event mortgage prepayments are less than anticipated by the bond redemption schedule, bond insurance, and the full faith and credit guarantee of the State on veterans' mortgage bonds.

a. Federal Tax-Exemption and Ceilings

The Federal Tax Reform Act of 1984 established a ceiling of \$302.5 million, in the case of Alaska, for annual issuance of qualified veterans' mortgage bonds on a tax-exempt basis. The Act also makes more restrictive the definition of those who qualify as veterans.

Since 1980, when the Mortgage Subsidy Bond Tax Act was enacted, Alaska also had been subject to a \$200 million annual ceiling on tax-exemption for qualified mortgage revenue bonds (AHFC Home Mortgage Bonds, also known as AHFC's first-time home-buyer bonds). AHFC's allocation of Private Activity Bond Volume Cap is presented in Table 5.4.

b. Bond Authorization

AS 18.56.110(g) which took effect in FY 1982 placed a statutory ceiling on AHFC annual bond issuance for the first time. The annual issuance amount currently authorized is \$1,500 million.

c. Security for Debt

Included in the above amounts are State Guaranteed veterans' bonds which were authorized by law and the voters in the following amounts (in millions):

<u>Authorization Calendar Year</u>	<u>Authorized</u>	<u>Issued as of June 30, 2014</u>
1982	400.0	400.0
1983	500.0	500.0
1984	700.0	700.0
1986	600.0	600.0
2002	500.0	404.9
2010	600.0	404.9
Total:	<u>3,300.0</u>	<u>2,605.4</u>

As of June 30, 2014, \$694.6 million of state guaranteed bonds remain unissued.

d. Debt Issued and Outstanding

Table 3.1 summarizes AHFC debt issued and outstanding by type of debt.

TABLE 3.1
ALASKA HOUSING FINANCE CORPORATION
Debt Issued and Outstanding by Type of Debt
 \$ (thousands)

	credit rating (1)	Debt Issued In FY 2014	Total debt issued	debt outstanding at 6/30/14
HMRB & Mortgage Revenue Bonds	Aaa/AAA (2)	-	2,547,215	\$ 928,425
Veterans Collateralized Bonds (Veterans Mortgage Program)	Aaa/AAA	-	1,900,385	73,455
General Mortgage Revenue Bonds II 2012 Series A&B	AA+/AA+(4)	-	195,890	186,495
Housing Development Bonds 2004 Series A-C	Aaa,AAA,A/AAA,	-	127,210	100
General Housing Purpose Bonds 2005 Series A	Aaa/AAA/AAA	-	143,235	133,870
General Housing Purpose Bonds 2005 Series B&C	Aaa/AAA/AAA	-	164,495	124,075
Governmental Purpose Bonds 1997 Series A	Aaa/AAA/AAA	-	33,000	14,600
Governmental Purpose Bonds 2001 Series A-D	Aaa,VMIG-1/AAA,A-1+/AAA,F-1+	-	370,170	118,775
State Capital Project Bonds 2002 Series A-C	Aaa/AAA/AAA	-	107,710	50,760
State Capital Project Bonds 2006 Series A	Aaa/AAA/AAA	-	100,890	88,585
State Capital Project Bonds 2007 Series A-B	Aa2/AA/AA+	-	105,185	77,995
State Capital Project Bonds 2011 Series A	Aa2/AA+/AA+	-	95,525	78,975
State Capital Project Bonds II 2012 Series A&B	AA+/AA+(4)	-	149,360	141,270
State Capital Project Bonds II 2013 Series A&B	AA+/AA+(4)	-	136,765	136,765
State Capital Project Bonds II 2014 Series A	AA+/AA+(4)	95,115	95,115	95,115
State Capital Project Bonds II 2014 Series B	AA+/AA+(4)	29,285	29,285	29,285
NTSC, a subsidiary of AHFC:				
Tobacco Settlement Asset-Backed Bonds, Series 2006 A-C	Baa/ - /BBB (3)	-	411,988	353,208
Total		\$ 124,400	\$6,713,423	\$2,631,753

NOTES:

- 1 Ratings from Moody's, Standard & Poor's, & Fitch
- 2 Ratings for Collateralized Home Mortgage Revenue Bonds sold from 2007-2009 are Aa2/AA/AA+
- 3 Not rated by Standard & Poor's
- 4 Not rated by Moody's

	Credit rating as of 6/30/2014	Debt issued in FY 2013	Total Debt Issued	Debt outstanding at 6/30/14
Short-term debt outstanding				
Commercial Paper	P-1/A-1+/F-1+	N/A	N/A	65,000
Total				\$ 65,000

e. Collateralized and Insured Bonds

Collateralized bonds, which incorporate the guarantees of the Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA), and the Government National Mortgage Association (GNMA), should relieve concern about potential contingent liability to the State for that portion of AHFC indebtedness represented by such bonds. This is particularly reassuring in the case of State Guaranteed bonds (veterans' mortgage program) for which the full faith and credit of the State has been pledged.

The underlying conventional mortgages of AHFC's collateralized bonds issued during part or prior to July 1993 were exchanged for mortgage-backed certificates through FHLMC, FNMA or GNMA. The certificates, and the mortgage payments thereon, are pledged to the bond trustee as security for the bonds. FHLMC, FNMA, and GNMA guarantee that the certificate holder, in this case the bond trustee and thus the bondholders, will receive the principal and interest when due. As of September 1, 2004 all FNMA mortgage-backed certificates were redeemed and replaced by the underlying pooled mortgage loans.

Collateralized bonds lower the cost of funds to AHFC. Collateralized bonds issued after July 1993 are structured to achieve "Triple A" ratings on the basis of the pledged whole loan collateral. Table 3.2 lists collateralized obligations.

TABLE 3.2
Alaska Housing Finance Corporation
Collateralized Debt Obligations
\$ (thousands)

issue	Tax Status	debt issued	date of bonds	guarantor	06/30/14 debt outstanding
Collateralized Bonds (Veterans Mortgage Program)					
2006 First Series	Exempt	190,000	9/19/2006	State of Alaska	56,220
2007 and 2008 First Series	Exempt	57,885	12/18/2007	State of Alaska	17,235
Total		<u>247,885</u>			<u>73,455</u>
Collateralized Home Mortgage Revenue Bonds & Mortgage Revenue Bonds					
2002 Series A	Exempt	170,000	5/16/2002	*	117,702
2006 Series A	Exempt	98,675	1/26/2006	*	19,865
2007 Series A	Exempt	75,000	5/31/2007	*	75,000
2007 Series B	Exempt	75,000	5/31/2007	*	75,000
2007 Series D	Exempt	89,370	5/31/2007	*	89,370
2009 Series A (HMRB)	Exempt	80,880	5/28/2009	*	80,880
2009 Series B	Exempt	80,880	5/28/2009	*	80,880
2009 Series D	Exempt	80,870	8/26/2009	*	80,870
2009 Series A-1	Exempt	64,350	9/30/2010	*	57,610
2010 Series A	Exempt	43,130	9/30/2010	*	35,190
2010 Series B	Exempt	35,680	9/30/2010	*	33,035
2009 Series A-2	Exempt	128,750	11/22/2011	*	107,630
2011 Series A	Taxable	28,945	11/22/2011	*	14,210
2011 Series B	Exempt	71,360	11/22/2011	*	61,180
Total		<u>1,122,890</u>			<u>928,422</u>
General Mortgage Revenue Bonds II					
Series 2012 A	Exempt	145,890	7/11/2012	*	136,495
Series 2012 B	Taxable	50,000	7/11/2012	*	50,000
Total		<u>195,890</u>			<u>186,495</u>
Governmental Purpose Bonds					
Series 1997	Exempt	33,000	12/3/1997	*	14,600
Series 2012 B	Taxable	170,170	8/2/2001	*	118,775
Total		<u>203,170</u>			<u>133,375</u>
Total AHFC Collateralized Debt		<u>\$ 1,769,835</u>			<u>\$ 1,188,372</u>

During 1985, FNMA decided that it would enter into additional agreements for purchase of AHFC mortgages only if FNMA would have recourse against AHFC for foreclosed properties. With recourse, AHFC's obligation is to buy back the mortgage loans on the foreclosed properties.

Even with recourse to AHFC, the FNMA guarantee still provides an extra layer of insulation for the State from any obligation on AHFC collateralized debt. In the case of collateralized veterans' bonds, the State's guarantee would not be called upon in the event of default on the bonds prior to a default by FNMA on its guarantee. With respect to any other type of collateralized bond, the State has no obligation to step in should AHFC's assets be insufficient to satisfy any recourse. As of September 1, 2004 all FNMA mortgage-backed certificates were redeemed and replaced by the underlying pooled mortgage loans.

AHFC has always been responsible for foreclosure losses on any mortgages supporting GNMA certificates. However, such losses are minimized by the fact that GNMA only guarantees certificates representing pools of mortgages which are FHA insured or VA guaranteed. With the exception of certain mortgage loans, FHLMC does not have recourse against AHFC for losses on foreclosure.

Some bonds of AHFC are subject to bond guaranty insurance. The bond guarantor assures the holder of the debt that interest and principal will be repaid. The effect of the bond guarantee is to provide security in addition to specifically pledged collateral and the pledge of AHFC unrestricted resources.

TABLE 3.3
State Obligations on
Alaska Housing Finance Corporation Debt
\$ (thousands)

	outstanding at 6/30/14
State General Obligation Guarantee	
Collateralized Bonds AAA/AAA	\$ 73,455
Total State Obligations On AHFC Debt	73,455

f. Mortgage Reorigination

Mortgage reorigination included in a bond indenture permits AHFC to use payments and prepayments on mortgage loans securing the bond issue to purchase new mortgage loans only to the extent the payments and prepayments are in excess of debt service requirements. The recycling of mortgage loans is also limited by the 10-year rule. Ordinarily, these excess revenues would be used to retire bonds. Reorigination gives AHFC the option of making new loans or retiring bonds.

In conjunction with this provision, the maturity of the bond issue is extended beyond the maturity of the mortgage loans. This allows additional mortgages to be added to the bond issue, which then extends the average mortgage maturities to more closely coincide with bond maturities.

The benefit of mortgage reorigination is that it provides continued access to a pool of funds at a known tax-exempt interest rate. It serves as a hedge against a rise in interest rates or a loss of federal tax-exemption on future bond issues.

In the case of Veterans' Mortgage Program Bonds, which are guaranteed by the State of Alaska, the bond indentures require AHFC to suspend reorigination for a calendar year if it receives written notification from the State Bond Committee prior to January 1 that reorigination would impair the ability of the Committee to sell State general obligation bonds on advantageous terms or risk a rating reduction on such bonds.

The Public Housing Division (formerly Alaska State Housing Authority (ASHA))

In 1992, under Ch. 4, FSSLA 1992, effective July 1, 1992, the Alaska State Housing Authority was abolished and the duties assigned were transferred to the Alaska Housing Finance Corporation. The Alaska State Housing Authority (ASHA), a public corporation of the State, was created in 1949 and authorized to: construct, operate, and manage low and moderate income housing projects; finance rental housing projects; engage in urban renewal programs; and construct and acquire public buildings for lease to the State.

a. Security for Bonds

ASHA had issued bonds which were secured by revenues from the projects financed, by ASHA's general assets, or by pledges of federal grants typically from the U.S. Department of Housing and Urban Development (HUD) for rent supplements on housing projects. The bonds are not general obligations of the State. ASHA was not authorized to issue bonds backed by a capital reserve fund which had the State's moral obligation attached.

b. Bond Authorization

ASHA financing of public building projects for lease to the State required approval by law pursuant to AS 18.55.100(d) which became effective September 4, 1986. Approval by law was not required for other types of ASHA projects or for bond issuance per se.

c. Housing Debt

ASHA had issued debt to finance low and moderate income rental housing. This debt was not considered to be State Supported Debt because the revenue pledged to retire the bonds did not rely on State appropriations.

ASHA's primary responsibility was to provide low income housing to eligible residents throughout the state. ASHA owned and operated subsidized housing programs sponsored by HUD such as Conventional Low Rent, Section 8 New Construction, Turnkey III Remote Housing, Mutual Help, Section 8 Additional Assistance, Section 8 Vouchers, and Section 8 Existing Housing.

d. Collateralized Bond

ASHA had issued FHA Insured Mortgage Revenue Bonds to provide loans to private developers for construction of multi-family rental housing. These were tax-exempt Qualified Private Activity Bonds by virtue of the projects reserving certain percentages of their units for low income tenants.

The FHA Insured Mortgage Revenue Bonds were not general obligations of ASHA but were backed solely by the mortgage payments from the borrower and FHA insurance in the event of the borrower's default. FHA absorbed losses on foreclosure.

The developers of the projects, financed by all but the 1982 and 1983 Series A Bonds, defaulted on their obligations under the mortgage loans by failing to fully pay principal and interest on the due date. The bond trustee applied for and received FHA insurance benefits. The insurance proceeds and bond reserves have been used to defease the bonds secured by the defaulted loans.

The following Table 3.4 summarizes all AHFC outstanding debt.

TABLE 3.4
Alaska Housing Finance Corporation
Debt Outstanding
\$ (thousands)

bond program	Date Delivered	Amount Issued	Outstanding at 6/30/14	TIC (%)	final maturity
Home Mortgage Bonds					
2002 Series A Mortgage Revenue Bonds	5/16/2002	170,000	117,705	4.553	2036
2006 Series A Mortgage Revenue Bonds	1/26/2006	98,675	19,865	4.623	2036
2007 Series A Mortgage Revenue Bonds	5/31/2007	75,000	75,000	4.048	2041
2007 Series B Mortgage Revenue Bonds	5/31/2007	75,000	75,000	4.048	2041
2007 Series D Mortgage Revenue Bonds	5/31/2007	89,370	89,370	4.090	2041
2009 Series A Home Mortgage Revenue Bonds	5/28/2009	80,880	80,880	4.375	2040
2009 Series B Home Mortgage Revenue Bonds	5/28/2009	80,880	80,880	4.375	2040
2009 Series D Home Mortgage Revenue Bonds	8/26/2009	80,870	80,870	4.893	2040
2009 Series A-1 Home Mortgage Revenue Bonds (Taxable)	9/30/2011	64,350	57,610	3.362	2041
2010 Series A Mortgage Revenue Bonds (Taxable)	9/30/2011	43,130	35,190	3.362	2027
2010 Series B Mortgage Revenue Bonds	9/30/2011	35,680	33,035	3.362	2040
2009 Series A-2 Mortgage Revenue Bonds	11/22/2011	128,750	107,630	2.532	2041
2011 Series A Mortgage Revenue Bonds	11/23/2011	28,945	14,210	N/A	2026
2011 Series B Mortgage Revenue Bonds	11/23/2011	71,360	61,180	2.532	2026
Total		1,122,890	928,425		
State Guaranteed Bonds					
2006 First Series, Collateralized	9/19/2006	190,000	56,220	4.700	2037
2007 and 2008 First Series, Collateralized	12/18/2007	57,885	17,235	5.023	2038
Total		247,885	73,455		
General Mortgage Revenue Bonds II					
2012 Series A	7/11/2012	145,890	136,495	3.653	2040
2012 Series B	7/11/2012	50,000	50,000	N/A	2042
Total		195,890	186,495		
Housing Development Bonds 1)					
2004 Series A (AMT)	3/4/2004	33,060	50	4.541	2030
2004 Series (B)	3/4/2004	52,025	50	4.541	2032
Total		85,085	100		
Government Purpose Bonds					
1997 Series A	12/3/1997	33,000	14,600	N/A	2027
2001 Series A	8/2/2001	76,580	53,455	N/A	2030
2001 Series B	8/2/2001	93,590	65,320	N/A	2030
Total		203,170	133,375		
State Capital Project Bonds					
2002 Series C	12/5/2002	60,250	50,760	N/A	2022
2006 Series A	10/25/2006	100,890	88,585	4.435	2040
2007 Series A	10/3/2007	42,415	33,010	4.139	2027
2007 Series B	10/3/2007	53,110	44,985	4.139	2029
2011 Series A	2/16/2011	105,185	78,975	4.333	2027
Total		361,850	296,315		

TABLE 3.4 (continued)
Alaska Housing Finance Corporation
Debt Outstanding
\$ (thousands)

bond program	Date Delivered	Amount Issued	Outstanding at 6/30/14	TIC (%)	final maturity
State Capital Projects II					
2012 Series A	10/17/2012	99,630	91,270	2.642	2032
2012 Series B	10/17/2012	50,000	50,000	N/A	2042
2013 Series A	5/30/2013	86,765	86,765	2.553	2032
2013 Series B	5/2/2013	50,000	50,000	N/A	2043
2014 Series A	1/15/2014	95,115	95,115	3.448	2033
2014 Series B	6/12/2014	<u>29,285</u>	<u>29,285</u>	2.682	2029
Total		410,795	402,435		
General Housing Purpose Bonds					
2005 Series A	1/27/2005	143,235	133,870	4.780	2041
2005 Series B	5/18/2005	147,610	114,460	4.474	2030
2005 Series C	5/18/2005	<u>16,885</u>	<u>9,615</u>	4.474	2017
Total		307,730	257,945		
Total Long Term Debt		\$2,935,295	\$2,278,545		
Short-term Debt Outstanding					
Commercial Paper	Various	<u>N/A</u>	<u>65,000</u>	NA	VAR
Total Short-term Debt		\$ -	\$ 65,000		

Notes:

- 1 Multifamily bond issues.

4. Alaska Industrial Development and Export Authority

The Alaska Industrial Development and Export Authority (AIDEA or Authority) is a public corporation administratively located in the Department of Commerce, Community and Economic Development but with separate and independent legal existence. Created in 1967, AIDEA promotes economic development within the State by:

- purchasing loan participations for industrial and commercial projects;
- owning, either directly, buying shares of a corporation, or as a member of an LLC and operating certain types of infrastructure facilities; and
- guaranteeing business loans and loans for export transactions.

Until 1990, AIDEA was able to and did issue bonds secured by a capital reserve fund with a State moral obligation. AIDEA currently has the ability to issue bonds with a State moral obligation on a capital reserve fund only if the bonds are issued to finance a power transmission intertie and are legislatively approved. AIDEA may issue bonds with reserve funds, but they will not have the moral obligation of the State of Alaska. AIDEA has no general obligation bonds with a capital reserve fund requirement outstanding. The Authority has covenanted that it will not incur any General Obligation indebtedness that will cause future estimated net income (as defined in the Amended and Restated Revolving Fund Bond Resolution) to be less than 150 percent of the General Obligation Annual Debt Service requirements in each year and to take no action to cause its Unrestricted Surplus to be less than the lesser of \$200 million or the amount of General Obligation Indebtedness outstanding and in no event less than \$100 million. The full faith and credit of the Authority's Revolving Fund secures the bonds currently outstanding under the resolution.

During 1988, reductions in the cash flow from AIDEA's loan portfolio reduced projected debt service coverage below 150 percent. The reduced cash flow stemmed from loan delinquencies, modifications, and foreclosures associated with Alaska's economic recession. In response to the declining debt service coverage, AIDEA defeased \$78,295,000 of its Economic Development Bonds and Consolidated Bonds by deposit of \$91,269,000 of U.S. Treasury securities purchased with AIDEA's general assets into an irrevocable trust. None of the defeased bonds remain outstanding.

During 1994, AIDEA defeased \$23,840,000 of its tax-exempt Umbrella Bonds and its Taxable Umbrella Bonds, in order to improve its projected debt service coverage. None of the bonds chosen for the defeasance would have been eligible for refunding. None of the defeased bonds remain outstanding. AIDEA's underlying ratings on its bonds are Aa3 by Moody's and AA+ by Standard & Poor's. All Revolving Fund Bonds are secured by the general assets and future revenues of the Authority.

AIDEA currently offers nine programs as follows:

i. Tax-Exempt Loan Participation Program

The Tax-Exempt Loan Participation Program can provide up to \$20 million for financing economic development projects. This program in the past was previously referred to as the "tax-exempt umbrella bond program" because many small projects financed under this program were grouped together when AIDEA issued bonds under an "umbrella". The bonds are tax-exempt by virtue of provisions in the federal tax code.

Proceeds of the bonds or Authority funds are generally used to purchase up to 90 percent of an eligible loan from financial institutions. The Tax-Exempt Loan Participation Program combines the previous Economic Development and Consolidated Bond Programs that were separate and which financed participations under and over \$1,000,000, respectively. In December 2010 \$14,470,000 of tax-exempt bonds were issued to fund a loan participation purchase. At June 30, 2014 \$13.0 million were outstanding.

ii. Taxable Loan Participation Program

In response to escalating federal restrictions on tax-exempt bonds, AIDEA implemented a taxable loan participation program. The program uses bonds or AIDEA funds to purchase loan participations. The provisions of the program are the same as for the Tax-Exempt Loan Participation Program except for the deletion of restrictions related to federal tax-exemption. This program was previously called the Taxable Umbrella Bond Program. The only bonds that have been issued under this program were issued in 1987 in the amount of \$14,540,000; the remaining amounts outstanding were defeased in 1994. None of the defeased bonds remain outstanding.

iii. Conduit Revenue Bond Program

Under the Conduit Revenue Bond program, AIDEA acts as a conduit in the sale and issuance of bonds, that may be tax-exempt or taxable. The bonds are generally secured by the project, the private borrower and/or the project's revenue stream.

AIDEA does not participate financially in the Conduit Revenue Bond projects nor are the Authority's assets or credit pledged as security for the bonds. Bonds issued under this program are not obligations of the Authority or the State. They are obligations of the private borrower or project only. Furthermore, the State's moral obligation does not stand behind these bonds.

Historically, the program was utilized primarily by financial institutions in conjunction with loans to private borrowers; those bonds generally are sold by private placement to the financial institution originating the loan rather than by public sale. The original demand for the program arose partially from lenders wanting the tax exemption on interest income; the Tax Reform Act of 1986 eliminated the deductibility of bank interest expense

allocable to holding of tax-exempt obligations and greatly reduced demand for the program from financial institutions. Recently, the program is being used to provide funds for IRC 501(c)(3) financings.

Most bonds under this program were tax-exempt by virtue of the small issue exemption and, more recently, are for qualified 501(c)(3) projects. A few have been exempt facility bonds. The exempt facility bonds and 501(c)(3) bonds are generally sold via public sale.

From inception to June 30, 2012, AIDEA has issued Revenue Bonds for 316 projects totaling \$1.35 billion (not including bonds issued to refund other bonds). The Authority has legislative authorization to issue revenue bonds to finance power transmission interties to be owned by electric utilities in a collective amount not to exceed \$185.0 million.

iv. Development Finance Program

Alaska statutes authorize AIDEA to finance development projects that it intends to own and operate. The types of facilities the Authority may own or operate include those for use in manufacturing, natural resource extraction, transportation of products or materials, and infrastructure for tourism destination facilities.

Bonds for projects to be owned or operated by AIDEA may be secured by the project, project revenues, specific assets of AIDEA's economic development account, or AIDEA's general assets. They can be general obligations or revenue bonds of the Authority.

Legislation enacted in 1985 authorized this program and authorized a bond sale of up to \$175.0 million to provide financing for the DeLong Mountain Transportation Project. The Project consists of a road and port owned and operated by AIDEA to facilitate the development of the Red Dog and other mines in Northwest Alaska. In 1987, \$103.3 million of such bonds were issued, the remaining bonds were redeemed in 1997.

The Legislature has enacted legislation authorizing the Authority to finance, design and construct or reconstruct additional Economic Development projects:

- (a) The Legislature authorized the issuance of up to \$25.0 million of bonds for the reconstruction of a public use ore terminal in Skagway, Alaska. A \$25.0 million bond issue was delivered in December 1990. All remaining outstanding bonds were called in April 2002.
- (b) The Legislature authorized the issuance of up to \$10.0 million of bonds for improvements to the City of Unalaska Marine Center. The project was completed in late 1991. Bonds totaling \$7.0 million were issued in December 1991 to finance the project. In May 2000 the City of Unalaska paid all remaining financial obligations related to the project, including providing for the retirement of all outstanding bonds and, in accordance with the terms of the agreement, the project was transferred to the City.
- (c) The Legislature authorized the issuance of up to \$85.0 million of bonds to finance the acquisition, design and construction of aircraft maintenance and air cargo/air transport support facilities located at the Anchorage International Airport. Construction of an aircraft maintenance facility began in August of 1992 and was completed in 1995. Bonds were issued in September, 1992 in the amount of \$28.0 million.

In June 2002, the Authority issued \$20,475,000 of refunding bonds for the purposes of refunding and defeasing the remaining outstanding bonds. The refunded bonds were called in July 2002, and all remaining outstanding bonds were called in April 2012.

- (d) AIDEA has \$55.0 million of remaining authorization (from the original \$85.0 million authorization discussed above) to issue bonds to finance the acquisition, design, and construction of aircraft maintenance/air cargo/air transport support facilities located at the Ted Stevens Anchorage International Airport.

- (e) The 1990 Legislature authorized AIDEA to issue up to \$85.0 million of bonds to assist in the financing of a coal fired power plant near Healy, Alaska. On July 18, 1996, \$85.0 million of Variable Rate Revolving Fund Bonds were issued to finance a portion of the Healy Clean Coal Project. In May 1998, \$85.0 million of bonds were issued to refund the variable rate revolving fund bonds. The bonds were defeased in March 2008 and retired in April 2008.
- (f) The 1993 Legislature enacted legislation authorizing the Authority to issue bonds not to exceed \$50.0 million for a facility to be constructed in Anchorage for the offloading, processing, storage and transloading of seafood. The Authority purchased the Alaska Seafood International Project in September 1999 and sold the facility in 2005. No bond issuance is anticipated.
- (g) The 1993 Legislature also enacted legislation authorizing the Authority to issue bonds not to exceed \$50.0 million for a bulk commodity loading and shipping terminal to be located at Point MacKenzie and owned by AIDEA. The 1996 Legislature modified this legislation to require that the facility be located within Cook Inlet. AIDEA does not currently anticipate participating in financing this project.
- (h) The 1995 Legislature authorized the Authority to issue up to \$20.0 million of bonds to finance the acquisition, design and construction of the Kodiak rocket launch complex and tracking station and the Fairbanks satellite ground station space park. The Kodiak rocket launch complex was constructed with other financing and the Authority does not currently anticipate that it will participate in financing the projects.
- (i) The 1996 Legislature authorized the Authority to issue up to \$85.0 million of bonds to finance the expansion, improvement and modification of the existing DeLong Mountain Transportation Project port facilities owned by the Authority. In 1997 the Authority issued \$150.0 million of Revolving Fund Bonds which included \$70.0 million for that purpose and \$80.0 million for the purpose of redeeming the 1987 DeLong Mountain Transportation Project Revenue Bonds. In February 2007, the Authority issued \$113,095,000 of refunding bonds for the purpose of refunding and defeasing, along with Authority funds, the remaining outstanding bonds. The defeased bonds were called in April 2007. In May 2008 the Authority issued \$107,385,000 of variable rate Revolving Fund Refunding Bonds for the purpose of refunding \$107,385,000 of Series 2007 A&B Revolving Fund Refunding Bonds and pay costs of issuance. The refunded bonds were redeemed in May 2008. In February 2010, AIDEA issued \$87,105,000 of fixed rate revolving fund refunding bonds for the purpose of refunding \$94,945,000 of Series 2000 A and B revolving fund bonds. The refunded bonds were redeemed February 24, 2010. At June 30, 2014 bonds totaling \$60.1 million were outstanding with no state moral obligation attached.
- (j) The 1996 Legislature authorized the issuance of up to \$100.0 million of bonds for the acquisition of the Snettisham hydroelectric project from the Alaska Power Administration. On August 19, 1998 AIDEA issued \$100 million of tax-exempt revenue bonds to finance the acquisition of the project. There is no State moral obligation attached. In December 1999 the Authority defeased \$6,865,000 of the bonds using funds on hand. All remaining defeased bonds were retired during the year ended June 30, 2011. At June 30, 2014 \$72.1 million remained outstanding.
- (k) The 1998 Legislature authorized the issuance of bonds (or other financing) up to: a) \$80.0 million to finance the expansion, improvement, and modification of the existing Red Dog Project port facilities and to finance the construction of new related facilities to be owned by AIDEA; b) \$30.0 million to finance the improvement and expansion of the Nome port facilities to be owned by AIDEA; and c) \$15.0 million to finance phase one construction and improvement of the proposed Hatcher Pass Ski Resort located in the Matanuska-Susitna Borough; in 2006 this authorization was modified and increased to \$25 million to finance the development of Hatcher Pass. The Authority does not currently anticipate that it will participate in financing the Nome facilities or the Hatcher Pass development.

- (l) The 2004 Legislature authorized the issuance of up to \$20.0 million of bonds to finance the acquisition, development, improvement and construction of port and related facilities on Lynn Canal in Southeast Alaska, to be owned by the Authority. The Authority does not currently anticipate that it will participate in this financing.
- (m) The 2011 Legislature authorized the issuance of up to \$65 million to finance the expansion, modification, improvement, and upgrading of the Skagway Ore Terminal.
- (n) The 2013 Legislature authorized the issuance of up to \$150,000,000 through the Sustainable Energy Transmission and Supply Development (SETS) Fund for the development, construction, and installation of, and the start-up costs of operation and maintenance for, a liquefied natural gas production plant and system and affiliated infrastructure on the North Slope and a natural gas distribution system and affiliated infrastructure in Interior Alaska. This bonding authorization expires June 30, 2018 if the Authority does not issue bonds before that date.
- (o) The 2014 Legislature authorized the issuance of up to \$145.0 million to finance the infrastructure and construction costs of the Bokan-Dotson Ridge rare earth element project. The Bokan-Dotson Ridge rare earth element project's surface complex shall be owned and operated by AIDEA or financed under AS44.88.172. This authorization was effective September 2014.
- (p) The 2014 Legislature authorized the issuance of up to \$125 million to finance the infrastructure and construction costs of the Niblack project. The Niblack project includes a mineral processing mill, associated dock, and loading and related infrastructure facilities at the Gravina Island Industrial Complex, as well as infrastructure at the project site on Prince of Wales Island to be owned by AIDEA or financed under AS44.88.172. This authorization was effective September 2014.

v. Business and Export Assistance Program

The Business and Export Assistance Program (Guarantee Program) was authorized by the 1998 Legislature by merging the Business Assistance Program and the Export Assistance Program, authorized in 1988 and 1987, respectively. AIDEA's goal under the Guarantee Program is to encourage projects that help diversify Alaska's economy and provide or retain jobs for Alaskans. The Guarantee Program provides a guarantee up to 80% of the principal balance, not to exceed \$1 million, to the financial institution who made the loan. The guarantee also covers accrued interest on loans.

vi. Rural Development Initiative Fund Loan Program (RDIF)

The RDIF is a loan program designed to create job opportunities in rural Alaska by providing small businesses with capital that may not be available through conventional markets. This program provides loans for working capital, equipment, construction, or other commercial purposes. To be eligible for a loan under this program, the business must be Alaskan-owned and located in a community with a population of 5,000 or less that is not connected by road or rail to Anchorage or Fairbanks, or with a population of 2,000 or less that is connected by road or rail to Anchorage or Fairbanks. The Department of Commerce, Community and Economic Development, Division of Economic Development, administers the program for AIDEA.

vii. Small Business Economic Development Revolving Loan Fund Program

AIDEA's Small Business Economic Development Revolving Loan Fund Program provides financing to eligible applicants under the United States Economic Development Administration Long-Term Economic Deterioration program and the Sudden and Severe Economic Dislocation program. The Small Business Economic Development Revolving Loan Fund was created to receive loan fund grants from the United States Economic Development Administration. The Department of Commerce, Community and Economic Development, Division of Economic Development, administers the program for AIDEA.

viii. Sustainable Energy Transmission and Supply Development Program (SETS)

The SETS program was established under the Alaska Sustainable Strategy for Energy Transmission and Supply (ASSETS) Act. ASSETS, enacted by the 27th Legislature and signed into law in June 2012, creates new programs and powers within AIDEA by offering a number of energy development financing options, including direct lending, loan participation and loan and bond guarantees, for “qualified energy development” projects. The SETS Fund is a new and legally separate fund within AIDEA.

ix. Arctic Infrastructure Development Program

The Arctic infrastructure development program was created within the Arctic Infrastructure Development Fund to promote and provide financing for arctic infrastructure development. The program provides a variety of financing options for qualified developments including, but not limited to, insuring project obligations, guaranteeing loans or bonds and establishing reserves, acquiring real or personal property, entering into lease agreements or similar financing agreements and borrowing money or issuing bonds. The creation of this program was effective October 2014. This program currently is not funded.

a. Bond Authorization

AS 44.88.095 places a statutory ceiling of \$400 million per twelve month period on AIDEA bond issuances, excluding refunding bonds. The Authority has general statutory power to issue bonds, but must obtain prior legislative approval to issue bonds in excess of \$10 million for a development finance project, excluding refunding bonds.

b. Debt Issued and Outstanding

AIDEA has issued \$1.28 billion of bonds with \$145.2 million outstanding on June 30, 2014 as shown in Tables 3.5—3.6.

TABLE 3.5
Alaska Industrial Development and Export Authority
Type of Debt Issued
 \$ (thousands)

calendar year	economic development bonds	consolidated bonds	umbrella bonds	taxable umbrella bonds	development bonds	revolving fund bonds
1981-2000	\$141,425	60,475	83,000	14,540	203,250	434,545
2001	-	-	-	-	-	-
2002	-	-	-	-	-	20,475
2003	-	-	-	-	-	-
2004	-	-	-	-	-	-
2005	-	-	-	-	-	-
2006	-	-	-	-	-	-
2007	-	-	-	-	-	113,095
2008	-	-	-	-	-	107,385
2009	-	-	-	-	-	-
2010	-	-	-	-	-	87,105
2011	-	-	-	-	-	14,470
2012	-	-	-	-	-	-
2013	-	-	-	-	-	-
2014	-	-	-	-	-	-
Total	\$141,425	\$ 60,475	\$83,000	\$ 14,540	\$203,250	\$ 777,075

TABLE 3.6
Alaska Industrial Development and Export Authority
Debt Issued and Outstanding
 \$ (thousands)

	Date	Amount Issued	Outstanding at 6/30/14
Development bonds			
Power Revenue Bonds, First Series (Snettisham Hydroelectric Project)	8/18/1998	100,000	72,060
Total		<u>100,000</u>	<u>72,060</u>
Revolving fund bonds			
Red Dog Port Facility (Refunding)	2/24/2010	87,105	60,135
Loan Participation	12/22/2010	14,470	13,030
		<u>101,575</u>	<u>73,165</u>
Tot: Total Bonds		<u>\$ 201,575</u>	<u>\$ 145,225</u>

Source: Financial Statements, various years, AIDEA

C. Alaska Medical Facility Authority

The Alaska Medical Facility Authority was a public authority administratively located in the Department of Revenue with separate and independent legal existence. The Authority was created by the Legislature in 1978 to finance construction and improvements to medical facilities in the State.

The authority issued two bonds totaling \$14.1 million. The Series 1983 bonds were redeemed on June 22, 1989. The Series 1979 bonds were redeemed on March 1, 1990. The Authority has no bonds currently outstanding.

D. Alaska Municipal Bond Bank

The Alaska Municipal Bond Bank (Bond Bank) was created as a public corporation by the State in 1975 for the purpose of lending money to Alaska's governmental units for their capital projects. The Bond Bank is empowered to issue bonds, the proceeds of which are used to purchase bonds, notes or certificates of participation of State municipalities. Most of the Bond Bank bonds maintain a Capital Reserve Fund with the State's moral obligation attached. As of June 30, 2014 the total principal amount of outstanding bonds and notes of the Bond Bank was \$934.1 million. Of this total amount outstanding, \$919.1 million represents general obligation bonds, \$4.4 million represents revenue bonds, and \$10.6 million represents non-recourse notes issued under the Coastal Energy Loan Program. General obligation and revenue bonds are serviced by the Bond Bank and are secured, in part, by past State appropriations to the Bond Bank, certain revenue streams of the municipality borrowing the proceeds, and additional moneys of the Bond Bank placed in a statutory capital reserve fund. The Bond Bank is covenanted to notify the State legislature of any failure to maintain the capital reserve fund at their required levels. The State legislature may appropriate funds to the Bond Bank to restore capital reserve funds to required amounts. (See "Moral Obligation Debt"). The Coastal Energy Loan Program notes do not have a claim on any capital reserve funds of the Bond Bank and are payable solely from the payments of the municipalities participating in the Program.

a. Advantages to Municipalities

The advantages to Alaska's municipalities of using the Bond Bank are several. Interest rates are lower because of the additional security achieved through the structure of the Bond Bank as well as the diversification of risk achieved by pooling municipal bond issues through the Bond Bank. The Bond Bank's general obligation program is currently rated AA+ by Fitch Ratings and AA+ by Standard & Poor's. These are higher ratings than most of Alaska's municipalities can achieve independently. The Bond Bank, carrying the name of the State of Alaska and being a more frequent issuer, is better known than many of Alaska's smaller units of government. This enhances the marketability of the bonds to investors nationally.

b. Municipal Debt Purchased

The Bond Bank has assisted 42 of Alaska's municipalities obtain financing for capital projects. These communities are geographically distributed throughout Alaska and represent virtually all sectors of the State's economy.

TABLE 3.7
Alaska Municipal Bond Bank
Outstanding Loans to Municipalities
as of 6/30/2014
\$ (thousands)

Governmental Unit	Outstanding Loan Amount	Percentage of Total
City & Borough of Sitka	137,575	15.19%
Kenai Peninsula Borough	126,050	13.92%
City & Borough of Juneau	112,610	12.43%
City of Ketchikan	109,165	12.05%
Kodiak Island Borough	89,640	9.90%
Ketchikan Gateway Borough	48,240	5.33%
Northwest Arctic Borough	44,485	4.91%
City of Seward	38,990	4.31%
City of Unalaska	36,770	4.06%
Aleutians East Borough	30,040	3.32%
Lake & Peninsula Borough	20,115	2.22%
City of Cordova	15,460	1.71%
Haines Borough	13,490	1.49%
Petersburg Borough	13,505	1.49%
City of Kodiak	13,520	1.49%
City of Dillingham	11,905	1.31%
City of Nome	6,265	0.69%
Municipality of Skagway	5,230	0.58%
Municipality of Anchorage	4,385	0.48%
City of Homer	3,605	0.40%
City of Valdez	2,950	0.33%
City of Bethel	2,940	0.32%
City of Sand Point	2,560	0.28%
City of King Cove	2,335	0.26%
City of Soldotna	2,225	0.25%
City & Borough of Wrangell	1,890	0.21%
City of Wasilla	1,880	0.21%
City of Galena	1,837	0.20%
City of Kenai	1,695	0.19%
City of Hoonah	1,190	0.13%
City of Palmer	1,080	0.12%
City of Adak	980	0.11%
City of North Pole	885	0.10%
City of Craig	115	0.01%
Total*	905,607	

Source: Alaska Municipal Bond Bank

*Does not include reserve obligations but does include direct loans

c. Security for Bonds

Municipal general obligation bonds are usually issued to finance facilities that do not generate revenue, such as schools, roads, public safety and municipal buildings. They are issued with the approval of the municipal voters and are secured by the full faith and credit of the municipality. Municipalities within the State of Alaska have no taxing limitations for debt service requirements.

The Bond Bank's historical mainstream program was created in 1976 by its General Bond Resolution that authorized the issuance of Bond Bank general obligation bonds to purchase general obligation bond issues of municipalities. A total of 101 general obligation bond series have been issued in order to secure funds to purchase \$1.5 billion in municipal debt.

In Fiscal Year 2006 a new General Bond Resolution was approved authorizing the issuance of Bond Bank general obligation bonds to purchase loans for both general obligation and revenue bond issues of municipalities. This ability to combine revenue and general obligation loans has increased operational efficiency for the Bond Bank and the economic benefits to communities. As of June 30, 2014 a total of 29 bond issues have been issued using the 2005 General Bond Resolution for a total amount of \$976.8 million.

Bonds issued by the Bond Bank to purchase municipal general obligation bonds are secured by:

- Full faith and credit or revenue pledge of each respective community with no taxing limitation for the general bonded debt issued to the Bond Bank.
- The pooled debt service reserve fund founded per the bond resolution. The reserve fund generally is funded to the tax allowed maximum based on the Bond Bank bonds.
- The statutory Bond Bank reserve fund monies available and not pledged to bond issues, which may be used to restore the debt service reserve fund in the event of default.
- The statutory right of the Bond Bank, in the event of default, to demand and receive from a State agency any funds held by that agency which are payable to the defaulting municipality.
- The moral obligation of the State of Alaska to maintain the debt service reserves at their required levels.
- The requirement to seek and successful inclusion of an appropriation in the State's operating budget to replenish the Bond Bank's reserve if there is a draw due to a default.

c. Bond Authorization

AS 44.85.180(c) was enacted in 1975, limiting Bond Bank bonds outstanding at any time to \$150 million. This statute was amended in 1983, 1984, 2003, 2006, 2010, and 2014 to raise the limit to \$200 million, \$300 million, 500 million, \$750 million, \$1 billion, and \$1.5875 billion respectively. Total Bond Bank bonds and notes outstanding as of June 30, 2014, were \$934.1 million. Thus, the limit on additional bond issuance at that time was \$565.9 million.

d. Bonds Issued and Outstanding

The types of Bond Bank bonds issued and outstanding are summarized in Table 3.8:

TABLE 3.8
Alaska Municipal Bond Bank
Summary of Bond Types Issued and Outstanding
 \$ (thousands)

Type	Amount Issued	Outstanding at 6/30/14
General Obligation Bonds	\$ 1,554,017	\$ 919,090
Revenue Bonds	173,790	4,385
Coastal Energy Bonds	41,873	10,476
	<u>\$ 1,769,680</u>	<u>\$ 933,951</u>

The Coastal Energy Reserve and Loan Bonds are not general obligations of the Bond Bank and are payable only from bond payments received from the underlying communities. These bonds do not have the State's moral obligation attached.

A listing of outstanding debt issued by the Bond Bank is found in Table 3.9:

TABLE 3.9
Alaska Municipal Bond Bank
Debt Issued and Outstanding
 \$ (thousands)

	Date	Amount Issued	Outstanding at 6/30/14
1976 General Resolution General Obligation Bonds			
2004 Series B	4/8/2004	17,425	340
2004 Series C	7/21/2004	14,575	670
2004 Series D	12/1/2004	13,925	1,510
2005 Series A	3/22/2005	32,655	18,900
2005 Series B	5/4/2005	27,625	3,990
2005 Series C	10/4/2005	32,060	20,815
2006 Series A	2/9/2006	19,255	7,220
Total		<u>157,520</u>	<u>53,445</u>

TABLE 3.9 (Continued)
Alaska Municipal Bond Bank
Debt Issued and Outstanding
 \$ (thousands)

	Date	Amount Issued	Outstanding at 6/30/14
2005 General Resolution General Obligation Bonds			
2005 Series One	10/20/2005	18,700	7,560
2006 Series One	6/21/2006	7,390	4,930
2006 Series Two	7/26/2006	40,265	33,505
2007 Series One	1/31/2007	26,735	16,640
2007 Series Two	4/5/2007	24,860	22,915
2007 Series Three	6/25/2007	14,715	12,085
2007 Series Four	8/28/2007	15,625	11,445
2007 Series Five	11/20/2007	6,000	5,535
2008 Series One	4/15/2008	62,355	49,360
2008 Series Two	7/22/2008	19,700	14,960
2009 Series One	1/8/2009	26,730	23,980
2009 Series Two	3/18/2009	30,295	16,740
2009 Series Three	9/21/2009	13,390	7,955
2009 Series Four A	12/3/2009	8,695	2,140
2009 Series Four B	12/3/2009	20,425	20,425
2010 Series One A	2/23/2010	20,420	9,505
2010 Series One B	2/23/2010	7,415	7,415
2010 Series Two A	5/20/2010	3,385	1,280
2010 Series Two B	5/20/2010	11,405	11,405
2010 Series Three A	9/16/2010	4,530	2,885
2010 Series Three B	9/16/2010	6,900	6,900
2010 Series Four A	12/9/2010	26,725	21,135
2010 Series Four B	12/9/2010	51,940	49,265
2011 Series One	3/1/2011	8,635	7,305
2011 Series Two	5/10/2011	12,130	9,065
2011 Series Three	9/15/2011	78,115	73,900
2012 Series One	3/6/2012	18,495	14,035
2012 Series Two	5/24/2012	52,795	49,250
2012 Series Three	10/18/2012	21,190	20,080
2013 Series One	3/12/2013	96,045	93,900
2013 Series Two A	6/19/2013	19,145	18,370
2013 Series Two B	6/19/2013	17,110	17,110
2013 Series Three	11/14/2013	72,045	72,045
2014 Series One	2/20/2014	61,205	61,205
2014 Series Two	6/19/2014	45,275	45,275
Total		<u>970,785</u>	<u>841,505</u>
2010 General Resolution General Obligation Bonds			
2010 Series A-1	12/21/2010	1,065	735
2010 Series A-2	12/21/2010	3,700	3,700
Total		<u>4,765</u>	<u>4,435</u>
Total General Obligation Bonds		<u>1,133,070</u>	<u>899,385</u>
Revenue Bonds			
2004 Series B Revenue Bonds	9/1/2004	5,365	4,385
		<u>5,365</u>	<u>4,385</u>
Total Alaska Municipal Bond Bank Debt		<u>\$ 1,138,435</u>	<u>\$ 903,770</u>

Source: Alaska Municipal Bond Bank Authority

E. Alaska Railroad Corporation

Legislation signed into law during 1984 established the Alaska Railroad Corporation as a public corporation of the State to manage the Alaska Railroad upon its acquisition from the Federal Government until its possible transfer to private ownership. The corporation is administratively placed within the Department of Commerce and Economic Development. The corporation has the power to issue bonds if such issuance is approved by law. Bonds issued by the corporation would not bear the full faith and credit of the State. The Railroad is not authorized to issue State moral obligation bonds.

By Chapter 77, SLA 1994, the Railroad is authorized to issue revenue bonds in the principal amount of \$55.0 million for the construction and acquisition of the Alaska Discovery Center for the Ship Creek Project in Anchorage. To date, no bonds have been issued.

Chapter 71, SLA 2003 authorized the ARRC to issue up to \$17 billion in revenue bonds to finance the construction of a natural gas pipeline and related facilities, subject to an agreement with a third party to pay the debt service and other costs of the bonds. To date, no bonds have been issued.

Chapter 46, SLA 2004 authorized the ARRC to issue up to \$500 million in revenue bonds, subject to an agreement with a third party to pay the debt service, and other related bond costs, to finance the cost of extending its rail line to Fort Greely, Alaska. To date, no bonds have been issued.

Chapter 28, SLA 2006 authorized the ARRC to issue up to \$165 million in revenue bonds to finance rail transportation projects that qualify for federal financial participation. On August 22, 2006, the Alaska Railroad issued \$76.4 million in revenue bonds. On August 29, 2007, the Alaska Railroad issued the remaining \$88.6 million in revenue bonds. At June 30, 2013 the ARRC had \$120.9 million of revenue bonds outstanding.

Chapter 65, SLA 2007 authorized the Alaska Railroad to issue up to \$2.9 billion in revenue bonds to finance all or a portion of the Kenai gasification project and Port MacKenzie rail spur project, subject to an agreement with a third party to pay the debt service and other costs of the bonds. To date, no bonds have been issued.

F. Alaska Student Loan Corporation

Chapter 92, SLA 1987 created the Alaska Student Loan Corporation (ASLC or Corporation), a public corporation administratively lodged in the Department of Education and Early Development but with a separate and independent legal existence. The Corporation's purpose is to lower costs for Alaskans pursuing education and training at a postsecondary level and for other qualified individuals attending postsecondary institutions in the State, through the financing of education loans. The security for the Corporation's debt consists of education loans and other assets of the Corporation. The bonds issued by the ASLC carry the State's moral obligation as security. The debt issued by the Corporation is not a general obligations of the State or the Corporation.

Bonds issued by the ASLC are tax-exempt and generally subject to the Private Activity Bond (PAB) ceiling established by the Tax Reform Act of 1986.

Total debt outstanding as of June 30, 2013 was \$313.0 million as shown in Table 4.0. With the exception of the 2012B Series Bonds, the Education Loan Revenue Bonds and Education Loan Backed Notes are rated AAA by both Fitch and Standard & Poor's. The 2012B Series Bonds are rated AA by Standard & Poor's. The 2005 Capital Project Revenue Bonds are insured by Assured Guaranty Municipal Corporation which is rated AA- by Standard & Poor's. The 2005 Capital Project Revenue Bonds carry the rating of Assured Guaranty Municipal Corporation.

TABLE 4.0
Alaska Student Loan Corporation
Debt Issued and Outstanding
 \$ (thousands)

Student Loan Revenue Bonds	Date	Amount Issued	Outstanding at 6/30/14	Final Maturity
2004 Series	5/19/2004	22,015	2,445	6/1/2017
2005 Series A	7/28/2005	58,250	22,250	6/1/2018
2006 Series A-2	5/25/2006	55,000	26,000	6/1/2018
2007 Series A-2	6/7/2007	18,500	11,500	6/1/2019
2007 Series A-3	6/7/2007	49,000	-	6/1/2014
2012 B Series	9/12/2012	93,435	54,435	12/1/2043
Taxable Education Loan Backed Notes				
2013A Series	3/28/2013	144,730	123,072	8/25/2031
Capital Project Revenue Bonds				
2005 Series A	3/30/2005	88,305	3,000	7/1/2014
Total		<u>\$529,235</u>	<u>\$ 242,702</u>	

Source: Alaska Student Loan Corp.

G. University of Alaska

In addition to the State issuing general obligation bonds to finance University related projects, the University issues notes and bonds for specific University purposes, some of which are secured by project revenues or University general revenues. Facilities that have been financed include Anchorage, Juneau and Fairbanks student centers, student housing units, research facilities, student recreation centers, and utility system. Capital assets, net of debt amounted to \$1.26 billion at June 30, 2014.

The University issued Housing System Bonds for housing and food service facility needs during the 1960's and early 1970's. Between 1960 and 1991, University of Alaska Heating Corporation issued bonds secured by lease payments made by the University from general fund appropriations. All of these bonds have been either repaid over time or defeased through issuance of University of Alaska General Revenue Bonds.

General Revenue Bonds Series N, O, P, Q, R and S are secured by a pledge of unrestricted current fund revenues generated from tuition, fees, recovery of indirect costs, sales and services of educational departments, miscellaneous receipts and auxiliaries. University general revenue bond debt is not a general obligation of the State nor does the State provide security for the debt in any other manner, i.e., by appropriations, guarantees, or moral obligation pledges.

Standard & Poor's first assigned a credit rating of AA- to the University revenue bonds in November of 1992. In December 1993, Moody's assigned a rating of A1. In June 1997, both rating agencies affirmed the earlier ratings and added "stable outlook" to those ratings. As of June 30, 2009 the University had achieved credit ratings of Aa3 with a stable outlook from Moody's Investors Service and AA- with a stable outlook from Standard & Poor's. In 2011 Moody's Investors Service revised their rating to Aa2. These ratings are lower than the State's General Obligation Bonds due to the lesser security of University general revenues, a relatively small unrestricted endowment in relation to its operating budget, and the University's heavy dependence upon State appropriation. The funded trustee-held debt service reserve requirement for general revenue bonds is approximately one half of peak annual debt service. Installment Contracts and Notes Payable have no such requirement.

In December 2012, the University entered into a long term lease agreement with Community Properties of Alaska, Inc. (CPA) to lease a new student dining facility on the University of Alaska Fairbanks Campus. CPA built the student dining facility using proceeds from its Lease Revenue Bonds 2012. Security for the Lease Revenue Bonds 2012 is the University's lease payments to CPA. The lease is recorded as a capital lease and the obligation is recorded at the present value of future minimum lease payments.

Total debt issued by the University and outstanding is summarized on Table 4.1.

TABLE 4.1
University of Alaska
Debt Issued and Outstanding

Revenue Bonds	Date	Amount	\$ (thousands)		Total debt service to maturity	Final maturity
			Principal Outstanding at 6/30/14	Interest to maturity		
2005 Series N	8/31/2005	24,355	7,705	1,400	9,105	10/1/2022
2008 Series O	1/31/2008	23,795	17,840	6,791	24,631	10/1/2033
2009 Series P	12/8/2009	14,045	8,155	1,482	9,637	10/1/2023
2011 Series Q	10/5/2011	48,870	45,015	16,774	61,789	10/1/2032
2012 Series R	3/5/2012	32,805	31,790	10,222	42,012	10/1/2030
2013 Series S	3/6/2013	31,020	30,050	10,132	40,182	10/1/2035
Total		174,890	140,555	46,801	187,356	
Installment Contracts	varies	5,298	1,605	102	1,707	4/15/2017
Notes Payable						
Capital Lease Liability (1)	12/19/2012	24,507	25,814	16,136	41,950	10/1/2044
Alaska Housing Corp	5/14/1997	30,000	13,655	1,346	15,001	2/1/2024
Total University Debt		\$234,695	\$ 181,629	\$ 64,385	\$ 246,014	

Source: University of Alaska

(1) "principal Outstanding" represents the present value of future payments on the University's long-term lease with Community Properties Alaska, Inc.

H. Municipal Debt

1. General Obligation Bonds

Alaskan municipalities had approximately \$2.4 billion in general obligation debt outstanding at the end of June, 2014. The level of Alaska municipalities' general obligation debt has been stable over the last five years, and the current amounts remain below the peak of \$2.673 billion in 1986.

High levels of State appropriations for municipal capital projects beginning in FY 1981 depressed municipal bond issuance for most purposes. However, liberalization in FY 1978 of State reimbursement of municipal school debt to 80 percent or higher from a previous 50 percent greatly stimulated issuance for school construction. The other major element of municipal G.O. debt has been the capital construction program of the North Slope Borough. More recently rolling municipal school debt reimbursement authorizations at the 60-70% level, have again stimulated borrowing at the local level.

When State reimbursement is netted out of municipal school debt, it becomes apparent that many Alaska municipalities have substantial debt capacity.

The following Table 4.2 summarizes municipal debt outstanding.

TABLE 4.2
Municipal General Obligation Bonds Outstanding
\$ (millions)

June 30	Amount	June 30	Amount	June 30	Amount
1975	\$ 351	1988	2,170.4	2001	1,850.4
1976	420.8	1989	1,966.9	2002	1,980.9
1977	519.5	1990	2,002.1	2003	1,932.6
1978	545.2	1991	1,854.8	2004	2,107.2
1979	768.5	1992	1,729.8	2005	2,345.8
1980	827.1	1993	1,814.0	2006	2,357.8
1981	1,091.0	1994	1,759.9	2007	2,402.1
1982	1,316.2	1995	1,901.6	2008	2,397.9
1983	1,619.1	1996	1,779.1	2009	2,423.0
1984	2,105.8	1997	1,777.5	2010	2,501.0
1985	2,084.0	1998	1,774.7	2011	2,499.9
1986	2,673.5	1999	1,832.0	2012	2,424.3
1987	2,463.9	2000	1,603.0	2013	2,406.8
				2014	2,417.7

Source: Alaska Taxable

2. General Obligation Debt Ratios

Table 4.3 present ratios of municipal debt to population and to the estimated full value of taxable property in Alaska. Alaska's sparse population leads to higher debt ratios than might be found in other states. The presence of enormous oil and gas property values in certain municipalities has been a significant contributed to higher debt capacity.

TABLE 4.3
Per Capita Municipal and State
General Obligation Debt
1985-2014

Year	Population (thousands)	Municipal Debt \$(millions)	State of Alaska debt \$(millions)	Total G.O. Debt \$(millions)	Per Capita G.O. Debt (dollars)
1985	547,475	2,084	924	3,029	5,534
1986	572,029	2,673	706	3,380	5,910
1987	574,200	2,463	598	3,062	5,333
1988	575,982	2,170	489	2,660	4,619
1989	540,563	1,966	386	2,353	4,353
1990	545,774	2,002	290	2,292	4,201
1991	579,659	1,854	213	2,067	3,567
1992	585,000	1,729	156	1,886	3,225
1993	599,200	1,813	108	1,921	3,208
1994	606,278	1,759	78	1,838	3,032
1995	615,900	1,901	58	1,959	3,182
1996	619,100	1,779	39	1,818	2,937
1997	611,300	1,778	24	1,802	2,947
1998	621,400	1,775	11	1,786	2,874
1999	622,000	1,832	2	1,834	2,949
2000	622,000	1,603	0	1,603	2,577
2001	628,800	1,850	0	1,850	2,942
2002	634,892	1,981	0	1,981	3,120
2003	643,786	1,933	0	1,933	3,003
2004	643,786	2,107	462	2,569	3,991
2005	655,435	2,346	438	2,784	4,248
2006	663,661	2,358	414	2,772	4,177
2007	670,053	2,402	390	2,792	4,166
2008	676,987	2,398	364	2,762	4,080
2009	679,720	2,424	503	2,927	4,306
2010	692,314	2,501	476	2,977	4,300
2011	710,231	2,500	644	3,144	4,426
2012	722,190	2,424	576	3,000	4,154
2013	732,298	2,407	840	3,247	4,434
2013	736,399	2,418	804	3,222	4,375

Source: Alaska Taxable

TABLE 4.4
Municipal G.O. Debt, Population and Valuation

Boroughs and Cities within Boroughs	Population	6/30/2014 Full Value		Municipal G.O. Debt (thousands)	Per Capita G.O. Debt
		Determination (thousands)	Per Cap Full Value		
Aleutians East Borough	3,281	\$228,231	\$ 69,561	\$32,730	\$ 9,976
<i>City of Sand Point</i>	1,018	\$80,582	\$ 79,157	\$2,859	2,808
Municipality of Anchorage	301,134	\$37,901,857	\$ 125,864	\$1,010,640	3,356
Fairbanks North Star Borough	99,632	\$10,821,487	\$ 108,615	\$103,605	1,040
<i>City of North Pole</i>	2,209	\$365,814	\$ 165,602	\$1,450	657
Haines Borough	2,530	\$388,490	\$ 153,553	\$12,363	4,886
City & Borough of Juneau	33,064	\$4,916,207	\$ 148,688	\$122,068	3,692
Kenai Peninsula Borough	56,862	\$9,186,473	\$ 161,557	\$93,560	1,645
<i>City of Homer</i>	5,136	\$912,564	\$ 177,680	\$12,544	2,442
<i>City of Kenai</i>	7,247	\$989,770	\$ 136,577	\$1,615	223
<i>City of Seward</i>	2,487	\$360,432	\$ 144,926	\$3,480	1,399
<i>City of Soldotna</i>	4,284	\$699,506	\$ 163,283	\$2,225	519
Ketchikan Gateway Borough	13,856	\$1,778,713	\$ 128,371	\$43,805	3,161
<i>City of Ketchikan</i>	8,313	\$1,092,936	\$ 131,473	\$60,792	7,313
Kodiak Island Borough	13,824	\$1,612,481	\$ 116,644	\$69,135	5,001
<i>City of Kodiak</i>	6,338	\$845,319	\$ 133,373	\$8,000	1,262
Lake and Peninsula Borough	1,689	\$140,782	\$ 83,352	\$1,908	1,130
Matanuska-Susitna Borough	96,074	\$10,064,354	\$ 104,756	\$305,190	3,177
<i>City of Palmer</i>	6,085	\$635,704	\$ 104,471	\$1,225	201
<i>City of Wasilla</i>	8,365	\$1,468,956	\$ 175,607	\$1,880	225
North Slope Borough	7,905	\$19,263,819	\$ 2,436,916	\$360,800	45,642
Northwest Arctic Borough	7,796	\$694,100	\$ 89,033	\$44,485	5,706
Petersburg Borough	3,216	\$428,995	\$ 133,394	\$15,340	4,770
City & Borough of Sitka	9,039	\$1,197,790	\$ 132,514	\$28,635	3,168
Municipality of Skagway	982	\$345,085	\$ 351,410	\$5,334	5,432
City & Borough of Wrangell	2,456	\$202,209	\$ 82,333	\$1,890	770
Municipalities Outside Boroughs					
City of Adak	283	\$0	\$ -	\$980	3,463
City of Cordova	2,302	\$287,756	\$ 125,003	\$15,874	6,896
City of Craig	1,195	\$133,956	\$ 112,097	\$115	96
City of Dillingham	2,395	\$213,016	\$ 88,942	\$11,905	4,971
City of Hoonah	798	\$75,080	\$ 94,085	\$1,415	1,773
City of Klawock	786	\$54,071	\$ 68,793	\$234	298
City of Nome	3,659	\$368,347	\$ 100,669	\$4,148	1,134
City of Unalaska	4,737	\$620,526	\$ 130,996	\$4,665	985
City of Valdez	4,101	\$2,677,905	\$ 652,988	\$30,820	7,515
Municipal Totals	673,828.0	\$103,601,729	153,751	\$2,417,714	3,588
Statewide					
State of Alaska G.O. Debt				\$ 803,790	
Statewide Total	736,399	\$ 108,632,787	\$ 147,519	\$ 3,221,504	\$ 4,375

Source: Alaska Taxable

3. Revenue Bonds

In addition to General Obligation Debt that is supported by local taxes, cities and boroughs may issue debt that is supported by the revenues generated by the project financed through the issuance of debt. At the end of June, 2014, approximately \$887.6 million in revenue bonds were outstanding, as shown on Tables 4.5 and 4.6.

TABLE 4.5
Alaska Municipal Debt Issued and Outstanding
\$ (millions)

Fiscal Year	Amount Outstanding		Revenue Debt
	G.O.	revenue	Outstanding as % of total
1972	297.2	63.0	17.5%
1973	319.9	70.3	18.0%
1974	395.1	77.6	16.4%
1975	416.8	93.9	18.4%
1976	452.5	99.4	18.0%
1977	514.1	288.6	36.0%
1978	449.5	281.8	38.5%
1979	731.6	286.3	28.1%
1980	809.4	347.0	30.0%
1981	1,030.2	441.3	30.0%
1982	1,214.9	512.4	29.7%
1983	1,591.3	592.1	27.1%
1984	1,951.7	630.1	24.4%
1985	2,131.0	720.0	25.3%
1986	2,420.0	817.0	25.2%
1987	2,332.0	1,006.0	30.1%
1988	2,157.5	1,007.5	31.8%
1989	2,327.7	1,000.7	30.1%
1990	2,201.5	1,137.0	34.1%
1991	2,116.8	1,241.1	37.0%
1992	1,720.5	640.6	27.1%
1993	1,809.9	537.2	22.9%
1994	1,759.9	587.9	25.0%
1995	1,901.6	552.1	22.5%
1996	1,779.1	580.8	24.6%
1997	1,777.5	682.0	27.7%
1998	1,705.0	664.0	28.0%
1999	1,832.0	471.0	20.5%
2000	1,602.9	541.3	25.2%
2001	1,850.4	590.3	24.2%
2002	1,980.8	550.2	21.7%
2003	1,932.6	544.5	22.0%
2004	2,107.2	513.8	19.6%
2005	2,345.5	603.8	20.5%
2006	2,357.8	606.0	20.4%
2007	2,402.1	503.3	17.3%
2008	2,391.9	721.4	23.2%
2009	2,423.6	874.4	26.5%
2010	2,500.4	778.2	23.7%
2011	2,499.9	761.0	23.3%
2012	2,424.3	714.3	22.8%
2013	2,398.5	743.8	23.7%
2014	2,417.7	887.6	26.9%

Source: Alaska Taxable

TABLE 4.6
Alaska Municipal Debt Outstanding by Issuer
June 30, 2014
\$ (thousands)

Cities And Boroughs	G.O. Debt	Revenue Debt	Total Debt	School G.O. Total	State's % of Debt
Aleutians East	\$ 32,730	-	\$ 32,730	\$ 14,011	61%
City of Adak	980	-	980	-	-
Anchorage	1,010,640	395,015	1,405,655	504,781	66%
Bethel	-	2,790	2,790	-	-
Cordova	15,874	-	15,874	15,095	66%
Craig	115	-	115	-	-
Dillingham	11,905	-	11,905	12,502	70%
Fairbanks NSB	103,605	-	103,605	107,432	70%
Haines Borough	12,363	1,180	13,543	12,950	70%
City of Homer	12,544	-	12,544	-	-
City of Hoonah	1,415	-	1,415	389	70%
City of Galena	-	1,837	1,837	-	-
Juneau	122,068	61,435	183,503	111,226	69%
Kenai	1,615	-	1,615	-	-
Kenai Borough	93,560	40,490	134,050	24,820	70%
City of Ketchikan	60,792	67,032	127,824	-	-
Ketchikan Bor.	43,805	-	43,805	31,364	68%
King Cove	-	1,500	1,500	-	-
Klawock	234	831	1,066	-	-
Kodiak	8,000	7,000	15,000	-	-
Kodiak Bor.	69,135	20,070	89,205	49,808	67%
Lake Peninsula	1,908	-	1,908	2,780	90%
Mat-Su	305,190	13,450	318,640	257,495	68%
Nome	4,148	7,570	11,718	2,779	66%
North Pole	1,450	75	1,525	-	-
North Slope	360,800	62,100	422,900	-	-
Northwest Arctic	44,485	-	44,485	45,518	71%
Palmer	1,225	6,313	7,538	-	-
Petersburg	15,340	-	15,340	7,579	63%
Sand Point	2,859	-	2,859	-	-
Seward	3,480	35,510	38,990	-	-
Sitka	28,635	130,295	158,930	31,020	68%
Skagway	5,334	-	5,334	-	-
Soldotna	2,225	-	2,225	-	-
Unalaska	4,665	32,105	36,770	5,425	70%
Valdez	30,820	-	30,820	34,480	60%
Wasilla	1,880	-	1,880	-	-
Wrangell	1,890	989	2,879	1,835	70%
Total	\$ 2,417,714	\$ 887,588	\$ 3,305,302	\$ 1,273,289	

Source: Alaska Dept. of Community & Economic Development and
Dept. of Education and Early Development

In FY 2014, revenue bonds accounted for approximately 26.9% of all local debt outstanding in Alaska. Some major municipal borrowers in Alaska have no revenue debt at all. Such borrowers include the Fairbanks North Star Borough, Kenai Peninsula Borough and North Slope Borough. In these boroughs, one reason for the lack of revenue debt may be the presence of oil and gas property. That is, substituting G.O bonds for revenue bonds transfers much of the debt burden that would otherwise fall on local users to the State. This is because the State also taxes oil and gas property but allows a credit against tax liabilities for taxes paid to municipalities. Thus municipal property taxes on oil and gas property directly reduce the State payment.

4. Municipal School Debt Reimbursement

Under a program enacted in 1970 (Alaska Statutes 14.11.100), the State will reimburse Alaskan municipalities for up to 60, 70, 80, 90, or 100 percent of the debt service on prequalified municipal G.O. debt issued for school construction. Access to this program was restricted during the 1990's due to state budgetary pressure. Beginning in the early 2000's and carrying through 2014 the program is generally available for any qualified municipal project. As of June 30, 2014, \$1,273.3 million in eligible debt was outstanding. Approximately \$859.6 million of the current municipal G.O. school debt outstanding may be fully paid by the State through the program.

Although the statute provides that the State will reimburse school districts for a percentage of construction costs, the actual funding for the program is dependent on annual legislative appropriations. The State is not obligated to appropriate the full amount of the entitled under statute nor contractually obligated to consider doing so. When amounts are insufficient, available funds are allocated pro rata among the eligible school districts. This does not jeopardize the security of the debt, because the full faith, credit and taxing power of the issuing community is behind it. The program has been funded at the percent of entitlement shown in Table 4.7.

TABLE 4.7
Proration of State Reimbursement of
Municipal School Debt

Fiscal Year	\$(thousands)	
	Payments (1984-2014) or Appropriation (2015)	Percent of Entitlement
1984	90,600	100%
1985	93,161	100%
1986	106,315	97%
1987	115,845	91%
1988	109,472	92%
1989	109,472	96%
1990	107,831	89%
1991	116,668	94%
1992	128,986	100%
1993	127,603	100%
1994	99,146	100%
1995	103,345	100%
1996	79,700	100%
1997	62,476	100%

TABLE 4.7 (continued)
Proration of State Reimbursement of
Municipal School Debt

Fiscal Year	\$(thousands)	
	Payments (1983-2014 or Appropriation (2015))	Percent of Entitlement
1998	61,640	100%
1999	61,991	100%
2000	64,350	100%
2001	52,099	100%
2002	54,057	100%
2003	51,973	100%
2004	60,593	100%
2005	72,025	100%
2006	81,095	100%
2007	93,335	100%
2008	91,103	100%
2009	93,319	100%
2010	95,789	100%
2011	99,594	100%
2012	100,908	100%
2013	112,300	100%
2014	109,801	100%
2015	122,737	100%

Source: State of Alaska, Department of Education
& Early Development

Rating agencies analyze reimbursement of local school debt in different ways. All analysts recognize that the State's commitment to debt service reimbursements are subject to appropriation annually. Historically the State has not always appropriated the full amount eligible for reimbursement and there have been examples across the country where reimbursement of local debt has been reduced and eliminated. Further the communities participating in the program are required to issue general obligation bonds which they are fully obligated to repay. To the extent that the state continues to appropriate analysts recognize that in general, greater debt capacity does exist at the local level as a result of the reimbursement, and that less debt capacity exists at the State level for similar reasons.

Full funding of currently outstanding bonds eligible for participation in the school debt reimbursement program for FY15 has been estimated at \$122.7 million, and this amount has been appropriated.

5. Property Tax Limits

Two municipalities that have large oil and gas property values, the North Slope Borough and Valdez, may be subject to limitations on the amount of full value that can be taxed. A municipality may choose to levy property taxes for its operating budget under one of two methods. Under AS 29.45.080(b), total property tax revenues may not exceed the equivalent of \$1,500 per capita.

Under AS 29.45.080(c), the total property value that can be taxed is limited to the municipality's population multiplied by 225 percent of the average statewide per capita full value. Although AS 29.45.090(a) limits municipal property tax rates to 3 percent or less (30 mills), AS 29.45.100 provides that taxes may be levied without limitation as to rate or amount to pay debt service.

III. Supplementary Information

A. State Debt Capacity

The ratio of debt service to revenue has been used as a guideline for determining Alaska's debt capacity. This guideline has been utilized as the State's oil revenues have elevated the debt capacity of the State. Using the more traditional ratios of state credit analysis – net tax-supported debt per capita, net tax supported debt as a percentage of personal income, and total net tax supported debt, few states have more favorable ratios than the State (when considering only State of Alaska G.O. bonds, University of Alaska bonds which are State supported, State reimbursement of municipal school debt, and lease payments on lease-purchase financing). However, when including all Alaska's governmental unit's debt, the State has ratios higher than the national averages.

Oil revenues generated in Alaska have been very large in per capita terms. Thus, the debt they support has also been very large in per capita terms. Compared with other states, higher levels per capita in Alaska have been expected due to the small population base, its greater geographic dispersion, and its higher price levels.

Besides boosting debt levels, petroleum revenues have elevated personal income levels as a result of State spending of the revenues and have significantly increased taxable property values as a result of petroleum development. Oil and gas taxable property represented approximately 27 percent of total taxable property in the State as of January 1, 2014.

As petroleum revenues recede with declines in Prudhoe production, the measure of the State's debt capacity will shift from a percentage of revenue figure to a measure more closely allied to the traditional debt ratios. Yet, because of small population and large geography, governmental units in Alaska will, on average, continue to carry more debt than in other states. For this reason, the burden of debt service in relation to revenue will continue to be important.

1. Debt Capacity as Measured by Revenues

The State's debt may be measured by comparing the associated debt service to unrestricted revenues. The State's historical policy was that annual debt service should not exceed 5 percent of annual unrestricted revenues. This target was at times exceeded due to fluctuations in the price of petroleum. The State's debt capacity is dynamic and is reduced to compensate for expectations of reduction to unrestricted revenue due to low petroleum prices. The state releases a revenue sources book semi annually which is used as the basis for forecasting future years' revenue and the associated debt capacity that those revenues support.

Tables 4.8 and 4.9 shows past ratios of State general obligation debt service to unrestricted revenue. From 1985 to 1989, the ratio exceeded 5%. In recent years, debt service has included, for determining debt capacity, debt service on State general obligation bonds, University of Alaska bonds that are State supported, State reimbursement of municipal school debt, and lease payments on lease-purchase financing. Inclusion of the above items brings all debt paid from the State's General Fund within the measure of debt burden generally used by the rating agencies. State policy has attempted to maintain this more inclusive ratio below 8% as seen in Table 5.0.

Tables 4.8 and 4.9 provide historical and projected payments for all debt service paid from the General Fund:

TABLE 4.8
State of Alaska
Ratio of General Obligation Bond Debt Service
To Expenditures and Unrestricted Revenues
 \$ (millions)

Fiscal Year	Debt Service	General Fund Expenditures*	unrestricted Revenues**	Total Revenues	Ratio of Debt Service to Expenditures	Ratio of Debt Service to Unrestricted Revenues
1980	75.1	\$1,477	\$3,718		5.1%	2.0%
1981	97.6	4,613	4,108		2.1%	2.4%
1982	97.5	4,006	3,631		2.4%	2.7%
1983	143.6	3,846	3,588		3.7%	4.0%
1984	166.3	3,389	3,390		4.9%	4.9%
1985	169.5	3,698	3,260		4.6%	5.2%
1986	163.2	3,653	3,076		4.5%	5.3%
1987	154.9	3,026	1,799		5.1%	8.6%
1988	147.9	3,055	2,305		4.8%	6.4%
1989	135.5	3,186	2,186		4.3%	6.2%
1990	120.3	2,843	2,507		4.2%	4.8%
1991	95.5	2,805	2,987		3.4%	3.2%
1992	68.2	3,024	2,463		2.3%	2.8%
1993	59.7	3,145	2,352		1.9%	2.5%
1994	33.8	3,339	1,653		1.0%	2.0%
1995	22.9	3,312	2,083		0.7%	1.1%
1996	21.3	3,386	2,133		0.6%	1.0%
1997	16.5	3,350	2,495	3,727	0.5%	0.7%
1998	14.2	3,296	1,826	3,018	0.4%	0.8%
1999	8.8	3,425	1,348	2,556	0.3%	0.7%
2000	0.0	3,554	2,082	3,725	0.0%	0.0%
2001	0.0	3,758	2,282	4,187	0.0%	0.0%
2002	0.0	5,406	1,660	3,710	0.0%	0.0%
2003	0.0	5,582	1,948	4,194	0.0%	0.0%
2004	19.4	5,419	2,346	4,680	0.4%	0.8%
2005	46.4	5,903	3,189	5,648	0.8%	1.5%
2006	45.7	6,216	4,200	6,730	0.7%	1.1%
2007	45.0	6,777	5,159	7,914	0.7%	0.9%
2008	44.4	7,836	10,749	13,546	0.6%	0.4%
2009	43.9	9,549	5,831	8,185	0.5%	0.8%
2010	48.9	8,419	5,513	8,803	0.6%	0.9%
2011	53.8	9,307	7,673	11,187	0.6%	0.7%
2012	84.2	9,363	9,485	13,517	0.9%	0.9%
2013	81.1	9,813	6,929	15,809	0.8%	1.2%
2014	90.4	9,978	5,394	17,242	0.9%	1.7%

Source: State of Alaska, CAFR, and Revenue Sources Book

* Federal income, Permanent Fund income and Constitutional Budget Reserve Draws included from 2002 forward

* Forward funding of future fiscal year expenditures included from 2007 forward

** Federal Revenue, Permanent Fund income and other restricted revenues are not included in unrestricted revenue

TABLE 4.9
State of Alaska
Debt Service on outstanding State Supported Debt as of June 30, 2014

fiscal year	state G.O.	university	lease / purchase	\$ (millions)			total debt service
				(1) Capital Leases	(2) school debt reimbursement	Capital Project Reimbursements	
1979	\$60.0	\$ 1.7	\$ 10.1	-	\$ 22.3	-	\$ 94.1
1980	75.1	1.8	10.1	-	24.1	-	111.1
1981	97.6	2.2	10.0	-	38.4	-	148.2
1982	97.5	2.3	10.0	-	38.3	-	148.1
1983	143.6	2.3	9.9	-	36.2	-	192.0
1984	166.3	2.0	9.9	-	90.6	-	268.8
1985	169.5	2.0	10.7	-	93.2	-	275.4
1986	163.2	1.8	10.4	-	106.3	-	281.7
1987	154.9	1.8	11.2	-	115.8	-	283.7
1988	147.9	1.5	11.2	-	109.5	-	270.1
1989	135.5	2.2	11.7	-	109.5	-	258.9
1990	120.3	2.2	12.0	-	107.8	-	242.3
1991	95.5	2.7	12.0	-	116.7	-	226.9
1992	68.2	2.7	11.8	-	129.0	-	211.7
1993	59.7	3.7	11.2	-	127.6	-	202.2
1994	33.8	0.2	8.5	-	99.1	-	141.6
1995	22.9	0.2	10.2	-	103.3	-	136.6
1996	21.3	0.2	9.6	-	79.7	-	110.8
1997	16.5	0.2	9.5	-	62.5	-	88.7
1998	14.2	0.2	10.3	-	61.6	-	86.3
1999	8.8	0.2	15.5	-	62.0	-	86.5
2000	2.4	-	15.0	3.5	64.4	-	85.3
2001	-	-	12.8	3.5	52.1	-	68.4
2002	-	-	12.4	8.8	54.1	-	75.3
2003	-	-	11.9	8.8	52.0	-	72.7
2004	19.4	-	12.1	8.8	60.6	0.3	101.2
2005	46.4	-	13.8	8.8	71.4	0.2	140.6
2006	45.7	-	13.2	8.6	81.1	2.2	150.8
2007	45.0	-	13.2	9.1	86.9	3.6	157.8
2008	44.4	-	11.1	11.8	91.1	4.2	162.7
2009	43.9	-	8.0	20.4	93.3	3.9	169.5
2010	48.9	-	8.0	29.6	95.8	5.2	187.5
2011	53.8	-	8.0	29.7	99.6	5.3	196.4

TABLE 4.9 (Continued)

State of Alaska

Debt Service on outstanding State Supported Debt as of June 30, 2014

\$ (millions)

fiscal year	state G.O.	university	lease / purchase	(1) Capital Leases	(2) school debt reimbursement	Capital Project Reimbursements	total debt service
2012	78.8	-	7.5	29.1	100.9	5.3	221.6
2013	76.3	-	7.0	28.7	112.3	5.2	229.4
2014	86.0	-	1.8	28.7	109.8	5.1	231.4
2015	73.5	-	1.8	28.7	109.0	5.0	218.0
2016	63.4	-	1.8	26.4	104.4	4.2	200.2
2017	63.2	-	0.0	25.5	98.5	4.2	191.4
2018	63.1	-	-	21.8	94.3	4.1	183.3
2019	63.0	-	-	21.1	87.5	4.1	175.7
2020	51.9	-	-	21.3	81.2	2.8	157.2
2021	51.9	-	-	21.1	78.2	2.8	154.0
2022	41.7	-	-	21.1	66.4	2.8	132.0
2023	41.8	-	-	21.1	62.4	2.8	128.1
2024	44.7	-	-	21.1	51.0	2.8	119.7
2025	37.3	-	-	21.1	42.4	2.8	103.5
2026	17.8	-	-	21.1	31.2	2.6	72.7
2027	36.3	-	-	21.1	27.0	-	84.4
2028	36.3	-	-	17.8	24.1	-	78.2
2029	36.2	-	-	17.8	18.8	-	72.8
2030	36.1	-	-	17.8	15.6	-	69.5
2031	23.6	-	-	17.8	13.1	-	54.5
2032	23.5	-	-	17.8	9.7	-	51.0
2033	23.5	-	-	17.8	2.7	-	44.0
2034	23.5	-	-	-	-	-	23.5
2035	0.1	-	-	-	-	-	0.1
2036	0.1	-	-	-	-	-	0.1
2037	0.1	-	-	-	-	-	0.1
2038	12.0	-	-	-	-	-	12.0
2039	-	-	-	-	-	-	0.0

1 - There are two prisons, a building and a parking garage financed with capital leases

2 - FY2014 - 2032 payments rely on the Department of Education & Early Developments files as of 6/30/2013

3 - State G.O. debt service is net of federal subsidies on interest expense through 2038

TABLE 5.0
State of Alaska Debt Service to Unrestricted Revenues
Fall 2014 Revenue Forecast of the Department of Revenue

Fiscal Year	Unrestricted	State G.O.	State	Total State	School	Total Debt
	Revenues	Debt Service	Supported Debt Service	Debt Service	Debt Transfers	Service to Revenues
	(\$Millions)	%	%	%	%	%
1983	3,587.8	4.0	0.3	4.3	1.0	5.4
1984	3,390.1	4.9	0.4	5.3	2.7	7.9
1985	3,260.0	5.2	0.4	5.6	2.9	8.4
1986	3,075.5	5.3	0.4	5.7	3.5	9.2
1987	1,799.4	8.6	0.7	9.3	6.4	15.8
1988	2,305.8	6.4	0.6	7.0	4.7	11.7
1989	2,186.2	6.2	0.6	6.8	5.0	11.8
1990	2,507.2	4.8	0.6	5.4	4.3	9.7
1991	2,986.6	3.2	0.5	3.7	3.9	7.6
1992	2,462.6	2.8	0.6	3.4	5.2	8.6
1993	2,352.0	2.5	0.6	3.2	5.4	8.6
1994	1,652.5	2.0	0.5	2.6	6.0	8.6
1995	2,082.9	1.1	0.5	1.6	5.0	6.6
1996	2,133.3	1.0	0.5	1.5	3.7	5.2
1997	2,494.9	0.7	0.4	1.1	2.5	3.6
1998	1,825.5	0.8	0.6	1.4	3.4	4.7
1999	1,348.4	0.7	1.2	1.8	4.6	6.3
2000	2,081.7	0.1	0.9	1.0	3.1	4.1
2001	2,281.9	0.0	0.7	0.7	2.3	3.0
2002	1,660.3	0.0	1.3	1.3	3.3	4.5
2003	1,947.6	0.0	1.1	1.1	2.7	3.7
2004	2,345.6	0.8	0.9	1.7	2.6	4.3
2005	3,188.8	1.5	0.7	2.2	2.2	4.4
2006	4,200.4	1.1	0.6	1.7	1.9	3.6
2007	5,158.6	0.9	0.5	1.4	1.7	3.1
2008	10,749.1	0.4	0.3	0.6	0.8	1.4
2009	5,831.2	0.8	0.6	1.3	1.6	2.9
2010	5,513.3	0.9	0.8	1.7	1.7	3.4
2011	7,673.0	0.7	0.6	1.3	1.3	2.6
2012	9,485.2	0.8	0.4	1.3	1.1	2.3
2013	6,928.5	1.1	0.6	1.7	1.6	3.3
2014	5,394.0	1.6	0.7	2.3	2.0	4.3
projected						
2015	2,551.5	2.9	1.4	4.3	4.3	8.5
2016	2,196.7	2.9	1.5	4.4	4.8	9.1
2017	3,657.3	1.7	0.8	2.5	2.7	5.2
2018	4,292.1	1.5	0.6	2.1	2.2	4.3
2019	4,808.1	1.3	0.5	1.8	1.8	3.7
2020	4,852.9	1.1	0.5	1.6	1.7	3.2
2021	4,627.6	1.1	0.5	1.6	1.7	3.3
2022	4,555.7	0.9	0.5	1.4	1.5	2.9
2023	4,547.8	0.9	0.5	1.4	1.4	2.8
2024	4,473.2	1.0	0.5	1.5	1.1	2.7

As shown on Table 5.0, debt service on State G.O. and State Supported debt plus school debt reimbursement payments were 4.3% of revenues in FY 2014 and are projected to be approximately 8.5% of revenues in FY 2015. The spike in the percentage in FY 2015 and 2016 are due to the sharp reduction in the price of oil and correlated state unrestricted revenue in the Fall 2014 Revenue Sources Book. By 2022 these debt service payments are projected to diminish to 3.0% of revenues.

Table 5.1 presents the ratio of State G.O.'s to full value of taxable property since 1974. The ratio has declined from 6.0% in 1974 to .7% in 2014. As a measure of debt capacity, debt to full value is of minor significance in Alaska due to the existence of a State petroleum property tax.

TABLE 5.1
State of Alaska
Ratio of State General Obligation Debt to Property Values

Year	Full Value: Cities, Boroughs & Unincorporated Areas at	G.O. Bonds Outstanding at	Ratio of Debt to Full Value (%)
	1/1 (millions)	6/30 (millions)	
1983	39,090	946	2.4%
1984	45,009	924	2.1%
1985	48,915	816	1.7%
1986	55,026	706	1.3%
1987	47,905	598	1.2%
1988	42,250	489	1.2%
1989	39,563	386	1.0%
1990	39,668	290	0.7%
1991	40,933	213	0.5%
1992	42,167	159	0.4%
1993	42,357	108	0.3%
1994	42,829	78	0.2%
1995	44,394	58	0.1%
1996	45,232	39	0.1%
1997	47,013	24	0.1%
1998	47,541	11	0.0%
1999	49,158	2	0.0%
2000	50,773	0	0.0%
2001	53,230	0	0.0%
2002	55,247	0	0.0%
2003	58,361	462	0.8%
2004	59,230	462	0.8%
2005	66,308	438	0.7%
2006	66,847	414	0.6%
2007	84,253	390	0.5%
2008	86,717	364	0.4%
2009	90,428	503	0.6%
2010	93,138	476	0.5%
2011	98,969	628	0.6%
2012	101,328	576	0.6%
2013	107,471	840	0.8%
2014	108,633	804	0.7%

Source: Alaska Taxable Alaska Department of Commerce,
Community, and Economic Development.

B. Public Pension Systems Liabilities

The State administers two major retirement systems -- the Public Employees' Retirement System (for State employees and employees of political subdivisions who elect to join the system) and the Teachers' Retirement System (for teachers and school administrators). The difference between the present value of projected accrued benefits for employees who are covered by the pension system and the market value of the particular pension system's assets is the amount of the State's unfunded liability. An unfunded pension liability generally is not treated by the rating agencies or investors as debt unless it is judged to constitute a significant burden on the State. However, pension fund liabilities are a long-term obligation of the State.

In FY 2015 the State provided for one time transfers to TRS of \$2 billion and PERS of \$1 billion that will have a future positive impact on the funded ratios of the two systems.

The financial status of each of the State's public pension systems since FY 2008 is shown in Table 5.2. Actuarial results for FY 2014 will be available in June of 2015.

TABLE 5.2
State of Alaska
Retirement System's Financial Status
\$ (millions)

	<u>Public Employees' Retirement System (PERS)</u>					
	6/30/2008	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013
Present Value of						
Accrued Benefits	\$ 15,888	\$ 16,579	\$ 18,132	\$ 18,741	\$ 19,292	\$ 19,993
Value of Assets	\$ 11,040	\$ 10,243	\$ 11,157	\$ 11,814	\$ 11,832	\$ 12,163
Funding Level						
for Accrued Benefits	\$ (4,848)	\$ (6,336)	\$ (6,975)	\$ (6,927)	\$ (7,460)	\$ (7,830)
Funding Ratio	69.5%	61.8%	61.5%	63.0%	61.3%	60.8%
	<u>Teachers' Retirement System (TRS)</u>					
	6/30/2008	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013
Present Value of						
Accrued Benefits	\$ 7,619	\$ 7,848	\$ 8,848	\$ 9,129	\$ 9,346	\$ 9,592
Value of Assets	4,937	4,473	4,739	4,938	4,869	4,974
Funding Level						
for Accrued Benefits	\$ (2,682)	\$ (3,375)	\$ (4,109)	\$ (4,191)	\$ (4,477)	\$ (4,618)
Funding Ratio	64.8%	57.0%	53.6%	54.1%	52.1%	51.9%

Source: State of Alaska PERS and TRS valuation reports

As of June 30, 2013 the Public Employees' Retirement System's actuarial accrued liabilities are funded at 60.8 percent and the Teachers' System's actuarial accrued liabilities funded at 51.9 percent. It is important to note

that these funding levels include accrued benefit costs otherwise known as Other Post Employment Benefits (OPEB).

C. Credit Ratings of State

The State of Alaska's general obligation bond rating was re-established in 2003 with the issuance of the 2003 Series A and B bonds. The State received AA ratings from the three national bond credit rating agencies. On March 27, 2008 Standard & Poor's increased their credit rating on the State to AA+ with a stable outlook. March 25, 2010 Fitch Investors Service upgraded the State to AA+. On November 22, 2010 Moody's upgraded the State to Aaa. On January 5, 2012 Standard & Poor's upgraded the State to AAA. On January 7, 2013 Fitch upgraded the State to AAA.

Following is the State of Alaska's credit rating history, shown on Table 5.3.

TABLE 5.3
State of Alaska Credit Rating History
ratings as of date shown

Moody's Investor Service		Standard and Poor's Corp.		Fitch Investors Service	
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		
November 26, 1998	Aa2	March 27, 2008	AA+		
November 22, 2010	Aaa	January 5, 2012	AAA		

D. Private Activity Bond Ceiling

The Tax Reform Act of 1986 established a ceiling on annual issuance of Qualified Private Activity Bonds (PAB's), effective August 15, 1986, at the level of \$250 million for the remainder of 1986 and for 1987, and \$150 million thereafter. Effective in calendar year 2001 the PAB cap became subject to annual adjustment and has been increased each year since. In calendar year 2014 the cap was \$296.285 million. The PAB ceiling encompasses qualified mortgage revenue bonds, student loan bonds some of the types of tax-exempt debt issued by AIDEA and AEA, and certain other types of tax-exempt bonds to promote industrial development.

The responsibility for allocating Alaska's annual ceiling was assigned to the State Bond Committee by State law, beginning in 1987. Allocation carry-forwards expire after three calendar years. Table 5.4 summarizes the allocation of the PAB ceiling over the past five years.

TABLE 5.4
Alaska Private Activity Bond Ceiling Allocations
 \$ (thousands)

Calendar Year	Annual Cap	Allocations	Recipient
2010	273,775	257,601	to AHFC
		14,911	to AIDEA
		1,263	to AEA
2011	277,820	277,820	to AHFC
2012	284,560	284,560	to AHFC
2013	291,875	291,875	to AHFC
2014	296,285	288,825	to AHFC
		8,000	to AIDEA

E. State Bond Committee

AS 37.15 includes the State's Bonding Act and creates the State Bond Committee (SBC). The members of the SBC are the Commissioner of Commerce, Community and Economic Development (who serves as chairman), the Commissioner of Revenue (who serves as secretary), and the Commissioner of Administration.

The duties of the State Bond Committee include adopting resolutions and preparing documents necessary for the issuance, sale, and delivery of State bonds. The State Bond Committee must fix the principal amount, denomination, date maturities, place of payment, terms, rights of redemption if any, form, condition and covenants of the bonds; fix the date of sale and the form of the notice of sale; and provide the notice of sale of State debt.

Additionally, the State Bond Committee manages and administers the State debt policy including requests for appropriations to the debt retirement fund, the repayment of State debt and related administrative matters.

Staff support for the State Bond Committee is provided by the Treasury Division of the Department of Revenue.

**January 2015 State of Alaska
State Bond Committee
Debt Management Policies
And State Debt Capacity**

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Appendix A – Alaska Public Debt Report Tables

Appendix B – State’s Post Issuance Policy

Executive Summary

The national credit rating agencies have placed State of Alaska among the highest echelon of states in the United States. In December 2011, the State was awarded a “AAA” rating from Standard and Poor’s Financial Services LLC, the agency’s highest rating. Standard and Poor’s joined Moody’s Investor Service (whom upgraded the State to Aaa in November 2010) as recognizing the strength of the State’s current strong fiscal position. The ability of the State to maintain this elite position is a function of many factors including: financial management, moderate debt levels and strong and responsible leadership. A carefully considered debt management plan can be a useful tool to policy leaders and government professionals to determine appropriate levels of debt while meeting the need of funding the State’s capital program

The State of Alaska has more recently been impacted by declining unrestricted revenue due to the sharp drop in the price of oil in the last quarter of calendar year 2014. The State’s revenue production has declined by over 50% and large draws upon first the SBR in FY 2015, and then the CBR in FY 2016 are expected. If oil prices stay at the levels of January 2015 and significant changes aren’t made to either how the state spends money or how the state generates revenue available for funding operations the CBR would be depleted in early FY 2018. As a result of this fiscal pressure Moody’s Investor’s Service placed the state on negative outlook in December 2014 and both Standard & Poor’s and Fitch Ratings released reports detailing concerns about the state’s fiscal situation.

The State has finite capacity to borrow money in a cost effective manner. Any borrowing which jeopardizes the State’s credit rating or perceived credit by investors will increase the cost of borrowing money by the State as well as other issuers in Alaska. As such, these guidelines are established to ensure that any borrowings by the State are reflective of the best practices and represent conservative, well balanced approaches to debt management. These guidelines also envision that in certain circumstances, deviations from these guidelines may be in the best interest of the State, however any such deviations should be well studied by the State and its financial advisor.

As of June 30, 2014, the State had approximately \$804 million of outstanding general obligation bonds, all of which are in fixed rate mod and \$170 million of 1 year Bond Anticipation Notes. As of June 30, 2014, the State had approximately \$3.3 million in Certificates of Participation outstanding, all in fixed rate mode. As of June 30, 2014 the State had \$255 million of capital lease obligations securitized through political subdivisions that were authorized by Alaska Law, all in the fixed rate mode. On June 30, 2014 the State had \$73.5 million in guaranteed debt obligations issued for the purpose of making home loans to qualified Alaskan military veterans, all in the fixed rate mode. On June 30, 2014 the State had authorized payment of 100% of debt service on \$859 million of municipal general obligation bonds on a subject to appropriation basis through the School Debt Reimbursement Program. On June 30, 2014 there was \$1,245 million

of moral obligation debt of the State, \$720 million of State revenue and university debt, and \$2,921.5 million of State agency debt. The State currently has no outstanding interest rate derivatives. The State's funding of its OPEB liabilities remains in excess of many other states. The State made one time contribution of \$1 billion to the Public Employees Retirement System and \$2 billion to the Teachers Retirement System in FY 2015. The State has capacity to issue more debt without impacting its current credit rating; however, this capacity is finite and must be used judiciously to allow the State to fund capital programs in the future.

After reviewing the State's debt and fiscal position and comparing the State's practices with the best practices of other states:

- The state recognizes that using "Debt Service as a % of general government spending (or revenues)" is a better measure of an entity's debt burden. The ratio illustrates the relative portion debt service represents of total state annual expenses or state resources. The State Bond Committee has adopted a formal policy set at percentage of revenue (or expenses) target level of 5% with an absolute not-to-exceed ceiling of 8%. The ratio should include debt service paid on general obligation bonds, securitized lease obligations, and other subject to appropriation obligations of the general fund that have been securitized.
- The State Bond Committee should continue to monitor other ongoing commitments of the general fund including the School Debt Reimbursement Program, the Veteran's Mortgage Program, PERS and TRS system funding requirements, and any other quantifiable multi-year obligation of the state to pay or reimburse on outstanding liabilities.
- It is recommended to require the Department of Education to submit their current outstanding reimbursement schedules to the State annually by October 15th for a refinancing analysis by the SBC. While state law doesn't require that municipalities pursue refinancing opportunities on bonds subject to reimbursement from the State, the State Bond Committee will continue to monitor opportunities and encourage municipalities to refinance and reduce the State's appropriation requirements.
- The State's broad fiscal position shall be considered and noted when determining debt capacity. It shall generally impact capacity negatively if the State is experiencing or anticipates deficit spending in the following five years to provide for the annual budgetary needs of the state.

Introduction

The following policies are established in an effort to standardize the practices of the issuance and management of debt by the State Bond Committee of Alaska. The primary objective of the policies is to establish conditions for the use of debt and to create procedures and policies that minimize the State's debt service and issuance costs, maintain credit ratings, reflect best practices for State government finance, and maintain full and complete financial disclosure and reporting. The policies apply to any debt issued by the State, including general obligation bonds, lease-revenue bonds, certificates of participation, revenue bonds and any other forms of indebtedness, as well as any debt which is implicitly or explicitly guaranteed by the State.

Debt policies promote the best and most efficient use of the State's finite capacity to borrow to meet the State's commitments to provide services to its citizens without jeopardizing the future financial health of the State. These policies should be considered guidelines for general use, and seek to provide the State with adequate flexibility to be able to respond to constantly changing economic conditions and changes in financial markets. Nevertheless, nothing contained herein should be construed as prohibiting the State from undertaking actions not specifically contemplated in these policies should it determined to be necessary and appropriate. Regular updates to debt policies are encouraged as necessary to ensure that the State maintains sound financial management practices reflecting then-current market and economic conditions.

Beginning in 1983 the State has measured debt capacity by comparing debt service to unrestricted revenue. The State's policy was that debt service should not exceed 5% of unrestricted revenues. Beginning in 1985 the State included general obligation, lease revenue, university, certificates of participation, and the school debt reimbursement program in the ratio. University debt was subsequently removed from the calculation. In 1999, recognizing past practice of the State, the policy was amended to target 5%, but allow for the ratio to reach up to 8% due to revenue volatility.

Discussion of Credit Ratings and Applicable Ratios

In June 2006, Standard and Poor's released an update to its 2005 Public Finance Criteria Book focusing specifically on how they assess the strength of a governmental entity's financial management practices. State general obligation bond ratings are driven by four primary credit factors:

- Economy
- Finances
- Management and Administration
- Debt and other long-term liabilities

In the update, S&P stated that “as part of its financial management assessment, it evaluates established and ongoing management practices and policies in the areas most likely to affect credit quality. One such area is debt management. S&P seeks to determine if the entity has established policies relative to, among other things, the issuance of debt, maturity and debt structure, and debt refunding guidelines. Issuers deemed “Strong” in this regard would be entities that have well-defined debt policies, with strong reporting and monitoring mechanisms in place.

In its August 15, 2011 publication “*U.S. State Government Tax-Supported Rating Criteria*” (see: Appendix C), Fitch stated that its analysis of a given state’s debt burden focuses on all net tax-supported debt. The State’s outstanding general obligation and state-supported debt would necessarily fall under this definition. As part of the credit review process to determine a state’s debt burden, rating agencies review each entity’s outstanding debt and future capital plans through the following:

- **Debt Ratios**
 - Debt to personal income
 - Debt service as a percentage of general government spending (or, conversely, unrestricted revenues)
- **Debt Structure**
 - A review of the composition of the debt (GO, appropriation-backed or special tax)
 - The rate at which the debt is repaid
 - The purposed for which the bond proceeds are used
 - The percentage of fixed vs. variable rate debt
- **Future Borrowing Plans**
- **Pension and OPEB Funding**

Debt Ratios

The rating agencies are consistent in the manner in which they review an issuer’s debt profile, thereby facilitating comparative analysis within peer groups. Such comparative analysis has taken on greater importance over the last several years as investors in the capital markets have pushed for greater transparency within the ratings process.

Fitch believes the calculation of net tax-supported debt as a percentage of personal income to be the best indicator of a state’s debt burden, and has opined that “...a low debt burden is a positive credit factor.” Fitch considers a ratio less than 2% to be “LOW”. In its latest report on the State of Alaska’s most recent general obligation bond issuance released on January 6, 2012, Fitch calculated the State’s debt to personal income ratio to be 3.3%, a level considered “MODERATE”.

Table 1	
State	Debt as a % of Personal Income
Alaska	3.3%
Florida	3.0%
Georgia	3.3%
Maryland	3.5%
Minnesota	2.8%
North Carolina	2.3%
Texas	1.6%
Vermont	1.9%
Virginia	2.4%
Peer Median	2.8%

Source (excl. AK): Moody's 2012 State Debt Medians

Debt Service as a % of general government spending (or revenues) is a much more meaningful measure of an entity's debt burden. The ratio illustrates the relative portion debt service represents of total state annual expenses or state resources. Table 2 provides a representative list of similarly rated states that have adopted a debt policy linked to annual operating revenues:

Table 2		
State	Debt Service as a % of Unrestricted Revenues	Legal Authority
Florida	8.0%*	Policy
Georgia	8.0%	Policy
Maryland	8.0%	Policy
Minnesota	3.0%	Policy
North Carolina	4.8%	Policy
Texas	5%**	Constitutional
Vermont	6.0%	Policy
Virginia	5.0%	Policy

* 8% cap; 6% target
 ** Calculated using the average revenues of the prior 3 years

S&P, in its report released in conjunction with the State’s most recent general obligation bond issuance, noted that general obligation and appropriation-backed debt service represented “...only 1.0% of general fund and non-major special fund expenditures”; thus, it is not a significant claim on state resources at this time. In formalizing and linking the State debt policy linked to either general expenditures or revenues at a level comparable to its peers, it would have sufficient borrowing capacity to meet its foreseeable capital needs.

Further evidence of the importance the debt service ratio plays in the overall credit review process can be found in a special comment recently published by Moody’s titled “U.S. State Debt Service Ratios” (See: Appendix F). In the report, Moody’s noted that the debt service ratio, defined as net tax supported debt service as a percentage of operating revenues, is a key metric used when assessing a given state’s fiscal flexibility. Moody’s contends this ratio “...measures the extent to which a state’s operating budget is burdened by fixed costs.”

As you will note upon reviewing the attached report, the State of Alaska’s ratio at June 30, 2014 (2.3% comprised of 1.6% general obligation and .7% state supported and 4.3% when including the School Debt Reimbursement Program) is well below the 50-state median (4.9%). Only three states (Iowa, Wyoming and Nebraska) have a ratio lower than that of Alaska. Thus, the State has greater fiscal flexibility in addressing future budgetary challenges than the vast majority of states in the lower 48. The following table provides a peer group comparison of the debt service ratio of Alaska and other “AAA” rated states:

Table 3	
State	Debt Service as a % of Unrestricted Revenues
Alaska	2.3%
Florida	7.7%
Georgia	7.6%
Maryland	5.7%
Minnesota	2.8%
North Carolina	3.6%
Texas	3.3%
Vermont	3.0%
Virginia	5.2%
Peer Median	3.6%

Additional information on the State's applicable ratios can be found in Appendix A of this report. Moody's intends to include this comparative ratio analysis in all future State Debt Medians reports which are published annually.

The Alaska economy is highly resource dependent, and the rating agencies recognize the revenue volatility inherent in an oil-based economy. Given these circumstances, FirstSouthwest recommends the State adopt a policy similar to that utilized by Texas, in which the controlling ratio relative to debt service is linked to an average of total projected unrestricted revenue collections from the most recent Revenue Sources Book of the Department of Revenue Tax Division over the next 3-year period. A formal policy set at percentage of revenue (or expenses) target level of 5% with an absolute not-to-exceed ceiling of 8%, would not be expected to result in any downward movement in its strong investment grade ratings.

There is no statutory limit on the amount of State GO bonds that may be authorized. \$272 million in authorized GO bonds remained unissued as of June 30, 2014. This does not include amounts authorized for Alaska Housing's Qualified Veterans Program.

Current and anticipated reserve balances including the Statutory Budget Reserve, the Constitutional Budget Reserve, and the Permanent Fund Earnings Reserve should be maintained at minimum fund levels to ensure the highest probability of rating security. The State's most significant long term reserve, the Alaska Permanent Fund Corpus should remain intact to provide for the potential long-term transfer from oil and gas extraction for revenue generation to other revenue sources. On June 30, 2014¹ the State had short term reserves sufficient to fund 150% of total general fund expenditures, or 20 times the amount of outstanding general obligation bonds. The target minimum reserve level of unassigned revenues is a balance equivalent to 20% of the State's outstanding debt.

Pension and OPEB Funding

As noted in Appendix C, Fitch has specifically stated that "...Pension and OPEB liabilities are not directly included in the calculation of an issuer's debt ratios", acknowledging that such benefits represent a more variable commitment to future payments than bonded debt.

In March 2011, Moody's released a Special Comment in which they combined the debt and pension liabilities of the U.S. States in an effort to improve transparency to investors by facilitating comparative credit assessments of the states. Moody's provided the same debt ratios included in its annual State Debt Medians Report, revised to include each state's pension and OPEB liabilities. Moody's contends this information allows investors to gain a better sense of each state's long-term obligations as a portion of available revenue and taxing capacity. However, the inherent flaw in providing this information – which Moody's recognizes – is the differing assumptions used by each state in determining its liability.

The following table provides a comparative analysis of State of Alaska’s debt burden versus other “AAA” rated states when each state’s pension liabilities are added to its net tax-supported debt totals. For this purpose, debt burden is measured using the following two ratios:

- Total Debt as a Percentage of Personal Income
- Total Debt as a Percentage of Unrestricted Revenues

Table 4		
State	Debt as a % of Personal Income	Debt as a % of Unrestricted Revenue
Alaska	15.1%	64.1%
Florida	5.4%	123.4%
Georgia	6.2%	111.4%
Maryland	9.8%	172.7%
Minnesota	8.7%	127.9%
North Carolina	2.4%	42.0%
Texas	4.0%	86.8%
Vermont	6.3%	66.1%
Virginia	5.3%	114.6%
Peer Median	6.2%	111.4%

**Source: Moody's Special Comment: "Combining Debt and Pension Liabilities of U.S. States Enhances Comparability"*

Current Debt Position

As of June 30, 2014 the State of Alaska (“State”) had approximately \$804 million in General Obligation debt outstanding plus \$170 million of bond anticipation notes. The State has traditionally had a very conservative stance with general obligation bond funding, as the State has a preference for pay-go funding as a primary source of capital.

As of June 30, 2014, the State had lesser commitments, but amounts included in net tax supported debt, of approximately \$3.3 million in Certificates of Participation and \$255 million of capital lease obligations securitized through political subdivisions that were authorized by Alaska Law.

Rating agencies have commended the State’s conservative financial management, citing a low debt burden and increased reserve amounts to offset any unanticipated shift in the price or

production of oil. While the State currently relies on North Slope oil production for revenues there are long term alternatives in natural gas and mineral production generated revenue, potential implementation of a Statewide broad based tax, and the potential use of earnings of the Permanent Fund to offset costs of government services. The State's current debt position is very conservative and, as a result, the State has maintained a level of flexibility not experienced by many other States in funding for capital projects.

An evident factor in assessing the conservative nature of the State's debt practices is witnessed by the relatively low level of debt service as a percentage of unrestricted general fund revenue. While the current State policy is designed to limit this ratio to 8%, for the last ten years the State has remained below 5% and was 4.3% for fiscal year 2014. However based on the Fall 2014 Revenue Sources Book's projections of diminished revenue, the state's ratios are projected to increase to greater than allowed percentages in FY 2015 and 2016. In addition to the low level of debt service as a percentage of unrestricted general fund revenue, another metric demonstrating the conservative debt position of the State is the trajectory of general obligation debt retirement. Approximately 50% of the current general obligation debt outstanding will amortize and retire over the next 10 years, allowing for increased flexibility for the State to participate and support in large scale projects.

The State has traditionally utilized long-term fixed rate debt in relation to its general obligation bond issuance. This, in turn, has resulted in no exposure to floating or variable rate debt as well as swaps and other derivative products used to hedge interest rate risk. While it is recognized that agencies of the State use variable rate debt and derivative products, no direct exposure exists for the State and the risks associated with such products are not found in the States general obligation bond indebtedness.

The State's ability to fund capital projects with current revenues has played a significant factor in the relatively low level of general obligation debt for the State. The reliance on current revenues has limited the State's need for bond issuance as a funding source and as a result has allowed the State to maintain a flexible debt profile.

Affordable Level of Additional Debt or Obligations

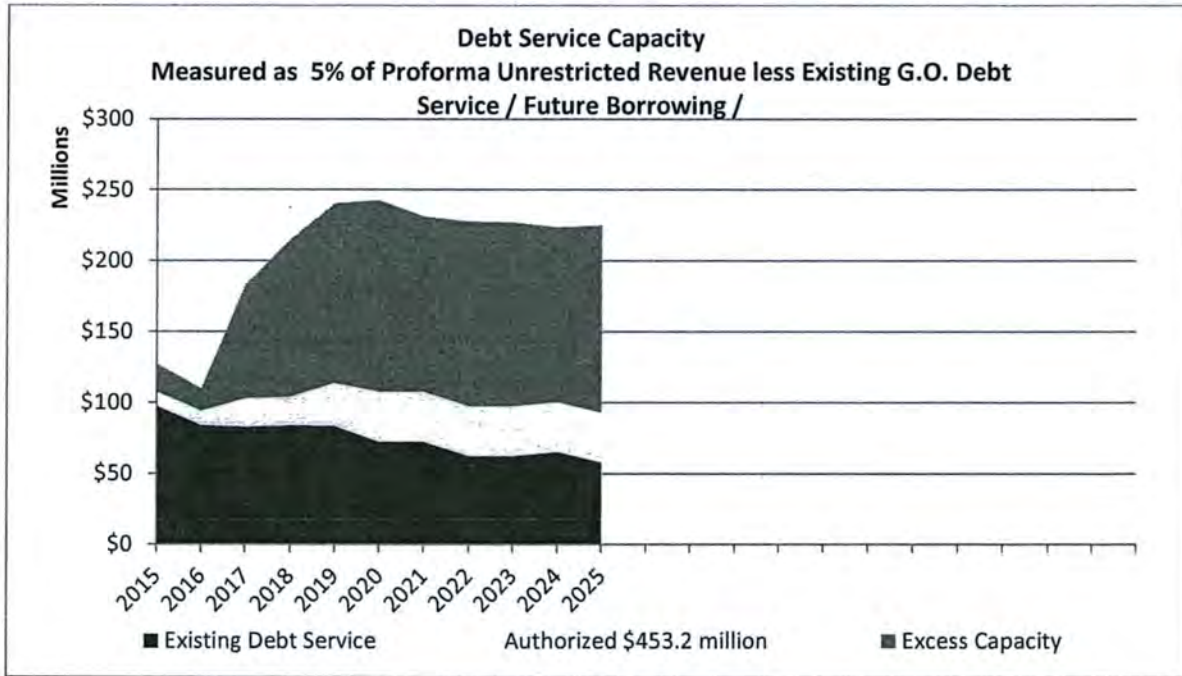
The Department of Revenue has developed a debt capacity model which will enable the State to calculate its available borrowing capacity to meet its future capital needs. The model results are based on the following constraints:

- Debt service in any year cannot exceed the targeted level of 5% of the prior year's revenues;
- All future debt issuances are amortized over 20 years, with level debt service payments;
- All bonds are issued at an assumed interest rate of 5%; and

- Annual unrestricted revenues available to pay debt service through 2024 are set at amounts stipulated in the Fall 2014 Revenue Sources Book of the Department of Revenue’s Tax Division.

Based on these assumptions, the State has the capacity to issue up to \$1.5 billion in debt over the next 10 years and still meet its 5% debt service ratio. However, given the state’s current fiscal structure and projected annual unrestricted revenue deficiencies the amount that the state could issue without negative credit action is considerably less than the potential capacity. As previously noted, the term “debt” includes all the State’s outstanding general obligation and state-supported debt. Lowering the ratio limit below 5% will necessarily reduce the amount of debt that can be borrowed over this time period. Conversely, raising the ratio limit to 8% will produce an additional \$2.2 billion of debt capacity over this time period.

The graph below depicts the State’s debt service capacity while maintaining the 5.0% debt service ratio. The red area on the graph shows the State’s existing annual general obligation debt service, while the remaining amount, depicted in the graph as the grey shaded area, displays the excess capacity available to the State to accommodate the issuance of up to \$1.5 billion in additional debt while still maintaining the 5.0% debt service ratio.



School Debt Reimbursement Program

Municipal school districts may apply for school debt reimbursement for construction or major maintenance projects anytime during the year while the program has statutory authority to accept new participants. The program's authority may be restricted or terminated at the Legislature's discretion. Applications are reviewed by Department of Education & Early Development ("DEED") staff to determine the level of reimbursement for the project. Currently there are tiered levels of reimbursement available. Projects qualify for up to 70 percent debt service reimbursement when the project meets the Department's eligibility guidelines. Projects that exceed the Department's eligibility guidelines are reimbursed at 60 percent of debt service or lower percentages based on a project's educational value as determined by the DEED.

Municipalities must issue general obligation bonds to participate in the program requiring securing voter approval of the project. After the municipality has both Department and voter approval, it may issue bonds for the project and the State reimburses the approved percentage of the bond payments. School districts must notify the DEED of their anticipated debt reimbursement for the upcoming fiscal year by October 15th for state budgeting purposes.

The State Bond Committee is not part of the School Debt Reimbursement Program. No records are kept by the Department of Revenue on the amount of debt outstanding that is subject to reimbursement other than the annual reporting found in the Alaska Public Debt Book. It has been recommended the Department of Education submit their current outstanding reimbursement schedules to the State annually by October 15th for a refinancing analysis by the State. While State law doesn't require that municipalities pursue refinancing opportunities on bonds subject to reimbursement from the State, the State Bond Committee will continue to monitor opportunities and encourage municipalities to refinance and reduce the State's appropriation requirements.

Level and Impact of Moral Obligations

Certain debt issued by several State agencies, such as Alaska Aerospace Development Corporation, Alaska Housing Finance Corporation, Alaska Industrial Development and Export Authority, Alaska Student Loan Corporation, Alaska Municipal Bond Bank, Alaska Energy Authority and Knik Arm Bridge & Toll Authority have been provided a statutory framework that allows some level of Moral Obligations of the State of Alaska to be issued. There is no direct

obligation of the State to pay any debt service associated with these bonds, however there is a perception that the State would appropriate funds (at the Legislature’s discretion) to cover any shortfall by these issuers due to the statutory framework that the State provided the agencies that requires a debt service reserve, reporting the sufficiency of that reserve to the State, and requires requesting replenishment in the case of a draw upon the reserve. As there is no obligation of the State to appropriate such funds, and there has not been an instance previously in which the State has had to honor the moral obligation pledge, rating agencies do not include these Moral Obligation bonds when calculating the State's financial ratios. However, in the event that the State did appropriate funds to one of these agencies to cover a shortfall, the rating agencies would likely consider all of that agency's debt as part of the State's general obligation debt in its future ratio calculations. To account for this, it is recommended that the State consider a percentage of each agency's debt as State general obligation debt when determining capacity for debt issuances. Since each agency may have a different credit profile, it is recommended that the State adopt a tiered approach to incorporating these agencies' debt into its ratios, where the strongest agencies count the least towards the State's debt. To implement this tiered approach, the State looks to the underlying rating of each issuer (which provides, among other things, an indication of the relative strength of the pledged sources of repayment) without taking into consideration the Moral Obligation backstop and then apply a ratio to that agency’s debt. The table below is an potential implementation of this strategy:

Percentage of Moral Obligation Debt included in General Obligation Debt by Underlying Rating	
Aaa Underlying	0.00%
Aa Underlying	5.0%
A Underlying	20.0%
Lower than A Underlying	35.0%

To clarify, let’s assume the State of Alaska established a borrowing program for a specific state agency, authority, etc. rated below the “A” category to which it will provide its moral obligation backing to any future debt issuance. If the agency issues bonds with a par amount of \$1 billion, then – for debt ratio calculation purposes – the State would necessarily have to include 35% of this amount when determining “state-supported debt” outstanding.

Consideration of Debt Structuring Elements

Structuring

As a matter of practice, in the late 1970's and 1980's the State issued bonds with 10 year amortizations to match the "Prudhoe Curve", in the 1990's and early 2000's the State began issuing more 15 and 20 year amortizations, and in issues since 2009 the State has issued bonds to amortize levelly in 20 years with principal paid annually and interest paid semiannually. This practice is consistent with other highly-rated states and local governments. Both serial and term bonds can be considered in the structuring depending on market conditions to generate the most cost effective structure of the bonds. Debt will be structured to obtain the lowest possible net cost to the State or State Issuer with consideration of market conditions, the nature of the project, and the nature and type of security provided.

Working within these guidelines, the State will take into account a number of factors in structuring any individual debt issue, including project feasibility, the source of funds to be used for debt service, the impact on the State's overall debt amortization profile and the fair allocation of costs to current and future beneficiaries or users.

In general, and consistent with the useful life of the asset to be financed, the State will utilize a 15-25 year final maturity structure with annual principal payments. Except in the case of a refunding transaction, the maximum principal payment shall be no greater than 4 times the minimum principal payment for the financing, it's a preference for equal annual principal payments. Principal repayments should not be delayed unless debt repayment is dependent upon revenues derived from the project being financed, the transaction is a refund deferring the refunding principal schedule is consistent with the refunded bonds, or there are other benefits to be achieved. Similarly, structures utilizing term bonds (without sinking fund requirements/redemptions) or other structures that result in significant "back loading" of debt are discouraged. Issues with a debt service reserve fund should use the fund to make the final payment.

Fixed and Variable Rate Debt

The optimal combination of fixed-rate and variable-rate is considered in order to manage the risk of the State's debt portfolio. The State will consider variable-rate debt to provide for asset-liability matching and lower cost of funding while maintaining a conservative portfolio of fixed-rate and variable-rate debt. As such, the State will not have outstanding variable rate debt in excess of its unrestricted cash balances. Additionally, the State's variable rate debt shall comprise no more than 25 percent of the State's overall direct debt obligations. This will allow the State to benefit from historically the least expensive cost of financing to offset cash investment returns while providing protection against market disruptions.

Call Provisions

A call provision gives the issuer the right to redeem or "call" all or a portion of an outstanding issue of bonds prior to their stated dates of maturity and provides an opportunity to potentially reduce debt service costs in the future. The cost of any such feature is dependent on market conditions, overall transaction structure, and such cost shall be taken into consideration when evaluating the flexibility this feature affords. Various call options may be evaluated in terms of their provisions and market acceptance.

Unless market conditions prove prohibitively expensive, the State's bonds shall be callable no later than 10 years from the date of sale and non-callable bonds shall only be considered for refundings or other transactions with a final maturity less than or equal to 15 years from the date of sale.

Bond Anticipation Notes (BAN's) & Revenue Anticipation Notes (RAN's)

Short-term State borrowing in anticipation of revenues is permitted under AS 43.08.010. RAN's may be issued and renewed from time to time, but must be structured to mature and paid off before fiscal year end. The full faith, credit, resources, and taxing power of the State are pledged to the payment of RAN's. There are no State RAN's currently issued or outstanding. The use of RANs should be undertaken only if the transaction costs plus interest on the debt are less than the cost of internal financing, or available cash is insufficient to meet working capital requirements.

Capital Appreciation Bonds

Capital Appreciation Bonds are structured as term bonds that do not pay interest until maturity. Interest is not paid to the investor until maturity, at an amount equal to the principal amount plus interest earned, compounded semiannually, at the stated yield. Their use is discouraged except for special circumstances.

Certificates of Participation

Certificates of Participation (COPs) constitute a fractionalization of a lease that the State has entered into with a trustee for the acquisition and/or improvement of real property. COPs are the only way that a lease transaction that is securitized to provide for a needed project can have the State of Alaska listed as the issuer. This is a considerable strength in the current market with the improvement in the State's credit position during an era of general negative movement in state

ratings. While the State can allow political subdivisions to securitize its lease payments and credit through lease revenue bonds, the loss of control of the State's credit, the reliance on a political subdivisions governing body to implement the terms and conditions of the financing, and the markets general reluctance to accept a disclosure document of potentially a small village as the State of Alaska all lead the State to focus on COPs for lease financing.

Credit Enhancements

Credit enhancement (letters of credit, bond insurance, sureties) should be used only when the net debt service on the bonds would be reduced by more than the costs of the enhancements or when dictated by the financial markets for the type of project financed. Special consideration should be given to any additional covenants or restrictions the credit enhancement provider may require.

Liquidity

To address remarketing risk inherent in a variable rate debt issuance, the State will evaluate alternative forms of liquidity such as direct pay letters of credit, standby letters of credit, and lines of credit. Such evaluation will necessarily weigh the value of mitigating remarketing risk vs. the economic costs associated with each alternative.

Use of Derivatives

The State will consider the use of derivative products when such products meet the specific needs of a financing program or provide a demonstrated economic benefit to the State that outweighs the costs and risks of such transactions. The State will consider and monitor such derivative products strictly in accordance with its existing adopted State Swap Policy. Appropriate public finance professionals, including financial advisors and legal counsel, should be retained to ensure that any contemplated structure is appropriate for the State and its objectives and deliver opinions as to the fair pricing of any such transactions. Derivative products will not be used for speculation.

Competitive Sales

State Statute dictates that general obligation bonds are to be sold using a competitive method of sale. An exception to that requirement was provided for the 2010 authorization to better use structures authorized in the American Recovery and Reinvestment Act of 2009. Given the State's strong credit profile and traditional financing structures competitive sales will be utilized in issuing debt to provide the lowest cost of debt. Bids should be awarded on the lowest true interest cost basis (TIC) offered by bidders, provided other bidding requirements are satisfactory. The State reserves the right to negotiate certain terms and conditions with the lowest bidder.

Negotiated Sales

For State general obligation bonds negotiated sale can only be used if there is an exception to the statutory requirement for competitive sale or for refunding. When there is flexibility negotiated

sales of debt will be considered in the following circumstances: (1) when the complexity of the issue requires specialized sales expertise; (2) when the negotiated sale would result in substantial savings in time or money; (3) when market conditions are unusually volatile or uncertain; or (4) if the State feels that a negotiated financing would promote extensive idea generation to the State's benefit by underwriting firms.

The negotiation of terms and conditions will include, but not be limited to, prices, interest rate, remarketing fees and commissions. Such terms will be based on prevailing terms and conditions for comparable issuers, including yields from secondary market trading of previously issued State debt. To ensure fair pricing on any bonds sold through a negotiated basis, it is preferable to engage a financial advisory firm which maintains an active trading or underwriting practice.

Post Issuance Policy

The State Bond Committee has approved a Post Issuance Policy that is intended to guide the State in meeting its obligations with federal tax law requirements, transcripts, ongoing disclosure, and other notice requirements. A detailed copy of this policy can be found in Appendix B.

Evaluation of Refunding Opportunities

Refunding Guidelines

The State will monitor the markets and its debt portfolio for opportunities to refund its existing debt for savings. For the State to consider a refunding transaction, a net present value (NPV) savings calculation will be done on a transaction or maturity-by-maturity basis.

The potential refunding of existing bonds for debt service savings must meet the following criteria for the State to approve the transactions:

- Total net present value savings of greater than 3% of the refunded debt service and each maturity being refunded has positive NPV savings.
- The refunding shall not extend the original bond structure's final maturity unless there are business or legal issues with maintaining the current final maturity date
- Outstanding debt may be current or advance refunded as long as tax law permits
- The State may refund outstanding debt if the proposed transaction is calculating a NPV savings of less than 3% as long as there is positive debt service in each fiscal year or if the NPV savings is less than 3-5% (depending on the original date of issuance of the bonds being refunded) due to a complete refunding of the contemplated series. If a maturity is likely to mature without any refinancing absent participating in a transaction that is underway.
- The State will consider refundings of individual maturities of targeted series without refunding the entire series of bonds to maximize debt service savings, however the preference is to refund not less than 30 million or 25% (whichever is less) of the callable refundable bonds of the evaluated series

- The State should take into consideration the efficiency of the refunding bond's escrow

The refunding of municipal debt obligations can take a number of forms, or combination of forms:

- Current Refunding
- Advance Refunding
- Forward Refunding
- Synthetic Refunding

The criteria used to evaluate the desirability of entering into a refunding transaction should be influenced by the form of the proposed transaction and should recognize the additional costs, risks, or uncertainties associated with the transaction. Refunding transactions should, if possible, be at least \$50 million in size unless issued in combination with a "new money" issue.

In general:

- Current refundings which produce a positive net present value savings should be considered. However the savings to be realized should meet certain size criteria to be considered worthwhile. In general, current refundings should achieve at least \$1 million in net present value savings or \$200,000 in average annual saving. If a refinancing opportunity will otherwise be unused savings thresholds may be diminished.
- Bonds issued after 1986 can only be advanced refunded one time. It is, therefore, of particular importance that the one opportunity be reserved for situations where the refunding is prudent and warranted. The following parameters are suggested for advanced refunding transactions:
 - 5% present value savings for bonds refunded within two years of their issuance date and generate net present value savings of at least \$2 million or average annual savings of \$350,000.
 - 4% present value savings for bonds refunded that have been outstanding at least two years but less than five, and generate net present value savings of at least \$1.5 million or average annual savings of \$300,000
 - 3% present value savings for bonds refunded more than five years from their issuance date and generate at least \$1.5 million of present value savings or average annual savings of \$250,000
- Forward refunding refer to a refunding in which bonds are sold with a delayed closing that is likely to coincide with a date 90 days prior to the call date of the bonds to be refunded. This technique allows the transaction to be characterized as a current, as opposed to an advanced, refunding. Forward refundings should achieve the same savings levels as advanced refundings. As part of the analysis,

the cost of the forward premium and its impact on the savings to be achieved should B be evaluated.

- Synthetic refundings create present value savings by synthetically refunding, but not retiring, outstanding bonds by utilizing derivative structures. Synthetic refundings are often used to produce refundings-type savings for bonds that may not be otherwise refunded (bonds that have already been advance refunded once, for example). Synthetic refundings are used in connection with current, advance and forward refundings and should generate an additional 2% NPV savings above the advance refunding threshold unless a traditional financing is not possible because of tax or legal limitations. In that case, the advance refunding thresholds will apply.

Refunding Escrows

An advance refunding transaction requires the creation of an escrow that provides for the payment of debt service on the refunded bonds until the bonds are retired through the execution of the call feature (if any). Eligible securities for the escrow generally are limited to U.S. Treasury securities purchased in the open market (“open-markets”) and U.S. Treasury securities that take the form of “SLGS” or State and Local Government Securities purchased directly from the U.S. Treasury. Although SLGS offer flexibility and the ability to create custom securities, they may not offer any yield advantage. In addition, there have been instances in the past where the U.S. Treasury was unable to offer SLGS because of the U.S. Debt Ceiling being reached. When refunding transactions are being structured, both open-markets and SLGS should be evaluated to determine the most advantageous escrow candidates.

In the event that it is determined that open-markets are the best choice for the escrow, the financial advisor to the transaction should conduct a competitive bidding process for the procurement of the securities and should ensure that the process will meet IRS requirements for safe harbor under then-current regulations. A minimum of three bids is required. The details of the process for bidding escrow securities should include the number and names of bids solicited and received and should be retained for the life of the bonds. If the refunding is to be accomplished through a negotiated underwriting, the underwriter should be prohibited from furnishing the escrow securities without participation in a third-party, competitive bidding process.

APPENDIX A
Alaska Public Debt Report Tables

<http://treasury.dor.alaska.gov/Portals/0/docs/Debt%20book%202014%20FINAL.pdf>

APPENDIX B
State's Post Issuance Policy

Governmental Bonds

STATE OF ALASKA
POST ISSUANCE COMPLIANCE POLICY

This policy is intended to guide the State of Alaska (the "State") in meeting its obligations under applicable statutes, regulations and documentation associated with publicly offered and privately placed securities of the State. This policy addresses obligations of the State that arise and will continue following the issuance of securities. The State maintains a separate Debt Policy with respect to matters related to the issuance of security obligations, including compliance with the State's disclosure obligations related to securities issuance. These obligations may arise as a result of federal tax law (with respect to tax-exempt securities) and securities laws (with respect to ongoing disclosure) or as a result of contractual commitments made by the State. This policy outlines obligations that may be applicable to each issue of securities and identifies the party to be responsible for monitoring compliance. In the State, the Debt Manager will be responsible for ensuring that the policy is followed and checklists and records maintained. The Debt Manager may delegate responsibility to employees and outside agents for developing records, maintaining records and checklists. The State will provide educational opportunities (opportunities to attend educational programs/seminars on the topic) for the parties identified in this policy with responsibilities for post-issuance compliance in order to facilitate their performance of these obligations.

A. Transcripts.

1. The State's bond counsel shall provide the State with three copies of a full transcript related to the issuance of securities (for each issue). The transcript shall be delivered in the following forms: one 3-ring binder, one soft cover and one CD-ROM and transcripts shall be delivered to the State within six months following the date of issuance of securities. It is expected that the transcript will include a full record of the proceedings related to the issuance of securities, including proof of filing an 8038-G or 8038-GC, if applicable.

2. Bond transcripts will be retained by the following parties and in the following locations within the State: Debt Manager's office at State of Alaska Department of Revenue and State of Alaska Attorney General's office.

B. Federal Tax Law Requirements (Applicable only if the securities are issued as "tax-exempt" securities).

1. *Use of Proceeds.*

a. If the project(s) to be financed with the proceeds of the securities will be funded with multiple sources of funds, the State will adopt an accounting methodology that:

_____ maintains each source of funding separately and monitors the actual expenditure of proceeds of the securities;

_____ commingles the proceeds and monitors the expenditures on a first in, first out basis; or

_____ provides for the expenditure of funds received from multiple sources on a proportionate basis.

b. Records of expenditures (timing of expenditure and object code) of the proceeds of securities will be maintained by the Debt Manager.

c. Records of investments and interest earnings on the proceeds of securities will be maintained by the Debt Manager. Such records should include the amount of each investment, the date each investment is made, the date each investment matures and if sold prior to maturity, its sale date, and its interest rate and/or yield. Interest earnings on proceeds will be deposited in the fund in which the proceeds of the securities were deposited (if not, then the plan for use of interest earnings will be discussed with the State's bond counsel).

d. Records of interest earnings on reserve funds maintained for the securities.

2. *Arbitrage Rebate.* The Debt Manager of the State ("Rebate Monitor") will monitor compliance with the arbitrage rebate obligations of the State for each issue ("issue") of securities which are described in further detail in the tax certificate if any, executed by the State for each issue and included in the transcript for the issue. If the State did not execute a tax certificate in connection with an issue, the Rebate Monitor should consult with the State's bond counsel regarding arbitrage rebate requirements. The State will provide educational opportunities (opportunities to attend educational programs/seminars on the topic) for the Debt Manager in order to facilitate his/her performance of these obligations.

a. If the Rebate Monitor determines that the total principal amount of tax-exempt governmental obligations (including all tax-exempt leases, etc.) of the State issued by or on behalf of the State and subordinate entities during the calendar year, including the issue, will not be greater than \$5,000,000, plus such additional amount not in excess of \$10,000,000 as is to be spent for the construction of public school facilities, the Rebate Monitor will not be required to monitor arbitrage rebate compliance for the issue, except to monitor expenditures and the use of proceeds after completion of the project (see #3 below). For purposes of this paragraph, tax-exempt governmental obligations issued to currently refund a prior tax-exempt governmental obligation will only be taken into account to the extent they exceed the outstanding amount of the refunded bonds.

b. If the Rebate Monitor determines that the total principal amount of tax-exempt governmental obligations (including all tax-exempt leases, etc.) of the State issued or incurred any calendar year is greater than \$5,000,000, plus such additional amount not in excess of \$10,000,000 as is to be spent for the construction of public facilities, the Rebate Monitor will monitor rebate compliance for each issue of tax-exempt governmental obligations issued during that calendar year.

i. *Rebate Exceptions.* The Rebate Monitor will review the tax certificate, if any, in the transcript in order to determine whether the State is expected to comply with a spending exception that would permit the State to avoid having to pay arbitrage rebate. If the tax certificate identifies this spending exception (referred to as the six-month exception, the 18 month exception or the 2-year exception), then the Rebate Monitor will monitor the records of expenditures (see B.1 above) to determine whether the State met the spending exception (and thereby avoid having to pay any arbitrage rebate to the federal government). If the State did not execute a tax certificate in connection with an issue, the Rebate Monitor should consult with bond counsel regarding the potential applicability of spending exceptions.

ii. *Rebate Compliance.* If the State does not meet or does not expect to meet any of the spending exceptions described in (i) above, the State will:

x. review the investment earnings records retained as described in B.1 above. If the investment earnings records clearly and definitively demonstrate that the rate of return on investments of all proceeds of the issue were lower than the yield on the issue (see the tax certificate in the transcript), then the State may opt no to follow the steps described in the following paragraph.

y. retain the services of an arbitrage rebate consultant in order to calculate any potential arbitrage rebate liability. The rebate consultant shall be selected no later than the completion of the project to be financed with the proceeds of the issue. A rebate consultant may be selected on an issue by issue basis or for all securities issues of the State. The Rebate Monitor will obtain the names of at least three qualified consultants and request that the consultants submit proposals for consideration prior to being selected as the State's rebate consultant. The selected rebate consultant shall provide a written report to the State with respect to the issue and with respect to any arbitrage rebate owed if any.

z. based on the report of the rebate consultant, file reports with and make any required payments to the Internal Revenue Service, no later than the fifth anniversary of the date of each issue (plus 60 days), and every five years thereafter, with the final installment due no later than 60 days following the retirement of the last obligation of the issue.

c. *Yield Reduction Payments.* If the State fails to expend all amounts required to be spent as of the close of any temporary period specified in the Tax Certificate (generally 3 years for proceeds of a new money issue and 13 months for amounts held in a debt service fund), the State will follow the procedures described in B.2.b.ii above to determine and pay any required yield reduction payment.

3. *Unused Proceeds Following Completion of the Project.* Following completion of the project(s) financed with the issue proceeds, the Debt Manager will:

a. review the expenditure records to determine whether the proceeds have been allocated to the project(s) intended (and if any questions arise, consult with bond counsel in order to determine the method of re-allocation of proceeds); and

b. direct the use of remaining unspent proceeds (in accordance with the limitations set forth in the authorizing proceedings (i.e., bond ordinance) and if no provision is

otherwise made for the use of unspent proceeds, to the redemption or defeasance of outstanding securities of the issue.

4. *Use of the Facilities Financed with Proceeds.* In order to maintain tax-exemption of securities issued on a tax-exempt basis, the financed facilities (projects) are required to be used for governmental purposes during the life of the issue. The Debt Manager of the State will monitor and maintain records regarding any private use of the projects financed with tax-exempt proceeds. The IRS Treasury Regulations prohibit private business use (use by private parties (including nonprofit organizations and the federal government)) of tax-exempt financed facilities beyond permitted *de minimus* amounts unless cured by a prescribed remedial action. Private use may arise as a result of:

- a. Sale of the facilities;
- b. Lease of the facilities (including leases, easements or use arrangements for areas outside the four walls, e.g., hosting of cell phone towers);
- c. Management contracts (in which the State authorizes a third party to operate a facility (e.g., cafeteria);
- d. Preference arrangements (in which the State grants a third party preference of the facilities, e.g., preference parking in a public parking lot).

If the Debt Manager identifies private use of tax-exempt debt financed facilities, the Debt Manager will consult with the State's bond counsel to determine whether private use will adversely affect the tax-exempt status of the issue and if so, what remedial action is appropriate.

5. *Records Retention.*

- a. Records with respect to matters described in this Subsection B will be retained by the State for the life of the securities issue (and any issue that refunds the securities issue) and for a period of three years thereafter.
- b. Records to be retained:
 - (i) The transcript;
 - (ii) Arbitrage rebate reports prepared by outside consultants;
 - (iii) Work papers that were provided to the rebate consultants;
 - (iv) Records of expenditures and investment receipts (showing timing of expenditure and the object code of the expenditure and in the case of investment, timing of receipt of interest earnings). (Maintenance of underlying invoices should not be required provided the records include the date of the expenditure, payee name, payment amount and object code; however, if those documents are maintained as a matter of policy in electronic form, then the State should continue to maintain those records in accordance with this policy);

(v) Copies of all certificates and returns filed with the IRS (e.g., for payment of arbitrage rebate); and

(vi) Copies of all leases, user agreements for use of the financed property (agreements that provide for use of the property for periods longer than 30 days), whether or not the use was within the four walls (e.g., use of the roof of the facility for a cell phone tower).

C. Ongoing Disclosure. Under the provisions of SEC Rule 15c2-12 (the “Rule”), underwriters are required to obtain an agreement for ongoing disclosure in connection with the public offering of securities. Unless the State is exempt from compliance with the Rule as a result of certain permitted exemptions, the transcript for each issue will include an undertaking by the State to comply with the Rule. The Debt Manager of the State will monitor compliance by the State with its undertakings. These undertakings may include the requirement for an annual filing of operating and financial information and will include a requirement to file notices of listed “material events.” For some types of material events (early bond calls), the State’s fiscal agent has undertaken the responsibility of filing notice of the applicable material event.

D. Other Notice Requirements. In some instances, the proceedings authorizing the issuance of securities will require the State to file information periodically with other parties, e.g., bond insurers, banks, rating agencies. The types of information required to be filed may include (1) budgets, (2) annual financial reports, (3) issuance of additional debt obligations, and (4) amendments to financing documents. The Debt Manager of the State will maintain a listing of t