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RATINGS SERVICES
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Alaska; Appropriations; General Obligation; Moral Obligation; Note

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Credit Profile		
US$162.7 mil GO bnd antic nts ser 2015A due 03/18/2016		
Short Term Rating	SP-1+	New
US$94.91 mil GO rfdg bnds ser 2015B dtd 04/09/2015 due 08/01/2029		
Long Term Rating	AAA/Stable	New
Alaska GO		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
Alaska Mun Bnd Bank, Alaska Alaska		
Alaska Mun Bnd Bank GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' rating to Alaska's $163 million series 2015A general obligation (GO) bond anticipation notes (BANs). We understand the state intends to refinance its 2014 BANs with the proceeds from the 2015 BANs.

We also assigned our 'AAA' rating to Alaska's $94.9 million GO refunding bonds, series 2015B. At the same time, we affirmed our 'AAA' rating on Alaska's previously issued GO bonds and our 'AA+' rating on the state's appropriation-backed debt. The outlook on all ratings, where applicable, is stable.

The ratings reflect our view of the state's:

- Extraordinarily large budget reserves generated from prudent management of prior windfall receipts of oil production-related revenue, including prefunding a significant share of the proceeding years' expenditures with current-year revenue, and
- Moderate debt burden, significant pay-as-you-go financing of capital needs, and closed defined-benefit retirement system despite a relatively large lingering unfunded actuarial accrued liability (UAAL).

The BANs and GO bonds are backed by the state's full faith, credit, and resources. In practice, we anticipate that the state will use proceeds from a future BAN or GO bond issue to retire the notes. Specifically, we expect the state will issue GO bonds against a portion of the $453.5 million in GO bonding authority that voters approved in November 2012 to repay the BANs. Voters approved the GO bonds in order to fund the design and construction of various transportation projects in the state. The BANs will allow the state to commence paying for the preliminary costs of the state transportation projects.

In accordance with our criteria for rating BANs, we have assigned a "low" market risk profile to Alaska. Across the board, Alaska scores favorably in our assessment of its market risk. This includes the explicit BAN refunding authority referenced above, no debt that is sensitive to market confidence exposure, and good information availability.

Alaska's economy and finances are highly resource dependent, with 79% of fiscal 2015 unrestricted general fund revenue related to petroleum extraction. To a significant extent, the state's financial management has helped offset the near-term fiscal effects of revenue volatility, which is inherent to its oil-reliant economy. The state has done this by constructing multiple layers of reserves and extensive operating flexibility. Among the most prominent of these practices are:

- An accumulation of multiple budget reserves equal to well over 200% of the general fund budget;
- A high level of pay-as-you-go financing of capital needs, which could be reduced to fund operations if the state deems doing so necessary;
- Extensive forward-funding of significant areas of the state's operating budget, a practice that could be halted in an underperforming revenue environment;
- Twice the constitutionally required contributions to the state permanent fund of revenue from oil and gas rentals, royalties, and leases; and
- Untapped potential sources of tax revenue, such as statewide sales or personal income taxes, neither of which the state levies at present.

Alaska's fiscal structure and budgetary context is unique among the states. On the one hand, the state's unrestricted general fund is heavily reliant on petroleum-related revenue. Not surprisingly, therefore, the unrestricted general fund segment of the state's budget has deteriorated throughout fiscal 2015 in response to the sharp and largely unanticipated decline in global oil prices. As of early February, Governor Bill Walker's administration estimates a large operating deficit of almost $3.6 billion for fiscal 2015 in the state's unrestricted general fund (58% of authorized spending). But while the slump in oil prices has exacerbated it, the state was already facing a structural gap between revenues and expenditures in its unrestricted general fund. When the current budget was enacted, for example, there was an operating deficit of $1.4 billion, or 23% of authorized spending. In short, when viewed solely from the perspective of its unrestricted general fund, the state is operating under a large structural budget deficit.

On the other hand, a broader view of the state's overall financial position paints a different picture. In addition to the oil-related revenue, Alaska generates significant investment earnings on its $46.5 billion permanent fund. In fiscal 2014, for example, the state had $6.8 billion in permanent fund investment earnings. Consequently, despite a $1.9 billion deficit in the unrestricted general fund, Alaska's overall government-wide net asset position increased by $6.1 billion. For fiscal 2015, the state currently estimates permanent fund investment earnings revenue of $3.05 billion plus $270 million of investment earnings on the Constitutional Budget Reserve Fund (CBRF).

With a simple majority vote, the legislature could redirect the investment earnings revenue to help fund government operating costs. From this perspective, Alaska's structural budget deficit is more a function of what lawmakers chose to define as its unrestricted revenue -- which is a policy and political question. Indeed, residents may perceive a move by the legislature to use investment earnings to help fund state government operating costs as tantamount to a broad-based tax increase. That's because at present, and since 1982, a significant portion of permanent fund investment earnings revenue have been used to fund dividend payments to state residents. (The other major use of earnings has been to inflation proof the principal balance of the permanent fund)

This broader look at the state's financial condition shows, from our perspective, that Alaska has the resources to fund its operations if it has the political will.

In our view, it's likely that at some point, lawmakers will need to confront the question of just what constitutes the state's unrestricted revenues and whether the definition should be revisited. Either that, or they may need to consider dramatically scaling back the role of state government in Alaska. But because of the extraordinarily large budget reserves the state has accumulated, Alaska has the luxury of time to examine these fundamental questions.

Currently, Alaska's statutory and constitutional budget reserves and its permanent fund earnings reserve sum to $19.95 billion, or 326% of fiscal 2015 expenditures. Additional flexibility beyond what the reserves provide is in the state's fiscal structure because of its practice of prefunding major expenditures, such as for education and municipal revenue sharing. The budget for fiscal 2015 includes $1.3 billion to prefund the education costs estimated for fiscal 2016. Likewise, the governor's proposed fiscal 2016 budget includes $1.2 billion to fund education in fiscal 2017. By discontinuing this practice, the state could, at any point, realize on a one-time basis, a like amount of increased budget capacity.

Alaska's reserves and how they're capitalized allow it to retain, on a projected basis, large balances through its forecast horizon, even with a persistent structural gap. To be specific, by the end of fiscal 2021, the state's forecast shows a combined ending balance (CBRF plus the permanent fund earnings reserve) of $11.6 billion, more than 200% of expenditures.

One caveat we see to the long-term forecast is that it includes lowering -- and holding flat -- annual general fund expenditures. For fiscal 2016, the governor proposes bringing down unrestricted general fund spending by 9.5% to about $5.6 billion. Although the governor has recommended significant spending reductions, he has taken a targeted rather than an across the board approach. The governor's budget proposal eliminates over 300 state jobs, many of them currently or expected to become vacant. He also put a hold on several large capital projects.

After fiscal 2016, the forecast shows the state holding unrestricted general fund spending flat. Inasmuch as the forecast helps illustrate the magnitude of the state's reserves, we are less convinced that the state spending forecast will hold. If expenditures exceed what is shown in the forecast, actual state reserves may be lower than projected. One source of pressure is likely to be the state's Medicaid program. When he proposed the fiscal 2015 budget, then-Governor Sean Parnell's administration estimated that Medicaid spending (equal to roughly 11% of unrestricted general fund spending) alone was increasing at 7.2% per year.

Considering the importance of oil-related revenue to the state's budget, the state's oil prices and production are important to its fiscal condition. The state's department of revenue (DOR) has a good track record of forecasting year-ahead prices and production levels. Until fiscal 2015, the state's price forecasts in recent years have tended to err slightly on the low side (except for fiscal 2009, when actual Alaska North Slope, or ANS, West Coast oil prices came in at $68.34, almost 18% below the $83.04 that the state had forecast the year prior).

For fiscal 2015, the DOR's spring 2014 forecast projected an ANS West Coast price per barrel of $105.06 and then subsequently reduced it to $76.31, or by 27%, in the fall. Steep as the drop has been, one lesson from the history of oil price changes is that sharper falls have been associated with more pronounced rebounds. And although the state forecast assumes a full 18 to 24 months before prices begin to increase again (and four years until they top $100), it's possible they could begin to recover sooner. Thanks in part to the state's recently revised tax structure (designed to encourage greater production), however, the DOR raised its forecast for oil production. In the spring, the DOR had projected production of 495.9 million barrels per day (bpd) but then increased it by 2.7% in the fall to 509.5 million bpd.

We have better confidence in the DOR's long run production forecast following some changes it has made to its methodology in recent years. The changes were important because, through the years, incorporating the long-term rate of oil production decline into its forecast has posed a greater challenge for Alaska than even the oil price movements. Since peaking in 1988, the average annual rate of decline in production has been around 5.5%. However, the state's previous forecast methodology had consistently projected a long-term rate of annual production decline of just 2.5% or less. As a result, the state's long-term forecast has tended to overestimate actual production levels. Beginning with its fall 2012 forecast, the DOR has revised the methodology used to develop its longer-term production forecast. The new approach applies risk factors to discount the projected oil production from oil fields that are still under development or in the evaluation stage. Previously, production estimates in the forecast from such fields were not adjusted downward to account for their higher level of uncertainty. Since making the changes, the DOR's production forecasts have been better at hitting the mark, if not proving somewhat conservative. A somewhat more cautious production forecast, therefore, partly offsets what has recently been shown to be a more optimistic price forecast.

As part of the fiscal 2015 budget, Alaska deposited $3 billion from its CBRF into the asset trusts of its teachers' retirement (TRS) and public employee retirement (PERS) systems. The state anticipates that this will boost its funded ratio to an estimated 65% in fiscal 2014 from a combined 58% as of fiscal 2013. The deposit alone would take some pressure off the state's annual required contribution -- which compete with and squeeze out other spending priorities in the state's unrestricted general fund budget. Once it is captured actuarially, we expect the large deposit will have favorable implications to our scoring of the state's pension and liability profile. On the other hand, the state also changed its funding methodology -- to a level percentage of pay from a level dollar basis -- which reduces the nearer required contributions in exchange for larger ones later. The legislature also included extending by nine years the period of time over which the state is scheduled to amortize its unfunded liability.

Total state net tax-supported GO and general-fund-supported lease debt is moderate, in our view, at $1,445 per capita (not including municipal school debt and local government capital projects that the state has reimbursed or self-supporting GO bonds that the state has issued through its housing corporation and that are backed by veterans' housing loans). Fiscal 2014 tax-supported GO and appropriation debt service was moderate at 1.2% of general fund and non-major special governmental fund expenditures, not including discretionary state reimbursement for local school debt.

Based on the analytic factors we evaluate for states, on a four-point scale in which '1' is the strongest, Standard & Poor's has assigned a composite score of '1.7' to Alaska. Although this score is indicative of a 'AA+' rating under our criteria, we have viewed the state's credit quality as warranting the 'AAA' rating because of its uncommonly high budget reserve levels.

Outlook

The outlook on our 'AAA' rating -- which has long encompassed the potential for oil price declines -- is stable. The stable outlook reflects that Alaska has prudently and effectively used prior revenue windfalls to accumulate extraordinarily large budget reserves. In our view, the budget reserves enable the state to weather a period of structural -- and large -- budget imbalances. As we see it, the state has a sufficient level of reserves to withstand the shortfall in its unrestricted general fund for at least two years -- which is the time horizon of our outlook. The time horizon could shorten, however, if oil prices or production levels fall and remain materially below what the state forecasts.

Governmental Framework

The Alaska constitution requires the governor to submit a balanced budget proposal to the state legislature by Dec. 15 for each fiscal year, which begins on July 1. The governor is required to submit three budgets -- an annual operating budget, a mental health budget, and a six-year capital budget. The governor can line-item veto legislatively approved budget bills. An enacted state budget is not required to stay in balance during the course of the fiscal year after budget adoption, but the governor can hold back expenditures when revenue is below budget.

The state does not have an individual income tax or sales tax but has occasionally adjusted its formula for oil production and other mining-related tax rates. The state legislature can impose new taxes by majority vote, but a qualifying referendum petition could be filed to challenge new tax legislation. Alaska has the legal authority to re-impose an income tax (which it had in place before 1978) or to impose a sales tax if it so chooses.

Alaska's constitution provides that proceeds of state taxes or licenses "shall not be dedicated to any special purpose" except for restricted federal revenue, money dedicated before statehood, and money required to be placed in the state's permanent fund. As a result, most revenue is placed in Alaska's general fund although the state has created numerous subaccounts within the general fund.

The state's permanent fund was established as the result of a constitutional amendment in 1977, which requires that at least 25% of all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral-sharing revenue and bonuses be placed in the fund. An additional 25% is currently deposited to the fund per state statute. Investment income and annual constitutional and statutory deposits into the fund are reflected in the state's audited financial statements as restricted revenue. Its principal is restricted, but income from the fund is available for use by the general fund.

The state's CBRF was created as a constitutional amendment, in 1990, that requires all money received by the state after July 1, 1990 through resolution of disputes about the amount of certain mineral-related income must be deposited here. Investment income, as well as any current-year resolution dispute revenue, deposited into the fund are reflected as restricted revenue. In most cases, appropriation from the fund requires a three-fourths majority vote of the legislature and approval of the governor.

Alaska has wide legal latitude to cut disbursements as it chooses. It has an appropriation limit and reserves one-third of the amount within the limit for capital projects and loan appropriations. Because state appropriations have never significantly approached the limit, Alaska does not believe the reservation has constrained state operations. The appropriation limit does not apply to the permanent fund.

Voter initiatives may be placed on the ballot upon collection of enough petition signatures to equal 10% of the votes cast at the latest general election. However, successful voter initiatives only have the effect of statutory law and can be overridden or repealed by the legislature after two years. Voter initiatives may not amend the state constitution. In Standard & Poor's opinion, voter initiative activity has not historically affected or hindered state operations.

The state issues GO debt, lease-secured debt secured by annual appropriations, moral obligation debt, and dedicated tax revenue bonds. Due to the state's practice of annually appropriating reserve replenishment in its budget, we rate its Alaska Municipal Bond Bank debt, which also carries the moral obligation backing of the state, under our appropriation-backed criteria. GO bond authorization requires a simple majority voter approval. GO bonds may be issued only for capital purposes except for veterans' mortgage guaranteed bonds. The state has issued moral obligation debt for its Bond Bank, for the Alaska Energy Authority, and for the Alaska Student Loan Corp. The state can also legally issue cash flow notes but has not done so in the past 35 years because of its historically strong cash position.

The Alaska constitution does not specify a priority of payment for GO debt service compared with other expenditures, but annual GO debt service, as constitutionally authorized debt, could be paid in absence of a specific annual budget appropriation. Generally, the state has appropriated both GO and lease-secured debt service under a separate line-item appropriation.

The state provides assistance to school districts, including discretionary payments since 1970 to subsidize pre-qualified local school district debt service but also can cut funding if it deems doing so necessary, as long as cuts are distributed so as to preserve equitable per-pupil funding across the state. The state has provided 60% to 100% reimbursement depending on different factors.

On a four-point scale in which '1' is the strongest, Standard & Poor's has assigned a '1.5 ' to the state's governmental framework.

Economy

Alaska's economy is largely dependent on the oil extraction and mining industry, but the fishing, timber, and tourism industries are also present. Alaska's high cost of living and dispersed population can serve to restrain growth in non-oil-and-gas-related industries. IHS Global Insight Inc. estimates that construction and mining together account for about 10% of state employment. Employment sectors differ from those of the nation as a whole in some key respects. Alaska's manufacturing employment is 4.0% of total employment compared with 8.1% for the nation; its business and professional services are 8.3% compared with the nation's 11.7%, and its governmental employment 25.8% compared with 15.7% for the nation. This introduces potential exposure to employment losses from federal fiscal consolidation efforts.

Although the state's population has been increasing faster than that of the U.S. as a whole, this fluctuates from year to year. Alaska's population increased 13.3% in 2000 to 2010 compared with 9.7% for the U.S. The state's age dependency ratio -- the ratio of dependent population to total population -- is 51.7% compared with the nation's rate of 59.3%.

Because of its sizable rural population, Alaska's unemployment rate has historically been higher than that of the nation, but in recent years, as national unemployment has increased and the state's unemployment rate has held steady, its seasonally adjusted unemployment rate has fallen below national rates. Alaska's unemployment rate in 2013 was 6.5% compared with 7.4% for the nation. The most recent monthly unemployment rate, for December 2013, was 6.4% compared with the national rate of 6.7%.

As the state's economy has gradually matured, the composition of its employment base has shifted. In recent years, new jobs in health care, construction, and government have offset job losses in timber and seafood processing. With that said, seafood processing employment for the first nine months of 2013 was well ahead of where it was in 2012, suggesting that is likely to show growth in 2013 once the numbers are final. In addition to oil, gold, and metal ore mining and the possible construction of a major natural gas line could also prove promising for new jobs.

We believe high value mineral production helped boost Alaska's real gross state product per capita to 153% of per capita U.S. GDP in 2013. State GDP (real) growth has also been strong in recent years, increasing by 2.6% a year on average since 2000 compared with 1.6% for the nation. The federal Bureau of Economic Analysis' 2013 estimate of Alaska's per capita personal income is $50,032 or 112% of the nation's.

Relative to other states, Alaska's income figures are more prone to volatility because of the economic linkages to oil prices, which tend to fluctuate in response to global economic and geopolitical forces. Alaska suffered a severe recession in the mid-1980s following a collapse in oil prices, but since 2004 higher oil prices have contributed to economic growth we consider strong.

Oil production on the North Slope of Alaska occurs primarily at the principal oil fields of Prudhoe Bay and the Kuparuk River. Production on the North Slope peaked in 1988 at 2.01 million bpd. Since 1989, production from the North Slope has fallen, although the DOR currently forecasts increased production in fiscals 2016 and 2017. The forecast shows production increasing from 509.5 thousand bpd in fiscal 2015 to 534.1 thousand bpd in fiscal 2017. These would be the first back to back increases in production in more than a decade. Thereafter, the DOR projects that production would revert to is declining trajectory, but as mentioned above, this partly reflects a change in the state's production forecast methodology.

Alaska continues to exploit its potential for natural resources production aggressively, in our view. The state is exploring the possibility of developing a natural gas pipeline to derive economic benefit from an estimated 35 trillion cubic feet of natural gas reserves located on Alaska's North Slope. The current market and price differential between North American and Asian markets is such that exporting natural gas in the form of liquefied natural gas may offer more benefit than an overland pipeline.

On a four-point scale, in which '1' is the strongest, Standard & Poor's has assigned a score of '1.4' to Alaska's economic structure.

Financial Management

Financial management assessment: "Good"

We consider Alaska's formal management practices "good" under our financial management assessment (FMA) methodology. An FMA of good indicates our view that the state maintains many best practices deemed as critical to supporting credit quality, particularly within the finance department. These practices, however, may not be institutionalized or formalized in policy, may lack detail or long-term elements, or may have little recognition by decision makers outside of the finance department.

The state has a statutory budget reserve within its general fund that, although not always funded, is available to provide liquidity. In addition, the state has also established the CBRF, which voters approved. Funds may be appropriated for certain purposes by a vote of three-fourths of each house of the legislature, but money can be used for interfund borrowing for general fund expenditures. All appropriations from the fund are recorded as a general fund liability.

Budget assumptions are conservative, in Standard & Poor's opinion. The leading predictor of state revenue, the price per barrel of oil, has historically erred on the low side. The state also forecasts production and has recently enhanced its methodology on this front. Budget amendments can occur throughout the year.

Alaska produces detailed revenue forecasts, with the focus being the price of oil, the leading determinant of general fund revenue. Other revenue sources are also included in the revenue source book, which is released twice each year. The tax division of the Alaska Department of Revenue prepares the book, using numerous outside sources of information to help predict the price of oil. Expenditure projections are less detailed although the state accounts for some inflationary and caseload pressures on spending levels.

The state's debt management policy is updated annually with the public debt report. The debt report describes the different types of debt that Alaska issues, mainly certificates of participation and GO bonds. For general-fund-supported bonds, the state has a debt capacity that it determines, by policy, to be 8% of unrestricted revenue.

Investment management is also covered by the investment policy statement, and the performance of the state's investment portfolio is monitored daily. Each year the fund undergoes a fiduciary audit, which includes a review of legal and administrative constraints for each invested fund. The audit policy's stated goal is to keep Alaska's investment process intact during periods of market upheaval.

Alaska enacts an annual capital budget. Expenditure assumptions for the state's operating budget are adjusted as appropriate when capital projects begin. A transportation agency capital plan provides an annually prioritized plan detailing three years of projects and funding sources.

Budget management framework

The DOR issues formal revenue forecasts twice a year, in the spring and fall. The forecast is based on consultation with an engineering firm and the state department of natural resources. As noted above, the methodology for forecasting oil production has been revised to incorporate the greater variability associated with production forecasts from some oil fields that are still under development or are in the evaluation phase of development. The net effect of these changes has been to increase the long-term rate of production decline. The revenue forecast has historically been used as presented for budget adoption and not adjusted during the budget-adoption process.

The state has a recent history of advance funding part of the following year's expenditures for both operating and capital expenditures because of, in our view, the high level of mineral-related revenue Alaska has received. However, in the past, the state has used existing high fund balances to carry deficits and is not legally required to make midyear budget adjustments in the event a midyear gap develops. The governor has the discretion to hold back spending in the middle of the fiscal year if a budget gap appears to be developing. Such adjustments were last made in fiscal 2009, during oil price fluctuations. The governor can unilaterally prioritize such holdbacks, but the holdbacks have no formal requirement or schedule.

On a four-point scale in which '1' is the strongest, Standard & Poor's has assigned a '2.0' to Alaska's financial management.

Budgetary Performance

The state has no legal requirement to fund reserves at any specified level. However, historically it has held total general fund balances we consider very high, and for the past six years these balances were higher than annual expenditures. With its exceptionally strong cash liquidity, the state's intra-year cash flows are positive, averting the need for it to borrow for cash flow purposes. On an audited basis, the general fund held a $21.6 billion cash and investment position at fiscal year-end 2014, equal to 214% of general fund expenditures. Although the state has no legal minimum budget reserve requirement, it has created a CBRF that holds money received by the state as a result of legal settlement, administrative proceedings, or litigation of mineral-related revenue. For liquidity purposes in the past, the state has used the CBRF for temporary borrowing within the year or to balance the budget at the end of the year. The CBRF is also available for general expenditures with a three-fourths vote of the legislature and approval of the governor. In fiscal 2015, the state transferred $3 billion from the CBRF to its two pension systems. As of Dec. 31, 2014, the balance in the CBRF stood at $10.9 billion, although the state expects that it will transfer $1 billion from the CBRF to its pension funds in March 2015 as the final component of the $3 billion authorized for transfer in fiscal 2015. Also, the state expects an additional draw from the CBRF in fiscal 2015 of approximately $400 million to its unrestricted general fund.

In addition, the state's statutory budget reserve fund (SBRF) held $3.1 billion at the end of fiscal 2013. In 1990, when state revenues began to outpace its expenditures in a given year, the legislature began to appropriate the surplus to the SBRF. And while the state has no explicit policy to maintain a particular balance in the SBRF, to the extent that one is available, the state first draws upon the SBRF for liquidity purposes before borrowing from the CBRF. Transfers from the SBRF to the general fund require only a majority consent of the legislature.

Alaska has no legal requirement to fund services at a specified level, but we believe that any proposal to back away from distributing to residents the annual permanent fund "dividend" could encounter political resistance. At the same time, we note that Alaska state government is under no legal requirement to make this annual payment. Although state per capita income is above the national level, rural areas have pockets of poverty. Nevertheless, we believe state expenditures are relatively predictable, and in recent years have, to a material extent, been funded from prior-year appropriations. In general, Alaska has had a policy of prudently maintaining high fund balances in light of volatile oil-derived revenue, significant one-time capital and other spending, and the use of surplus revenue to prefund future years' operating expenditures.

Although the state drew $1.9 billion from the SBRF in order to fund its fiscal 2014 general fund budget, the state's general fund net asset position declined by a relatively small $82 million. The state's general fund balance held steady despite the deficit in unrestricted revenue relative to discretionary spending primarily because of strong investment earnings and current-year revenue categorized as restricted that was deposited into the permanent fund and CBRF. Overall financial performance resulted in fiscal year-end committed and unassigned general fund balance of $22.3 billion, or 220% of expenditures, which we consider very high. The state has had either an unreserved or unrestricted general fund balance higher than annual expenditures since fiscal 2008, when it produced a record $7 billion financial windfall from high oil prices and a new tax structure that effectively increased tax rates on oil companies.

On a four-point scale in which '1' is the strongest, Standard & Poor's has assigned a '1.3' to Alaska's budgetary performance.

Debt And Liability Profile

We calculate Alaska's tax-supported debt per capita as moderate at $1,445. The state has about $877.3 million of GO debt, but about $73.5 million of this is considered self-supporting veterans' mortgage revenue-secured debt, leaving about $803.8 million net tax-supported GO debt. At the end of fiscal 2014, Alaska also had about $258.1 million of annual appropriation-supported debt. Tax-supported debt (GO and appropriation) to personal income is 2.89%, which we view as moderate. Tax-supported debt to gross state product, now at 1.8%, is low. Tax-supported debt service as a percentage of general government spending was about 1.1% in fiscal 2012 and remains low, at 1.2% in fiscal 2013. It would be somewhat higher, at 2.3%, when including the local municipal school and capital reimbursement-related debt paid by the state on behalf of local jurisdictions. About 47% of combined GO and lease debt matures in the next 10 years. Alaska currently has $274 million in additional existing GO bond authorization, of which it plans to issue no more than $5 million in 2015. The governor's fiscal 2016 budget proposal includes approximately $150 million in unrestricted state funds for capital funding, down from the fiscal 2015 budget, which includes about $591 million in state funding for capital projects.

In 2006, Alaska moved all new employees to a defined-contribution retirement plan from a defined-benefit plan, but employees hired before that continue under the state's defined-benefit pension plan. The Alaska Public Employee Retirement System (PERS) multi-employer plan had a 54.5% pension-funded ratio at fiscal year-end 2013, the most recent fiscal year for which actuarial data are available, and an unfunded pension liability of $5.4 billion, which includes the unfunded obligations of other participating local governments. Beginning with the fiscal 2011 valuation, PERS revised its assumed actuarial investment rate of return down to 8.00% from 8.25%.

The separate Teachers' Retirement System (TRS) had a $3.2 billion unfunded pension liability and 50% funding ratio at its June 30, 2012 actuarial valuation date. We include the TRS liability in this total for across-state comparison purposes although Alaska does not have a direct obligation to fund TRS.

Combined with much smaller unfunded liabilities for public elected officials, judicial officials, and retired national guard and naval militia members, the total PERS, TRS, elected, and judicial officials' unfunded multi-employer actuarial pension liability was $8.19 billion as of June 30, 2012, up from $7.07 billion as of June 30, 2011. Based on the 2012 valuation, the combined funded ratio stands at 54.7%, down from 59% in 2011. The UAAL is high in our view, at $11,214 per capita and 22.8% of total state personal income.

The state's defined-benefit other postemployment benefit (OPEB) liability for PERS was $6.6 billion, which was 46% funded by health care trust funds as of the most recent audit, June 30, 2014. This represents a marked improvement from 2009, when the funded ratio was 32% and the UAAL was $8.6 billion, but it's down from fiscal 2013, when the funded ratio was reported at 54%. The OPEB liability also includes those of other participating local governments. The state is required by statute to fund the annual contributions to the pension system at the actuarially recommended level. The state's judicial retirement system OPEBs were overfunded by $2.6 million. The TRS defined-benefit OPEB unfunded liability was $3.2 billion and the system had a funded ratio of 36.1% as of the 2013 comprehensive annual financial report. At these levels, the OPEB UAAL for TRS was $3.2 billion in 2013. The combined state and local governmental employers' unfunded OPEB for the PERS, TRS, and JRS plans equals $7.2 billion.

Alaska reports its PERS unfunded OPEB costs for its legacy defined-benefit plan as part of its combined reporting of the defined-benefit pension system's unfunded retirement costs. PERS defined-benefit pension and OPEB contributions in fiscal 2013 equaled 63% of the combined annual required contribution (ARC) of $995.7 million for the PERS pension and OPEB obligations. For TRS, the combined ARC for fiscal 2013 was $590.2 million, $392 million or 66% of which the state and other employers contributed. However, on July 1 of each year or as soon as funds are available thereafter, the state is required by statute to contribute sufficient additional funds to bring the total pension contribution for the prior fiscal year to the ARC.

In addition to the state's direct debt, since 1970 Alaska has supported the bonds issued by pre-qualified school districts, with the legislature able to reimburse municipalities for 60% to 100% of debt service costs. The actual program funding depends on annual legislative appropriations, and although not contractually obligated to do so, Alaska has always made the payments. In fiscal 2014, it made a $109.8 million payment for school districts on total local school district obligations of approximately $859.6 million.

The state also has about $1.25 billion of self-supporting state moral obligation debt issued by the Alaska Municipal Bond Bank (AMBB), the Alaska Energy Authority, and the Alaska Student Loan Corp. Our rating of the AMBB debt recognizes features we view as strengthening related to its 2005 resolution requiring an annual open-ended appropriation to backfill the reserve, if necessary.

On a four-point scale on which '1' is the strongest, Standard & Poor's has assigned a score of '2.4' to Alaska's debt and liability profile.

The Alaska Permanent Fund

Recognizing that, over the long term, the state's oil reserves would eventually be depleted, voters approved in 1976 a constitutional amendment to effectively monetize the state's natural resource assets. Since then, the state has managed an investment fund that is one of the largest of its kind in the world although principal balances are not available for budgetary purposes. Alaska's permanent fund is capitalized with royalties paid by oil companies.

The Alaska constitution requires that "at least 25% of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments, and bonuses received by the state will be placed in a permanent fund." The state legislature subsequently added by statute another 25% deposit, raising the combined rate to 50% on mineral leases issued after Dec. 1, 1979, and for bonuses on mineral leases issued after Feb. 15, 1990. The combined rate was reduced to 25% as of July 1, 2003, but raised again to 50% on Oct. 1, 2008. The state legislature has also made special appropriations to the principal account from other oil revenue and fund earnings. As a result, the Alaska permanent fund balance increased to $51.2 billion at the end of fiscal 2014 from an initial deposit of $734,000 in 1977. This includes both $45.0 billion restricted as to principal and the $6.2 billion unrestricted Permanent Fund Earnings Reserve (PFER), representing cumulative permanent fund earnings and past transfers from other sources. The PFER can be spent for any purpose by a simple majority vote of the legislature.

Alaska residents, particularly in poor rural areas, reap significant economic benefits from the fund through the state's politically popular annual dividend program, under which a portion of the permanent fund's annual earnings is distributed as dividends to every resident of the state. In fiscal 2014, Alaska paid a permanent fund dividend of $1,884 per state resident. This is down from 2009, when the state paid a dividend payment of $2,069 plus a one-time, $1,200 per-resident "Alaska resource rebate" from accumulated nonrestricted permanent fund earnings reserves. However, it's up from 2013 when the dividend payment was $900 per resident. Also, the state has made transfers to the PFER to "inflation-proof" the permanent fund's principal. PFER balances have also been paid out at other times to the general fund.

Before fiscal 2008, the permanent fund increased in every year except during the 2001-2002 bear market, when declines of 3% and 2%, respectively, were recorded. The permanent fund is managed by both the in-house staff of the state-owned Alaska Permanent Fund Corp. (established in 1980) and by external money managers.

Related Criteria And Research

Related Criteria

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Bond Anticipation Note Rating Methodology, Aug. 31, 2011
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

U.S. State And Local Government Credit Conditions Forecast, Dec. 10, 2014

Ratings Detail (As Of February 27, 2015)		
Alaska certs of part (Alaska Native Tribal Health Consortium Hsg Fac Proj) ser 2014 due 06/01/2029		
Long Term Rating	AA+/Stable	Affirmed
Alaska GO		
Long Term Rating	AAA/Stable	Affirmed
Alaska GO bnds (Qscb) ser 2013A due 08/01/2035		
Long Term Rating	AAA/Stable	Affirmed
Alaska COPs (State Virology Lab Facs)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Alaska Mun Bnd Bank, Alaska		
Alaska		
Alaska Mun Bnd Bank (Alaska) GO		
Long Term Rating	AA+/Stable	Affirmed
Alaska Mun Bnd Bank (Alaska) GO and rfdg bnds (Alaska) ser 2014-3 due 10/01/2049		
Long Term Rating	AA+/Stable	Affirmed
Alaska Mun Bnd Bank (Alaska) GO bnds (Alaska) ser 2014A due 03/01/2039		
Long Term Rating	AA+/Stable	Affirmed
Alaska Mun Bnd Bank (Alaska) GO bnds (Alaska) ser 2014B due 03/01/2030		
Long Term Rating	AA+/Stable	Affirmed
Alaska Mun Bnd Bank (Alaska) GO bnds (Alaska) ser 2014-2 due 06/01/2044		
Long Term Rating	AA+/Stable	Affirmed
Alaska Mun Bnd Bank (Alaska) GO moral oblig (MBIA) (National)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Alaska Mun Bnd Bank (Alaska) GO (AMBAC)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Alaska Mun Bnd Bank (Alaska) GO (Moral Ob)		
Long Term Rating	AA+/Stable	Affirmed
Alaska Mun Bnd Bank GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Alaska Mun Bnd Bank (Alaska) GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Anchorage Municipality, Alaska		
Alaska		
Anchorage Municipality (Alaska) lse rev rfdg bnds (Correctional Facility) ser 2005		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Matanuska-Susitna Boro, Alaska		
Alaska		
Matanuska-Susitna Boro (Alaska) lse rev (Goose Creek Correctional Facs) (ASSURED GTY)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.