S&P Global
Ratings

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Summary:

Alaska; Appropriations; General Obligation; Moral Obligation

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Credit Profile		
Alaska GO		
Unenhanced Rating	AA+(SPUR)/Negative	Affirmed, Removed from CreditWatch
Alaska Mun Bnd Bank, Alaska		
Alaska		
Alaska Mun Bnd Bank GO		
Unenhanced Rating	AA(SPUR)/Negative	Affirmed, Removed from CreditWatch

Rationale

S&P Global Ratings affirmed its 'AA+' general obligation (GO) rating, 'AA' appropriation rating, and 'A+' moral obligation rating on Alaska's debt and removed the ratings from CreditWatch, where they had been placed with negative implications on June 9, 2016. The outlook is negative.

Alaska's legislature did not approve the fiscal reforms sought by Governor Bill Walker as part of the 2016-2017 budget process. Nevertheless, from a fiscal standpoint, the state may achieve results similar to what it might have if the reforms had been approved because the governor vetoed $1.29 billion in spending. With reduced spending, the state will draw $3.2 billion from its budget reserves this year--the same amount shown under the governor's original December 2015 reform proposal. In the absence of the vetoes, which included halving the permanent fund dividend (PFD) paid to state residents, the state's fiscal gap and related draw on its reserves would have approached $4.5 billion. We have maintained a negative outlook on the state rating because although the governor's vetoes buy the state additional time, they don't correct its underlying fiscal misalignment.

Although the state is grappling with large unrestricted general fund operating deficits, we continue to view Alaska as having very strong credit quality. This reflects our view that the state benefits from several favorable features, including:

- Budget reserves that, despite not representing a permanent solution to the state's unrestricted general fund deficit problem, remain large, equal to 250% of annual appropriations (as of fiscal 2017);
- The potential to resolve much of the general fund gap by overhauling the flow and customary treatment of various legally unrestricted state revenue; and
- Its moderate debt burden and closed defined benefit retirement system with an adequate funding ratio (which improved in fiscal 2015 as a result of a large $3 billion asset infusion from the constitutional budget reserve, or CBR).

Alaska's GO bonds are backed by the state's full faith, credit, and resources. Its appropriation-backed debt is supported by annual appropriations in the state budget. Debt of the Alaska Municipal Bond Bank (AMBB) is repaid first from loan repayments from borrowers of the AMBB. The AMBB bonds are further backed by an open-ended annual appropriation in the state's budget, subject to approval by the legislature. There are also some bonds issued by the Alaska Energy Authority that are backed by a moral obligation pledge of the State of Alaska.

General fund spending has trended down over the past several years. At $4.4 billion in fiscal 2017, general fund appropriations are 45% below what they were in fiscal 2013. The $3.2 billion structural budget gap reflects that through the same years, unrestricted revenue has fallen by an even more precipitous 85%.

Under its fiscal 2017 budget, Alaska currently projects that it will end the year with $10.8 billion in short-term reserves, comprising $3.3 billion in its CBR and $7.5 billion in its permanent fund earnings reserve (PFER). The Alaska Office of Management and Budget (OMB) multiyear forecast shows that absent fiscal reform, the state's budget reserves could decline to $1.5 billion (34% of expenditures) by fiscal 2021. Reserves could outlast the projections even in a status quo scenario, however, if the governor were to veto portions of the annual PFD payments as he did for fiscal 2017.

Our view of the state's credit quality acknowledges that in addition to its $1.2 billion in unrestricted general fund revenue, another $3.1 billion of revenue is subject to appropriation in fiscal 2017. As a matter of custom, the state has traditionally refrained from using this revenue--primarily investment income from the Alaska Permanent Fund--to pay for general fund appropriations. Instead, lawmakers have used portions of the investment income revenue to pay the state's annual PFD to state residents and to protect the permanent fund from inflation. The balance of the investment income revenue has been retained in the PFER. Consequently, the state's budget reserve balances have typically declined by less than the general fund operating deficits.

Recapping Alaska's Recent Fiscal Experience

Confronted with collapsing oil-related unrestricted general fund revenue, Governor Bill Walker spent much of the past year pursuing an overhaul of Alaska's fiscal structure. Throughout the summer and fall of 2015 the governor and administration officials canvassed the state, detailing to residents the gravity of the state's fiscal condition and outlook. In December, the governor put forward a fiscal reform proposal as part of his recommended budget for fiscal 2017. Establishing a sovereign wealth fund model was at the heart of the governor's proposal. Under this approach, funding for state government would come from a sustainably sized draw from the state's $53 billion permanent fund. Oil-related revenue--and its attendant volatility--would be redirected to the state's permanent fund, away from the general fund. In what proved to be a politically insurmountable catch, however, the governor's proposal rested on reconstituting the Alaska PFD program. Under the governor's plan, dividends were to be decoupled from the investment performance of the permanent fund and instead tied to state royalty revenue on its natural resources. Although the state senate would pass a variation of permanent fund reform legislation, the legislature's regular, extended, and two special sessions ended without the approval of fundamental fiscal reforms. In our view, the future of Alaska's creditworthiness likely hinges on the willingness and ability of its political leaders to reach agreement on substantive fiscal reforms in the coming months.

Outlook

The negative outlook reflects our view of the large structural budget deficit in Alaska's unrestricted general fund. Currently, the state is able to finance its operating deficits by withdrawing funds from its budgetary reserves. Alaska had built up large budget reserves that thus far have shielded the state's credit quality from the degradation that the large deficits would inflict on most states' credit quality. But the magnitude of the fiscal deficits, even with the governor's vetoes for fiscal 2017, makes the arrangement unsustainable and, unless corrected, inconsistent with the current rating. On their current trajectory, the state's deficit financial operations would eventually deplete its budget reserves. Therefore, without structural fiscal reform in the 2017 legislative session, we would likely lower the state debt ratings.

If lawmakers succeed in putting the state on what we view as a glide path to a sustainable fiscal structure, with its strong reserve balances intact, we could revise the outlook to stable.

Ratings Detail (As Of August 22, 2016)		
Alaska approp		
Long Term Rating	AA/Negative	Affirmed, Removed from CreditWatch
Alaska GO		
Long Term Rating	AA+/Negative	Affirmed, Removed from CreditWatch
Alaska GO		
Long Term Rating	AA+/Negative	Affirmed, Removed from CreditWatch
Alaska Energy Auth, Alaska		
Alaska		
Alaska Energy Auth (Alaska) pwr rev (Bradley Lake Hydroelectric Proj)		
Long Term Rating	A+/Negative	Affirmed, Removed from CreditWatch
Alaska Mun Bnd Bank, Alaska		
Alaska		
Alaska Mun Bnd Bank (Alaska) approp		
Long Term Rating	AA/Negative	Affirmed, Removed from CreditWatch
Alaska Mun Bnd Bank (Alaska) approp		
Long Term Rating	AA/Negative	Affirmed, Removed from CreditWatch
Alaska Mun Bnd Bank (Alaska) approp		
Long Term Rating	AA/Negative	Affirmed, Removed from CreditWatch
Alaska Mun Bnd Bank (Alaska) approp (AMBAC)		
Unenhanced Rating	AA(SPUR)/Negative	Affirmed, Removed from CreditWatch
Alaska Mun Bnd Bank GO		

Ratings Detail (As Of August 22, 2016) (cont.)		
Unenhanced Rating	AA(SPUR)/Negative	Affirmed, Removed from CreditWatch
Matanuska-Susitna Boro, Alaska		
Alaska		
Matanuska-Susitna Boro (Alaska) lse rev rfdg bnds (Alaska) (Goose Creek Correctional Ctr Proj) ser 2016 due 09/01/2025		
Long Term Rating	AA/Negative	Affirmed, Removed from CreditWatch
Matanuska-Susitna Boro (Alaska) l(Goose Creek Correctional) approp		
Long Term Rating	AA/Negative	Affirmed, Removed from CreditWatch
	NR(prelim)	
Matanuska-Susitna Boro (Alaska) (Goose Creek Correctional) approp (ASSURED GTY)		
Unenhanced Rating	AA(SPUR)/Negative	Affirmed, Removed from CreditWatch

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.