

RatingsDirect®

Summary:

Alaska; Appropriations; General Obligation; Moral Obligation

Primary Credit Analyst:

Timothy W Little, New York (212) 438-7999; timothy.little@spglobal.com

Secondary Contact:

David G Hitchcock, New York (1) 212-438-2022; david.hitchcock@spglobal.com

Table Of Contents

Rationale

Summary:

Alaska; Appropriations; General Obligation; Moral Obligation

Credit Profile

Alaska GO

Unenhanced Rating

AA+(SPUR)/Watch Neg

On CreditWatch Negative

Alaska Mun Bnd Bank, Alaska

Alaska

Alaska Mun Bnd Bank GO

Unenhanced Rating

AA(SPUR)/Watch Neg

On CreditWatch Negative

Rationale

S&P Global Ratings has placed its 'AA+' general obligation (GO) rating, 'AA' appropriation rating, and 'A+' moral obligation rating on the state of Alaska's debt on CreditWatch with negative implications.

The CreditWatch action reflects our view that the state could remain structurally imbalanced for fiscal 2018 based on the impasse for budget negotiations regarding adopting fiscal reforms. As noted in our prior reports, without structural fiscal reform in the 2017 legislative session, we would likely lower the state debt ratings. Over the next 90 days, we expect the state will enact a fiscal 2018 budget. If Alaska uses a significant amount of its reserves again and remains structurally imbalanced, we would likely lower the rating. However, should it adopt a balanced budget with fiscal reforms that does not significantly rely on reserves, we may remove the state's ratings from CreditWatch without downward rating action.

The state legislature failed to adopt a budget during its regular session and first special session. On June 16, 2017, the governor called for a second special session specifically to address the operating budget before the end of the fiscal year (June 30). In our opinion, given the limited scope of the second special session and an ongoing political impasse over adopting the governor's proposed fiscal reforms, it is unlikely significant fiscal reforms will be implemented as part of the 2018 budget, resulting in yet another year of structural imbalance.

Over the past several years, the state has relied heavily on its reserves in the absence of structural reforms to address a nearly \$3 billion annual shortfall. The continued draw on reserves is unsustainable. With petroleum-related revenues declining from 71% of general fund revenue in fiscal 2012 to 27% in the enacted fiscal 2017 budget, extremely high reserve levels are necessary to guard against economic volatility. However, as reserves continue to diminish, the state becomes more vulnerable to another economic downturn.

Alaska has traditionally been vulnerable to economic cycles due to its dependence on natural resources. In 1976, the state created the Alaska Permanent Fund to hedge against the risk of declining oil revenues. Subsequently, the state

had established two reserve accounts: The statutory budget reserve (SBR) and the constitutional budget reserve (CBR) were created in 1986 and 1991, respectively. The SBR and CBR have acted as rainy day funds to stave off budget shortfalls and commodity price volatility. However, after five consecutive years of budget gaps, significant amounts of the funds have been used.

The SBR fund had no assets as of October 2015, down from a \$4.7 billion balance of June 30, 2013. At that time, the remaining \$287 million in the SBR was transferred to the CBR after use to balance prior budget shortfalls. The CBR fund had a balance of \$4.81 billion as of May 31, 2017, down from a high of \$10.1 billion at the end of fiscal 2015. In fiscal years 2015 and 2016, \$3 billion and \$3.9 billion, respectively, were drawn from the funds. The 2017 enacted budget appropriated a similar drawdown of \$3.2 billion (73% of fiscal 2017 undesignated general fund revenues). It is expected based on current projections provided by the state the ending fiscal 2017 CBR balance will be approximately \$4.3 billion.

The state also maintains the Permanent Fund, which (as of June 30, 2016) was comprised of a non-spendable principal balance of \$44.2 billion and a spendable earnings reserve account (ERA) balance of \$8.6 billion. Based on current figures (May 31, 2017), the principal balance was \$47.0 billion and the ERA balance was \$12.5 billion, an improvement based on earnings. Proceeds of the ERA can be appropriated by the legislature for any purpose. The funds have not been appropriated in the past to balance the budget, but have typically been re-deposited into the Permanent Fund for inflation-proofing, paying for the expenses of managing the fund, and providing for the annual Permanent Fund dividend. However, the governor's proposed fiscal plan includes using a portion of the ERA and having a dividend paid out of the state general fund of approximately \$1,000 per resident. If the ERA balance is zero or less, a dividend cannot be paid. The governor's proposed baseline scenario estimates the ERA will have insufficient cash flow to pay dividends beginning in fiscal 2023. Constitutionally, the principal deposit within the Permanent Fund, cannot be spent.

Ratings Detail (As Of June 20, 2017)

Alaska approp		
<i>Long Term Rating</i>	AA/Watch Neg	On CreditWatch Negative
Alaska GO		
<i>Long Term Rating</i>	AA+/Watch Neg	On CreditWatch Negative
Alaska GO		
<i>Long Term Rating</i>	AA+/Watch Neg	On CreditWatch Negative
Alaska Energy Auth, Alaska		
Alaska		
Alaska Energy Auth (Alaska) pwr rev (Bradley Lake Hydroelectric Proj)		
<i>Long Term Rating</i>	A+/Watch Neg	On CreditWatch Negative
Alaska Mun Bnd Bank, Alaska		
Alaska		
Alaska Mun Bnd Bank (Alaska) approp		
<i>Long Term Rating</i>	AA/Watch Neg	On CreditWatch Negative
Alaska Mun Bnd Bank (Alaska) approp		
<i>Long Term Rating</i>	AA/Watch Neg	On CreditWatch Negative
Alaska Mun Bnd Bank (Alaska) approp		

Ratings Detail (As Of June 20, 2017) (cont.)		
<i>Long Term Rating</i>	AA/Watch Neg	On CreditWatch Negative
Alaska Mun Bnd Bank (Alaska) approp (AMBAC)		
<i>Unenhanced Rating</i>	AA(SPUR)/Watch Neg	On CreditWatch Negative
Alaska Mun Bnd Bank (Alaska) master resolution GO bnds (Alaska)		
<i>Long Term Rating</i>	AA/Watch Neg	On CreditWatch Negative
Alaska Mun Bnd Bank (Alaska) GO and rfdg bnds (Alaska) ser 2016 FOUR due 12/01/2035		
<i>Long Term Rating</i>	AA/Watch Neg	On CreditWatch Negative
Alaska Mun Bnd Bank (Alaska) GO and rfdg bnds (Alaska) ser 2016 FOUR due 12/01/2035		
<i>Unenhanced Rating</i>	AA(SPUR)/Watch Neg	On CreditWatch Negative
Alaska Mun Bnd Bank (Alaska) GO and rfdg bnds (Alaska) ser 2016 THREE due 12/01/2037		
<i>Long Term Rating</i>	AA/Watch Neg	On CreditWatch Negative
Alaska Mun Bnd Bank (Alaska) GO and rfdg bnds (Alaska) ser 2016 THREE due 12/01/2037		
<i>Unenhanced Rating</i>	AA(SPUR)/Watch Neg	On CreditWatch Negative
Alaska Mun Bnd Bank (Alaska) GO bnds (Alaska) 2017 ser ONE due 05/01/2037		
<i>Long Term Rating</i>	AA/Watch Neg	On CreditWatch Negative
Alaska Mun Bnd Bank (Alaska) GO bnds (Alaska) 2017 ser TWO (AMT) due 05/01/2043		
<i>Long Term Rating</i>	AA/Watch Neg	On CreditWatch Positive
Alaska Mun Bnd Bank GO		
<i>Unenhanced Rating</i>	AA(SPUR)/Watch Neg	On CreditWatch Negative
Matanuska-Susitna Boro, Alaska		
Alaska		
Matanuska-Susitna Boro (Alaska) lse rev rfdg bnds (Alaska) (Goose Creek Correctional Ctr Proj)		
<i>Long Term Rating</i>	AA/Watch Neg	On CreditWatch Negative
Matanuska-Susitna Boro (Alaska) l(Goose Creek Correctional) approp		
<i>Long Term Rating</i>	AA/Watch Neg	On CreditWatch Negative
<i>Preliminary Rating</i>	NR(prelim)	
Matanuska-Susitna Boro (Alaska) (Goose Creek Correctional) approp (ASSURED GTY)		
<i>Unenhanced Rating</i>	AA(SPUR)/Watch Neg	On CreditWatch Negative

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.

Copyright © 2016 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.