S&P Global
Ratings

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Alaska
Alaska Municipal Bond Bank; Appropriations; General Obligation

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Credit Profile		
US$40.85 mil GO bnds (Alaska) ser 2022 ONE due 12/01/2052		
Long Term Rating	A+/Positive	New
Alaska GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Alaska Mun Bnd Bank, Alaska		
Alaska		
Alaska Mun Bnd Bank (Alaska) APPROP (MBIA) (National)		
Unenhanced Rating	A+(SPUR)/Positive	Outlook Revised

Rating Action

S&P Global Ratings has revised the outlook on the State of Alaska to positive from stable and affirmed its 'AA-' rating on the state's general obligation (GO) debt. S&P Global Ratings has also revised the outlook to positive from stable on all of Alaska's bonds secured by state appropriations and affirmed the ratings on those bonds.

At the same time, we assigned our 'A+' long-term rating to Alaska Municipal Bond Bank's (AMBB) $40.85 million GO bonds, series 2022 One, issued under a 2005 master resolution. The bond bank is a public corporation of, and benefits from certain credit support by, the state. The outlook on the bonds is positive.

The outlook revision to positive reflects our view that there is at least a one-in-three chance we could raise our rating on Alaska's GO debt over our two-year outlook period, should we believe the state will maintain structural balance, despite fluctuations in oil prices and the temptation to use recent revenue windfalls on ongoing spending. A commitment to structural balance might be demonstrated through restrained multiyear spending growth, and a commitment to maintaining high unrestricted reserves, an important element necessary to offset the volatility of the state's petroleum-derived revenues.

Credit overview

The AMBB bonds are rated one notch off Alaska's general creditworthiness based on a standing appropriation to replenish the debt service reserve (DSR) to its required level if there is a draw because of a borrower default. Our rating reflects the strength of the appropriation pledge and the legislature's demonstrated commitment to include the appropriation in the state's annual operating budget, as well as a resolution provision to annually seek an appropriation to replenish and stabilize the DSR to its required level if drawn upon. The AMBB bonds are general obligations of the AMBB, payable from sources pledged under the 2005 master resolution, which assigns borrower payments to the trustee for the repayment of the bonds. There has never been a borrower default in the history of the program or a draw on the DSR.

Our 'AA-' GO rating on Alaska reflects the state's financial reliance on the cyclical petroleum industry, offset by large reserves and a very large permanent fund balance, whose corpus is constitutionally restricted, but whose earnings provide substantial support to the state's unrestricted budget. Alaska also has low debt and other postemployment benefit (OPEB) liabilities, and its historically sizable unfunded net pension liability has improved substantially in fiscal 2021, following large one-year investment returns.

The state experienced large structural deficits in fiscal years 2014 through 2021 due to falling oil prices and production, but has still been able to maintain what we view as large reserves. However, the recent rise in the price of oil is expected to produce substantial operating surpluses in fiscal years 2022 and 2023. We calculate that the $1.1 billion use of reserves in fiscal 2020 was about 24% of unrestricted expenses on a budgetary basis, and the $952 million reserve draw in 2021 was about 19% of unrestricted expenses, which we view as very large structural deficits. This is now expected to reverse, allowing the state to add $715 million of unrestricted reserves in fiscal 2022, or a large 15% of unrestricted expenses, and the governor's executive budget proposal for fiscal 2023 would add $971 million of unrestricted reserves, or 21% of expenses.

At fiscal year-end 2021, Alaska's combined traditional unrestricted budget reserves, including the statutory budget reserve, constitutional budget reserve (which receives tax settlements), and its unrestricted permanent fund earnings account (which holds unrestricted permanent fund earnings, but is available for appropriation and was used for operating spending in fiscal years 2019-2021), totaled what we view as a very strong $22.7 billion, or 451% of fiscal 2021 unrestricted budgetary basis operating expenses, despite the previous reserve draws.

The state projects it will maintain out-year unrestricted combined reserves at about $20 billion for the foreseeable future, or approximately four times fiscal 2022 estimated unrestricted expenses, assuming future ongoing spending grows no more than inflation. Alaska's dependence on cyclical oil-derived revenue is also being increasingly lessened by unrestricted investment earnings from the state's rapidly growing permanent fund, whose corpus is constitutionally restricted, but whose earnings are available for appropriation. The statutory 5% draw of the average balance of the prior five fiscal years from the permanent fund provided 65% of unrestricted operating revenue in fiscal 2021, which we believe partially offsets the volatility of oil-derived revenue. In fiscal 2021, petroleum-derived revenues provided about 25% of unrestricted operating revenue, a proportion expected to increase to 40% in fiscal 2022 as oil prices rise. As of Dec. 31, 2021, the restricted portion of the permanent fund stood at a sizable $65.8 billion. The permanent fund receives petroleum revenue even during years when the state experiences operating deficits, due to the constitutional dedication of 25% of oil revenue to the permanent fund and another 25% dedicated on a statutory basis. Although Alaska has a corporate income tax, the state does not levy personal income or sales taxes, and is largely dependent on petroleum-related taxes and permanent fund income.

The governor's executive budget for fiscal 2023 forecasts oil prices of $71 per barrel, which is below current price levels, indicating possible upside potential in budgetary revenue in the near term. However, a recent March 2022 updated state forecast now anticipates a price of $83-per barrel in fiscal 2022 and $85 per barrel in 2023, which would raise expected unrestricted revenue by $572 million in fiscal 2022 and by $944 million in fiscal 2023, estimates that may or may not be used in the legislature's final 2023 budget. Absent another major long-term drop in oil prices and noting cuts in unrestricted operating expenses in recent years, we believe it is reasonable that the state will have longer-term budgetary balance if it does not substantially increase ongoing spending. Alaska has historically put money aside in reserves and increased one-time capital and other one-time spending during good times, but has also at times increased ongoing expenditures, including its permanent fund dividend to state residents. The supplemental 2022 executive budget proposal estimates spending an additional $795.6 million for permanent fund dividends, that when combined with the existing appropriation for dividends, total $1.5 billion, or 22% of unrestricted operating revenue or $2,330 per person in fiscal 2022, and the 2023 executive budget proposal estimates spending a permanent fund dividend of $1.7 billion, or $2,564 per person in 2023. The executive budget proposals for a supplemental $795.6 million fiscal 2022 dividend and a $1.7 billion distribution in fiscal 2023 are being considered by the legislature. The legislature appropriated smaller dividends than the governor requested in fiscal years 2020-2021.

IHS Markit forecasts real gross state product (GSP) will increase by 3.0% in calendar 2022, 2.5% in calendar 2023, and 2.5% in calendar 2024, trailing national real GDP growth of 3.7%, 2.7%, and 2.7%, respectively.

Our GO rating on the state reflects our view of:

- A history of cyclical finances due to Alaska's dependence of state finances on the petroleum industry;
- Maintenance of strong reserve balances, and a large restricted permanent fund, whose earnings support more than half of the state's unrestricted operating expenditures;
- An expected return to structural operating balance in its discretionary operating budget in fiscal 2022 and thereafter due to increases in the price of oil and recent years' budget-cutting actions; and
- Low debt, improvement in what were relatively low Governmental Accounting Standards Board (GASB) pension funded levels for the retirement system, and limited OPEB liabilities.

On a four-point scale, with '1.0' being the strongest and '4.0' as the weakest, we have assigned a '2.0' composite score to Alaska under our state rating criteria, indicative of a 'AA' rating. However, we have notched down to 'AA-' as allowed per our state rating methodology due to Alaska's cyclical fiscal history and potential for a return to structural deficits depending on future oil prices and budgetary spending growth.

Environmental, social, and governance

We consider Alaska to have elevated environmental and social (ESG) risks compared with those of others in the U.S. states sector.

Environmental risks stem from the comparatively high penetration of energy-related sector activities involving oil and gas production, and potential for longer-term policy and regulatory challenges to the industry due to broader decarbonization efforts and the global economy's transition to renewable energy that could have longer-term implications for the state's economic base and finances. In addition, Alaska has more coastline than any other state--more than 6,500 miles--and is exposed to rising sea levels. We also view social risks as higher than those of other states due to Alaska's below-average population growth and often elevated unemployment levels that typically rank it among the top states nationally due to Alaska's countercyclical economy. We view the state's governance risks as neutral in our credit rating analysis.

Positive Outlook

Upward scenario

The positive outlook reflects our view that there is at least a one-in-three chance we could raise our GO rating on Alaska over our two-year outlook period, should we believe the state will maintain structural balance, despite fluctuations in oil prices and the temptation to use recent revenue windfalls on ongoing spending. A commitment to structural balance might be demonstrated through restrained multiyear spending growth, and a commitment to maintaining high unrestricted reserves, an important element necessary to offset the volatility of the state's petroleum-derived revenues.

Return to stable scenario

Should the state's budget increase to make long-term structural balance less likely, or if unrestricted reserves are no longer maintained at high levels sufficient to offset potential volatility in oil revenue, we could return the outlook to stable. We believe high reserves are necessary to protect Alaska against its cyclical revenue and economy due to its high dependence on the oil and gas industry and its reliance on this narrow revenue source for unrestricted general fund operations, exposing the state to economic and budgetary pressures given policy and regulatory changes to decarbonize the economy. If, in our view, Alaska demonstrates a consistent pattern of structurally unbalanced budgets and returns to multiyear low fund balance levels, it could lead to downward pressure on the rating or outlook.

Credit Opinion

Government Framework

Historically, Alaska has used existing high fund balances to carry deficits and is not legally required to make midyear budget adjustments if 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 as happened in 2009, during oil price fluctuations. The governor can unilaterally prioritize such holdbacks, but the holdbacks have no formal requirement or schedule.

The governor is required to submit three budgets--an annual operating budget, a mental health budget, and a six-year capital budget. The governor also has the ability to line-item veto the legislatively approved budget bills. The governor maintains authority under the statutory allotment system to limit expenditures of the general fund and special revenue funds when it appears that available money is not sufficient to satisfy expenditures. While budgets could be unbalanced between ongoing revenues and expenditures, the state can still be in statutory budget balance as per its statutes with the use of available reserves.

The state has autonomy to raise taxes and other revenues via the Alaska constitution; in addition, there is no constitutional constraint or extraordinary legislative threshold for approval (a simple majority requirement for approval of new taxes. The state's constitution requires a 25% deposit of oil revenue to the permanent fund. Historically, Alaska has used existing high fund balances to carry deficits and is not legally required to make midyear budget adjustments if 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 made in fiscal 2009, during oil price fluctuations. During fiscal 2018, legislation was passed that provides for a transfer from the earnings reserve account to the general fund for the payment of unrestricted general fund expenditures, including the dividend. The governor can unilaterally prioritize such holdbacks, but the holdbacks have no formal requirement or schedule.

The Department of Revenue (DOR) issues formal revenue forecasts twice a year, in the spring and fall. The forecast is based on consultation with the state Department of Natural Resources for production estimates and for price uses oil futures market projections for as many years are available followed by an assumption that prices will increase with inflation. The methodology for forecasting oil production incorporates 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 revenue forecast has historically been used as presented for budget adoption and not been adjusted during the budget-adoption process.

The adoption of structurally imbalanced budgets, in our view, from fiscal years 2014 to 2021 provided time for the state to reform its fiscal profile. While it regularly reduced expenditures over this period, it made only limited changes to its tax revenue profile, although it did increase earnings reserve fund draws. Despite conversations around greater revenue diversification, the state only adopted planned use of its earnings reserve account for operations beginning in fiscal 2019.

We believe that carbon transition risk could potentially affect future revenues in the long term should oil production be curtailed and, unless replaced by permanent fund earnings, could create an eventual need for revenue diversification. Complicating potential revenue reform, in our view, are political considerations that prevent the state from taking action despite having the legal flexibility to do so. Such limitations have prevented Alaska from enacting revenue reforms in past years. The state has no personal income or sales tax.

We have assigned a score of '1.6' out of '4.0' to Alaska's government framework, where '1.0' is the strongest score and '4.0' the weakest. This is a change from our previous assessment of '1.5' at the time of our last review.

Financial Management

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 we consider critical to supporting credit quality, particularly in the department of revenue. These practices, however, may not be institutionalized or formalized in policy, might lack detail or long-term elements, or could have little recognition by decision-makers outside of the department of revenue.

The state has a statutory budget reserve in its general fund that, although not always funded, is available to provide liquidity. In addition, it has established the constitutional budget reserve fund by constitutional amendment. Funds may be appropriated from the constitutional budget reserve fund for any purposes by a vote of three-fourths of each house of the legislature, but the money can be used for interfund cash flow borrowing for general fund expenditures within the fiscal year. All appropriations from the constitutional budget reserve fund are recorded as a general fund liability. As per the state's constitution, the constitutional budget reserve fund receives all oil and gas tax dispute settlements.

Alaska produces detailed revenue forecasts, with the focus being the price of oil and production. Other revenue sources are also included in the Revenue Source Book, which is released twice each year. The tax division of the Alaska DOR prepares the book, using futures markets projections to help predict the price of oil. In addition to the revenue forecast, the Office of Management and Budget maintains a 10-year fiscal forecast, which is updated annually. Expenditure projections are less detailed, although the state accounts for some inflationary and caseload pressures on spending levels. Budget amendments can occur throughout the year.

The state's debt management policy is updated annually with the public debt report and debt affordability analysis as required by statute. The debt report describes the different types of debt that Alaska issues, mainly certificates of participation, limited revenue bonds, and GO bonds. For general fund-supported bonds, the state has a debt capacity that it historically determined, by policy, to be limited by annual debt service being no more than 8% of unrestricted revenue. However, with the increase of approximately 100% in unrestricted revenue for fiscal 2020 due to the structured draw on the Alaska permanent fund, this percentage was diminished to 7% in the 2020 state analysis. 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.

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 portfolio 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.

In our opinion, Alaska's budgetary framework is adequate, with established budget monitoring. The agreed-on earnings reserve account draw in Senate Bill (SB) 26 during fiscal 2019 allowed the legislature to spend up to 5.25% of the permanent fund's average balance at June 30, over the previous five years before dropping to 5.00% of the previous five fiscal years' average balance in fiscal 2022. The legislation provided needed guidance for how the state intends to fund its operating deficit. The legislature and administration consider only the full percentage of market value amount as available for appropriations, split between the permanent fund dividend payment and the general fund. The state has recently appropriated in fiscal 2022 an additional $4 billion of earnings reserve fund balance of the permanent fund to the corpus in order to help "inflation proof" the fund.

We have assigned a score of '2.5 ' out of '4.0' to Alaska's financial management, where '1.0' is the strongest score and '4.0' the weakest.

Economy

Alaska's population of 731,000 in 2020 has shown small annual declines since 2017, compared with growth for the nation. According to the U.S. Census Bureau, the state's population declined 0.59% in 2018, 0.41% in 2019, and 0.33% in 2020. Ten-year compound annual growth for the state was 0.24% compared with 0.63% for the nation. However, the state's 2019 age dependency ratio of 58.6% was below the U.S.'s ratio of 63.1%.

The state's average unemployment rate in 2020 was 7.8%, below the U.S. rate of 8.1%, due to fewer COVID-19 pandemic-related restrictions on economic activity, but Alaska's preliminary unemployment rate of 5.6% as of January 2022 was somewhat above the national rate of 3.9% according to the U.S Bureau of Labor Statistics. Real GSP declined a significant 6.0% in 2020, compared with a U.S. GDP decline of 3.4%, due to decreased oil prices and a pandemic-caused recession. However, both Alaska GSP and personal income per capita were still above those of nation at 107% of the national average.

Key drivers of the Alaska economy include natural resource development, federal employment (including national defense) and state government, seafood, and tourism. The government sector is the largest state employer, with 25.5% of Alaska's total nonfarm employment, as might be expected in a state with large portions owned by the federal government, and significantly higher than 15.8% of government employment in the nation as a whole. While mining is only 3.8% of total nonfarm employment, this is much higher than the 0.41% of the nation and represents a well-paid work force. The other largest deviations from the national workforce composition include professional and business services (8.7% of state employment versus 14.4% for the nation), manufacturing (3.8% state, 8.6% nation), and financial activities (3.6% state, 6.0% nation). Although the state's economy has diversified somewhat in the last decade, particularly in education and health services, we believe the economy is still reliant on resource-based industries and related exports such as oil, metals, minerals, timber, and seafood, and the state economy is susceptible to resource-based industries, specifically the global oil market, which can result in in fluctuations in GSP as oil prices change. Alaska's isolated location has hindered the state's capacity to broaden its manufacturing sector. The city of Anchorage accounts for the majority of business development initiatives, with services such as management and engineering, and even high-tech software and Internet firms, accounting for a strong and rapidly growing segment. Tourism, including glacier tours and cruise lines, is a major industry, contributing about $1.5 billion annually according to IHS Markit.

Last year, Alaska had a limited season for cruise ships due to COVID-19 pandemic and restrictions on foreign flagged vessels travelling between U.S. ports, as Canada did not allow cruise ships to dock in 2020 or 2021. The state did enjoy a surge in independent tourism, with tourists staying longer and spending more money in Alaskan locales. For the 2022 tourist season, the state anticipates a 13% increase in leisure and hospitality employment, which would bring Alaska to or around pre-pandemic levels.

We have assigned a score of '2.1 ' out of '4.0' to the state's economy, where '1.0' is the strongest score and '4.0' the weakest.

Budgetary Performance

Alaska has experienced what we believe to be a cyclical financial history because of its financial dependence on the oil industry, but in our opinion, this has been largely offset by the maintenance of very large reserves.

There is a formal budget-based reserve relative to revenue or spending. Alaska's statutory budget reserve was empty in fiscal 2020, but held $481 million at fiscal year-end 2021, or 10% of general fund expenses. The state's constitutional budget reserve, which receives the proceeds of tax settlements, held $1.1 billion, or a strong 21% of general fund expenses, at fiscal end June 30, 2021. Alaska's other reserve, the permanent fund earnings reserve, held a balance of

$21.1 billion at fiscal year-end 2021, or 420%.

In addition, there is a formal process or a demonstrated track record of restoring unrestricted reserves following depletion. The state has strong unrestricted reserves and a mechanism to replenish, but draws have sometimes exceeded reappropriated amounts in the past.

In addition, Alaska's permanent fund, whose $60.7 billion corpus is constitutionally restricted, held $81.9 billion at fiscal year-end 2021, including the $21.1 billion unrestricted permanent fund earnings reserve. While 5% of the previous five fiscal years' ending balance of the permanent fund is annually transferred to the general fund, the entire balance of the earnings reserve account is unrestricted.

Use of the earnings reserve account was agreed on in SB 26, which allowed the legislature to spend up to 5.25% of the permanent fund's average balance over the previous five years before dropping back to 5.00% of the average balance of the previous five years in 2021. However, SB 26 cannot bind future legislatures. Although a permanent limitation on the amount of the draw would require a constitutional amendment, the bill provides guidance for how the state intends to fund potential operating deficits in the future. Alaska's permanent fund investments are diversified on a global basis, with more than 3,000 corporations in its portfolio and an annualized return of 9.16% since the fund's inception.

We calculate that the state's combined traditional unrestricted budget reserves, including the statutory budget reserve, constitutional budget reserve (which receives tax settlements), and Alaska's unrestricted permanent fund earnings account (which holds unrestricted permanent fund earnings, but is available for appropriation and was used for operating spending in fiscal years 2019-2021), totaled what we view as a very strong $22.7 billion, or 451% of fiscal 2021 unrestricted budgetary basis operating expenses.

The large reserves have also resulted in what we view as very strong liquidity levels. The general fund held a $4.1 billion cash position at fiscal year-end 2021, compared to full-year generally accepted accounting principles (GAAP) restricted and unrestricted expenditures of $11.5 billion in fiscal 2021. The state has historically not issued cash flow notes due to its large cash position.

We view Alaska's revenues as concentrated in investment earnings and cyclical oil revenues. On a budgetary basis of accounting, 65% of fiscal 2021 unrestricted budgetary revenue was derived from the 5.25% permanent fund transfer to the operating budget, while 25% came from oil derived revenue. The state projects oil-derived revenue will rise to 40% of unrestricted revenue in fiscal 2022 due to recent oil price increases.

The state has had a record of changing tax rates on oil- and gas-derived revenue, either to produce additional revenue, or lowering them to encourage exploration and capital investment. In recent years, Alaska has lowered the draw from its permanent fund for operations to 5.00% from 5.25% of historical values. While there have been discussions of diversifying state revenue sources, we believe imposing significant taxation on a new type of economic activity would be politically difficult. We believe Alaska faces the potential for a high level of contingency financial risk if oil prices and production declines, reversing recent positive trends. This will need to be monitored because the state is highly correlated to global market conditions.

Alaska has a long-term financial forecast model that can be adjusted and updated for new oil price forecasts, as well as range of outputs for high or low price scenarios. We believe the state is relatively sophisticated in its oil price forecasting, but there still remains an inherent degree of uncertainty regarding long-term oil prices.

We believe the state had structurally imbalanced financial operations from fiscal years 2013 through 2021, if permanent fund dividend payments are included as an operating expense. Higher oil prices are expected to produce operating surpluses in fiscal years 2022 and 2023. We calculate that, on a budgetary basis of accounting, the $1.1 billion use of reserves in fiscal 2020 was about 24% of unrestricted expenses and the $952 million reserve draw in 2021 was about 19% of unrestricted expenses, which we view as very large structural deficits. This is now expected to reverse, allowing the state to add $715 million of unrestricted reserves in fiscal 2022, or a large 15% of unrestricted expenses, and the governor's executive budget proposal for fiscal 2023 would add $971 million of unrestricted reserves, or 21% of expenses.

2021 financial audit

On a GAAP basis, the state's fiscal 2021 financial audit showed a general fund operating deficit-- after transfers in of $3.1 billion of unrestricted 5% draws from Alaska's permanent fund and other transfers--of $1.3 billion, or 11.4% of general fund expenditures. The state's general fund operating deficit does not include current-year state revenues that are categorized as restricted and used to build or replenish reserves. The state ended fiscal 2021 with a total general fund balance of $2.7 billion, or 23% of general fund expenditures, and an available assigned and unassigned balance of $1.1 billion, or 9.3%. The permanent fund ended with a balance of $81.9 billion, which includes the unrestricted permanent fund earnings reserve.

Alaska also has continued system support from the federal government with an allocation of $14.4 billion in pandemic relief funds including $4.68 billion passing directly through the state. Discretionary funds will go toward improving economic development through state agency programs and non-state recipients.

We have assigned a score of '1.8' to Alaska's budgetary performance, where '1.0' is the strongest score and '4.0' the weakest.

Debt And Other Long-Term Liabilities

We believe total liabilities are moderate, reflecting what we view as moderately low debt levels, improvement in what were high unfunded net pension liabilities, and no net unfunded OPEB liabilities.

Debt

At fiscal year-end June 30, 2021, we calculate that Alaska had total net GO, appropriation secured tax-backed debt, and capital leases of $896 million, or a moderately low $1,226 per capita. Debt consisted of $663 million of GO debt and $233.3 million of appropriation secured debt. Tax-backed debt to personal income was low at 1.9%, debt to GSP was also low at 1.8%, debt amortization was somewhat rapid at 66% of principal maturing in 10 years, while tax-supported debt service was low at 1.7% of general government spending on an audited GAAP basis.

Nearly all of the state's moral obligation debt is related to the AMBB 2005, 2010, and 2016 general resolutions. Net debt service of $73.7 million in fiscal 2022 will decline to a final payment of $6.1 million in fiscal 2041.

Pension

The state closed its defined-benefit pension plans to new employees in 2005, with employees hired in 2006 and thereafter enrolled in a define-contribution plan. There are two main state-funded defined-benefit retirement plans, one for state and other authorized state political subdivision employees (PERS) and one for teachers (TERS), as well as two smaller plans. As the number of employees in the existing closed defined-benefit plans eventually decline, Alaska forecasts that it will reach peak required state defined-benefit pension contributions in 2036, after which state defined-benefit pension contributions will decline.

Recent outsized investment gains in 2021 have markedly raised state combined retirement systems' funded ratios to a good from a low level on a GAAP basis, which is calculated using the market value of pension assets. The state had a 27.6% one-year rate of investment return in PERS in fiscal 2021, and similar returns for TERS, higher than its 7.38% actuarially assumed rate of return. Combined with similar returns in Alaska's other retirement plans, we calculate the combined net pension liability funded ratio on a GAAP basis rose to a good 80.9% in fiscal 2021 from a low 65.6% in fiscal 2020. The three-year funded ratio average, which smooths out year-to-year fluctuations, is an adequate 71%. The combined net state pension liability was $3.0 billion at fiscal year-end 2021.

Overall, we view the state's pension funding discipline as adequate, with PERS meeting what we view as a recommended minimum annual funding contribution in fiscal 2021 and TERS and a judges' plan exceeding it. A small national guard plan, which has a 191% funded ratio, has received minimal recent contributions. We view Alaska's actuarially assumed investment rate of return somewhat aggressive at 7.38%. We note that active-to-beneficiary ratios are low, but this is primarily due to the plans having been closed to new participants for over a decade.

The state reviews actuarial assumptions every three years, which commences again in fiscal 2022. Alaska will be re-evaluating its actuarial assumptions, which could result in changes to the investment discount rate, which could increase net pension liabilities.

Other postemployment benefits

We view Alaska's OPEB liability positively due to substantial prefunding of over 100% of estimated liabilities for the state's major plans. Alaska's OPEBs are constitutionally protected. However, the state has an OPEB trust fund and a track record of funding the liability on an actuarial basis.

For fiscal 2021, the state reported its OPEB liability in conformance with GASB Statement No. 74. For the Alaska Retiree Healthcare Trust plans, the funded ratios were 105.4% (TRS) and 97.4% (PERS). The OPEB liability also includes those of other participating PERS employees. Alaska is required by statute to fund the annual contributions to the pension system at the actuarially recommended level. We view the state's commitment to pre-funding its OPEB obligation positively. In practice, it combines pension and OPEB assets in PERS and TRS, respectively, using an 7.38% discount rate for its OPEB plan. The state currently does not expect to make annual payroll deductions for OPEB because the health care defined-benefit plan is overfunded, but could resume in future years based on the actuarial value of OPEB trust fund assets, which are held separately from the pension trust funds.

We have assigned a score of '2.0' out of '4.0' to Alaska's debt and liability profile, where '1.0' is the strongest score and '4.0' the weakest.

Bond Bank Structure

After the issuance of the 2022 Series One bonds, the bond bank will have issued $1,921,175,000 of GO bonds under the 2005 general bond resolution, of which $933.1 million will remain outstanding. The series 2022 One bonds are the 50th series of bonds to be issued under AMBB's 2005 general bond resolution, which includes the annual standing appropriation feature that we view as integral to the strength of the bond program. Each year, the AMBB is required to submit a budget request to the state for an appropriation to replenish the DSR to its required level if there is a draw because of borrower default. The DSR balance required under the resolution is greater than any individual semiannual debt service payment. As it has each year since 2009, in fiscal 2022, the legislature included, and the governor signed within the enacted operating budget, an open-ended appropriation to AMBB's reserve in the event of a borrower default. The fiscal 2022 budget represents the 13th consecutive year the standing appropriation has been included in Alaska's operating budget to replenish the reserve should it be used and brought below the required level. In recent years, the legislature has also appropriated any excess AMBB earnings to the AMBB rather than transfer the funds to the state's general fund as otherwise required by statute.

We understand that, in practice, AMBB requires borrower loan payments be made seven business days in advance of bond debt service, and in the event of a default by the borrower(s), it would coordinate with state administrative staff to implement the appropriation and would draw on the DSR as debt service was due, which would immediately be replenished by the state. And because the debt repayments by local governments occur on a rolling basis throughout the year, the standing appropriation allows the AMBB to replenish and to maintain the DSR balance at its required level. Related to this credit strength, in our view, is the diversity of the bond bank pool provided by its 37 borrowers under the 2005 bond bank program.

In addition to the appropriation, AMBB also has additional statutory authority to borrow funds from Alaska's general fund at the discretion of the commissioner of the DOR. The bond bank is required to report the sufficiency of the reserve fund and to seek appropriations from the legislature to replenish if needed.

Series 2022 One proceeds provide new-money loans toward four projects. The $21 million cost of capital improvements will be applied to the Bartlett Regional Hospital in the city and borough of Juneau to make a deposit to a local level reserve account. Other proceeds include electric utility costs of $9 million for Petersburg Borough and $20 million for the city of Seward electric utility projects. In addition, Ketchikan Gateway Borough will apply $7.6 million to renovate recreational facilities within the borough, primarily for improvements to outdoor recreational activities for residents. No additional reserve deposit will be required for the 2022 One bonds because existing assets in the 2005 resolution reserve fund (including cash and DSR sureties) exceed the post-2022 One requirement, which, according to the 2005 resolution, is required to equal the lowest of 10% of the principal amount of bonds outstanding, 125% of average annual debt service on all the bonds outstanding, or maximum annual debt service. The bonds are general obligations of the AMBB, which receives revenue from a pool of loans to municipalities and investment earnings on assets.

According to the bond bank, with the sale of the 2022 One bonds, the amount credited to the reserve fund includes a surety bond in the face amount of $18 million provided by National Public Finance Guarantee Corp. The bond bank has an amount sufficient to satisfy the reserve fund requirement, consisting of the following:

- Cash contributions in the custodian account (this account is where AMBB holds retained earnings, current-year investment earnings, or unrestricted funds appropriated to AMBB by the state), which were $10.4 million in fiscal 2021 compared with $9.3 million June 30, 2020. Operating expenses in fiscal 2021 were $501,632 compared with $507,949 in fiscal 2020; and
- Reserve obligations, which were $1.39 million at fiscal year-ends 2020 and 2021 (the AMBB plans to pay off the $1.39 million of reserve obligations with available earnings of the debt service reserve fund).

In addition to the appropriation support, the bonds are backed by Alaska's moral obligation pledge to replenish DSR draws, if any, for the bank's bonds and by state aid withholding provisions that, since June 1988, have applied to both GO and revenue bonds issued by the bank. The 2005 resolution establishes a common reserve fund to comply with a state statute requiring a reserve fund for any bond bank bond issues. As per state statute, on or before Jan. 30, of each year, the bond bank is required to deliver a statement to the governor and state legislature stating the amount, if any, necessary to replenish the reserve fund. If a draw on the reserve fund were to occur, the state legislature might--but is not required to--appropriate funds to replenish it to the required amount. However, we view this provision as having been strengthened by Alaska's standing appropriation to backfill the DSR in the event of a draw due to a borrower default.

In the event of a borrower default on a loan payment, the 2005 master resolution permits the AMBB to pursue an intercept of any grant aid from the state to the borrower. The grant intercept provision further strengthens the bonds' credit quality, in our view. The AMBB tracks the amount of state grants subject to intercept relative to the annual loan payment due by each borrower.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of March 21, 2022)		
Alaska approp		
Long Term Rating	A+/Positive	Outlook Revised
Alaska GO		
Long Term Rating	AA-/Positive	Outlook Revised
Alaska GO		
Long Term Rating	AA-/Positive	Outlook Revised
Alaska Mun Bnd Bank, Alaska		
Alaska		
Alaska Mun Bnd Bank (Alaska) APPROP		
Long Term Rating	A+/Positive	Outlook Revised
Alaska Mun Bnd Bank (Alaska) APPROP		
Long Term Rating	A+/Positive	Outlook Revised

Ratings Detail (As Of March 21, 2022) (cont.)		
Alaska Mun Bnd Bank (Alaska) APPROP		
Long Term Rating	A+/Positive	Outlook Revised
Alaska Mun Bnd Bank (Alaska) APPROP		
Unenhanced Rating	A+(SPUR)/Positive	Outlook Revised
Alaska Mun Bnd Bank (Alaska) APPROP		
Unenhanced Rating	A+(SPUR)/Positive	Outlook Revised
Alaska Mun Bnd Bank (Alaska) APPROP		
Long Term Rating	A+/Positive	Outlook Revised
Alaska Mun Bnd Bank (Alaska) APPROP		
Long Term Rating	A+/Positive	Outlook Revised
Alaska Mun Bnd Bank (Alaska) APPROP		
Long Term Rating	A+/Positive	Outlook Revised
Alaska Mun Bnd Bank (Alaska) APPROP		
Long Term Rating	A+/Positive	Outlook Revised
Alaska Mun Bnd Bank (Alaska) APPROP		
Long Term Rating	A+/Positive	Outlook Revised
Alaska Mun Bnd Bank (Alaska) APPROP		
Long Term Rating	A+/Positive	Outlook Revised
Alaska Mun Bnd Bank (Alaska) APPROP		
Long Term Rating	A+/Positive	Outlook Revised
Alaska Mun Bnd Bank (Alaska) APPROP		
Long Term Rating	A+/Positive	Outlook Revised
Alaska Mun Bnd Bank (Alaska) APPROP		
Long Term Rating	A+/Positive	Outlook Revised
Alaska Mun Bnd Bank (Alaska) APPROP		
Long Term Rating	A+/Positive	Outlook Revised
Alaska Mun Bnd Bank (Alaska) APPROP (AMBAC)		
Unenhanced Rating	A+(SPUR)/Positive	Outlook Revised
Alaska Mun Bnd Bank (Alaska) GO		
Long Term Rating	A+/Positive	Outlook Revised
Alaska Mun Bnd Bank (Alaska) GO (Master Resolution)		
Long Term Rating	A+/Positive	Outlook Revised
Matanuska-Susitna Borough, Alaska		
Alaska		
Matanuska-Susitna Boro (Alaska) APPROP		
Long Term Rating	A+/Positive	Outlook Revised
Matanuska-Susitna Boro (Alaska) APPROP		
Long Term Rating	A+/Positive	Outlook Revised
Matanuska-Susitna Boro (Alaska) APPROP (ASSURED GTY)		
Unenhanced Rating	A+(SPUR)/Positive	Outlook Revised

Many issues are enhanced by bond insurance.