S&P Global
Ratings

Alaska GO Debt Outlook Revised To Stable; Alaska Energy Authority Bond Rating Raised To 'A+' On Application Of Criteria

CHICAGO (S&P Global Ratings) June 8, 2018--S&P Global Ratings has revised its outlook to stable from negative and affirmed its 'AA' rating on the state of Alaska's GO debt outstanding, 'AA-' rating on lease appropriation-backed debt, and 'AA-' rating on Alaska Municipal Bond Bank debt secured through continuing appropriations and a moral obligation pledge from the state. We also raised to 'A+' from 'A' our rating on bonds issued by the Alaska Energy Authority and backed by a moral obligation pledge from the state based on the application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria (published Jan. 22, 2018, on RatingsDirect). The outlook on all ratings is stable.

"The outlook revision to stable reflects recent fiscal reforms that recognize the state's vast Permanent Fund Earnings Reserve Account (ERA) as unrestricted general fund revenue with provisions for its use," said S&P Global Ratings credit analyst Timothy Little. "While the state has reformed its finances, we recognize the uniqueness of the state's revenue profile that makes it subject to economic volatility more than its peers, either from the price of oil or investment returns of its Permanent Fund," added Mr. Little. The reliance on such economically sensitive revenues will likely make it more prone to future fiscal pressure. However, it is our opinion the adopted legislation (SB 26) that outlines a percent of market value approach to use its Permanent Fund ERA should allow for sustainable draws from the fund in future budgets. Use of the ERA should also ease pressure on the state's constitutional budget reserve (CBR), which has been nearly depleted in recent years. The outlook revision also reflects a significant rebound in oil prices over the past year that should improve the state's overall revenue profile, potentially allowing it to add back to its CBR.

"The stable outlook reflects Alaska's recently adopted structural reforms allowing a planned use of its ERA to fund operating expenditures," added Mr. Little. Overall, the recognition of the ERA as revenue reduced the state's structural deficit and may allow it to rebuild its more customary reserve balances, particularly the CBR. Even with significant use of reserves since 2015, the state maintains available balances in excess of 3x expenditures, which provides rating stability. The state is also benefiting from a resurgence in oil prices that should provide additional budgetary flexibility and may allow it to rebuild reserve levels. We do not expect to change our rating within the next two years.