

2020 Alaska Progress Report

The essential reference for policy makers.



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About the cover: With budget pressures, three straight years of population decline, depressed oil revenue and downgraded credit ratings Alaska faces challenges like never before.

2020 ALASKA PROGRESS REPORT

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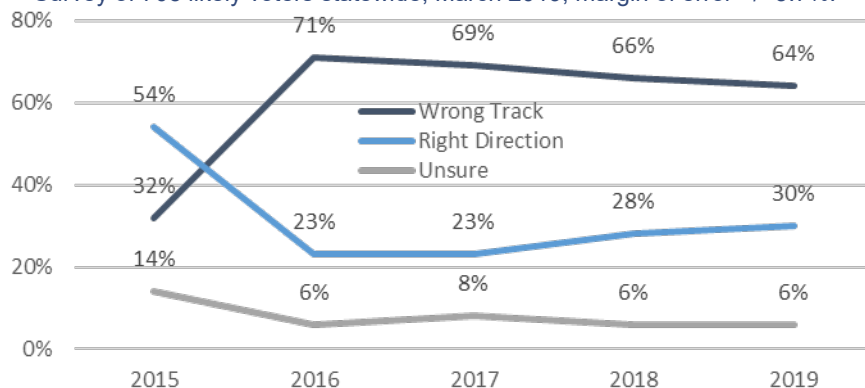
42. Public Opinion

The best way to verify that government is earning the public trust is to simply ask the people.

Regular public opinion surveys, done correctly, measure the nature and extent of public trust in, and satisfaction with, federal, state, local and tribal governments.

Alaska presents unique but certainly not insurmountable difficulties in accurate polling, including a small population in widely distributed communities, a relatively transient population and low response rates.

Answers to “Thinking about Alaska right now, do you think things are headed in the right direction, or do you think things have gotten off on the wrong track?” Survey of 705 likely voters statewide, March 2019, margin of error +/- 3.7%:



Source: Poll by Dittman Research for the Alaska Chamber of Commerce, March 2019

Measuring public opinion

Public opinion is typically measured using a poll or survey, an interview usually conducted by telephone. Scientific polls rely on the fact that a small truly random sample of people can accurately represent the views of a much larger group. A poll of 1,000 people is accurate to within 3% either way (as low as 47% or as high as 53%) of the larger group the sample represents. Larger sample sizes reduce the margin of error, but not very much.

Potential problems

The biggest threat to the validity of a poll is whether the sampled respondents truly represent a random cross section of the target population, which is why open Internet polls where anyone can respond are not very useful. Other factors affecting validity include the order of the questions asked, the information given to the respondent during the poll (so-called “push polls”) and even who is asking the question. Done correctly, a professional poll minimizes these factors and along with the electoral process provides a valuable tool to communicate the wishes of the people to their leaders.

Polling aggregator Fivethirtyeight.com grades pollsters based on their methodology and historical accuracy. Most pollsters who regularly operate in Alaska receive a grade of B/C with varying degrees of accuracy and partisan lean.

Finally, it’s important to remember that the opinion part of opinion polls. Occasionally public opinion will reflect a dynamic—fear of rising crime rates—when all the data point to a trend in the opposite direction—falling crime rates. In this case either the data is wrong or public opinion is misinformed, and either situation warrants further investigation.

Recent public opinion polls

In March 2018 the University of Alaska conducted a statewide public opinion telephone survey in which respondents indicated their confidence levels in various institutions: University of Alaska 28% significant/42% moderate; K-12 schools 26% significant and 44% moderate; Permanent Fund Corporation 25% significant/37% moderate; local government 18% significant/52% moderate; federal government 11% significant/39% moderate; state government 6% significant/50% moderate; and state legislature 4% significant/47% moderate.

In March 2019 an Alaska State Chamber poll of likely voters found

64% thought the state was on the wrong track, 54% supported a constitutional amendment guaranteeing a PFD and 61% supported a constitutional spending cap. A June 2019 survey by Dittman Research found 61% of respondents thought the state was on the wrong track, 43% support for using part of the PFD to fund government and 52% support for taxes to fund government.

Recent business opinion polls

In January 2020 the Anchorage Economic Development Corporation released its business confidence index for the fourth quarter of 2019. On a scale of 0-100, with 100 the most optimistic, the overall index was 55.4, slightly optimistic but down 2.8 points from the year before. Two-thirds of businesses agreed that Anchorage should establish a sales tax to offset property taxes. Support for options to address the state budget gap were 72% for reducing the PFD, 71% for a statewide sales tax, 64% for reductions in state spending, 61% for other broad state taxes, 56% for a state income tax and 39% for elimination of the PFD.

Since 2016 about two-thirds of likely Alaska voters have thought the state is on the wrong track.

More information

Alaska Chamber of Commerce: alaskachamber.com/presentations

Anchorage Economic Development Corporation: aedcweb.com/project/2020-business-confidence-index-report

Fivethirtyeight.com Pollster Ratings: projects.fivethirtyeight.com/pollster-ratings

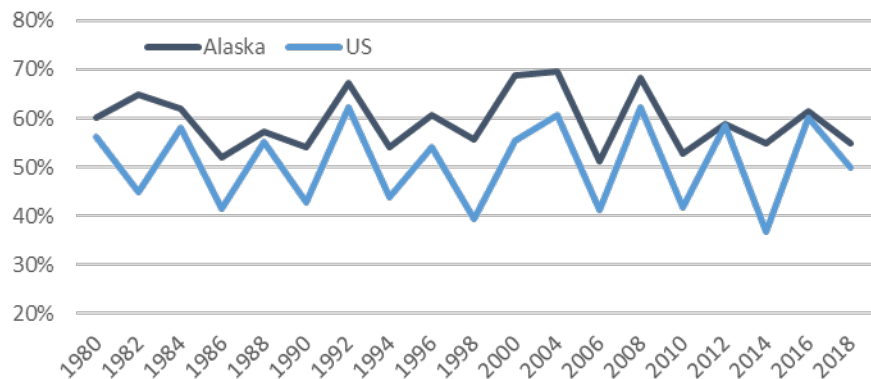
43. Voting & Elections

National, state and local governments are all forms of representative democracy, relying on the conscientious participation of informed voters to choose their leaders.

Voter turnout, the rate at which Alaskans participate in elections, is an important measure of citizen engagement and trust in government.

Alaska faces challenges in keeping voter registration up-to-date, with more Alaskans registered to vote than there are voting age people. Election integrity is generally sound.

Alaska voter turnout as a percentage of the population eligible to vote is consistently higher than the national average in non-presidential elections:



Source: United States Elections Project

Measuring voter turnout

Voter turnout can be expressed as a percentage of registered voters, of the voting age population (VAP), or of the voting eligible population (VEP). The VAP method includes persons ineligible to vote, mainly non-citizens and ineligible felons. At the same time it excludes eligible voters living overseas. This is a significant distortion because both of these populations are large and increasing relative to the general population. In 2018 Alaska's total ineligible felon population was 9,903 persons, 1.8% of the voting age population, the ninth highest rate in the nation.

Researchers at George Mason University claim that when these groups are properly accounted for there has been no decline in national voter turnout since 1972. In 2018 Alaska had the 12th highest voter turnout measured by VEP.

Accuracy of voter rolls

Alaska has long had problems updating its voter rolls in a timely and accurate manner due to high turnover in a transient population and other issues. In 2016 Alaskans began to be automatically registered to vote when they enrolled in the PFD program, and from 2016 to 2019 almost 70,000 new voters were added, an increase of 14% while the total population of the state decreased by 1%.

The July 2019 adult population estimate for Alaska was 546,861 and there were 559,722 voters registered that month, almost 13,000 more voters than voting-age people. This is not new: in 2000 Alaska won the dubious honor of having the most inflated voter rolls in the nation, with a voter registration rate of 108%. Alaska is not alone, as difficulties in purging voter rolls afflict more states every year.

Election integrity

It's important to note that over-registration is not the same as voting fraud, which is extremely rare: the Heritage Foundation's election fraud database lists only three instances from Alaska since 2005: one case of fraudulent ballot signatures and two cases of ineligible voting. A fourth instance involving dozens of fraudulent ballots in a 2018 Republican primary election remains unresolved.

Various measures have been proposed with the objective of improving Alaska's electoral processes. A current ballot measure proposal would make three major changes: all primary candidates would appear on the same election ballot, ending closed primaries; ranked-choice

voting would be used for the general election; and campaigns would be required to disclose the source of so-called "dark money" contributions.

Partisanship

Since at least 1995 over half of Alaskans have chosen not to affiliate themselves with a political party, choosing "nonpartisan" or "undeclared" instead. At the end of 2019 a record 58.1% of Alaska voters were unaffiliated, the highest percentage of any state and a 21% increase from 2017.

Among partisan voters registered in February 2020, 24.3% registered Republican, 12.8% Democrat, 3% Alaskan Independent Party and 1.9% other. Most research shows that unaffiliated voters generally break down along party lines when it comes to voting, and Alaska is no exception. Alaskans haven't voted for a Democrat for president since Lyndon B. Johnson in 1964. In 2016 the presidential vote in Alaska split 51% for Republican Donald Trump and 37% for Democrat Hillary Clinton.

58% of Alaska voters are unaffiliated with a political party, the highest rate of any state.

More information

Alaska Division of Elections: elections.alaska.gov

Heritage Foundation Election Fraud: heritage.org/voterfraud/search?state=AK

United States Elections Project: electproject.org

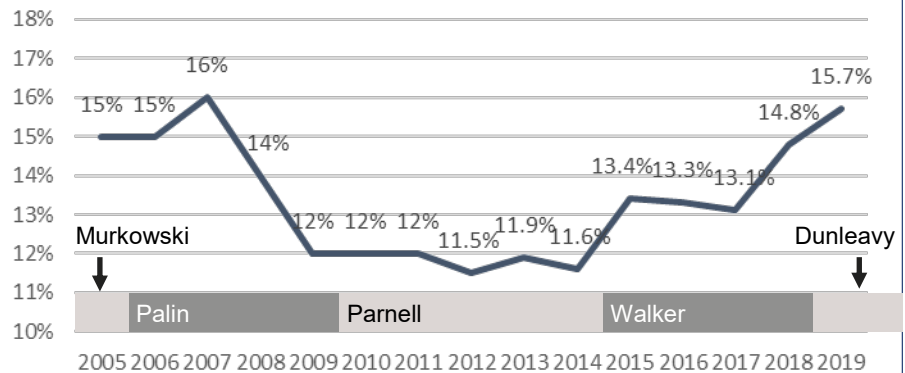
44. Public Management

The quality of public management, combined with leadership and adequate resources, determines how effective state government can be in delivering results.

In the end this quality will be reflected in the level of trust people have in governmental institutions, and their satisfaction regarding the governmental services they receive.

The Government Performance Project provides an outside perspective on the comparative effectiveness of state governments.

State of Alaska executive branch separations from all causes, including retirement, by fiscal year ending June 30, with governorships:



Source: American Legislative Exchange Council

Grading the states

In 2005 and 2008 the Government Performance Project released reports grading all 50 states on the quality of their management in four areas: money, people, infrastructure and information. In 2005 Alaska ranked in the bottom 20 states with an overall grade of C+; in 2008 Alaska's overall grade improved to a C, even though grades in three of the four areas fell, and Alaska's rank fell into the bottom ten states.

Money

Until 2016 Alaska held the highest ratings for its general obligation bonds, reflecting confidence from the major credit rating agencies about its financial management. Since then Moody's, Fitch and Standard and Poor have all downgraded Alaska's credit ratings, some multiple times, and Alaska's ratings are among the worst of any state. Agencies are concerned that Governor Dunleavy's proposals for voter approval of new taxes, guaranteed PFDs and spending caps will reduce needed operating flexibility.

In July 2019 Moody's changed Alaska's outlook from stable to negative due to concerns that, "a new focus on distributing increased shares of Permanent Fund earnings to residents, combined with political paralysis or other factors that prevent a return to budget balance, may make the current fiscal approach unsustainable over time." In September 2019 Fitch downgraded Alaska's rating but kept a stable outlook, stating "operating revenue remains anemic, and the administration's commitment to funding a full permanent fund dividend payment despite projected revenue loss has contributed to the enactment of a fiscal 2020 budget that includes deep cuts to core state services."

People

The State of Alaska employed 14,452 people in FY2019, over half in three departments: Transportation and Public Facilities (21%), Health and Social Services (20%) and Corrections (12%). A key measure of whether the State is attracting and retaining employees is non-retirement turnover, yet the annual State of Alaska Workforce Profile has omitted that data since 2006.

In 2006 the State eliminated defined benefit pensions for new hires. State employees hired under the new Tier 4 defined contribution plan fully vest after five years, and after that are free to take it with them. Since Tier 4 was implemented multiple agencies have reported difficulties in attracting and retaining

employees, and attempts have been made to return public safety employees to a defined benefit pension. Separations from all causes, including retirement, are rising.

Infrastructure

Alaska is one of just four states rated well by the Volcker Alliance for budget transparency in disclosing deferred infrastructure replacement costs. The American Society of Civil Engineers' 2017 Infrastructure Report Card gives Alaska an overall C- grade; see measure 17, Transportation.

Information technology

Alaska hired its first Chief Information Officer in April 2017 to set statewide standards, reduce redundancy and increase return on investment. He resigned in September 2018; the position was filled by interims until December 2019. Like other states, Alaska faces IT challenges including a rapid pace of change and a tight labor market.

The State closed its defined benefit pension plans in 2006, and has accrued an unfunded liability that is the highest in the US as a % of gross state product: 66% or \$46,774 per person.

More information

Alaska Department of Administration, Division of Personnel and Labor Relations: doa.alaska.gov/dop/reports
 Alaska Department of Revenue, Credit Ratings: treasury.dor.alaska.gov/Debt-Management/Alaska-Credit-Ratings.aspx
 NIRs: nirsonline.org/reports/enduring-challenges-examining-the-experiences-of-states-that-closed-pension-plans

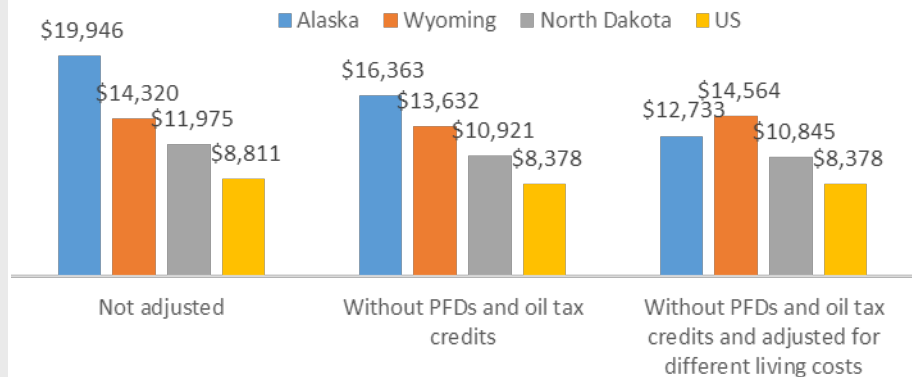
45. Cost of Government

Costs in Alaska are typically higher than elsewhere for a number of reasons, and government provides many services where cost is an important but not necessarily the primary consideration.

Alaska's per-person costs of government include PFD payments and oil tax credits not included in other state budgets.

Alaska's budget gap is partly a function of higher per-person spending, but also of volatile oil prices and the lack of alternative revenue, e.g. from taxes or use of the permanent fund.

Total State and Local Spending Per Person in 2015 in Alaska, other oil states, and the U.S. Average:



Source: UAA Institute of Social and Economic Research

SOURCE: Abridged from "How Does Alaska's Spending Compare?" by Mouhcine Guettabi, Trang Tran, and Linda Leask, UAA Institute of Social and Economic Research, February 2018.

Alaska spends more, with caveats

Alaska's 2015 state and local government spending per person—for all types of spending—was more than twice the U.S. average, and significantly more than spending in two other oil-producing states. But no other state makes annual cash payments to all residents, or pays cash oil-tax credits to oil companies, as Alaska still did in 2015. Spending from federal grants is also included in these figures—and Alaska gets twice the U.S. average in federal grants per person.

If you just remove PFDs and oil-tax credits—and take into account Alaska's higher living costs—the gap narrows. With those adjustments Alaska's 2015 state and local spending per person was about 50% above the U.S. average, and below Wyoming's.

Growth in spending

Wyoming and North Dakota are not nearly as big as Alaska, and they don't have hundreds of remote communities. But they are similar in that their budgets rely partly on oil, and they have small populations and relatively large undeveloped areas.

1992-1999 was a long period of growth nationwide, before the collapse of the Internet bubble. But not so in Alaska, where economic growth was subdued by low oil prices throughout most of that time.

During 2000-2007, many states saw fast growth in their economies and their budgets because of the housing boom. But in Alaska, housing prices increased only modestly in those years.

In 2008-2015, most of the country went through the Great Recession that followed the collapse of the housing bubble—and also stressed state and local budgets. But Alaska and other oil-rich states benefited from high oil prices during much of this period, and saw faster growth in public spending.

Adjusted for inflation, state and local spending grew faster in 41 states than in Alaska from 1992 through 2015.

Adjusted for inflation, state and local spending grew faster in 41 states than in Alaska from 1992 through 2015. That budget growth partly just reflects growing populations: it costs more to provide public services to more people.

The fastest growth was in Nevada: real state and local spending increased 125% from 1992 through 2015. The slowest was in Hawaii, where spending increased by just 33%. The national average growth was 73%, and Alaska's growth was below that, at 50%. Growth in other oil state was much faster: more than 100% in Wyoming, 116% in North Dakota, and 119% in Texas.

Spending in Alaska grew at a pace considerably below the U.S. average during 1992-1999 and 2000-2007. It was only in the most recent period, 2008-2015, that spending in Alaska grew faster than the national rate—at an average annual rate of 2.3%, compared with 1.1%.

Alaska and other oil states have economies and finances that are countercyclical to most of the country: they do well when oil prices are high, and poorly when oil prices are low, and their budgets grow faster when oil prices are high.

More information

Alaska Office of Management and Budget: omb.alaska.gov

University of Alaska Anchorage, Institute of Social and Economic Research: iseralaska.org

US Census Bureau, Survey of State and Local Government Finances: census.gov/programs-surveys/gov-finances.html

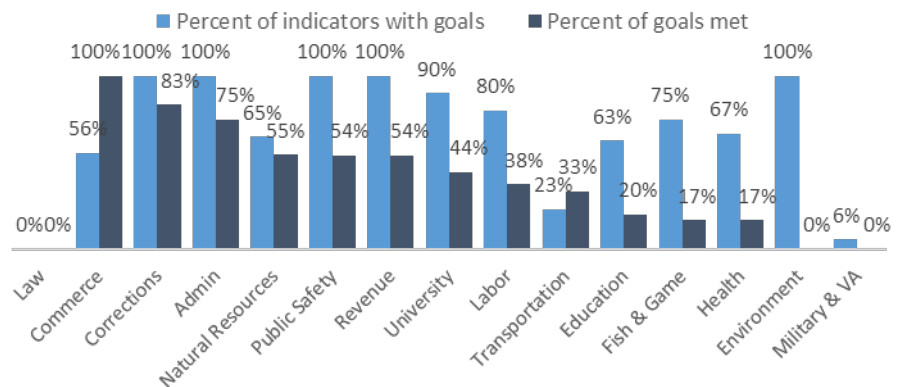
46. Missions & Measures

Missions and Measures was the first attempt by the State of Alaska to implement results-based budgeting, and was signed into law in 1998.

The purpose was to link public policy outcomes to performance measures that reveal at a glance how well an agency is doing in meeting the needs of Alaskans.

The Office of Management and Budget coordinates Alaska's "performance framework" today. Metrics are inconsistent, rarely publicized and often weakly tied to funding decisions in the State budget.

For each State of Alaska Department, the percentage of performance indicators with goals, and the percentage of those goals met in the last reporting period:



Source: Alaska Office of Management & Budget

Managing for results

Missions and Measures was created in 1998 when the topic of performance or results-based budgeting was getting traction as a way to indicate the "return on investment" governments were getting from their budget dollars. Initially the Alaska legislature attached a few performance measures to the state budget, and eventually Missions and Measures was passed as separate legislation. Although the terminology is no longer used, the Alaska Office of Management and Budget (OMB) coordinates a "performance framework" that has departments setting mission objectives and key performance indicators.

The biggest challenge with results-based budgeting is strongly linking objectives, measures and performance data with the budget process itself. There are strong political incentives to avoid accountability in implementing and terminating programs, aided by the often murky links between inputs and outputs.

Measuring efficacy and efficiency

Performance measures are generally of two types, outcome or output. Raising the quality of public schools, increasing the standard of living and protecting the environment are all examples of outcome measures and should be at the top of the list for any given department.

Examples of output measures include student graduation rates, number of high-paying jobs and the number of permitted landfills. These are complementary measures to outcomes indicating how well strategies are being implemented. Cost is a frequently cited output measure and one that is necessary to give a true indication of "return on invest-

ment." Cost is usually expressed in terms of dollars per unit, where the unit could be students educated, jobs created or parks maintained.

Implementation

The performance framework currently used by the State of Alaska process begins with reviewing the mission of the department "consistent with statutory authority" and goes on to specify core services, associated funding and positions, key performance indicators, targets and results.

In general a review of the OMB website shows a wealth of information about indicators, targets and results, once one gets past the confusing and apparently redundant links to "department key performance indicators" and "department performance detail" which lead to the same pages.

Particularly informative are the sections titled "analysis of results and challenges" included with most target data.

Particularly informative are the sections titled "analysis of results and challenges" included with most target data. The narrative in these sections illuminates how and why targets are being met or not, and the background is immediately helpful in digesting the numerical performance data.

Where there is room for improvement is in managing the sheer volume of information. What is the priority of outcomes? What percentage of targets are being met? At what cost? Where is the strategy detailed for closing gaps?

Links to department strategic plans would help, as would a dashboard that clearly listed efficacy (outcome) and efficiency (cost and time) measures. A final dimension of data that would be helpful, but perhaps out of reach, would be comparative data to other states to allow benchmarking.

More information

State of Alaska Office of Management and Budget: omb.alaska.gov/performance

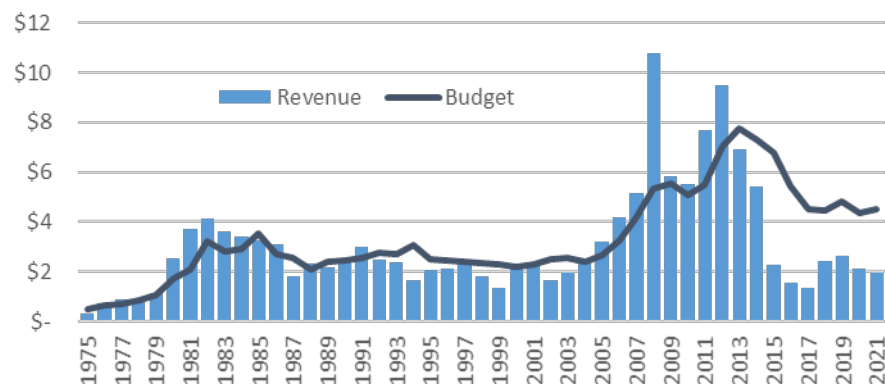
47. Balanced Budget

As a state we spend more money than we take in. This fiscal gap is currently covered using money from our state savings account, the Constitutional Budget Reserve (CBR).

The CBR is currently projected to run out in 2010 without additional spending reductions, revenue from new resource development, using a portion of permanent fund earnings and/or new taxes.

Oil price and production are the most important factors in state revenue projections.

Alaska unrestricted general fund revenue and spending, in millions of dollars



Source: Alaska Division of Legislative Finance

SOURCE: Abridged from "Comprehensive Annual Financial Report FY19," Alaska Department of Administration, Division of Finance, February 2020.

General fund operations

The well-being of the State of Alaska is best reflected in the operations of the General Fund. The General Fund is the State's primary operating fund and accounts for all financial resources except those required to be accounted for in another fund. The State maintains many accounts and sub-funds that are accounted for and reported within the General Fund. Four of the most notable are the Constitutional Budget Reserve Fund, the Statutory Budget Reserve Fund, the Permanent Fund Dividend Fund, and the Public Education Fund.

Revenues

The largest source of revenues is federal at \$3.4 billion, which makes up 43.3% of revenues. Revenue related to taxes decreased from 21.6% to 19.5% and rents and royalties decreased from 17.9% to 14.3% of all General Fund Revenues. Interest and investment income was \$300.6 million or 3.8% of all General Fund revenues. Overall General Fund revenues increased \$1,866.1 million or 30.6% from FY18 to FY19. Not all revenues that flow into the General Fund are available to pay for unrestricted government activities. The most notable are federal revenues, which are provided for specific purposes.

Expenditures

The total expenditures charged against General Fund appropriations during FY19 amounted to \$9.7 billion. There was a slight increase of \$564.6 million, from FY18. The relatively unchanged level of General Fund expenditures is at-

tributable to smaller operating and capital budgets as policymakers work toward resolving deficits resulting from lower oil prices. Expenditures by department include Health and Social Services (33.8%), Education and Early Development (17.2%), Transportation and Public Facilities (13%), Revenue (11.3%) and all other departments 4% or less each.

Major industry

Alaska North Slope oil prices averaged approximately \$69 per barrel during FY19. Although oil prices rose in FY19, the over-riding concern in the oil industry remains uncertainty in price, and the cascading effects throughout the State's economy. Output has stabilized over the past several years, averaging just over 500,000 barrels per day.

Alaska's fiscal challenges are a direct result of the decline in oil prices in recent years and continued deterioration in production. Between 1980 and

2014, oil revenues accounted for an average of 84% of all unrestricted revenue. At the time the FY20 budget was enacted, unrestricted general fund revenues were projected to be \$2.3 billion with an additional \$921.5 million being supported by designated fund sources. This level of unrestricted revenue is down 67% since FY13.

Editor's note

Governor Dunleavy's FY21 budget includes a \$3,000 per person PFD and would require \$1.5 billion from the Constitutional Budget Reserve Fund, leaving a balance of about \$500 million. Legislative leaders from both parties reacted negatively, saying it leaves too little to respond to emergencies, includes no revenue or meaningful spending reductions and is unsustainable in future years.

Alaska's fiscal challenges are a direct result of the decline in oil prices in recent years and continued deterioration in production.

More information

Alaska Comprehensive Annual Financial Report: doa.alaska.gov/dof/reports/cafr.html

Alaska Legislative Budget Handbook: legfin.akleg.gov/Other/SwissArmyKnife18.pdf

National Association of State Budget Officers: nasbo.org/reports-data/fiscal-survey-of-states

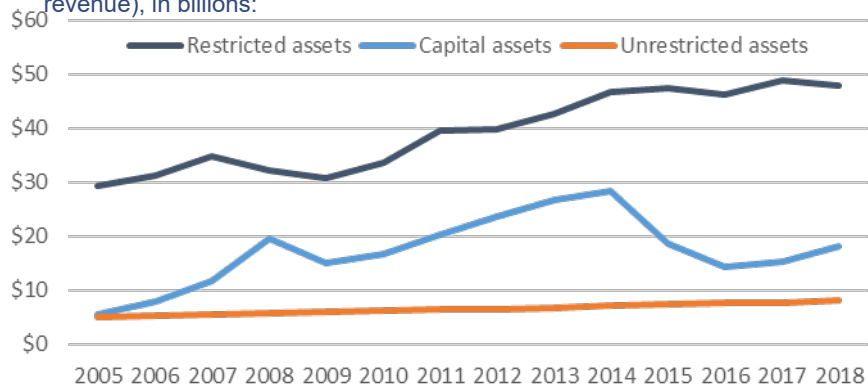
48. Net Position

Net position represents the resources the State of Alaska has left to use for public services after all debts are settled. Over time it indicates whether Alaska's financial position is getting better or worse.

Net position includes everything from the value of the permanent fund, roads and schools, and the university and public corporations.

Net position captures long-term liabilities, such as pension debts, as well as deferred inflows and outflows and other items outside the budget.

Alaska's net position is composed of three types of assets: restricted (Permanent Fund), capital (land, buildings, equipment) and unrestricted (oil revenue), in billions:



Source: State of Alaska Comprehensive Annual Financial Report FY18

Net assets less the permanent fund

The value of Alaska's net position at the close of the 2018 fiscal year was \$74.2 billion, of which \$8.1 billion was in capital assets, \$47.9 billion was restricted for various purposes, and \$18.2 billion was unrestricted and available to "meet the State's ongoing obligations to citizens and creditors." The Alaska Division of Finance FY18 Comprehensive Annual Financial Report shows net assets increased by \$2.2 billion over FY17.

87.5% of Alaska's net position—\$64.9 billion—is in investments held by the Permanent Fund, and the principal of the fund—\$46 billion—is not subject to appropriation and therefore may not be spent.

Covering the fiscal gap

Alaska has been growing capital assets (physical assets such as equipment, buildings, roads and land) and restricted assets while covering budget shortfalls using the Constitutional Budget Reserve Fund.

In financial terms Alaska is sacrificing liquidity to maintain net assets. This rapid burn of State working capital has increasingly resulted in a "cash crunch" where the State has plenty of assets but no way to convert those assets into cash that can be used to fund current expenses. Alaska is essentially "house poor," we have locked up most of our wealth and now have trouble making ends meet.

State corporations

The fundamental problem is a cash shortage due to spending more as a state than we take in. This deficit has been offset in past years by requiring the various State-owned

public corporations (a.k.a. component units) to return a portion of their assets and net incomes to the General Fund. In FY18 the net positions of the three major component units were: University of Alaska \$1.8 billion; Alaska Housing Finance Corporation \$1.5 billion; and the Alaska Industrial Development and Export Authority \$1.3 billion. The nonmajor component units—Alaska Aerospace Corporation, Alaska Energy Authority, Alaska Gasline Development Corporation, Alaska Mental Health Trust Authority, Alaska Municipal Bond Bank Authority and Alaska Railroad Corporation—held a total net position of \$2.9 billion, for a net position of \$7.6 billion for major and nonmajor component units combined.

Alaska is essentially "house poor," we have locked up most of our wealth and now have trouble making ends meet.

Legislative appropriation of public corporation assets may degrade the ability of these agencies to perform their tasks and/or result in bond rating downgrades. The most dramatic example of this phenomenon was the liquidation of the Alaska Science and Technology Foundation in 2003 and the appropriation of its \$95 million endowment into the state general fund.

In 2017 the State of Alaska financed a study looking at possible cost savings from combining corporations. The study found that the Alaska Industrial Development and Export Authority should remain independent, but there may be opportunity for the Alaska Housing Finance Corporation and the Alaska Energy Authority.

It is worthwhile to note that the value of the State's 105 million acres of land, among other things, is not meaningfully reported.

More information

Alaska Department of Administration Division of Finance: doa.alaska.gov/dof

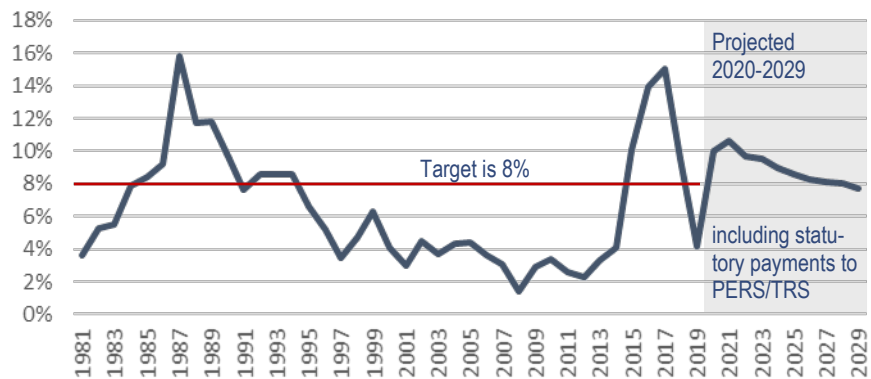
GASB replaces net assets with net position: gfoa.org/sites/default/files/GFR_OCT_11_62.pdf

49. Public Debt

The State of Alaska issues general obligation bonds to finance roads, schools and other public infrastructure and projects. The state is legally required to repay these loans, by raising taxes if necessary.

The interest rate paid by the state is determined by Alaska's bond rating - similar to a consumer credit rating. The higher the rating, the lower the cost of borrowing. This bond rating indicates how confident lenders are in Alaska's ability to repay our public debt, and how attractive Alaska is as an investment.

Alaska's total debt payments as a percentage of unrestricted revenues. The payments include school debt and capital reimbursements:



Source: Alaska Public Debt 2019-2020

SOURCE: Abridged from "Debt Affordability Analysis 2020," Alaska State Bond Committee, January 2020.

Current debt position

As of June 30, 2019, the State of Alaska had approximately \$670 million in General Obligation debt outstanding. The State has remaining authority to issue general obligation bonds of \$110.4 million. Between 1981 and 2003 the State didn't authorize any general obligation bonds.

This lack of use of bonds was in part due to significant issuance in the 10-year period from 1975 to 1984 when the amount of general obligation debt outstanding increased from \$392 million to \$946 million combined with the volatile nature of the State's unrestricted general fund revenue which declined precipitously in 1987.

This led to a State preference for pay-go funding as a primary source of capital during years of higher revenue generation and almost no capital spending in years of lower revenue generation. In the 18 years since 2002 the state has authorized just five general obligation bond propositions. It is likely that if State revenues become less volatile and are approximately equal to expenses as the State begins relying on investment income that additional use of general obligation bonds may materialize.

The State has traditionally structured its general obligation bond issues as long-term fixed rate debt and currently has no exposure to floating or variable rate debt or derivative products.

Credit rating

The State of Alaska's credit rating peaked in 2013 with the highest ratings from all three national credit rating agencies. The significant reduction in UGF in fiscal year 2015 and the State's practice of portraying earnings of the Permanent Fund and CBR as well as current year deposits to the CBR as restricted by custom revenue and the resulting recurring UGF category annual deficits placed significant strain on the State's credit rating. While the State continues to maintain high credit ratings, multiple downgrades have occurred over the last four years.

Rating agencies have historically highlighted the State's conservative financial management, citing a low debt burden and sizable reserve amounts necessary to offset shifts in the price or production of oil. While the State has relied on North Slope oil production for revenues for the last 40 years, there are potential long-term alternatives in the development of natural gas resources, mineral production, implementation of a State wide broad based tax, or use of earnings of the Permanent Fund to offset costs of government services.

The State of Alaska's credit ratings as of December 31, 2019 were: Moody's Investor Service – 'Aa3' with a negative outlook; Standard & Poor's – 'AA' with a stable outlook; Fitch Ratings - 'AA-' with a stable outlook.

The State of Alaska has an estimated capacity to issue approximately \$2.8 billion of additional general fund paid debt for essential infrastructure projects over the next ten years without impacting its current credit rating.

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More information

Alaska Credit Ratings: treasury.dor.alaska.gov/Debt-Management/Alaska-Credit-Ratings.aspx

Alaska Department of Revenue, Treasury Division: treasury.dor.alaska.gov/Debt-Management/State-Publications.aspx

Alaska State Bond Committee: treasury.dor.alaska.gov/Debt-Management/State-Bond-Committee.aspx