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Alaska Gets No Relief From Oil Rebound as Downgrades Sting Bonds.

Not even an 86 percent increase in the price of crude oil since February is enough to right Alaska's finances.

The energy-rich state, which sold \$128 million of bonds on Wednesday, had to pay up to borrow in its latest deal following the loss of its AAA rank from the three biggest credit-rating companies this year. Alaska is currently caught in a political standoff over how to close a \$4 billion budget deficit — equivalent to about \$5,400 for every one of its 738,000 residents. While the price of crude has climbed back to almost \$49 a barrel, Alaska once counted on it holding above \$100 and hasn't cut spending enough to make up for the drop, according to Moody's Investors Service.

"The rebound to \$50 per barrel is nice, but it won't make up for the gap between revenues and expenditures," Moody's analyst Dan Seymour said. "It's ultimately an unsustainable situation."

The swing in the price of oil has put a squeeze on energy-industry states such as North Dakota, Oklahoma and Texas, where jobs and tax revenue disappeared as companies shut wells and cut back on exploration. But nowhere has it been as severe as in Alaska, which gets about 90 percent of its general revenue from oil and sends annual royalty checks to its residents. Last year, they were a record \$2,072 each.

"We can't afford to pay dividends at the level we've been paying and keeping the government at a level that the people expect unless oil rises," said Jerry Burnett, deputy commissioner for Alaska's Department of Revenue. "We need to recognize other sources of revenue, but the legislature has been reluctant to put votes behind it."

Alaska Governor Bill Walker, an independent, and the Republican-controlled legislature are at an impasse over how to erase the shortfall for the year beginning in July. In the meantime, Alaska is burning through \$11 million in savings a day.

To raise revenue, Walker proposed increasing taxes, cutting subsidies to oil companies and reducing residents' annual payouts. Lawmakers passed a \$4.26 billion budget on May 31 that drew from an \$8 billion savings account to close the deficit. Walker has yet to receive the measure and on June 19 called the legislature into a special session to reconsider his revenue-raising measures.

Without a fix in place, investors are demanding higher yields to hold Alaska's bonds instead of benchmark securities as borrowing costs in the \$3.7 trillion market hold at the lowest since 1965. Wednesday's sale of \$128 million of debt saw 10-year securities yielding 1.86 percent, 0.46 percentage point more than top-rated debt, according to data compiled by Bloomberg. In its March 2015 offering, similarly dated debt yielded 2.08 percent, 0.01 percentage point less than the benchmark.

The most-traded Alaska general obligations of the past month, which mature in August 2028, last changed hands on June 16 for an average yield of 1.97 percent, or about 0.62 percentage point more

than AAA debt, data compiled by Bloomberg show.

If “they don’t come up with a fix for the deficit and adjust for what might be a more prolonged lower price of oil, this is a credit you have to price in a future downgrade,” Gabe Diederich, a Wisconsin-based money manager at Wells Fargo Asset Management, which oversees about \$39 billion of municipal bonds.

Fitch Ratings was the latest of the three largest credit rating companies to strip Alaska of its top rank, dropping it to AA+ June 14. Moody’s Investors Service downgraded the state to Aa1 in February, a month after the cut by S&P Global Ratings.

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