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Fitch Downgrades Alaska Again for State Budget Problems.

Alaska's financial situation got a little bit tougher Thursday afternoon when Fitch Ratings downgraded a suite of credit ratings tied to state debt.

Most notably, Fitch downgraded Alaska's general obligation, or GO bond rating from AA to AA- on \$724 million worth of bonds.

Another roughly \$1.1 billion in state appropriation bonds was downgraded from AA- to A+ and more than \$1.1 billion in Alaska Municipal Bond Bank Authority resolution bonds also went from AA- to A+.

Fitch gave the ratings a stable outlook.

As with other ratings downgrades from Fitch and other agencies in recent years, the downgrade is tied to the State of Alaska's continued inability to balance its budget, according to a statement accompanying the announcement.

"To date, (state budget) operating revenue remains anemic, and the administration's commitment to funding a full Permanent Fund dividend despite projected revenue loss has contributed to the enactment of a fiscal 2020 budget that includes deep cuts to core state services," Fitch analysts wrote. "Fitch expects this will be followed by comparable actions in fiscal 2021. Despite the expenditure reductions, appropriations from the state's Statutory Budget Reserve Fund and Constitutional Budget Reserve Fund are required to fund the dividend payment and the capital program, reflecting the state's ongoing structural deficit."

Department of Revenue officials have said a one-notch downgrade such as this one roughly equates to a 0.25 percent increase in the interest rate on money the state borrows often through bonds for capital projects. Local governments and school districts also piggy-back on the state's rating and use the moral obligation of the state to secure lower interest financing for their projects.

The Revenue Department is looking to sell up to \$700 million in revenue bonds to pay off the state's remaining oil and gas tax credit obligation after the refundable tax credit program was ended in 2017 due to budget constraints. However, it's unclear exactly when, or if, that bond sale will take place as the legality of the plan has been challenged and is currently under review by the Alaska Supreme Court.

State debt manager and Alaska Municipal Bond Bank Authority Executive Director Deven Mitchell said via email that he was surprised and disappointed by the downgrade because even though getting to a final 2020 budget was "a painful process" the state ended up with a budget that is pretty much balanced.

"The report was based on negative 'beliefs' and 'potentially expected futures' rather than the reality of today," Mitchell said.

The state's credit rating has been on a downward trajectory since early 2016 when oil prices

dropped to less than \$30 per barrel and the state's budget deficit was more than \$3 billion. Alaska had sterling AAA ratings prior to 2016.

Moody's and Investors Service currently has an Aa3 (comparable to AA-) rating for the state's GO bonds, while Standard and Poor's has an AA rating for the state.

In February, Dunleavy proposed closing the state's roughly \$1.6 billion deficit without tax increases or reducing PFD payments by drastically cutting state services and pulling local tax revenue into state coffers.

According to Fitch, Gov. Michael J. Dunleavy's desire to pay a full, statutorily calculated PFD "elevates the state's fixed cost burden and reduces its ability to respond to future economic weakness as revenue growth is expected to be modest."

The agency's analysts also believe that "substantial reductions" to the state's health care and university budgets could have consequences for future economic growth in the state.

A prolonged budget debate resulted in Dunleavy vetoing \$50 million from the state's Medicaid budget in addition to a \$70 million cut instituted by the Legislature. Dunleavy agreed to a \$25 million cut — part of \$70 million over three years — to the state's support of the University of Alaska.

Dunleavy was upbeat in a statement issued late Thursday responding to Fitch's criticisms of the state's fiscal situation.

"In reading this report, it's clear this is the result of what has - or has not - occurred over the last several years," the statement said. "My administration is determined to get our fiscal house in order. Alaska has struggled with fiscal imbalance for years and we must continue moving forward on necessary steps to put in place a stable and reliable fiscal plan. I continue to be optimistic for Alaska's future: unemployment is at its lowest rate in nine years; GDP is on the rise; billions in new oil and gas investment are being made on our North Slope; the Ted Stevens Anchorage International Airport - the 2nd busiest for air cargo in the US, 5th busiest in the world - continues to expand and bring new business to Alaska. Once our fiscal house is in order, I have no doubt Alaska will once again top the rating agency charts."

Moody's downgraded the University of Alaska's bond ratings several notches in July following the governor's initial \$130 million, or roughly 40 percent, cut to its state budget.

The agency also lowered the state-owned Alaska Industrial Development and Export Authority's bond rating two notches — from Aa3 to A2 — in late July despite its generally solid financial performance because the authority is ultimately tied to the state's budget situation, analysts wrote. AIDEA routinely finances infrastructure and real estate development projects through its roughly \$1.3 billion Revolving Fund. Dunleavy proposed using a portion of the Revolving Fund to pay for other state government expenses in his original budget plan but the idea was not part of the final state budget.

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