THE BOND BUYER

Anchorage receives pair of downgrades ahead of competitive GO sale

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Anchorage, Alaska, received two rating downgrades ahead of plans to sell $105 million in general obligation bonds competitively on Dec. 6.

Fitch Ratings downgraded the city's issuer default rating to AA from AA-plus Nov. 22, maintaining a stable outlook; and S&P Global Ratings downgraded the city to AA from AA-plus Nov. 23, maintaining a negative outlook.

"The downgrades reflect deterioration in the municipality's general fund reserves to negative levels in the 2021 audit, which could continue through fiscal 2022, and which could persist due to uncertainty on the timeliness of Federal Emergency Management Agency reimbursements," said S&P analyst Alex Louie.

Anchorage Mayor Dave Bronson listed returning the city to triple-A ratings among goals of his fiscal 2023 budget proposal.

Anchorage Mayor's Office.

The negative outlook "reflects our view that we expect reserves will remain negative in the near term, and while management expects reserves will return to historical levels when FEMA reimbursements arrive, previous projections have not matched current actual performance," S&P analysts wrote. "We believe there is at least a one-in-three chance we could lower the rating again if the municipality does not begin restoring reserves."

Anchorage plans to issue the GOs in two series: an $83.3 million 2022 Series A for general purposes and $22.2 million Series B for schools, according to Fitch's report.

Proceeds from the 2022 issuances will fund a variety of projects for public safety and transportation, roads, police, fire, and other facilities, according to S&P.

Anchorage Mayor Dave Bronson, a Republican, put returning the city's bond ratings to triple-A, reducing debt and lowering property taxes as goals in his fiscal

2023 budget released Sept. 30. Last year, S&P downgraded the city to AA-plus from AAA.

Branson could not be reached for comment on the city's ratings downgrades.

Last year, when S&P lowered the rating to AA-plus, he recommended budget cuts in a statement.

"I believe that government should begin right-sizing unsustainable spending to reflect the decreases in population that have occurred in the MOA over the past several years," Bronson said.

He blamed the Anchorage Assembly, governing body of the city, in an emailed response to the Anchorage Daily News.

"As the legislative branch, the Assembly appropriates, they hold the purse strings. Spending decisions by the Assembly have had a direct impact on our bond rating," Bronson wrote.

The city is the center of business, trade, transportation, health care, education, government and tourism for the state of Alaska. Roughly 40% of the state's population with about 290,000 residents live there, and it produces more than half of the state's economic output, according to Fitch.

The downgrade of the city's GOs reflects a weakening of overall financial operations and depletion of its unrestricted general fund reserves, Fitch analysts wrote.

"The municipality paid the upfront costs to address damage from a 2018 earthquake, which was quickly followed by additional costs to respond to the pandemic," according to Fitch.

Anchorage "expects most of these costs will be reimbursed by FEMA or recouped through tax changes, but the timing is uncertain, which could leave the municipality with a reduced financial cushion for an indeterminate period of time. Unlike other municipalities, Anchorage expended its full American Rescue Plan Act (ARPA) funds instead of waiting until some costs had been reimbursed, leading to the materially low reserve levels," Fitch analysts wrote.

The Fitch downgrade lowers Anchorage's GOs to AA and the ratings on its certificates of participation to AA-minus from AA. Fitch has also affirmed the Anchorage Convention Center revenue refunding bonds, issued by CIVICVentures, AK, at AA-minus.

S&P also downgraded to AA-minus from AA the city's COPs.

"We do not envision the municipality will recover reserves to historical levels until the fiscal 2024 audit at the earliest, which will not be complete until 2025," S&P analysts wrote. "Therefore, given our expectations of continued operations with negative unassigned reserves, we have lowered the rating one notch and maintain a negative outlook."

Anchorage's GOs are payable from an unlimited ad valorem property tax levy on all taxable property in the municipality, while the COPs are backed by lease payments made by the municipality for occupancy of a variety of governmental assets. The municipality has covenanted to budget and appropriate lease payments annually. The lease obligations are not subject to abatement.

The convention center revenue bonds are payable from a gross pledge of a portion of the municipality's hotel tax revenues.

Fitch's stable outlook comes on an expectation that the low unrestricted general fund reserves are temporary.

Fitch analysts said they expect the municipality will restore fund balances at or above its general fund policies, but these could be multi-year efforts before full restoration takes place. The municipality reports no cash flow issues and has $640 million of borrowable cash available for short-term use, Fitch said.

Fitch's GO rating reflects the municipality's stable revenues, solid expenditure flexibility, low long-term liability burden, and substantial revenue raising ability. It also incorporate the city's modestly declining population and the municipality's continued efforts to add new revenue sources for operations. Fitch's COP rating is one notch lower, reflecting a slightly higher degree of optionality associated with appropriation debt.