

Alaska Bankers Association

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April 8, 2015

The Honorable Pete Kelly, Co-Chair
The Honorable Mark Neuman, Co-Chair
Budget Conference Committee
Alaska State Capitol
Juneau, AK 99801-1182

Re: Support for maintaining the State of Alaska's good credit

Dear Senator Kelly and Representative Neuman:

The Alaska Bankers Association recognizes and applauds the Alaska Legislature in its efforts to put the State's budget on a more sustainable path. Given the circumstances, Alaska is fortunate to be tackling this fiscal challenge from a strong credit position with the ability to service its debts and committed obligations.

The Alaska Bankers are keenly interested in a recent funding proposal that would terminate a State of Alaska long-term lease. We fully understand the "subject to annual appropriation" language in all state leases and underwrite credit to our customers with this language in mind. The State's historical actions and strong financial position have mitigated this risk in the past. However, we alert you that use of this provision will affect how bankers underwrite future real property loans where the State of Alaska is a tenant or proposed tenant. **Secondarily, we alert you that this action will likely impact the State's credit worthiness and the cost of borrowing in the future.**

Doubts about the State's willingness to service its obligations will reverberate, and cause lenders and investors to begin a focused reassessment of notes and securities where the source of payment is the State. Notwithstanding credit rating agency evaluations, lenders and investors may require the State's commitments to be secured and interest rates relating to new obligations will likely rise to compensate for risk of non-appropriation. Rising cap rates would, in turn, drive valuations of properties with state leases lower.

Alaska should not put itself in the position of having to react to a narrative that it will not live up to its commitments. How long creditors would remain accommodating is a great question to which we do not have the answer. What we do know is that some ideas have unintended consequences, and the current funding proposal would be as good a bellwether as any signaling risk aversion to the greater credit markets.

Respectfully Submitted,



Steve Lundgren, President
Alaska Bankers Association