

Fairbanks North Star Borough, Alaska

General Obligation Bonds New Issue Report

Ratings

New Issue

General Obligation Refunding Bonds,
2012 Series S AA

Outstanding Debt

General Obligation Bonds,
Series 2004G^a AA

General Obligation School Bonds,
Series 2005H^a, 2007J, 2008L,
and 2012R AA

General Obligation Refunding Bonds,
Series 2007K AA

^aTo be refunded by the General Obligation
Refunding Bonds, 2012 Series S.

Rating Outlook

Stable

New Issue Details

Sale Information: \$18,790,000 General Obligation Refunding Bonds, 2012 Series S, on Oct. 16 via competitive sale.

Security: A general obligation of Fairbanks North Star Borough, supported by a covenant to levy taxes annually without limitation.

Purpose: To refund outstanding maturities of GO school bonds, 2004 series G and 2005 series H.

Final Maturity: Serially, Oct. 1, 2013–2024. Subject to optional and mandatory redemption prior to final maturity.

Key Rating Drivers

Strong Financial Profile: The 'AA' rating is based on the borough's consistently strong financial profile reflected in robust reserves. The rating also reflects the borough's manageable carrying costs for long-term liabilities and prudent financial management practices, including conservative budgeting and active management of the tax levy cap.

Concentrated but Stable Economy: The economy's reliance on natural resources is balanced by the presence of a large government, educational, and military presence providing important stability. Tax base, employment, and income indicators all performed well during the recent recession.

Steady Property Value Growth: The borough's sound financial position is largely supported by its well-performing tax base, with property taxes contributing 75% of budgeted fiscal 2013 general fund revenues. Although energy industry concentration is evident, so was measured growth in taxable assessed valuation (TAV) throughout the recession.

Advantageous Debt Profile: The borough has very low debt levels with rapid amortization benefiting from statutorily required state reimbursement of school construction costs (the state's GO bonds are rated 'AA+' by Fitch Ratings).

Underfunded Pensions, Limited Exposure: The borough participates in state pension and post-employment retiree plans that are underfunded. Importantly, local contributions are capped at 22% of payroll, with the state responsible for funding any deficiency between the local payment and the actuarially required contribution.

Related Research

[Fairbanks North Star Borough, Alaska](#)
(May 2012)

[Fitch Upgrades Fairbanks North Star](#)
[Borough, Alaska's GO Bonds to 'AA',](#)
[Outlook Stable \(April 2012\)](#)

Analysts

Alan Gibson
+1 415 732-7577
alan.gibson@fitchratings.com

Karen Ribble
+1 415 732-5611
karen.ribble@fitchratings.com

Rating History

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	10/8/12
AA	Affirmed	Stable	5/9/12
AA	Upgraded	Stable	4/27/12
AA-	Revised ^a	Stable	4/30/10
A+	Affirmed	Stable	1/4/06
A+	Affirmed	Positive	1/4/05
A+	Assigned	—	3/1/04

^aReflects rating recalibration.

Credit Profile

Stable Economy Concentrated in Natural Resources and Government

The 7,361-square-mile borough is located in central Alaska and is the hub of trade, commerce, and government for the state's interior and northern regions. With a total 2011 estimated population of 99,192, the borough's two largest cities are Fairbanks, Alaska's second largest city comprising about one-third of the borough's residents (population 30,547), and North Pole (population 2,115). Two sizable military bases, Fort Wainwright and Eielson Air Force Base, help stabilize the economy, as does the University of Alaska Fairbanks campus, serving more than 9,000 students. The threatened contraction of fighter jets operating out of Eielson Air Force Base has been delayed until at least fiscal 2014 and faces a number of practical obstacles.

The stability of government, military, and education presence provides an important balance to the borough's reliance on its natural resource base and related industries. The top two taxpayers, oil and mining companies, comprise 13.7% of TAV, and the top 10 taxpayers make up a moderately high 21.3%.

The borough's population has increased 19.7% since 2000. Employment in the borough is holding steady, maintaining the borough's 6.9% unemployment rate year over year. This figure is below the state's rate of 7.7% and the nation's 8.4%. As a sign of relative long-term stability, variability in the borough's unemployment rate was less than the national average over the past 10 years. Since 2002, the borough's unemployment rate dipped to a low of 5.4% in 2007 and peaked at 7.1% in 2009. By comparison, the national rate reached a low 4.6% in 2006 and 2007 but peaked at 9.6% in 2010.

Consistently Strong Financial Profile

The borough continued to maintain a strong financial position through the recession aided by strong property tax revenues and management policies. After moderate deficits in fiscal years 2008 and 2009, the borough posted surpluses totaling a combined \$13.8 million in fiscal years 2010 and 2011. This resulted in a fiscal 2011 total ending general fund balance of 32.7% and an unrestricted general fund balance of 32.3% (combined committed/assigned/unassigned fund balances as per GASB 54). The unreserved fund balance did not dip below 23% in any of the past five years, far exceeding the borough's policy minimum of 7%–10%.

Excluding the general fund's temporary holding of \$10.5 million Alyeska Pipeline Service Co. property taxes in dispute (discussed below), the unrestricted general fund balance in fiscal 2012 appears to be holding relatively steady from fiscal 2011.

Steady Revenue Growth

The borough demonstrated its willingness to consistently raise recurring revenues by adjusting the tax rate to yield steady property tax levy growth. The borough instituted a tax rate increase for 2010 (the first since 2001) to offset a decrease in state aid for education. Since that tax rate increase, the borough's tax rate has declined slightly in 2011 and 2012. Property tax revenues represent approximately 75% of budgeted fiscal 2013 general fund revenues.

Similar to other boroughs in Alaska, tax receipts (including alcohol, hotel, and other taxes) are capped by an inflation-based formula, adjusted for new services, as well as new construction and property improvements. However, any unused portion of the maximum tax levy allowed by law cannot be put toward future years, except to compensate for amounts used from fund

Related Criteria

Tax-Supported Rating Criteria
(August 2012)

U.S. Local Government Tax-Supported
Rating Criteria (August 2012)

balance that were designated as tax reductions for one year. Voter-approved debt service is not subject to the cap.

The borough's continued growth in TAV has supported the increase in tax revenues over the years. TAV increased 8% from fiscal years 2007 to 2008 and at a declining rate since, reaching a 1% growth factor in fiscal years 2012 and 2013 (projected).

The borough, along with other Alaska municipalities, is currently involved in litigation related to property taxes paid by Alyeska Pipeline Service Co. since the 2006 tax year. The borough might have to refund taxes in the future, although given the rulings thus far in its favor, this appears unlikely. Alyeska, the borough's largest taxpayer, paid property taxes in tax years 2006–2013 under protest due to a dispute about the valuation of the trans-Alaska pipeline system.

After a ruling in favor of the borough for 2006 tax-year taxes by the Superior Court, Alyeska appealed to the state Supreme Court. The borough deposited its settlement funds in a court account pending the Supreme Court decision (\$8.7 million total; general fund assigned reserve of \$7.7 million). The Superior Court also decided in favor of the borough for tax years 2007–2009 (\$10.5 million). The owners are expected to appeal this second decision to the Supreme Court as well. The borough is awaiting judicial approval to deposit its settlement funds from 2007–2009 in a court account (these funds currently sit in the borough's general fund). No lawsuit has been filed yet for the 2010–2012 tax-year taxes paid under protest. Fitch will continue to monitor the litigation.

Very Low Debt Aided by State Reimbursement

The borough's debt profile is sound with low debt levels and rapid amortization. The borough's debt consists solely of GO bonds, which are subject to voter approval. The majority of the borough's GO debt is eligible for up to 70% reimbursement of debt service from the state, subject to state appropriation.

Overall debt ratios are low at \$1,258 per capita and 1.4% of market value, and are extremely low net of state reimbursement at \$406 per capita, or 0.5% of market value. Amortization is very rapid with 75% of principal to be retired within 10 years. The borough has \$8.6 million of remaining GO bond authorization.

The borough's annual required contributions to the state's pension and retiree healthcare plans are capped at 22% of payroll, with the state making up the difference between the employer contribution and the annual required contribution. While the pension plan was less than adequately funded at 56.2% in 2011 (based on the Fitch-adjusted 7% investment return rate), the borough's fixed costs should not fluctuate except for increases in payroll. Fiscal 2011 carrying costs for debt service and state pension and other post-employment benefit payments were low at 8.8% of spending and transfers net of state reimbursement.

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