FITCH RATES ALASKA MUNICIPAL BOND BANK AUTHORITY'S $39MM GOS 'AA+'; OUTLOOK STABLE

Fitch Ratings-New York-23 December 2015: Fitch Ratings has assigned an 'AA+' rating to approximately $38.5 million of Alaska Municipal Bond Bank Authority (bond bank) general obligation (GO) and refunding bonds, 2016 series one, issued under the bond bank's 2005 GO bond resolution.

The bonds are expected to sell via competitive bid on Jan. 20, 2016.

The Rating Outlook is Stable.

SECURITY
The bonds are general obligations of the bond bank, for which the state also maintains a standing appropriation of state general fund resources to replenish the bonds' reserve fund in the event of borrower default. This standing appropriation is the basis for the assigned rating on the 2005 resolution bonds.

KEY RATING DRIVERS
STATE ANNUAL APPROPRIATION: The state of Alaska includes as part of its annual debt service appropriation in its operating budget an appropriation for reserve fund replenishment in the event of a draw related to default by a participating municipality (borrower), resulting in a rating one notch below the state's 'AAA' GO rating.

PROVEN STATE SUPPORT AND STRONG REPAYMENT HISTORY: The bond bank's programs have a solid history of debt repayment, and the state of Alaska has a demonstrated history of support for and involvement with the bond bank. The bond bank has consistently worked with the state to strengthen bondholder protections while achieving its programmatic goals. The state's own resources are substantial.

MULTIPLE LAYERS OF SECURITY: Multiple layers of security support bond bank issues in the event of a local government's failure to pay debt service on its obligations to the bond bank. Security enhancements include underlying borrower reserve funds in some cases, bond bank reserve funds, unrestricted assets of the bond bank held in the custodian account, the state's standing appropriation for reserve fund replenishment, the state's statutory moral obligation, and the bond bank's statutory authority to intercept state aid to local governments. Coverage of maximum annual debt service by state aid is substantial.

RATING SENSITIVITIES
The rating is sensitive to movement in the state of Alaska's GO bond rating to which it is linked.

CREDIT PROFILE
The 'AA+' rating is based on the state's commitment to GO bonds of the bond bank issued under the 2005 GO resolution in the form of a standing appropriation of general funds for program reserve fund replenishment. GO bonds issued under the 2005 resolution also incorporate multiple layers of security on both the borrower level and state level. Issuance requires either a borrower's GO or revenue pledge or other evidence of pledged revenues for allowable debt obligations, with a borrower reserve available for revenue bonds. Bond bank borrowers must demonstrate project essentiality and ability to repay in order to access financing. The current bonds will provide funding for four separate projects in the Kenai Peninsula Borough, the city of Klawock, and

Kodiak Island Borough; and refund outstanding bonds issued by the bond bank under its 2005 bond resolution on behalf of the cities of Klawock and Seward.

The bond bank maintains a pooled program reserve fund for the 2005 resolution bonds, funded at approximately $53.6 million as of June 30, 2015. The reserve balance is expected to increase to approximately $60.2 million following the current issuance, with funding comprised of cash deposits from available funds ($37.1 million), cash from bond proceeds ($16.9 million), and surety policies ($6.7 million), including an expected surety policy executed with this issue to meet the reserve fund requirement.

The program reserve fund is backed by a moral obligation of the state established by state statute requiring establishment of a reserve and requiring that the bond bank seek a general fund appropriation in the event of a borrower's payment default. This pledge was strengthened with the bond bank's commitment to seek a standing appropriation for these bonds and the state's subsequent appropriation, beginning in fiscal 2009.

The bond bank was established in 1975 to provide access to low-cost capital financing for Alaska local governments. Not inclusive of the current sale, approximately $995.7 million in 2005 GO resolution bonds are currently outstanding. The bond bank's limit for total bonds outstanding at any one time is almost $1.8 billion; including the current sale, total bonds and obligations outstanding is expected to be just over $1 billion, inclusive of debt issued under the 1976 and 2010 bond resolutions.

BROADENING OF BOND BANK SCOPE

The bond bank was authorized in 2014 to lend up to $87.5 million to the University of Alaska for heating and energy projects, secured by a general revenue pledge from the university. The full authorization for this purpose was issued in August 2015. Additionally, Senate bill 46 was enacted in the 2015 legislative session that permits the issuance of bonds or notes by the bond bank to state joint action agencies under the 2005 resolution. SB 46 also permitted the issuance of bonds or notes secured by a revenue pledge of a regional health organization; however, this issuance would occur under a separate indenture and is subject to certain requirements. While Fitch believes these changes do not impact the rating on the bond bank's obligations, Fitch notes the broadening of the bond bank's role beyond its original scope.

STRONG SECURITY PROVISIONS

As noted above, the moral obligation for the bonds was strengthened by inclusion in the state's annual budget, beginning in fiscal 2010, of an appropriation to restore any deficiency in the 2005 program reserve fund. An appropriation for this purpose was included in the enacted budget for the fiscal year that began on July 1, 2015 and is included in the governor's proposed budget for fiscal 2017. Further protections include a state intercept of local aid for borrowers and the ability to access the bond bank's unrestricted funds held in the custodian account. The custodian account, bolstered by recent state deposits, prior reserve releases, and funded at approximately $13.1 million as of November 30, 2015, is expected to be maintained at this approximate level in future years.

Payments by the borrowers are due seven days prior to debt service payment; there have been no payment defaults under the program to date. Program reserve funding is required at the IRS maximum and following the current issue, the bond bank will have two surety policies meeting a small portion of the funding requirement. The bond bank is considering a gradual move to reserve funding that will be equally comprised of cash and surety policies. Fitch will continue to review the use of surety policies for the reserve requirement in regard to its relationship to our criteria for these types of obligations while noting that the cash-funded custodial account remains available to the bond bank to cure reserve deficiencies.

State statute requires the bond bank chair to certify annually the sum necessary to restore the program reserve to the required level. The appropriation for program reserve replenishment is included in the state's annual operating budget. A supplemental resolution for the 2005 resolution bonds requires the bond bank to seek the appropriation annually.

ALASKA MAINTAINS SIZABLE RESERVES TO MITIGATE CHALLENGES

Alaska's 'AAA' GO rating reflects the state's maintenance of very substantial reserve balances and conservative financial management practices to offset significant revenue volatility linked to oil production from the North Slope and global petroleum price trends. The state prudently dedicated a substantial share of prior years' oil tax revenue to reserves, growing reserves exponentially in advance of expected lower oil production, and continues to employ long-range forecasting of its revenue, expenses, and natural resources industry.

The state has a considerable reliance on oil tax revenue as a funding source for its operating budgets and the sharp drop in crude oil prices in late 2014 caused a revenue shortfall in fiscal 2015 totaling about $3.8 billion (63% of unrestricted general fund expenditures) that was covered by a draw from the state's vast financial reserves and the application of the state's previous forward funding for education expense in fiscal 2016. For the fiscal year that began on July 1, 2015, the state's budget planned for a $2.7 billion draw on reserves to fund operations; the expected draw has now increased to $3.6 billion due to weaker than expected crude oil prices since the budget was enacted.

The governor has proposed an almost $6 billion undesignated General Fund budget for fiscal 2017 that reduces operating expenditures from fiscal 2016 in addition to various proposed tax adjustments, including the institution of a personal income tax, and modifications to the state's oil and tax credit system to reduce expenditures. The budget proposal is premised on a significant realignment in the flow of funds in the state's fiscal structure that transfers price and production volatility in the state's natural resources' industries to the state's Permanent Fund, away from budgetary operations. The intent of the proposal is to apply annual earnings on the Permanent Fund corpus to state operating expenditures. Fitch expects the budget proposal to be discussed in the upcoming 2016 legislative session.

For further information on the state, please see 'Fitch Rates Alaska's $258MM Bonds and BANS; Affirms Outstanding GOs at 'AAA,' dated Feb. 27, 2015, which is available at 'www.fitchratings.com'.

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Date of Relevant Rating Committee: August 19, 2015

Fitch recently published an exposure draft of state and local government tax-supported criteria ("Exposure Draft: U.S. Tax-Supported Rating Criteria," dated Sept. 10, 2015). The draft includes a number of proposed revisions to existing criteria. If applied in the proposed form, Fitch estimates the revised criteria would result in changes to fewer than 10% of existing tax-supported ratings. Fitch expects that final criteria will be approved and published by Jan. 20, 2016. Once approved, the criteria will be applied immediately to any new issue and surveillance rating review. Fitch anticipates the criteria to be applied to all ratings that fall under the criteria within a 12-month period from the final approval date.

Applicable Criteria
Exposure Draft: U.S. Tax-Supported Rating Criteria (pub. 10 Sep 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869942
Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
U.S. State Government Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686033