

FITCH RATES ALASKA MUNICIPAL BOND BANK GOS 'AA'; OUTLOOK STABLE

Fitch Ratings-New York-11 September 2012: Fitch Ratings assigns an 'AA' rating to \$22.095 million of Alaska Municipal Bond Bank general obligation (GO) and refunding bonds, 2012 series three, issued under the bond bank's 2005 GO bond resolution.

The bonds are expected to sell via negotiation the week of Oct. 8, 2012.

In addition, Fitch affirms the following ratings:

- Approximately \$577.9 million in outstanding parity bond bank GO bonds at 'AA';
- Approximately \$4.6 million in outstanding GO bond bank bonds issued under its 2010 bond resolution at 'AA-';
- Approximately \$47.8 million bonds outstanding under various revenue bond resolutions at 'AA-'.

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 'AA+' 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 issuer reserve funds, bond bank reserve funds, the state's standing appropriation for reserve fund replenishment, and the bond bank's statutory authority to intercept aid to local governments. Coverage of maximum annual debt service by state aid is substantial.

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 of the bond bank 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 to access financing. The current new money bonds are made up of an \$11.9 million loan to the city and borough of Juneau for school construction projects and a \$1.15 million loan to the city of Petersburg for a

library construction project. The current issue will also provide funding to refund a general obligation bond of Juneau and refund a U.S. Department of Agriculture loan for Haines Borough.

The bond bank maintains a pooled program reserve fund for the 2005 resolution bonds, funded at approximately \$40.7 million as of Aug. 1, 2012, backed by a moral obligation of the state established by the bond bank's obligation to seek a general fund appropriation in 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 2010.

The 'AA-' rating on bonds issued under the 2010 GO resolution, two notches below the state's GO rating, incorporates the underlying annual appropriation pledge of the local borrowers, in contrast to a GO or revenue pledge under the 2005 GO resolution, as well as the state's moral obligation for reserve fund replenishment. However, the rating also reflects the absence of the bond bank's pledge to seek a standing appropriation for state general fund resources to be used in the event of a program reserve draw. Bonds issued under this resolution did benefit from a standing appropriation in the state's fiscal 2012 and 2013 budgets, and Fitch will evaluate the enhanced security offered to the 2010 resolution bonds should the state continue this standing appropriation in future budgets.

Similarly, the 'AA-' rating on bonds issued under various revenue bond resolutions incorporates many of the same credit factors as those for bonds issued under the 2010 resolution. Issuers' revenue pledge for bond repayment is enhanced by the state's moral obligation pledge for reserve fund replenishment; however, the rating reflects the absence of the bond bank's pledge to seek a standing appropriation for state general fund resources to be used in the event of a program reserve draw. These bonds also benefited from the inclusion of a standing appropriation in the state's fiscal 2012 and 2013 budgets.

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 \$578 million in 2005 GO resolution bonds are currently outstanding; the new bonds are the 24th under the 2005 GO resolution. Total bond bank obligations outstanding at any one time may not exceed \$1 billion; inclusive of the current sale, the total amount outstanding will be approximately \$742 million.

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 program reserve fund. Further protections include a state intercept of local aid for borrowers and the ability to access a bond bank custodian account. The custodian account, funded at \$5.8 million on June 30, 2011, was augmented by a recent deposit of \$16.1 million from a release of excess bond bank reserves due to the defeasance of issues under the 1976 resolution. The bond bank plans to continue to use the custodian account for deposits to fund reserves on future bond issues.

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; the balance is currently cash funded by bond proceeds and bond bank resources although external enhancement may be used. 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 combined with the state's appropriation for its own GO and lease-backed debt. A supplemental resolution requires the bond bank to seek the appropriation annually.

The state's 'AA+' GO rating reflects its moderate debt, conservative financial planning, and very substantial reserve balances. Risks include the volatility inherent in state revenues, which fluctuate significantly with oil prices and production; the state levies no personal income or general sales taxes. Longer-term challenges include the forecasted slow decline in existing oil production and the state's ability to offset it with new oil production or increased economic diversification. For further information on the state, please see Fitch's press release dated Jan. 6, 2012, 'Fitch Rates Alaska GOs 'AA+' Outlook Stable,' available at 'www.fitchratings.com'.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:

- 'Tax-Supported Rating Criteria' (Aug. 14, 2012);
- 'U.S. State Government Tax-Supported Rating Criteria' (Aug. 14, 2012).
- 'Rating Guidelines for Moral Obligations' (April 20, 2012).

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Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

U.S. State Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686033

Rating Guidelines for Moral Obligations

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=676745

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