

FITCH RATES ALASKA MUNICIPAL BOND BANK'S \$35MM GOS 'AA+'; OUTLOOK STABLE

Fitch Ratings-New York-20 May 2013: Fitch Ratings assigns an 'AA+' rating to approximately \$35.44 million of Alaska Municipal Bond Bank general obligation (GO) bonds, 2013 series two, issued under the bond bank's 2005 GO bond resolution. The bonds will be issued in the following two series:

- \$19.495 million GO and refunding bonds 2013A, series two (tax-exempt governmental purpose);
- \$15.945 million GO bonds 2013B, series two (501 (c) (3)).

The par amounts of both series are subject to change. The bonds are expected to sell via negotiation the week of June 3, 2013.

In addition, Fitch affirms the following ratings:

- Approximately \$680.3 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 \$19.3 million in 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 '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 issuer reserve funds, bond bank reserve funds, the state's standing appropriation for reserve fund replenishment, the state's statutory moral obligation, 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 bonds will fund several, separate local government project loans as well as refund approximately \$1.245 million in outstanding series 2002A revenue bonds issued by the bond bank. The project loans are presently estimated as follows:

- \$3.58 million to the city of Homer to fund improvements and expansion of its boat harbor;
- \$13.665 million to the city of Ketchikan to fund improvements and expansion to its electric generation system;
- \$15.805 million to the Kodiak Island Borough for construction of a long-term care facility in the city of Kodiak;
- \$865,000 to the city of Skagway for construction of improvements to the city's boat harbor.

The bond bank maintains a pooled program reserve fund for the 2005 resolution bonds, funded at approximately \$38.9 million as of April 30, 2013, backed by a moral obligation of the state established by state statute requiring establishment of a reserve and 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 2010.

The 'AA' rating on bonds issued under the 2010 GO resolution, two notches below the state's GO rating, has an underlying annual appropriation pledge of the local borrowers and incorporates 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 have benefited from a standing appropriation in the state's recent fiscal year budgets, including the legislatively approved budget awaiting transmittal to the governor for consideration for fiscal 2014.

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 have also benefited from the inclusion of a standing appropriation in the state's recent fiscal year budgets. Following the issuance of the 2013 series two bonds, only two stand-alone revenue bond issues will remain outstanding.

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 \$680 million in 2005 GO resolution bonds are currently outstanding; the new bonds are the 26th under the 2005 GO resolution. Total bond bank obligations outstanding at any one time may not exceed \$1 billion; not inclusive of the current sale, the total amount outstanding as of May 1, 2013 was approximately \$781.4 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 2005 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, bolstered by recent state deposits, prior reserve releases, and funded at approximately \$24.4 million as of April 30, 2013, is expected to be utilized for deposits to the pooled program reserve fund on this, and upcoming, 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; 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 for the 2005 resolution bonds requires the bond bank to seek the appropriation annually.

The state's 'AAA' GO rating reflects its very substantial reserve balances, conservative financial planning, and moderate debt levels. 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 Feb. 28, 2013, "Fitch Rates Alaska's \$150MM GO BANs 'F1+'; Affirms Outstanding GOs at 'AAA'", which is available at 'www.fitchratings.com'.

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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 18, 2013).

Applicable Criteria and Related Research:

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=704882

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