

FITCH RATES ALASKA MUNICIPAL BOND BANK AUTHORITY'S \$58MM GOS 'AA+'; OUTLOOK STABLE

Fitch Ratings-New York-05 February 2015: Fitch Ratings assigns an 'AA+' rating to approximately \$58.075 million of Alaska Municipal Bond Bank Authority (bond bank) general obligation (GO) and refunding bonds, 2015 series one, issued under the bond bank's 2005 GO bond resolution.

The bonds are expected to sell via negotiation on Feb. 18, 2015.

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, 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.

RATING SENSITIVITY

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 fund two separate local

government project loans and refund outstanding bonds issued by the bond bank under its 1976 and 2005 bond resolutions.

The bond bank maintains a pooled program reserve fund for the 2005 resolution bonds, funded at approximately \$50.3 million as of Dec. 31, 2014, 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 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 \$871.8 million in 2005 GO resolution bonds are currently outstanding. Legislation enacted in the 2014 legislative session increased the bond bank's limit for total bonds outstanding at any one time to almost \$1.6 billion from the prior \$1 billion; not including the current sale, total bonds and obligations outstanding as of March 1, 2015 is expected to be approximately \$914.3 million, inclusive of debt issued under the 1976 and 2010 bond resolutions. The same legislation also authorized the bond bank to lend up to \$87.5 million to the University of Alaska for heating and energy projects, secured by a revenue pledge from the university; this approval is included in the newly increased authorization. Fitch believes these changes do not have an adverse effect on the bond bank's credit quality.

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 is included in the governor's budget proposal for the fiscal year beginning July 1, 2015. 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 \$19.1 million as of Dec. 31, 2014, is expected to be used 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, and reserves are 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 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.

The state's 'AAA' GO rating reflects its very substantial reserve balances, conservative financial planning, and moderate debt levels. State revenues are inherently volatile and fluctuate significantly with oil prices and production with no offset by the levy of either personal income or general sales taxes. A very high 88% of the state's unrestricted general fund revenue was derived directly from petroleum-related activity in the fiscal year ending June 30, 2014. A lower oil price environment beginning in October 2014 has resulted in a substantial lowering of the state's revenue forecast in fiscals 2015 and 2016, increasing the anticipated revenue shortfall for fiscal 2015 to approximately \$3.5 billion (58% of unrestricted state General Fund expenditures) and producing a revenue shortfall of almost \$3.4 billion in fiscal 2016. Fitch expects the currently anticipated revenue shortfalls to be covered by draws from the state's vast financial reserves. Additionally, Fitch expects the state to prudently manage draws from its various reserves as warranted, in addition to realigning its discretionary expenditures to achieve budgetary balance.

For further information on the state, please see 'Fitch: Alaska Revises FY2015 Oil Price Forecast; Increases Budget Gap; No Immediate Rating Impact' dated Dec. 11, 2014, 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:

Rating Guidelines for Moral Obligations

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=704882

Tax-Supported Rating Criteria

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

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