Moody's assigns Aa2 rating to Alaska Municipal Bond Bank's $22 million of 2012 Series Three General Obligation Bonds

State's stable outlook applies to current issue and $578 million of outstanding Alaska Municipal Bond Bank parity obligations

ALASKA MUNICIPAL BOND BANK
ALASKA (STATE OF)
State Governments (including Puerto Rico and US Territories) Alaska

Moody's Rating

Issue	Rating
Alaska Municipal Bond Bank General Obligation Bonds, 2012 Series Three	Aa2
Sale Amount $22,095,000	
Expected Sale Date 10/08/12	
Rating Description General Obligation	

NEW YORK, September 12, 2012 -- Moody's Investors Service has assigned a Aa2 rating to the Alaska Municipal Bond Bank's planned issuance of $22 million of General Obligation Bonds, 2012 Series Three. About $578 million of parity bonds issued under the bond bank's 2005 resolution are outstanding. Proceeds of the current issue will be loaned to three municipalities: Haines Borough (unrated), the City of Petersburg (unrated) and the City and Borough of Juneau (Aa3).

SUMMARY RATING RATIONALE

The Aa2 rating is based on the State of Alaska's moral obligation to support the bond bank's debt, as required under the resolution, and statutory provisions that allow the state to provide support. The outlook of the state, which has a Aaa general obligation rating, is stable and applies to the bond bank's debt. The Aa2 rating on the bond bank securities incorporates bond bank program structural elements, such as a state-aid intercept mechanism and, to a lesser degree, the diversity of borrowers in the program.

STRENGTHS

--State's moral obligation to replenish debt service reserve

--Requirement that bond bank annually seek standing appropriation for reserve replenishment

--Requirement that bond bank initiate intercept of borrower's state aid in event of missed payment

--Essentiality of financed projects

--State's broad use of similarly secured moral obligation debt

CHALLENGES

--Requirement for annual legislative authorization of state support

--Potential inclusion of weaker credits in program and concentration of exposure

DETAILED CREDIT DISCUSSION

PROCEEDS WILL FUND NEW PROJECTS, REFINANCE SOME PRIOR DEBT

Current issue proceeds will be used for a combination of new loans and refinancing purposes. Haines Borough will use its estimated $1.29 million of proceeds (about 5.2% of total proceeds, including bond premium) to refinance a US Department of Agriculture loan. Petersburg's $1.3 million (about 5.3%) of proceeds will pay for a new public library. Juneau will allocate about $13.3 million of proceeds to build school facilities and the remaining $9 million to refinance prior debt. After the transaction, the outstanding 2005 Resolution parity debt is estimated to amount to about $600 million. In addition, the bond bank has $78.7 million of 1976 Resolution bonds and $4.6 million of 2010 Resolution bonds outstanding.

ALASKA'S MORAL OBLIGATION TO REPLENISH BOND BANK RESERVE ENHANCES CREDIT

Alaska's statutory ability to lend to the bond bank to replenish debt service reserves is the basis of the state's moral obligation support for the bond bank's general obligation debt. This support greatly enhances the program's credit quality. The legislature may appropriate annually to the bond bank the amount needed to assure the required debt service reserve level is maintained. Statutes also allow the State Commissioner of Revenue to lend surplus money in the general fund to the bond bank for deposit in the reserve fund in an amount equal to the required reserve. Any such state loans would not need to be repaid until obligations of a delinquent governmental unit have been repaid. In addition, these loans can and have been provided for the purpose of funding debt service reserves. The 2005 General Obligation Bond Resolution requires the executive director of the bond bank to request such funds from the state. The executive director is also obligated to initiate proceedings to intercept state funds payable to the delinquent borrowers. In

2009, the 2005 General Bond Resolution was amended so that each year the bond bank seeks advance appropriations for reserve fund replenishment.

PLEDGE OF PARTICIPANTS PROVIDES PRIMARY SECURITY, SUPPORTED BY POOLED RESERVE FUND AND STATE INTERCEPT MECHANISM

Bond bank obligations are primarily secured by a pool of both general obligations and net revenue-supported debt of participant-owned enterprises that provide vital municipal services. Additional security for the current issue is provided by a pooled reserve fund held by the bond bank's trustee. After the current issue, the reserve is expected to contain $41.4 million. Maximum annual debt service on the 2005 resolution bonds including the new issue is estimated at $62.5 million in fiscal 2016. The reserve has been funded with a combination of bond proceeds, available bond bank reserves and loans from the state general fund in 2010 and 2011. In fiscal 2013 the state appropriated $13.2 million to the bond bank to forgive the loans from the state general fund. The bond bank has pledged to replenish this reserve fund, if necessary, from other available sources. These would include a custodian account that represents un-pledged, unreserved investment earnings and bond bank funds previously appropriated by the state legislature for the bond bank. The use of these funds may include reserve fund replenishment or the initial funding of a portion of the reserve accounts of both new general obligation and new revenue bond offerings. The legislature in fiscal years 2009 through 2012 made appropriations to the custodian account, and the legislature included similar provisions in the fiscal 2013 budget. Funds in this account may be appropriated for other uses not related to the bond bank, but there has never been such an appropriation in the program's 36-year history. The balance in the custodian account rose to about $21.9 million following a transfer into the account of $16.1 million on August 13. In connection with the current borrowing, the custodian account will be reduced by $700,000 to provide a reserve deposit. Participant loans secured by enterprise revenues may be issued under separate resolutions, although since 2005 loans secured by enterprise revenues have been issued under the 2005 resolution. Loans secured by enterprise revenues have an additional debt service reserve fund for each loan.

BANK WILL INTERCEPT STATE DISTRIBUTIONS TO BORROWERS IF NECESSARY TO COVER DEBT SERVICE

In the event a participant fails to meet debt service obligations to the bond bank, the bank will intercept certain state payments intended for the participant and redirect them to the trustee for payment of debt service. Such state payments can represent a significant portion of the revenues received by local governments in Alaska, but they are not necessarily sufficient to meet each borrower's full debt service obligation to the bond bank. For Juneau, which accounts for the largest share of loan principal under the 2005 resolution program (about 14% after the current offering), state payments provide more than 8 times coverage.

POOL DIVERSITY HAS IMPROVED

Over time, the successive issues under the 2005 resolution have diluted the concentration of debt supported by the City of Ketchikan. Prior to 2008, Ketchikan represented 32% of the outstanding portfolio, as opposed to 8.7% now. Given the long maturity of Ketchikan's debt, the city will continue to be a significant participant in the portfolio. The three largest participants, after the current financing, are expected to be Juneau (with 14% of the total par), the City and Borough of Sitka (12%) and Kenai Peninsula Borough (10%). We expect future participants to preserve the pool's minimal underlying credit strength. Although portfolio diversification may improve bondholder security, the rating is based primarily on the moral obligation of the state and other structural enhancements.

KEY STATISTICS

Number of participants: 28

Total amount of 2005 resolution bonds outstanding, including current issue: $600 million

Largest participant's share: 14%

Custodian Fund balance (available but not pledged) as of 6/30/11: $5.8 million (audited)

OUTLOOK

The outlook for the State of Alaska, which applies to these bonds, is stable, based on expectations the state will continue to make conservative oil revenue forecasts and plan for the eventual depletion of its oil resources.

WHAT COULD MOVE THE STATE'S RATING DOWN

- Sustained oil price level below projection

- Deterioration in oil output volumes

- Rapid depletion of financial reserves

The principal methodology used in this rating was Moody's Approach to the Moral Obligation Pledge published in June 1999. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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