MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa2 rating to Alaska Municipal Bond Bank's approximately $35 million General Obligation and Refunding Bonds, 2013 Series Two

Global Credit Research - 23 May 2013

State's stable outlook applies to the current offering and to $751 million of outstanding bond bank debt

ALASKA (STATE OF)
Bond Banks/Pool Programs
AK

Moody's Rating

ISSUE		RATING
General Obligation and Refunding Bonds, 2013A Series Two		Aa2
Sale Amount	$19,495,000	
Expected Sale Date	05/31/13	
Rating Description	General Obligation	
General Obligation Bonds, 2013B Series Two		Aa2
Sale Amount	$15,945,000	
Expected Sale Date	05/31/13	
Rating Description	General Obligation	

Moody's Outlook

Opinion

NEW YORK, May 23, 2013 --Moody's Investors Service has assigned a Aa2 rating to the Alaska Municipal Bond Bank's planned $35.44 million of General Obligation and Refunding Bonds, 2013 Series Two. The offering is divided into two parts, as shown above, based on tax status. About $680 million of parity bonds issued under the bond bank's 2005 resolution are outstanding, as well as about $71 million of bonds under other resolutions. Proceeds of the current issue will be loaned to four unrated municipalities: the City of Homer, the City of Ketchikan, the Municipality of Skagway, and Kodiak Island Borough.

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

--Importance 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, amounting to an estimated $41.4 million including premium over face amount, will allow for both new project loans and refinancing of some existing debt. The largest component is a $20 million loan to Kodiak Island Borough for a 22-bed, long-term care facility. The Ketchikan will use about $15 million (36% of proceeds) for hydroelectric power projects. The bond bank will also use almost $1.3 million, subject to market conditions, to refund bonds issued in 2002 associated with a loan to Ketchikan. Homer will use $4.2 million of proceeds (or 10%) for harbor improvements, including replacement of a gangway and improvement of water and power infrastructure. Skagway will use $1 million for dredging and other work on its small-boat harbor. After the transaction, the outstanding 2005 Resolution parity debt is estimated to amount to about $715 million. In addition, the bond bank has $66.3 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 replenish the bond bank's debt service reserves is the basis of the state's moral obligation support for the bond bank's general obligation debt. This mechanism supports the bond bank's credit quality. The legislature may appropriate annually to the bond bank the amount needed to ensure the required debt service reserve level is maintained. Statutes also allow the state's 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, the 2005 General Obligation Bond Resolution requires the executive director of the bond bank to seek a contingent appropriation in the operating budget to cover any possible need to replenish bond bank debt service reserves. Both the current (fiscal 2013) and approved fiscal 2014 state operating budgets include this contingent appropriation. The executive director is further 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 $40.7 million. Maximum annual debt service on the 2005 resolution bonds including the new issue is estimated at $71.8 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 general fund loans. The bond bank has pledged to replenish this reserve fund, if necessary, from other available sources. These sources 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 2013 made appropriations to the custodian account, and the legislature included similar provisions in the fiscal 2014 budget signed into law by the governor on May 21. 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 37-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. The balance was $24.4 million as of April 30, 2013. 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. After the current borrowing, about 58% of the outstanding 2005 resolution bonds will correspond to loans secured by local governments' general obligation. Other pledges include electric system revenues (20%), hospital system revenues (11%) and port or harbor revenues (9.4%).

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 Sitka, which accounts for the largest share of loan principal under the 2005 resolution program (about 16.7%, before the impact of the current offering), state payments in fiscal 2013 provided 7.45 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 7.6% now. Given the long maturity of Ketchikan's debt, the city will continue to be a significant participant in the portfolio. 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.

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

RATING METHODOLOGY

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.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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