MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa2 to Alaska Municipal Bond Bank's $62M 2014 Series One; outlook stable

Global Credit Research - 27 Jan 2014

Bond bank has $832M of similarly secured obligations outstanding

ALASKA (STATE OF)
State Governments (including Puerto Rico and US Territories)
AK

Moody's Rating

ISSUE		RATING
General Obligation Bonds 2014A Series One		Aa2
Sale Amount	$48,320,000	
Expected Sale Date	01/29/14	
Rating Description	General Obligation	
General Obligation Bonds 2014B Series One (Taxable)		Aa2
Sale Amount	$14,090,000	
Expected Sale Date	01/29/14	
Rating Description	General Obligation	

Moody's Outlook STA

Opinion

NEW YORK, January 27, 2014 --Moody's Investors Service has assigned a Aa2 rating to the Alaska Municipal Bond Bank's planned $62.4 million of General Obligation Bonds, 2014 Series One. About $768.8 million of parity bonds issued under the bond bank's 2005 resolution are outstanding, as well as about $63 million of bonds under other resolutions. Proceeds of the current issue will be loaned to the City and Borough of Juneau (Aa3, no outlook) and three unrated municipalities: Kenai Peninsula Borough, King Cove, 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 bond 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 to intercept borrower's state aid in event of missed payment

--Importance of financed projects to diverse local entities

CHALLENGES

--Contingent, subject-to-appropriation nature of state's support

--Potential inclusion of weaker credits in bank's loan program and concentration of exposure

DETAILED CREDIT DISCUSSION

PROCEEDS WILL FUND NEW ENERGY AND EDUCATION PROJECTS

Current issue proceeds, amounting to an estimated $68 million including premium over face amount, will primarily finance new projects of the borrowers. The largest component, about half the proceeds, consists of loans to Kenai Peninsula Borough for construction of a specialty clinical services medical facility for the Central Peninsula Hospital. Kodiak Island Borough's high school building improvements will account for the second-largest portion of proceeds, $25 million. Juneau will use $6 million to build offshore floating docks for cruise ships. King Cove's share, approximately $1.5 million, will be allocated primarily to a hydroelectric project that will reduce the city's reliance on diesel-powered generators. After the current transaction, outstanding 2005 Resolution parity debt will total an estimated $831.2 million. In addition, the bond bank has $58.6 million of 1976 Resolution bonds and $4.4 million of 2010 Resolution bonds outstanding.

ALASKA'S MORAL OBLIGATION TO REPLENISH BOND BANK RESERVE SUPPORTS Aa2 RATING

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. The bank's enabling statute provides for a reserve fund, and says that the state legislature may annually appropriate funds to the bond bank to restore the fund to the amount required under the bond resolution. The 2005 resolution bonds' reserve requirement (defined as the lesser of maximum annual debt service, 125% of average annual debt service or 10% of the initial principal amount of bonds outstanding) is currently met by a $42.5 million reserve. The statutory mechanism through which the state would replenish this reserve has never been tested. The law says that the legislature may appropriate annually to the bond bank the amount needed to ensure that the bank's required debt-service reserve level is maintained. To enhance this support mechanism, the bond bank has modified its bond resolution so that the bank must annually seek an appropriation to cover possible reserve fund draws. Since implementation in 2009, this provision has been part of the state's budget. The current (fiscal 2014) state operating budget includes an appropriation, and we expect the coming year's budget will, also. Another protection for bondholders is the fact that the bank's executive director is obligated to initiate proceedings to intercept state funds payable to any bank borrowers that become delinquent. Also, the Alaska Commissioner of Revenue has the statutory ability to lend state general fund surplus to the bond bank for deposit in the reserve fund. Such state loans do not need to be repaid until the delinquent government unit's obligations have also been repaid. In fiscal 2013, the state appropriated $13.2 million to the bond bank to forgive loans that had been extended to make general reserve deposits.

PLEDGE OF PARTICIPANTS PROVIDES PRIMARY SECURITY, SUPPORTED BY RESERVE FUND

Bond bank obligations are primarily secured by a pool of both general obligations of local governments and net revenue-supported debt of participant-owned enterprises that provide vital municipal services. Additional security for the bonds is provided by a pooled reserve fund held by the bond bank's trustee. Following the issuance of the 2014 Series One bonds, the general reserve's balance is estimated to amount to $45.8 million, or about 55% of maximum annual debt service (MADS) on the 2005 resolution bonds. MADS including the new issue is estimated at $82.3 million. 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. The bond bank has pledged to replenish the reserve fund, if necessary, from other available sources.

CUSTODIAN ACCOUNT CONTAINS FUNDS AVAILABLE FOR RESERVE REPLENISHMENT

Sources available to replenish reserves 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. 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 38-year history. The balance was $24.2 million (unaudited) as of December 31, 2013. The custodian account will provide the approximately $3 million of additional reserve requirement associated with the current bond issue.

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 that is restricted in use to each specific enterprise revenue loan; the current sum of these reserves is approximately $13.8 million, and that sum will increase by about $3.5

million as a consequence of the 2014 Series One bonds. After the current borrowing, about 57% 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 (13%) and port or harbor revenues (9%).

TOP FOUR BORROWERS ACCOUNT FOR 56% OF LOANS

With the sale of the 2014 Series One bonds, there will be four bond bank borrowers that each account for more than 10% of total 2005 resolution loans: Sitka, Kenai Peninsula Borough, Juneau and Kodiak Island Borough. These municipalities, which are subject to increased disclosure requirements by the bond bank, together will have 56% of the total outstanding loan principal. A year ago, these municipalities accounted for only 49% of program loans. Over time, participation by new municipalities may affect bondholder security, although our rating will primarily reflect the state's moral obligation support and other structural enhancements. We expect future participants to preserve the pool's minimal underlying credit strength, and perhaps to reduce the relative exposure of some the current largest participants. Prior to 2008, Ketchikan represented 32% of the outstanding portfolio, and now it only represents 7.6%.

BANK WILL INTERCEPT BORROWERS' STATE PAYMENTS IF NEEDED

Exposure to specific participants is mitigated by the bank's ability to intercept annual state payments due to the municipalities. If a bond bank borrower fails to meet debt service obligations, the bank will intercept certain state payments intended for it 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. For Sitka, which accounts for the largest share of loan principal under the 2005 resolution program (about 16%), state payments in fiscal 2014 provided 6.89 times coverage of fiscal 2014 debt service. For Kenai Peninsula Borough, which represents the second-largest participant in the program, state payments subject to intercept provide 17.2 times coverage. For Juneau, ranked third for its bond bank loan share, coverage is 8.4 times. To date, the bank has not had to implement the intercept mechanism.

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.

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.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Analysts

Edward Hampton
Lead Analyst
Public Finance Group
Moody's Investors Service

Andrew Nowicki
Backup Analyst
Public Finance Group
Moody's Investors Service

Emily Raimes
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA