MOODY'S INVESTORS SERVICE

CREDIT OPINION
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New Issue

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Alaska (State of)

New Issue - Moody's Assigns Aa1 to Alaska's $150M Series 2016B GO Bonds; Outlook Negative

Summary Rating Rationale

Moody's Investors Service has assigned a Aa1 rating to the State of Alaska's $150 million Series 2016B General Obligation Bonds. The outlook is negative.

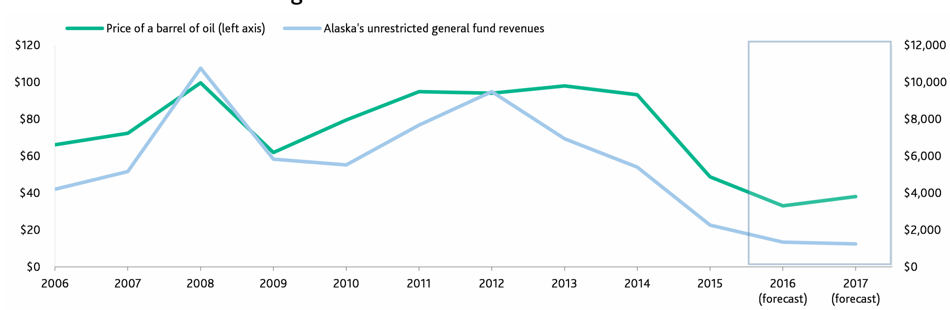
The Aa1 rating reflects our expectation that the state will ultimately find a sustainable solution to the unprecedented structural imbalance facing its general fund.

The decline in energy prices over the past two years has depressed Alaska's revenues significantly, opening a structural imbalance equal to nearly 70% of the budget.

The state has ample financial reserves for now, but with expenditures substantially outpacing revenues, the state would deplete its main budgetary reserves by fiscal 2019, absent significant changes in its financial framework.

We expect such changes will take place, and that the state will regain its financial footing well before its reserves are depleted. In the meantime, risks to the state's fiscal profile and economy are elevated relative to recent history.

Exhibit 1
Alaska's Revenues Have Plunged Amid Decline in Oil Prices



Note: Oil is the spot price of West Texas Intermediate crude oil, which we use here as a proxy for oil prices generally. Oil price forecast is from Moody's; Alaska revenue forecasts are from the state.
Source: State of Alaska; Moody's Investors Service; US Energy Information Administration

Credit Strengths

- Large but shrinking financial reserves
- History of conservative fiscal practices
- Willingness to consider bold changes in fiscal management, such as shifting to a sovereign wealth fund-like model

Credit Challenges

- Unprecedentedly structural budget gap
- Narrow economic base
- Relatively weak pension funding

Rating Outlook

The negative outlook reflects ongoing stress in Alaska's economy and finances caused by extraordinary revenue volatility, with oil prices well below prior forecasts. Absent significant changes, low oil prices will continue to cause large budget deficits, reserve draws, and structural budget gaps of an unprecedented size for a US state.

Factors that Could Lead to an Upgrade

- Record of maintaining structural budget balance
- Record of implementing changes in fiscal management that reduce revenue volatility
- Sustained improvement in pension funding metrics

Factors that Could Lead to a Downgrade

- Failure to implement measures to achieve structural budget balance
- Depletion of financial reserves
- Accelerating declines in petroleum production volume

Key Indicators

Exhibit 2

Volatility in Oil Prices Has a Negative Impact on Alaska's Operating Fund Revenues

Alaska	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Operating Fund Revenues (000s)	9,217,341	10,785,224	8,577,583	7,706,982	3,678,644
Balances as % of Operating Fund Revenues	206.1%	211.0%	301.6%	353.2%	579.0%
Net Tax-Supported Debt (000s)	1,050,800	914,900	1,156,400	1,097,200	N/A
Net Tax-Supported Debt/Personal Income	3.3%	2.8%	3.2%	3.0%	N/A
Net Tax-Supported Debt/Personal Income 50 State Median	2.8%	2.8%	2.6%	2.5%	N/A
Debt/All Governmental Funds Revenue	5.5%	6.8%	7.3%	6.5%	N/A
Debt/All Governmental Funds Revenue 50 State Median	22.7%	24.3%	23.8%	23.0%	N/A
Adjusted Net Pension Liability/All Govt Funds Revenue	55.2%	74.0%	99.3%	85.2%	N/A
Adjusted Net Pension Liability/All Govt Funds Revenue 50 State Median	48.7%	63.9%	60.3%	59.2%	N/A
Total Non-Farm Employment Change (CY)	1.7%	1.5%	0.5%	0.5%	0.4%
*Per Capita Income as a % of US (CY)	113.8%	112.9%	112.0%	114.7%	118.1%

*Economic data for 2015 are as of third quarter 2015
Source: Moody's Investors Service

Recent Developments

The governor in April proposed a "New Sustainable Alaska Plan," representing a fundamental shift in the state's fiscal identity (more detail below). Since that proposal, the legislature has yet to adopt the plan or any alternatives.

Detailed Rating Considerations

Economy

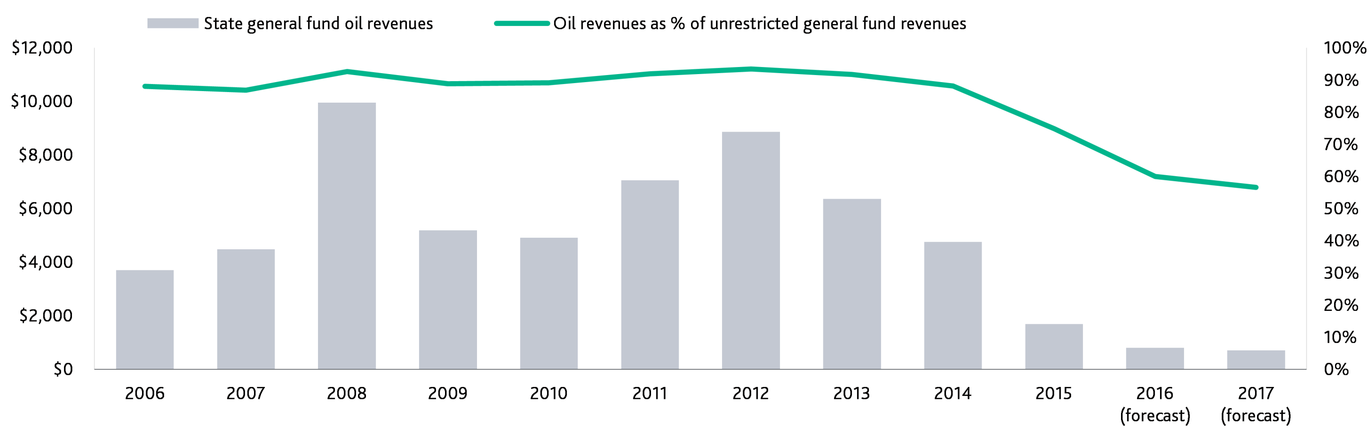
Alaska's economy is concentrated in the energy and government sectors. The state's labor market outperformed the US in the recession and during the recovery as oil prices surpassed $100 per barrel. Since then, employment growth has been slow, reflecting both reductions in federal spending and the steep decline in oil prices. For the last three years, employment in Alaska has grown by less than 0.5% and in recent months, it has been slightly negative. We do not expect employment growth to rebound strongly amid low oil prices, which we expect to persist for several years. The Moody's Investors Service assumptions for crude oil prices are $33 per barrel in 2016, $38 in 2017, $43 in 2018, and $48 in 2019.

Finances and Liquidity

Alaska relies more heavily on petroleum production taxes and royalties to fund government operations than any other oil-producing state. In recent years, as much as 90% of operating revenue was derived from the oil industry, while the other oil states are all less than 20%. As oil prices slid steadily downwards the impact on the state's budget has been severe: general purpose unrestricted revenue has declined by 76% since fiscal 2013, and the state has cut spending by more than a third since then.

Exhibit 3

Alaska's General Fund Revenues Have Been Driven by Oil



Source: State of Alaska

To fund state services, Alaska has relied heavily on its sizeable reserves: the state ended fiscal 2015 with $10.1 billion in the Constitutional Budget Reserve Fund (CBRF) and $7.1 billion in the Permanent Fund Earnings Reserve (PFER). As it uses reserves to fund operations, however, the resulting structural budget gap, 68% based on fiscal 2016 general fund expenditures, is unprecedentedly large for a state. Based on the size of the draws and current spending, the state expects the CBRF to be depleted in fiscal 2019, and in our analysis, this pattern could only be reversed if oil returns to $100.

Exhibit 4
Oil Price Sensitivity & Reserve Depletion Scenarios

Oil Price	Total Unrestricted Revenue	Annual Deficit	Year of Reserve Depletion
$30	$1,040	($3,960)	2020
$40	$1,200	($3,800)	2020
$50	$1,590	($3,410)	2021
$60	$1,990	($3,010)	2022
$70	$2,240	($2,760)	2022
$80	$2,600	($2,400)	2023
$90	$3,300	($1,700)	2026
$100	$4,150	($850)	2036
$110	$5,010	$10	N/A
$120	$5,880	$880	N/A
$130	$6,740	$1,740	N/A

Assumes $5 billion General Fund expenditure base, fiscal 2015 CBRF balance of $10 billion and fiscal 2015 PFER balance of $7 billion.
Source: Moody's Investors Service

The centerpiece of the governor's plan is a proposed use of Permanent Fund investment earnings (calculated on a smoothed return basis). Those monies have historically been restricted and saved. Under the governor's plan, they instead would be transferred to the state's General Fund each year. To accomplish this, the plan would replace the annual dividend paid to Alaska residents from the Permanent Fund's earnings with a smaller dividend paid from half of annual mineral royalty revenues. The remainder of royalty revenue and other production-related revenue, instead of going to the general fund, would be transferred to the Permanent Fund. The estimated annual transfer to support the general fund budget is $3.3 billion, compared to production revenue and reserve draws of $4.4 billion in fiscal 2016. The transfer would come from the PFER. The goal of this new approach is to shield the state's operating budget from volatility in the global commodity markets while still allowing Permanent Fund principal to grow over time.

LIQUIDITY

Alaska has strong liquidity, with $14.8 billion available to the General Fund based on the state's fiscal 2015 audit.

Debt and Pensions

DEBT STRUCTURE

Alaska's debt is relatively low compared to other states, with just more than $1 billion of net tax-supported debt, based on our 2015 state medians. On a per capita basis and as a percentage of personal income, however, the state's debt ratios are above average. Alaska's net tax supported debt per capita is $1,489 (18th) compared to the US median of $1,012. Debt as a percentage of personal income is 3.0% (19th) compared to the US median of 2.5%.

DEBT-RELATED DERIVATIVES

Alaska has no variable rate debt and is not party to any interest rate swaps.

PENSIONS AND OPEB

Alaska has an above-average employee pension burden among the states, based on unfunded liabilities for its share of multi-employer cost sharing plans. For the state's two biggest pension plans, based on our calculations, the state is responsible for 79.6% of PERS funding and 87% of TRS funding. Alaska's overall as-reported net liabilities total $7.7 billion.

The state's adjusted net pension liability (ANPL), under our methodology for adjusting reported pension data, is $14.3 billion, or 85% of all governmental fund revenues, based on fiscal 2014 data, the 15th highest ANPL-to-revenue ratio. The ANPL also amounts to 25% of the state's 2014 GDP, the second highest. Alaska's three-year average ANPL ratio is 80%, 18th highest among the states. Moody's adjusted net pension liability applies a bond index rate to determine the present value of plan liabilities, incorporates the market (rather than actuarial) value of plan assets, and makes certain other changes to improve comparability of reported pension liabilities. The adjustments are not intended to replace Alaska's reported liability information, but to improve comparability with other states. Alaska's share of liability for both pension plans was determined in proportion to its contributions to the plans.

Based on a decision by its Supreme Court, Alaska is one of the few states that constitutionally guarantees other post-employment benefits (OPEB), which consist primarily of retiree healthcare. When the state's ANPL is recalculated to include both the pension and OPEB liability, its pension ratios grow significantly, to 169% of revenue from 85%.

Governance

Alaska adheres to financial best practices such as multi-year financial planning, and the state also has financial flexibility. It has no constitutional caps on revenue raising or on spending, nor does it face super-majority requirements for budget passage or tax increases.

Legal Security

The bonds are general obligations of the state. According to a bond resolution adopted earlier this month, “The full faith, credit and resources of the State are hereby irrevocably pledged for the prompt payment of the principal and interest on the bonds of this issue.”

Use of Proceeds

Proceeds of the 2016B bonds will be used to fund a variety of transportation projects, including a $50 million expansion of the Port of Anchorage and road construction and improvements.

Obligor Profile

Alaska is the largest state based on land mass, but its population ranks 48th among the states, at 738,000. Its GDP ranks 43rd.

Methodology

The principal methodology used in this rating was US States Rating Methodology published in April 2013. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 5

ALASKA (STATE OF)

Issue	Rating
General Obligation Bonds Series 2016B	Aa1
Rating Type	Underlying LT
Sale Amount	$150,000,000
Expected Sale Date	06/27/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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