U.S. PFG RATING COMMITTEE DOCUMENTATION

Date of Initial Rating Committee:	3 March 2014
Reconvene RC Date (if Applicable):	

Issuer Information:	
Issuer (Obligor, if Conduit Borrowing)	Alaska (State of) (600023929)
New Sale Amount (if Applicable)	$170M (Subject to Change)
Debt Outstanding	$143M (2013 outstanding BANs)
Date of Last Report or Rating Committee	3/1/2013 (RC for 2013 BANs)

Recommendation:		
Security Pledge	Current Rating/Outlook	Recommended Rating/Outlook
State's long-term GO	Aaa/Stable	No Action
GO BANs, Series 2014 (Non-Callable)	N/A	MIG 1

Lead Analyst:	Edward Hampton

Primary Methodologies: *(as defined by Credit Policy)*		
		Check if Scorecard or Model is Used
Methodologies Used:	Bond Anticipation Notes and Other Short-Term Capital Financings (May 2007)	☑

Additional Methodologies: *(as defined by Credit Policy)*		
		Check if Scorecard or Model is Used
Additional Methodologies Used:		☐

No Published Methodology (includes no published industry methodology)	☐
More information (in addition to the selected methodologies above) is provided in the Press Release	☐

Statement from the Lead Analyst about Credit Rating Scorecards (CRS) and Credit Rating Models (CRM)	
The Lead Analyst verifies that the CRS and/or CRM used in determining the proposed Credit Rating(s) for this rating committee are the current version downloaded from or referenced on QTools. The CRS and/or CRM have been used in determining the proposed credit rating(s) are listed above.	☑

Composition of Rating Committee	Yes	No
In the opinion of the Chair, did the rating committee attendees possess sufficient depth and breadth of expertise to allow the RC to be properly constituted? If the answer is 'No', briefly describe in the memo what changes if any were made.	◉	○

RATING COMMITTEE MEMO

Rating History		
Rating	Date	Rating Action
MIG 1 (Prior BANs)	3/1/2013	Initial assignment

Proposed Summary Rating Rationale

The MIG 1 rating is supported by Alaska's long-term debt rating of Aaa/stable, which indicates a strong ability to issue debt to provide for note repayment. Alaska's bond sales in recent years show solid market demand, despite the lack of a state tax on personal income. The statute authorizing long-term debt issuance to redeem these notes has already been enacted. In the unlikely event the state cannot access the long-term debt market in advance of the notes' maturity, Alaska's substantial cash reserves could provide for a source of funds for note repayment.

Outlook

Stable

Strengths

-- State's demonstrated ability to access long-term debt markets and superior credit quality
-- Ample financial reserves that could be tapped in the event of market disruption
-- Essentiality of the financed projects, and public support indicated by approval in a public vote

Challenges

--Limited prior experience issuing bond anticipation notes and absence of specific timetable for issuance of long-term debt to replace the BANs
--Lack of specific contingency plans to repay the notes in the event of a market disruption

What Could Move the Rating Up

N/A

What Could Move the Rating Down

-- Declines in state's available resources
-- Market disruption that prevents sale of long-term bonds to replace BANs
-- Failure to execute long-term bond sale in a timely fashion

Key Factual Elements (also known as Section 933)	Data Source	Data Source Comment
Financial information	State CAFR (audit) and offering documents	Offering docs filed on EMMA
Legal provisions	Statue statute, BAN resolution	

**In Addendum, note final key factual elements that were considered by the Committee.*

Competitor Ratings		
Competitor	Rating	Comment
Fitch	F1+	
S&P	SP-1+	

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SUPPLEMENTAL INFORMATION

*This section includes additional facts and analysis for consideration by the rating committee. The inclusion of these sections is subject to analyst discretion.

Issuer Profile/Background

Alaska is comparatively small in population (its 735,132 of 2013 estimated residents ranked 47th among states), but massive in size: its 663,267 square miles make it four times the size of California. The state's land is rich in natural resources, including petroleum, which has been produced on the North Slope since 1977. Taxes and royalties from oil producers (primarily those on the North Slope) account for about 90% of the state's unrestricted general fund revenues. A prior state oil production tax regime, known as Alaska's Clear and Equitable Share (or ACES), was implemented starting in July 2007. ACES levied increasing rates as petroleum prices rose and, because it was in place during the 2008 oil price surge, the state amassed large budgetary reserves that have supported its Aaa rating. Alaska North Slope oil production has been dwindling since 1988, and the state this year replaced ACES with the More Alaska Production Act (or MAPA), to encourage increased production. The state also has plentiful natural gas (an estimated 236 trillion cubic feet of easily-recoverable natural gas) that it plans to liquefy and export (primarily to Asian buyers), though wide commercial sales of these assets remain years away.

Current Offering Profile

The current notes will refinance remaining principal from 2013 BANs (estimated at $142 million, after $7.4 million of cash-funded principal amortization), and also provide funds for the next 12 months of construction. The 2013 BANs mature on March 25. Both the 2013 and 2014 BANs are financing transportation projects authorized by the State Transportation Bond Act.[1] Because the act (approved by voters in November 2012) authorized $453.5 million of state general obligation bonds for specific projects, no further legislative or other approvals are needed to issue long-term debt to repay the BANs. Projects include rebuilding, reconstruction and extension of roads in many municipalities, as well as projects to improve port and harbor access. The largest single project listed in the legislation is $50 million to expand the Port of Anchorage. Other big projects include extending a rail line from Mat-Su Borough to Port Mackenzie ($30 million) and reconstructing part of the Anchorage-Glenn Highway ($35 million). The new BANs will have a March 23, 2015, maturity date. Other features of the notes include:

- State GO: irrevocable pledge of full faith, credit and resources to prompt payment
- Payment not subject to appropriation[2]
- Irrevocable covenant to deposit funds in a note repayment account[3] to pay note principal and interest when due

Finances & Liquidity

Alaska's rating (upgraded to Aaa from Aa1 on November 22, 2010) is supported by unusual liquidity derived from oil -production royalties and taxes. High oil prices buoyed revenues leading up to the state's upgrade, and the Aaa rating indicates our view that Alaska remains positioned to manage fiscal challenges during the next five to 10 years. The state's current available liquidity amounts to approximately $21 billion (unaudited, as of December 31, 2013), consisting of:

Financial Reserve Accounts		12/31/2013 (Unaudited)		6/30/2013 (Audited)
Constitutional Budget Reserve	$	12,224,000,000	$	11,564,000,000
Statutory Budget Reserve	$	4,774,000,000	$	5,488,000,000
Permanent Fund Earnings Reserve	$	4,130,000,000	$	4,093,000,000
Total	**$**	**21,128,000,000**	**$**	**21,145,000,000**

Source: State of Alaska

Alaska's reserves sufficiently protect it from reliance on a revenue system that is vulnerable to both oil market volatility and declining oil output in the North Slope, the state's main production area. While not levying any broad-based income or sales taxes, Alaska continues to pursue revenue diversification by encouraging energy producers to capitalize on the state's natural gas resources, in addition to additional oil fields.

[1] H.B. 286, or Chapter 18, SLA 2012, Sections 1, 3, 4, and 5.

[2] Per A.S. 37.15.012, if state has not appropriated sufficient funds for a fiscal year's GO debt service, "necessary additional amounts are appropriated from the General Fund" to State Bond Committee for all debt service.

[3] The "GO Bond Anticipation Note Account, 2014."

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Management/Governance

Factors relevant to BAN Methodology: Take-Out Management

Alaska's take-out management is somewhat weak, given the lack of articulated alternatives to the planned long-term debt issuance. One alternative that has been considered is the ability to draw on Alaska's ample financial resources to repay the notes if need be.

The state's history of issuing general obligation bonds in recent years indicates strong market acceptance, although history of competitive sales is limited.[4] The state's negotiated sales have been well received by investment banks. For Alaska's most recent GO sales (early last year):

- Series 2013A bonds were 8.18 times subscribed
  - $97.7 million of orders for $11.9 million of bond par amount
- Series 2013B bonds were 3.85 times subscribed
  - $578.9 million of orders for $150.5 million of bond par amount

Authorization risk

The long-term debt intended to provide for payment of the BANs is already enacted, pursuant to the same statute that authorizes issuance of the BANs.

Timing of takeout

The state hasn't issued BANs since the 1970s, so no pattern exists to justify a *typically sells long-term bonds xx days prior to note maturity* statement of the sort used in the scorecard. Based on my discussions with the state debt manager, the state plans to price its long-term debt at least 30 days prior to the notes' maturity, allowing the long-term bond sale to close 15-29 days before the BANs mature. A planned sale 30 days prior to note maturity is consistent with a top (MIG 1) score on this variable, but there is no impact on grid outcome if a MIG 2 score is instead entered.

Liquidity

As already discussed, the state has about $21 billion of available financial reserves. The largest, Constitutional Budget Reserve Fund (CBRF), a rainy day fund, cannot be used without appropriation passed by legislative supermajority (3/4). The reserves are very large in relation to the note principal and to the state's annual budget (the fiscal 2015 proposed budget, including only unrestricted general fund money, is $5.6 billion). The state's $21 billion don't include the main corpus of the state's Permanent Fund, which contains about $44 billion derived from a designated portion of the state's oil rentals, royalties and related revenues. General fund revenues are available for payment of debt service without appropriation, given the GO pledge behind the notes. But even for state reserves that would be subject to appropriation, we believe the projects' essentiality and broad support[5] for the transportation program indicate the legislature would authorize such support if necessary.

[4] According to the state debt manager, the prior competitive GO sale was in 2009, and the state received five bids.

[5] The measure (Alaska Bonding Proposition A) was approved by a margin of 58% to 42%.

Economy/Loan Performance

Other Factors/Recent Developments

A key factor in assessing bond anticipation notes is the issuer's long-term rating. In the case of the State of Alaska, the rating is Aaa, with a stable outlook (*see box*). Under the BAN methodology, a long-term rating in the range of Aa3 to Aaa is consistent with MIG 1. The scorecard's lowest long-term rating for an issuer to receive a MIG 1, without below-the-line adjustments, is A2.

Related/Reference Ratings

Date	Issuer Name	Security	Rating, Outlook
1/4/2013	Alaska (State of)	General Obligation Bonds, Series of 2013B	Aaa, Stable
2/5/2013	Alaska (State of)	Outstanding GO and related debt	Affirmed (Aaa, Stable &c)

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Appendix

Previously Published Rating Report(s):

Moody's assigns MIG 1 to the State of Alaska's planned issuance of $149.6 million of General Obligation Bond Anticipation Notes, Series 2013C (Non-Callable) - (3/1/2013)

Moody's Investors Service has assigned a MIG 1 rating to the State of Alaska's planned $149,645,000 of General Obligation Bond Anticipation Notes, Series 2013C (Non-Callable). The bond anticipation notes (or BANs), which are expected to be sold competitively on March 14, will mature on March 25, 2014. They will provide the initial financing for a $454 million transportation program that voters approved in November.

SUMMARY RATING RATIONALE
The MIG 1 is based on the state's strong ability to issue GO bonds, including those that will provide for note repayment. The ease with which the state should be able to execute a long-term financing to redeem these notes is supported both by Alaska's long-term general obligation rating (Aaa with a stable outlook) and the state's record of successful bond sales. The statutory authorization for the long-term bonds is the same as for the current short-term offering, negating potential authorization risk. Moreover, in the unlikely event of a market dislocation that impedes timely long-term debt issuance, we believe that Alaska's substantial budgetary reserves would allow for note repayment.

STRENGTHS
-- State's demonstrated ability to access long-term debt markets and superior credit quality
-- Ample financial reserves that could be tapped in the event of market disruption
-- Essentiality of the financed projects, and public support indicated by approval in a public vote

CHALLENGES
-- Limited prior experience issuing bond anticipation notes and absence of specific timetable for issuance of long-term debt to replace the BANs
-- Lack of specific contingency plans to repay the notes in the event of a market disruption

DETAILED CREDIT DISCUSSION
NOTES WILL ALLOW INITIAL WORK ON $454 MILLION OF TRANSPORTATION PROJECTS
The notes will provide funding for the initial phase of projects approved by voters in a November 2012 referendum on $454 million of transportation-related debt. The projects include rebuilding, reconstruction and extensions of roads in many municipalities, as well as projects to improve access to ports and harbors and repair or replace bridges. The largest single project listed in the legislation is $50 million to expand the Port of Anchorage. Other large projects would extend a rail line from Matanuska-Susitna Borough to Port Mackenzie ($30 million) and reconstruct part of the Anchorage-Glenn Highway ($35 million).

NOTES BACKED BY STATE G.O.; LONG-TERM CREDIT SUPPORTS STRONG SHORT-TERM RATING
Like the bonds that will ultimately replace them, the notes themselves constitute Alaska G.O. debt. The state irrevocably pledges its full faith, credit and resources to prompt payment of the note principal and interest when due. In general, a BAN issuer's long-term credit standing factors into BAN ratings because it indicates the issuer's likely ease in issuing long-term debt to repay note holders. Alaska on November 22, 2010, was upgraded to Aaa from Aa1. The state's rating, which has a stable outlook, is supported by the financial reserves Alaska has amassed from recent years' oil-production taxes and royalties. Elevated oil prices led to large surpluses, particularly in 2008, which have positioned the state to manage fiscal challenges in the next five to 10 years. We believe Alaska's reserves sufficiently protect it from reliance on a revenue system that is vulnerable to both oil market volatility and to the declining oil output in the North Slope, the state's main production area. The state does not levy any broad-based personal income or sales taxes, and it has not considered implementing such taxes to offset reductions in oil revenue. Instead, the state seeks revenue diversification by encouraging energy producers to exploit the state's large natural gas resources as well as new sources of oil.

ALASKA'S RECORD OF SUCCESSFUL LONG-TERM BOND SALES INDICATES EASE OF MARKET ACCESS
The state's history of issuing long-term bonds in recent years indicates strong market acceptance. Most recently, the state's

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Series 2013A and 2013B GO bonds were well received by investors, in a sale last priced in a negotiated offering month. Given the results of this sale and sales in 2012 and 2010, we believe the state will have little difficulty selling bonds to provide for payment of the current BAN issuance. The state hasn't issued BANs since the 1970s, so there is no established pattern of issuing long-term bonds to repay BANs. The state plans to price long-term debt to redeem these notes at least 30 days prior to the notes' maturity, so the long-term sale closes 15 to 29 days before the BANs mature. Because both the short- and long-term borrowings for the transportation are authorized by the same statute, the subsequent issuance of long-term debt is not subject to authorization risk.

FINANCIAL RESERVES COULD PROVIDE FOR REPAYMENT IN THE EVENT OF A MARKET DISRUPTION
In the event of a bond-market dislocation, one alternative would be a draw on Alaska's financial resources to repay the notes. Alaska's legislatively available reserves amounted to $19.4 billion as of October 31, 2012. This liquidity resides in several funds, including the Constitutional Budget Reserve Fund (CBRF), the state's primary rainy day fund, which had $10.96 billion . Other components included in this balance are $5.49 billion in the Statutory Budget Reserve and $2.98 billion in the Permanent Fund Earnings Reserve. These reserves, which exclude the almost $40 billion of invested assets in the state's Permanent Fund, are very large in relation to the state's annual budget. The legislatively available reserves are about three times the state's annual budget (based on proposed fiscal 2014 general fund expenditures of $6.5 billion). General fund revenues and resources are available for payment of debt service even without appropriation, given the GO pledge behind the notes. But even for state reserves that would be subject to appropriation, we believe the projects' essentiality and broad support for the transportation program indicate that the legislature would authorize such support if necessary.

WHAT COULD MOVE THE RATING DOWN
-- Declines in state's available resources
-- Market disruption that prevents sale of long-term bonds to replace BANs
-- Failure to execute long-term bond sale in a timely fashion

The principal methodology used in this rating was Bond Anticipation Notes and Other Short-Term Capital Financings published in May 2007. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Additional Information:

1. Moody's "Best Practices Guidance for Credit Rating Process" contains additional detailed guidance for rating committee practices and procedures. This document can be found within the Credit Policy site on Moodysnet.
2. Rating Committee Reference Guide Link.

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Ratings Report

Moody's assigns MIG 1 to Alaska's $170M GO Bond Anticipation Notes, Ser. 2014

Moody's Investors Service has assigned a MIG 1 rating to the State of Alaska's planned $170 million of General Obligation Bond Anticipation Notes, Series 2014 (Non-Callable). The bond anticipation notes (or BANs), which are expected to be sold competitively on March 12, will mature on March 23, 2015. They will provide the refinance BANs issued a year (approximately $142 million) and provide additional for the state's $454 million transportation bonding program that voters approved in November 2012.

SUMMARY RATING RATIONALE
The MIG 1 is based on the state's strong ability to issue GO bonds, including those that will provide for note repayment. The ease with which the state should be able to execute a long-term financing to redeem these notes is supported both by Alaska's long-term general obligation rating (Aaa with a stable outlook) and the state's record of successful bond sales. The statutory authorization for the long-term bonds is the same as for the current short-term offering, negating potential authorization risk. Moreover, in the unlikely event of a market dislocation that impedes timely long-term debt issuance, we believe that Alaska's substantial budgetary reserves would allow for note repayment.

STRENGTHS
-- State's demonstrated ability to access long-term debt markets and superior credit quality
-- Ample financial reserves that could be tapped in the event of market disruption
-- Essentiality of the financed projects, and public support indicated by approval in a public vote

CHALLENGES
-- Limited prior experience issuing bond anticipation notes and absence of specific timetable for issuance of long-term debt to replace the BANs
-- Lack of specific contingency plans to repay the notes in the event of a market disruption

DETAILED CREDIT DISCUSSION
NOTES WILL ALLOW INITIAL WORK ON $454 MILLION OF TRANSPORTATION PROJECTS
The notes will provide funding for projects approved by voters in a November 2012 referendum on $454 million of transportation-related debt. A year ago, the state began financing this program through the issuance of $149.65 million of Series 2013C BANs. About $7.5 million of that issue will be paid from current state revenue, and the rest using proceeds of the current sale, which will also provide approximately $27 million for additional project costs. The authorized projects include rebuilding, reconstruction and extensions of roads in many municipalities, as well as projects to improve access to ports and harbors and repair or replace bridges. The largest single project listed in the legislation is $50 million to expand the Port of Anchorage. Other large projects would extend a rail line from Matanuska-

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Susitna Borough to Port Mackenzie ($30 million) and reconstruct part of the Anchorage-Glenn Highway ($35 million).

NOTES BACKED BY STATE G.O.; LONG-TERM CREDIT SUPPORTS STRONG SHORT-TERM RATING
Like the bonds that will ultimately replace them, the notes themselves constitute Alaska G.O. debt. The state irrevocably pledges its full faith, credit and resources to prompt payment of the note principal and interest when due. In general, a BAN issuer's long-term credit standing factors into BAN ratings because it indicates the issuer's likely ease in issuing long-term debt to repay note holders. Alaska on November 22, 2010, was upgraded to Aaa from Aa1. The state's rating, which has a stable outlook, is supported by the financial reserves Alaska has amassed from recent years' oil-production taxes and royalties. Elevated oil prices led to large surpluses, particularly in 2008, which have positioned the state to manage fiscal challenges in the next five to 10 years. We believe Alaska's reserves sufficiently protect it from reliance on a revenue system that is vulnerable to both oil market volatility and to the declining oil output in the North Slope, the state's main production area. The state does not levy any broad-based personal income or sales taxes, and it has not considered implementing such taxes to offset reductions in oil revenue. Instead, the state seeks revenue diversification by encouraging energy producers to exploit the state's large natural gas resources as well as new sources of oil. Part of its strategy to increase oil production is the implementation of a new tax system that took effect this year. The new tax, imposed under the More Alaska Production Act (MAPA), provides for a higher base rate on producer oil profits, while ending the practice under the prior law of assessing incremental taxes as oil's price per barrel rose.

ALASKA'S RECORD OF SUCCESSFUL LONG-TERM BOND SALES INDICATES EASE OF MARKET ACCESS
The state's history of issuing long-term bonds in recent years indicates strong market acceptance. Most recently, the state's Series 2013A and 2013B GO bonds were well received by investors, in a negotiated sale early last year. Given the results of this sale and sales in 2012 and 2010, we believe the state will have little difficulty selling bonds to provide for payment of the current BAN issuance. Last year's BAN offering was the first by Alaska since the 1970s, however. The state lacks an established pattern of issuing long-term bonds to repay BANs. The state plans to price long-term debt to redeem these notes at least 30 days prior to the notes' maturity. Because both the short- and long-term borrowings for the transportation are authorized by the same statute, the subsequent issuance of long-term debt is not subject to authorization risk, however. We would anticipate that the state will issue long- or short-term debt to defease the current BANs, depending on market conditions and other considerations early next year.

FINANCIAL RESERVES COULD PROVIDE FOR REPAYMENT IN THE EVENT OF A MARKET DISRUPTION
In the event of a bond-market dislocation, one alternative would be a draw on Alaska's financial resources to repay the notes. Alaska's legislatively available reserves amounted to $21.1 billion as of December 31, 2013. This liquidity resides in several funds, including the Constitutional Budget Reserve Fund (CBRF), the state's primary rainy day fund, which had $12.2 billion. Other components included in this balance are $4.8 billion in the Statutory Budget Reserve and $4.1 billion in the Permanent Fund Earnings Reserve. These reserves, which exclude the almost $44 billion of invested assets in the state's Permanent Fund, are very large in relation to the state's annual budget. The legislatively available reserves are more than three times the state's annual budget (based on proposed fiscal 2015 unrestricted general fund spending authorization of $5.6 billion). General fund revenues and resources

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are available for payment of debt service even without appropriation, given the GO pledge behind the notes. But even for state reserves that would be subject to appropriation, we believe the projects' essentiality and broad support for the transportation program indicate that the legislature would authorize such support if necessary.

WHAT COULD MOVE THE RATING DOWN
-- Declines in state's available resources
-- Market disruption that prevents sale of long-term bonds to replace BANs
-- Failure to execute long-term bond sale in a timely fashion

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Ratings Report

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