FitchRatings

FITCH RATES ALASKA MUNICIPAL BOND BANK GOS 'AA'; OUTLOOK STABLE

Fitch Ratings-New York-24 August 2010: Fitch Ratings assigns an 'AA' rating to $11.975 million Alaska Municipal Bond Bank (bond bank) general obligation (GO) bonds, consisting of:

--$3 million GO bonds, 2010A series three (tax-exempt bank qualified);
--$8.875 million GO bonds, 2010B series three (taxable).

Precise par amount of each series will be determined on final sale, expected via negotiation the week of Aug. 30, 2010. In addition, Fitch affirms the following ratings:

--Approximately $359.5 million in outstanding parity bond bank GO bonds at 'AA'.

The Rating Outlook is Stable.

RATING RATIONALE:

--The State of Alaska (the state) includes as part of its annual debt service appropriation in its operating budget an appropriation for reserve fund replenishment in the event of a draw related to default by a participating municipality (borrower).
--The bond bank has a strong repayment history and there is demonstrated state support for the program.
--The state's own GO bonds are rated 'AA+' with a Stable Rating Outlook.

KEY RATING DRIVERS:

--Continued support of the program by the state in the form of annual appropriations for potential reserve fund replenishment.
--Changes in the state's GO rating, on which this rating is based.

SECURITY:

General obligations of the bond bank, for which the state also maintains a standing appropriation of state general fund resources to replenish the bonds' reserve fund in the event of borrower default.

CREDIT SUMMARY:

The 'AA' rating is based on the state's commitment to the program in the form of an appropriation of general funds for program reserve fund replenishment. GO bonds of the bond bank are issued under a 2005 resolution that incorporates multiple layers of security on both the borrower level and state level. Issuance requires either a borrower's GO or revenue pledge, with a borrower reserve available for revenue bonds. The bond bank also maintains a pooled program reserve fund, currently funded at about $24 million, backed by a moral obligation of the state to seek a general fund appropriation in event of a borrower's payment default.

The moral obligation was strengthened by inclusion in the annual budget, beginning in fiscal 2010, of an appropriation to restore any deficiency in the program reserve fund. Further protections include a state intercept of local aid for borrowers, and the ability to access a bond bank custodian account, currently funded at $6.5 million. In Fitch's view, the state's standing appropriation for program reserve replenishment in advance of any draw links the credit of the program directly to the state; Fitch rates the state's GO bonds 'AA+'. The bond bank was established in 1975 to provide access to low cost capital financing for Alaska local governments. The 2005 GO resolution replaced a prior 1976 GO resolution and a separate revenue bond program. Approximately $371.5 million in

2005 GO resolution bonds will be outstanding following this sale; the new bonds are the 16th under the 2005 GO resolution.

Borrowers must demonstrate project essentiality and ability to repay to access financing. The current bonds are for projects in three Alaska communities. Payment by the borrower is due seven days prior to debt service payment; there have been no payment defaults under the program to date. Under such a scenario, the trustee would draw from the program reserve and the state would pursue intercept of available state aid. Program reserve funding is required based on one of three tests, currently 125% of average annual debt service. The $24 million balance was funded by bond proceeds and bond bank resources, although external enhancement may be used. State statute requires the bond bank chair to certify annually the sum necessary to restore the program reserve to the required level. The appropriation for program reserve replenishment is combined with the state's appropriation for its own GO and lease-backed debt. A supplemental resolution requires the bond bank to seek the appropriation annually.

The state's 'AA+' GO rating reflects its moderate debt, conservative financial planning, and very substantial reserve balances. Risks include the volatility inherent in state revenues, which fluctuate significantly with oil prices and production; the state levies no personal income or general sales taxes. Longer-term challenges include the forecasted slow decline in existing oil production and the state's ability to offset it with new oil production, as well as progress toward building a long-planned natural gas pipeline. For further information on the state, please see Fitch's rating action commentary of Aug. 24, 2010, 'Fitch Affirms State of Alaska General Obligations at 'AA+' Outlook Stable,' available at 'www.fitchratings.com'.

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Additional information is available at 'www.fitchratings.com'.

Related research:
--'Tax-Supported Rating Criteria', dated Aug. 16, 2010.
--'U.S. State Government Tax-Supported Rating Criteria', dated Dec. 28, 2009.
--'State Credit Enhancement Program Criteria', dated Dec. 16, 2009.

For information on Build America Bonds, visit 'www.fitchratings.com/BABs'.

Related Research:
Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=548605
U.S. State Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=493048
State Credit Enhancement Program Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=491794

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