

FITCH AFFIRMS ALASKA SPORT FISHING REVENUE BONDS AT 'A+'; OUTLOOK STABLE

Fitch Ratings-New York-09 July 2013: Fitch Ratings affirms the 'A+' rating on the State of Alaska's sport fishing revenue bonds, outstanding in the amount of approximately \$39.85 million.

The Rating Outlook is Stable.

SECURITY

The bonds are special, limited obligations of the state secured by a surcharge on sport fishing licenses, and to the extent those are insufficient, receipts from base sport fishing licenses, king salmon stamps, and certain federal grant funds.

KEY RATING DRIVERS

STRONG LEGAL PROTECTIONS: The bond resolution provides for segregation of pledged revenues until minimum balances are met with any excess used to redeem callable bonds. A two-tiered additional bonds test, reserve fund at maximum annual debt service (MADS), and state non-impairment covenants provide bondholder protection.

NARROW PLEDGED REVENUE SOURCE: The pledged revenue stream is narrow and heavily influenced by discretionary tourist activity in the state.

ADEQUATE DEBT SERVICE COVERAGE: Coverage of annual debt service requirements by pledged revenues remains adequate though it has been on a declining trend as fishing activity in the state continues to experience a falloff due to lower than average salmon runs in the south central region of the state following a period of reduced tourism in the downturn. Fitch expects pledged revenues to remain volatile over time, while still providing adequate coverage of debt service.

RATING SENSITIVITY

The rating is sensitive to shifts in pledged sports fishing revenue that have an impact on coverage of debt service obligations. Recent declines in pledged revenue have lowered actual and expected debt service coverage although margins remain. A decline in pledged revenue beyond current expectations could have a negative impact on the assigned rating.

CREDIT PROFILE

The 'A+' rating on the bonds is based on the strong protections built into the bond resolution. Pledged revenues include a surcharge on sport fishing licenses, put in place on Jan. 1, 2006 explicitly to support the debt, providing just over sum sufficient coverage, as well as base sport fishing license revenues, king salmon stamp fees, and federal grant funds that support the state's sport fishing activities. A debt service reserve fund provides additional protection, and no further debt issuance is planned or authorized. The additional bonds test (ABT) is two-tiered, requiring 1.5 times (x) coverage of MADS by pledged surcharge revenue and 2.25x coverage of MADS by all pledged revenue, excluding federal grant revenue. Of note, the first tier of the ABT is not currently being met, as MADS coverage from calendar 2012 surcharge revenue was only 1.2x.

The sport fishing industry is heavily impacted by tourism - 74% of license revenue and 76% of king salmon stamp revenue are from nonresidents - as well as the robustness of the king salmon population. Declines in tourism from the recession, interspersed with declines in south central king salmon runs, have resulted in various declines in surcharge and total pledged revenues, as fewer people purchased these licenses. The average annual decline in pledged revenues between calendar

years 2007 through 2012 was 3.5%. Alaska's department of fish and game reported that early runs of king salmon on the Kenai River in calendar year 2013 were the lowest on record and issued fishing restrictions through the month of June. Other king salmon fishing locations in the state are reporting more robust runs but as the largest share of sports fishing occurs during the summer months and that data is not currently available, it is uncertain as to how the state will fare in calendar 2013. Overall, the state estimates the combined impact of commercial and sport fishing to the state's economy at \$7.4 billion per year.

Surcharge revenue alone in calendar 2012 provided a narrow 1.2x coverage of \$5.1 million in debt service, down from 1.35x in calendar 2007. When all other pledged revenue is considered, however, coverage improves to a solid 3.8x. Debt service is structured as relatively flat to annually declining, with current MADS occurring in 2013 and expected to be covered 1.17x from surcharge revenue and 3.72x from all pledged revenue, assuming a decline for 2013 in line with recent trends. The additional pledged revenues of federal grants, sport fishing license fees, and king salmon stamp fees provide additional support to bond repayment and the state continues to redeem callable bonds from revenue surplus. The portion of federal grants that are eligible to be pledged to the bonds are available for principal repayment only and when excluded from projections, reduce projected coverage in 2013 to 3.35x. Fitch expects the revenue trend to remain volatile yet debt service coverage by all pledged revenues should remain adequate.

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Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. State Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
U.S. State Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686033

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