Current Debt Position

As of June 30, 2014 the State of Alaska ("State") had approximately $1.3 billion in General Obligation debt outstanding. The State has traditionally has adopted a very conservative stance towards general obligation bond funding, as the State employed pay as you go strategy as a primary source of capital.

As of June 30, 2014, the State had additional commitments, included in the calculation of net tax supported debt, of approximately $248 million in Certificates of Participation and $268.8 million of capital lease obligations securitized through political subdivisions that were authorized by Alaska Law.

Rating agency reports have commended the State's conservative financial management, citing a low debt burden and increased reserve amounts to offset any unanticipated shift in the price or production of oil. While the State currently relies on North Slope oil production for revenues, there are long term alternatives being considered in natural gas and mineral production generated revenue, potential implementation of a State-wide broad based tax, and the potential use of earnings of the Permanent Fund to offset costs of government services. The State's current debt position is very conservative and, as a result, the State has maintained a level of flexibility not experienced by many other states in funding for capital projects.

Evidence of the conservative nature of the State's debt practices is witnessed by the relatively low level of debt service as a percentage of unrestricted general fund revenue. While the current State policy is designed to limit this ratio to 8%, for the last ten years the State has remained below 5% and was 3.3% for fiscal year 2013. In addition to the low level of debt service as a percentage of unrestricted general fund revenue, another metric demonstrating the conservative debt position of the State is the trajectory of general obligation debt retirement. Approximately 70% of the current general obligation debt outstanding will amortize and retire over the next 10 years, allowing for increased flexibility for the State to participate and support in large scale projects.

The State has traditionally utilized long-term fixed rate debt in relation to its general obligation bond issuance. This, in turn, has resulted in no exposure to floating or variable rate debt as well as swaps and other derivative products used to hedge interest rate risk. While it is recognized that agencies of the State use variable rate debt and derivative products, no direct exposure exists for the State and the risks associated with such products are not found in the States general obligation bond indebtedness.

The State's ability to fund capital projects with current revenues has played a significant factor in the relatively low level of general obligation debt for the State. The reliance on current revenues has limited the State's need for bond issuance as a funding source and as a result has allowed the State to maintain a flexible debt profile.

Affordable Level of Additional Debt or Obligations

The State of Alaska is 2nd lowest of all the 50 states for debt service as percent of budget/revenues. The range for AAA rated States is 0.9% (Iowa) up to 8.2% (Delaware), so it is very hard to say how much additional debt could result in a downgrade for the State. The State of Alaska was at 1.2% in 2013. However, in other debt ratios, the State is much closer to, and sometimes above, the medians for all states. Median ratings are AA+/Aa1, so the State of Alaska has no capacity to increase debt with the other rating factors (debt as % GDP, personal income, etc.) particularly because the trends have been for these ratios to decrease (i.e. improve credit strength). So, by taking on additional debt, the State would be going against national trends and any capacity vs current medians is likely to decrease. Only four states have debt service ratios above 10%: CT (Aa3), MA (Aa1), IL (A3) and NY (Aa2)—so going above 10% is very unusual and could put the State in a precarious position (again the revenue concentration would most likely be a factor).

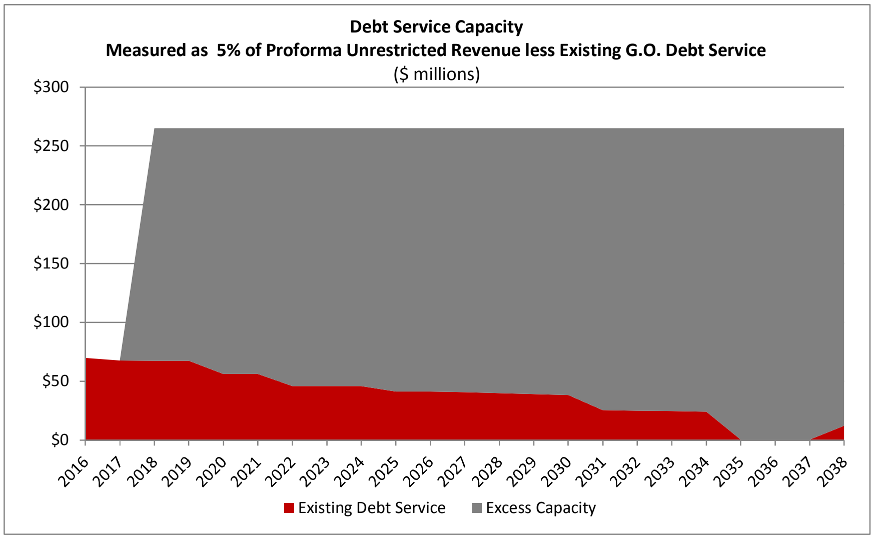
As of result of the above rationale, FirstSouthwest has developed a debt capacity model which will enable the State to calculate its available borrowing capacity to meet its future capital needs. The model results are based on the following constraints:

(Current AAA Rating)

- Debt service in any year cannot exceed the targeted level of 5% of the prior year's revenues;
- All future debt issuances are structured as tax-exempt bonds amortized over 20 years, with level debt service payments;
- All bonds are issued at an assumed interest rate of interest based on the assumed rating; and
- Annual unrestricted revenues available to pay debt service through 2023 are set at amounts stipulated in the Fall 2014 Revenue Sources Book of the Department of Revenue's Tax Division.

Based on these assumptions, FirstSouthwest has determined the State has the capacity to issue up to $3.3 billion in debt over the next 10 years and still meet its 5% debt service ratio. As previously noted, the term "debt" includes all the State's outstanding general obligation and state-supported debt. Lowering the ratio limit below 5% will necessarily reduce the amount of debt that can be borrowed over this time period. Conversely, raising the ratio limit to 8% will produce an additional $2.3 billion of debt capacity over this time period.

The graph below depicts the State's debt service capacity while maintaining the 5% debt service ratio. The red area on the graph shows the State's existing annual general obligation debt service, while the remaining amount, depicted in the graph as the grey shaded area, displays the excess capacity available to the State to accommodate the issuance of up to $3.3 billion in additional debt while still maintaining the 5% debt service ratio and AAA rating.

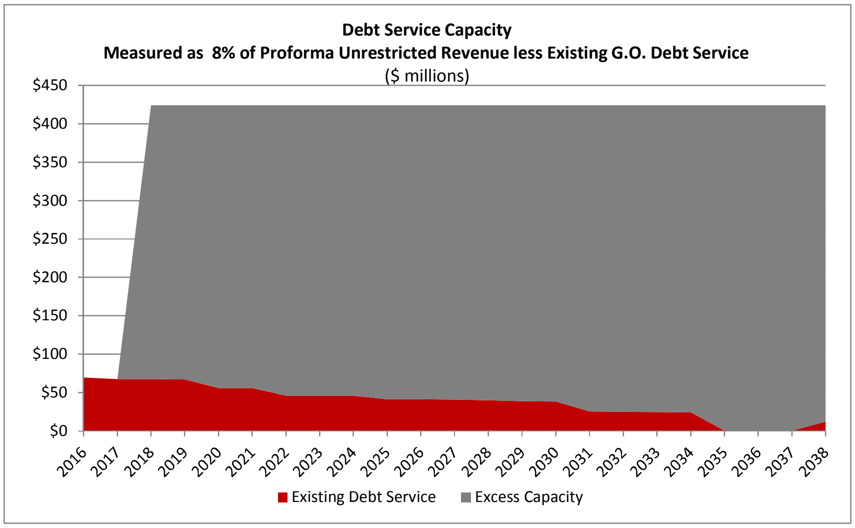


(AA+ Rating)

- Debt service in any year cannot exceed the targeted level of 8% of the prior year's revenues;
- All future debt issuances are structured as tax-exempt bonds amortized over 20 years, with level debt service payments
- All bonds are issued at an assumed interest rate of interest based on the assumed rating; and
- Annual unrestricted revenues available to pay debt service through 2023 are set at amounts stipulated in the Spring 2014 Revenue Sources Book of the Department of Revenue's Tax Division.

Based on these assumptions, FirstSouthwest has determined the State has the capacity to issue up to $5.6 billion in debt over the next 10 years and still meet an 8% debt service ratio, but with the assumption the State will be revised to a AA+ rating. As previously noted, the term "debt" includes all the State's outstanding general obligation and state-supported debt.

The graph below depicts the State's debt service capacity while maintaining the 8% debt service ratio with a AA+. The red area on the graph shows the State's existing annual general obligation debt service, while the remaining amount, depicted in the graph as the grey shaded area, displays the excess capacity available to the State to accommodate the issuance of up to $5.6 billion in additional debt with a 10% debt service ratio and AA+ rating.

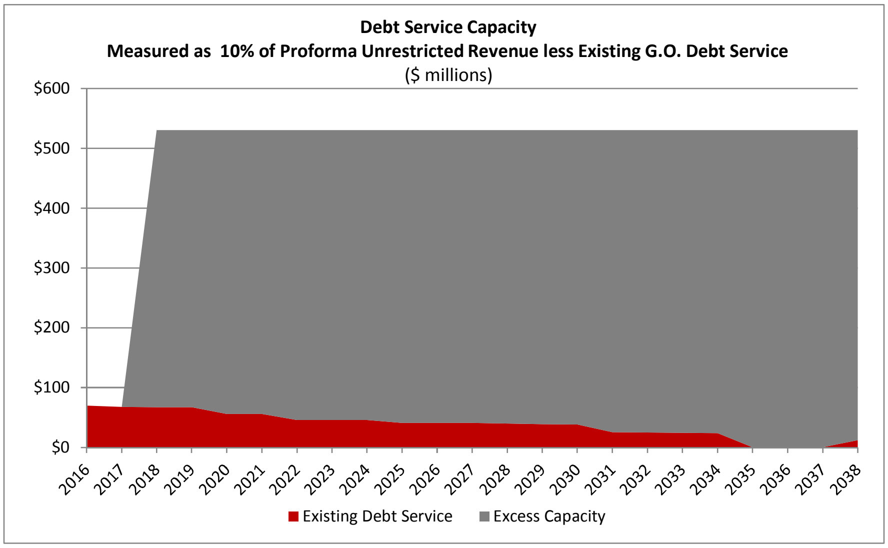


(AA Rating)

- Debt service in any year cannot exceed the targeted level of 10% of the prior year's revenues;
- All future debt issuances are structured as tax-exempt bonds amortized over 20 years, with level debt service payments;
- All bonds are issued at an assumed interest rate of interest based on the assumed rating; and
- Annual unrestricted revenues available to pay debt service through 2023 are set at amounts stipulated in the Spring 2014 Revenue Sources Book of the Department of Revenue's Tax Division.

Based on these assumptions, FirstSouthwest has determined the State has the capacity to issue up to $7.1 billion in debt over the next 10 years and still meet a 10% debt service ratio, but with the assumption the State will be revised to a AA rating. As previously noted, the term "debt" includes all the State's outstanding general obligation and state-supported debt.

The graph below depicts the State's debt service capacity while maintaining the 10% debt service ratio with a AA. The red area on the graph shows the State's existing annual general obligation debt service, while the remaining amount, depicted in the graph as the grey shaded area, displays the excess capacity available to the State to accommodate the issuance of up to $7.1 billion in additional debt with a 10% debt service ratio and AA rating.



Debt Service Capacity
Measured as 10% of Proforma Unrestricted Revenue less Existing G.O. Debt Service
($ millions)
$600
$500
$400
$300
$200
$100
$0
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
2031
2032
2033
2034
2035
2036
2037
2038
Existing Debt Service
Excess Capacity