FITCH RATES ALASKA'S $258MM BONDS AND BANS; AFFIRMS OUTSTANDING GOS AT 'AAA'

Fitch Ratings-New York-27 February 2015: Fitch Ratings has assigned the following ratings to obligations of the state of Alaska:

--$94.91 million general obligation (GO) refunding bonds, series 2015 B rated 'AAA';
--$162.7 million GO bond anticipation notes (BANs), series 2015A (non-callable) rated 'F1+'.

The BANs are expected to sell via competitive bid on March 10, 2015. The bonds are expected to sell via negotiation on or about March 25, 2015.

In addition, Fitch has affirmed the following ratings:

--approximately $803.8 million of outstanding GO bonds at 'AAA';
--approximately $260.5 million of outstanding appropriation bonds and COPs including the Matanuska-Susitna Borough, Alaska Goose Creek Correctional Center Project lease revenue bonds, series 2008, and the Anchorage, Alaska correctional facilities lease revenue refunding bonds series 2005 at 'AA+'.

The Rating Outlook is Stable.

SECURITY
The bonds and BANs are general obligations of the state of Alaska to which the full faith, credit, and resources of the state are pledged.

KEY RATING DRIVERS

VERY LARGE RESERVES: Alaska has set aside very large reserves for unrestricted general fund (UGF) operating needs, principally in the Constitutional Budget Reserve Fund (CBR) and Statutory Budget Reserve Fund (SBR), two of the state's most accessible reserves. The realized earnings reserve of the Alaska Permanent Fund also maintains a substantial, accessible balance that is available to fund operating expenses. The state's reserves provide multiple-times coverage of its debt obligations.

VOLATILITY IN OIL REVENUE: The sharp falloff in crude oil prices, beginning in late 2014, lowered the state's expected UGF revenues, exacerbating an already expected revenue shortfall in fiscal 2015. The state plans to apply funds previously deposited to the SBR and CBR to close the identified gap.

CONSERVATIVE FINANCIAL PLANNING: Conservative financial planning is an essential factor given the state's dependency on energy-related revenues and volatility of energy prices and production. Fitch expects Alaska to manage its reserve funds prudently and promptly adjust its expenditures as needed, consistent with the state's historical practice.

ECONOMY AND FINANCES DEPENDENT ON NATURAL RESOURCES: While both natural resources and the federal government have provided sources of employment and income to Alaska's small population, the volatility inherent in the natural resource industry is the state's area of vulnerability. Petroleum-related revenue accounted for approximately 88% of unrestricted general fund revenue in fiscal 2014.

MANAGEABLE LIABILITY POSITION: Alaska's debt burden is moderate. The state has prudently used available cash to fund its capital needs and cash-defeased outstanding obligations when cost-effective. To bolster the funding of its major statewide pension systems, the state will deposit $3 billion from its CBR in fiscal 2015 to improve the funded ratios. In addition, about half of the state's other post-employment benefit (OPEB) obligations are pre-funded.

SHORT-TERM OBLIGATION: The 'F1+' rating on the notes reflects the security provided by the already voter-authorized issuance of up to $453.5 million of long-term bonds for state transportation capital projects.

RATING SENSITIVITIES

The rating on the GO bonds would be pressured by a prolonged downturn in the natural resources industry, either price or production based, resulting in a sustained reduction in natural resources revenue that is not addressed by state actions to adjust its budget.

The rating on the BANs is sensitive to shifts in the state's GO bond rating to which it is linked.

CREDIT PROFILE

Alaska's 'AAA' GO rating reflects the state's maintenance of very substantial reserve balances and conservative financial management practices to offset significant revenue volatility linked to oil production from the North Slope and global petroleum price trends. For many years, the state has witnessed a gradual decline in production at its oil fields; however, tax revenues to the state have largely continued to increase as a factor of increased prices for Alaska North Slope (ANS) crude oil. The state prudently dedicated a substantial share of its oil tax revenue to reserves and has continued to employ long-range forecasting of its revenue, expenses, and natural resources industry. While the Fall 2014 revenue forecast projects modest increases in production in fiscal years 2016 and 2017, the state continues to forecast production declines over the long term.

As part of the state's long-range planning, reserve balances grew exponentially over the past several fiscal years. The sharp drop in crude oil prices in late 2014 increased an earlier anticipated revenue shortfall in fiscal 2015 to $3.5 billion (58% of unrestricted general fund expenditures) that Fitch expects to be covered by a draw from the state's vast financial reserves. An additional reserve draw of $3.35 billion is projected by the state based on the governor's proposed budget in fiscal 2016. Despite the planned applications, Fitch believes the state is committed to keeping reserve levels high.

Debt practices are conservative, with limited issuance and average amortization. Employment remains generally stable. Although the state has potential exposure to federal employment, its revenue system limits its budget exposure.

RESOURCE-DEPENDENT REVENUE SYSTEM

Alaska's economic and financial performance is tied closely to its natural resource base, typically deriving between 80% and 90% of its UGF revenues from petroleum-related activity. For fiscal 2014, petroleum-related revenue accounted for 88% of UGF revenue. Fluctuating global energy prices have led to sharp surges and drops in the state's unrestricted general fund revenues in related fiscal years, with strong revenue growth through fiscal 2012, together with sizable investment earnings, increasing balances in the state's various reserve funds. The CBR and SBR together grew from $8.1 billion in fiscal 2009 to $17.6 billion in fiscal 2014, despite application of monies from the SBR in fiscal years 2013 and 2014. The SBR needs only a simple legislative majority to access when the state's budget is in a deficit; a 3/4 majority vote of the legislature is required to access the CBR unless the current year's proposed budget is less than the prior year's budget, in which case the simple majority rule applies as well.

Use of the SBR in fiscal 2013 was triggered by lower oil prices and decreased production beyond the state's expectations. Despite the net appropriation of $527 million from the SBR to the UGF for operations, the SBR's balance was able to grow that year to $4.8 billion due to solid growth in investment earnings on the fund. For fiscal 2014, the state expected to apply almost $668 million from the SBR to UGF expenditures of $7.1 billion as a result of an expected drop off in oil production, from 0.538 bbl/day to 0.527 bbl/day. Oil price was forecast at $109.61/bbl that year. Due to a decline in price to $107.57/bbl, only modestly offset by a slight uptick in production beyond original forecast, the state increased its application of the SBR to $1.9 billion that year to balance operations.

As of June 30, 2014, the combined balance of the SBR and CBR was $17.6 billion, although the balance had not yet been reduced by the $1.9 billion appropriation; that true-up occurred during fiscal 2015. Also in fiscal 2014, the state approved the application of $3 billion of the CBR, to occur in fiscal 2015, to bolster the net position of the state's two largest pension systems, general public employees (PERS) and teachers (TRS), as well as lower the annual required contributions to the pension systems. The reduction in future annually required payments provides out-year financial flexibility to the state, in Fitch's opinion; an important consideration as oil production declines and use of these reserves are continued to be forecast.

Effective Jan. 1, 2014, the state's enacted revision of its oil tax policy, the More Alaska Production Act (MAPA), took effect. According to the state, MAPA seeks to spur production by removing the progressive surcharge tied to the value of oil, lower effective tax rates for new oil developments, and provide greater incentives for capital investments. MAPA now taxes oil production on the North Slope of Alaska at 35% of the net value of that production (rather than under the prior taxing system where tax rates increased with additional production), with a credit for each barrel of oil produced and a special reduction in taxes for new oil developments. The state forecasts an increase in capital investments over the next several years under this reform; however, the incentives for increased development are expected to result in some decreases in near-term revenue to the state. In Fitch's opinion, a positive factor of the tax change is the increase in the base tax rate from 25% to 35%, which is beneficial in a low price environment so long as production remains unchanged.

The enacted fiscal 2015 UGF budget incorporated a forecast of oil prices decreasing to $105.06/bbl, with a slight decline in oil production assumed. Fiscal 2015 unrestricted general fund revenues were forecast at $4.5 billion, a 15.3% decline from estimated revenues in fiscal 2014, incorporating the reduced expectation for production tax revenue, decreased revenue related to various tax changes, and the close-out of outstanding capital credits issued under the prior oil production tax system. The enacted $5.9 billion in UGF appropriations (later revised to $6.1 billion) was a substantial decline from the prior year. The enacted budget included a $1.4 billion transfer from the SBR to fund expenditures to offset the lower revenue forecast.

The steep drop in crude oil prices in late 2014 led to the state substantially revising its revenue expectations for the current fiscal year as the average oil price was revised to $76.31/bbl, increasing the anticipated revenue shortfall in fiscal 2015 to $3.5 billion. Currently, the state anticipates depleting the SBR, with a total draw of $3.1 billion, combined with an approximate $412 million draw on the CBR, to close the expected budget gap. Combined with withdrawals for the deposits to the pension systems, the CBR is expected to total approximately $9.5 billion at fiscal year-end.

The state's revised revenue forecast also lowered its price expectation for fiscal 2016 from $107.69 to $66/bbl while estimating higher production from forecast investments on the North Slope and the Cook Inlet. These revisions lowered its revenue forecast for that year by a net $2.5 billion. The governor's budget for fiscal 2016 proposes UGF expenditures of $5.55 billion, a large reduction of 9.1% from the adjusted fiscal 2015 budget, resulting in an operating deficit of $3.35 billion. Again, the state has proposed the application of monies from the CBR to close the operating gap. Through the life of the forecast period, to 2023, the state's price expectations have been reduced, which if proven correct, will result in financial reserves being depleted faster than the state's earlier expectations, in

Fitch's opinion, despite Fitch's expectation that the state will take balancing actions over the period to limit reserve draws and maintain financial flexibility. The legislature is currently considering the governor's proposal.

VERY LARGE RESERVE FUNDS

As noted above, the state has prudently set aside much of its past revenue windfalls in the CBR and SBR. Deposits of surplus funds, dedicated petroleum dispute settlement funds, and significant investment earnings, brought the CBR's balance to over $12 billion and the SBR's balance to $4 billion as of June 30, 2014. In addition, over $1 billion has been set aside for pre-funding school formula payments a year in advance. Additional, accessible balances available to the state include the realized earnings on the corpus of the Alaska Permanent Fund, measuring about $5.9 billion (as of Dec. 31, 2014). These reserves may be accessed by the state by a majority vote of the legislature, with access to the CBR restricted to a three-fourths majority vote of the legislature should the general fund not be in a deficit situation; a simple majority is required in a deficit situation. The pre-funded balance for education, equal to about one year of education expense, does not require a vote of the legislature for its use.

The state has robust multi-year forecasting practices and has long expected that ongoing declines in production would result in a gradual decline in oil tax revenue in forecast years. In turn, the state prudently set aside much of its past revenue windfalls. The state had intended to apply these funds to ease potential expenditure reductions until MAPA incentivized new production. However, the ability to tap these funds for operating expenditures was premised on sustained higher oil prices, and the current low crude oil price is expected to disrupt those articulated plans, in Fitch's opinion. At the end of fiscal 2016, the state currently expects the balance in the CBR to total $6.3 billion and the realized earnings reserve is expected to total $7.2 billion, which Fitch estimates will provide a still very strong 12.5x coverage of currently outstanding GO bond principal.

Fitch expects the state to prudently manage draws from its various reserves as warranted, in addition to realigning its discretionary expenditures to achieve budgetary balance. Access to the Permanent Fund corpus itself would require an amendment to the state's constitution, a path the state has never pursued even during past multi-year periods of low petroleum prices. The Permanent Fund, which receives an annual allocation of state-derived oil royalties, rents, and bonuses, has increased from $29.9 billion in fiscal 2009 to the current $46.5 billion, incorporating sizable investment earnings on the fund's corpus.

MANAGEABLE LIABILITY POSITION

The state is an infrequent debt issuer, meeting most capital needs from current revenues. The debt burden as of June 30, 2014 is manageable, with $1.1 billion in net tax-supported debt measuring 2.9% of personal income after excluding guaranteed debt of the Housing Finance Corporation, which has never required state support, and reimbursable school debt. Fitch notes that the majority of state debt is repaid from petroleum-related revenue, so the debt-to-income ratio is not as meaningful for Alaska as for other states.

Under the new GASB 67 standard for pension systems, PERS reported a 62.4% ratio of pension assets to liabilities in fiscal 2014 with a net pension liability of $4.7 billion; TRS reported a ratio of 55.7% and a net pension liability of $3 billion. Using Fitch's more conservative 7% assumption, these ratios decline to 56.2% and 50.2%, respectively. While not directly comparable, the actuarially determined funded ratio as of June 30, 2013 for PERS was 60.8% and for TRS was 51.9%.

The state has undertaken multiple pension reforms in recent years, including switching to defined contribution plans for new employees beginning July 1, 2006, and legislation enacted in 2007 obligating the state to assume local governments' contributions over a fixed percentage of payroll. The application of $3 billion of CBR funds to the unfunded liabilities of these systems is expected by the state to improve the systems' funded ratios to a projected actuarially determined 71.8% for PERS and 77% for TRS as of June 30, 2015. Healthcare trusts were established for both PERS and TRS and as of June 30, 2014, were funded at 46% and 36.1%, respectively.

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

In addition to the sources of information identified in the Tax-Supported Rating Criteria, this action was additionally informed by information from IHS Global Insight.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria', dated Aug. 14, 2012;
--'U.S. State Government Tax-Supported Rating Criteria', dated 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

ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.