

FITCH RATES ALASKA BOND BANK'S \$26MM GOS 'A+'; OUTLOOK STABLE

Fitch Ratings-New York-17 September 2019: Fitch Ratings has assigned an 'A+' rating to the following general obligation (GO) bonds of the Alaska Municipal Bond Bank Authority (AMBB; the bond bank), issued under the bond bank's 2005 bond resolution:

- \$18.195 million GO bonds, 2019 series three;
- \$4.21 million GO bonds, 2019 series four;
- \$3.66 million GO refunding bonds, 2019 series five.

The 2019 series bonds will provide funding to two communities in the state of Alaska for various capital and construction projects and provide funding to the Kodiak Island Borough to refund a portion of its currently outstanding series 2013 revenue bonds issued through the AMBB. The bonds are expected to sell via negotiation on or about Oct. 22, 2019.

The Rating Outlook is Stable.

SECURITY

The bonds are general obligations of the bond bank, for which the state maintains an annual standing appropriation of state general fund resources to replenish the bonds' reserve fund in the event of borrower default. This standing appropriation is the basis for the assigned rating on the AMBB bonds.

KEY RATING DRIVERS

STATE STANDING APPROPRIATION FOR 2005 RESOLUTION BONDS: The state of Alaska includes, as part of the 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 borrower under the 2005 resolution bonds. This standing appropriation, which the AMBB must request annually pursuant to the resolution for the bonds, provides the basis for the rating, one notch below the state's 'AA-' Issuer Default Rating (IDR).

STRUCTURE ALLOWS FOR TIMELY USE OF STATE FUNDS: Payments by the borrowers under the 2005 resolution are due seven days prior to a debt service payment, providing sufficient time to access bond bank resources, including state general funds, as needed to ensure full and timely payment of debt service.

PROVEN STATE SUPPORT: The state of Alaska has a demonstrated history of support for and involvement with the bond bank. The bond bank has consistently worked with the state to strengthen bondholder protections while achieving its programmatic goals.

ADDITIONAL LAYERS OF PROTECTION: Beyond the annual standing appropriation in the state's operating budget to ensure payment of AMBB obligations, multiple layers of additional protection support bond bank issues.

SUBSTANTIAL ALASKA RESOURCES: The state's own resources remain substantial despite multiple, consecutive years of operating deficits that the state has funded through draws on its accessible reserves. The sustainability of draws on the state's accessible reserves remains a key

credit consideration, and weakness in rates of return, as well as withdrawals that exceed current statutory formulas, would result in escalated reserve depletion and diminished resiliency.

RATING SENSITIVITIES

LINKAGE TO STATE OF ALASKA: The rating on the 2005 resolution bonds is sensitive to movement in the state's IDR, to which it is linked.

STANDING APPROPRIATION: The failure of the state to include an advance appropriation for reserve fund replenishment for the 2005 resolution bonds in its budgets would result in a downgrade of the AMBB bonds.

CREDIT PROFILE

The 'A+' rating is based on the state's commitment to GO bonds of the bond bank in the form of an annual standing appropriation of general funds for reserve fund replenishment.

Additional support for repayment of the bond bank's obligations is provided by underlying reserve funds for most borrowers providing a revenue pledge, bond bank reserve funds, unrestricted assets of the bond bank held in the custodian account, the state's statutory moral obligation commitment, and the bond bank's statutory authority to intercept state aid to local government borrowers. In addition, bond bank borrowers must demonstrate project essentiality and the ability to repay in order to access financing. The bond bank's programs have a solid history of debt repayment

STANDING APPROPRIATION PROVIDES STRONG RESERVE SUPPORT

The bond bank maintains a pooled program reserve fund for the 2005 resolution bonds of \$62 million as of June 30, 2019. The reserve balance at that time was comprised of cash and U.S. Treasury obligations, funded from cash contributions (\$41.6 million) and reserve obligations (\$2.3 million), and surety policies (\$18 million). This reserve fund is separate from reserves established for bonds issued under the bond bank's 2010 and 2016 resolutions (also rated 'A+'). Future reserve deposits are expected to either be funded with unrestricted bond bank funds, issuance of reserve obligations or with surety policies.

Increasing the use of surety policies over time has been considered although surety policies can fully fund the reserve requirement. At this time, the bond bank reports no intention for additional use of sureties. Given the standing appropriation for debt service reserve fund replenishment and the bank's ability to ensure full and timely payment of debt service even in the event of failure of a surety to perform, an increased use of surety policies would not affect Fitch's rating. The cash-funded custodial account and the state department of revenue's ability to loan general fund money to the bank are also available to cure reserve deficiencies.

A failure of the state to include a standing appropriation for the 2005 resolution bonds would result in a downgrade of the rating. The standing appropriation is included in the enacted budget for fiscal 2020. There have been no borrower payment defaults under the program to date, so this appropriation has not been used. Payments by the borrowers under all resolutions are due seven days prior to a debt service payment, providing sufficient timing to access bond bank resources in the event of a missed payment.

Separate, pooled reserve funds have been established under each bond resolution and are set at the lesser of 10% of outstanding bond principal, 125% of average annual debt service or maximum annual debt service.

No additional deposit to the program reserve fund is required by the current issue as existing assets, including cash and surety policies, exceed the post-issuance reserve requirement under the 2005 resolution.

BOND BANK AUTHORIZATION

The bond bank was established in 1975 to provide access to low-cost capital financing for Alaska local governments. Borrowers under the 2005 resolution provide either a GO or a revenue pledge to secure their loan from the AMBB. AMBB is a separately created instrumentality of the state housed within the department of revenue and is managed by department personnel, including the state's debt manager.

Including the current sale, almost \$1 billion in 2005 GO resolution bonds will be outstanding. The bond bank's limit for total bonds outstanding at any one time under all of its resolutions is almost \$1.8 billion; including the current sale, total bonds and obligations outstanding will approximate \$1.1 billion, inclusive of debt issued under the 2010 and 2016 bond resolutions.

Legislative changes to bond bank authorizations have broadened the bond bank's scope, including an outstanding loan to the University of Alaska of \$84.5 million for heating and energy projects. The bank has also issued bonds for regional health organizations (RHO) and is authorized to issue notes or bonds for state joint action agencies and the Alaska Municipal League Joint Insurance Association.

ADDITIONAL PROTECTIONS

The state's moral obligation pledge, which is in addition to the standing appropriation, is included in state statute and requires the bond bank chair to certify by Jan. 30 in each year the amount needed to restore the program reserve to the required level. The act also permits the legislature to make an appropriation to the program reserve. Bond bank resolutions require the bond bank to request annually an appropriation to replenish the reserve fund as necessary. The state has included an advanced appropriation for this purpose for all bond bank obligations in all executive and legislative annual budgets since 2009, including for the current fiscal year.

Further protections include a state intercept of local aid for borrowers and the ability to access the bond bank's unrestricted funds held in the custodian account. As of June 30, 2019, the custodian account was funded at approximately \$8 million and is expected to be maintained at this approximate level in future years, although direct loans by the bond bank and deposits to reserve funds could diminish the custodian account balance.

ALASKA'S GENERAL CREDIT QUALITY

Alaska's 'AA-' IDR, which Fitch downgraded from 'AA' on Sept. 5, 2019, incorporates a deterioration in the state's advancement of financial policies that ensure stable performance and continued resiliency through future economic downturns. Prolonged revenue and economic weakness began in 2013 and was exacerbated by the extended effects of sharply lower crude oil prices beginning in 2014. To date, operating revenue remains anemic, and the administration's commitment to funding a full permanent fund (PF) dividend payment despite projected revenue loss has contributed to the enactment of a fiscal 2020 budget that includes deep cuts to core state services. Fitch expects this will be followed by comparable actions in fiscal 2021.

The state's reliance on reserve fund draws to address large remaining revenue shortfalls is expected to remain a core feature of its budgets as prospects for growth in its petroleum-based operating revenue system are constrained. The state has applied balances in its substantial accessible reserves, principally the Constitutional Budget Reserve Fund and the Statutory Budget Reserve Fund to close budget gaps, including for fiscal 2020, and now relies on its accessible PF earnings reserve, a reserve that accumulates realized earnings on the state's sizable PF, to aid the operating budget and projects a continual reliance on appropriations from this reserve over the medium term.

For further information on the state, please see 'Fitch Downgrades Alaska's IDR to 'AA-'; Outlook Stable' dated Sept. 5, 2019 and available at 'www.fitchratings.com'.

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Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (pub. 03 Apr 2018)
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