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Summary:

Alaska Municipal Bond Bank; Appropriations

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Credit Profile		
US$63.29 mil GO and rfdg bnds ser 2016 SER 2 due 12/01/2035		
Long Term Rating	AA/Negative	New
Alaska Mun Bnd Bank, Alaska		
Alaska		
Alaska Mun Bnd Bank GO		
Unenhanced Rating	AA(SPUR)/Negative	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating and negative outlook to Alaska Municipal Bond Bank's (AMBB) $63.3 million in general obligation (GO) and refunding bonds, 2016 series two. In addition, we affirmed our 'AA' long-term rating and negative outlook on AMBB's existing debt. The bond bank is a public corporation of, and benefits from certain credit support by, the state of Alaska (AA+/Negative).

The ratings reflect our view of the strength of the appropriation pledge and the legislature's demonstrated commitment to include the appropriation in the state's annual operating budget.

The bonds are issued under AMBB's 2005 general bond resolution, which includes a standing appropriation feature that we view as integral to the strength of the bond program. Each year, the AMBB is required to submit a budget request to the state for an appropriation to replenish the debt service reserve (DSR) to its defined level if there is a draw because of borrower default. As it has each year since 2009, the legislature included and the governor signed, in fiscal 2016, within the enacted operating budget, an open-ended appropriation to AMBB's reserve in the event of a borrower default. With the fiscal 2016 operating budget, the state has now included for eight consecutive years a standing appropriation in its operating budget to replenish the reserve should it be used and brought to below the required level. The appropriation is also included in the governor's budget proposal for fiscal 2017. In recent years, the legislature has also appropriated any excess AMBB earnings to the AMBB rather than retain the funds for the state government.

We understand that, in practice, AMBB requires loan payment seven business days in advance of bond debt service, and in the event of a default by one or more of its underlying local government borrowers, it would coordinate with state administrative staff to implement the appropriation and would draw upon the DSR as debt service was due, which would immediately be replenished by the state. (It would simultaneously pursue a remedy to the default through its authority to intercept state aid payments to the borrowing government as provided for in state statute.) And because the debt repayments by local governments occur on a rolling basis throughout the year, the standing appropriation allows AMBB to replenish and to maintain the DSR balance at its required level. Related to this credit strength, in our view, is the diversity of the pool provided by the 37 borrowers, after the 2016 series two bonds are issued, under the 2005 bond bank program.

In addition to the appropriation, AMBB also has additional statutory authority to borrow funds from Alaska's general fund at the discretion of the commissioner of the department of revenue.

During the 2015 legislative session, the state legislature approved Senate Bill 46, which allows AMBB to lend to Joint Action Agencies (JAAs) under the existing borrowing limit that it may borrow under the AMBB's 2005 resolution. It also approved up to $205 million to 13 "regional health organizations" (RHOs) under a separate borrowing limit which may not be incurred under the 2005 resolution. RHOs are nonprofit entities identified in federal law, and created through state statute for the purpose of delivering health care to state residents, in particular to the Alaskan Native population. Pursuant to Senate Bill 46, AMBB is only allowed to make loans to an RHO insofar as the Commissioner of the State's Department of Health And Social Services anticipates that the loan would improve the quality of care while reducing costs to the state. For example, providing care locally to patients located in rural locations could reduce transportation- and lodging-related expenses, a portion of which would otherwise fall to the state. AMBB participation in RHO financings is limited to no more than 49% of a project's cost, where the balance of project funding is secured and no more than $102.5 million per project. JAAs are a form of public utility created per state statute when two or more public utilities purchase power from a power project owned or formerly owned by the Alaska Energy Authority. The legislation also includes some technical amendments to AMBBs governing statutes that are intended to enhance the consistency of terminology with regard to AMBB's borrowers. We anticipate that the AMBB will sell several series of AMBB bonds to finance RHO projects in 2016.

The 2016 series two bonds are the 35th series of bonds issued under the 2005 general bond resolution. The bond bank estimates that, not including the 2016 series two bonds, it will have $987.9 million of bonds outstanding. Once the 2016 series two bonds have been issued, the bond bank estimates it will have $1.06 billion in bonds outstanding. Of this, approximately $1.05 billion will have been issued under the 2005 general bond resolution. In addition, there will be $4.2 million under the 2010 general bond resolution, as well as $10.3 million of Coastal Energy Impact Loan Program obligations outstanding.

The 2016 series two bond proceeds will be used to make loans to the Fairbanks North Star Borough, for various school improvement projects, and to the city of Ketchikan, for capital improvements to the city's harbor infrastructure, as well as to refund all or a portion of the AMBB's 2005 series one bonds.

The bond bank plans to use a surety policy to fund the increase in the common DSR requirement, which, according to the 2005 resolution, is required to equal the lowest of 10% of the principal amount of bonds outstanding, 125% of average annual debt service on all the bonds outstanding, or maximum annual debt service. The bonds are general obligations of AMMB, which receives revenue from a pool of loans to municipalities and investment earnings on assets. Including the series 2016 series one bonds, the reserve requirement will be approximately $63 million. According to the bond bank, as of Feb. 29, 2016, the 2005 reserve fund requirement was approximately $59.9 million. The bond bank has an amount sufficient to satisfy the reserve fund requirement, consisting of the following:

- $37.3 million in funds contributed from the custodian account (the custodian account, which had a balance of $14.2 million as of Feb. 29, 2016, is where AMBB holds retained earnings, current-year investment earnings, or unrestricted funds appropriated to AMBB by the state);

- $15.5 million in reserve obligation proceeds of AMBB; and
- $7.1 million from a surety policy.

In addition to the appropriation support, the bonds are backed by Alaska's moral obligation pledge to maintain a DSR for the bank's bonds and by state aid withholding provisions that, since June 1988, have applied to both GO and revenue bonds issued by the bank. The 2005 resolution established a common reserve fund to comply with a state statute requiring a reserve fund for any bond bank bond issues. Per state statute, on or before Jan. 30 of each year, the bond bank is required to deliver a statement to the governor and state legislature stating the amount, if any, necessary to replenish the reserve fund. If a draw on the reserve fund were to occur, the state legislature might, but is not required to, appropriate funds to replenish it to the required amount. However, we view this provision as having been strengthened by the state's standing appropriation to backfill the DSR. The state aid withholding provisions under the bond bank statute say that aid to municipalities will be withheld and paid directly to the bank if the participating unit defaults in the payment of principal or interest on its bonds held by the bank. The state aid intercept mechanism further strengthens the bonds' credit quality, in our view. The AMBB tracks the amount of state aid subject to intercept relative to the annual loan payment due by each borrower. In all cases, the amount of state aid subject to intercept is greater than the amount of loan payments due by the borrowers. For fiscal 2016, projected coverage on the loan payments provided by the state aid intercept ranges from 0.9x to 2.465x.

For more information on the state GO rating, see the article published March 1, 2016, on RatingsDirect.

Outlook

The negative outlook mirrors our general credit outlook on Alaska. The negative outlook on the state's debt rating reflects the large structural budget deficit in Alaska's unrestricted general fund. Currently, the state is able to finance its operating deficits by withdrawing funds from its budgetary reserves. Alaska had built up large budget reserves that thus far have shielded the state's credit quality from the degradation that the large deficits would inflict on most states' credit quality. But the magnitude of the fiscal deficits makes the arrangement unsustainable and, unless corrected, inconsistent with the current rating. Therefore, we will likely again lower the state's rating--possibly by more than one notch--if state lawmakers do not enact measures to begin correcting the state's fiscal imbalance during its 2016 legislative session.

The typical lag that exists between the enactment of fiscal policy adjustments and when they yield results implies the need for lawmakers to act soon. Therefore, even with its reserve balances at still-strong levels, we would likely lower the state's rating even within the next year if lawmakers defer enacting corrective fiscal policy adjustments.

In the event policymakers continued to take no action, the current initial rating change most likely represents the first step in a downward migration that would likely accelerate as the state's reserve balances approached depletion. If lawmakers succeed in putting the state on what we view as a glide path to a sustainable fiscal structure, with its strong reserve balances still intact, we could revise the outlook to stable.

Related Criteria And Research

Related Criteria

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: U.S. Public Finance Long-Term Municipal Pools, March 19, 2012
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of March 31, 2016)		
Alaska Mun Bnd Bank, Alaska		
Alaska		
Alaska Mun Bnd Bank (Alaska) GO		
Long Term Rating	AA/Negative	Affirmed
Alaska Mun Bnd Bank (Alaska) GO (AMBAC)		
Unenhanced Rating	AA(SPUR)/Negative	Affirmed
Alaska Mun Bnd Bank GO		
Unenhanced Rating	AA(SPUR)/Negative	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.