

RatingsDirect®

Summary:

Alaska Municipal Bond Bank Alaska; Appropriations

Primary Credit Analyst:

Gabriel J Petek, CFA, San Francisco (1) 415-371-5042; gabriel.petek@spglobal.com

Secondary Contact:

David G Hitchcock, New York (1) 212-438-2022; david.hitchcock@spglobal.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Alaska Municipal Bond Bank Alaska; Appropriations

Credit Profile

US\$43.095 mil master resolution GO bnds (Alaska) ser 2016A due 10/01/2024

Long Term Rating

AA/Negative

New

Rationale

S&P Global Ratings assigned its 'AA' rating and negative outlook to Alaska Municipal Bond Bank's (AMBB) \$43.1 million in master resolution general obligation (GO) bonds, series 2016 A. The bond bank is a public corporation of, and benefits from certain credit support by, the state of Alaska.

The rating reflect our view of:

- The state's underlying general creditworthiness (AA+/Negative general obligation, or GO, rating), and
- A resolution provision to annually seek an appropriation to replenish debt service reserve (DSR) to its required level in the event it is drawn upon.

Our rating reflects the strength of the appropriation pledge and the legislature's demonstrated commitment to include the appropriation in the state's annual operating budget. However, the bonds are general obligations of the AMBB, payable from sources pledged under the 2016 master resolution, which assigns borrower payments to the trustee for the repayment of the bonds. The borrower is the Tanana Chiefs Conference (TCC), a regional health organization (RHO).

The series 2016 A bonds are the first to be issued under the AMBB's 2016 master 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 DSR to its defined level if there is a draw because of borrower default. We have confirmed that the DSR balance required under the resolution is greater than any individual semiannual debt service payment. 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. The fiscal 2017 budget under negotiation also includes the appropriation. Upon its enactment, the fiscal 2017 budget would represent the ninth consecutive year the standing appropriation has been included in the state's operating budget to replenish the reserve should it be used and brought to below the required level. 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 borrower loan payments be made seven business days in advance of bond debt service, and in the event of a default by the borrower(s), 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 grant payments to the borrowing RHO as provided for in the resolution.)

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 the issuance of up to \$205 million in bonds to fund loans to 13 RHOs. 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. We anticipate that the AMBB will sell several series of AMBB bonds to finance RHO projects in 2016.

The legislature also approved Senate Bill 46 in 2015, 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. 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.

The series 2016 A bonds are the first series of bonds issued under the 2016 master bond resolution. As of April 1, 2016, the AMBB had \$987.9 million of bonds outstanding under its 2005 general bond resolution. In addition, there was \$4.2 million under the 2010 general bond resolution, as well as \$10.3 million of Coastal Energy Impact Loan Program obligations outstanding.

Proceeds from the series 2016 A bonds will fund a loan to the TCC from the AMBB. Loan proceeds together with a cash contribution from the TCC will be used to refinance the TCC's 2011 bonds, which funded the construction of its Chief Isaac Andrew Health Center. The TCC has pledged its health care revenues to the repayment of its loan to the AMBB. The TCC's health care revenue comprise Medicare, Medicaid, private insurance, and managed care plan-related revenues. Health care revenues are deposited daily into an account held by the trustee, which will withhold on a monthly basis one-sixth of the ensuing semiannual debt service payment.

The bond bank plans to use a combination of cash funding and either reserve obligation proceeds or a surety policy to fund the DSR requirement, which, according to the 2016 master 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.

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. Although the 2016 series A bonds are the first issuance under the 2016 resolution, the 2016 resolution establishes 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.

In the event of a borrower default on a loan payment, the 2016 master resolution permits the AMBB to pursue an intercept of any grant aid from the state to the borrower. The grant intercept provision further strengthens the bonds' credit quality, in our view. The AMBB tracks the amount of state grants subject to intercept relative to the annual loan payment due by each borrower.

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 or subsequent special 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 the state's reserve balances at still-strong levels, we would likely lower the state 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: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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 the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2016 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.