S&P Global
Ratings

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Summary:

Alaska Municipal Bond Bank Alaska; Appropriations

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Summary:

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Credit Profile		
US$84.455 mil GO and rfdg bnds (Alaska) ser 2016 THREE due 12/01/2037		
Long Term Rating	AA/Negative	New
US$28.62 mil GO and rfdg bnds (Alaska) ser 2016 FOUR 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

S&P Global Ratings assigned its 'AA' rating and negative outlook to Alaska Municipal Bond Bank's (AMBB) $113 million in general obligation (GO) bonds, 2016 series three and series four. In addition, we affirmed our 'AA' long-term rating and underlying rating (SPUR, with a 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 rating reflects our view of:

- The state's underlying general creditworthiness, 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.

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 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 monthly semiannual debt service payment. As it has each year since 2009, the legislature included and the governor signed, in fiscal 2017, within the enacted operating budget, an open-ended appropriation to AMBB's reserve in the event of a borrower default. Upon its enactment, the fiscal 2017 budget represented 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 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 31 borrowers 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.

The 2016 series three and series four bonds are the 36th and 37th series of bonds issued under the 2005 general bond resolution. The bond bank estimates that, not including the 2016 series three and four bonds, it will have $1.07 billion of bonds outstanding. Once the 2016 series three and four bonds have been issued, the bond bank estimates it will have $1.08 billion in bonds outstanding. Of this, approximately $1.02 billion will have been issued under the 2005 general bond resolution. In addition, there will be $4.01 million under the 2010 general bond resolution, as well as $10.2 million of Coastal Energy Impact Loan Program obligations outstanding.

The 2016 series three bond proceeds will be used to make a loan to the city and borough of Juneau for renovation costs and to refund bonds previously issued by Juneau in 2006. The 2016 series four bonds will be used to make a loan to the city of Ketchikan for harbor facility improvements. Both the series three and four bonds will be used to refund all or a portion of the outstanding bonds of the bond bank.

The bond bank's debt service reserve requirement 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. According to the state, the deposit to the DSR resulting from issuance of the 2016 three and four bonds, if any, may be provided by bond proceeds, AMBB cash or use of a surety, or a combination thereof. 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 three and four bonds, the reserve requirement will be approximately $60 million. According to the bond bank, as of June 30, 2016, the 2005 reserve fund requirement was approximately $62.9 million. The bond bank has an amount sufficient to satisfy the reserve fund requirement, consisting of the following:

- $36.6 million in funds contributed from the custodian account (the custodian account, which had a balance of $11.2 million (unaudited) as of Aug. 31, 2016, is where AMBB holds retained earnings, current-year investment earnings, or unrestricted funds appropriated to AMBB by the state);
- $15.8 million in reserve obligation proceeds of AMBB; and
- $10.5 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.

For more information on the state GO rating, see the article published Aug. 22, 2016, on RatingsDirect.

Outlook

The negative outlook reflects our view of 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, even with the governor's vetoes for fiscal 2017, makes the arrangement unsustainable and, unless corrected, inconsistent with the current rating. On their current trajectory, the state's deficit financial operations would eventually deplete its budget reserves. Therefore, without structural fiscal reform in the 2017 legislative session, we would likely lower the state debt ratings.

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 intact, we could revise the outlook to stable.

Ratings Detail (As Of September 26, 2016)		
Alaska Mun Bnd Bank, Alaska		
Alaska		
Alaska Mun Bnd Bank (Alaska) approp		
Long Term Rating	AA/Negative	Affirmed
Alaska Mun Bnd Bank (Alaska) approp		
Long Term Rating	AA/Negative	Affirmed
Alaska Mun Bnd Bank (Alaska) approp (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 the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.