Alaska Municipal Bond Bank Authority

New Issue Report

Ratings

New Issue

$12,625,000 General Obligation Bonds, 2018 Series One (AMT)	AA–

Outstanding Debt

General Obligation Bonds (2005 Master Resolution)	AA–
General Obligation Bonds (2010 Master Resolution)[a]	AA–
General Obligation Bonds (2016 Master Resolution)[a]	AA–

[a]Upgraded from 'A+' on Oct. 31, 2018.

Rating Outlook

Stable

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New Issue Summary

Sale Date: Via negotiation, the week of Nov. 12, 2018

Series: $12.625 million Alaska Municipal Bond Bank Authority (AMBB; bond bank) General Obligation (GO) bonds, 2018 Series One (AMT)

Purpose: Provide funding to the city and borough of Sitka for harbor projects and airport renovations.

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.

Analytical Conclusion

The 'AA–' rating on the current issue is based on the state's commitment to the 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.

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).

Upgrades Recognize Standing Appropriation for 2010 and 2016 Resolution Bonds: The upgrade on the 2010 and 2016 resolution bonds recognizes the state’s consistent history of including an annual appropriation for any required reserve fund replenishment on these bonds. This appropriation is anticipated in the 2016 resolution and has been the state’s practice for the 2010 resolution bonds since 2009, even during the state’s periods of fiscal stress. In Fitch Ratings’ opinion, this renders these obligations, like the 2005 resolution bonds, akin to annual appropriation debt of the state, and warrants a rating one notch below the state's IDR.

Structure Allows for Timely Use of State Funds: Payments by the borrowers under all resolutions are due seven days prior to a debt service payment, providing sufficient and timely payment of debt service.

Rating History (2005 Resolution)

Rating	Action	Outlook/ Watch	Date
AA–	Downgraded	Stable	11/02/17
AA	Downgraded	Negative	6/14/16
AA+	Rating Watch	Negative[a]	2/29/16
AA+	Upgraded	Stable	1/07/13
AA	Revised	Stable	4/05/10
AA–	Assigned	Stable	9/10/09

[a]Rating Watch

Related Research

Fitch Rates Alaska Bond Bank's $13MM GOs 'AA-'; Upgrades 2010 and 2016 Resolution Bonds to 'AA-' (October 2018)

Related Criteria

U.S. Public Finance Tax-Supported Rating Criteria (April 2018)

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 Protections: 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 consecutive reserve drawdowns to fund financial operations that were stressed by a prolonged period of lower crude oil prices. A recent boost in oil prices and a restructuring of the state's revenue sources is expected to help stabilize financial operations over the medium term.

Rating Sensitivities

Linkage to State of Alaska: The ratings on obligations of the bond bank are sensitive to movement in the state's IDR to which they are linked.

Standing Appropriation: The failure of the state to include an advance appropriation for reserve fund replenishment for the 2005, 2010 and 2016 resolution bonds in its budgets would result in a downgrade of the AMBB bonds.

Credit Profile

Standing Appropriation Provides Strong Reserve Support

The bond bank maintains a pooled program reserve fund for the 2005 resolution bonds of almost $62 million as of Sept. 30, 2018. The reserve balance at that time was composed of cash and bond proceeds ($44 million) and surety policies ($18 million). The bond bank has indicated its interest in increasing the amount of surety policies to 50% of requirements over time, although surety policies can fully fund the reserve requirement. 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, the increasing use of surety policies does not affect Fitch’s rating. Fitch notes that 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 these bonds would result in a downgrade of the ratings. 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. 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.

Not inclusive of the current sale, almost $970 million in 2005 GO resolution bonds are currently 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 just exceed $1.1 billion, inclusive of debt issued under the 2010 and 2016 bond resolutions.

Recent bond bank authorizations have broadened the bond bank's scope and included the ability to lend up to $87.5 million to the University of Alaska for heating and energy projects. The bank has also been authorized to issue bonds or notes to state joint action agencies as well as to regional health organizations (RHOs).

The 2010 resolution bonds were separately issued because the borrower provided an annual appropriation pledge for repayment, rather than the more typical GO or revenue pledge provided in 2005 resolution bonds. The 2016 bond resolution has been used for RHO bond bank obligations, which are subject to certain limitations and requirements, including a maximum outstanding debt limit of $205 million.

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 seek a general fund appropriation by Jan. 30 in each year to restore the program reserve to the required level. The act also permits the legislature to make an appropriation to the program reserve. As noted above, this pledge has been strengthened with the inclusion of an advanced appropriation 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. The custodian account was funded at approximately $12 million as of August 2018 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 reflects the state's maintenance of very substantial reserve balances to offset volatile financial operations that are greatly affected by oil production from the North Slope and global petroleum price trends. Financial resilience over the past several years has declined as the state struggled with the economic and revenue effects of the downturn in energy markets. Despite significant expenditure reductions, the state relied on one-time resources, primarily reserve fund draws, to address large remaining revenue shortfalls. The state applied balances in its substantial accessible reserves, principally the Constitutional Budget Reserve Fund (CBRF) and the Statutory Budget Reserve Fund (SBRF), to close budget gaps, depleting the SBRF and reducing the balance in the CBRF to a level that greatly reduced the cushion it provides.

In the 2018 legislative session, the state passed the Permanent Fund Protection Act (the Act) to allow draws from the almost $18 billion permanent fund earnings reserve, the "spendable" portion of the larger $65 billion permanent fund, in support of the state's unrestricted general fund (UGF). Combined with the CBRF, these reserves currently equate to more than three times the state's annual UGF budget. Permitted draws under the Act are forecast by the state to increase annually through fiscal 2027, reaching $3.5 billion, but could be reduced should revenue from natural resource development experience more robust growth.

The Act provides for a $2.7 billion draw in support of the fiscal 2019 operating budget to partly close an identified $3.4 billion budget gap, including dividend payments to residents that total $1 billion. The $5.8 billion operating budget accesses funds from the almost $2.8 billion (estimated as of spring 2018) CBRF to close the remaining $679 million shortfall. Based on the current trend of higher global oil prices and absent additional spending by the state, Fitch believes the draw on the CBRF could be less than budgeted; however, the upcoming change in state administration could have an impact on these results as well.

For further information on the state, please see ”Fitch: Depletion of Alaska's PF Earnings Reserve a Possibility,” dated July 2, 2018, and “Fitch Downgrades Alaska's IDR to 'AA'; Rates $29MM AMBB 'AA–'; Outlook to Stable,'” dated Nov. 2, 2017, both available at 'www.fitchratings.com'.

The ratings above were solicited and assigned or maintained at the request of the rated entity/Issuer or a related third party. Any exceptions follow below.