

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-

^aUpgraded from 'A+' on Oct. 31, 2018.

Rating Outlook

Stable

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.

Analysts

Marcy Block
+1 212 908-0239
marcy.block@fitchratings.com

Douglas Offerman
+1 212 908-0889
douglas.offerman@fitchratings.com

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

^aRating Watch

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.

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)

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.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.