

RatingsDirect®

Summary:

Alaska Municipal Bond Bank Alaska; Appropriations

Primary Credit Analyst:

Timothy W Little, New York (212) 438-7999; timothy.little@spglobal.com

Secondary Contact:

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

Table Of Contents

Rationale

Outlook

Summary:

Alaska Municipal Bond Bank Alaska; Appropriations

Credit Profile

US\$37.0 mil GO bnds (Alaska) 2017 ser TWO (AMT) due 05/01/2043

<i>Long Term Rating</i>	AA/Negative	New
-------------------------	-------------	-----

US\$12.5 mil GO bnds (Alaska) 2017 ser ONE due 05/01/2037

<i>Long Term Rating</i>	AA/Negative	New
-------------------------	-------------	-----

Rationale

S&P Global Ratings assigned its 'AA' rating to Alaska Municipal Bond Bank's (AMBB) \$49.5 million in master resolution general obligation (GO) bonds, series 2017 One and Two. The bond bank is a public corporation of, and benefits from certain credit support by, the state of Alaska. The outlook is negative.

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. The governor has proposed a number of reforms for the fiscal 2018 budget that is under review by the legislature. If none of the governor's proposed reforms are adopted and spending is maintained at levels higher than fiscal 2017, fiscal projections from the Office of Management and Budget (OMB) show reserves could be depleted by the end of fiscal 2022. The projections include a full dividend payment, while the governor vetoed half of the 2016 dividend distribution. Therefore, without structural fiscal reform in the 2017 legislative session, we would likely lower our ratings on the state debt.

The rating reflects our view of:

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

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 2005 master resolution, which assigns borrower payments to the trustee for the repayment of the bonds.

The series 2017 One and Two bonds are the 38th and 39th series to be issued under the AMBB's 2005 master bond resolution, which includes the annual 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 2017, within the enacted operating budget, an open-ended appropriation to AMBB's reserve in the event of a borrower default. The fiscal 2018 budget under negotiation also includes the appropriation. On its enactment, the fiscal 2018 budget would represent the tenth consecutive year the standing appropriation has been included in the state's operating budget to replenish the reserve should it be used and brought below the required level. In recent years, the legislature has also appropriated any excess AMBB earnings to the AMBB rather than transfer the funds to the state's general fund as otherwise required by statute.

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 on the DSR as debt service was due, which would immediately be replenished by the state. And because the debt repayments by local governments occur on a rolling basis throughout the year, the standing appropriation allows the 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 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 (DOR).

Series 2017 One proceeds provide new-money loans to Kenai Peninsula Borough (KPB) for Kenai Peninsula South Hospital (\$4.8 million), KPB solid waste improvements (\$6 million), and Seward road improvements (\$3 million). The series 2017 Two proceeds provide new-money loans for port improvements to Unalaska (\$35 million) and for small boat harbor improvements to Whittier (\$2 million), both of which are subject to the alternative minimum tax.

No additional reserve deposit will be required for the 2017 One and Two bonds as existing assets in the 2005 Resolution reserve fund (including cash and DSR sureties) exceed the post-2017 One and Two 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 (MADS). The bonds are general obligations of the AMBB, which receives revenue from a pool of loans to municipalities and investment earnings on assets. According to the bond bank, as of Feb. 28, 2017, the 2005 reserve fund requirement was approximately \$60.9 million. The bond bank has an amount sufficient (\$66.5 million) 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 million [unaudited] as of Feb. 28, 2017, is where AMBB holds retained earnings, current-year investment earnings), or unrestricted funds appropriated to AMBB by the state);
- \$11 million in reserve obligation proceeds of AMBB; and
- \$18 million from a surety policy provided by National Public Finance Guarantee.

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 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 draw due to a borrower default.

In the event of a borrower default on a loan payment, the 2005 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 full analysis on the Alaska Municipal Bond Bank, published Feb. 14, 2017, on RatingsDirect.

Outlook

The negative outlook reflects our view of the large structural budget deficit in Alaska's unrestricted general fund. Currently, the state can finance its operating deficits by withdrawing funds from its budgetary reserves. Alaska had built up large budget reserves that thus far have shielded its credit quality from the degradation that the large deficits would inflict on that of most states. 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. Given 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 clear path to a sustainable fiscal structure, with its strong reserve balances intact, we could revise the outlook to stable.

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 © 2017 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.