

# RatingsDirect®

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## Summary:

# Alaska Municipal Bond Bank Alaska; Moral Obligation

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## Summary:

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Credit Profile		
US\$49.01 mil GO bnds (Alaska) ser 2014A due 03/01/2039		
<i>Long Term Rating</i>	AA+/Stable	New
US\$21.13 mil GO bnds (Alaska) ser 2014B due 03/01/2030		
<i>Long Term Rating</i>	AA+/Stable	New
<b>Alaska Mun Bnd Bank, Alaska</b>		
Alaska		
Alaska Mun Bnd Bank (Alaska) GO		
<i>Long Term Rating</i>	AA+/Stable	Upgraded
<b>Alaska Mun Bnd Bank GO</b>		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded

## Rationale

Standard & Poor's Ratings Services raised its long-term rating on the Alaska Municipal Bond Bank's (AMBB) debt outstanding to 'AA+'.

At the same time, we assigned our 'AA+' long-term rating to AMBB's general obligation (GO) bonds 2014A and B series one. The bond bank is a public corporation of, and benefits from certain credit support by, the state of Alaska (AAA/Stable). The outlook is stable.

The upgrade reflects the strength of the appropriation pledge and legislature's demonstrated commitment to including the appropriation in the state's annual operating budget.

Although the AMBB bonds are backed by a moral obligation of Alaska, the state's 2005 resolution added an appropriation feature. Each year, the AMBB is required to submit a budget request to the state for an appropriation to replenish the debt service reserve (DSR) to its defined level if there is a draw due to borrower default. As of fiscal 2014, the state has included for six consecutive years a standing appropriation in its operating budget to replenish the reserve should it be used and brought to below the required level. The governor's proposed budget for fiscal 2015 again includes the open-ended appropriation for DSR replenishment, should it be necessary. In practice, we understand that the AMBB requires loan payment seven business days in advance of bond debt service, and in the event of a default by one or more of its underlying local government borrowers, it would coordinate with state administrative staff to provide for the implementation of the appropriation, and as debt service was due would draw upon the DSR, which would immediately be replenished by the state. (It would also 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 the AMBB to replenish and 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 39 borrowers under the bond bank program. In addition to the appropriation and moral obligation support, the AMBB also has additional statutory authority to borrow funds from Alaska's general fund at the discretion of the commissioner or the department of revenue.

The 2014 series one bonds are the 28th series of bonds issued under the 2005 general bond resolution. As of Jan. 1, 2014, the bond bank had \$846.91 million of bonds outstanding. This consisted of \$768.82 million of GO bonds outstanding that were issued under its 2005 general bond resolution (excluding the 2014 series one bonds), \$58.58 million of GO bonds outstanding under its 1976 general bond resolution, \$4.44 million of GO bonds outstanding under its 2010 general bond resolution, \$4.39 million of revenue bonds outstanding under its 2004B resolution, and \$10.68 million of Coastal Energy Impact Loan Program obligations outstanding. Including the issuance of the 2014 series one bonds, the AMBB estimates that total outstanding debt will be \$909.21 million.

The 2014 series one bond proceeds will be used to make loans to:

- The city and borough of Juneau for improvements to the city's cruise ship dock;
- The Kenai Peninsula Borough for construction and equipping of a specialty clinics building associated with Central Peninsula Hospital;
- The city of King Cove for improvements to the King Cove hydroelectric system and to refund a previously issued U.S. Department of Agriculture electric loan; and
- The Kodiak Island Borough to continue funding a multiple year project to renovate and expand Kodiak High School.

The bond bank plans to use unrestricted cash to fund the increase in the common debt service reserve requirement, which, according to the 2005 resolution, is required to equal the lesser 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. The bonds are general obligations of the AMMB, which receives revenue from a pool of loans to municipalities and investment earnings on assets. According to the state, as of Dec. 31, 2013, the reserve fund value was approximately \$42.2 million, an amount sufficient to satisfy the reserve fund requirement. The debt service reserve fund will be funded from a contribution from the custodian account. The custodian account is where the AMBB holds retained earnings, current year investment earnings, or funds appropriated to the AMBB by the state. According to the bond bank, as of Dec. 31, 2013, the custodian account market value balance was \$24.2 million.

In addition to the appropriation support, the bonds are backed by Alaska's moral obligation pledge to maintain a debt service reserve 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 with 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.

(For more information on the state GO rating, see the Alaska analysis published Jan. 7, 2013, on RatingsDirect.)

## Outlook

The stable outlook reflects that on the state of Alaska.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: U.S. Public Finance Long-Term Municipal Pools, March 19, 2012
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Moral Obligation Bonds, June 27, 2006

Ratings Detail (As Of January 31, 2014)		
<b>Alaska Mun Bnd Bank, Alaska</b>		
Alaska		
Alaska Mun Bnd Bank (Alaska) GO moral oblig (MBIA) (National)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded
Alaska Mun Bnd Bank (Alaska) GO (AMBAC)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded
Alaska Mun Bnd Bank (Alaska) GO (Moral Ob)		
<i>Long Term Rating</i>	AA+/Stable	Upgraded
<b>Alaska Mun Bnd Bank GO</b>		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded
<b>Alaska Mun Bnd Bank (Alaska) GO</b>		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

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