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Summary:

Alaska Municipal Bond Bank Alaska; Moral Obligation

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Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

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Credit Profile

US\$42.475 mil GO bnds (Alaska) ser 2014-2 due 06/01/2044

Long Term Rating

AA+/Stable

New

Alaska Mun Bnd Bank, Alaska

Alaska

Alaska Mun Bnd Bank GO

Unenhanced Rating

AA+(SPUR)/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to Alaska Municipal Bond Bank's (AMBB) general obligation (GO) bonds, 2014 series two. The bond bank is a public corporation of, and benefits from certain credit support by, the state of Alaska (AAA/Stable). At the same time, Standard & Poor's affirmed its 'AA+' long-term rating and underlying rating (SPUR) on the AMBB's debt outstanding. The outlook is stable.

The ratings reflect our view of 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. With the recently legislatively approved but not yet signed by the governor fiscal 2015 operating budget, the state legislature included an open-ended appropriation to the AMBB's reserve in the event there were a borrower default. The legislature also appropriated any excess AMBB earnings to the AMBB rather than retaining the funds with the state government. With the fiscal 2015 operating budget the state has now included for seven consecutive years a standing appropriation in its operating budget to replenish the reserve should it be used and brought to below the required level.

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 state legislature expanded the AMBB's authority to loan \$87.5 million to make loans to the University of Alaska for heating and energy products through Senate Bill 218. The governor has not yet signed this bill into law.

The 2014 series one bonds are the 29th series of bonds issued under the 2005 general bond resolution. The bond bank estimates that as of June 1, 2014, it will have \$930.9 million of bonds outstanding (including its planned 2014 series two bonds). This consists of \$858.2 million of GO bonds that will be outstanding under its 2005 general bond resolution, \$53.3 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 \$10.58 million of Coastal Energy Impact Loan Program obligations outstanding.

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

- The City of Ketchikan to fund an expansion to the Ketchikan Medical Center,
- The City of Ketchikan for the construction and installation of two replacement floats for the city's mooring facilities at Bar Harbor, and
- The City of King Cove to fund electric system improvement and to retire a loan from the U.S. Department of Agriculture.

The bond bank plans to use unrestricted cash to fund the increase in the common DSR 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. 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 bond bank, as of April 30, 2014, the 2005 reserve fund market value was approximately \$44.95 million, an amount sufficient to satisfy the reserve fund requirement. The DSR 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 April 30, 2014, the custodian account market value balance was \$21.3 million.

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 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 article published March 3, 2014, on RatingsDirect.

Outlook

The stable outlook on the AMBB's bonds reflects the stable outlook on the state GO rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

U.S. State And Local Government Credit Conditions Forecast, April 7, 2014

Ratings Detail (As Of May 27, 2014)		
Alaska Mun Bnd Bank, Alaska		
Alaska		
Alaska Mun Bnd Bank (Alaska) GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Alaska Mun Bnd Bank (Alaska) GO bnds (Alaska) ser 2014A due 03/01/2039		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Alaska Mun Bnd Bank (Alaska) GO bnds (Alaska) ser 2014B due 03/01/2030		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Alaska Mun Bnd Bank (Alaska) GO moral oblig (MBIA) (National)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Alaska Mun Bnd Bank (Alaska) GO (AMBAC)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Alaska Mun Bnd Bank (Alaska) GO (Moral Ob)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Alaska Mun Bnd Bank GO		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Alaska Mun Bnd Bank (Alaska) GO		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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