

# Alaska Municipal Bond Bank Authority

## New Issue Report

### Ratings

#### New Issues

\$25,830,000 Alaska Municipal Bond Bank Authority General Obligation Bonds, 2019 Series One (Non-AMT)	AA-
\$3,695,000 Alaska Municipal Bond Bank Authority General Obligation Bonds, 2019 Series Two (Federally Taxable)	AA-

#### Outstanding Debt

General Obligation Bonds (2005 Master Resolution)	AA-
General Obligation Bonds (2010 Master Resolution)	AA-
General Obligation Bonds (2016 Master Resolution)	AA-

#### Rating Outlook

Stable

### New Issue Summary

**Sale Date:** Via negotiation, the week of April 15, 2019.

**Series:** \$25,830,000 Alaska Municipal Bond Bank Authority General Obligation (GO) Bonds, 2019 Series One (Non-AMT) and \$3,695,000 Alaska Municipal Bond Bank Authority General Obligation Bonds, 2019 Series Two (Federally Taxable).

**Purpose:** To provide funding to four communities in the state of Alaska for various capital and construction projects, and provide funding to the Southeast Alaska Power Agency to refund its currently outstanding series 2009 bonds.

**Security:** The bonds are general obligations of the Alaska Municipal Bond Bank Authority (AMBB, or 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 is based on the state's commitment to 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).

**Structure Allows For Timely Use of State Funds:** Payments by the borrowers under the 2005 resolution are due seven days prior to a debt service payment, providing sufficient time to access bond bank resources, including state general funds, as needed to ensure full and timely payment of debt service.

**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.

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**Rating History**

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	10/31/18
AA	Downgraded	Stable	11/2/17
AA+	Downgraded	Negative	6/14/16
AAA	Affirmed	Negative <sup>a</sup>	2/29/16
AAA	Upgraded	Stable	1/7/13
AA+	Revised	Stable	4/5/10
AA	Affirmed	Stable	4/13/06
AA	Assigned	—	5/2/94

<sup>a</sup>Rating Watch.

**Additional Layers Of Protection:** 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 increase in oil prices and a restructuring of the state's revenue sources are expected to help stabilize financial operations over the medium term.

**Rating Sensitivities**

**Linkage to State Of Alaska:** The rating on the 2005 resolution bonds is sensitive to movement in the state's IDR to which it is linked.

**Standing Appropriation:** The failure of the state to include an advance appropriation for reserve fund replenishment for the 2005 resolution bonds in its budgets would result in a downgrade of the AMBB bonds by Fitch Ratings.

**Credit Profile**

**Standing Appropriation Provides Strong Reserve Support**

The bond bank maintained a pooled program reserve fund for the 2005 resolution bonds of \$62 million as of Dec. 31, 2018. The reserve balance at that time comprised cash and U.S. Treasury obligations, funded from cash contributions (\$38 million) and reserve obligations (\$6 million), and surety policies (\$18 million). This reserve fund is separate from the reserves established for bonds issued under the bond bank's 2010 and 2016 resolutions (also rated 'AA-'). On March 8, 2019, the bond bank used unrestricted funds to optionally redeem \$4.4 million of the reserve obligations outstanding on Dec. 31, 2018. The bond bank reports plans to pay at maturity or optionally redeem the remaining reserve fund obligations over the next four years.

The bond bank has considered increasing the amount of surety policies to a level up to 50% of requirements, although surety policies can fully fund the reserve requirement. The bond bank reports added use of surety policies is dependent on future activity and relates no plans to transact additional policies at this time. 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, an increased use of surety policies would not affect Fitch's rating. 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 the 2005 resolution bonds would result in a downgrade of the rating. The standing appropriation is included in the governor's executive proposed budget for fiscal 2020. 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.

**Related Research**

[Fitch Rates Alaska Bond Bank's \\$30MM GOs 'AA-'; Outlook Stable \(April 2019\)](#)

**Related Criteria**

[U.S. Public Finance Tax-Supported Rating Criteria \(April 2018\)](#)

Separate, pooled reserve funds have been established under each bond resolution and are set at the lowest 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, approximately \$1 billion 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 (RHO).

### **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 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. This pledge has included 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 is currently funded at approximately \$8 million 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 provides much reduced cushion.

In the 2018 legislative session, the state passed the Permanent Fund Protection Act (the act) to allow draws from the Permanent Fund Earnings Reserve (PFER; balance of almost \$14 billion as of Feb. 28, 2019), the "spendable" portion of the larger \$64 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 provided 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. Revenues in support of the \$5.8 billion operating budget have strengthened since the budget was enacted, reducing the expected draw on the CBRF to close the remaining shortfall from \$679 million to \$262 million. The CBRF balance approximated \$1.7 billion as of Feb. 28, 2019. The governor's budget for fiscal 2020 proposes significant expenditure reductions and the reallocation of revenue historically collected by municipal governments to the state, including borrowers through the bond bank, to deliver a budget that is balanced without the use of budget reserve funds. The draw on the PFER to fund operations is proposed at \$989 million. The legislature is considering the budget proposal in the current session.

For further information on the state, please see 'Fitch Ratings: Alaska Proposals to Limit Budget Flexibility Could Pressure Rating', dated Feb. 5, 2019, and 'Fitch Ratings: Alaska Governor's Budget Proposals Would Weaken Municipal Credit Quality', dated Feb. 22, 2019 and available at '[www.fitchratings.com](http://www.fitchratings.com)'.

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