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Alaska Industrial Development and Export Authority; State Revolving Funds/Pools

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Credit Profile		
US$14.47 mil revolv fd bnds (Private Activity - Non-Amt) ser 2010B dtd 12/22/2010 due 04/01/2031		
Long Term Rating	AA-/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' rating to the Alaska Industrial Development and Export Authority's revolving fund bonds, series 2010B and affirmed its 'AA-' rating on the authority's revolving fund bonds outstanding.

The ratings reflect our opinion of:

- A pledged portfolio of private activity economic development loans;
- A currently low loan delinquency rate;
- Projected cash flows and debt service coverage that meet Standard & Poor's requirements for the 'AA' category for state revolving fund programs;
- Strong legal covenants, including an additional bonds test requiring either in excess of 1.50x annual debt service, or the maintenance of unrestricted surplus equal to $200 million or principal outstanding and never less than $100 million; and
- Covenants to maintain what we view as good liquidity in the authority's unrestricted cash equivalents balance.

The bonds are a general obligation (GO) of the authority for which the full faith and credit of the authority's revolving fund are pledged. The authority intends to issue the series 2010B bonds to fund a loan for the construction of a wastewater facility that will serve a state prison near Wasilla.

The authority has a number of programs through which it carries out its economic development activities. It conducts the majority of its business through its revolving fund, the net income and assets of which serve as the source of repayment on the bonds. As of June 30, 2010, the revolving fund had total assets of $1.2 billion, of which $1.09 billion were available to contribute toward satisfying obligations on revolving fund bonds outstanding. Total available assets included $383.8 million of unrestricted cash and investments. Other assets consist of $377.7 million in loans that had been purchased by the authority through a loan participation program, and $326.1 million of projects owned directly by the authority under its development finance program, including $224 million for an ore transportation system and $45.8 million for a clean coal generating project, which has suspended operations.

Overall financial trends for the authority have been positive, with historical annual debt service cash basis coverage in the last five years ranging from 4.00x in fiscal 2006 to 9.0x in fiscal 2010, including $31.8 million of revenue from three directly owned development projects. Coverage by loan repayments alone was more than 5.0x in 2010. At fiscal year-end June 30, 2010, less than 1% of revolving fund loans were delinquent. The authority projects debt service coverage of 7.36x in fiscal 2011 by all revenues, and 3.10x by loan revenues alone. It currently projects debt service to peak in 2014 at $14.4 million and to be covered by authority-projected revenues 6.43x, and 2.74x by loan revenues alone, commensurate with our 'AA' category rating level after being stress tested using Monte Carlo modeling techniques.

We anticipate debt service coverage to remain strong based on the authority's currently limited additional debt plans. The authority has $330 million in existing bond authorization for various specific projects around the state. It has indicated no immediate plans to bond for additional revolving fund loans or projects.

Legal provisions provide operational and asset-based protection to existing debt by limiting the issuance of additional parity debt unless certain provisions are met. Operationally, annual net income must produce 1.5x annual debt service in any year in which the authority has debt outstanding. Alternatively, the authority may maintain an unrestricted surplus equivalent to the lesser of $200 million or principal outstanding of bonded indebtedness. Regardless of which of the above tests apply to authority debt, the authority further pledges that at no time will it maintain a balance of the lesser of $50 million in unrestricted cash equivalents or 25% of the amount outstanding of revolving fund bonds. Allowed short-term investments were previously expanded to include 'AAA' rated money market investment funds and 'A-1' or higher rated commercial paper in addition to cash and U.S. Treasuries. All cash and cash equivalent investments must have maturity schedules of one year or less.

Outlook

The stable outlook reflects Standard & Poor's expectation of adequate debt service coverage and active program management. The outlook is also supported by the strong performance in the authority's underlying loan pool. We could lower the rating if the state's significant economic development projects fail to produce adequate revenue or experience significantly high loan delinquencies, or if there was a significant change in the reserves maintained by the authority.

Loan Participation Program

Through the enterprise development program, the authority purchases participations in loans made by financial institutions to their customers. Currently, the authority's loan portfolio consists of 283 loans with principal outstanding of $401.8 million. Revenues from loan repayments represent approximately 40% of total annual cash flows available for debt service. Loan performance is in our view strong, with a very low delinquency rate of less than 1.0%. The loan portfolio has good borrower diversity with 25% of borrowers in the tourism sector, 20% in retail, 16% in office or warehousing, and 13% in office or business condos. The 10 largest borrowers comprised 30% of loans, with the largest loan to the Anchorage Community Development LLC at $22.9 million for an office/warehouse. Geographically, the portfolio is more concentrated, with 59% of loans to borrowers in the Anchorage area. This does not include the revolving fund's $224 million direct investment and ownership in the DeLong Mountain Transportation System in support of lead/zinc mining activities in northwestern Alaska. Loan parameters and policies are good and include the following provisions:

- Participation is not to exceed 90% of the loan amount or $20 million, whichever is lesser.
- Total loan to value is not to exceed 75%.
- The term on the authority's portion of the loan may be up to 25 years when the loan is secured by real property, and up to 15 years when secured by personal property, but in either case, not more than 75% of the remaining economic life of the collateral.

Economic Development Account

Through the economic development program, the authority has the ability to own and operate facilities for economic development purposes in the state. These projects represented $326.1 million of net book value at June 30, 2010, and generated $31.8 million of net annual cash flow in fiscal 2010, or 31% of total cash flows available for debt service. Some of the major projects conducted under this program are the following:

- DeLong Mountain Transportation System (DMTS) is a 52-mile industrial haul road and shallow draft port to transport ore. The DMTS is operated by Teck Alaska Incorporated and guaranteed by Teck Resources Ltd. ('BBB' issuer credit rating) and serves the mining district that includes the Red Dog Mine, the world's largest zinc/lead producer. The authority's revolving fund interest in DMTS consists of direct ownership valued at $223.9 million as of June 30, 2010, which the authority projects will bring in a minimum of $17.7 million of net revenues per year.
- Federal Express Aircraft Maintenance Facility is a wide-body aircraft hanger at the Ted Stevens Anchorage International Airport. The authority owns the hanger and leases the space to the FedEx Corporation for $2.99 million per year. The authority's current net investment for the revolving fund in the hanger was valued at $11.5 million as of June 30, 2010. FedEx's current lease expires in March 2015.
- Ownership of the Ketchikan Shipyard, which was originally developed by the state Department of Transportation and Public Facilities, was transferred to the authority in 1997. The authority subsequently entered an operating agreement with the Alaska Ship and Drydock. The value of the shipyard stood at $35.6 million at June 30, 2010. Payments from the shipyard are uncertain and are determined on a percentage of revenues basis, with revenues first applied to reimbursing the authority for administrative costs, then to a repairs and replacements fund, and then to the authority and to other contributing local governments.
- The authority reports its Skagway Ore Terminal is substantially complete with a direct investment of $9.4 million, although completion may require further investment. The authority projects annual revenues of $3.1 million from this project.

Investment Portfolio

Interest earnings and amortized principal from the revolving fund's $383.8 million (June 30, 2010) unrestricted investment portfolio are also pledged to bond repayment and bolster coverage considerably, albeit with significant variance. In some years, investment earnings represent as much as 34% of annual cash flows, although in 2010 earnings were a lower 13.7% of pledged income. An additional $18.9 million of revolving fund investments were restricted and not available for bond debt service. Asset management is conducted both internally (23% of assets) and externally (77%) and is governed by the authority's investment policy as well as restrictions in state statute. The authority reports that as of June 30, 2010, 42% of its investment portfolio consisted of either U.S. Treasuries or U.S. guaranteed agencies or securities rated 'AAA', while an additional 25% was in government-sponsored securities, 4% was rated 'AA', 16% 'A', 10% 'BBB', and 1% 'BB'. At June 30, 2010, 26% was invested in U.S. Treasuries, 6% in U.S. agencies and government-supported entities, and 6% in cash. In addition, 30% was invested in corporate securities, 30% in mortgage-backed securities, 1% in asset-backed securities, and 1% in municipal bonds. The authority's internal investment policy objective is safety and liquidity, and limits investments to those of investment-grade credit quality ('BBB-' and higher) and precludes investment of more than five percent of the portfolio in unrated securities. Duration is limited to two years for internally managed portfolios. For externally managed assets, the authority's goal is safety and return.

Related Criteria And Research

USPF Criteria: Long-Term Municipal Pools, Oct. 19, 2006

Ratings Detail (As Of December 13, 2010)		
Alaska Indl Dev & Export Auth state revolv fd		
Long Term Rating	AA-/Stable	Affirmed
Alaska Indl Dev & Export Auth revolv fd rfdg bnds dtd 06/20/2002 due 04/01/2007-2014		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.