

## **FITCH UPGRADES INDIANA BOND BANK SERIES 2007 A&B SPECIAL PROGRAM GAS REVS TO 'A+'; OUTLOOK STABLE**

Fitch Ratings-Austin-22 November 2016: Fitch Ratings has upgraded the rating on the following bonds issued by Indiana Bond Bank (IBB) to 'A+' from 'A':

--\$176.81 million special program gas revenue bonds, series 2007A and 2007B.

The Rating Outlook is Stable.

### **SECURITY**

The bonds are special obligations of the issuer, payable solely from revenues and other funds pledged under the trust agreement. Revenues are derived from fulfillment of the obligations from each of the transaction's varied counterparties. Bondholders also rely on funds pledged under the indenture, which are typically invested by a third party.

### **KEY RATING DRIVERS**

**STRONG DOMINANT GAS PURCHASER:** The rating upgrade reflects the assignment of a new public rating to Indiana Bond Bank's largest gas purchaser, Citizens Gas (CG) to 'A+' / Stable Outlook. Gas is ultimately purchased by three purchasing utilities, CG (94.5%), the City of Batesville (4.3%), and the Town of Lapel (1.2%). CG is an operating division of the Department of Public Utilities of the City of Indianapolis (dba Citizens Energy Group). CG provides natural gas services to more than 268,000 customers in and around Marion County, IN.

**COUNTERPARTY PAYMENT OBLIGATIONS:** The rating on the IBB revenue bonds reflects the structured nature of the prepaid energy transaction and Fitch's analysis of the principal transactional counterparties, including JPMorgan Chase & Co. (JPM; Issuer Default Rating (IDR) 'A+' / Stable Outlook), BNP Paribas (BNP; IDR 'A+' / Stable Outlook), Citizens Gas (CG; 'A+' / Stable Outlook), and Transamerica Life Insurance Company (AEGON; IDR 'AA-' / Negative Outlook).

**WEAK LINK COUNTERPARTY:** The rating on the bonds is driven by the credit quality of the weakest counterparty whose default risk is not otherwise mitigated. The rating of the IBB revenue bonds reflects the credit quality of the JPM, BNP and CG counterparties and is also the current constraint on the transaction's rating.

**CASH-FUNDED OPERATING RESERVES:** A cash-funded operating reserve of \$7.9 million is required to be maintained and may be used to pay debt service in the event of a shortfall by any of the gas purchasers. The reserves are well in excess of the anticipated obligations of the two remaining gas purchasers, the City of Batesville and the Town of Lapel, mitigating the risk of nonpayment by these two counterparties.

**INVESTMENT AGREEMENT PROVIDER:** Amounts in the debt service reserve and operating fund are held in a guaranteed investment contract provided by AEGON. The investment agreement requires AEGON's obligations to be collateralized in the event AEGON is downgraded below 'AA-'.

### **RATING SENSITIVITIES**

**CHANGE IN COUNTERPARTY RATINGS:** The long-term rating on the Indiana Bond Bank gas revenue bonds will continue to be determined by Fitch's assessment of the transaction structure, the role of each counterparty in the structure, and their credit quality. Therefore, unless otherwise mitigated, shifts in the rating or credit quality of JPMorgan Chase & Co., BNP Paribas, Citizens Gas, and Transamerica Life Insurance Company below the current rating on the bonds would result in a downgrade. Conversely, shifts in the rating or credit quality of all the counterparties above the current rating on the bonds would result in an upgrade.

## CREDIT PROFILE

The IBB, an instrumentality of the state of Indiana, established the Prepaid Gas Funding Program during 2007 to provide a mechanism for financing the prepayment of supplies of natural gas. In August 2007, IBB issued its series 2007 A & B bonds to prepay for specified supplies of natural gas to be delivered by JP Morgan Ventures Energy Corporation (JPMVEC) to IBB over a 15-year period. IBB in turn loaned the proceeds to the Indiana Municipal Gas Purchasing Authority (IMGPA; or the authority), a non-profit corporation which sells the gas to the purchasing utilities.

The series 2007 A bonds were issued as fixed-rate. The series 2007 B bonds were issued in three separate sub-series (B-1, B-2, B-3), all of which were index-rate bonds. Interest rate risk has been hedged through a swap arrangement with JPM.

## STRONG DOMINANT GAS SUPPLIER

The IBB revenue bond rating upgrade follows Fitch's assignment of a new public rating of CG at 'A+' / Stable Outlook. CG is a regulated gas distribution utility serving a large and robust service territory covering the entirety of the city of Indianapolis and Marion County. The customer base is diverse, mostly residential and stable.

## COMMODITY SWAP AGREEMENT TO HEDGE PRICE RISK

To hedge the risk of changes in the price of natural gas, IBB has entered into a commodity swap agreement with BNP Paribas exchanging an index-based gas price for a fixed gas price. The net swap payments will accommodate any differences between the index-based revenues of IBB from the gas purchasers, and the fixed debt-service payments on the bonds. The gas supplier has separately entered into matching swap agreements with BNP, exchanging a fixed price for a floating natural gas price. It is an Additional Termination Event under the ISDA if BNP Paribas is downgraded below 'A/A2' and not replaced within 60 days.

## STRUCTURE DESIGNED FOR TIMELY PAYMENT

The bonds are structured with provisions which provide for timely payment of debt service, regardless of changes in natural gas prices or transportation costs, or the physical delivery of gas by the gas supplier (since financial payments will be due by the supplier, in the event of non-delivery of gas for any reason, including during force majeure events).

In the event that the transaction is terminated, the gas supplier is obligated to make a termination payment that, together with other available funds, is sufficient to pay bondholders all outstanding principal, unamortized premium and accrued interest. The JPMVEC obligation is guaranteed by JPM.

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#### Applicable Criteria

Criteria for Rating Prepaid Energy Transactions (pub. 08 Jul 2016)

<https://www.fitchratings.com/site/re/884518>

U.S. Municipal Structured Finance Criteria (pub. 23 Feb 2015)

<https://www.fitchratings.com/site/re/862222>

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