

THE BOND BUYER

Indiana Finance Authority selling green bonds

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DALLAS -- The Indiana Finance Authority plans to issue \$141 million of top-rated state revolving fund new money and refunding bonds which will carry a green bond designation.

The new money piece for \$21 million is earmarked to fund loans for eligible projects that are verified as environmentally beneficial. Eligible projects are designed to improve the quality of Indiana's drinking water and reduce pollution in its water supply according to state and federal standards.

The finance authority is also refunding \$120 million of bonds. The refunding is expected to generate a net present value savings which will depend on market conditions. All savings will remain in the program. Bonds are scheduled to price Wednesday.

Bank of America Merrill Lynch is the lead manager and PFM Financial Advisors LLC is advising the authority. Ice Miller LLP is bond counsel.

Moody's Investor Service rates the bonds Aaa. S&P Global Ratings and Fitch Ratings rate the bonds AAA. All three said the rating is supported by sound cash

flow projections, satisfactory wastewater and drinking water loan pool characteristics, favorable programs structure, and strong management and oversight.

Moody's said the program's strong default tolerance remains its core strength. The program's resources enable it to absorb 31% of potential defaults of underlying loans without impairing debt service for the life of the bonds. "The high default tolerance can be attributed to excess loan repayments and sizeable, although declining, program reserves that are currently estimated at \$173.3 million or about 12% of bonds outstanding," Moody's said.

However Moody's noted that that the Indiana state revolving fund program is in the process of transitioning from what's primarily a reserve fund structure, wherein loss protection is provided by reserves, to a cash flow structure, in which loss protection is provided by available surplus cash flows.

"As the program slowly converts to a cash flow model from a reserve type model, the level of excess loan repayments will grow while reserves decline," the rating agency said.

Indiana has made loans to a combined 344 participants under its wastewater program and drinking water program as of June 30, 2017. The state has \$1.4 billion of state revolving fund bonds that are backed by the loans, outstanding.