STANDARD & POOR'S RATINGS SERVICES
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Summary:

The Indianapolis Local Public Improvement Bond Bank Indianapolis; Water/Sewer

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Summary:

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Credit Profile		
US$15.485 mil rfdg bnds (stormwater project) (Indianapolis) ser 2015H due 01/01/2041		
Long Term Rating	AAA/Stable	New
The Indianapolis Local Pub Imp Bnd Bank, Indiana		
Indianapolis, Indiana		
The Indianapolis Local Pub Imp Bnd Bank rfdg bnds (Indianapolis) (Stormwater Project)		
Long Term Rating	AAA/Stable	Upgraded
Indianapolis Local Pub Imp Bnd Bank (Indianapolis) wtr		
Unenhanced Rating	AAA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its rating on The Indianapolis Local Public Improvement Bond Bank, Ind.'s existing stormwater system senior-lien revenue bonds to 'AAA' from 'AA+'. At the same time, we assigned our 'AAA' rating to the bond bank's series 2015H refunding bonds. The outlook is stable.

The upgrade is due to additional certainty related to how the city will fund the large $320 million stormwater capital plan. Effective July 1, 2015, a new stormwater rate structure was put into place which allows for automatic increases through 2019 and then until 2034 unless modified by council. From now on, the rate will be based on a monthly rate of $1.10 per 1,000 square feet of impervious surface area. Management has indicated that, together with planned bond issues, the revenues generated through the new rate structure will be sufficient to fund the entire $320 million capital plan through 2034. Initially, 60% of the annual funding will initially arise from bonds, but eventually the city will fund 60% from cash on hand. As a result, the city currently projects that about 50% of its capital plan will be funded with debt during the 20-year period from 2015-2034.

During our previous review in 2013, we were not made aware of either the timing of additional bonds or other funding sources. The large amount of cash-funded capital projects should help the city maintain debt service coverage (DSC) at or near about 2x, and cash balances that represent well in excess of the city's minimum one-year policy; we consider both of these metrics strong. However, we note that if actual financial results do not end up being as strong as what projections indicate, we could lower the rating if we believe that the actual financial performance becomes more indicative of a lower rating level.

The rating also reflects our assessment of the stormwater system's large and diverse service base, and low stormwater rates.

Bond proceeds will refund the bond bank's 2011H stormwater bonds.

The bonds are secured by a senior lien on the net revenues of the stormwater system. Other bond provisions include the following:

- A covenant to set rates that generate net revenues no less than 125% annual debt service; and
- A limitation on issuing additional bonds only if new revenues for the prior 12 months are at least 125% pro forma maximum annual debt service (MADS).

Indianapolis' stormwater system has a predominantly locally derived revenue base. Local service charges, derived through an autonomous rate-setting process, represent virtually all of the entity's revenues. This, coupled with operating expense flexibility, limits exposure to federal revenues.

The service area consists of all of Marion County except the city of Beech Grove and the towns of Speedway and Cumberland, which have all formed their own stormwater systems. System capital consists of drainage outfalls, flood structures (levee and dams), piped systems, and open systems. When measured in equivalent residential units (ERUs), the customer base consists of about 272,000 residential and 487,000 nonresidential ERUs. We consider the customer base diverse, with the top 10 customers accounting for only 7% of total revenues. The largest customer is the Indianapolis Airport at 1.4% of revenues.

Regarding billing and collections, about 80% of the bills are sent out semiannually as part of the property tax bill, and the collection rate has been no less than about 93% in recent years. Tax-exempt properties receive direct billing once a year.

The stormwater management financial operations are contained within the general fund. Annual DSC on the utility's senior-lien debt and all-in debt has been strong, in our view. For the fiscal year ended Dec. 31, 2014, net revenues generated 1.7x coverage of all debt service. Projections indicate that coverage will remain at least this good over time.

Liquidity levels have also remained strong. Unrestricted days' cash and investments have been about $20 million for the last several fiscal years, and totaled $21.4 million in 2014. This amount represented 638 days' cash. As with DSC, projections also indicate liquidity levels remaining strong, representing no less than about 450 days' cash.

Outlook

The stable outlook reflects our expectation that the system should be able to generate strong financial results that meet or exceed the current financial projections. If this does not occur, we could lower the rating to a level that we believe is more consistent with the actual financial performance. At least through the two-year outlook horizon however, we do not expect to lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Key Water And Sewer Utility Credit Ratio Ranges, Sept. 15, 2008
- USPF Criteria: Standard & Poor's Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds, Sept. 15, 2008
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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