

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's upgrades CWA Authority, Inc. (IN) to Aa3 from A1; outlook stable

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New York, September 04, 2019 -- Moody's Investors Service ("Moody's") has assigned a Aa3 rating to the CWA Authority, Inc.'s \$40.5 million First Lien Wastewater Utility Revenue Bonds, Series 2019A (CWA Authority Project) (Green Bonds). Concurrently, Moody's upgraded CWA's outstanding senior lien and subordinate lien revenue bond ratings to Aa3 and A1, from A1 and A2, respectively. After the 2019A issuance, CWA Authority, Inc. will have approximately \$1.8 billion of debt outstanding. The outlook is stable.

RATINGS RATIONALE

CWA Authority, Inc.'s (CWA) senior lien upgrade to Aa3 from A1 reflects the utility's successful implementation of rate increases to recover costs, pay debt service, and maintain a sound financial position until the federally mandated consent decree is substantially completed in 2025. The Aa3 rating also contemplates the consent decree capital plan, which is several months ahead of schedule and roughly \$400 million under budget. CWA is managed by Citizens Energy Group (Citizens) through a charitable trust structure, and serves Indianapolis - Marion County, IN (Aaa stable). Rates are regulated by the Indiana Utility Regulatory Commission (IURC), which is unusual for municipal utilities. Despite CWA's rate regulated status, the utility has been able to secure approval for rate increases cumulatively amounting to just shy of 75% since 2014, demonstrating the IURC's credit supportive actions concerning CWA's rate increase requests. The wastewater bond indenture is closed loop, is isolated from any of Citizens' non-core business operations, and the bonds are secured by a fully funded debt service reserve.

CWA's subordinate lien upgrade to A1 from A2 reflects the same dynamics that led to the senior lien upgrade, however subordinate lien debt service payments are made after senior lien payments in the flow of funds and the subordinate lien has a lower rate covenant.

RATING OUTLOOK

The outlook is stable given our expectation for steady debt service coverage levels around 1.5x, no need for significant rate increase requests to complete the consent decree capital plan and for the consent decree capital plan to remain ahead of schedule and below budget.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Once the consent decree capital plan is completed
- Debt service coverage ratio consistently above 1.75x

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Debt service coverage ratio consistently below 1.25x
- Major construction delays associated with the consent decree capital plan

LEGAL SECURITY

The wastewater bonds are secured by the net revenues of the wastewater system. The indenture provides for a 1.20x on all First Lien Debt Service Requirement (with adjustments for rate stabilization transfers) or 1.0x on all required First Lien deposits. The indenture provides for a 1.10x on Second Lien Debt Service Requirements (with adjustments for rate stabilization) or 1.0x on all required Second Lien deposits. The debt service reserve consists of the lesser of 10% of par amount of bonds, maximum annual debt service, or 125% of average annual debt service.

USE OF PROCEEDS

Finance the costs of improvements and additions to the wastewater system and fund a debt service reserve

for the CWA Authority, Inc. 2019A bonds.

PROFILE

Citizens Energy Group (Citizens) is the trade name of the Department of Public Utilities of the City of Indianapolis, Indiana (Department). The Department was formed in 1929 to provide the governance structure for the City of Indianapolis to act as a successor trustee of a public charitable trust (Energy Trust) providing natural gas utility services in the City of Indianapolis and to own and operate other utility systems serving areas within and outside the City of Indianapolis.

Citizens operates: the Gas Utility & Distribution System, the Thermal Energy System, the Water System and CWA. Each system has issued debt independently secured by pledged revenues of each system to a separate dedicated trust. These separate trusts are designed to insulate one trust from liability for obligations for another trust, so they do not become jointly liable solely because the same entity is the trust of both. Each indenture permits Citizens or CWA, as applicable, authority to use residual revenues for other purposes permitted by the language of the respective indenture. Citizens' water indenture and CWA's wastewater indentures, however, permit only the use of the excess revenues for the water and wastewater systems, respectively.

The wastewater system is owned by CWA, a separate nonprofit corporation, which, through an inter-local agreement entered into between Citizens and the City of Indianapolis, has the power to exercise all rights and powers of the City, except the City's taxing power, and Citizens in connection with the provision of wastewater utility services. The Wastewater System is managed by employees of Citizens under an operating agreement between Citizens and CWA.

METHODOLOGY

The principal methodology used in these ratings was US Municipal Utility Revenue Debt published in October 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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