

Research Update:

# Citizens Energy Group, IN Bond Rating Raised To 'AA+' From 'AA'; Outlook Stable

April 8, 2026

## Overview

- S&P Global Ratings raised its rating on the [Indiana Finance Authority](#)'s (IFA)'s bonds outstanding, issued for [Citizens Energy Group](#) (Citizens Water), Ind. to 'AA+' from 'AA'.
- At the same time, we assigned our 'AA+' long-term rating and underlying rating to Citizens Water's series 2026A and 2026B first-lien water utility revenue bonds outstanding.
- The raised rating is due to management's demonstrated track record of stable and comprehensively managed financial performance, with cash reserves anticipated to remain credit supportive.
- The outlook is stable.

## Rationale

### Security

A first-lien net water system revenue pledge secures the bonds, which are on parity with about \$790 million of existing revenue bonds. Proceeds of the 2026A series bonds will be used to refund the 2014A and 2018A bonds outstanding by purchasing tendered bonds. Similarly, proceeds of the 2026B bonds will refund the remaining portion of 2016A and 2016B bonds outstanding. We understand management will satisfy the debt service reserve fund requirement with a surety policy. Citizens Water has bond-restricted funds equivalent to \$87 million. We consider water system bond provisions as credit neutral.

Citizens Water, which manages the water trust, is a public charitable trust with a board of directors (appointed by a board of trustees) that is an executive department of the City of Indianapolis. Although the ownership and governance structure are unique among municipalities, we ultimately view Citizens as in scope for our municipal utility revenue bond criteria given that the management and governance are structured to service a single municipality at cost.

### Credit highlights

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The upgrade reflects our view of Citizens' healthy financial performance due to prudent rate setting, budget maintenance, and operational expansion. The service area's economic fundamentals are supported by its location within the state capital, in addition to its position as a transportation and industrial hub. Expansion activities, such as onboarding the City of Lebanon as a wholesale customer, and the acquisition of the Whitestown water utility system, contribute to growing and diversifying revenue. The series 2026A bonds will fund the Whitestown acquisition, where the customer base is estimated to increase 9% annually. We favorably view the system's current water supply and consider it adequate to handle both additions to Citizens Water, although further treatment capacity and pipelines will be required to serve Lebanon (paid for by development within the Lebanon innovation district). Capital needs of the system total almost \$1 billion through 2030, to be supported, in part, by an additional revenue bonds issuance of \$300 million in 2029.

Although we view upward rating potential as limited by the regulatory oversight of the Indiana Utility Regulatory Commission (IURC), which limits flexibility and timeliness of rate setting, management has a demonstrated history of achieving strong financial performance by seeking temporary and annual cost recovery charges. Management utilizes comprehensive, strategic planning that targets business continuity and long-term affordability for customers.

The rating is further reflective of the following factors:

- The system has a broad, diverse service area with incomes lower than the national average, balanced by its location within the economic engine of the state.
- Solid operational and financial management policies support an advanced asset-management program that aligns operational needs with financial resources, which helps to enhance Citizens' environmental stewardship responsibilities while providing measurable operating cost reductions. Financials are supported by comprehensive long-term forecasting and planning, quarterly budget-to-actual interim financial reports, and transparency that includes extensive disclosure beyond simple financial statements.
- We anticipate unrestricted cash will be sustained above \$50 million over the long term, inclusive of investment money but absent the lines of credit, which we view as somewhat weak for the rating level. We view total liquidity reserves as further supported by \$65 million in lines of credit and total letters of credit outstanding were \$5 million at the end of calendar 2025.
- Debt service coverage is projected near 2x, which incorporates additional debt needs in 2029 that management intends to address with supportive and timely cost recovery.
- The system has high leverage, measured by a debt-to-capitalization ratio of approximately 75% with further additional debt plans.

## Environmental, social, and governance

We view environmental, social and governance (ESG) risks as credit neutral to our analysis. Citizens complies with water-quality standards and reports no detection of per- and polyfluoroalkyl substances. Additionally, over the next five years, Citizens Water is dedicating between \$20 million-\$25 million annually to address the Environmental Protection Agency lead and copper rule. We believe that by utilizing both groundwater and surface water supplies, Citizens has firm capacity to meet future growth.

In our opinion, rates are still affordable relative to median household effective buying income and the county poverty rate. Furthermore, management expects current rates to support capital spending and debt in the near term, which lowers social risk related to affordability.

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Governance risk is elevated relative to that of other utilities because IURC regulates rate setting. However, Citizens' ability to receive multiyear rate increase approvals consistently from its regulator currently mitigates this risk. Furthermore, the state revised the rate regulation process, allowing utilities like Citizens to have delegated administrative authority to recover certain costs when revenues fall short by at least 2% below IURC-authorized revenue. Citizens can recover any shortfall for up to 48 months before being required to file a new rate case. Considering this and related state legislation, we believe the regulatory environment mitigates rate-setting governance risk associated with rate regulation.

Ownership and operations of multiple utilities pose some governance-related risk if funds from one operation were to support funds from another, but Citizens legally restricts funds for each respective operation, which mitigates this risk. Citizens is a public charitable trust and political subdivision that owns the water utility serving Indianapolis. This unique structure, in our view, provides efficiencies and scale through a common management team.

## Outlook

The stable outlook reflects our opinion that Citizens will likely benefit from a highly credit-supportive relationship with its rate regulator, which will support future pay-as-you-go funding of its capital plan and result in sustainable, healthy financial metrics.

### Downside scenario

Barring significant or unexpected financial deterioration, we are unlikely to lower the rating or revise the outlook to negative because of what we characterize as strong management that aligns operational needs and financial requirements. However, we could lower the rating in the longer term if liquidity reserves were to fall and be sustained at lower levels, incommensurate with those of peers.

### Upside scenario

Because of the system's lower unrestricted cash position, regulatory oversight that somewhat limits rate-setting flexibility, and large capital requirements, we do not expect to raise the rating further in the outlook period.

## Citizens Energy Group, Indiana—economic and financial data

	Most recent	2025	2024	2023	Median (AA+)
<b>Economic data</b>					
MHHEBI of the service area as % of the U.S.	85.0				112.0
Unemployment rate (%)	2.8				3.4
Poverty rate (%)	15.8				10.2
Water rate (6,000 gallons or actual) (\$)	23.0				33.9
Sewer rate (6,000 gallons or actual) (\$)	55.8				38.6
Annual utility bill as % of MHHEBI	0.5				1.0
Operational management assessment	Good				Good
<b>Financial data</b>					
Total operating revenues (\$000s)		264,729	247,049	216,725	41,982
Total operating expenses less depreciation (\$000s)		120,167	110,908	106,805	31,740
Net revenues available for debt service (\$000s)		150,506	142,178	113,018	--

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**Citizens Energy Group, Indiana—economic and financial data**

	Most recent	2025	2024	2023	Median (AA+)
Debt service (\$000s)		69,077	68,465	67,875	--
S&P Global Ratings-adjusted all-in DSC (x)		2.2	2.1	1.7	2.5
Unrestricted cash (\$000s)		127,553	107,818	91,290	55,536
Days' cash of operating expenses		387	355	312	650
Total on-balance-sheet debt (\$000s)		790,432	793,276	823,183	74,352
Debt-to-capitalization ratio (%)		69.0	64.8	70.3	25.0
Financial management assessment	Strong	--	--	--	Good

**Note:** Most recent economic data available from our vendors. MHHEBI--Median household effective buying income. DSC--Debt service coverage.

**Ratings List**

**New Issue Ratings**

US\$187,400,000 Indiana Finance Authority, Indiana, First Lien Water Utility Refunding Revenue Bonds ( Forward Delivery ), (Citizens Energy Group), dated: Date of Delivery, due: October 1, 2046

Long Term Rating AA+/Stable

US\$191,100,000 Indiana Finance Authority, Indiana, First Lien Water Utility Revenue Bonds, (Citizens Energy Group), Series 2026A, dated: Date of Delivery, due: October 1, 2037

Long Term Rating AA+/Stable

**Upgraded**

	To	From
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**Water & Sewer**

Citizens Energy Group, IN Water System	AA+/Stable	AA/Stable
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The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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