

20 NOV 2024

Fitch Rates Met Water Reclamation District of Greater Chicago, IL's GOs 'AAA'; Outlook Stable

Fitch Ratings - New York - 20 Nov 2024: Fitch Ratings has assigned 'AAA' ratings to the following Metropolitan Water Reclamation District of Greater Chicago, IL (the district) obligations:

- Approximately \$300 million general obligation capital improvement bonds (green bonds), 2024 series A;
- Approximately \$25 million general obligation unlimited tax, 2024 series B (green bonds);
- Approximately \$48 million limited tax refunding bonds, 2024 series C;
- Approximately \$90 million unlimited tax refunding bonds, 2024 series D;
- Approximately \$37 million general obligation unlimited tax refunding bonds (alternate revenue source), 2024 series E.

Bonds are anticipated to price the week of Dec. 9 through negotiation. Proceeds will be used to pay for certain projects included in the capital improvement plan (CIP), refund certain maturities of outstanding general obligations bonds, refund certain general obligation bonds that have been accepted by the district for tender, pay capitalized interest for selected series and pay costs of issuance.

Fitch has also affirmed the 'AAA' rating on the following obligations of the district:

- Approximately \$614.2 million unlimited tax bonds (prerefunding), including approximately \$89.5 million alternate revenue bonds;
- Approximately \$1.032 billion limited tax bonds (prerefunding);
- Issuer Default Rating (IDR).

The Rating Outlook is Stable.

The 'AAA' bond ratings and IDR reflect the district's 'Very Strong' financial profile in the context of its 'Very Strong' revenue defensibility and 'Very Strong' operating risk profile, both assessed at 'aa'. The district's leverage, measured as net adjusted debt to adjusted funds available for debt service (FADS), was very low at 7.6x in 2023 (FYE Dec. 31).

Leverage is anticipated to reverse a recent trend of declines, increasing to 10.0x by 2028 in Fitch's Analytical Stress Test (FAST) rating case. This increase in leverage reflects the district's ongoing robust capital expenditures, largely funded by debt while reflecting moderating Personal Property Replacement Revenue (PPRT) which has been a significant source of revenue in recent years.

Fitch also considers the district's leverage in the context of the service area's (generally Cook County) resource base. From this vantage, its direct long-term liabilities approximate 1.2% of total personal income (2022 income

data). When combined with the district's ability to levy taxes to pay debt service and operations, this expanded view of leverage supports the 'AAA' ratings.

SECURITY

The bonds are direct and general obligations of the district, the payment for which the full faith and credit of the district are pledged. The unlimited tax bonds are payable from ad valorem taxes levied upon all taxable property within the district without limitation as to rate or amount. The limited tax bonds are payable from ad valorem taxes levied upon taxable property within the district without limitation as to rate, but the amount of the taxes that may be extended to pay them is limited as provided by law.

In addition to the full faith and credit security provisions of all bonds, the district's alternate revenue bonds are also payable from stormwater management tax receipts. The district is required to deposit stormwater management tax receipts into the debt service fund on or before the last business day of February of each year. These funds will be used to pay debt service payments through Dec. 1 of the same year. This funding must occur before the district may abate the direct annual tax levy that secures the alternate revenue bonds.

KEY RATING DRIVERS

Revenue Defensibility - 'aa'

Very Strong Revenue Defensibility Supported by Stable Revenues and Favorable Service Area

The district retains the legal authority to adjust ad valorem tax rates for the bulk of its debt service and retirement fund without external oversight. Fitch considers the estimated residential tax bill, based on median home value, affordable for around 92% of the service area population. The favorable service area is characterized by midrange income levels and a moderate unemployment rate relative to the nation, despite a moderately declining population, which equates to the district's customer base. Income levels are about 4% above the national median as of 2022. The unemployment rate has decreased to 3.6% since 2020 and was 122% of the national average in 2023.

The district's favorable service area is broad and diverse and includes the vast majority of Cook County. Ad valorem taxes are its primary source of revenue, insulating it from volatility associated with volumetric changes. While operating levies are generally limited by statute, the district retains strong revenue raising flexibility when viewed against the relative stability of this revenue source.

As of December 2022, no taxpayer comprises more than 1% of the district's estimated assessed valuation (EAV) and the top 10 taxpayers total less than 2.5% of EAV. Although PPRT have begun to moderate, collections over the past several years have been well above historical levels, providing additional support for pension contributions and pay-go capital.

Operating Risk - 'aa'

Very Low Operating Cost Burden; Significant Capital Investment Supports a Low Life Cycle Ratio

The district's operating cost burden is very low, less than \$1,500 per million gallons (mg) treated, and reflects the significant economies of scale of operations as well as its focused operating mandate. The life cycle ratio is just 5% and should remain low as it continues to implement a still large capital improvement program (CIP).

CIP expenditures for 2024 through 2028 approximate \$1.5 billion, which are anticipated to be funded with about \$600 million in bond proceeds. Almost 50% of expenditures will be related to water reclamation plants

and solids management with about 20% focused on facility replacements.

Financial Profile - 'aa'

Leverage Increasing; Neutral Liquidity

The district's leverage was 7.8x in 2023 and, while higher than the 6.7x in 2022, continued a generally declining leverage trend. This trend has been supported by increased FADS largely driven by strong PPRT receipts. Liquidity is neutral to the assessment with coverage of full obligations consistently above 1.0x and 337 current days cash on hand in 2023. Fitch calculated total debt service coverage was 1.3x in 2023.

The FAST considers the potential trend of key ratios in a base case and stress case over a five-year period. The stress case is designed to impose capital costs 10% above expected base case levels and evaluate potential variability in projected key ratios. The FAST reflects Fitch's view of a reasonable scenario, which is generally informed by publicly available and/or management provided information with respect to capital expenditures, user charges and rate of revenue and expenditure growth.

In the base case scenario, the leverage ratio is expected to increase to 9.7x in 2027, then decline to 9.5x in 2028. In the stress scenario, which is considered the rating case, the leverage ratio is projected to increase to 10.0x in 2027, then decrease to 9.9x in 2028. The liquidity profile is expected to remain neutral to the assessment over the five-year horizon.

Asymmetric Additional Risk Considerations

No asymmetric additive risk considerations affected this rating determination.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Leverage sustained in excess of 10x in Fitch's rating case, in the context of the current revenue defensibility and operating risk assessments;

--A long-term liability burden measured in the context of the resource base that no longer supports an enhancement to the rating;

--Downward revision in the revenue defensibility assessment, reflecting sustained economic contraction in the service area.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--The ratings are at the highest level on Fitch's scale and cannot be upgraded.

PROFILE

The district is an independent unit of government focused on wastewater treatment, stormwater management and flood control and related environmental sustainability. The district provides wastewater treatment services to a population in excess of 5.1 million people located in the city of Chicago and 128 suburban municipalities. The city of Chicago comprises over 50% of the district's population as well as the 2023 EAV.

The district collects wastewater from municipalities in its service area, conveys it to wastewater reclamation plants, provides full secondary treatment, and discharges clean water to local waterways. The district is also

responsible for stormwater management for all of Cook County, including areas outside the district's boundaries for wastewater services. The district's total treatment capacity exceeds 2.0 billion gallons per day (BGD) and in 2023 it treated an average of 1.5 BGD.

Sources of Information

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by data from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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Rating Actions

ENTITY/DEBT**RATING****RECOVERY****PRIOR**

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Metropolitan Water Reclamation District of Greater Chicago (IL) [Sewer]	LT IDR	AAA	Affirmed	AAA

- Metropolitan Water Reclamation District of Greater Chicago (IL) /General Obligation - Limited Tax/1 LT

LT	AAA	Affirmed	AAA
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- Metropolitan Water Reclamation District of Greater Chicago (IL) /General Obligation - Unlimited Tax/1 LT

LT	AAA	Affirmed	AAA
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RATINGS KEY OUTLOOK WATCH

POSITIVE + ◆
NEGATIVE - ◆

RATINGS KEY OUTLOOK WATCH**EVOLVING****STABLE****Applicable Criteria**

[U.S. Public Sector, Revenue-Supported Entities Rating Criteria \(pub.12 Jan 2024\) \(including rating assumption sensitivity\)](#)

[U.S. Water and Sewer Rating Criteria \(pub.29 Feb 2024\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Metropolitan Water Reclamation District of Greater Chicago (IL) EU Endorsed, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see [Best- and Worst-Case Measures](#) under the Rating Performance page on Fitch's website.

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