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Second Party Opinion

# The Metropolitan Water Reclamation District of Greater Chicago's Capital Improvement Program Bonds, 2024 Series A and B

Nov. 21, 2024

**Location:** United States      **Sector:** Utilities

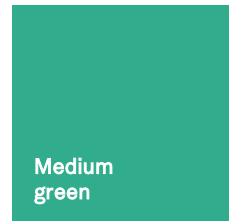
**Alignment With Principles**      Aligned = ✓      Conceptually aligned = ○      Not aligned = ✕

✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)

See [Alignment Assessment](#) for more detail.

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Activities that represent significant steps towards a low-carbon climate resilient future but will require further improvements to be long-term low-carbon climate resilient solutions.

Our [Shades of Green Analytical Approach](#) >

Strengths

**The Metropolitan Water Reclamation District of Greater Chicago (MWRD) provides essential wastewater treatment and stormwater management services in the Chicago area, providing significant environmental and human health benefits.** The issuer's systems are a critical component of the area's infrastructure, serving to treat municipal wastewater and redirect stormwater to mitigate flooding and untreated water overflows.

**MWRD's comprehensive climate action plan (CAP) details its approach to reducing greenhouse gas emissions and guiding climate resiliency infrastructure investments.** It establishes goals for emissions reduction, renewable energy use, and energy self-sufficiency from biogas. It also assesses likely physical climate impacts to the system, ongoing responses, and infrastructure investments. We believe it provides a strong framework for its efforts to mitigate physical and transition climate risks.

Weaknesses

**No weaknesses to report.**

Areas to watch

**MWRD has room to improve its greenhouse gas emissions profile and more fully integrate nutrient and energy capture within its system.** The issuer's goal to increase renewable energy use could help offset scope 2 emissions, while further efforts to enhance nutrient recycling and energy capture could reduce its emissions and reduce nutrient discharge to local watersheds.

**MWRD expects its capital upgrades to reduce, not eliminate, runoff from its system during extreme weather events.** While a principal outcome of the projects is to reduce untreated runoff, it is uncertain how frequent instances of flooding that overwhelm the system could be in the future.

## Eligible Green Projects Assessment Summary

Over the three years following issuance of the financing, MWRD expects to allocate approximately 92% to sustainable water and wastewater management and 8% to climate change adaptation and resilience projects.


The issuer expects 100% of proceeds to be directed to finance new projects.

Based on the project category shades of green detailed below, the expected allocation of proceeds, and consideration of environmental ambitions reflected in MWRD's Capital Improvement Bonds, 2024 Series A and 2024 Series B, we assess the transaction as Medium green.

Eligible projects under issuer's green finance transaction are assessed based on their environmental benefits and risks, using Shades of Green methodology.

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**Sustainable water and wastewater management**


 **Medium green**

Wastewater collection and treatment, including constructing, remodeling, and enlarging of sewage treatment works, administrative buildings, water quality improvement projects, pumping stations, tunnels, conduits, intercepting sewers, and outlet sewers.

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**Climate change adaptation and resilience**

 **Medium green**

Construction of regional and local stormwater facilities, including runoff control systems, pumping stations, and runoff storage facilities.

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See [Analysis Of Eligible Projects](#) for more detail.

## Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing transaction within its overall strategy.

### Company Description

Established in 1889, the MWRD is a special purpose government agency responsible for treating wastewater and managing stormwater in Cook County, Ill. MWRD's activities include collecting wastewater and stormwater, conveying it to wastewater reclamation plants, providing full secondary treatment, and discharging clean water to local waterways. MWRD serves a broad service area of over 880 square miles within Cook County, including Chicago and 128 suburbs. The population is substantial, with more than five million people and significant commercial and industrial anchor customers.

Through the issuance of the 2024 series A and series B bonds, MWRD intends to invest in projects that provide environmental benefits by improving wastewater treatment services in the Greater Chicago area.

### Material Sustainability Factors

#### Water

Water, stormwater, and wastewater utilities face various water supply and quality challenges depending on their location and role in the water lifecycle. Water supply and quality issues may result from multiple factors, including infrastructure quality and resulting water lost during extraction and transportation. Other factors could stem from acute physical climate events such as droughts and floods, chronic physical climate risks (e.g., sea level rise and changing precipitation patterns), or degradation of the watershed near extraction points due to human intervention or climate change. While wastewater treatment can serve as a valuable source of treated water for specific end markets, the process may introduce potential downstream impacts on ecosystems and communities depending on the process efficiency, infrastructure capacity, and ultimately the quality of the treated water. Also, the potential overflow of untreated sewage and stormwater into water bodies used as water extraction points can also be an issue for both operator and ultimately, customers. Furthermore, operators may encounter escalating stakeholder conflicts driven by competing demands for limited water resources, such as agriculture, efforts to preserve ecosystems, power generation, and other industrial water users.

#### Pollution

Globally, high quantities of untreated wastewater are released into the environment where it can contaminate water bodies, making pollution a material stakeholder concern for water utilities. They also manage toxic pollution from agricultural runoff and industrial discharge in water basins. Contaminated water and poor sanitation systems in turn contribute to long-term health conditions, and these customer health and safety events can, when severe, undermine public trust. Under applicable environmental laws and regulations, entities could be liable if their operations cause environmental damage, in particular air, drinking water, or soil contamination. Power service disruptions can also be life threatening, primarily for certain vulnerable groups, but utilities typically ensure adequate back-up power.

#### Physical climate risk

Physical climate risk is a material factor because of the potential damage to assets and disruptions to many stakeholders and to operations. Acute physical risks--such as typhoons, storms, and floods--can impair, disrupt, or even destroy assets, limiting the availability of essential infrastructure of utility networks. Over time, chronic risks--increase in precipitation patterns, and sea level rise--may shorten the useful life of port infrastructure. Their impacts can also be much broader if key assets are unavailable for extended periods. The increasing frequency of acute physical risks and the assets' long-term nature and fixed locations point to growing materiality. The impacts of physical climate risks may extend beyond the assets themselves and play out to

infrastructure provider's region or service area. This could have more prolonged impacts on demand, potentially affecting stakeholders.

### **Impact on communities**

The affordability and reliability of networks are under pressure from climate-related risks, exacerbating the materiality for stakeholders given how close utility networks are to where people live and work, and that energy and water services are essential for community health and well-being globally. Energy and water are essential services supporting human health and well-being and global economic development. Service disruptions or steep price increases are likely to be amplified by the energy transition and physical climate risks. These dynamics can affect households' purchasing power and the competitive strengths of local industries, which make this highly material for stakeholders. Stakeholder impacts may also arise from the construction and siting of lines--especially in areas unaccustomed to industrial development and in indigenous territories. Additionally, for water utilities, pollution in source water can affect the availability and useability of supply, and may pose severe, and sometimes irreversible, community health and safety hazards. However, the industry's reliability remains high, and we expect this to continue given that water utilities use long term-integrated resource planning, which accounts for these risks. Moreover, while utility bills are rising, they tend to rise at a rate lower than inflation. Additionally, regulators continue to allow utilities to use mechanisms to smooth volatility and to offer income assistance programs, which underpins a more moderate impact.

## **Issuer And Context Analysis**

**The projects financed through the transaction address water, pollution, physical climate risk, and impact on communities, which are material sustainability factors in the sector.** The issuer expects the projects to enhance wastewater and stormwater management systems in the Greater Chicago area, thereby improving the health and safety of local waterways and communities.

**We believe MWRD's strategy to manage wastewater and stormwater, which directly relate to water and pollution management, is comprehensive.** The strategy focuses on three main areas: stormwater management, wastewater treatment, and water quality protection. With seven wastewater treatment plants, MWRD safeguards the water quality of Lake Michigan, the region's drinking water source. The company's water reclamation plants release treated water by removing nitrogen and phosphorus, among other pollutants. Through biological and chemical processes, MWRD eliminates more than 91% of total phosphorus from wastewater. MWRD's Tunnel and Reservoir Plan (TARP) captures sewer overflows, while investments in infrastructure and other stormwater management practices serve to increase wastewater treatment capacity and reduce polluted runoff, preventing it from entering the local watershed. The issuer also conducts water sampling at 30 locations within its 882-square-mile service area to monitor various chemical and biological constituents, oxygen levels, and temperature. These efforts enhance water quality for residents and industries and contribute to the improvement of the aquatic ecosystem. MWRD operates under several key environmental regulations, such as Clean Water Act (CWA), Watershed Management Ordinance (WMO), Illinois Environmental Protection Agency (IEPA), etc., that govern its activities in wastewater treatment and stormwater management, ensuring sustainable practices, which is viewed positively.

**The entity recognizes the threat of climate change and implemented a CAP to ensure long-term delivery of wastewater treatment and stormwater management services.** Chicago is facing more frequent and severe weather patterns, including heavy rainfall, and its flat geography makes it particularly prone to flooding. Additionally, prolonged higher temperatures can lead to the spread of waterborne pathogens and harmful algal blooms, threatening the safety of drinking water and recreational waters in the region. MWRD established a Capital Improvement Program (CIP), a multi-year plan to enhance its wastewater and stormwater management capabilities. Projects such as TARP and current capacity enhancements aim to improve stormwater management systems and reduce flooding risks in the Greater Chicago area. About a third of the issuer's \$1.4 billion 2024 budget is allocated to capital improvement projects. Additionally, in

2023, MWRD adopted its CAP, focusing on adapting to increased rainfall and urban flooding risks through improved infrastructure, emissions mitigation, and community engagement.

**The organization prioritizes transitioning its infrastructure to mitigate physical climate impacts and address greenhouse gas emissions from fuel and power consumption, biogenic sources, and water treatment processes.** A large portion of the issuer's emissions (CO<sub>2</sub>e) stem from nitrous oxide and methane emitted from wastewater treatment plants and discharged water. We note biogas from waste digesters is beneficially reused to heat treatment tanks, comprising about 25% of the entity's energy requirements in 2021, and reducing the need for additional purchased fuel. While scope 1 emissions from fuel consumption are a relatively small share of emissions, purchased electricity to power pumping systems and machinery contributes a substantial share of emissions. The issuer is working to reduce scope 2 emissions through purchased renewable energy, which comprised 17.5% of power in 2021. The issuer aims to reduce greenhouse gas emissions by 28% by 2025 from a 2005 baseline; as of 2023, MWRD achieved a 36% reduction towards this goal, and set an ambitious goal of achieving 80% reduction in emissions by 2050.

**The issuer plays a critical role in communities as a protector of public health, and MWRD actively engages the community.** This engagement aims to foster collaboration, enhance transparency, and address local water management challenges, including drinking water quality, while ensuring residents' needs and concerns are heard and addressed. The issuer holds regular public meetings and workshops to inform residents about ongoing projects, gather feedback, and educate the community on water management issues. The focus is on building awareness within communities to reduce pollutants entering water bodies, maintain water quality of water streams, and respond to flooding events. MWRD's wastewater and stormwater management projects not only ensure quality water for neighboring communities but also provide protection against acute weather events, with some projects specifically targeting underserved communities.

# Alignment Assessment

This section provides an analysis of the transaction's alignment to Green Bond Principles.

## Alignment With Principles

Aligned = ✓    Conceptually aligned = ○    Not aligned = ✗

✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)

### ✓ Use of proceeds

We assess all the transaction's green project categories as having a green shade, and the issuer commits to allocating the net proceeds issued under the transaction exclusively to eligible green projects, contributing to specific environmental goals. Please refer to the Analysis Of Eligible Projects section for more information on our analysis of the environmental benefits of the expected use of proceeds.

### ✓ Process for project evaluation and selection

MRWD's Board of Commissioners reviews, approves, and adopts capital projects, and is guided by the issuer's strategic plan. The issuer has processes to identify and manage environmental and social risks related to eligible projects. The issuer's 2023 CAP identifies likely climate change impacts, ongoing responses, and priority actions. MWRD is further required to abide by state and federal regulations pertaining to water quality and air emissions.

### ✓ Management of proceeds

The issuer will track the net proceeds and the proceeds will be in segregated accounts. Pending allocation, net proceeds will be held in securities including those fully guaranteed by the U.S. Government; certain U.S. Government Agency securities; certain short-term obligations of corporations (commercial paper, and similar instruments, in accordance with the issuer's policies.

### ✓ Reporting

The issuer commits to report annually on the allocation of the net proceeds and on the financed projects' impact until full allocation of the net proceeds. Reporting will be available on the company's website. Allocation reporting will include the total amount of instruments outstanding, a brief description of the projects, and the breakdown of allocation of net proceeds by eligible category. The company will also report on the actual impact of the financed projects, including biosolids monitoring, water quality monitoring, and sewer overflows, in its green bond project expenditure reports.

# Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the Shades of Green methodology.

## Overall Shades of Green assessment

Based on the project category shades of green detailed below, the expected allocation of proceeds, and consideration of environmental ambitions reflected in the Metropolitan Water Reclamation District of Greater Chicago's Capital Improvement Bonds, 2024 Series A and 2024 Series B, we assess the transaction Medium green.

Medium green

Activities that represent significant steps towards a low-carbon climate resilient future but will require further improvements to be long-term low-carbon climate resilient solutions.

Our [Shades of Green Analytical Approach](#) >

## Green project categories

### Sustainable water and wastewater management

#### Assessment

Medium green

#### Description

Projects related to design, construction, rehabilitation, and remodeling of new and existing infrastructure for the efficient and sustainable management of wastewater and stormwater including:

- Wastewater collection systems, construction and enlarging of sewer treatment works, wastewater pump stations, construction of pumping stations, tunnels, conduits, intercepting sewers, and outlet sewers.
- Other infrastructure that supports wastewater treatment systems including administrative buildings.

#### Analytical considerations

- Improving the resilience and functionality of wastewater treatment systems is an important aspect of transitioning towards a low-carbon, climate resilient future and maintaining the health of drinking water and aquatic ecosystems. MWRD's combined sewer and stormwater system presents unique challenges in that sewage and stormwater are transported and treated within the same system. MWRD's projects aim to construct, renovate, and upgrade new and existing wastewater treatment facilities across its service area to increase the treatment capacity and quality of the system and reduce instances of contaminated water runoff. We believe the projects will provide material benefits to the region's water management capacity.
- Stringent water quality standards imposed by federal and state governments require that treated wastewater meet certain thresholds for several pollutants before water is returned to the local watershed. While this strong regulatory regime can mitigate instances of water pollution, since MWRD operates a combined sewage and stormwater system, periods of intense precipitation can overwhelm treatment and storage capacity, resulting in discharge of untreated water. Such discharges can contaminate local waterways with nitrogen, phosphorous, biosolids, and various chemical pollutants that can affect aquatic ecosystems and human health. The eligible capital upgrades include biosolids management equipment and aeration ponds, conveyance systems such as sewers and force mains, and pumping stations, among others. These improvements will expand wastewater collection, treatment, and storage capacity, helping to maintain compliance with regulation and reduce potential impacts on the local watershed and communities.
- As MWRD operates in an area with very low water risk, the issuer does not recycle water that it treats, rather it is discharged into local waterways.
- Furthermore, the Chicago Sustainable Development Policy requires municipal buildings to be constructed to LEED Silver standards, which applies to new construction of administrative buildings under the financing.

- Wastewater treatment systems can result in direct air emissions including methane and nitrous oxides from treatment, treated water discharge, and biosolids processing operations. A portion of such emissions are currently captured by MWRD's digester tanks and beneficially reused to heat treatment digesters and other elements of its facilities, which we view positively. A portion of the issuer's emissions are difficult to abate, such as those from open aeration tanks. Meanwhile, water treatment is also energy-intensive, and many pumps and other machinery utilize purchased electricity and in some cases fossil fuels, in particular for backup systems, resulting in greenhouse gas emissions. The issuer is working to increase purchases of renewable power to reduce scope 2 emissions, which is projected to reach 25% of purchases in 2025 as required by the Illinois Future Energy Jobs Act. While scope 3 emissions are currently not considered under the CAP or the entity's emissions footprint, the entity is researching the emissions associated with purchased goods including chemicals that will be used to help inform procurement of low carbon intensity materials and chemicals, when possible. Furthermore, there is minimal visibility on the lifecycle emissions for the proposed projects, including the long-term transition to renewable power and the potential for embodied greenhouse gas emissions in new infrastructure. MWRD plans to review the feasibility of procurement of low carbon materials when information becomes available at the end of 2026 through a U.S. Environmental Protection Agency program funded by the Inflation Reduction Act.
- The projects in this category are designed in conjunction with climate adaptation projects, discussed below, that seek to reduce the impacts of significant precipitation events on the entity's wastewater and stormwater system. While physical climate risks remain, the issuer's CAP and capital investments are intended to mitigate such risks while simultaneously improving the performance of the system.

### Climate change adaptation and resilience

#### Assessment

 **Medium green**

#### Description













Flood defense systems including runoff control systems, tunnels, pumping stations, and storage reservoirs.

#### Analytical considerations

- The projects within the issuer's stormwater management program and TARP are central elements of long-term climate adaptation and resiliency for the Chicago area. The region has long been affected by flooding and resulting sewer overflows; in the 1960s, such overflows occurred an average of 100 days a year. The TARP system and other system improvements have since reduced these instances to about 50, while the system currently eliminates about 85% of the pollution load attributable to combined sewer overflows. While a significant improvement, these values show the vulnerabilities of the system. As climate change alters the hydrological cycle, changes to the volume, frequency, and intensity of precipitation are expected to continue. The issuer's planned upgrades to the existing overflow capture, transport, and storage systems are a core component of mitigating potential impacts of a changing climate to ensure that it can continue to provide reliable stormwater management services. The financing will help complete a large new reservoir for overflows and stormwater detention reservoirs, levees, and conveyance improvements should mitigate, but not eliminate, the risk of overflows.
- We assess these investments as Medium green given the overall benefits to flood defense. We believe MWRD's adaptation and resilience activities support a low carbon, climate resilient future. Meanwhile, the energy consumption over the project's long lifespan will be considerable, underscoring the importance of transitioning energy supply towards greener alternatives. Additionally, there are unabated embodied emissions in project infrastructure.



S&P Global Ratings' Shades of Green

Assessments					
 Dark green	 Medium green	 Light green	 Yellow	 Orange	 Red
<b>Description</b>					
Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
<b>Example projects</b>					
 Solar power plants	 Energy efficient buildings	 Hybrid road vehicles	 Health care services	 Conventional steel production	 New oil exploration

Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

# Mapping To The U.N.'s Sustainable Development Goals

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

**Use of proceeds**

**SDGs**

Sustainable water and wastewater management



**6. Clean water and sanitation\***

\*The eligible project categories link to these SDGs in the ICMA mapping.

## Related Research

- [Analytical Approach: Second Party Opinions: Use of Proceeds](#), July 27, 2023
- [FAQ: Applying Our Integrated Analytical Approach for Use-of-Proceeds Second Party Opinions](#), July 27, 2023
- [Analytical Approach: Shades of Green Assessments](#), July 27, 2023

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## Second Party Opinion: The Metropolitan Water Reclamation District of Greater Chicago's Capital Improvement Program Bonds, 2024 Series A and B

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