S&P Global
Ratings

RatingsDirect®

Summary:

Metropolitan Water Reclamation District of Greater Chicago; General Obligation

Primary Credit Analyst:
Jenny Poree, San Francisco + 1 (415) 371 5044; jenny.poree@spglobal.com

Secondary Contact:
Mallie Lange, Austin +1 2147655861; Mallie.Lange@spglobal.com

Table Of Contents

Summary:

Metropolitan Water Reclamation District of Greater Chicago; General Obligation

Credit Profile		
US$300.0 mil GO ltd tax cap imp bnds ser 2024 A due 12/01/2044		
Long Term Rating	AA+/Stable	New
US$90.0 mil GO ltd tax rfdg bnds ser 2024 D due 12/01/2033		
Long Term Rating	AA+/Stable	New
US$48.0 mil GO ltd tax rfdg bnds ser 2024 C due 12/01/2029		
Long Term Rating	AA+/Stable	New
US$37.0 mil unltd tax rfdg bnds (alt rev source) ser 2024 E due 12/01/2041		
Long Term Rating	AA+/Stable	New
US$25.0 mil GO ltd tax cap imp bnds ser 2024 B due 12/01/2043		
Long Term Rating	AA+/Stable	New
Metro Wtr Reclamation Dist of Greater Chicago GO		
Long Term Rating	AA+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term ratings to five series of 2024 (A-E) general obligation (GO) bonds for Metropolitan Water Reclamation District of Greater Chicago (MWRD), in the approximate amount of $500 million.
- S&P Global Ratings also affirmed the 'AA+' long-term rating on the MWRD's $1.6 billion of GO bonds outstanding.
- The outlook is stable.

Security

MWRD's full faith and credit is pledged to the GO bonds. The unlimited-tax bonds are payable from a designated property tax levy without limitation as to rate or amount. The limited-tax bonds are payable from a designated property tax levy without limitation as to rate but limited as to amount. Levies are billed and collected by Cook County and then remitted directly to the treasurer. We do not differentiate between a limited and unlimited tax pledge, given the taxing capacity.

The series A and B bonds will provide funds for capital improvement bonds and the series C, D, and E bonds will refund certain outstanding obligations.

Credit overview

The district benefits from its extremely large, diverse service area with income levels that support a healthy market position, even assuming a nearly $1.4 billion capital improvement plan (CIP). The management team has prudent operational and financial policies in place that mitigate narrower financial margins than those of its higher-rated peers.

The strategic plan is comprehensive and includes climate, regulatory, and affordability considerations, as well as comprehensive risk mitigation with measurable benchmarks to assess performance. Financial trends have been stable historically but management projects the potential for increases to wages that, if not fully recovered, could pressure margins, especially given the ongoing expectation for pension costs. We believe MWRD has sufficient taxing capacity to support these costs but the tax burden in the area is relatively high.

Environmental, social, and governance

MWRD recently adopted a climate action plan to address and respond to climate events that affect the service territory. We believe the district's capital plans and mission to improve water quality protect properties from flood damage, and the sustainability and resiliency plans, as they are implemented, set MWRD on the path to mitigate elevated environmental risk. There are substantial income disparities within the service area and many of the more vulnerable communities also have elevated risk of flood. The strategic plan identifies these vulnerable communities and supports these communities through greater district contributions, which we believe reduces some of the social risks associated with the lower income areas.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that management will likely preserve the system's financial profile and maintain its strong financial and operational policies. The size, depth, and diversity of the service area's economy and tax base provide additional rating stability, in our view.

Downside scenario

We could lower the rating if management fails to maintain structural balance, including an inability to offset rising costs, unanticipated capital expenses, or increased pension liabilities. We could also lower the rating if liquidity falls significantly below one year of operations given the timing of the revenue collection and the two-year property tax cycle.

Upside scenario

If MWRD's debt service coverage improves while other relevant credit factors maintain stability, we could raise the rating.

Credit Opinion

Enterprise profile

MWRD provides service to an extremely broad service area of more than 880 square miles within Cook County, including Chicago and 128 suburbs. The population is substantial, at more than 5 million, with significant commercial and industrial anchor customers. The size and depth of the service area is a credit strength, especially given that most revenue is derived from property taxes. Income levels are sufficient to support the expected CIP, at just above the national average. The poverty rate is nearly 14%, which we deem as slightly elevated, but the annual bills are very affordable relative to both income and market value, supporting our view that the district has a very strong market position.

MWRD collects wastewater, conveys it to wastewater reclamation plants, provides full secondary treatment, and discharges clean water to local waterways. The facilities have additional capacity. MWRD also provides comprehensive pollution and flood control that has been effective, eliminating about 85% of the pollution attributed to sewer overflow. We believe flood control and phosphorous removal will remain key areas of investment. We believe the asset management is prudent and includes dedicated maintenance and a detailed pay-as-you-go program. We believe construction management is sophisticated and includes detailed bid specifications to ensure bidding process delivers projects with long lifecycles. This strengthens our view of operational stability given that MWRD has a comprehensive plan to build and maintain assets, which reduces the likelihood of infrastructure-related risks.

From a regulatory perspective, MWRD achieved 100% compliance with National Pollutant Discharge Elimination System requirements in 2022. New state and federal rules on perfluoroalkyl and polyfluoroalkyl substances (PFAS) and phosphorus may affect MWRD, but the cost is uncertain. This could be effective from a treatment and solids disposal perspective, given the recent designation of PFAS as "hazardous substances" under Comprehensive Environmental Response, Compensation, and Liability Act. Management doesn't anticipate this rule creating a change in the district's biosolids programs and MWRD does extensive testing for PFAS. We believe this remains an evolving issue for the sector that could introduce increased costs and liabilities, but MWRD has significant rate cushion and tax capacity to mitigate some of this risk.

Organizational effectiveness is also strong. MWRD has comprehensive leadership and succession planning that integrates knowledge, budgetary appropriation, and business risk into the succession strategies. The result has been extremely low turnover and continuity of knowledge. MWRD also has comprehensive strategic and emergency response planning and detailed cyber management, which we view favorably. Climate resilience and environmental stewardship are integrated into all aspects of planning, which we view also favorably given associated risks to the system. Management has developed a Climate Action Plan (CAP) to support wastewater treatment and stormwater management services in its service area to adapt to climate-related challenges. The CAP objectives are consistent with the Paris Agreement and the U.S. Climate Alliance.

Rate-setting practices are also sufficient and include incorporation of capital and debt needs. The enforcement of collections is strong given the ability to attach liens for nonpayment of property taxes. While we believe rates are affordable, there is significant income disparities among the various municipalities served that could be a challenge as the tax burden rises. Overall, we believe MWRD's operational management assessment is a significant credit strength.

Financial profile

MWRD has a healthy financial position, with coverage averaging above 1.6x and ample liquidity that is equal to over a year of expenses. Fiscal 2024 is expected to be significantly weaker than previous years given inflationary increases to expenditures, including a planned drawdown in the fund balance. We assumed margins would narrow given expected wage increases and inflationary expenses as well as the continuing pension contributions in a climate of tepid revenue growth. MWRD budgets conservatively, treating any personal property replacement tax revenue above $75.0 million as one-time revenue and allocating it accordingly. Although the MWRD is not seeking revenue increases that go beyond statutory limits, we note that local taxpayers are facing growing tax burdens from a variety of jurisdictions, which could contribute to future taxing pressure, despite sufficient capacity.

MWRD officials have a history of managing discretionary expenditures and we expect fiscal balance will be restored in 2025. Overall, management has demonstrated sound financial management including:

- Use of historical information and forecasts from external sources;
- Quarterly updates of revenue and expenditure performance;
- Five-year forecasting;
- Long-term capital planning for five years and 30 years; and
- Policies that guide reserve levels in the corporate fund, working cash fund, and reserve claim fund, all geared toward ensuring cash flows in the event of unanticipated revenue fluctuations.

The CIP is expected to be approximately $1.4 billion during the next five years. Major elements in the CIP include the collection system, water reclamation plants and solids management, the Tunnel and Reservoir Plan, stormwater management, and replacement of facilities. Phosphorous removal projects total more than $600 million. Recent construction staffing and inflation have delayed capital expenditures. As inflation subsides, management believes projects will return to more rapid schedules.

The debt burden is manageable but on the higher side, especially when incorporating pension and other postemployment benefits costs. MWRD has more than $4 billion of total debt outstanding. We consider its overall debt burden moderate on a per-capita and market value basis, but more elevated relative to capitalization. Amortization is relatively front-loaded with significant capacity after 2037, which should provide for additional flexibility.

Ratings Detail (As Of November 22, 2024)		
Metro Wtr Reclamation Dist of Greater Chicago GO		
Long Term Rating	AA+/Stable	Affirmed
Metro Wtr Reclamation Dist of Greater Chicago GO		
Long Term Rating	AA+/Stable	Affirmed
Metro Wtr Reclamation Dist of Greater Chicago GO		
Long Term Rating	AA+/Stable	Affirmed
Metro Wtr Reclamation Dist of Greater Chicago GO		
Long Term Rating	AA+/Stable	Affirmed