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Ratings

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Research Update:

Metropolitan Water Reclamation District Of Greater Chicago Series 2026 A-E GO Debt Rated 'AA+'

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Overview

- S&P Global Ratings assigned its 'AA+' long-term ratings to Metropolitan Water Reclamation District of Greater Chicago**'s** (MWRD) approximately $411 million five-series 2026 (A-E) general obligation (GO) bonds (unlimited and limited tax).
- S&P Global Ratings also affirmed its 'AA+' long-term rating on the MWRD's $2.6 billion GO bonds outstanding.
- The outlook is stable.

Rationale

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 highlights

The MWRD continues to demonstrate credit characteristics consistent with a highly rated wastewater and stormwater utility issuer. The district benefits from an expansive and economically diverse service area of more than 880 square miles—serving over 5 million residents across Chicago and 128 suburbs—as well as a comprehensive operational scope encompassing wastewater collection, secondary treatment, and discharge. Supported by a stable property tax-supported revenue framework and robust liquidity, these strengths support the district's ability to fund its long-term capital investment needs while maintaining significant financial flexibility.

The credit profile is further enhanced by conservative budgeting, strong tax collection performance, and a disciplined approach to addressing long-term pension obligations. While the district faces persistent expenditure pressures from rising labor costs and pension liabilities, MWRD possesses the substantial financial capacity and statutory authority to absorb these pressures.

The rating is constrained by an elevated debt burden with a sizable capital improvement plan (CIP), ongoing pension obligations, and a relatively high overall tax burden within Cook County compared with peers. In addition, evolving environmental mandates remain a key consideration, though management's proactive planning and scale serve to mitigate these risks.

Additional enterprise profile factors include:

- MWRD benefits from a highly diversified economic base and a growing property tax base that provides long-term credit stability. We view the recent improvements in income and employment as positive credit drivers that outweigh minor population declines.
- The district's bifurcated revenue model offers significant affordability headroom and mitigates political headwinds by utilizing property taxes for residential service. We consider this a key strength, though we will monitor potential rate volatility from new environmental mandates.
- Proactive climate resilience and extensive infrastructure depth demonstrate strong operational management. While emerging regulatory requirements pose headwinds, we believe the district's scale and financial flexibility sufficiently mitigate these risks.

Additional financial profile factors include:

- Robust, predictable tax-based revenues ensure robust all-in coverage and debt service capacity. We view recent budgetary variances due to county collection timing as transient, non-structural events.
- With 579 days of cash on hand at the end of fiscal 2025, MWRD maintains an extremely strong liquidity position.
- The debt burden is manageable but on the higher side, especially when incorporating pension and other postemployment benefits costs. The most prominent long-term challenge is the pension liability. However, we view management's disciplined funding approach as a major mitigating strength that is superior to many regional peers.
- Conservative budgetary practices and a sophisticated approach to risk mitigation characterize the district's financial management. We view the ability to operate well within statutory tax caps and manage complex revenue variances as indicators of a high-quality environment.

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

We could raise the rating should MWRD achieve a lower debt burden and improved pension liability management, characterized by adequate funding levels that curb long-term liability growth and future cost volatility.

Credit Opinion

Enterprise Profile

MWRD benefits from an exceptionally large and diversified economic base, with no single industry concentration exceeding 21%—well below the 30% threshold for high susceptibility. We view the recent improvement in economic indicators, specifically the 22.4% growth in per capita income and the contraction of unemployment to 4.6%, as positive credit drivers. While we note a slight population decline of 2.4% over the last decade, the district’s significant scale (operating revenues of $913 million) provides substantial economies of scale. Looking forward, we believe the robust and growing property tax base (EAV) provides a reliable buffer to support long-term obligations and fund future capital mandates.

The district maintains a highly favorable market position and revenue model with significant affordability headroom. Residential service is funded via the property tax levy rather than direct user fees; for a typical residence, the estimated annual cost of $459 remains well below national averages, mitigating political and consumer headwinds. The User Charge Program is targeted at industrial, commercial, and tax-exempt entities that do not pay property taxes or exceed specific discharge thresholds. This program utilizes a volume and pollutant-loading (BOD/SS) structure, supplemented by an operations, maintenance, and repair (OM&R) factor to ensure efficient cost recovery from high-impact users. We view this bifurcated revenue model as a key strength, though we will monitor potential rate volatility driven by emerging environmental mandates.

MWRD demonstrates strong operational management through its extensive infrastructure depth and proactive approach to climate resilience and stormwater management. The integration of green infrastructure and flood mitigation projects aligns with best practices for managing increasing severe weather frequency. While management and governance are viewed favorably due to mature strategic planning, we identify emerging regulatory requirements regarding PFAS, biosolids, and phosphorus removal as quantifiable credit headwinds. However, we believe the district's significant scale and strong financial flexibility sufficiently mitigate these evolving operational and environmental risks.

Financial Profile

MWRD demonstrates robust all-in coverage supported by highly predictable, tax-based revenues, which constitute approximately 59.7% of General Corporate Fund revenues. A critical strength is the district's exceptional collection performance and an automatic 3.5% reserve cushion levied by the county for bond sales, ensuring coverage is maintained through the property tax levy rather than a reliance on volatile user fees. While we noted a significant budgetary variance in fiscal 2025 due to Cook County’s delay of property tax collection, we view this as a transient, non-structural event. Looking forward, the district's ability to capture tax increment surpluses and its diversified revenue streams provide a strong buffer to meet all debt service and operating requirements.

Liquidity remains a significant credit strength, with approximately $922 million in cash and investments as of the fiscal 2025 audit, providing 579 days' of cash on hand. Although reserves have moderated from pandemic-era highs, we view the current drawdown as a prudent, controlled move toward long-term fiscal normalization and the bolstering of retirement funds. The district's reserve policy (maintaining 12%-15% in the corporate fund) and the substantial liquidity within the construction fund provide ample flexibility. We believe this extremely strong liquidity position provides a vital safety valve to manage both the $1.32 billion five-year CIP and any future timing delays in tax collections.

The debt burden is manageable but on the higher side, especially when incorporating pension and other postemployment benefits costs. MWRD has more than $4.4 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. The most prominent long-term challenge is the pension liability, characterized by a 54.6% funded ratio and a $1.26 billion unfunded obligation. However, we view management's disciplined funding approach—evidenced by contributing 127% of the actuarially determined requirement in 2025--as a major mitigating strength that is superior to many regional peers. Furthermore, the fully funded OPEB trust (111.8%) serves as a meaningful offset. We will continue to monitor the impact of declining corporate personal property replacement tax (CPPRT) revenues and potential changes in actuarial assumptions on long-term pension liability management.

MWRD exhibits strong financial management characterized by conservative budgetary practices and proactive risk mitigation. Management has demonstrated high levels of transparency and prudence, specifically in its deliberate strategy to use surplus PPRT receipts to normalize corporate fund balances and strengthen retirement assets. The upcoming 2026 Strategic Plan and the district's ability to manage complex revenue variances (such as the fiscal year 2025 property tax timing issue) reflect a sophisticated approach to financial continuity. We view the district's ability to operate well within statutory tax caps and its disciplined approach to capital planning as key indicators of a high-quality financial management environment.

Climate And Other Evolving Factors

MWRD has recently adopted a climate action plan to address increasing environmental volatility. We believe the district's capital program and mission to improve water quality provide essential flood protection; furthermore, the implementation of formal sustainability and resiliency plans will likely mitigate long-term environmental risks. Regulatory requirements regarding per- and polyfluoroalkyl substances (PFAS) and nutrient removal remain evolving considerations. While these represent ongoing credit headwinds, management has demonstrated proactive planning and a commitment to compliance efforts that we believe will help manage the transition to new environmental standards.

Metro Water Reclamation District of Greater Chicago, Illinois--economic and financial data

		Fiscal year-end			
	Most recent	2025	2024	2023	Median (AA+)
Economic data					
MHHEBI of the service area as % of the U.S.	98.0				112.0
Unemployment rate (%)	4.8				3.4
Poverty rate (%)	13.7				10.2
Water rate (6,000 gallons or actual) ($)	0.0				33.9
Sewer rate (6,000 gallons or actual) ($)	38.2				38.6
Annual utility bill as % of MHHEBI	0.7				1.0
Operational management assessment	Good				Good
Financial data					
Total operating revenues ($000s)		917,765	896,276	923,814	41,982
Total operating expenses less depreciation ($000s)		580,916	602,721	538,309	31,740
Net revenues available for debt service ($000s)		388,930	342,766	428,667	--
Debt service ($000s)		264,206	244,052	242,454	--
S&P Global Ratings-adjusted all-in DSC (x)		1.5	1.4	1.8	2.5
Unrestricted cash ($000s)		922,264	1,196,427	955,095	55,536
Days' cash of operating expenses		579	725	648	650
Total on-balance-sheet debt ($000s)		4,437,219	4,413,671	4,235,486	74,352
Debt-to-capitalization ratio (%)		44.2	44.3	44.0	25.0
Financial management assessment	Good	--	--	--	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$13,490,000 Metropolitan Water Reclamation District of Greater Chicago, Illinois, General Obligation Limited Tax Capital Improvement Bonds, (Green Bonds), 2026 Series B, dated: Date of Delivery, due: December 1, 2037	
Long Term Rating	AA+/Stable
US$173,075,000 Metropolitan Water Reclamation District of Greater Chicago, Illinois, General Obligation Limited Tax Capital Improvement Bonds, (Green Bonds), 2026 Series A, dated: Date of Delivery, due: December 1, 2046	
Long Term Rating	AA+/Stable
US$18,425,000 Metropolitan Water Reclamation District Of Greater Chicago, Illinois, General Obligation Limited Tax Refunding Bonds, Series 2026 D, dated: Date of Delivery, due: December 1, 2031	
Long Term Rating	AA+/Stable
US$191,400,000 Metropolitan Water Reclamation District of Greater Chicago, Illinois, General Obligation Unlimited Tax Refunding Bonds, Series 2026 C, dated: Date of Delivery, due: December 1, 2045	
Long Term Rating	AA+/Stable
US$40,335,000 Metropolitan Water Reclamation District of Greater Chicago, Illinois, General Obligation Unlimited Tax Refunding Bonds, (Alternate Revenue Source), 2026 Series E, dated: Date of Delivery, due: December 1, 2045	
Long Term Rating	AA+/Stable
Ratings Affirmed	
Water & Sewer	

Ratings List	
Metro Wtr Reclamation Dist of Greater Chicago, IL Water System Revenues	AA+/Stable

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.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.