FITCH RATES METROPOLITAN WATER RECLAMATION DISTRICT OF GREATER CHICAGO, IL GOS 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-26 May 2016: Fitch Ratings has assigned a 'AAA' rating to the following Metropolitan Water Reclamation District of Greater Chicago (the district) bonds:

--$ 286.4 million general obligation unlimited tax (ULTGO) refunding bonds, 2016 series A;
--$ 42.0 million general obligation limited tax (LTGO) refunding bonds, 2016 series B;
--$ 30.0 million ULTGO capital improvement bonds, 2016 series C (green bonds);
--$ 20.0 million LTGO capital improvement bonds, 2016 series D (green bonds);
--$ 50.0 million ULTGO bonds (alternate revenue source), 2016 series E (green bonds);
--$ 4.0 million LTGO capital improvement bonds (qualified energy conservation bonds - direct payment), 2016 taxable series F (green bonds).

The bonds will refund certain outstanding maturities for present value savings and provide financing for various capital projects. The bonds are expected to price the week of June 6th.

Fitch has also affirmed the following district ratings at 'AAA':

--$898.5 million outstanding ULTGO bonds;
--$1.19 billion outstanding LTGO bonds.

The Rating Outlook is Stable.

SECURITY

All of the current offerings are general obligations of the district, whose full faith and credit is pledged for repayment. The series A, C and E bonds are payable from ad valorem taxes levied upon all taxable property within the district, without limitation as to rate or amount. The series B, D and F bonds are payable from ad valorem taxes levied upon all taxable property with the district, without limitation as to rate, but limited by state law as to amount.

KEY RATING DRIVERS

The 'AAA' rating reflects the district's superior budgetary flexibility which underpins its stable financial performance and low long-term liabilities. Conservative management of both operational and capital mandates suggests continued strong financial performance throughout the economic cycle.

Economic Resource Base
The district serves the deep and diverse Chicago metropolitan area, which acts as the economic engine for the Midwest region. The area features abundant employment opportunities in a wide variety of sectors, and continued economic growth is supported by the region's vast infrastructure network.

Revenue Framework: 'aa' factor assessment
Fitch expects the district's main source of revenue, property taxes, to grow modestly above the rate of inflation. The district retains ample margin to raise revenues, despite the cap imposed by state law.

Expenditure Framework: 'aa' factor assessment
The district maintains an adequate amount of expenditure flexibility within its fairly predictable operating and capital spending environment. Typical for capital-intensive entities, carrying costs for long-term liabilities claim a substantial proportion of governmental fund spending. On average, the natural pace of spending growth is likely to be in line with revenue growth over time.

Long-Term Liability Burden: 'aaa' factor assessment
Fitch expects long-term liabilities to remain low relative to personal income, despite the substantial capital plan. The district participates in a pension plan whose ratio of assets to liabilities is weak but improving due to materially higher contribution rates and discretionary overfunding of actuarially required amounts.

Operating Performance: 'aaa' factor assessment
The district's superior inherent budgetary flexibility, moderately volatile revenue stream and ample reserves position it to perform well in a moderate economic downturn. Reserves should remain solid throughout the economic cycle.

RATING SENSITIVITIES

Materially Higher Liabilities: The district's current capital plan is manageable relative to the resource base. Significant increases in expected debt and/or unfunded pension liabilities could raise the long-term liability burden to a level inconsistent with the 'AAA' rating.

CREDIT PROFILE

The district is an independent government encompassing 91% of the land area and 98% of the equalized assessed valuation (EAV) of Cook County (rated 'A+'/Negative Outlook). The district provides wastewater treatment services to a population of 5.2 million people located in the city of Chicago and 128 suburban municipalities. Cook County accounts for approximately 40% of the statewide economy and maintains strong prospects for long-term stability if not growth. The city of Chicago makes up roughly 50% of the district's total assessed valuation and population.

County wealth indicators are generally on par with the statewide averages, as the affluent suburban population offsets the urban core. Educational attainment levels are strong. The employment base is represented by all major sectors with concentrations in the wholesale trade, professional and business services and financial sectors. The property tax base was slow to recover from the most recent economic downturn and recorded post-recession growth for the first time in 2015. Further growth is projected for 2016.

The district has no direct control over wastewater collection and transmission systems maintained by local governments within the county, but it does control sewer construction and expansion through the permitting process. Wastewater is transported to the district's seven treatment plants through a network of interceptor sewers and force mains that connect to local municipal sewer systems. The district's remaining treatment capacity is adequate at 38% with average daily treatment at 1.3 billion gallons per day (BGD) compared to 2 BGD treatment capacity.
In addition, the district operates a system of underground tunnels designed to store combined sanitary overflows during wet weather periods to prevent untreated discharge. The district's efforts at stormwater management have taken on a higher priority in recent years. The district's second stormwater reservoir opened in 2015.

Revenue Framework

Property taxes provide the majority of the district's operating revenues, accounting for 66% of general corporate fund revenues. User charges for corporate and industrial customers are the second largest source at 13%, followed by personal property replacement taxes at 7% of revenues.

The historical revenue growth trend has been positive, outpacing inflation but falling short of national GDP. The district serves a well-developed and mature economy whose stability and growth underpins Fitch's expectations for continued revenue growth in excess of inflation.

The district's property tax levy is generally limited by the Property Tax Extension Limitation Act, which limits year-over-year increases in the aggregate levy to the lesser of 5% or the CPI. The district has the independent legal ability to raise charges for service by a reasonable amount, as well as to reallocate component levy capacity which could free up a significant amount of operating levy revenue, if necessary. The amount of margin is more than sufficient to offset the potential revenue decline identified in Fitch's stress scenario. Commercial and industrial user charges are assessed according to a formula which allows the district to fully recover its costs for servicing those customers; major changes to formula would require federal approval.

Expenditure Framework
Expenditures are generally predictable, with operations and maintenance, debt service and capital comprising the bulk of spending.

Fitch expects the pace of spending growth to remain in line with revenue growth.

Expenditure flexibility is demonstrated by the district's discretionary overfunding of pension and OPEB actuarially determined contributions and the routine underspending of budgeted appropriations. The district's fixed cost burden is substantial, as is typical for a capital-intensive, single-purpose entity. Carrying costs for debt, required pensions and OPEB equaled 32% of governmental expenditures in 2015 and should remain relatively stable as new debt issuance is offset by amortization and reduced unfunded pension liabilities.

A significant proportion of the district's operating costs relate to labor. The district reports favorable labor relations although binding arbitration provisions and the ability to strike weaken overall workforce flexibility. A productive labor environment is evidenced by recent labor-approved pension reform and health care plan design changes.

Long-Term Liability Burden
Debt and pension liabilities are low at 9% of county-wide personal income. The district is past the peak of its capital plan, but substantial borrowing remains ahead. Amortization is slow at 36% in 10 years, but should still allow leverage ratios to stabilize or drop if current economic growth trends continue.
The district's pension plan exhibits an improving, but still weak asset-to-liability ratio, resulting in a stable to declining net pension liability. Recent pension reform mandating increasing employee and employer contributions should reduce the net pension liability going forward. The district has chosen to fund in excess of the newly increased minimum contribution for pension and consistently pre-funds a portion of its OPEB liability (OPEB trust assets at 52% of liabilities in 2015). The unfunded OPEB liability is minimal at 0.1% of personal income.

Operating Performance
The largest source of revenues, the property tax, is not particularly vulnerable to economic volatility. The district's general fund revenue volatility is largely due to discretionary reallocation of property tax dollars to different funds for varying purposes from year to year, rather than indicating economic sensitivity; overall property tax receipts did not decline during the most recent downturn, even though assessed value dropped. The district's superior budgetary flexibility and substantial reserves result in strong expected performance in a moderate economic decline. Fitch

expects that the district may tap reserves to address an economic stress in the short term, but that given the district's strong budgetary flexibility and conservative financial management reserves would remain solidly above the level Fitch believes is sufficient for the current rating.

Both during and after the most recent economic downturn, the district took steps to tackle major capital challenges, increase reserve levels and meaningfully improve post-retirement liability funding in a way that leaves it well prepared to weather a subsequent downturn.

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In addition to the sources of information identified in the applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

Applicable Criteria
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=879478