FitchRatings

Public Finance
Water & Sewer
United States

Metropolitan Water Reclamation District of Greater Chicago, Illinois

The 'AAA' bond ratings and Issuer Default Rating (IDR) reflect the Metropolitan Water Reclamation District of Greater Chicago's (the district) '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 tax (PPRT) revenue, which has been a significant source of revenue in recent years.

Fitch Ratings also considers the district's leverage in the context of the service area's (generally Cook County) resource base. As such, 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 into the debt service fund on or before the last business day of February of each year stormwater management tax receipts to pay debt service payments through the following December 1. This funding must occur before the district may abate the direct annual tax levy that secures the alternate revenue bonds.

Ratings

Long-Term IDR	AAA

Outlooks

Long-Term IDR	Stable
General Obligation Bonds	Stable

New Issues

$300,000,000 General Obligation Capital Improvement Bonds, 2024 Series A (Green Bonds)	AAA
$25,000,000 General Obligation Unlimited Tax Bonds, 2024 Series B (Green Bonds)	AAA
$48,000,000 General Limited Tax Refunding Bonds, 2024 Series C	AAA
$90,000,000 General Unlimited Tax Refunding Bonds, 2024 Series D	AAA
$37,000,000 General Obligation Unlimited Tax Refunding Bonds (Alternate Revenue Source), 2024 Series E	AAA

Sale Date

Week of December 9 through negotiation

Outstanding Debt

(Alternate Revenue Source) General Obligation Unlimited Tax Refunding Bonds (Taxable)	AAA
General Obligation Capital Improvement Bonds	AAA
General Obligation Limited Tax Capital Improvement Bonds (Build America Bonds - Direct Payment) (Taxable)	AAA
General Obligation Limited Tax Capital Improvement Bonds (Green Bonds)	AAA
General Obligation Limited Tax Capital Improvement Bonds (Taxable) (Qualified Energy Conservation Bonds - Direct Payment) (Green Bonds)	AAA
General Obligation Limited Tax Refunding Bonds	AAA
General Obligation Refunding Limited Tax Bonds	AAA
General Obligation Refunding Unlimited Tax Bonds	AAA
General Obligation Unlimited Tax Bonds (Alternate Revenue Source) (Green Bonds)	AAA
General Obligation Unlimited Tax Capital Improvement Bonds (Green Bonds)	AAA
General Obligation Unlimited Tax Refunding Bonds (Taxable)	AAA

Applicable Criteria

U.S. Water and Sewer Rating Criteria (February 2024)

U.S. Public Sector, Revenue-Supported Entities Rating Criteria (January 2024)

Related Research

Fitch Rates Met Water Reclamation District of Greater Chicago, IL's GOs 'AAA'; Outlook Stable (November 2024)

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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 comprised more than 1% of the district's estimated assessed valuation (EAV), and the top ten taxpayers totaled less than 2.5% of EAV. Although PPRT receipts 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, about $600 million of which is expected to be funded with 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 (COFO) 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 and 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 and 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.

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.

Revenue Defensibility

Revenue Source Characteristics

Revenues are primarily derived from ad valorem taxes, which were approximately 84% of 2023 consolidated revenues. The district also receives PPRT from the state, approximately $114.2 million, or 14.1% of revenues, in 2023 and user charges from non-residential users, which were $41.9 million, or 5.2% of revenues, in 2023.

Service Area Characteristics

The district's revenue defensibility incorporates the favorable service area, which includes the majority of Cook County. Cook County median family income is marginally above national levels, as the wealthier suburban area offsets the urban core. The unemployment rate declined to 4.0% in 2023, and was about 122% of the national rate.

Customer growth, estimated utilizing Cook County population relative to average household, reflects a decline in the five-year CAGR, consistent with overall Cook County population trend. The county's median household income (MHI) has kept pace with national growth and was 104% of the national MHI in 2022 (most recent data).

Cook County is the second largest county in the nation and is home to approximately 40% of Illinois residents. The county, anchored by the city of Chicago, serves as the economic center for the midwestern region of the U.S.

Rate Flexibility

Although the district's ability to raise ad valorem taxes is limited for certain operations, it retains meaningful revenue raising flexibility in the context of the relative stability of this revenue, which largely insulates it from revenue fluctuations related to changes in treated volumes. The district is not limited in its ability to levy taxes for debt service.

Ad valorem taxes are anticipated to increase about 3.5% annually in 2025 through 2028 bolstered by continuing growth in the EAV. As noted, PPRT receipts are anticipated to moderate and stabilize at $70 million annually. While the ability to raise ad valorem taxes for debt service is not constrained, the moderation of PPRT does lower the district’s financial flexibility.

Based on the district's personal income levels in 2022 (latest available data), the monthly charge is considered affordable for over 90% of the service area population.

Asymmetric Factor Considerations

No asymmetric additive risk considerations affect the revenue defensibility assessment.

Operating Risk

Operating Cost Burden

Operating costs were less than $1,500 per mg treated in 2023, reflecting about 1.5 BGD treated and focused nature of the district's operations. Operating costs are expected to grow generally in line with inflation. However, still high inflation and the district’s need to address anticipated regulatory mandates could lead to some additional operational pressures. The district levies a tax for retirement costs that is separate from and in addition to other levies, limiting the impact on funding for operations.

The district continues to have a significant unfunded pension liability, which approximated $1.8 billion in 2023 (as calculated by Fitch). However, average annual costs are manageable in the context of overall district operations and considering the separate levy. The district has made contributions to the pension fund in excess of those actuarially required since 2014, including $30 million 2023. The district recently received authority to issue pension obligation bonds; however, it does not expect to issue any such bonds in the near term.

The district's other post-employment benefits (OPEB) trust fund is projected to be fully funded by 2026, providing additional financial flexibility. Once fully funded, it will eliminate the need for $5 million annual advance funding, and the trust fund is projected to be able to support approximately $10 million in claims annually.

Capital Planning and Management

CIP expenditures approximate $1.5 billion for 2024 through 2028. The plan remains focused on stormwater, water reclamation plants, solids management and facilities replacement. The district anticipates issuing total debt of $800 million to fund the CIP, including low cost loans from state and federal programs. A portion of bond proceeds is anticipated to be available to fund capital projects into 2029. The remaining funds will come from current revenue and accumulated funds, the majority of which are derived from the stormwater levy. Overall, the district's CIP reflects increasing expenditures compared to historical levels.

Asymmetric Factor Considerations

No asymmetric additive risk considerations affect the operating risk assessment

Financial Profile and FAST Analysis

The district's very strong financial profile reflects leverage that increased to 7.6x in 2023, primarily driven by reduced FADs that reflected an increase in operating and pension related costs. Net adjusted debt also increased, reflecting an increase in the Fitch-adjusted net pension liability (NPL). The liquidity position is neutral to the assessment, with COFO that has averaged 1.4x over the five years ended 2023 and was 1.3x in 2023. Current cash on hand grew to 337 days in 2023, compared to the five-year average of 310 days.

Fitch Analytical Stress Test

In the FAST base case, Fitch assumed annual revenue growth of 3.5% beginning in 2025, which includes anticipated EAV growth but also recognizes moderating PPRT as outlined in the district's proposed 2025 budget. Operating expenditures reflect the five-year CAGR of 4.6%. Capital expenditures and debt issuance reflect district estimates for 2024 and the proposed 2025 budget for years 2025 through 2028.

Factoring in these assumptions, leverage rises to 9.7x in 2027 before declining to 9.5x in 2028. In the rating case, leverage follows a similar pattern, peaking at 10.0x in 2027 and declining to 9.9x in 2027. Although this pattern reverses recent trends in leverage, these levels remain consistent with the financial profile assessment. Liquidity is expected to remain neutral to the assessment through the five-year horizon.

Asymmetric Additive Risk Considerations

No asymmetric additive risk considerations affected this rating determination.

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 www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Financial Summary

(Audited Fiscal Years Ended December 31)	2019	2020	2021	2022	2023
Revenue Defensibility					
Revenue Source Characteristics					
% of Total Revenue from Monopolistic Services	100	100	100	100	100
Service Area Characteristics					
Service Area Population	5,145,326	5,275,541	5,180,919	5,111,566	5,087,072
Total Customer Count	1,562,524	1,551,836	1,572,558	1,565,225	1,451,139
5-Year Total Customer Count CAGR(%)		-0.5	-0.2	-0.1	-1.6
Service Area Median Household Income ($)	64,660	67,886	72,121	78,304	N.A.
Service Area MHI/U.S. Median Household Income (%)	103	104	104	104	N.A.
Service Area Unemployment Rate (%)	3.9	10.6	7.0	4.9	4.4
Service Area Unemployment Rate/U.S. Unemployment Rate (%)	105	131	132	136	122
Rate Flexibility					
Total Monthly Bill ($) (7,500 Gallons Water/6,000 Gallons Sewer)	20.21	23.54	25.44	24.08	26.75
% of Population with Unaffordable Bill	8	9	9	8	N.A.
Operating Risk					
Operating Cost Burden					
Operating Cost Burden ($/mg)	937	1,117	1,050	1,028	1,462
Capital Planning and Management					
Life Cycle Ratio (%)	4	4	4	4	5
Annual CapEx/Depreciation (%)	1,094	1,303	1,115	1,113	1,546
5-Year Average Capex/Depreciation (%)	1,962	1,684	1,415	1,193	1,234
Financial Profile ($000, unless otherwise indicated)					
Current Unrestricted Cash/Investments	329,676	343,739	407,634	433,233	575,597
Current Restricted Cash/Invest (Available Liquidity)	-	-	-	-	-
Current Cash Available	329,676	343,739	407,634	433,233	575,597
Noncurrent Unrestricted Cash/Investments					
Noncurrent Restricted Cash/Invest (Available Liquidity)					
Available Cash	329,676	343,739	407,634	433,233	575,597
Current Restricted Cash/Invest (Debt Service or Debt Service Reserve)	87,040	91,295	96,193	43,345	105,094
Noncurrent Restricted Cash/Invest (Debt Service or Debt Service Reserve)					
Funds Restricted for Debt Service	87,040	91,295	96,193	43,345	105,094
Total Debt	3,016,710	2,943,340	3,032,051	2,860,058	2,745,624
Capitalized Fixed Charges	-	-	-	-	-
Adjusted Net Pension Liability	1,622,300	1,529,078	1,504,751	1,407,135	1,753,545
Available Cash	329,676	343,739	407,634	433,233	575,597
Funds Restricted for Debt Service	87,040	91,295	96,193	43,345	105,094
Net Adjusted Debt	4,222,294	4,037,384	4,032,975	3,790,615	3,818,478
Total Operating Revs	771,278	774,301	819,311	932,372	923,814
Purchased Water/Sewer Services	-	-	-	-	-
Other Operating Expenses	494,566	496,074	420,890	435,050	623,733
EBITDA	276,712	278,227	398,421	497,322	300,081
Investment Income/(Loss)	18,293	7,972	775	-8,278	43,162
Non-Operating Revenues from Taxes					

Financial Summary

(Audited Fiscal Years Ended December 31)	2019	2020	2021	2022	2023
Other Cash Revenues/(Expenses)	3,052	-	-	-	-
BAB Subsidy	-	-	-	-	-
Capital Contributions	-	-	-	-	-
Funds Available for Debt Service	298,057	286,199	399,196	489,044	343,243
Fixed Services Expense	-	-	-	-	-
Net Transfers In/(Out)	-	-	-	-	-
Pension Expense	142,039	133,238	100,745	79,360	161,367
Adjusted Funds Available for Debt Service	440,096	419,437	499,941	568,404	504,610
Net Adjusted Debt/Adjusted Funds Available for Debt Service (x)	**9.6**	**9.6**	**8.1**	**6.7**	**7.6**
Funds Available for Debt Service	298,057	286,199	399,196	489,044	343,243
Fixed Services Expense	-	-	-	-	-
Net Transfers In/(Out)	-	-	-	-	-
Adjusted FADS for Coverage of Full Obligations	298,057	286,199	399,196	489,044	343,243
Total Annual Debt Service	264,887	268,185	188,711	333,099	260,032
Fixed Services Expense					
Adjusted Debt Service (Includes Fixed Services Expense)	264,887	268,185	188,711	333,099	260,032
Coverage of Full Obligations (x)	1.13	1.07	2.12	1.47	1.32
Coverage of Full Obligations Excluding Connection Fees (x)	1.13	1.07	2.12	1.47	1.32
Current Days Cash on Hand	243	253	354	364	337
Liquidity Cushion Ratio (Days)	243	253	354	364	337
All-In Debt Service Coverage (x)	1.13	1.07	2.12	1.47	1.32

Note: Fitch may have reclassified certain financial statement items for analytical purposes. N.A. – Not available.
Sources: Fitch Ratings, Fitch Solutions, Metropolitan Water Reclamation District of Greater Chicago, IL

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.