“Chicago Area MetWater’s Independence Highlighted,” *Bond Buyer*
Full article text: Moody’s says there’s good reason why the Metropolitan Water Reclamation District of Greater Chicago’s credit is faring better than others with Chicago or Cook County.
CHICAGO – The Metropolitan Water Reclamation District of Greater Chicago’s strong financials and independent governance are key strengths that have staved off the credit hits suffered by Chicago and other local governments, says Moody’s Investors Service.
Like Chicago and its sister agencies, the district is saddled with a substantial pension burden but its underlying strengths and its success in adopting reforms have kept its rating in high-grade territory. Moody’s rates the district Aa2.
“The district has a strong financial profile and an independent governance structure,” Moody’s said in the Oct. 16 report. “The district exhibits a healthy financial profile characterized by ample reserve levels and prudent management. The district also benefits from an independent governance structure that gives management control over district operations without political interference.”
The district, governed by an elected board with nine members throughout Cook County, adopted pension reforms several years ago which put the funds on a more stable path “without sacrificing financial stability,” Moody’s said.
Moody’s said the district’s adjusted net pension liability, a calculation Moody’s uses to assess the health of a government’s pension system, is $2.1 billion and represents a 3.1 multiple of operating fund revenues.
The district’s pension changes raised employee and employer contributions but did not cut benefits to reduce liabilities over the next 35 years. Moves by Chicago, the Chicago Park District, and the state to trim benefits have been challenged.
The Illinois Supreme Court voided state reforms in May and will consider city reforms next month. The district still could face a challenge over the higher employee contributions and the legal outcome is unclear. “Clearly, a reversion to the lower contributions levels in place prior to MWRD's reforms would exacerbate the district's pension challenges in the long-term and place downward pressure on the rating,” Moody’s warned.
The pension obligations remain a substantial strain for the district due to the “substantial debt and pension obligations of overlapping local governments” which strain the shared tax base.
“Increased leverage due largely to growing pension needs may place practical limitations on the district's revenue raising ability and or political willingness,” Moody’s warned. “However, the district's independent governance structure reduces the risk that financial pressures experienced by overlapping units of government will directly impact the district financial profile.”
MWRD closed fiscal 2014 with operating fund reserves of $357 million, or a strong 54% of operating fund revenues. In fiscal 2014, 84% of operating fund revenues came from property taxes, with a more modest 11% coming from charges for services.
While Moody’s heaped praise on the district’s overall financial profile, the district has not gone unpunished by Moody’s for the weight posed by pension burdens on the shared tax base.
Moody’s dropped the rating one notch earlier this year, an action that followed Moody's move to strip Chicago and its public school system of their investment grade ratings and its lowering of Cook County one notch to A2. It stripped the district of its top credit marks in 2013.
The district’s nearly $3 billion of general obligation debt carries top marks from Fitch Ratings and Standard & Poor's. Moody’s was not asked the district’s last sale.
The 125-year-old district has a $2.3 billion capital program. It serves five million residents from 125 communities, treating 1.3 billion gallons of wastewater daily.