FITCH AFFIRMS METROPOLITAN WATER RECLAMATION DISTRICT OF GREATER CHICAGO, IL GOS AT 'AAA'

Fitch Ratings-Austin-24 May 2018: Fitch Ratings has assigned the following ratings to the Metropolitan Water Reclamation District of Greater Chicago (MWRD, or the district):

--Issuer Default Rating (IDR) 'AAA'.

In addition, Fitch has affirmed the following ratings at 'AAA':

--$758 million outstanding ULTGO bonds;
--$1.2 billion outstanding LTGO bonds.

The Rating Outlook is Stable.

SECURITY

The bonds are direct and general obligations of the district for the payment of 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.

KEY RATING DRIVERS

CRITERIA DRIVEN RATING: The assignment of an IDR to the district reflects Fitch's application of U.S. Water and Sewer Rating Criteria to tax-supported utility enterprises. A variation to this criteria includes an enhanced analysis of the strength of the tax revenues available to support operations that is part of Fitch's U.S. Tax-Supported Rating Criteria dated April 3, 2018.

STABLE FINANCIAL PERFORMANCE: The 'AAA' IDR is based upon Fitch's assessment of the district's strong revenue defensibility profile and the expectation of continued steady financial performance. The district's outstanding debt includes GO bonds payable from ad valorem taxes levied upon all taxable property within the district, without limitation as to rate, but limited by state law as to amount.

STABLE AND DIVERSE REVENUES: The district's strong revenue defensibility reflects its stable and diverse revenue base, which is dominated by property tax revenue receipts received from an economically diverse service area. Accesses to user charges as well as other tax assessments also support strong revenue raising capacity and defensibility.

MIXED DEBT PROFILE: Debt to funds available for debt service (FADS) is above median levels at 10.7x reflecting the district's relatively low debt service and FADS, but total debt per capita is relatively low when considering the full service area served by the district. Despite projected debt issuance over the next five years, leverage ratios are projected to decline slightly.

LARGE, BUT MANAGEABLE CAPITAL NEEDS: The system's five-year, fiscal 2018 to 2022 capital improvement program (CIP) totals $1.1 billion, but equates to a very manageable approximately $70 per customer. A history of strong capital expenditure implementation suggests that the CIP is achievable and consistent with historical spending.

ESSENTIAL SERVICE PROVIDER: The MWRD provides an essential service to the third largest metropolitan area in the country.

RATING SENSITIVITIES

FINANCIAL STABILITY, TAX LEVY ACCESS: A decline in the district's financial metrics, including materially weaker debt service coverage and liquidity metrics, and/or an increase in debt beyond what is currently forecast could put downward pressure on the rating. The district's tax-raising capacity on a robust and expansive service area provides considerable support for rating stability at the current level.

GENERAL OBLIGATION CAPPED AT IDR: The general obligation debt rating is sensitive to changes in the Issuer Default Rating.

CREDIT PROFILE

The district is an independent unit of government focused on wastewater treatment, stormwater management and flood control, and related environmental sustainability. It encompasses 91% of the land area and 98% of the equalized assessed valuation (EAV) of Cook County (rated A+/Stable 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.

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 37% with average daily treatment at 1.25 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. Two of three stormwater reservoirs have been completed, and the district's first stage of its third reservoir (McCook) opened in Dec. 2017 providing 3.5 billion gallons of storage. Once the second stage is completed (2029), the McCook Reservoir will ultimately service 3.1 million people in 37 communities in southwest Cook County, and will provide a total storage volume of 10 billion gallons to the area.

CONTINUED STEADY FINANCIAL METRICS EXPECTED

Property taxes provide the majority of the district's operating revenues, accounting for 69% of general corporate fund revenues. User charges for corporate and industrial customers are the second largest source at 14%, followed by personal property replacement taxes at 7% of revenues.

The historical revenue growth trend has been positive, averaging 2.5% over the last three years. The district serves a well-developed and mature economy whose stability and growth underpin Fitch's expectations for continued revenue growth.

MWRD's cash and investments position totaled a solid $302 million or 253 days cash on hand at 2017 year end, not including an additional $27.7 million of cash and investments in the construction fund. Reserves provide sufficient cushion to cover unexpected expenditures.

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 other post-employment benefits (OPEB), actuarially determined contributions and the routine underspending of budgeted appropriations.

A significant proportion of the district's operating costs relate to labor. The district reports favorable labor relations, and a productive labor environment is evidenced by recent labor-approved pension reform and health care plan design changes.

PROPERTY TAX LEVY LIMITATION

The district's property tax levy is generally limited by the Property Tax Extension Limitation Act, which limits year-over-year increases taken together 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. 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 the formula would require federal approval.

ELEVATED DEBT BUT MANAGEABLE CAPITAL NEEDS

The district's five-year CIP totals $1.1 billion. The CIP appears manageable and includes projects mostly focused on rehabilitation and improvements that are dedicated for water reclamation plants and solids management (26%), replacement of facilities (15%), collection facilities (4%), stormwater management (36%), and near-completion of the district's tunnel and reservoir plan (20%). The current plan includes an additional $750 million in additional clean water state revolving fund loans, and an additional $250 million in GO bonds.

The district's fixed cost burden is substantial, as is typical for a capital-intensive, single-purpose entity. Total debt, relative to FADS equaled 10.7x in 2017, but is expected to decline slightly as planned new debt issuance is more than offset by amortization.

BROAD, DIVERSE ECONOMY

The district's service area is very broad and diverse. The employment base is represented by all major sectors with concentrations in the wholesale trade, professional and business services and financial sectors. Educational attainment levels are strong. 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. Growth has continued and is expected for 2018.

County wealth indicators are generally on par with the statewide averages, as the affluent suburban population offsets the urban core. The unemployment rate for the county at 4.4% as of March 2018 was on par with the state (4.4%) and slightly above the U.S. (4.1%) for the month.

CRITERIA VARIATION

The analysis supporting the 'AAA' IDR on MWRD includes a variation from Fitch's 'U.S. Water and Sewer Bond Rating Criteria'. Enhanced analysis under the variation relates to the evaluation of the strength of the district's taxing capacity. Fitch's 'U.S. Tax-Supported Rating Criteria' dated April 3, 2018 support this evaluation and includes refinements to the value of the taxing capacity relative to the issuer's potential revenue stress in a downturn.

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Applicable Criteria
Rating Criteria for Public-Sector, Revenue-Supported Debt (pub. 26 Feb 2018)
https://www.fitchratings.com/site/re/10020113
U.S. Public Finance Tax-Supported Rating Criteria (pub. 03 Apr 2018)
https://www.fitchratings.com/site/re/10024656
U.S. Water and Sewer Rating Criteria (pub. 30 Nov 2017)
https://www.fitchratings.com/site/re/10010508