S&P Global
Ratings

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Summary:

Metropolitan Water Reclamation District of Greater Chicago; General Obligation

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Summary:

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Credit Profile		
US$285.22 mil GO unltd tax rfdg bnds ser 2016A due 12/01/2031		
Long Term Rating	AA+/Stable	New
US$50.0 mil GO unltd tax bnds (alt rev source) (Green Bnds) ser 2016E due 12/01/2045		
Long Term Rating	AA+/Stable	New
US$41.78 mil GO ltd tax rfdg bnds ser 2016B due 12/01/2031		
Long Term Rating	AA+/Stable	New
US$30.0 mil GO unltd tax cap imp bnds (Green Bnds) ser 2016C due 12/01/2045		
Long Term Rating	AA+/Stable	New
US$20.0 mil GO ltd tax cap imp bnds (Green Bnds) ser 2016D due 12/01/2030		
Long Term Rating	AA+/Stable	New
US$4.0 mil GO ltd tax cap imp bnds (qual energy cons bnds) (Green Bonds Taxable) ser 2016F due 12/01/2036		
Long Term Rating	AA+/Stable	New

Rationale

S&P Global Ratings lowered its long-term rating to 'AA+' from 'AAA' on Metropolitan Water Reclamation District of Greater Chicago's previously issued general obligation (GO) debt.

At the same time, we assigned our 'AA+' long-term rating to the district's series 2016A unlimited-tax GO refunding bonds, 2016B limited-tax GO refunding bonds, 2016C unlimited-tax GO capital improvement bonds, 2016D limited-tax GO capital improvement bonds, 2016E alternate revenue source GO bonds, and 2016F limited-tax GO capital improvement bonds. The outlook is stable.

The rating action reflects our view of the potential impacts of the combined pension liabilities and debt of the overlapping governmental entities on the district's tax base.

The rating reflects our assessment of the district's:

- Participation in the deep and diverse Chicago metropolitan area economy,
- Very strong market value per capita, and
- Strong financial performance with maintenance of high reserves.

Partly offsetting the above strengths, in our view, are the increasing overall debt burden and the potential impacts of the combined pension liabilities and debt of the overlapping governmental entities on the district's tax base.

The 2016A and 2016C bonds are secured by the district's unlimited-tax GO pledge. The 2016B, 2016D, and 2016F bonds are secured by the district's limited-tax GO pledge and are payable from its debt service extension base, which is unlimited as to rate but limited as to amount. We understand the 2016B, 2016D, and 2016F bonds will be structured so that the debt service extension base will cover all of the district's limited-tax GO bonds' debt service without assumptions of growth. The 2016E bonds are secured by certain pledged revenue and, to the extent that revenue is insufficient, by the district's unlimited-tax GO pledge. We understand the district will covenant to abate the property taxes for the 2016E bonds only if it has sufficient funds on deposit to pay the debt service. We rate the 2016E and 2014B bonds based on the unlimited-tax GO pledge.

The district will use the 2016A bond proceeds to refund bonds that financed construction projects initiated before Oct. 1, 1991 for interest cost savings. It will use the 2016B bond proceeds to refund limited-tax bonds for interest cost savings. It will use the 2016C bond proceeds for construction projects initiated before Oct. 1, 1991, and the 2016D bond proceeds for construction projects in its capital improvements program (CIP). The district will use the 2016E bond proceeds for stormwater management projects, and the 2016F bond proceeds for the acquisition and installation of energy conservation projects.

The district provides flood control and wastewater treatment for most of Cook County, including Chicago and 128 other municipalities, and serves an estimated population of 10.35 million (including 5.2 million residents). The district maintains seven wastewater treatment plants (including one of the world's largest at Stickney, Ill.) that together have a capacity of more than 2 billion gallons per day and 560 miles of intercepting sewers and force mains. The district's CIP addresses intercepting sewers, the water reclamation plants' expansion and improvement, biosolids management, replacement of facilities, stormwater management, and the Tunnel and Reservoir Plan (TARP), which involves three reservoirs that are intended to hold runoff and sewage during storms and prevent pollution backflows into Lake Michigan and the Chicago River.

The district's tax base encompasses 98% of the assessed valuation of Cook County. The district's equalized assessed valuation (EAV) increased 1.9% in levy year 2014 after declining at an average annual rate of 9.6% in levy years 2010 to 2013. Management projects a 3.7% increase in EAV in levy year 2015. The Civic Federation estimates market value for levy year 2013 at $459.9 billion, or $87,790 per capita, which we consider very strong. The county's median household effective buying income is 99% of the national level, which we consider good. The county's unemployment rate in 2015 was 6.1%.

The district has maintained very strong reserves, in our opinion. The district reported essentially break-even general corporate fund operations in fiscal 2015 (ended Dec. 31). At year end, the district's available general fund reserves, including reserves restricted for working cash, totaled $220.4 million, or 65% of expenditures, which we consider very strong. The district's general corporate fund held $236.8 million of cash and investments at year end. Liquidity is enhanced by available funds in the district's capital improvements bond fund, which held $127.9 million of available cash and investments at the end of 2015. For fiscal 2016, the district estimates break-even general corporate fund operations. The district's corporate fund balance policy is to maintain reserves at no less than 12% to 15% of appropriations. However, management has a reserve target of 50% of expenditures. We also understand the district has no plans to draw down its available reserves in its capital improvements bond fund. Management reports no lawsuits that will have a significant impact on the district's financial position. Property taxes made up 66% of general corporate fund revenue in fiscal 2015. The district is subject to a statutory levy cap equal to the lesser of 5% or the rate of inflation, except with regard to new construction.

The district's overall debt burden, including overlapping debt of the major governmental entities in its tax base, is, in our view, moderate at $4,452 per capita and 5.1% of estimated fair market value. We understand that, in terms of future debt, the district plans to issue approximately $846 million in new money debt within its statutory limitations. The district's debt service carrying charge in fiscal 2015 was 16% of total governmental fund expenditures less capital outlay, which we consider elevated. Amortization of the district's direct debt is slow, with 36% of principal scheduled to mature within 10 years. Management reports no contingent liquidity risks from financial instruments with payment provisions that change upon certain events.

The district contributes to the Metropolitan Water Reclamation District Retirement Fund for pension benefits and to the Metropolitan Water Reclamation District Retiree Health Care Trust for other postemployment benefits (OPEB). The pension plan's funded level had fallen because the district contributed less than the annual required contributions and because of investment losses. Beginning in fiscal 2013, the district increased its contribution to the pension fund following a change in state law that allowed the district to increase its dedicated levy for funding that obligation. The change in state law also increased the employee contributions to the pension plan. In 2014, the district approved a funding policy with a goal to annually contribute to the retirement fund an amount that would increase the funded ratio of the retirement fund to 100% by 2050. The combined employer and employee contributions totaled $109.8 million in fiscal 2013, $92.9 million in fiscal 2014, and $92.4 million in fiscal 2015. However, the plan net position remains low at 55% of the total pension liability, with a net pension liability of $1.1 billion. According to the district, no lawsuits have been filed challenging legislation that increased the employee and employer contributions to their current levels.

The district also has been contributing to an OPEB trust fund to help manage its OPEB liability. The district contributed $5 million in 2015 and plans to contribute $5 million each year through 2026. Retirees also have been required to start paying a higher percentage of the health care insurance premiums, with the increase being phased in over a multiyear period until the retirees contribute 50% of the premium. As of the Dec. 31, 2015 actuarial valuation date, the OPEB plan was 52% funded with an unfunded actuarial accrued liability (UAAL) of $137.3 million.

The district's actuarially determined pension contribution, which it defines as the actuarially determined amount according to the funding policy, plus pay-as-you-go OPEB contribution totaled 13.0% of total governmental fund expenditures less capital outlay in fiscal 2015 (8.5% when not accounting for capital outlay, and includes extra contribution to the OPEB trust fund). The district's definition of the actuarially determined pension contribution has a longer amortization period than under previous Governmental Accounting Standards Board accounting, although the district's actual contributions have exceeded the minimum funding policy amount.

Outlook

The stable outlook reflects our anticipation that the district's CIP will remain manageable, enabling the district to maintain its very strong reserves. Another factor supporting the rating is the Chicago metropolitan area's broad and diverse economy. We do not anticipate changing the rating during the two-year parameter of the outlook.

Upside scenario

If the combined pension liabilities and debt of the overlapping governmental entities moderate, and the district shows improvement in its pension funded level, we could consider a higher rating.

Downside scenario

We could lower the rating in case of significant worsening of the district's reserves, debt profile, or management of pension and OPEB liabilities.

Related Criteria And Research

Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

Credit FAQ: Financial Management Assessment In U.S. Public Finance, June 27, 2006

Ratings Detail (As Of May 26, 2016)		
Metro Wtr Reclamation Dist of Greater Chicago GO		
Long Term Rating	AA+/Stable	Downgraded
Metro Wtr Reclamation Dist of Greater Chicago GO		
Long Term Rating	AA+/Stable	Downgraded
Metro Wtr Reclamation Dist of Greater Chicago GO cap imp bnds unltd taxser 2011C due 12/01/2038		
Long Term Rating	AA+/Stable	Downgraded
Metro Wtr Reclamation Dist of Greater Chicago GO		
Long Term Rating	AA+/Stable	Downgraded
Metro Wtr Reclamation Dist of Greater Chicago GO		
Long Term Rating	AA+/Stable	Downgraded
Metro Wtr Reclamation Dist of Greater Chicago GO		
Long Term Rating	AA+/Stable	Downgraded

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 www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.