

04 AUG 2023

Fitch Affirms Met Water Reclamation District of Greater Chicago, IL GOs 'AAA'; Outlook Stable

Fitch Ratings - New York - 04 Aug 2023: Fitch Ratings has affirmed the 'AAA' rating on the following Metropolitan Water Reclamation District of Greater Chicago, IL (the district) obligations:

--Approximately \$672.9 million unlimited tax bonds;

--Approximately \$1.089 billion limited tax bonds.

Fitch has also affirmed the Issuer Default Rating (IDR) at 'AAA'.

The Rating Outlook is Stable.

The 'AAA' IDR and bond ratings reflect the district's very strong revenue defensibility and operating risk profiles, both assessed at 'aa'. The ratings also incorporate the district's ability to access the resource base of its favorable service area through ad valorem taxing authority; the district does not collect a retail user charge.

Fitch assesses the district's financial profile at 'aa' reflective of leverage, measured as net adjusted debt to adjusted funds available for debt service (FADS), which was 6.6x in 2022 (FYE December 31) and a neutral liquidity profile. Leverage is anticipated to support the current financial profile assessment over at least a five-year horizon, even in light of continued robust capital spending largely supported by debt.

Fitch has also considered the district's leverage in the context of the service area's (generally Cook County) resource base. From this vantage, its direct long-term liabilities approximate 1.1% of total personal income (2021 data). Including overlapping debt, the district's liability approximates 6.0% of total personal income. When combined with the district's ability to levy taxes to pay debt service and operations, this expanded view of leverage supports the 'AAA' rating.

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 alternative 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.

KEY RATING DRIVERS

Revenue Defensibility - 'aa'

Very Strong Revenue Defensibility Supported by Stable Revenues and a Favorable Service Area

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 2021, no taxpayer comprises more than 1% of the district's estimated assessed valuation (EAV) and the top ten taxpayers total less than 3% of EAV. Recent collections of Personal Property Replacement Taxes (PPRT) have been well above historical levels providing additional support for pension contributions and pay go capital. Collections are anticipated to moderate over the coming years, and the district anticipates using collections in excess of budgeted levels for one-time expenditures.

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 \$1,050 per million gallons (mg) treated, reflecting the significant economies of scale of operations as well as its focused operating mandate. The life cycle ratio is just 4% and should remain extremely low as the district continues to implement a still large, and primarily debt funded, capital improvement program (CIP).

Budgeted CIP expenditures for 2023 through 2027 approximate \$1.4 billion, the bulk of which is focused on water reclamation and solids management (about 43%) and stormwater management (26%). The district anticipates meeting regulatory requirements and timeframes with respect to phosphorus and remaining work on the tunnel and reservoir plan.

Financial Profile - 'aa'

Very Strong Financial Profile; Moderate Leverage and Neutral Liquidity

The district's leverage was 6.6x in 2022, continuing a declining leverage trend, the key driver of which was increased FADS largely resulting from strong PPRT receipts. Liquidity is neutral to the assessment with coverage of full obligations consistently above 1.0x and 345 current days cash on hand in 2022. Fitch calculated debt service coverage was 1.5x in 2022.

The Fitch Analytical Stress Test (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, Fitch assumed annual revenue growth of 2.6%, which reflects Fitch's adjustment of forward PPRT growth rates, and operating expenditures reflect the five-year CAGR of 3.3%. The base case includes approximately \$1.1 billion of debt for 2023 through 2027, including the potential for a \$250 million pension bond in 2024, which remains subject to internal review. Capital spending of \$1.2 billion over the five-year horizon reflects preliminary estimates for 2023 and budgeted levels for 2024 through 2027.

Using these assumptions, leverage peaks at 6.2x in 2024 in the five-year horizon, before declining to 5.1x by 2027. In the stress case, leverage follows a similar pattern, peaking at 6.3x in 2024 and declining to 5.3x in 2027. Assuming stability in other assumptions, stronger baseline PPRT receipts would result in further declines in leverage.

Asymmetric Additional Risk Considerations

No asymmetric additive risk considerations affected this rating determination.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Leverage sustained in excess of 10x in the context of the current revenue defensibility and operating risk assessments;

--A long-term liability burden in excess of 10% as measured in the context of the district's resource base;

--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.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

PROFILE

The district is an independent unit of government focused on wastewater treatment, stormwater management and flood control and related environmental sustainability. It encompasses over 90% of the land area and virtually all of the equalized assessed valuation (EAV) of Cook County. The district provides wastewater treatment services to a population in excess of 5.2 million people located in the city of

Chicago and 128 suburban municipalities. The city of Chicago comprises over 50% of the district's population and about 56% of the 2021 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 2022 it treated an average of 1.2 BGD.

Sources of Information

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

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

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 <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Metropolitan Water Reclamation District of Greater Chicago (IL) [Sewer]	LT IDR	AAA 	Affirmed	AAA 
<ul style="list-style-type: none">Metropolitan Water Reclamation District of Greater Chicago (IL) /General Obligation - Limited Tax/1 LT	LT	AAA 	Affirmed	AAA 
<ul style="list-style-type: none">Metropolitan Water Reclamation District of Greater Chicago (IL) /General Obligation - Unlimited	LT	AAA 	Affirmed	AAA 

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Tax/1			
LT			

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub.27 Apr 2023\)](#) (including rating assumption sensitivity)

[U.S. Water and Sewer Rating Criteria \(pub.03 Mar 2023\)](#) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

Metropolitan Water Reclamation District of Greater Chicago (IL) EU Endorsed, UK Endorsed

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