Research Update:

Metropolitan District Of Hartford County, CT Series 2025 GO Bonds Assigned 'AA' Rating

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Overview

- S&P Global Ratings assigned its 'AA' rating to Metropolitan District of Hartford County (MDC), Conn.'s $100 million general obligation (GO) bonds, Issue of 2025.
- At the same time, S&P Global Ratings affirmed its rating on MDC's outstanding GO and clean water project (CWP) revenue bonds.
- The outlook is stable.

Rationale

Security

The district's full-faith-and-credit pledge secures the GO bonds.

The clean water project charge (CWPC) revenue secures the revenue-supported bonds. The CWPC is available only to pay debt service on CWP-related debt and to pay capital expenditures for CWP projects. The surcharge is not available to pay district operating expenses. Under the special obligation indenture that governs the CWP revenue bonds, the rate covenant requires the district to ensure pledged revenue available for debt service provide at least 1.2x annual debt service coverage (DSC). For calculating revenue available for debt service, bond provisions permit inclusion of transfers from the rate stabilization fund, although not exceeding 35% of annual debt service. An additional bonds test requires historical revenue available for debt service to be at least 1.2x annual DSC for one of the two years prior to additional debt issuance.

As of the last audited fiscal year ended Dec. 31, 2024, MDC had outstanding debt totaling $722 million of GO debt, $321 million of CWPC debt, and $505 million of state revolving fund loans.

Credit highlights

The 'AA' ratings reflect our view that MDC benefits from its large and affluent service area as well as its strong historical financial performance. Partially offsetting these strengths is the district's sizable capital improvement plan (CIP) largely reflecting regulatory compliance needs. When benchmarking existing debt to population and full property valuation, the ratios are high and we expect them to remain at those levels; overall net debt, including overlapping debt from member municipalities, is about $5,500 per capita and 5% of market value.

While the CWP bonds benefit from a dedicated pledge of CWPC revenue, the interaction between MDC's primary business lines of water and sewer services provided to its member municipalities is sufficient to consider the credit quality of all of MDC's debt as the same. On the one hand, we believe GO bondholders benefit from the ability to fund a significant amount of regulatory-driven CWP projects using a dedicated surcharge, helping diversify MDC's revenue stream. On the other hand, we believe CWP bondholders benefit from MDC's ability to fund its operations from both an unlimited ad valorem tax and water/sewer usage rates because those revenue streams help keep the surcharge affordable.

MDC's diverse revenue stream helps distribute costs over a wide base of users and helps with affordability considerations:

- Water and sewer user fees ($177 million, 2024 revenue)--designed to collect charges from large metered users with 4" or larger meters;
- Ad valorem property taxes ($53 million, 2024 revenue)--collected directly from member municipalities, designed to support usage costs for residential and tax-exempt users; and
- Intergovernmental revenue ($37 million, 2024 revenue)--collected to support MDC's sludge operations and CWP capital costs.

All three of these revenue sources represent over 90% of total governmental and business-type revenue.

Management projects CWP capital project spending from 2025-2029 to be about $562 million; this supplements general capital spending for water and sewer projects of an additional $568 million over that same period.

Environmental, social, and governance

Overall, we believe environmental risks are elevated because regulatory compliance is generating a large amount of capital spending and leading to additional revenue requirements to fund those projects. However, management continues to rehabilitate and expand its overflow treatment processes to help ensure continued compliance. The new storage tunnel being built as part of the consent order is designed to mitigate future flooding and overflow risks. Treatment capacity and water supply are adequate for current demand and for multiple years of growth. The water pollution control plant is along the Connecticut River, and the district has been improving nitrogen-removal capacity to assist with the nitrogen loading in the river and Long Island Sound. In addition, it has taken flood-protection measures, including maintaining and improving dikes around all treatment facilities.

Management also has started to include an Integrated Planning concept in its consent order compliance with the Connecticut Department of Energy and Environmental Protection. We believe this should provide management with considerable flexibility to meet its consent order requirements while demonstrating compliance through rehabilitation and relining of existing infrastructure, instead of solely through new construction.

Rate affordability is considered in MDC's annual rate-setting and capital planning process, and while affordable now, should rates outpace the service area's income growth rate, it could become more of a risk, thereby increasing social risks.

We consider governance risks on balance credit neutral, but MDC's disclosure indicates some litigation regarding the CWP tunnel project. However, that litigation has been through mediation and resulted in a $51 million change order on the project. Helping mitigate the financial risk related to this situation is a grant from Connecticut Department of Energy and Environmental Protection for 45% of the cost and a low-interest loan for the remainder.

Regarding overall governance, the strong relations with the state government and frequent outreach to the member and nonmember communities served have helped to mitigate external political pressures on governance decisions. As with any district this size, technology is becoming more and more critical for most aspects of operations and the district has a business continuity plan; an emergency response plan, with annual vulnerability assessments; and a disaster recovery plan that includes cyber security controls.

Outlook

The stable outlook reflects our expectation that management will continue to address regulatory obligations and maintain regulatory compliance while keeping financial performance on par with or better than historical trends. Our analysis of MDC's financial performance combines all of its water and sewer operations to gauge traditional net revenue coverage of all its debt service costs--both GO and CWP debt--and available liquidity across the entire organization.

Downside scenario

Significant consent order cost escalation leading to liquidity draws or unexpected revenue pressures would likely lead to downward rating pressure. If the member municipalities' tax base starts to become stagnant, leading to higher tax rates to support MDC's operations, we could also lower the rating.

Upside scenario

We are unlikely to raise the ratings further in the near term, given the size, duration, and regulatory nature of the CIP, but could consider doing so in the long term as regulatory-related capital projects near substantial completion.

Credit Opinion

Large ad valorem tax base contributes to rating strength and stability

MDC benefits from service to a large tax base serving a population centered in and around Hartford. The eight member municipalities, which combined have a 2023 net taxable grand list of more than $30 billion, are Bloomfield, East Hartford, Hartford, Newington, Rocky Hill, West Hartford, Wethersfield, and Windsor. The district's fiscal 2024 full valuation of $41.9 billion is about $115,000 per capita, which we consider extremely strong. While Hartford's median household effective buying income is only 60% of the national average, many of the member towns demonstrate median income levels well above the national average. The city of Hartford represents 26% of MDC's tax base but contributes just 15% of 2024 general fund revenue and 5% of total revenues across all revenue sources. To date, Hartford has made all payments on time.

Overall financial performance demonstrates strong liquidity and overall coverage of debt service

Across all of MDC's governmental and business-type activities, which generally include water operations, sewer operations, and CWP, total cash and cash equivalents was $285 million at Dec. 31, 2024. Historically, this figure has hovered generally around $200 million, and we expect it to remain roughly in this range or higher because management funds its operations and capital projects from ongoing revenue without reliance on permanent draws on its liquidity.

When considering all revenue collected for its water, sewer, and CWP operations, and netting out current expenditures for operations (excluding things like capital expenses, debt service, and depreciation), net overall revenue has covered total GO, state revolving fund, and CWPC-backed debt service by at least 1.2x for a number of years, and was 1.25x in 2024. While most of the fluctuations in operating revenue and expenses have recently been due mostly to shifts in intergovernmental receipts and noncash other postemployment benefit costs, respectively, we expect overall operations to remain generally stable due to the large service base and management's continued willingness to adjust rates as needed.

Metropolitan District Of Hartford County, Connecticut--Economic and financial data

		Fiscal year-end			
	Most recent	2024	2023	2022	Median (AA)
Economic data					
MHHEBI of the service area as % of the U.S.	108.0				110.0
Unemployment rate (%)	5.8				3.6
Poverty rate (%)	9.8				10.0
Water rate (6,000 gallons or actual) ($)	46.3				36.5
Sewer rate (6,000 gallons or actual) ($)	92.8				41.0
Annual utility bill as % of MHHEBI	2.3				1.1
Operational management assessment	Good				Good
Financial data					
Total operating revenues ($000s)		217,524	205,861	212,021	24,286
Total operating expenses less depreciation ($000s)		95,737	99,590	104,549	17,090
Net revenues available for debt service ($000s)		192,478	177,167	170,117	--
Debt service ($000s)		154,478	133,407	133,501	--
S&P Global Ratings-adjusted all-in DSC (x)		1.2	1.3	1.3	2.2
Unrestricted cash ($000s)		285,232	267,685	256,496	24,667
Days' cash of operating expenses		1,087	981	895	631
Total on-balance-sheet debt ($000s)		1,875,650	1,804,036	1,792,344	39,844
Debt-to-capitalization ratio (%)		57.0	58.5	60.4	27.0
Financial management assessment	Good	--	--	--	Good

Note: Most recent economic data available from our vendors. MHHEBI--Median household effective buying income. DSC--Debt service coverage.

Ratings List
New Issue Ratings
US$100.0 mil GO bnds ser 2025 due 09/15/2045

Ratings List	
Long Term Rating	AA/Stable
Ratings Affirmed	
Water & Sewer	
Hartford Cnty Metro Dist, CT Sewer System Special Sewer Service Surcharge	AA/Stable
Hartford Cnty Metro Dist, CT Unlimited Tax General Obligation	AA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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 https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.