Research Update:

Metropolitan District Of Hartford County, CT Series 2026 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), Connecticut's $80 million general obligation (GO) bonds, issue of 2026.
- At the same time, S&P Global Ratings affirmed its 'AA' 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 that 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.

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 MDC's 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.

As of the last audited fiscal year, ended Dec. 31, 2025, MDC had outstanding debt of approximately $770.4 million of GO debt, $353.8 million of CWPC debt, and $550.2 million of state revolving fund loans. Our calculations for all of MDC's financial metrics combine the balance sheets and income statements of the water fund, general fund, and clean water project fund. These three revenue sources represent over 90% of total governmental and business-type revenue.

Credit highlights

The 'AA' ratings reflect our view that MDC benefits from its large and affluent service area as well as from its strong historical financial performance through its taxing ability. Partially offsetting these strengths is the district's sizable capital improvement plan (CIP), which is largely for 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 $5,391 per capita and 5.5% of market value.

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

- Our calculations of MDC's economic and affordability metrics reflects on our analysis of the Capitol Planning Region, as all of the municipalities served reside in that metropolitan statistical area;
- Water and sewer user fees and clean water surcharge ($193 million, based on 2025 revenue)--designed to collect charges from residential users and tax-exempt users with 4" or larger meters;
- Ad valorem property taxes ($53.1 million, based on 2025 revenue)--collected directly from member municipalities, designed to support usage costs for residential and tax-exempt users; and
- Intergovernmental revenue ($70.1 million, based on 2025 revenue)--collected to support MDC's sludge operations and CWP capital costs.
- Management projects CWP capital project spending from 2026-2030 at about $500 million; this supplements general capital spending for water and sewer projects of an additional $670.7 million over that same period.

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 unrestricted 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. Also, if the member municipalities' tax bases start 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 for the district

MDC benefits from servicing a large tax base centered in and around Hartford. The eight member municipalities, which combined have a 2025 net taxable grand list valuation of about $33.4 billion, are Bloomfield, East Hartford, Hartford, Newington, Rocky Hill, West Hartford, Wethersfield, and Windsor. The district's fiscal 2025 full valuation of $43.6 billion translates to about $119,105 per capita, which we consider extremely strong. While Hartford's median household effective buying income is well below the national average as of 2025, the service area is broader and many of the member towns demonstrate median income levels well above the national average. The city of Hartford represents 25.4% of MDC's tax base. To date, Hartford has made all payments on time.

Across MDC's water operations, sewer operations, and CWP, total cash and cash equivalents was $165.8 million at Dec. 31, 2025. Although it has recently declined from a peak in 2024, 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 1.3x for a number of years, and was 1.3x in 2025. 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.

Rate affordability is considered in MDC's annual rate-setting and capital planning process, and while rates are currently affordable, should they outpace the service area's income growth rate, it could become more of a risk, thereby decreasing affordability. Water and sewer rates have been relatively stable, while CWPC revenue has been increasing annually. We view positively the financial management planning of the district.

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.

Climate And Other Evolving Factors

We believe environmental risks are elevated overall 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.

Metropolitan District of Hartford County, Connecticut--economic and financial data

		Fiscal year-end			
	Most recent	2025	2024	2023	Median (AA)
Economic data					
MHHEBI of the service area as % of the U.S.	114.0				113.0
Unemployment rate (%)	5.0				3.7
Poverty rate (%)	10.4				10.1
Water rate (6,000 gallons or actual) ($)	47.0				
Sewer rate (6,000 gallons or actual) ($)	98.7				
Annual utility bill as % of MHHEBI	2.2				1.1
Operational management assessment	Good				Good
Financial data					
Total operating revenues ($000s)		271,839	223,254	213,221	26,885
Total operating expenses less depreciation ($000s)		120,767	95,515	99,425	17,184
Net revenues available for debt service ($000s)		217,597	198,430	184,692	7,755
Debt service ($000s)		162,939	127,040	109,431	2,963
S&P Global Ratings-adjusted all-in DSC (x)		1.3	1.6	1.7	2.5
Unrestricted cash ($000s)		165,796	225,908	187,926	27,366
Days' cash of operating expenses		501	863	690	649
Total on-balance-sheet debt ($000s)		1,710,778	1,585,757	1,506,358	33,014
Debt-to-capitalization ratio (%)		52.4	52.8	54.0	25.6
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$80.000 mil GO bnds ser 2026 due 10/15/2056	
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.