

# THE BOND BUYER

## Chicago water enterprise lures a big new paying customer

By

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Chicago and Joliet, Illinois, struck a preliminary water purchase agreement that will bring new revenue to Chicago's enterprise system.

The Joliet City Council voted last week to pick Chicago over Hammond, Indiana, as its new water source. The state's fourth largest city, with about 147,000 residents, is about 45 miles southwest of Chicago.



*Chicago's Eugene Sawyer water purification plant will send treated Lake Michigan water to Joliet under a preliminary water supply agreement. **City of Chicago***

Joliet began exploring options several years ago because the aquifer it draws water from now is expected to run dry in the next decade.

The deal should generate around \$30 million of new revenue for Chicago annually and “importantly will help lower the cost for all of our customers because of the fact that they are joining our system,” said Chicago Chief Financial Officer Jennie Huang Bennett. “It’s a meaningful new customer to the system and ultimately what we think is a supportive of the strength of the water system and credit.”

That \$30 million would be added to an enterprise system with net annual income of \$130 million, Bennett said.

The proposed 100-year contract still must be finalized over the next year. The delivery system is projected to be in place by 2030.

“It’s largely a fixed cost so for us” to supply water so “to incrementally provide water to new customers there isn’t that much new cost,” Bennett said.

Joliet will finance the needed infrastructure to receive treated Lake Michigan water through a mix of revenue bonds, the state’s revolving fund loan program, and Water Infrastructure Finance and Innovation Act federal loans with a total price tag of between \$592 million and \$810 million.

The higher range of the projected costs would come if additional communities join forces with Joliet to receive water from the new line, which would raise supply demands to 60 million gallons per day from 30. If additional communities participate it would ease the fiscal burden on Joliet.

Mayor Lori Lightfoot’s predecessor, Rahm Emanuel, implemented phased in, double-digit water and sewer rate increases to accelerate capital spending soon after taking office in 2011 and since 2016 rate hikes are tied to the consumer price index.

The system is also facing new financing needs as the city looks at how to pay for a massive possible [\\$8 billion plan](#) to replace lead lines.

The city's rates have risen to cover its own upgrades to serve city residents but it can't pass those costs on to its wholesale suburban customers. There's a general benefit for the city and region in that adding new customers to a system with available capacity holds overall costs in check.

Under the preliminary water supply agreement, Chicago would own and operate a tunnel connection, a low service pump station, and service valve. Joliet would own other infrastructure beyond the valve, a 31-mile pipeline and a high service pumping station.

The City Council selected Chicago at a special meeting last week after conducting a request for proposals that was narrowed down to Chicago and Hammond. Joliet chose Chicago for state-of-the-art purification facilities, expertise, and cost.

“This decision gives the citizens of Joliet all the knowledge and resources of a system that purifies and distributes over 1 billion gallons of water each day to over 5.3 million residents in northeast Illinois,” Joliet Mayor Bob O’Dekirk said in a statement.

Under the agreement, Chicago would charge a customer rate based on the industry standard American Water Works Association M1 methodology for rate setting. This AWWA rate setting methodology calculates the cost of providing water service to customers and determines a rate based on that cost of service and taking account infrastructure costs into account.

Chicago also plans to establish an advisory council to share information about water operations and allow regional water partners to collaborate with Chicago on making water operations and rate setting more transparent, fair and efficient, Bennett said. That could help Chicago’s attractiveness as other communities grapple with depleted aquifers in the coming years.

Chicago is a large retail and wholesale potable water supplier with roughly 494,000 customer accounts within the city limits, plus those in 125 suburban communities. Raw water is supplied by Lake Michigan through four water intakes and treated by two large water purification plants. Raw water supply and plant treatment capacity are ample relative to system demand, Fitch Ratings said.

The city has about \$2 billion of second lien water bonds outstanding. They carry ratings in the single-A to double-A category from Fitch, S&P Global Ratings, and Kroll Bond Rating Agency depending on the lien status although the city has little senior lien debt left. Fitch downgraded the second lien rating to A-minus from AA-minus last year as part of criteria changes linking the rating off the city general obligation bond rating. Fitch later moved the outlook to negative in tandem with its negative outlook on the city.

“The recent outbreak of coronavirus has created an uncertain environment for the water and sewer sector,” Fitch wrote in connection with the November outlook change. “While the system’s performance data through most recently available data have not indicated impairment, material changes in revenue and cost profile are occurring across the sector.”

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