

19 JAN 2024

Fitch Revises Outlook to Stable; Affirms Washington Suburban Sanitary Dist, MD's GO Bonds at 'AAA'

Fitch Ratings - New York - 19 Jan 2024: Fitch Ratings has affirmed the 'AAA' rating on the following Washington Suburban Sanitary District, MD (WSSD) general obligation (GO) bonds:

--Approximately \$3.1 billion consolidated public improvement bonds and GO multi-modal bond anticipation notes.

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

The Rating Outlook has been revised to Stable from Negative.

The Outlook's revision to Stable on the district's IDR and GO bonds reflects the improvement in its financial position, evidenced by improved performance in fiscal 2022 (FYE June 30) and continued into fiscal 2023 with leverage of 8.9x and 8.1x, respectively. Improved leverage, measured as net adjusted to adjusted funds available for debt service (FADS), reflects rate adjustments and improved collections along with curbs on the rate of expenditure growth.

Fitch expects continued financial profile improvement leading to a trend of declining leverage, supporting the revision to a Stable Outlook. This trend is dependent upon continued healthy rate adjustments over the five-year horizon generate FADS in support of ongoing capital spending and increasing operating costs. Liquidity has also improved, although it remains neutral to the financial profile assessment.

The 'AAA' IDR and bond rating reflect WSSD's very strong utility fundamentals reflected in its revenue defensibility and operating risk profiles, both assessed at 'aa'. The financial profile, also assessed at 'aa', reflects Fitch's expectations for the district's leverage, to decline to about 8.0x over the next five years.

Fitch also considers the district's financial profile in the context of the service area's (Prince George's and Montgomery Counties) resource base. From this vantage, its long-term obligations approximate 2.8% of total personal income (2022 data) of the service area. When combined with the district's authority to levy taxes to pay debt service and operations, this expanded view of the resource base supports the 'AAA' IDR and bond ratings.

However, Fitch notes that ad valorem taxes are not currently levied, and the authority to do so is subject to a review process that, while serving to prevent default, limits the benefit of this additional resource at the current rating level. Fitch's view regarding the incremental benefit of the

district's authority to levy taxes would be unlikely to support the current rating if the trend of declining leverage is interrupted or reversed.

SECURITY

Debt service is expected to be paid from revenues generated by district fees, charges, rates and assessments and other available funds. In the event of a deficiency of such revenues, the bonds are payable from ad valorem taxes levied within the district (Montgomery County and Prince George's County).

KEY RATING DRIVERS

Revenue Defensibility - 'aa'

Very Favorable Service Area, Affordable Rates for the Vast Majority of the Population

WSSD serves an expansive and very favorable service area that encompasses parts of Prince George's and Montgomery counties. The district retains the legal authority to adjust rates as needed without external oversight. Using Prince George's County as proxy, Fitch considers the monthly residential water and sewer bill affordable for approximately 87% of the service area population based on standard monthly usage of 7,500 gallons for water and 6,000 gallons for sewer.

The very favorable service area is characterized by stronger income levels, a moderate unemployment rate relative to the nation and midrange customer growth. Customer growth registered a five-year compound annual growth rate of 0.5% as of fiscal 2023; the district's customer base is primarily residential and there is no customer concentration.

Operating Risk - 'aa'

Very Low Operating Cost Burden, Moderate Investment Needs

In fiscal 2023, the system's operating cost burden was very low at \$5,470 per million gallons (mg) of flows, consistent with the operating risk assessment. The life cycle ratio was very low at 32% in fiscal 2023. Annual capital spending relative to depreciation has been robust, and was a five-year average of 205% for the five years ended fiscal 2023. Planned capital spending for the next five years should generally outpace historical depreciation, supporting a continued very low life cycle ratio.

The district's anticipated spending for fiscal years 2024 through 2028 approximates \$3.0 billion. The estimated spending includes approximately \$2.1 billion of bond proceeds, including those from prior sales, as well as \$746.3 million of pay go funds. The remaining sources primarily are derived from grants and capital contributions. The district continues to refine its capital plan to improve efficiencies and execution.

Financial Profile - 'aa'

Leverage to Decline, Neutral Liquidity

The district had very low leverage of 8.1x as of fiscal 2023. As noted, this has been on a declining trend for the last several years, largely driven by improving FADS, and is down from the peak of 11.1x in fiscal 2020. The liquidity profile is neutral to the overall assessment with current days cash on hand of 229 and coverage of full obligations (COFO) of 1.8x. Fitch-calculated total debt service coverage for fiscal 2023 was 1.9x, which excludes fixed service expense.

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 scenario, the leverage ratio is projected to increase to 9.4x in fiscal 2024, then decrease to 7.5x through fiscal 2028. In the stress case, the leverage ratio is expected to increase to 9.5x in fiscal 2024, then decline to 7.9x through fiscal 2028. Liquidity is expected to remain neutral to the assessment over the five-year horizon.

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

--Failure to maintain leverage comfortably below 10.0x through the five-year horizon;

--Failure to secure rate increases that satisfactorily support operations and continued robust capital investment, including progress toward consent decree milestones;

--Contraction in the economic base that no longer supports an enhancement to the ratings.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--The rating is at the highest level on Fitch's scale and cannot be upgraded.

PROFILE

The district provides retail water and sewer services to Montgomery and Prince George's counties along the north and east borders of Washington, D.C. In addition to utility charges, the district has the authority to levy ad valorem taxes without limit for debt service. The district's very favorable service area includes a broad and economically diverse customer base that spans nearly 1,000 square miles and serves over 1.9 million residents through approximately 479,000 water and 449,000 sewer customer accounts.

The commission consists of six members (three from each county and all residents of the district) who are appointed by respective county executives. The commission's responsibilities include, but are not limited to, planning for the operating and capital improvements of the district; establishing water and sewer usage rates, connection charges, and other charges and fees, and causing ad valorem taxes to be levied; and approving new debt.

Water production at the district's two treatment plants averages in excess of 160 million gallons per day, well below the district's available supply. The district's sewer conveyance and treatment capacity are also ample. Treatment is shared among the district's six plants and the Blue Plains Advanced Wastewater Treatment Plant (owned and operated by the District of Columbia Water and Sewer Authority; IDR AA/Stable) with whom the district maintains a cost-sharing agreement.

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
Washington Suburban Sanitary District (MD) [Water, Sewer]	LT IDR	AAA 	Affirmed	AAA 
<ul style="list-style-type: none"> Washington Suburban Sanitary District (MD) /General Obligation - Unlimited Tax/1 LT 	LT	AAA 	Affirmed	AAA 

RATINGS KEY OUTLOOK WATCH

POSITIVE  

NEGATIVE  

RATINGS KEY OUTLOOK WATCH

EVOLVING



STABLE



Applicable Criteria

[U.S. Public Sector, Revenue-Supported Entities Rating Criteria \(pub.12 Jan 2024\) \(including rating assumption sensitivity\)](#)

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

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Washington Suburban Sanitary District (MD) EU Endorsed, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at <https://www.fitchratings.com/site/re/10238496>

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