Washington Suburban Sanitary District, Maryland [Water, Sewer]

The 'AAA' public improvement bond rating, the note rating and Issuer Default Rating (IDR) consider Washington Suburban Sanitary District's (WSSD or the district) 'Very Strong' utility fundamentals, as 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 leverage (measured as net adjusted debt to adjusted funds available for debt service [FADS]) to remain on a declining trend and comfortably below 10.0x through the five-year horizon.

Leverage is anticipated to peak at 9.4x in fiscal 2026 (FYE June 30) of Fitch's Analytical Stress Test (FAST) rating case prior to resuming its downward trend. This trend remains dependent upon continued healthy rate adjustments over the five-year horizon generating FADS in support of ongoing capital spending and increasing operating costs.

The ratings also reflect Fitch's consideration of the district's leverage in the context of the service area's (Prince George's and Montgomery counties) resource base. From this vantage, its long-term obligations approximate 3.0% of total personal income of the service area. Combined with the district's authority to levy taxes to pay debt service and operations, this expanded view of leverage supports the 'AAA' ratings.

However, Fitch notes that ad valorem taxes are not currently levied, and the authority to do so is subject to a process that, while serving to prevent default, limits the benefit of this additional resource at the current rating level. The district's access to the broader economic base may not support the current rating if total personal income growth lags the district's long-term liabilities. Combined with the current leverage trend, access to the broader economic resource base provides only modest headroom at the current rating level.

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).

Ratings

Long-Term IDR	AAA

Outlooks

Long-Term IDR	Stable

New Issues

$287,225,000 Consolidated Public Improvement Bonds of 2025	AAA
$28,725,000 Consolidated Public Improvement Bonds of 2025 (Second Series) Green Bonds)	AAA

Sale Date

Feb. 8, 2025

Outstanding Debt

Consolidated Public Improvement Bonds	AAA
Consolidated Public Improvement Bonds (Green Bonds)	AAA
Consolidated Public Improvement Refunding Bonds	AAA
General Obligation Multi-Modal Bond Anticipation Notes	AAA

Rating Outlook

Stable

Applicable Criteria

U.S. Water and Sewer Rating Criteria (February 2024)

U.S. Public Sector, Revenue-Supported Entities Rating Criteria (January 2025)

Related Research

Fitch Rates Washington Suburban Sanitary District, MD's GO Bonds 'AAA'; Outlook Stable (January 2025)

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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. Fitch uses Prince George's county demographic data when assessing service area metrics and notes that demographic metrics for Montgomery County are on par with, or more favorable than, Prince George's County. 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 strong 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 2024. Income levels are about 28% above the national median as of 2023. The unemployment rate was 2.2% in 2023 and averaged about 6% below the national level over the past four years.

Operating Risk - 'aa'

Very Low Operating Cost Burden, Moderate Investment Needs

In fiscal 2024, the system's operating cost burden was considered very low at $5,747 per million gallons (mg), consistent with the operating risk assessment. The life cycle ratio was very low at 33% in fiscal 2024. Capex to depreciation has been strong, averaging 190% over the last five fiscal years from 2020 to 2024. Planned capital spending for the next five years should generally outpace historical depreciation, supporting a continued very low life cycle ratio.

The capital improvement plan (CIP) spanning fiscal years 2025 through 2029 is approximately $3.9 billion. The CIP includes water distribution, water treatment and storage and wastewater collection projects within and across the two counties. The CIP anticipates about $2.8 billion of funding from debt proceeds, including those on hand, and assumes about $766 million of pay-go funding as well as over $390 million of grants and other third-party capital contributions.

Financial Profile - 'aa'

Leverage to Decline, Neutral Liquidity

The district had very low leverage of 8.4x as of fiscal 2024, continuing the downward trend from the 11.1x peak in fiscal 2020. The liquidity profile is neutral to the overall assessment with fiscal 2024 current days cash on hand of 260 and coverage of full obligations (COFO) of 1.6x. Fitch-calculated total debt service coverage was 1.6x in fiscal 2024, which excludes fixed service expense.

The FAST considers the potential trend of key ratios in a base case and stress scenario over a five-year period. The stress scenario 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.

Full execution of the CIP is also assumed, which would represent a significant ramp up in spending to an average of $780 million annually, relative to about $395 million annually on average between fiscal 2020 through 2024.

In the base case scenario, the leverage ratio is expected to increase to 9.2x in fiscal 2026, then decrease to 8.2x through fiscal 2029. In the stress scenario, which is considered the rating case, the leverage ratio is projected to increase to 9.4x in fiscal 2026, then decline to 8.8x through fiscal 2029. The liquidity profile 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.

Sensitivities

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

- Leverage in Fitch's rating case that fails to remain comfortably below 10.0x, assuming stability in the revenue defensibility and operating risk assessments;
- A long-term liability burden measured in the context of the resource base that no longer supports an enhancement to the rating;
- Failure to secure rate increases that satisfactorily support operations and continued robust capital investment.

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 northern and eastern 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 480,000 water and 450,000 sewer customer accounts.

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

Water production at the district's two treatment plants averages around 163 million gallons per day, well below the district's available supply and capacity. 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.

Updated U.S. Environmental Protection Agency (EPA) Regulations

The district is addressing new regulations set forth by the U.S. EPA. The EPA's enhanced focus on lead and copper lines and per- and polyfluoroalkyl (PFAS) contaminants has led to the finalized Lead and Copper Rule Improvements (LCRI), along with specific testing requirements for PFAS.

In 2024, the district's test results for PFAS indicated that current levels for all compounds tested were below the EPA maximum contaminant levels. The district believes additional treatment may be necessary to remain compliant given the fluctuations in water source quality. The district is also in compliance with the LCRI; it has not identified any lead service lines within system assets and estimates more than 95% of private lines are not lead.

Revenue Defensibility

Revenue Source Characteristics

All of the district's revenues are derived from the monopolistic provision of water and wastewater services. While WSSD's taxing authority and capacity are considered in the district's ratings, to date no taxes have been levied nor required to pay debt service.

Service Area Characteristics

The district's bi-county economic base is very strong, characterized by considerable diversity, high resident income levels and low unemployment.

Montgomery County's economy is supported by a significant U.S. government presence, including significant employment by the U.S. Department of Health and Human Services and the U.S. Department of Defense. Depth and diversity are added by an expanding biomedical sector, driven in large part by the presence of the National Institutes of Health. Prince George's County's economic base also includes an important U.S. government presence and institutions of higher education, including Andrews Air Force Base and the University of Maryland.

The median household income (MHI) of both counties is strong relative to that of the nation and the unemployment rate in both counties approximates or trends below that of the nation.

Rate Flexibility

The district retains independent rate-setting authority and significant rate flexibility. Rate increases ranging from 5.9% to 7.0% were implemented for fiscal years 2021 through 2024 and an 8.5% rate increase was approved for fiscal 2025. The district's long-term plans include a proposed rate adjustment of 9.8% in fiscal 2026, for which the district indicates it has the counties' support. Continued adjustments are anticipated to support the capital plan and increasing operating expenditures. Rates that fail to support the anticipated trend of declining leverage, in the absence of offsetting actions, may negatively impact the rating.

Rates include increasing block, tiered volumetric charges and fixed charges. In fiscal 2024, the typical customer charge based on Fitch's standard measurement of 7,500 gallons and 6,000 gallons per month of water consumed and sewer usage, respectively, totaled $119.19, considered affordable for the vast majority of the population (around 87%). This is based on Prince George's County demographics, the rate base for which comprises about 47% of the service area population. As Montgomery County income levels are stronger, overall affordability is likely stronger.

The Public Utilities Article, Annotated Code of Maryland (the Act), Section 22-111 requires the commission to determine rates sufficient to meet debt service, as well as the cost of system service. In the event that, during its budgeting process, the commission projects a budgetary revenue shortfall, it must notify the counties of the need to levy a tax, which is available for debt service only. The receipt of the entire levy may take up to a year depending on the time of notice to the counties. Section 22-106 of the Act authorizes the commission to "impose against the assessable property that is in the sanitary district a tax sufficient to pay the principal of and interest on the bonds, as and when due and until paid in full." Voter approval to access the unlimited taxing authority (in the event of a revenue shortfall) is not required.

Asymmetric Factor Considerations

No asymmetric factor considerations affected the revenue defensibility assessment.

Operating Risk

Operating Cost Burden

The district's operating cost burden remains consistent with the operating risk assessment, averaging $5,477 for the five fiscal years ended in fiscal 2024. While sewer flows have fluctuated, water produced has remained relatively stable. The district's expenditures have increased 4% in both fiscal 2023 and 2024, in part reflecting inflationary pressures.

Costs are likely to continue to rise over time, especially given increased treatment costs at Blue Plains. While not included in the calculation of operating cost burden, pension and other post-employment benefit (OPEB) expense are likely to show continued volatility as market fluctuations continue, contributing to some variability in financial results. Although operating costs are anticipated to increase through the five-year horizon, the operating cost burden should remain consistent with the current assessment through the five-year horizon.

Capital Planning and Management

Average annual capital spending over the past five years approximates 190% of depreciation costs, resulting in a low life cycle ratio of 33% in fiscal 2024. Estimated capital spending for fiscal years 2025–2029 continues to focus on renewal and replacement and totals about $3.9 billion. Bond proceeds on hand along with new debt issuance will fund approximately 70% of capital projects. The district plans approximately $766 million pay-as-you-go funds, with grants and other capital contribution providing the remainder of funding.

Asymmetric Factor Considerations

No asymmetric factor considerations affected the operating risk assessment.

Financial Profile and FAST Analysis

The district's financial profile is very strong and assessed at 'aa'. Between fiscal years 2017 and 2019, leverage rose steadily amid ongoing debt issuance and heightened capex. Pandemic-related pressures contributed to further weakening in fiscal 2020, with modest improvement in fiscal 2021, when leverage was 11.1x and 10.9x, respectively, reflecting generally flat revenues and reserve adjustments despite approved rate increases. Leverage was 8.4x in fiscal 2024, continuing the overall trend of decline.

The liquidity profile has also improved, yet remains neutral to the financial profile assessment, with a liquidity cushion of 260 days cash on hand and COFO of 1.4x in fiscal 2024, excluding system development fees.

Fitch Analytical Stress Test

The FAST base case assumptions reflect information provided by the district that includes estimates of operating revenues and expenses through 2029, including revenue adjustments adopted for fiscal 2025 and anticipated for fiscal 2026 through fiscal 2029. The base case also includes an anticipated $3.9 billion of capital spending and associated funding sources, primarily debt.

Leverage peaks in fiscal 2026 at 9.2x and 9.4x in the base and stress cases, respectively. Thereafter, leverage resumes a declining trajectory through fiscal 2029, approximating 8.2x in the base case and 8.8x in the stress case, remaining consistent with the financial profile assessment. The district's financial performance, and Fitch-calculated leverage, are susceptible to fluctuations due to modest changes in underlying assumptions and anticipated capital spend. Liquidity and COFO are expected to remain at least stable with current levels and neutral to the financial profile assessment.

Leverage through Fitch's scenario analysis remains consistent with the 'aa' financial profile assessment. However, the ratings reflect the district's access to a broader economic base than user charges alone may afford. To capture the benefit of access, Fitch additionally analyzed the district's long-term liability burden in the context of the resource base (utilizing Prince Georges and Montgomery counties as proxies). When considering the district's direct long-term obligations, including its Fitch-adjusted net pension liability, the burden is 3.0% of personal income.

Despite peak leverage of 9.4x during the five-year horizon, Fitch anticipates leverage to moderate as capital spending continues to be refined and rate adjustments are implemented. In the context of expectations for district leverage, the very low long-term liability burden and ability to levy taxes as needed to pay debt service support the 'AAA' ratings. However, should the leverage trajectory result in sustained leverage approaching 10.0x, the rating would be pressured.

Asymmetric Additive Risk Considerations

No asymmetric additive risk considerations affected this rating determination.

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.

Financial Summary

(Audited Fiscal Years Ended June 30)	2020	2021	2022	2023	2024
Revenue Defensibility					
Revenue Source Characteristics					
% of Total Revenue from Monopolistic Services	100	100	100	100	100
Service Area Characteristics					
Service Area Population	967,201	956,451	946,980	947,430	N.A.
Total Customer Count	913,598	918,020	922,000	928,000	932,000
5—Year Total Customer Count CAGR(%)	0.7	0.7	0.6	0.5	0.5
Service Area Median Household Income ($)	86,994	91,124	97,935	100,708	N.A.
Service Area MHI/U.S. Median Household Income (%)	134	132	130	128	N.A.
Service Area Unemployment Rate (%)	7.8	6.7	3.3	2.2	N.A.
Service Area Unemployment Rate/U.S. Unemployment Rate (%)	96	126	92	61	N.A.
Rate Flexibility					
Total Monthly Bill ($) (7,500 Gallons Water/6,000 Gallons Sewer)	98.18	103.42	109.17	116.19	119.19
% of Population with Unaffordable Bill	13	13	13	13	N.A.
Operating Risk					
Operating Cost Burden					
Operating Cost Burden ($/mg)	5,430	5,260	5,481	5,470	5,747
Capital Planning and Management					
Life Cycle Ratio (%)	31	31	31	32	33
Annual CapEx/Depreciation (%)	194	192	177	203	182
5—Year Average Capex/Depreciation (%)	294	249	219	203	190
Financial Profile ($000, unless otherwise indicated)					
Current Unrestricted Cash/Investments	139,391	164,278	247,819	321,569	383,567
Current Restricted Cash/Invest (Available Liquidity)					
Current Cash Available	139,391	164,278	247,819	321,569	383,567
Noncurrent Unrestricted Cash/Investments					
Noncurrent Restricted Cash/Invest (Available Liquidity)					
Available Cash	139,391	164,278	247,819	321,569	383,567
Current Restricted Cash/Invest (Debt Service or Debt Service Reserve)					
Noncurrent Restricted Cash/Invest (Debt Service or Debt Service Reserve)					
Funds Restricted for Debt Service					
Total Debt	3,670,501	3,889,142	4,102,918	4,330,375	4,434,356
Capitalized Fixed Charges	162,501	159,456	163,736	200,787	209,958
Adjusted Net Pension Liability	230,142	237,804	136,653	370,477	320,789
Available Cash	139,391	164,278	247,819	321,569	383,567
Funds Restricted for Debt Service					
Net Adjusted Debt	3,923,753	4,122,123	4,155,488	4,580,070	4,581,536
Total Operating Revs	749,758	749,606	837,663	889,472	950,749
Purchased Water/Sewer Services	66,327	65,084	66,831	81,954	85,697
Other Operating Expenses	429,315	424,160	409,671	430,796	452,776
EBITDA	254,116	260,362	361,161	376,722	412,276
Investment Income/(Loss)	3,840	1,420	1,218	26,304	34,397
Non—Operating Revenues from Taxes					

Financial Summary

(Audited Fiscal Years Ended June 30)	2020	2021	2022	2023	2024
Other Cash Revenues/(Expenses)	-17,067	28,531	28,590	28,238	-6,564
BAB Subsidy					
Capital Contributions	67,816	63,067	62,416	59,042	44,261
Funds Available for Debt Service	308,705	353,380	453,385	490,306	484,370
Fixed Services Expense	23,214	22,779	23,391	28,684	29,994
Net Transfers In/(Out)					
Pension Expense	21,899	764	-8,652	49,034	29,871
Adjusted Funds Available for Debt Service	353,818	376,923	468,124	568,024	544,235
Net Adjusted Debt/Adjusted Funds Available for Debt Service (x)	**11.1**	**10.9**	**8.9**	**8.1**	**8.4**
Funds Available for Debt Service	308,705	353,380	453,385	490,306	484,370
Fixed Services Expense	23,214	22,779	23,391	28,684	29,994
Net Transfers In/(Out)					
Adjusted FADS for Coverage of Full Obligations	331,919	376,159	476,776	518,990	514,364
Total Annual Debt Service	239,061	263,706	289,726	263,543	295,509
Fixed Services Expense	23,214	22,779	23,391	28,684	29,994
Adjusted Debt Service (Includes Fixed Services Expense)	262,275	286,485	313,117	292,227	325,503
Coverage of Full Obligations (x)	1.27	1.31	1.52	1.78	1.58
Coverage of Full Obligations Excluding Connection Fees (x)	1.01	1.09	1.32	1.57	1.44
Current Days Cash on Hand	103	123	190	229	260
Liquidity Cushion Ratio (Days)	176	123	190	229	260
All—In Debt Service Coverage (x)	1.29	1.34	1.56	1.86	1.64

Notes: Fitch may have reclassified certain financial statement items for analytical purposes. N.A. - Not Available.
Sources: Fitch Ratings, Fitch Solutions, Washington Suburban Sanitary District (MD)

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.