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CREDIT OPINION
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Washington Suburban Sanitary Dis. Com., MD

Update to credit analysis

Summary

The Washington Suburban Sanitary District, MD's (Aaa stable) large, robust and diverse service area is a primary driver of the Aaa rating as it includes significant parts of both Montgomery (Aaa stable) and Prince George's (Aaa negative) counties, both of which are adjacent to the District of Columbia (Aaa negative). Utility system revenues provide adequate debt service coverage and the system's cash position is satisfactory. Additionally, while the district's delinquencies were somewhat elevated due to the pandemic, management has been working to bring them closer to pre-pandemic levels. Operations are trending well to budget in 2025 indicating stable operations through the end of the fiscal year. Leverage is somewhat elevated relative to similarly-rated municipal utility systems and significantly more debt is expected in the next six years to address needed capital improvements. Nevertheless, the commission's debt is ultimately secured by unlimited ad valorem taxing authority on all assessable property within the district, which is a key credit consideration.

Credit strengths

» Dynamic and robust service area

» Satisfactory reserve level with ongoing annual rate increases to support operations

Credit challenges

» Ongoing capital needs that will require annual debt issuances

Rating outlook

The stable outlook reflects the growing likelihood that the commission's service area will remain strong to support stable financial operations and address its long-term capital plan.

Factors that could lead to an upgrade

» Not applicable

Factors that could lead to a downgrade

» Inability to maintain balanced operations while addressing capital spending

» Decline in liquidity to below 125 days cash on hand

» Debt to revenues increasing to above 5.5 times

Key indicators

Exhibit 1

Washington Suburban Sanitary District Commission, MD					
System Characteristics					
Asset Condition (Net Fixed Assets / Annual Depreciation)	45 years				
System Size - O&M (in $000s)	$555,529.00				
Service Area Wealth: MFI % of US median	163.42				
Legal Provisions					
Rate Covenant (x)	1.00				
Debt Service Reserve Requirement	Baa				
Management					
Rate Management	Aaa				
Regulatory Compliance and Capital Planning	Aa				
Financial Strength					
	2020	2021	2022	2023	2024
Operating Revenue ($000)	$745,412	$745,136	$833,602	$885,633	$947,067
System Size - O&M ($000)	$506,098	$527,837	$539,416	$498,462	$555,529
Net Revenues ($000)	$247,025	$254,258	$330,189	$446,949	$436,644
Net Funded Debt ($000)	$3,442,693	$3,659,106	$3,911,011	$4,134,422	$4,238,755
Annual Debt Service ($000)	$345,644	$289,106	$285,669	$284,179	$340,805
Annual Debt Service Coverage (x)	0.7x	0.9x	1.2x	1.6x	1.3x
Cash on Hand	111	133	201	279	297
Debt to Operating Revenues (x)	4.62	4.91	4.69	4.67	4.48

Source: Moody's Ratings; WSSC's financial statements

Profile

Washington Suburban Sanitary District provides water treatment and distribution, and wastewater collection and treatment services to large portions of both Montgomery and Prince George's counties. The district serves an estimated population of approximately 2 million.

Detailed credit considerations

Service area: robust customer base located just outside of Washington D.C.

The commission's service area will remain very strong in the near-term given its location outside of Washington D.C. servicing some of the wealthiest and established communities in the country. WSSC provides water and sewer services to Montgomery and Prince George's counties. Its customer base, while largely residential, is also anchored by several federal government, higher education, and health care institutions. Development in the service area is steady and there is no expectation that future development will significantly change its current customer/usage base. The customer income levels are very strong. Median family income in Montgomery and Prince George's counties amounts to around 163% and 122%, respectively, of the nation.

The commission's taxable base totals just over $381 billion. Over the past several years, the two counties combined have seen consistent healthy growth that the commission could tap if required. The ability to levy an unlimited ad valorem tax within the district brings significant credit strength and operating flexibility. By law, the district's governing board may levy a property tax within the district. The district has never needed to levy a property tax, however.

The district's water is supplied primarily by the Potomac and Patuxent rivers with supplemental storage at four reservoirs. Consumption has remained relatively flat in recent years as a result of conservation and low flow fixture trade-outs. Average MGD has ranged between 155-165 MGD for the past eight years. The district's two water treatment facilities have a combined production capacity of nearly 400 million gallons per day (MGD).

The district owns six sewer treatment plants and retains a 46% share in the Blue Plains Plant in the District of Columbia and a 15% share in the Mattawoman Plant in Charles County (Aaa stable). Approximately 63% of sewer flow is treated at the Blue Plains Plant, with the remainder treated at the six district-owned plants. Combined treatment capacity is sufficient to meet average flows.

Debt service coverage and liquidity: stable operations despite being below peers

The district's ability to operate on a self-supporting basis is a credit strength, supported by a commitment to raising rates and a rate structure that is supported by both fixed and volumetric rates. In fiscal 2025, the district increased rates by 8.5% and despite consistent rate increases, rates are in line with peers. The commission has been working to shift its rate structure to weigh more on its fixed charge, rather than volumetric, to gain stability in revenue flow. The commission's year-to-date performance is showing level operations compared to last year. Debt service coverage is projected to be similar to 2024 levels.

The fiscal 2026 preliminary budget that was recently published shows an average 9.8% increase in volumetric and fixed rates. The increases are going to be covering increases in service costs the system is facing. It is proposing to increase funding its rate assistance plans to aid its customers.

Annual debt service coverage is narrow relative to similarly rated water and sewer systems. The district's 2024 audited results show debt service coverage of 1.28x which is a generally normal coverage level when excluding the pandemic years. Net revenues were modestly lower than 2023 but an increase in debt service in 2024 caused the decline in coverage.

The district saw a sizeable uptick in delinquent accounts as a result of the coronavirus pandemic and management has made significant efforts to address these. At the height of the pandemic, delinquent accounts rose to approximately $64 million, compared to approximately $37 million in fiscal 2019. The commission continues to make investments into payment assistance to continue to keep revenues flowing while helping customers in need.

Liquidity

The district's liquidity is satisfactory, though again somewhat narrow compared to similarly-rated peers. Days cash on hand is approximately 297 days as of fiscal 2024, a considerable improvement during the pandemic era.

Debt and pensions: ongoing capital spending leading to a stable but elevated debt burden

The overall debt position is somewhat elevated but should remain manageable despite a $4.9 billion six year capital improvement plan (CIP), given the expectation of continued rate increases and a stable service base. The district's debt to operating revenue is a hefty 4.5x, comparing negatively to the median of just 1.7x for similarly-rated combined water and sewer utilities. Again, the district's credit profile benefits considerably from its ability to levy an ad valorem tax if needed - debt relative to the tax base is a more moderate 1.14%. The current CIP is expected to be largely funded with bond proceeds (67%), followed by pay-go funding and grants.

Included in its CIP are projects related to its Consent Decrees and federal regulations for PFAS. The status of their required improvements is on schedule. The current estimate on these mandated projects through 2031 is $1.3 billion.

Legal security

While the bonds are ultimately backed by the district's ad valorem taxing authority that is unlimited as to rate or amount, debt is paid from revenues of the system. There is no need currently, nor has there ever been, to levy a property tax within the district to support operations or debt service of the system.

Debt structure

Approximately 3.6% ($153.4 million) of the district's total debt outstanding is in variable rate mode. The multi-modal bond anticipation notes are secured by the district's general obligation pledge and by two liquidity facilities with TD Bank, N.A. that expire on June 1, 2027.

As the district's debt is ultimately secured by a general obligation pledge, outstanding debt is not subject to a legally-imposed rate covenant or secured by a debt service reserve fund.

Debt-related derivatives

The district is not party to any derivative agreements.

Pensions and OPEB

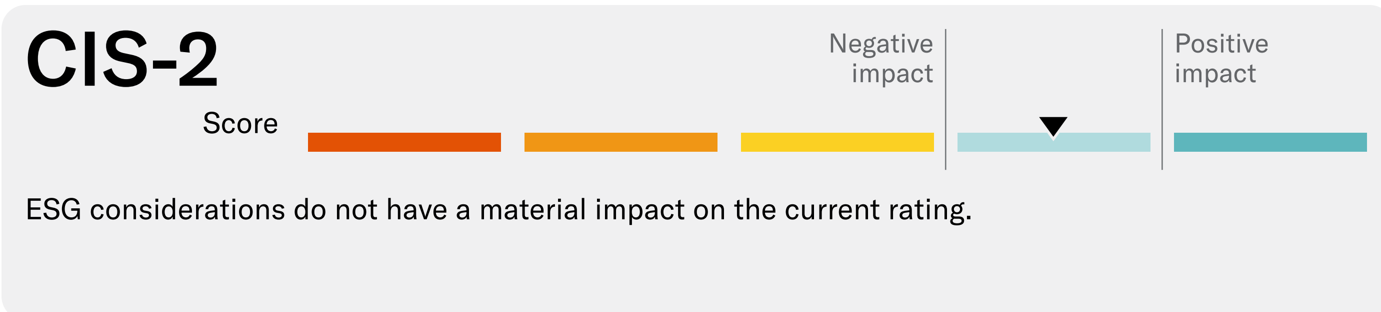
The district maintains a single employer, defined benefit plan. Annual contributions to the plan have historically exceeded our tread water indicator. The system has established a trust for OPEB, which is currently 69.0% funded.

ESG considerations

Washington Suburban Sanitary Dis. Com., MD's ESG credit impact score is CIS-2

Exhibit 2

ESG credit impact score

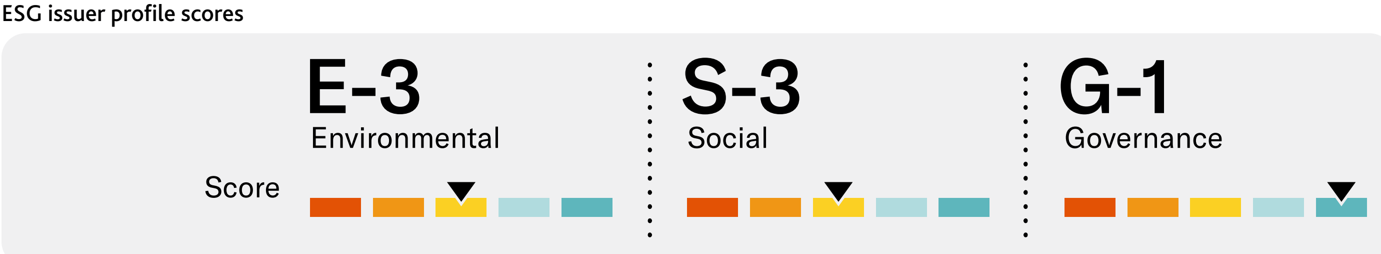


Source: Moody's Ratings

Washington Suburban Sanitary District, MD's ESG credit impact score of **CIS-2** indicates that ESG considerations have a limited impact on its credit rating.

Exhibit 3

ESG issuer profile scores



Source: Moody's Ratings

Environmental

The district has moderate credit exposure to environmental risks. Enterprises with wastewater utilities have slightly negative exposure to water management considerations given the risk of regulatory violations associated with wastewater disposal. Wastewater operations face risks of increased operating costs or capital requirements to address violations. Exposure to other environmental risks, including physical climate risk, carbon transition, natural capital and waste and pollution is low.

Social

The district has moderate credit exposure to social risks, primarily reflecting that enterprises with water utilities have negative exposure to responsible production risk. This is viewed as moderately negative across the sector. Testing results reported to the Environmental Protection Agency indicate that most utilities provide clean and safe drinking water. However, water utilities are at risk of health violations resulting from catastrophic events, changes in source water quality, failures in treatment or transmission processes or revised regulations. The enterprise has low exposure to customer relations, demographic and social trends, health and safety, and human capital considerations.

Governance

The district's governance considerations are favorable. The system benefits from strong financial strategy and risk management, as well as management credibility and track record considerations. Exposure to organizational structure and compliance and reporting considerations are low. The system has slightly negative exposure to board structure and policies risk resulting from concentrated control by the Montgomery and Prince Georges county governments. Notwithstanding their monopoly service provision, the system faces the risk of public opposition to required rate increases or capital investment.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

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