

ASSESSMENT

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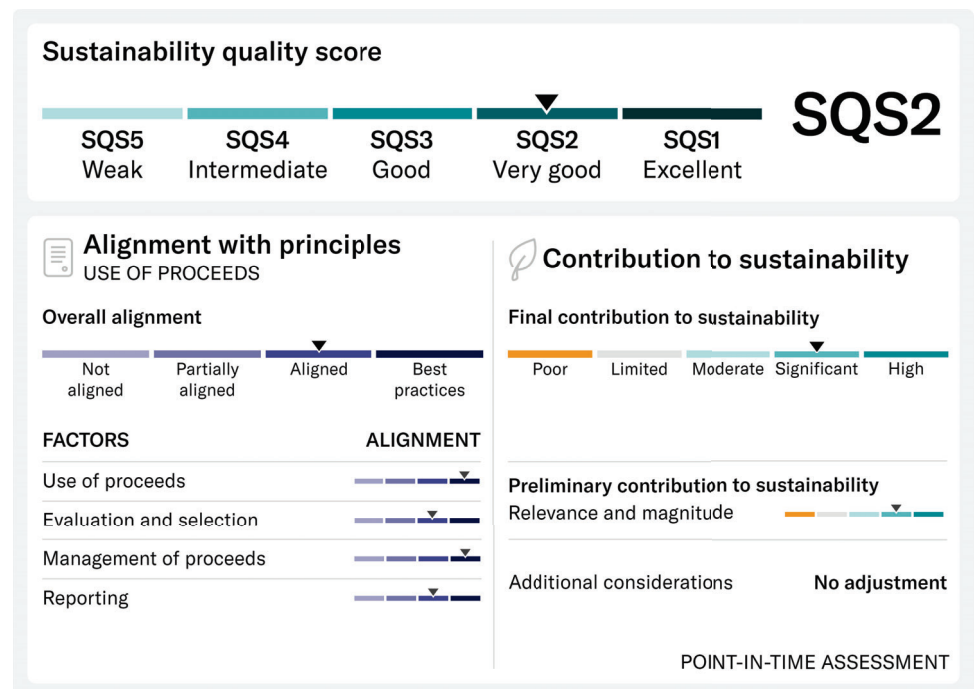
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Washington Suburban Sanitary Dis. Com., MD

Second Party Opinion – CPI Bonds of 2025 (Second Series) (Green Bonds) Assigned SQS2 Sustainability Quality Score

Summary

We have assigned an SQS2 sustainability quality score (very good) to Washington Suburban Sanitary District, MD's proposed approximately \$28.725 million Consolidated Public Improvement (CPI) Bonds of 2025 (Second Series) (Green Bonds), the "2025 green bonds." The bonds will be issued under the district's use-of-proceeds green bond framework dated 2 January 2025. The bonds will be used to finance capital improvement projects to the Potomac Water Filtration Plant to reduce solids discharge and for the construction or rehabilitation of large diameter water transmission mains and system valves. The 2025 green bonds are aligned with the four core components of the International Capital Market Association's (ICMA) Green Bond Principles (GBP) 2021 (with June 2022 Appendix 1). The 2025 green bonds demonstrate a significant contribution to sustainability.



Scope

We have provided a second party opinion (SPO) on the sustainability credentials of the district's Consolidated Public Improvement Bonds of 2025 (Second Series) (Green Bonds), including the bonds' alignment with the ICMA's GBP 2021 (with June 2022 Appendix 1). Under the issuance, the district plans to finance green projects as outlined in Appendix 3. The 2025 green bonds are an issuance under the district's green bond framework.

Our assessment is based on the last updated version of the district's green bond framework received on 12 December 2024 and the draft preliminary offering statement for the 2025 green bonds received on 3 January 2025. Our opinion reflects our point-in-time assessment¹ of the details contained in this version of the framework and preliminary offering statement, as well as other public and non-public information provided by the district.

We produced this SPO based on our [Assessment Framework: Second Party Opinions on Sustainable Debt](#), published in November 2024.

Issuer profile

Washington Suburban Sanitary District (WSSC Water) provides water treatment and distribution, and wastewater collection and treatment to a population of two million in Montgomery and Prince George's counties in Maryland. The district's raw water is primarily supplied by the Potomac and Patuxent rivers with supplemental storage at four reservoirs, providing 27 billion gallons of additional supply. The district operates six wastewater treatment facilities with a combined capacity of about 96 million gallons of wastewater per day. As of fiscal year 2024, the system had approximately 481,000 water connections and approximately 451,000 sewer connections.

Water and wastewater utilities are primarily exposed to environmental risks stemming from water management and physical climate considerations. Given the nature of operations, the sustainable management of water resources is paramount to ensure the provision of safe and reliable water services. Water and wastewater utilities are also exposed to the increasing frequency and severity of climate related hazards which can inflict infrastructure damage if not addressed. Efforts to identify and address system vulnerabilities to the negative effects of climate change are crucial to minimize service disruption.

Strengths

- » Financing of highly relevant projects addressing core environmental priorities for the district
- » Clearly defined and relevant environmental objectives and benefits associated with eligible projects
- » Clear transparency on proceeds management in line with best market practices allowing for the tracking and allocation of proceeds to projects

Challenges

- » No independent verification of the reported impact metrics associated with the financed projects
- » The financed projects do not include minimum thresholds for energy efficiency for the water distribution and treatment process

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Alignment with principles

The 2025 green bonds are aligned with the four core components of the ICMA's GBP 2021 (with June 2022 Appendix 1). For a summary alignment with principles scorecard, please see Appendix 1.

<input checked="" type="radio"/> Green Bond Principles (GBP)	<input type="radio"/> Green Loan Principles (GLP)
<input type="radio"/> Social Bond Principles (SBP)	<input type="radio"/> Social Loan Principles (SLP)
<input type="radio"/> Sustainability-Linked Bond Principles (SLBP)	<input type="radio"/> Sustainability Linked Loan Principles (SLLP)

Use of proceeds



Clarity of the eligible categories – BEST PRACTICES

The district has clearly defined the nature of expenditures, the eligibility criteria and the location of projects to be financed. Net proceeds from the 2025 green bonds will be used to finance projects under its Potomac Water Filtration Plant (WFP) consent decree program and its large water pipe and large valve rehabilitation program. Both of these programs are subsets of projects falling under the pollution prevention and control and water quality categories in its green bond framework, respectively. Projects are located in the district's service area in Montgomery and Prince George's counties in Maryland.

Clarity of the environmental or social objectives – BEST PRACTICES

The district has clearly outlined pollution prevention & control and sustainable water management as key environmental objectives associated with the projects to be financed under the issuance. The objectives are relevant to the projects and are set in coherence with the ICMA's GBP.

Clarity of expected benefits – BEST PRACTICES

The district has identified relevant expected environmental benefits for each eligible project under the 2025 green bonds that include the reduction in water pollution and improvement in water quality. Relevant and measurable impact indicators have been identified ex ante for projects to be financed. Based on the preliminary offering statement, net proceeds from the 2025 green bonds will be exclusively used for the financing of capital improvements under the two green projects and accordingly are not used for refinancing of prior assets.

Process for project evaluation and selection



Transparency and clarity of the process for defining and monitoring eligible projects – ALIGNED

The district has established a clear process for determining the eligibility of projects, with granular decision-making criteria disclosed in the framework. Eligible green bond projects are identified and selected through its annual six-year capital improvement program (CIP) process. Projects are evaluated to align with the district's 30-year asset management plan and include engineering and demographic data to ensure that projected capital and service needs are met. The process incorporates input from relevant internal expertise including the general manager and district commissioners as well as an external review process with the bi-county government and the Maryland National Capital Parks and Planning Commission for project validation. The district will monitor the continued compliance of projects to the eligibility criteria annually until a project has been fully funded. While the duration of monitoring is not through bond maturity, we acknowledge that it is unlikely for infrastructure projects to fall out of compliance with the eligibility criteria. Nevertheless, the district commits to reallocate funds to another eligible project in the event a project is considered no longer eligible. The environmental and social risk management process covering all eligible projects is clearly defined and publicly disclosed.

Management of proceeds



Allocation and tracking of proceeds – BEST PRACTICES

Net proceeds from 2025 green bonds will be placed in a segregated account exclusively for green bond project allocation, and tracked under a formalized internal process. For any labeled issuance under the district's green bond framework, the district commits to make periodic adjustments of proceeds against project expenditures on a quarterly basis. Proceeds will be allocated to eligible projects within a 12-month period following each respective bond issuance date. The issuer has communicated that proceeds from the 2025 green bonds will not be used for refinancing purposes. Any temporarily unallocated proceeds will follow the district's investment policy which conforms to the state of Maryland's law for the investment of public funds. Per the policy, unallocated proceeds are primarily invested in US government obligations, its agencies, or instrumentalities, repurchase agreements or bankers' acceptances.

Reporting



Reporting transparency – ALIGNED

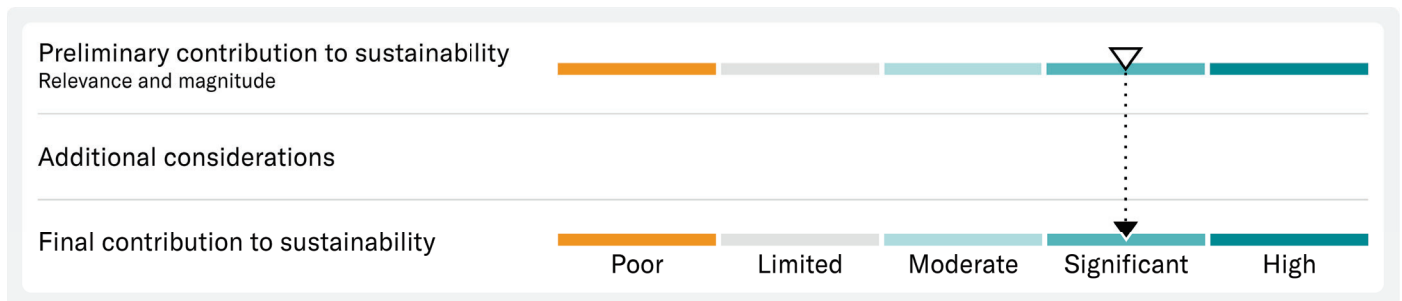
The district will report on the use of proceeds of the 2025 green bonds annually, until full allocation and in the case of material developments. For fiscal year 2025, the district plans to provide more frequent reporting on a quarterly basis on the allocation of proceeds and impact metrics for the benefit of bondholders. The reports will be publicly disclosed via its website and posted on the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board. Reporting will include details on the specific projects funded, the amount allocated to each project and the expected environmental benefits of the projects.

The district has identified relevant environmental impact indicators for the projects to be financed under the 2025 green bonds. Calculation and reporting methodologies related to projects under the consent decree are publicly available. The allocation of funds report will be independently verified by an auditor on an annual basis. Although environmental benefits are not externally verified at this time, the district plans to obtain an independent verification beginning in fiscal year 2026.

WSSC Water is an experienced green bond issuer and has provided timely and transparent disclosure of proceeds allocation and impact reporting in its green bond reports. The information disclosed is in line with the commitments outlined in prior frameworks, suggesting a high likelihood of continued timely, transparent and consistent reporting for future green bond issuances.

Contribution to sustainability

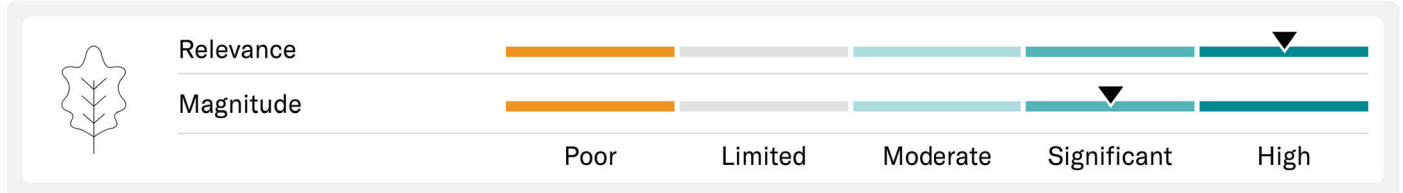
The framework demonstrates a significant overall contribution to sustainability. This reflects a preliminary contribution to sustainability score of significant, based on the relevance and magnitude of the eligible project categories, and we have not made an adjustment to the preliminary score based on additional contribution to sustainability considerations.



Preliminary contribution to sustainability

The preliminary contribution to sustainability is significant, based on the relevance and magnitude of the eligible project categories. Based on expected allocations under the 2025 green bonds, we expect a higher proportion of proceeds allocation to the Potomac WFP consent decree program compared to projects under the large diameter water pipe and large valve rehabilitation program. We have therefore proportionately weighted those projects in our assessment of the bonds' contribution to sustainability. A detailed assessment by eligible program has been provided below.

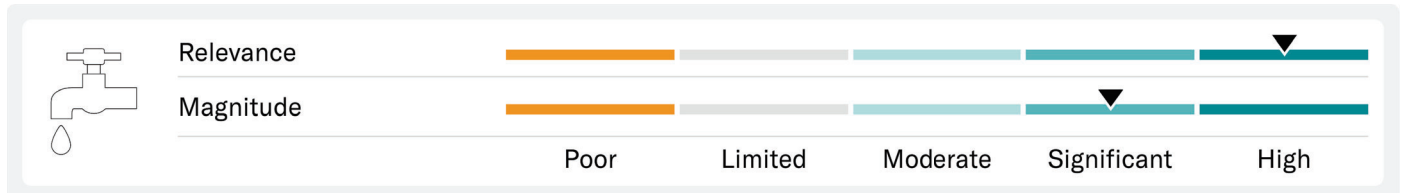
Potomac WFP consent decree program



The projects under this program are highly relevant to prevent and control water pollution within the sector and local context. In 2016, the district entered into a consent decree with the state and environmental groups related to excessive discharges at its Potomac WFP into the Potomac River during peak flow periods. Through the consent decree, the district is required to undertake operational changes and capital improvements at the plant to reduce the amount of suspended solids (sediments) discharged to the river and to construct system improvements to meet new discharge limits. The adopted six-year capital improvement plan (2025-2030) identifies roughly \$88.5 million of remaining improvements, highlighting the importance of projects to support compliance with the Potomac WFP consent decree program.

The projects will likely have significant long term benefits through the reduction in solids discharges to the Potomac River which ensures healthy waterways. Remaining projects to be financed under the consent decree program include a sediment basin filter backwash treatment facility and gravity thickeners for solids removal and treatment. As of December 2024, the district has achieved a solids removal of 70.7%, an increase from 59.7% in 2017, with the goal of removing at least 50% or river intake solids plus the dry weight equivalent of the annual tons of solids from the use of water treatment chemical. The significant magnitude captures the absence of thresholds related to energy consumption and greenhouse gas (GHG) emissions for the water treatment process. Emissions from water treatment remain one of the district's largest sources of emissions, according to the district's 2023 greenhouse gas action plan.

Large diameter water pipe & large valve rehabilitation program



Projects under this program are highly relevant to address the district's core sustainability issue given its mandate to provide safe and reliable water and wastewater services to its service area. Population growth in the face of more stringent water quality regulations increases the need for continuous capital upgrades to ensure water quality standards are maintained. In fiscal year 2023, the district recorded 19.4% of water loss,² highlighting the need to replace aging infrastructure to minimize service disruption.

Projects will likely generate a significantly positive long-term impact to ensure water system quality and reliability. Net proceeds from the 2025 green bonds will be used in part to upgrade aging water transmission assets through the replacement of water pipes and valves which are likely to deliver reduction in water losses and system leaks. Per the requirement of the state's Department of Environment, the district has prepared a water loss reduction plan to reduce water leakage levels through water conservation efforts such as metering accuracy and replacement, pressure monitoring and leak detection technologies. Based on the district's most recent water audit report for fiscal year 2023, operating indicators show an Infrastructure Leakage Index (ILI) of 1.4, which is in line with market recognized performance levels of 1.5 and below to contribute substantially to climate change mitigation. However, the

eligibility criteria do not include explicit thresholds to ensure a minimum reduction of water loss or for the improvement in energy efficiency per cubic meter of water supplied for financed projects.

We also highlight that the projects are likely to have some social co-benefits because a portion of the planned pipe installations will serve disadvantaged communities identified by the district, though the projects will serve the broader population. The district has communicated that the social co-benefits will not be included in its impact reporting.

Additional contribution to sustainability considerations

We have not made an adjustment to the preliminary contribution to sustainability score based on additional considerations.

ESG risks and externalities related to the projects to be financed are well managed and incorporated in the district's capital improvement planning process that includes participation from relevant internal and external stakeholders. All eligible projects proceed under applicable environmental permits and undergo environmental impact assessments in compliance with federal and state laws and regulations. Although the nature of operations can create responsible production risks, the district conducts regular water audits and water quality tests that follow state regulations and the US Environmental Protection Agency's Clean Water Act and Safe Drinking Water Act. Social risks regarding health and safety of workers are addressed in the district's occupational health and safety guidelines to prevent workplace accidents and injuries.

Projects to be financed coherently align with the district's broader sustainability priorities, including its overall mission of providing safe and reliable water while returning clean water to the environment, and its stated goal to reduce GHG emissions to net zero by 2050.

Appendix 1 — Alignment with principles scorecard for the district's 2025 green bonds

Factor	Sub-factor	Component	Component score	Sub-factor score	Factor score	
Use of proceeds	Clarity of the eligible categories	Nature of expenditure	A	Best practices	Best practices	
		Definition of content, eligibility and exclusion criteria for nearly all categories	A			
		Location	A			
		BP: Definition of content, eligibility and exclusion criteria for all categories	Yes			
	Clarity of the objectives	Relevance of objectives to project categories for nearly all categories	A	Best practices		
		Coherence of project category objectives with standards for nearly all categories	A			
		BP: Objectives are defined, relevant and coherent for all categories	Yes			
	Clarity of expected benefits	Identification and relevance of expected benefits for nearly all categories	A	Best practices		
		Measurability of expected benefits for nearly all categories	A			
		BP: Relevant benefits are identified for all categories	Yes			
		BP: Benefits are measurable for all categories	Yes			
		BP: Disclosure of refinancing prior to issuance and in post-allocation reporting	Yes			
		BP: Commitment to communicate refinancing look-back period prior to issuance	Yes			
	Process for project evaluation and selection	Transparency and clarity of the process for defining and monitoring eligible projects	Clarity of the process	A		Aligned
			Disclosure of the process	A		
Transparency of the environmental and social risk mitigation process			A			
BP: Monitoring of continued project compliance			No			
Management of proceeds	Allocation and tracking of proceeds	Tracking of proceeds	A	Best practices		
		Periodic adjustment of proceeds to match allocations	A			
		Disclosure of the intended types of temporary placements of unallocated proceeds	A			
		BP: Disclosure of the proceeds management process	Yes			
		BP: Allocation period is 24 months or less	Yes			
Reporting	Reporting transparency	Reporting frequency	A	Aligned		
		Reporting duration	A			
		Report disclosure	A			
		Reporting exhaustivity	A			
		BP: Allocation reporting at least until full allocation of proceeds, and impact reporting until full bond maturity or loan payback	No			
		BP: Clarity and relevance of the indicators on the sustainability benefits	Yes			
		BP: Disclosure of reporting methodology and calculation assumptions	Yes			
		BP: Independent external auditor, or other third party, to verify the tracking and allocation of funds	Yes			
BP: Independent impact assessment on environmental and social benefits	No					
Overall alignment with principles score:					Aligned	

Legend: BP - Best practice, A - Aligned, PA - Partially aligned, NA - Not aligned

Appendix 2 - Mapping eligible projects to the United Nations' Sustainable Development Goals

The two eligible projects to be financed under the 2025 green bonds are likely to contribute to three of the United Nations' Sustainable Development Goals (SDGs), namely:

UN SDG 17 Goals	Eligible Projects	SDG Targets
GOAL 6: Clean Water and Sanitation	Potomac WFP Consent Decree Program, Large Diameter Water Pipe & Large Valve Rehabilitation Program	6.3: Improve water quality by reducing pollution, eliminating dumping and minimizing hazardous chemicals and materials
	Large Diameter Water Pipe & Large Valve Rehabilitation Program	6.4: Increase water-use efficiency across all sectors and ensure sustainable supply of freshwater to reduce water scarcity
GOAL 14: Life Below Water	Potomac WFP Consent Decree Program, Large Diameter Water Pipe & Large Valve Rehabilitation Program	14.1: Prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities
GOAL 15: Life on Land	Potomac WFP Consent Decree Program, Large Diameter Water Pipe & Large Valve Rehabilitation Program	15.1: Ensure the conservation and sustainable use of terrestrial and inland freshwater ecosystems and their services

The United Nations' Sustainable Development Goals (SDGs) mapping in this SPO considers the eligible projects and associated sustainability objectives/benefits documented in the district's financing framework, as well as resources and guidelines from public institutions, such as the ICMA SDG Mapping Guidance and the UN SDG targets and indicators.

Appendix 3 - Summary of eligible projects to be financed under the 2025 green bonds

Eligible Projects	2025 Green Bonds Project Description	Sustainability Objectives	Estimated cost (\$ million)	Estimated Project Timeline	Impact Reporting Metrics
Potomac WFP Consent Decree Program (W-73.33)	The Potomac WFP Consent Decree Program provides for the planning, design, and construction required for the implementation of Short-Term Operational and Long-Term Capital Improvements at the Potomac Water Filtration Plant (WFP) to allow WSSC Water to meet the new discharge limitations identified in the Consent Decree.	Pollution prevention and control	20	February 2025 through November 2025	Percentage of river solids removed (%)
Large Diameter Water Pipe & Large Valve Rehabilitation Program (W-161.01)	The purpose of this program is to plan, inspect, design, and rehabilitate or replace large diameter water transmission mains and large system valves that have reached the end of their useful life. Condition assessment and/or corrosion monitoring is performed on metallic pipelines, including ductile iron, cast iron, and steel, to identify lengths of pipe requiring replacement or rehabilitation and cathodic protection. Rehabilitation or replacement of these mains provides value to the customer by minimizing the risk of failure and ensuring a safe and reliable water supply.	Sustainable water management	10	February 2025 through November 2025	Miles of large diameter water mains replaced annually

Endnotes

- [1](#) Point-in-time assessment is applicable only on date of assignment or update.
- [2](#) [FY2023 Water Audit and Water Loss Reduction Plan](#), 15 May 2024.

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