FitchRatings

Public Finance
Water & Sewer
United States

Washington Suburban Sanitary District, Maryland

The 'AAA' ratings consider Washington Suburban Sanitary District's (WSSD, or the district) 'Very Strong' financial profile, in the context of its 'Very Strong' Revenue Defensibility and 'Very Strong' Operating Risk profiles, both assessed at 'aa'. The district's leverage, measured as net adjusted debt to adjusted funds available for debt service (FADS), was 7.8x in fiscal 2025 (FYE June 30) and is expected to peak at 9.6x by fiscal 2027 in Fitch's Analytical Stress Test (FAST) rating case. This is a result of the district's expansive capital improvement plan (CIP), but its leverage is anticipated to decrease in the outyears.

The sustained trend in the declining leverage is dependent upon continued robust rate adjustments over the five-year horizon, and beyond, to generate sufficient FADS in support of ongoing capital needs and rising operating costs. Should leverage consistently approximate 10.0x, it could pressure the rating.

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

However, 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. WSSD'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 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

$339,175,000 Consolidated Public Improvement Bonds of 2026	AAA
$27,505,000 Consolidated Public Improvement Bonds of 2026 (Second Series) (Green Bonds)	AAA

Sale Date

Feb. 5, 2026, via competitive sale

Outstanding Debt

Issuer Ratings Information

Applicable Criteria

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

U.S. Water and Sewer Rating Criteria (February 2025)

Related Research

Fitch Rates Washington Suburban Sanitary District, MD's GO Bonds 'AAA'; Outlook Stable (January 2026)

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Key Rating Drivers

Revenue Defensibility - 'aa'

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

WSSD serves an expansive and very affordable service area that encompasses parts of Prince George's County and Montgomery County. The district retains the legal authority to adjust rates as needed without external oversight. Fitch uses the demographic area of Prince George's County when assessing service area metrics, and notes that demographic metrics for Montgomery County are on par with, or more favorable than, those of Prince George's County. Fitch considers the monthly residential water and sewer bill affordable for approximately 89% of the service area population, based on its 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's and midrange customer growth. Customer growth registered a five-year compound annual growth rate of 0.6% as of fiscal 2025. Income levels are very strong, with median household income (MHI) equal to nearly 164% of the national median as of 2023. The unemployment rate was 3% in 2024 and has tracked about 29% less than the national level over the past four years.

Operating Risk - 'aa'

Very Low Operating Cost Burden, Moderate Investment Needs

In fiscal 2025, the system's operating cost burden was considered very low, measuring $6,313 per million gallons (mg). The life cycle ratio was very low, measuring 32% in fiscal 2025. Annual capital spending relative to depreciation is strong, averaging 194% over the past five fiscal years from 2021 to 2025. Planned capital spending for the next five years should generally outpace historical depreciation, supporting a continued very low life cycle ratio.

The district's fiscal 2026-2030 CIP totals about $4 billion, on par with its prior capital plan for fiscal years 2025-2029. The CIP encompasses water distribution, water treatment and storage, and wastewater collection projects within and across the two counties, along with capital contributions to the Blue Plains Advanced Water Treatment Plant. Approximately 73% of the plan is anticipated to be funded through debt proceeds, including those on hand, about 16% is to be funded from pay-go funding, and the remainder, from state grants and other contributions. The district does not expect any material operational impacts related to PFAS or lead and copper regulations.

Financial Profile - 'aa'

Leverage Continues Supporting Rating, Neutral Liquidity

The district had leverage of 7.8x as of fiscal 2025, having declined from a peak of 10.9x in fiscal 2021, largely due to increasing cash balances. The liquidity profile is considered neutral to the overall assessment, with 254 current days cash on hand and coverage of full obligations (COFO) of 1.6x as of fiscal 2025. Fitch-calculated total debt service coverage for fiscal 2025 was 1.6x, 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.

In the base case scenario, the leverage ratio is projected to increase to 9.4x by fiscal 2027 and then decrease to 8.4x through fiscal 2030. In the stress case, which is considered the rating case, the leverage ratio is expected to increase to 9.6x by fiscal 2027 and then decline to 8.9x through fiscal 2030. Fitch expects the actual pace and execution of capital projects could lead to more moderate increases in leverage. 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

- Failure to enact rate increases that satisfactorily support ongoing operations and continued robust capital investment.

- Leverage in Fitch's rating case that approaches 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.

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 County and Prince George's County, 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 485,000 water and 455,000 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 about 161 million gallons per day (mgd), well below the district's available capacity of 393 mgd. 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.

Revenue Defensibility

Revenue Source Characteristics

All 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, taxes have neither been levied nor required to pay debt service.

Service Area Characteristics

The district's two-county economic base is very strong, characterized by 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. An expanding biomedical sector, driven in large part by the presence of the National Institutes of Health, has helped to further diversify the local economy. The Prince George's County 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.

Customer growth is midrange, with a five-year compound annual growth rate (CAGR) of 0.6% in fiscal 2025. Service area MHI measured 164% of the national level as of fiscal 2023. Service area unemployment measured about 68% of the national level as of fiscal 2024.

Rate Flexibility

The district retains independent rate-setting authority and significant rate flexibility, and is governed by a six-member commission, three of whom are appointed by Prince George's County and the other three from Montgomery County. Rates are considered affordable for roughly 89% of the service area population, based on Prince George's County demographics. Rate increases have historically ranged from 5.9%-7% for fiscal years 2021–2024, while a larger than historical rate increase was approved for fiscal 2025. A 9.5% rate increase went into effect for fiscal 2026. The district's long-term plan includes a 5% rate increase in fiscal 2027, an 8.2% increase in fiscal 2028, a 7.5% increase in fiscal 2029 and a 6.3% increase in fiscal 2030. These rates are anticipated to support the capital plan and increasing operating expenditures.

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. If 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, measuring $6,313/mg in fiscal 2025, and averaging about $5,700/mg over the past five fiscal years. Although sewer flows have fluctuated over the past few years, water produced has remained relatively stable. While operating expenses increased approximately 7.5% and 5% in fiscal years 2023 and 2024, respectively, operating expenses most recently increased 15% in fiscal 2025, largely due to cost increases of chemicals and supplies, and a one-time increase in salaries as a result of a prior compensation study.

Although operating expenses are anticipated to increase in the outyears, per the district's financial forecast, Fitch expects the operating cost burden to remain consistent with the current assessment for at least the intermediate term.

Capital Planning and Management

The district has moderate investment needs, reflected in the life cycle ratio of 32% in fiscal 2025, remaining relatively stable over the past five fiscal years. Capital spending is robust, with a five-year average capex to depreciation ratio of 194% for fiscal years 2021–2025.

The district's fiscal 2026–2030 CIP totals approximately $4 billion, on par with the district's prior fiscal 2025–2029 CIP. The CIP continues to focus on water distribution, water treatment and storage, and wastewater collection projects within and across the two counties.

Large capital projects include about $664 million on Blue Plains Advanced Water Treatment Plant, $617 million for sewer/trunk sewer reconstruction and rehabilitation, $443 million for the renewal and extension of water mains, housing connections and other large water services, $351 million for the rehabilitation and replacement of large diameter water mains across both counties, $71 million to bring the Anacostia Depot up to building code and Americans with Disabilities Act-compliant, and $38 million for the Potomac water filtration plant consent decree program, among other capital projects.

The majority of the plan, about 73%, is anticipated to be funded through debt, including the current sales and existing bond proceeds, with approximately 16% funded on a pay-go basis. The remainder, about 11%, is anticipated to be funded through a mix of state grants and other governmental contributions. The district's capital spending projections over the following five-year period are anticipated to be above historical levels of annual depreciation, contributing to a stable to improving life cycle ratio over time.

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 is also in compliance with the LCRI, and it has not identified any lead service lines within system assets, and estimates more than 95% of private lines are non-lead.

Asymmetric Factor Considerations

No asymmetric factor considerations affected the operating risk assessment.

Financial Profile and FAST Analysis

Leverage in fiscal 2025 was very low at 7.8x and averaged 8.8x over the past five years. The liquidity profile is considered neutral to the assessment, with coverage of full obligations (COFO) of 1.6x and 254 current days cash on hand as of fiscal 2025.

Fitch Analytical Stress Test

A fiscal 2026–2030 financial forecast and CIP informed Fitch's base case. Operating revenues are inclusive of projected annual rate increases, as noted previously. Operating expenses are anticipated to increase, on average, about 5.4% annually through the forecast period. In addition, full execution of the district's extensive capital plan is assumed, despite historical actual capital execution of roughly 90% over the past few fiscal years.

Taking these assumptions into consideration, leverage is anticipated to increase in the short term and is anticipated to gradually decline in the outyears. In the base case, leverage increases to 9.4x by fiscal 2027, and then declines to 8.4x by fiscal 2030. In the rating case, leverage peaks at 9.6x, and then declines to 8.9x by fiscal 2030. Liquidity is anticipated to remain neutral to the assessment, with COFO of at least 1.2x and sound days cash annually.

Leverage through Fitch's scenario analysis remains consistent with the 'aa' financial profile assessment. However, the 'AAA' 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 its resource base (utilizing Prince George's County and Montgomery County as proxies). When considering the district's direct long-term obligations, including its Fitch-adjusted net pension liability, the burden is about 3% of personal income.

Despite peak leverage of 9.6x in the rating case, Fitch anticipates leverage to moderate as capital spending continues to be refined and rate adjustments are implemented. However, should the leverage trajectory result in sustained leverage approaching 10.0x, the financial profile and rating would be pressured.

Asymmetric Additive Risk Considerations

No asymmetric additive risk considerations affected this rating determination.

ESG Considerations

Financial Summary

(Audited Fiscal Years Ended June 30)	2021	2022	2023	2024	2025
Revenue Defensibility					
Revenue Source Characteristics					
% of Total Revenue from Monopolistic Services	100	100	100	100	100
Service Area Characteristics					
Service Area Population	956,603	953,609	956,533	966,629	N.A.
Total Customer Count	918,020	922,000	928,000	932,000	940,000
Five-Year Total Customer Count CAGR (%)	0.7	0.6	0.5	0.5	0.6
Service Area Median Household Income ($)	91,124	97,935	100,708	N.A.	N.A.
Service Area MHI/U.S. Median Household Income (%)	132	130	128	N.A.	N.A.
Service Area Unemployment Rate (%)	6.6	3.2	2.3	3.3	N.A.
Service Area Unemployment Rate/U.S. Unemployment Rate (%)	125	89	64	83	N.A.
Rate Flexibility					
Total Monthly Bill ($) (7,500 Gallons Water/6,000 Gallons Sewer)	103.42	109.17	116.19	119.19	144.82
% of Population with Unaffordable Bill	13	13	13	-	-
Operating Risk					
Operating Cost Burden					
Operating Cost Burden ($/mg)	5,260	5,481	5,867	5,865	6,313
Capital Planning and Management					
Life Cycle Ratio (%)	31	31	32	33	32
Annual Capex/Depreciation (%)	192	177	203	182	214
Five-Year Average Capex/Depreciation (%)	249	219	203	190	194
Financial Profile ($000, Unless Otherwise Indicated)					
Current Unrestricted Cash/Investments	164,278	247,819	321,569	383,567	430,696
Current Restricted Cash/Invest (Available Liquidity)	-	-	-	-	-
Current Cash Available	164,278	247,819	321,569	383,567	430,696
Noncurrent Unrestricted Cash/Investments					
Noncurrent Restricted Cash/Invest (Available Liquidity)					
Available Cash	164,278	247,819	321,569	383,567	430,696
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	3,889,142	4,102,918	4,330,375	4,434,356	4,564,515
Capitalized Fixed Charges	159,456	163,736	200,787	209,958	213,826
Adjusted Net Pension Liability	237,804	136,653	370,477	320,789	318,211
Available Cash	164,278	247,819	321,569	383,567	430,696
Funds Restricted for Debt Service					
Net Adjusted Debt	4,122,123	4,155,488	4,580,070	4,581,536	4,665,856
Total Operating Revs	749,606	837,663	889,472	950,749	1,036,850
Purchased Water/Sewer Services	65,084	66,831	81,954	85,697	87,276
Other Operating Expenses	424,160	409,671	430,796	452,776	531,697
EBITDA	260,362	361,161	376,722	412,276	417,877
Investment Income/(Loss)	1,420	1,218	26,304	34,397	29,322

Financial Summary

(Audited Fiscal Years Ended June 30)	2021	2022	2023	2024	2025
Non-Operating Revenues from Taxes					
Other Cash Revenues/(Expenses)	28,531	28,590	28,238	(6,564)	(8,396)
BAB Subsidy					
Capital Contributions	63,067	62,416	59,042	44,261	83,809
Funds Available for Debt Service	353,380	453,385	490,306	484,370	522,612
Fixed Services Expense	22,779	23,391	28,684	29,994	30,547
Net Transfers In/(Out)					
Pension Expense	764	(8,652)	49,034	29,871	46,856
Adjusted Funds Available for Debt Service	376,923	468,124	568,024	544,235	600,015
Net Adjusted Debt/Adjusted Funds Available for Debt Service (x)	**10.9**	**8.9**	**8.1**	**8.4**	**7.8**
Funds Available for Debt Service	353,380	453,385	490,306	484,370	522,612
Fixed Services Expense	22,779	23,391	28,684	29,994	30,547
Net Transfers In/(Out)					
Adjusted FADS for Coverage of Full Obligations	376,159	476,776	518,990	514,364	553,159
Total Annual Debt Service	263,706	289,726	263,543	295,509	319,771
Fixed Services Expense	22,779	23,391	28,684	29,994	30,547
Adjusted Debt Service (Includes Fixed Services Expense)	286,485	313,117	292,227	325,503	350,318
Coverage of Full Obligations (x)	1.31	1.52	1.78	1.58	1.58
Coverage of Full Obligations Excluding Connection Fees (x)	1.09	1.32	1.57	1.44	1.34
Current Days Cash on Hand	123	190	229	260	254
Liquidity Cushion Ratio (Days)	123	190	229	260	254
All-In Debt Service Coverage (x)	1.34	1.56	1.86	1.64	1.63

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

SOLICITATION & PARTICIPATION STATUS

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