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) credit profile is supported by its vast and robust service area that includes large portions of Montgomery (Aaa stable) and Prince George's (Aa1 stable) counties. The economic growth and socioeconomic metrics are stable. The district's financial position will remain steady, given ongoing expenditure control and consistent revenue growth driven by rate increases. While the metrics somewhat lag similarly rated peers, the district has the ability to levy an unlimited property tax to significantly bolster its financial position. The district's leverage position will remain elevated because of sizeable capital needs.

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

» N/A

Factors that could lead to a downgrade

» Inability to maintain balanced operations while addressing capital spending (GO)

» Decline in liquidity to below 125 days cash on hand (GO)

» Debt to revenues increasing to above 5.5 times (GO)

Key indicators

Exhibit 1

Washington Suburban Sanitary District Commission, MD					
System Characteristics					
Asset Condition (Net Fixed Assets / Annual Depreciation)	44 years				
System Size - O&M (in $000s)	620484				
Service Area Wealth: MFI % of US median	163				
Legal Provisions					
Rate Covenant (x)					
Debt Service Reserve Requirement					
Management					
Rate Management					
Regulatory Compliance and Capital Planning					
Financial Strength					
	2021	2022	2023	2024	2025
Operating Revenue ($000)	$745,136	$833,602	$885,633	$947,067	$1,033,065
System Size - O&M ($000)	$527,837	$539,416	$498,462	$555,529	$620,484
Net Revenues ($000)	$254,258	$330,189	$446,949	$436,644	$457,285
Net Funded Debt ($000)	$3,659,106	$3,911,011	$4,134,422	$4,238,755	$4,280,397
Annual Debt Service ($000)	$289,106	$285,669	$284,179	$340,805	$344,712
Annual Debt Service Coverage (x)	0.9x	1.2x	1.6x	1.3x	1.3x
Cash on Hand	133	201	279	297	288
Debt to Operating Revenues (x)	4.91	4.69	4.67	4.48	4.14

Source: US Census Bureau, Washington Suburban Sanitary Dis. Com., MD's financial statements and Moody's Ratings

Profile

Washington Suburban Sanitary District Commission 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 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 federal presence or future developments will significantly change its current customer or usage base, since it is largely residential.

The commission will continue to benefit from the favorable socioeconomic metrics and economic growth in the area given ongoing development. 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 total taxable base approaches a massive $395 billion. Over the past several years, the two counties combined have seen consistent growth that the commission could tap if required.

The ability to levy an unlimited property 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. 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: below-median metrics will remain stable

The district will continue to maintain the trend of balanced operations, benefitting from a commitment to raising rates and a rate structure that is supported by both fixed and volumetric rates. In fiscal 2026, the district increased rates by 9.5% and projects a 5% increase in its preliminary fiscal 2027 budget. To improve affordability, the preliminary budget also includes a $5.5 million use of the district's temporary rate stabilization fund in addition to a one-time $4.9 million draw on its interest income.

Additionally, 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. Having improved the share of fixed charge to 15% in fiscal 2025 from 9.7% in recent years, the commission has a 19.8% long-term target.

Annual debt service coverage will remain stable but narrow relative to similarly rated water and sewer systems. The district's 2025 audited results show debt service coverage of 1.33x which is a generally normal coverage level when excluding the pandemic years.

The district saw a sizeable uptick in delinquent accounts primarily driven by the recent federal government shutdown and contraction, and management has made a multi-phase plan to recover revenue. As of December of 2025, delinquent accounts rose to approximately 99,000 (or $69 million) from 83,000 in June 2024. Favorably, the commission continues to make investments into payment assistance to continue to keep revenues flowing while helping customers in need, and the bad debt reserve balance currently stands at a solid $27.9 million.

Liquidity

The district's liquidity will continue to mirror its reserve trend. As of fiscal 2025, the district had approximately 288 days cash on hand.

Debt and pensions: leverage will remain elevated due to capital needs

The district's leverage position will remain elevated due to its comprehensive six-year capital improvement plan (CIP), though it will be mitigated by consistent rate increases and a robust service base. The combined debt issuances through fiscal 2031 is a projected $3.3 billion. The district's debt to operating revenue is a hefty 4.5x, comparing negatively to the median of just 1.4x 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, because its debt relative to the tax base is a more moderate 1.23%. 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 remaining mandated projects through 2031 is approximately $36.6 million.

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 2.1% ($89.1 million) of the district's total debt outstanding is in variable rate mode as of fiscal 2025. 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.

Pensions and OPEB

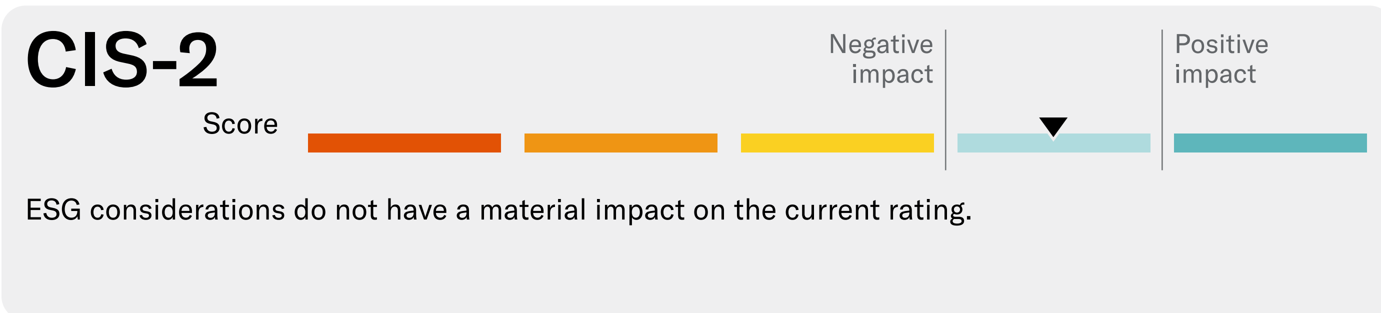
The district maintains a single employer, defined benefit plan. Annual contributions to the plan have historically exceeded our tread water indicator. The system has established a trust for OPEB, and its fiscal 2024 contribution was $17.3 million.

ESG considerations

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

Exhibit 2

ESG credit impact score

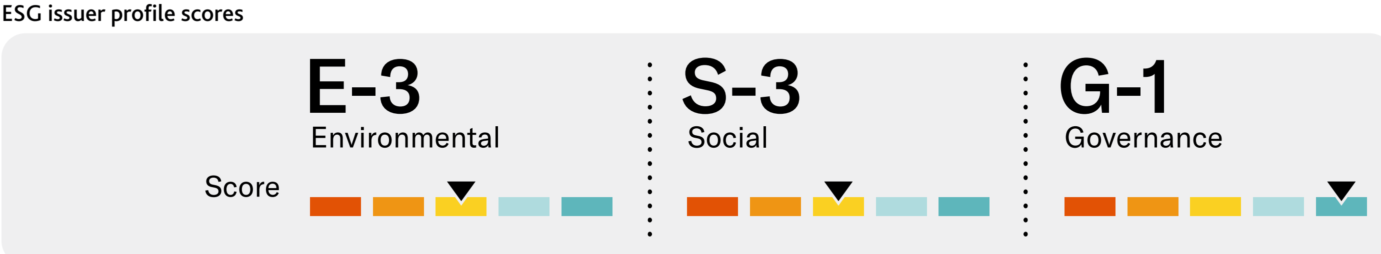


Source: Moody's Ratings

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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