

Research Update:

Washington Suburban Sanitary District, MD Consolidated Improvement Bonds And Public Improvement Bonds Rated 'AAA'

January 27, 2026

Overview

- S&P Global Ratings assigned its 'AAA' rating to [Washington Suburban Sanitary District](#) (WSSD), Md.'s \$339.2 million series 2026 consolidated improvement bonds and \$27.5 million 2026 (second series) consolidated public improvement bonds (green bonds).
- At the same time, S&P Global Ratings affirmed its 'AAA' rating on the district's existing debt.
- The outlook is stable.

Rationale

Security

Debt service has been paid from revenues generated from fees, charges, rates and assessments, and other available funds. In the event of a deficiency, the Montgomery County and Prince George's County councils are required to impose ad valorem taxes on all the assessable property within the district. To date, neither county has been required to levy any ad valorem taxes to pay debt service on any of WSSD's outstanding bonds.

We understand proceeds from this issue will be used to fund capital projects, some of which are designated as "green projects," as well as the payment of costs of issuance related to the sale. Green bond projects include the planning, design, and construction of improvements to a water filtration plan to reduce solids discharge and/or rehabilitation of large diameter water mains and valves.

Following this issuance, total debt outstanding is estimated at \$4.9 billion and includes existing Maryland Water Quality Bonds.

We consider the financial metrics supportive of the 'AAA' rating, with all-in coverage being strong but with extremely strong liquidity levels in the past three fiscal years. We view the unlimited ad valorem property taxes, which could be levied should district operating levels decline, as

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supportive of the district's debt service (in theory), given the extremely strong liquidity levels and that timing issues are mitigated; this provides the rating additional support.

Credit highlights

WSSD's credit quality is anchored by the extremely strong management team that has historically demonstrated an ability and willingness to reduce expenditures and increase rates to maintain sufficient coverage and liquidity, as well as the large and mostly affluent tax base that ultimately secures the bonds if user fees are insufficient. Management has numerous and formal prudent financial, operational, and capital policies, which we view as critical to the 'AAA' rating. We recognize that coverage and cash are narrower than those of its commensurately rated peers; however, the additional security provided by the tax base and management's history of rate increases and cost containment offset this risk. Nevertheless, we acknowledge that consistent and sufficient rate increases will be necessary to maintain cash and coverage levels in line with district targets as it navigates through this sizable capital-intensive period.

In addition, the rating further reflects the district's:

- Location and participation in the broad and diverse Washington-Arlington-Alexandria DC-VA-MD-WV metropolitan statistical area with above-average incomes and below-average poverty levels;
- Ample system capacity with affordable monthly rates when compared with those of surrounding systems, currently at \$134.41 per 6,000 gallons, and expected to remain manageable given proposed annual rate increases ranging from 4.7% to 8.2% annually between fiscal years 2027-2032 against a relatively affluent service area;
- Numerous operational and fiscal policies and practices that help to ensure healthy system operations and maintain sound and consistent financial operations;
- Historically thinner coverage levels when compared with those of other 'AAA' rated peers yet somewhat offset by the available unlimited ad valorem property tax levy from both counties; closing fiscal 2025 with 1.5x coverage (which includes bond anticipation note [BAN] payments);
- Historically extremely strong reserves, which are not projected to significantly decline in the wake of a growing capital plan; and
- Significant and growing capital plan totaling \$4.3 billion with roughly 79% expected to be funded through future debt.

Environmental, social, and governance

Overall, we believe WSSD has above-average exposure to regulatory risks given the existing consent decree and associated large capital improvement plan (CIP). However, management's strong practices and commitment to support environmental restorative and resiliency policies somewhat offset these risks. We believe WSSD has a better social and governance profile than its utility peers, which is reflected in the 'AAA' rating. Furthermore, the district expects to be completed with consent decree projects by the end of calendar 2026. Implementing the increased levy requires approval from two governmental entities, which could increase the risk of delays. Liquidity is an important mitigant to this timing risk factor, and management recently increased its liquidity target, which we view favorably.

Rating above the sovereign

The bonds are eligible to be rated above the sovereign because we believe the district can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "[Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions](#)," Nov. 19, 2013, the district has full rate-setting authority, in addition to independent taxing authority and independent treasury management from the U.S. government.

Outlook

The stable outlook reflects our view of the large, diverse, and mostly affluent service area, which remains strong. Credit stability also rests with our view that management has a meaningful track record in managing volatility in revenues through significant expense reductions to maintain healthy coverage and liquidity. Despite substantial capital needs, we believe rates will remain affordable and financial metrics will meet forecasts.

Downside scenario

If management is unwilling to implement necessary rate increases or contain costs, which results in a reduction in reserves or a failure to meet forecast projections, while managing the sizable capital plan and rising debt service requirements, we could lower the rating. While management has been prudent in reducing its expenditures historically, there is a point at which there will be fewer discretionary expenditures to reduce, which could necessitate greater rate increases and pressure rate affordability. Given income levels and affordability relative to peers, we believe this is unlikely but if political pressures or economic weakness results in willingness issues, we could also consider lowering the rating.

Credit Opinion

Enterprise profile

WSSD serves a population of about 1.9 million in the Washington-Baltimore metropolitan area, the fourth largest in the nation. The local economy's depth and diversity, in our opinion, contribute to the district's below-average unemployment and above-average income and wealth. Unemployment has trended down for both counties indicating robust and ample employment opportunities. Montgomery County and Prince George's County median household effective buying incomes were 143% and 119%, respectively, of the national average, which we view as extremely strong. Market value for the district is \$395 billion, or \$207,895 per capita, which we consider extremely strong and supportive of the 'AAA' rating. Furthermore, WSSC serves as a vital anchor institution, not only as one of the area's major employers, but by contributing to the local economy as well as actively engaging and supporting the community.

The six-member Washington Suburban Sanitary Commission governs the district. The commission has full rate-setting ability; it levies a variety of charges and fees, the most significant of which are consumption charges, which accounted for roughly 94% of revenues in fiscal 2025. It typically provides the counties with a consumption-rate forecast annually. Rates are affordable relative to both incomes and regional peers. Combined rates increased 9.5% in fiscal 2026. Given the location with a sizable state and federal employment sector, the proposed fiscal 2027 budget includes a 5% rate increase. The six-year rate forecast (2027-2032) includes a projected 8.2% increase in 2028, declining to 4.7% in 2032--equating to an average annual increase of 6.25%. The preliminary proposed fiscal year 2027 budget is supported overall by a 6.0% revenue enhancement consisting of a 5.0% average water and sewer volumetric and fixed

fees rate increase, with the additional 1.0% achieved through the use of one-time revenue from interest income and a temporary rate stabilization fund. In our opinion, ongoing increases in fixed fees as a proportion of water and sewer revenues serve to enhance revenue stability. We see these higher percentages of fixed charges as a credit positive and beneficial as they provide increased revenue stability as the district carries out its capital plan. Projected rate increases, which at times have been above what has been proposed, are a direct result of the commission's decision to do more pay-go funding for capital projects than in previous years yet remaining mindful of affordability concerns. The district has affordability program and customer assistance programs for lower-income customers, which have been recently reviewed and adjusted given the pressures related to the recent government shutdown. The approach to addressing affordability is extremely comprehensive relative to its peers, in our opinion. We believe the rate increases in the long-range financial plan are prudent and will support the substantial CIP and the increased liquidity and coverage targets.

Financial profile

Debt service coverage (DSC) is narrow relative to that of 'AAA' rated peers. However, management is sophisticated and has demonstrated an ongoing ability to recover costs and adjust expenditures as needed to meet revenue volatility. Through the pandemic, it mitigated revenue losses through aggressive cost-containment "savings plans," which targeted reductions in operating expenses as well as pay-as-you-go and debt service savings. We believe management has demonstrated a willingness to raise rates and reduce costs to meet challenging operating and economic environments.

Debt service has always been paid by user fees, but the commission can levy an ad valorem property tax, if needed, which is a positive credit factor in our analysis. The commission sets the budget to ensure full cost recovery, including necessary infrastructure investment. Annual DSC, excluding capital contributions, has been at or slightly above sum sufficient, and there is no rate covenant. Coverage for fiscal 2025 was 1.54x (including BAN payments) and is expected to be between 1.3x and 1.4x for fiscal 2026, ultimately ramping up to 1.5x by fiscal 2027, which is the district's informal target.

The commission previously suspended all water turnoffs and late penalties due to the pandemic. As a result, payment delinquencies grew to \$64 million as of June 30, 2021. Factoring in the most recent round of government shutdowns, WSSD's delinquencies have been on the rise (at \$69.0 million in December 2025) but continue to benefit from an increased number of payment plans preventing further account turnoffs. Management has effectively employed several methods to reduce the delinquencies, including consistent expansion of its customer assistance program in addition to the ongoing set-up of payment plans. Nevertheless, WSSC plans to resume turnoffs for commercial accounts on March 1, 2026, and for multifamily and residential accounts on April 1, 2026. This is balanced with increased outreach to avoid disconnecting services where possible.

WSSD's liquidity has remained healthy throughout the past decade, in our view. There have not been any draws on the reserve since 2019. If water or sewer operating revenues do not reach budgeted amounts, the commission first reduces expenditures, then draws on the reserve. If the reserve is inadequate, the commission may implement a midyear rate increase, although this has never been required. Finally, if all revenues are insufficient, the commission may levy a tax on the two-county area for debt service payment, which would be requested and effectuated annually. Liquidity is critical in a distressed scenario, given that there would be timing considerations associated with any tax levy. In fiscal 2025, liquidity was extremely strong, with \$490 million, or 289 days' cash on hand. On May 30, 2024, the commission executed a three-year maturity

extension to extend its standby note purchase program through June 1, 2027, with the ability to issue up to \$600 million of bond anticipation notes, if necessary.

Overall net debt (including overlapping debt) remains low, in our view, at about 1.5% of market value at the end of fiscal 2025. Debt to capitalization is moderate at 47%. All of the commission's debt is self-supporting. Despite the commission's history of annual debt issuances to fund WSSD's sizable CIP, the commission's overall net debt levels have remained low given the size of the customer and tax base. The 2027-2032 proposed CIP is \$4.3 billion, 79% of which will be debt-financed. Capital needs consist primarily of rehabilitation or replacement of the older portion of water and sewer mains, as well as ensuring compliance with the Potomac Water Filtration Plant and Sanitary Sewer Overflow consent decrees, which have been extended to October 2026. In our view, the near-term capital needs are substantial, but the income levels and customer base are sufficient to keep rates relatively affordable in the near term (relative to income and peers).

Management has a very strong, institutionalized asset management plan, and it builds ongoing rehabilitation into the annual budget. Asset management is innovative and has improved operational performance and, in many cases, building resiliency into the system and reducing costs, which we view favorably. Emergency response planning assesses enterprise-wide risk and plans for emergency response. Given the effects of climate change and the increased frequency of significant storms, we believe this level of planning is critical to credit quality. The commission continues to update cybersecurity policies following a cyber attack in May 2021. The attack did not result in any financial or operational issues. Limited data on the commission's internal network were accessed, and the commission followed the appropriate notification steps. We understand that no information was publicly disclosed. We believe management has prudent cyber policies in place and, in addition to cyber insurance, is taking sufficient steps to enhance its cyber-protective measures.

Washington Suburban Sanitary District, Maryland--economic and financial data

Fiscal year-end

	Most recent	2025	2024	2023	Median (AAA)
Economic data					
MHHEBI of the service area as % of the U.S.	131.7				114.0
Unemployment rate (%)	4.0				3.4
Poverty rate (%)	9.0				10.3
Water rate (6,000 gallons or actual) (\$)	67.2				33.3
Sewer rate (6,000 gallons or actual) (\$)	65.0				37.2
Annual utility bill as % of MHHEBI	1.8				1.0
Operational management assessment	Good				Good
Financial data					
Total operating revenues (\$000s)	1,033,065	947,067	884,792	73,371	
Total operating expenses less depreciation (\$000s)	618,973	538,473	512,750	53,231	
Net revenues available for debt service (\$000s)	531,008	490,934	463,026	--	
Debt service (\$000s)	257,384	228,621	278,504	--	
S&P Global Ratings-adjusted all-in DSC (x)	1.54	1.4	1.7	2.6	
Unrestricted cash (\$000s)	490,427	451,944	382,348	90,711	
Days' cash of operating expenses	289	306	272	713	

Washington Suburban Sanitary District, Maryland--economic and financial data

Fiscal year-end

	Most recent	2025	2024	2023	Median (AAA)
Total on-balance-sheet debt (\$000s)		4,559,789	4,431,430	4,328,372	140,491
Debt-to-capitalization ratio (%)		45.0	45.1	45.1	26.0
Financial management assessment	Strong	--	--	--	Strong

Note: Most recent economic data available from our vendors. MHHEBI--Median household effective buying income.
DSC--Debt service coverage.

Ratings List

New Issue Ratings

US\$27.505 mil cons pub imp bnds of 2026 (Green bnds) ser 2ND due 6/1/2055

Long Term Rating	AAA/Stable
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US\$339.175 mil cons pub imp bnds of 2026 ser 2026 due 06/01/2055

Long Term Rating	AAA/Stable
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Ratings Affirmed

Water & Sewer

Washington Suburban Sanitary Dist MD Water and Sewer System	AAA/Stable
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The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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