

Green Transaction Evaluation

**Washington Suburban Sanitary District Consolidated
Public Improvement Bonds of 2021 (Second Series)
(Green Bonds)**

Sept. 23, 2021

The Washington Suburban Sanitary District (“the district” or “WSSC Water”) was created in 1918 and operates as a public corporation of the state of Maryland under the Public Utilities Article. WSSC Water provides water supply and sewage disposal to nearly 2 million people in Montgomery and Prince George’s counties in Maryland. In September 2021, WSSC Water will issue its second series of consolidated public improvement green bonds, worth \$23 million. The net proceeds of the green bonds will provide funding for (i) the inspection, design, and rehabilitation or replacement of large diameter water transmission mains and large system values that have reached the end of their useful life; (ii) the planning, design, and construction of long-term capital improvements at the Potomac Water Filtration plant that will allow WSSC Water to meet new discharge limitations; and (iii) costs of issuance. The bonds will be labeled green bonds, and all financed projects fall within the scope of our Green Evaluation. Debt service is to be paid from revenue generated by the district from fees, charges, rates and assessments, and other available funds.

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Environmental benefit score



Governance and reporting opinion



Transaction Evaluation

82/100
Strong

A higher score indicates greater environmental benefit

Project Description

The district will use bond proceeds to improve the water system throughout the service area. The projects were necessitated by aging infrastructure, a consent decree, and the desire to improve water sustainability and reduce pollution. In addition, the projects are expected to improve efficiencies in operations. These series 2021 green bonds will continue work previously financed by its 2019 and 2020 green bonds.

The first project is a component of the Potomac Water Filtration Plant (WFP) Consent Decree Program. The district is required to undertake short-term operational changes and capital improvements at the Potomac WFP to reduce solids discharged into the river and achieve quality requirements established by the Maryland Department of the Environment and incorporated into a new discharge permit. This project will address water quality and pollution prevention and conservation of terrestrial and aquatic biodiversity.

The second project identified for green funding is the water pipe and valve rehabilitation program, which is expected to reduce water loss and support sustainable water management. Our Green Evaluation includes the positive environmental impact from the increase in available water (reduction in water loss).

The projects funded were designed to be resilient over their expected lifetime to a range of climate-related hazards, including flooding, storms (or storm surge), and extreme heat. Resilience to the most severe events (for all hazards projected to occur on an annual basis) and long-term changes (change in mean precipitation and temperature) have been factored into the projects' designs. The district had identified vulnerabilities and risks, accounted for the impacts of climate change on local systems, and identified resiliency and mitigation strategies on all riverine coastal treatment and pumping facilities. For example, it used flood modeling to estimate the chance of a 100-year storm affecting the pipe system in 2065, assuming rainfall depth of 9.7 inches at a 15% probability; additional projections range from 2020 to 2100. The district has done such modeling for the most at-risk plant and pump stations. In fiscal 2022, it will be doing the same vulnerability assessment and mitigation for linear assets as well as updating its greenhouse gas (GHG) inventory and action plan. A range of climate projections were used including Representative Concentration Pathway (RCP) RCP8.5, which align to a mean global temperature increase of 4° C or more, by 2100. An RCP is a GHG concentration trajectory adopted by the Intergovernmental Panel on Climate Change that describes different future climates.

Summary of environmental benefit score

Location	Environmental sector	Environmental project type	KPI(s)	Benefit ranking	Hierarchy score and tier	Benefit score	Use of proceeds (mil. xxx)
Prince George's Country, Maryland	Water	Water Distribution Network Improvements	Carbon Intensity Water Use	87	Score: 75 Tier: 5	79	18
Prince George's Country, Maryland	Water	Wastewater Treatment with No Energy Recovery	Carbon Intensity Water Use	85	Score: 100 Tier 2	96	5
Weighted average benefit score and total use of proceeds						82	23

Note: To disaggregate the score breakdown, please refer to "[Analytical Approach: Sustainable Financing Opinions](#)," published Aug. 25, 2021.

Transaction Evaluation Summary

Environmental benefit

Score 82/100

This transaction received an environmental benefit score of 82. In our view, the projects' expected reductions in both water loss and solids compared with the baseline will have a significant environmental impact. These projects are especially beneficial because of their location in the D.C./Maryland region, an area that we determine to be under extremely high water stress as the high population density in a relatively small areas translates to high demand for water services.

Use of proceeds

Commitments score

Weak

Satisfactory

Strong

Advanced

The entity commits to using the net proceeds of the issuance solely to finance eligible green projects outlined in its documentation and identifies both objectives and benefits of each project.

Process for project evaluation and selection

Commitments score

Weak

Satisfactory

Strong

Advanced

WSSC Water's Green Bond Framework clearly outlines the process for project evaluation and selection, including the relevant internal bodies and committees. In addition, each project is subject to a stakeholder consultation process.

Management of proceeds

Green bond proceeds are earmarked and allocated to a special account. The documentation also outlines the personnel responsible for ensuring green bond proceeds are allocated appropriately and temporary investment of funds before disbursement.

Reporting

Disclosure score

Weak

Satisfactory

Strong

Advanced

Washington Suburban Sanitary District commits to annual reporting of projects financed with green bonds, including project description, environmental benefit, and Key Performance Indicators until full allocation of proceeds. The entity has committed to a third-party audit for green bond allocation, but not for project impact.

Transaction Evaluation Assessment

Environmental benefit

The environmental benefit score provides a relative ranking of the environmental benefits of projects financed by a given financial transaction. The score is a weighted average of the project's benefit ranking based on project type and location, and the project's placement within our environmental contribution hierarchy.

Score 82/100

In our view, the financed projects improve water reliability and quality while also reducing solids and operational inefficiencies. While the solids removal project represents significant enhancements to existing water systems and is thus located at the top of our environmental contribution hierarchy, the pipeline replacement project is a marginal system enhancement and is thus at Tier 5 in our hierarchy.

Water-related mitigation projects focus on using water resources and networks more efficiently and improving the quality of water treatment for various end uses and the environment. The district has explicitly prioritized investments in reducing water loss and reducing solids to improve quality and reduce pollution. These priorities were chosen commensurate with environmental principles and the district's asset and climate management plans, and most projects in this sector address regional water stress, which is relatively high in the D.C./Maryland area.

Use of proceeds

Our commitments opinion focuses on the commitments and clarity on how the proceeds are used. We provide an opinion on the level of commitment made in the documentation as weak, satisfactory, strong, or advanced.

Commitments score

Weak

Satisfactory

Strong

Advanced

We consider WSSC Water's overall use-of-proceeds commitments to be Strong.

WSSC Water commits to using the proceeds of the green bond issuance to the eligible projects that have high environmental benefits, as described above. In its Green Bond Framework, WSSC Water clearly details the categories and individual criteria of eligible green projects, and in its Green Bond Annual Report, the entity outlines the relevant sustainability objectives and benefits for each individual project category. In addition, the framework identifies how the selected projects correspond to ICMA 2016 Green Bond Principles categories and identifies relevant Key Performance Indicators at the project-level.

Process for project selection and evaluation

Our commitments opinion focuses on the commitments to and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance. We provide an opinion on the level of commitment made in the documentation as weak, satisfactory, strong, or advanced.

Commitments score

Weak

Satisfactory

Strong

Advanced

We consider WSSC Water's overall project selection and evaluation process to be Strong.

WSSC Water has a comprehensive process for planning eligible green projects. The entity ensures that each project complies with local and regional environmental laws and regulations and establishes environmental objectives, targets, and best management and monitoring practices. Each project must align with WSSC Water's 30-year asset management plan and business case studies and a thorough process for review and final approval by multiple stakeholders and internal bodies. However, the entity does not identify any relevant ESG subject-matter expertise within these bodies. The project selection and evaluation process calls for the input of affected local citizens at multiple stages throughout the process and identifies mitigants to potential negative

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environmental impacts, which we view favorably. We would view this process yet more favorably if WSSC Water identified where in the process they identify and manage potential social risks of the financed projects.

Management of proceeds

Our opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will continue to be dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

The Green Bond Framework notes that proceeds from the issuance will be specifically directed to pay for costs incurred as a result of the identified projects. Bond proceeds will be kept in an earmarked special account and transferred to the entity's general investment pool after expenses are verified to be green bond eligible. WSSC Water identifies the two individuals responsible for the correct allocation of green bond proceeds and the framework outlines mechanisms for the temporary management of unused funds as well as the refunding protocol.

Reporting

Our opinion focuses on how clearly the financing documentation describes the issuer's level of disclosure and reporting practices. We provide an opinion on the level of commitment made in the documentation as weak, satisfactory, strong, or advanced.

Disclosure score

Weak

Satisfactory

Strong

Advanced

We consider WSSC Water's overall reporting practices to be Satisfactory.

WSSC Water commits to producing an annual report that details how the green bond proceeds were used to finance selected projects, provides disbursement schedules, and provides a description of individual projects and their environmental benefit until the full allocation of proceeds. The entity also commits to publishing the results of a third-party audit of its allocation of proceeds in this annual report. WSSC Water reports on project impact, including ongoing project status, timelines for completion, and Key Performance Indicators from the ICMA Green Bond Principles for each eligible project. We would view the reporting commitments more strongly if WSSC Water also committed to report on environmental benefits of all projects, such as the pipe replacement program, or had an independent third-party verification or audit of reported impact metrics, as recommended by the Principles.

Water Contribution Hierarchy

	Project
Tier 2: System enhancements	Recycling wastewater to supply potable municipal water Recycling wastewater to supply non-potable water for agricultural uses Wastewater treatment with no energy recovery Wastewater treatment with energy recovery
Tier 5: Marginal system enhancements	Reducing water losses in the water distribution network
Tier 6: Marginal system enhancements with material negative environmental consequences	Water desalination to supply potable municipal water
Tier 7: Demand-side improvements	Conservation measure in residential buildings Conservation measure in commercial buildings Conservation measure in industrial buildings Smart metering in residential buildings

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