

DC Water Green Bond Framework



Adopted by the Board of Directors on October 7, 2021

Background

The District of Columbia Water and Sewer Authority (DC Water) provides retail drinking water and wastewater services to the District of Columbia (District) and wholesale wastewater treatment services to several adjoining municipalities in Maryland and Virginia. DC Water was created in 1996 under District law, with the approval of the United States Congress, as an independent authority of the District government with legal, financial and operational autonomy. DC Water is governed by an 11-member Board of Directors, with representatives from the District, Montgomery and Prince George's counties in Maryland, and Fairfax County in Virginia. The Board is responsible for adopting DC Water's policies and procedures, and its District representatives are vested with the sole authority to set DC Water's rates, fees and charges.

Purpose

The purpose of this Green Bond Framework is to formalize the process and commitments that govern DC Water's issuance of Green Bonds.

Framework

This framework has been developed to correspond with the four pillars of the Green Bond Principles:

- Use of Proceeds
- Project Evaluation and Selection Process
- Management of Proceeds
- Reporting

Use of Proceeds; Project Evaluation and Selection Process

Issuance for Clean Rivers Project

DC Water may use the net proceeds of each Green Bond issuance to fund the Clean Rivers Project. The Clean Rivers Project meets the following specific Green Project Categories outlined in the Green Bond Principles: pollution prevention and control, sustainable water and wastewater management, climate change adaptation.

Issuance for Other Projects

DC Water may consider financing projects other than the Clean Rivers Project with the net proceeds of Green Bonds. Green Bond issuance for other projects must be authorized by the Board, at the recommendation of the CEO. The CEO's recommendation will include the environmental sustainability objectives, a statement of how the proposed projects meet the Green Project Categories, and the criteria that will be used to evaluate the project.

Net proceeds must be used to finance projects falling under one or more Green Project Categories. The Green Project Categories include:

- Renewable energy
- Energy efficiency
- Pollution prevention and control
- Environmentally sustainable management of living natural resources and land use
- Terrestrial aquatic biodiversity
- Clean Transportation
- Sustainable water and wastewater management
- Climate change adaptation
- Circular economy adapted products, production technologies and process and/or certified eco-efficient products
- Green buildings

Amounts Used for Initial Project Financing and Refinancing

- DC Water will specify amounts to be used for initial project financing as well as any amounts used for refinancing. Such amounts will be contained within the Official Statement for the relevant Green Bond issuance.

Description of the Clean Rivers Project

Like many older cities in the United States, the sewer system in the District is comprised of both combined sewers and separate sanitary sewers. In a combined sewer system, sewage from homes and businesses during dry weather is conveyed to DC Water's Blue Plains Advanced Wastewater Treatment Plant (Blue Plains) located in the southwestern part of the District on the east bank of the Potomac River. At Blue Plains, wastewater is treated to remove pollutants prior to being discharged into the Potomac River. When the capacity of a combined sewer is exceeded during storms, the excess flow, which is a mixture of sewage and stormwater runoff, is discharged into the Anacostia and Potomac Rivers and Rock Creek. This excess flow is called combined sewer overflow (CSO). There are 47 active CSO outfalls in the District's combined sewer system.

Communities in the United States with combined sewer systems were required to prepare long term control plans for managing CSO in accordance with Section 402(q) of the Clean Water Act (CWA). A United States Environmental Protection Agency (EPA) Report to Congress on the Impacts and Controls of CSOs and Sanitary Sewer Overflows (EPA 833-R-04-001 dated August 26, 2004 or the "2004 EPA Report") concluded that occurrence of CSOs are widespread and cause or contribute to adverse environmental and human health impacts. DC Water, in compliance with the requirements of the CWA and its National Pollutant Discharge Elimination System (NPDES) permit issued by the EPA, prepared a Long-Term Control Plan (LTCP). The LTCP is a plan that outlines infrastructure improvements with a proposed implementation schedule to control CSO discharges into the area waterways.

In addition to controlling CSO discharges into the area waterways, select projects in the LTCP have also been deemed to relieve and mitigate flooding in certain areas of the District by the Mayor's Task Force on the Prevention of Flooding in Bloomingdale and LeDroit Park (Mayor's Task Force).

The LTCP infrastructure improvements that have been determined to provide flood relief and mitigation include:

- Irving Street Green Infrastructure
- First Street Tunnel
- Northeast Boundary Tunnel

A draft of the LTCP was submitted for public comment, as well as to the EPA and the District Department of Health in June 2001. After addressing public comments, the final LTCP proposed significant reductions in CSO compared to the draft plan and was approved by the District Department of Health in August 2003 and by EPA in November 2004. On March 25, 2005, DC Water and the District government entered into a Consent Decree (Civil Action No. 1:00-cv-00183-TFH) with the United States Department of Justice (DOJ) and the EPA. This Consent Decree established a schedule for the implementation of the LTCP. In 2010, DC Water renamed the LTCP the DC Clean Rivers Project. On May 20, 2015, DC Water, the District of Columbia, EPA and DOJ announced an agreement to modify the March 2005 consent decree to allow for large scale green infrastructure (GI) installations and other modifications to the DC Clean Rivers Project impacting the Potomac River and Rock Creek watersheds. The modification was approved and became effective on January 14, 2016.

Management of Proceeds

Net proceeds related to the issuance of Green Bonds will be specifically directed to pay the costs of design, construction, property acquisition, and other related expenses necessary for the eligible projects. Green Bond proceeds may also be used to pay the cost of issuance and underwriter's fees related to the transaction. The Department of Finance, within the Finance Division, is responsible for managing the funds.

The net proceeds of the Green Bond issuance will be deposited in a segregated account of the Construction Fund established under DC Water's Master Indenture of Trust, as amended and supplemented. Funds will be held exclusively in US Treasury securities or bank deposits.

All proceeds will be allocated within three years to eligible project expenses. Balances will be tracked and will be included in the annual audit and the Green Bond Report.

Reporting

DC Water will publish a Green Bond Report annually for projects until they have reached completion. The report will include appropriate performance measures for Environmental, Social, and Governance factors associated with the project and with DC Water. The report will transparently communicate the share of the total cost of the eligible project, which is financed by other funds, and to apply this ratio to the measured environmental and social benefits of the overall DC Clean Rivers project.

The Green Bond Report will include a description of the projects and reporting on the use of proceeds, environmental and social outcomes achieved, and responsible management of the project and DC Water. The report will be publicly available on DC Water's website and posted to the Electronic Municipal Market Access website hosted by the Municipal Securities Regulatory Board, accessible at emma.msrb.org. The annual Green Bond Report will be reviewed by DC Water's external auditor.

Reporting for the Clean Rivers Project

For the Clean Rivers Project, these indicators will include:

- Use of Proceeds
 - The total amount of net proceeds deposited into the segregated Bond accounts
 - The total amount of Bond Draws
 - The total amount of unspent proceeds and details surrounding investment holdings (possible new indicator)
- Environmental and Social Outcomes
 - Percent Reduction in Predicted Pollutants
 - Tunnel Construction Progress
 - Flood Relief and Mitigation Projects Progress
 - Pollutants Removed at Blue Plains
 - Carbon measure (possible new indicator)
 - Biosolids re-use measure (possible new indicator)
- Responsible Management
 - DC Clean Rivers Project fulltime employees by gender, age, and ethnicity (indicators of diversity)
 - Total number of incidents of discrimination and actions taken
 - Percent of DC Clean Rivers Project employees receiving a performance review during the fiscal year
 - Number of project person hours spent on the DC Clean Rivers Project
 - Number of safety committee meetings
 - Number of safety observation reports
 - DC Clean Rivers Project recorded injuries incident rate
 - Health and safety incidents for contractors
 - Predicted volume of CSO discharged per average rainfall year
 - Percent of all DC Water invoices paid within 30 and 45 days
 - Percentage of EPA Fair Share Objective construction contracts awarded to Women and Minority Business Enterprises
 - Total number of contractors employed by the DC Clean Rivers Project and Percentage of DC Clean Rivers Project contractors that reside within the District or DC Water's service territory
 - Number of public meetings

Reporting for Other Projects

DC Water may consider financing projects other than the Clean Rivers Project with the net proceeds of Green Bonds. Prior to funding any such projects, DC Water will develop appropriate performance measures for Environmental Social, and Governance factors associated with the project. These performance measures will be incorporated into the annual Green Bond Report.

Second Party Opinion

At the time of issuance of a Green Bond, DC Water will seek an independent Second Party Opinion on the sustainability of the Green Bond to be issued by DC Water. The report associated with the Second Party Opinion will be made publicly available by DC Water.