

## Case Study: DC Water Green Bond

### Green Bond Stats:

Issue date: July 23, 2014  
Size: \$350 million (upsized on the day by \$50 million)  
Tenor: 100-year  
Yield: 4.814 percent (settled at lower end of expected spread)  
Rating: Aa2 Moody's / AA+ S&P / AA Fitch  
Underwriter: Lead Goldman Sachs  
2nd opinion: Vigeo (first U.S. green bond with second opinion)

### About DC Water:

DC Water provides clean drinking water and wastewater treatment to the District of Columbia, and serves Montgomery, Maryland and Virginia as well, while protecting the environment.

### Why DC Water issued a green bond

For the District of Columbia Water and Sewer Authority—commonly referred to as DC Water—the decision to issue a green bond started with the Clean Rivers project, which they were in the process of financing. They were considering issuing a normal bond, but when CFO Mark Kim and his team looked at the characteristics of the asset and realized all its potential positive environmental outcomes, they thought it would more appropriate to finance the project with green bonds. It was also an exciting opportunity for DC Water to pioneer and issue the first green municipal bond for water investments in the U.S. market. They issued their \$350m green bond in July 2014, upsizing on the day from the planned \$300m issuance due to strong demand.

### On the benefits of having a second opinion

To ensure that the environmental credentials of the bond were as strong as possible, DC Water looked to Europe for best practice, as there had only been two other green municipal bonds in the United States at that time, and decided to get a second opinion. Kim was clear on the benefits of this: “It was a no-brainer to do a second opinion. To us, not having one is really equivalent to saying you would consider going to market with unaudited financials!”

Working with Vigeo, their second opinion provider, was an eye-opening experience: “Vigeo was very rigorous in their due diligence—they collected lots of data, interviewed the executive team and board, and visited the project. They also helped us choose green outcomes and indicators that would resonate with investors.”

The work with the second opinion really paid off when the green bond entered the roadshow process with investors. Both the municipal bond teams and the socially responsible investment (SRI) teams from various institutional investors were present, and participation in the deal became the call of the SRI team due to the green aspect. Mark Kim recalls: “This meant we needed to prove the extent of the environmental impacts to get them to invest. The second opinion was great then, because we could say: ‘Hey, don’t take our word for it—we got an independent review.’”

## Met with overwhelming market demand, leading to financial benefits

When the green bond was issued, it was met with overwhelming market demand. The deal was oversubscribed multiple times. “In fact, when we first came to market with an initial \$300 million offer, we got a little over \$1.1 billion of orders! So in response, we upped the size to \$350 million and lowered the spread by 15 basis points,” explains Kim. “Some of this pricing benefit can be attributed to the green credentials of the bond, in the sense that \$100 million of orders were from SRI investors that would not have bought one of our non-green bonds, but of course, it is difficult to quantify how much of the pricing benefit can be attributed solely to the green label. But, it was clear that we benefitted financially from having a green label.” Another benefit for DC Water was that they achieved a lot of investor diversification, with the additional \$100 million in orders from SRI investors that they would not have accessed with a normal municipal bond.

## Great feedback from other stakeholders: media, Board, and even utility ratepayers

But investors were not the only ones excited about the green bond. It was equally well received by other stakeholders. There were some great media stories from *Wall Street Journal*, *Financial Times*, and the like. DC Water’s Board was also very supportive. And clearly the green bond struck a chord with their utility customers as well. Mark and his team were happily surprised to get a thank you note from one of their utility ratepayers in response.

## Reporting included in annual reporting

DC Water has made efforts to ensure that the success of their green bond continues after issuance. Procedures for tracking performance have been established, and the company just published green bond reporting in their annual financial reports. This includes how many times they have drawn from the green bond funds and the environmental outcomes for a certain set of indicators established together with Vigeo in the pre-issuance stages. DC Water has committed to annual reporting.

Of course, doing a green bond had some additional costs in terms of time and money relative to non-green bond issuance—but DC Water made it clear that the benefits outweighed the costs. To them, both the administrative and monetary costs of were comparable to all the other costs of going to market with any bond issuance—getting a credit rating, financial consultants, doing roadshows, and so on. Bob Hunt, finance director at DC Water, elaborated: “Typically, we have a working group with many different representatives set up when we are issuing any bond. Adding the green bond second opinion provider Vigeo to the working group mix did not really make it more challenging.” DC Water also found the timeframe manageable: It took six weeks from when they decided to do a green bond until it was all in place, which fit neatly into the deal schedule—they didn’t have to extend the deal process time at all.

## ... And they are coming back to market with their second green bond in 2015

Considering the success of their first green bond, it is no surprise to hear that DC Water is planning to issue their second green bond this year. But this time it will be even simpler: “The difference with this issuance is that our green bond framework and independent review of this is already set out from our first green bond, so it is a lot easier. But we are planning to step it up even further and get an independent audit on the report,” says Kim. He adds, “If we can do it, others can do it too”.

*Thanks to Mark Kim, CFO, and Bob Hunt, Finance Director, at DC Water for taking the time for an interview.*