

Innovative Finance: An Overview of DC Water and Sewer Authority's Environmental Impact Bond

Summary

- ▶ On September 29, 2016 DC Water and Sewer Authority launched the nation's first environmental impact bond (EIB) to fund a green infrastructure project.



Summary

- ▶ The project goal is to reduce combined sewer overflows and lessen pollution of waterways with permeable pavement and rain gardens.
- ▶ Investor repayment is contingent on success of project.



Specifications

- ▶ Initial term rate = 3.43%
- ▶ Maturity date = October 1, 2046
- ▶ Mandatory tender date = April 1, 2021

Performance Tier, Outcome Ranges and Contingent Payment

- Depending on the effectiveness of GI, a contingent payment may be due at the mandatory tender date:

Performance Tier	Outcome Ranges	Contingent Payment
1	Runoff Reduction > 41.3%	DC Water will make an Outcome Payment to Investors of \$3.3 million.
2	18.6% <= Runoff Reduction <= 41.3%	No contingent payment due.
3	Runoff Reduction < 18.6%	Investors will make Risk Share Payment to DC Water of \$3.3 million.

<http://www.goldmansachs.com/media-relations/press-releases/current/dc-water-environmental-impact-bond-fact-sheet.pdf>

Not Without Critics...

The Bond Buyer, DC Water "Deal of the Year" is a Deal to Avoid (Unless You Are an Investor)

Published on December 27, 2016



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Imagine buying a home for \$500,000. The probability of severe damage from a storm or fire is small (say 2.5%), but the loss would be significant. Paying an annual premium of \$1,000 to insure against these events is good financial sense, unlikely as they may be.

Suppose that you will make \$100,000 in mortgage payments over four and a half years and the insurance company offers a policy to reimburse you for 85% of these payments if the home is damaged. The company asks for a premium of \$247,000 for this period.

Not a policy that one is likely to buy, is it?

Links to More Information

- ▶ DC Water and Sewer Authority Press Release
http://govlab.hks.harvard.edu/files/siblab/files/dc_water_eib_joint_press_release_final_09-29-16.pdf
- ▶ Fact Sheet: DC Water Environmental Impact Bond
<http://www.goldmansachs.com/media-relations/press-releases/current/dc-water-environmental-impact-bond-fact-sheet.pdf>
- ▶ Private Placement Agreement
<http://www.dacbond.com/dacContent/doc.jsp?id=0900bbc7801b7696>
- ▶ DC Water Presentation to AGA-Baltimore Chapter
<http://agabaltimore.org/wp-content/uploads/2015/09/DC-Water-Presentation.pdf>