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D.C. Water Considers First-Ever Century Bond by a Public Utility.

D.C. Water and Sewer Authority is contemplating being the nation's first public utility to issue a bond that's paid off over 100 years.

If Washington, D.C. is undertaking a project that will benefit – at minimum – the next three generations, then why make just one generation pay for it?

That question is the impetus for what would be a highly unusual move as D.C. Water and Sewer Authority contemplates offering a century bond this summer to help finance a major infrastructure project already underway. Century bonds, which are paid off over 100 years, are rare in the private sector and are mostly issued by colleges and universities. But it's unheard of for a public utility to issue such a bond.

The tunnel project that DC Water is selling the bonds to help finance is a key reason why the utility is considering such a long-term bond in the first place. Thanks to innovative engineering and the fact that the tunnel will technically be empty of water most of the time, DC Water General Manager George Hawkins said it's designed not to need significant maintenance for at least 100 years.

"This is by far the largest project we will undertake," he said. "We want to match up the degree to which we are funding this project to its expected life. And we're not saddling any one group of rate payers with this enormous cost. That's sort of unfair because it's … designed to last much longer."

The $2.6 billion underground tunnel system will be 13 miles long and most of it will sit 10 stories underneath the District's surface. Its diameter is equivalent to the size of a subway tunnel and its main purpose is to prevent flooding and runoff into the Anacostia and Potomac rivers during rainstorms. (Many of the city's water pipes are more than 100 years old and some neighborhoods, particularly in the northeast section of the city, suffer from chronic flooding during flash rainstorms.) About one mile of the tunnel is finished at a cost of $250 million.

Hawkins said the utility is still weighing its options as it looks to sell a total of $400 million in bonds in late July. If it decides against a century bond (which would be taxable debt), DC Water will offer a 35-year tax-free bond, three-quarters of it at a fixed interest rate. If officials decide that the municipal market conditions, like the 100-year interest rate offered to DC Water, aren't favorable then the utility will offer a traditional bond.

Although it's unprecedented for a public utility to issue a century bond, analysts say there is likely still a strong market for such an offering. Higher education institutions have typically done well offering them – in 2012, the University of California system sold $860 million in taxable bonds, the largest century bond ever, after expanding its offering by more than $300 million because demand was so high.

"Investors are anxious to get exposure to municipal risk," said Matt Fabian, an analyst for Municipal Market Advisors. "So a long maturity bond with limited call features [early repayment] ensures

stability to an investor’s portfolio. They won’t have to worry about it maturing or being called away.”

Pension fund managers would especially be interested in such a long-life bond, said Sherman Swanson, managing director at Siebert Brandford Shank & Company. Because pension funds pay out retirement benefits and new employees are entering into the fund every year, a pension fund’s liabilities extend decades into the future.

“They’re trying to manage the assets they own to their liabilities,” Swanson said. “They need to get that longer in most cases.”

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