

**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

Board of Directors

Finance and Budget Committee

Thursday, July 26, 2012

11:00 a.m.

1. **Call to Order**..... Timothy L. Firestine, Chairperson
2. **June 2012 Financial Report (Attachment 1)**.....Olu Adebo and Robert Hunt
 - A. Operating Revenues & Expenditures
 - B. Cash Reserves & Investments
 - C. Capital Disbursements Summary
 - D. Investment Report
3. **Biosolids Project Financial Update (Attachment 2)**..... Olu Adebo
4. **Debt Policy & Market Update (Attachment 3)**..... Robert Hunt
 - A. Debt Policy & Guidelines (**Attachment 3A**)
 - B. Glossary (**Attachment 3B**)
 - C. Use of Proceeds Checklist (**Attachment 3C**)
 - D. Refunding Guidelines (**Attachment 3D**)
5. **Agenda for September Committee Meeting (Attachment 4)** Timothy L. Firestine
6. **Adjournment**

FOLLOW-UP ITEMS – Finance & Budget Committee (Follow-up Items from the Meeting held June 28, 2012)

1. Provide explanation for the lag in the Small Diameter Water Main Rehabilitation project in the Water service area. **(Mr. Firestine) Status:** *There are a variety of factors related to the lower level of disbursements in the Small Diameter Water Main Rehabilitation projects. These factors range from coordinated adjustments to the start for design on one projects up to and including close out of completed construction on another. It is anticipated that overall spending will recover by September.*
2. Provide information on the Federal Home Loan Bank (FHLB) tap bonds and the higher coupon rate of 3.125 than other funds in the portfolio. **(Mr. Firestine) Status:** *Complete*
3. Provide updated action items reflecting the revised budget proposals before the July 2012 board meeting. **(Mr. Firestine) Status:** *Complete*
4. Provide summary presentation of the FY 2013 budget proposals from both Committees at the July 2012 Board meeting. **(Ms. Nancoo) Status:** *Complete*

5. General Counsel to research legislation on insurance lawsuit limits that could be filed against DC Water. **(Mr. Cotruvo) Status:** *There is no ceiling or cap specified legislatively for claiming damages against DC Water. DC Water can sue and be sued independently according to our enabling legislation.*
6. Confirm if the user share allocations on the ROCIP fact sheets are in line with actual results based on the year-end audit and provide the history of actual user allocations. **(Mr. Firestine) Status:** *See Attachment 5*
7. Correct February to July on the agenda for the September Committee Meeting. **(Ms. Nancoo) Status:** *Complete*



June 2012 FINANCIAL REPORT

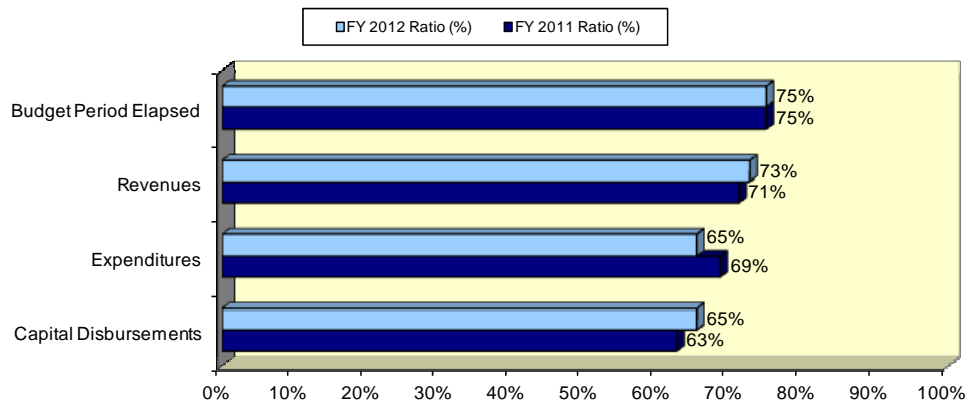
FY 2012 FINANCIAL PERFORMANCE

At the end of June, with 75 percent of the fiscal year completed, we are on track with budgetary expectations. We anticipated on completing the fiscal year under budget for revenues, operating expenses and capital disbursements. The table below summarizes detailed information as discussed later in this report.

Financial Performance As of June 30, 2012 (\$ in millions)

| | Approved | Revised Budget | YTD Budget | YTD | Variance | | % Revised Budget | Year-End Projection |
|-----------------------|----------|----------------|------------|---------|-------------------------|---------------|------------------|---------------------|
| | | | | Actual | Favorable (Unfavorable) | 75% of Budget | | |
| Revenues (Receipts)* | \$412.2 | \$426.4 | \$319.8 | \$309.9 | (\$9.9) | -3.1% | 72.7% | \$422.5 |
| Expenditures* | \$422.4 | \$415.4 | \$311.6 | \$271.6 | \$39.9 | 12.8% | 65.4% | \$388.6 |
| Capital Disbursements | \$555.8 | \$531.7 | \$389.4 | \$347.7 | \$41.7 | 10.7% | 65.4% | \$500.1 |

* Straight-lined (9/12 of revised budget)



120-day Operating Reserve Analysis (\$ in millions)

| | |
|---|---------|
| FY 2012 120-day Operating Reserve Objective | \$125.5 |
| Actual Average Daily Balances | \$159.3 |
| Difference | \$33.8 |

OPERATING REVENUES & RECEIPTS

At the end of June 2012, cash receipts totaled \$309.9 million, or 72.7 percent of the revised FY 2012 budget. Several categories of customers make payments on a quarterly basis, including the federal and District governments, and wholesale customers. The table below provides a summary of operating receipts at the end of June.

**REVENUE VARIANCE BY CATEGORY
As of June 30, 2012
(\$ in millions)**

| Revenue Category | FY 2012 Revised Budget | Year-to-Date Budget | Actual Received | Favorable | Variance (Unfavorable) | Actual % of Budget | Year End Projections | Variance Proj v. Bud | Percent |
|---|------------------------|---------------------|-----------------|----------------|------------------------|--------------------|----------------------|----------------------|---------------|
| Residential, Commercial, and Multi-family | 226.2 | 169.7 | 161.7 | (8.0) | -4.7% | 71.5% | 221.4 | (4.8) | 97.9% |
| Federal | 47.5 | 35.6 | 35.6 | 0.0 | 0.0% | 74.9% | 47.5 | 0.0 | 100.0% |
| District Government | 11.1 | 8.3 | 6.4 | (1.9) | -22.7% | 58.0% | 10.6 | (0.5) | 95.8% |
| DC Housing Authority | 6.4 | 4.8 | 5.5 | 0.7 | 13.8% | 85.2% | 6.9 | 0.5 | 108.3% |
| Customer Metering Fee | 10.8 | 8.1 | 8.3 | 0.2 | 2.0% | 76.5% | 11.0 | 0.2 | 101.9% |
| Wholesale | 74.4 | 55.8 | 56.7 | 0.9 | 1.5% | 76.1% | 74.4 | 0.0 | 100.0% |
| Right-of-Way Fee/PILOT | 22.5 | 16.9 | 16.4 | (0.5) | -2.9% | 72.7% | 22.4 | (0.1) | 99.6% |
| Subtotal (before Other Revenues) | \$398.9 | \$299.2 | \$290.4 | (\$8.8) | -3.0% | 72.8% | \$394.3 | (\$4.6) | 98.9% |
| Other Revenue without RSF | | | | | | | | | |
| IMA Indirect Cost Reimb. For Capital Projects | 4.0 | 3.0 | 6.0 | 3.0 | 101.3% | 151.0% | 6.0 | 2.0 | 150.0% |
| DC Fire Protection Fee | 6.2 | 4.7 | 4.6 | (0.1) | -1.1% | 74.2% | 6.2 | 0.0 | 100.0% |
| Stormwater (MS4) | 1.1 | 0.8 | 0.6 | (0.2) | -29.1% | 50.5% | 0.9 | (0.2) | 77.3% |
| Interest | 0.8 | 0.6 | 0.7 | 0.1 | 12.9% | 84.7% | 0.5 | (0.3) | 69.4% |
| Developer Fees (Water & Sewer) | 6.0 | 4.5 | 6.8 | 2.3 | 50.2% | 112.7% | 6.9 | 0.9 | 115.0% |
| Others | 2.9 | 2.2 | 0.8 | (1.4) | -62.4% | 28.9% | 1.2 | (1.7) | 41.4% |
| Subtotal | \$21.0 | \$15.7 | \$19.5 | 3.8 | 24.1% | 93.0% | \$21.7 | \$0.7 | 103.4% |
| Rate Stabilization Fund Transfer | \$6.5 | \$4.9 | \$0.0 | (4.9) | -100.0% | 0.0% | \$6.5 | \$0.0 | 100.0% |
| Other Revenue Subtotal | \$27.5 | \$20.6 | \$19.5 | (1.1) | 0.0% | 71.0% | \$28.2 | \$0.7 | 102.6% |
| Grand Total | \$426.4 | \$319.8 | \$309.9 | -\$9.9 | -3.1% | 72.7% | \$422.5 | (\$3.9) | 99.1% |

Discussion of Relevant Variance

In general the revenues are on target with 72.7 percent of the total revenues received through 75 percent of the year completed. We anticipate completing the fiscal year with 99.1 percent of the revised budget.

Receipts for Residential, Commercial and Multi-Family categories in June were \$17.7 million and cumulative receipts totaled \$161.7 million, or 71.5 percent of the revised FY 2012 budget. The consumption is generally lower in winter months whereas the year-to-date budget is based on straight-line basis. However, the receipts in these categories are projected to be slightly lower than the revised budget. Staff will continue to monitor and report receipts for these categories.

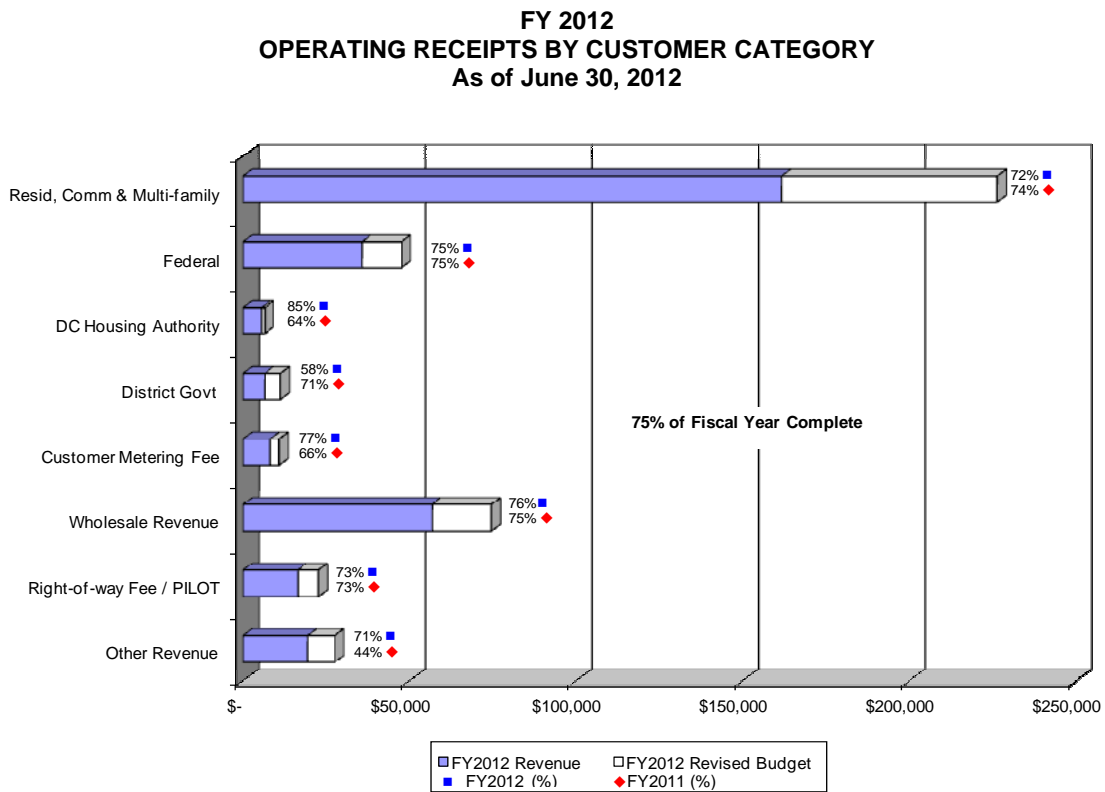
District Government actual receipts for the first three quarters total \$6.4 million or 58 percent of the revised FY 2012 budget. The District Government has disputed consumption on a large account, withholding a portion of their quarterly payment while the account is being investigated. Staff is meeting with the officials to complete the review.

DC Housing Authority's actual receipts total \$5.5 million or 85.2 percent of the revised budget. The receipt for the month of June 2012 was \$0.49 million. Since the fourth quarter 2011, DC

Housing Authority was behind on their payments by a month due to significant turnover within their Accounts Payable Department. They have now caught up with their payment schedule. DC Water, therefore, has received one additional payment this year, not anticipated within the FY 2012 revised budget.

At the end of June, payments from Wholesale Customers total \$56.7 million or approximately 76.1 percent of the budget. The Wholesale customers are billed on a quarterly basis and fourth quarter payments are anticipated in August, 2012.

Other Revenue receipts are lower than the straight-lined budget at \$19.5 million or 71.0 percent of the budgeted category primarily due to transfer of Rate Stabilization Fund. The Rate Stabilization Fund transfer is anticipated in the fourth quarter of the fiscal year.



BREAKDOWN OF RETAIL RECEIPTS BY CUSTOMER CATEGORY
As of June 30, 2012
(\$ in 000's)

| Customer Category | Water | Sewer | Clean Rivers | | Total |
|----------------------|---------------|---------------|---------------|--------------|----------------|
| | | | IAC | Metering Fee | |
| Residential | 19,488 | 24,012 | 6,393 | 3,727 | 53,621 |
| Commercial | 30,903 | 31,743 | 8,082 | 2,501 | 73,230 |
| Multi-family | 17,575 | 21,137 | 2,352 | 878 | 41,942 |
| Federal | 15,484 | 15,546 | 4,539 | 711 | 36,280 |
| District Govt | 2,193 | 2,691 | 1,554 | 347 | 6,785 |
| DC Housing Authority | 2,320 | 2,847 | 284 | 101 | 5,551 |
| Total: | 87,964 | 97,977 | 23,203 | 8,266 | 217,410 |

Note: The breakdown of Collections into Residential, Commercial, & Multi-family and Water and sewer is approximate as it is based on percentages of historical data and does not take into account adjustments and timing differences

Clean Rivers IAC – Actual vs. Budget
As of June 30, 2012
(\$ in 000's)

| Customer Category | FY2012 Budget | Year-To-Date Budget | Actual Received | Variance | | Actual % of Budget |
|----------------------|------------------|------------------------|--------------------|------------------------------|-----------------------------|-----------------------|
| | | | | Favorable / <Unfavorable> | Variance % of YTD Budget | |
| Residential | 8,178 | 6,133 | 6,393 | 260 | 4% | 78% |
| Commercial | 9,714 | 7,286 | 8,082 | 796 | 11% | 83% |
| Multi-family | 3,235 | 2,426 | 2,352 | (74) | -3% | 73% |
| Federal | 6,052 | 4,539 | 4,539 | 0 | 0% | 75% |
| District Govt | 2,131 | 1,598 | 1,554 | (44) | -3% | 73% |
| DC Housing Authority | 380 | 285 | 284 | (1) | 0% | 75% |
| Total: | 29,690 | 22,267 | 23,203 | 936 | 4% | 78% |

OPERATING EXPENDITURES

At the end of June, with 75 percent of the fiscal year completed, operating expenditures (including debt service and the right of way and PILOT fees) totaled \$271.6 million, or 65 percent of the FY 2012 Board-revised budget of \$415.4 million. These numbers include estimated incurred but unpaid invoices.

**EXPENDITURE VARIANCE BY CATEGORY
As of June 30, 2012
(\$ in 000's)**

| | Board Revised Budget | YTD Budget | YTD as of 06/30/2012 | FY 2012 | | Percent of Budget | Preliminary Year-End Projections | Projection Percent of Budget | Year-End Variance |
|--|----------------------|----------------|----------------------|---|--------------|-------------------|----------------------------------|------------------------------|-------------------|
| | | | | YTD Variance Favorable/(Unfavorable) \$ | % | | | | |
| Personnel Services | 111,114 | 83,336 | 77,870 | 5,466 | 6.6% | 70% | 107,382 | 97% | 3,732 |
| Contractual Services | 79,747 | 59,810 | 46,901 | 12,909 | 21.6% | 59% | 73,516 | 92% | 6,231 |
| Water Purchases | 31,517 | 23,638 | 20,169 | 3,469 | 14.7% | 64% | 29,400 | 93% | 2,117 |
| Chemicals and Supplies | 29,947 | 22,460 | 18,321 | 4,139 | 18.4% | 61% | 26,112 | 87% | 3,835 |
| Utilities | 37,446 | 28,085 | 19,732 | 8,353 | 29.7% | 53% | 29,800 | 80% | 7,647 |
| Small Equipment | 995 | 746 | 780 | (33) | -4.5% | 78% | 787 | 79% | 208 |
| Subtotal O & M Expenditures | 290,765 | 218,076 | 183,772 | 34,304 | 15.7% | 63% | 266,998 | 92% | 23,769 |
| Debt Service | 102,613 | 76,960 | 71,368 | 5,592 | 7.3% | 70% | 99,627 | 97% | 2,986 |
| Payment in Lieu of Taxes | 16,882 | 12,662 | 12,662 | - | 0.0% | 75% | 16,882 | 100% | - |
| Right of Way | 5,100 | 3,825 | 3,825 | - | 0.0% | 75% | 5,100 | 100% | - |
| Total O & M Expenditures | 415,360 | 311,522 | 271,626 | 39,896 | 12.8% | 65% | 388,606 | 94% | 26,755 |
| Personnel Services Charged to Capital Projects | (14,000) | (10,500) | (9,811) | 689 | -6.6% | 70% | (13,530) | 97% | (470) |
| Total Net Operating Expenditures | 401,360 | 301,022 | 261,815 | 39,207 | 13.0% | 65% | 375,076 | 93% | 26,285 |

Note: Actuals include accruals

Discussion

Personnel Services (\$111.1 million annual budget; 38.2 percent of O&M budget) – At the end of June, personnel costs total \$77.9 million or 70 percent of budget. Of the 1,171 positions budgeted (1,202 positions authorized), 1,044 positions were filled at the end of June. Overtime spending totals \$3.6 million of the annual budget of \$5.0 million, or 6 percent of regular payroll costs. Overtime costs remain significantly below the level of spending for the same period last year due to tighter controls and milder winter months experienced. We will continue to monitor and report overtime activities and risks.

Water Purchases (\$31.5 million annual budget; 10.8 percent of O&M budget) – At the end of June, water purchases incurred total \$20.2 million or 64 percent of budget. The current variance in this category is attributable to hiring delays and lower than anticipated water demand at the Washington Aqueduct.

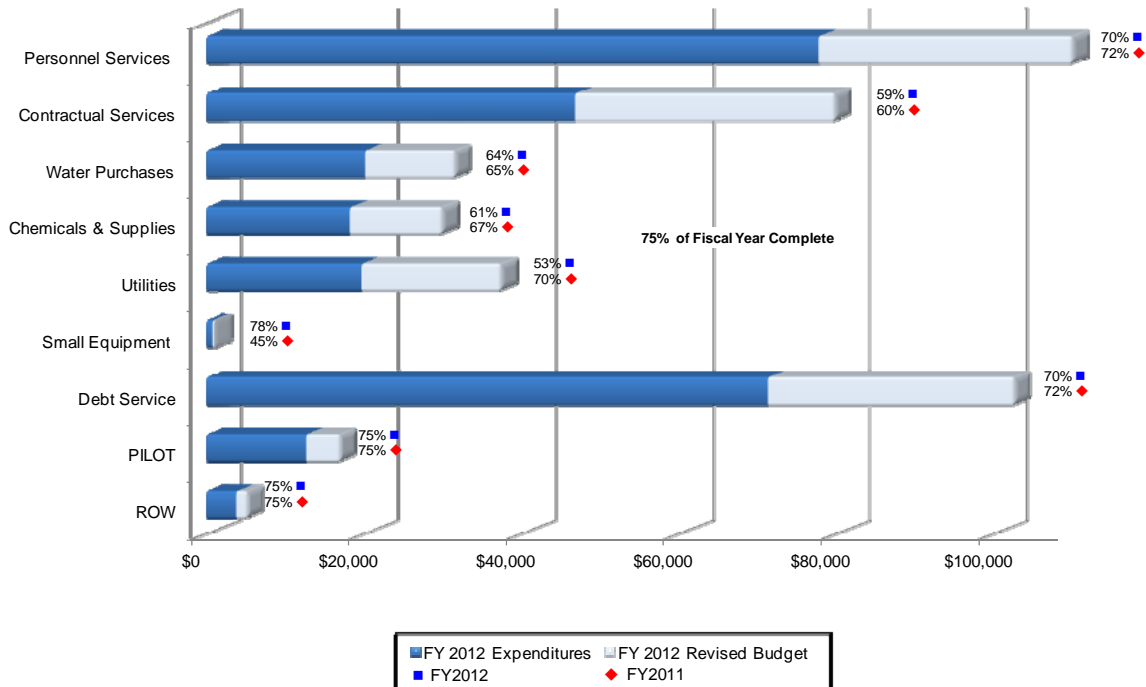
Chemicals and Supplies (\$29.9 million annual budget; 10.3 percent of O&M budget) – At the end of June, chemical and supplies costs total \$18.3 million or 61 percent of budget. We continue to experience lower than anticipated spending on major chemicals, including ferric chloride, caustic soda (sodium hydroxide), various polymer and sodium hypochlorite resulting from lower flows.

Utilities (\$37.4 million annual budget; 12.9 percent of O&M budget) – At the end of June, utilities expenditures total \$19.7 million or 53 percent of the budget. Later in the report is additional information concerning actual performance in this category.

Debt Service (\$102.6 million annual budget) – At the end of June, debt service expenditures total \$71.4 million or 70 percent of the budget.

Payment in Lieu of Taxes – (\$16.9 million annual budget) – Payments and accrued expenses for the District’s PILOT fee totaled \$12.7 million. Actual payment differs due to previous Board direction and resulting offsets associated with the Fire Protection fee. We are accruing in accordance with the MOU on PILOT payments. The actual 2007 Board directive was to continue paying at the FY 2007 level until questions were resolved between DC Water and the City Administrator, which is still currently under discussion. The difference between the amount paid to the District annually and the approved budget will be placed into an escrow account until the account is settled.

**FY 2012 Operating Expenditures
by Category
As of June 30, 2012
(\$ in 000's)**



CAPITAL SPENDING

For the month of June 2012, actual disbursements totaled \$47.2 million, with year-to-date disbursements totaling \$347.7 million or 65 percent of the FY 2012 Revised disbursements budget. Planned capital disbursements through June 2012 were \$389.4 million, or 73 percent of the FY 2012 Revised disbursements budget.

**Capital Disbursements Variance
As of June 30, 2012
(\$ in 000's)**

| Description | FY 2012 Revised Disbursements Budget | | Actual Disbursements | | | % of FY 2012 Revised Disbursements Budget | | FY 2012 Projected Disbursements Budget | |
|-------------------------------|--------------------------------------|------------------|----------------------|------------------|------------------|---|--------------------------|--|--------------------------|
| | Annual | YTD | Oct. '11 to May '12 | JUNE '12 | ¹ YTD | Variance Compared to Plan | Percent of Annual Budget | Amount | Percent of Annual Budget |
| Wastewater Treatment | \$275,845 | \$196,883 | 160,455 | \$25,546 | \$186,001 | 6% | 67% | \$268,667 | 97% |
| Sanitary Sewer | 39,922 | 28,435 | 15,879 | 1,804 | 17,683 | 38% | 44% | 24,332 | 61% |
| Combined Sewer Overflow | 132,016 | 99,102 | 78,684 | 11,972 | 90,656 | 9% | 69% | 130,140 | 99% |
| Stormwater | 2,775 | 1,985 | 2,976 | 248 | 3,224 | -62% | 116% | 2,965 | 107% |
| Water | 54,461 | 41,514 | 29,608 | 3,587 | 33,195 | 20% | 61% | 47,228 | 87% |
| Washington Aqueduct | 11,373 | 10,000 | 3,436 | 2,921 | 6,357 | 36% | 56% | 11,373 | 100% |
| Capital Equipment | 15,349 | 11,511 | 9,435 | 1,159 | 10,595 | 8% | 69% | 15,349 | 100% |
| Total Capital Projects | \$ 531,741 | \$389,431 | \$ 300,472 | \$ 47,238 | \$347,710 | 11% | 65% | \$500,053 | 94% |

Discussion

The spending variance between the FY 2012 Revised Disbursements Budget and Actual disbursements, on a year-to-date basis, amounted to \$41.7 million, the result of under-spending in all service areas except the Stormwater Area.

Spending in the Wastewater Treatment Service Area, on a year-to-date basis, was at 94 percent through June 2012. The major under-spending in this Area continues to be under the Solids Processing Program, and is attributable to a lag in contract award for two contracts for the New Digestion Facilities (Project XA), and lower disbursements for Program Management costs. Three projects that comprise the majority of the under-spending for the Liquids Processing Program's are: Project BT – Filtration/Disinfection Facilities Phase II; Project BG – Dual Purpose Rehabilitation; and Project TQ – 504H3 Nitrification Facility. Spending for the Enhanced Nitrogen Removal Facility (ENRF) continues to be ahead of schedule, primarily attributable to the Nitrogen Removal Facilities Project (E9). The overall spending in the Wastewater Treatment area is still anticipated to recover during the remainder of FY 2012.

Almost all Programs under the Sanitary Sewer Service Area continue to experience year-to-date reduced spending, and recovery is not projected to occur in FY 2012. As indicated in previous months, this is the result of a reprioritization that would result in additional inspection work being done to refine project scopes, prior to the awarding of construction contracts.

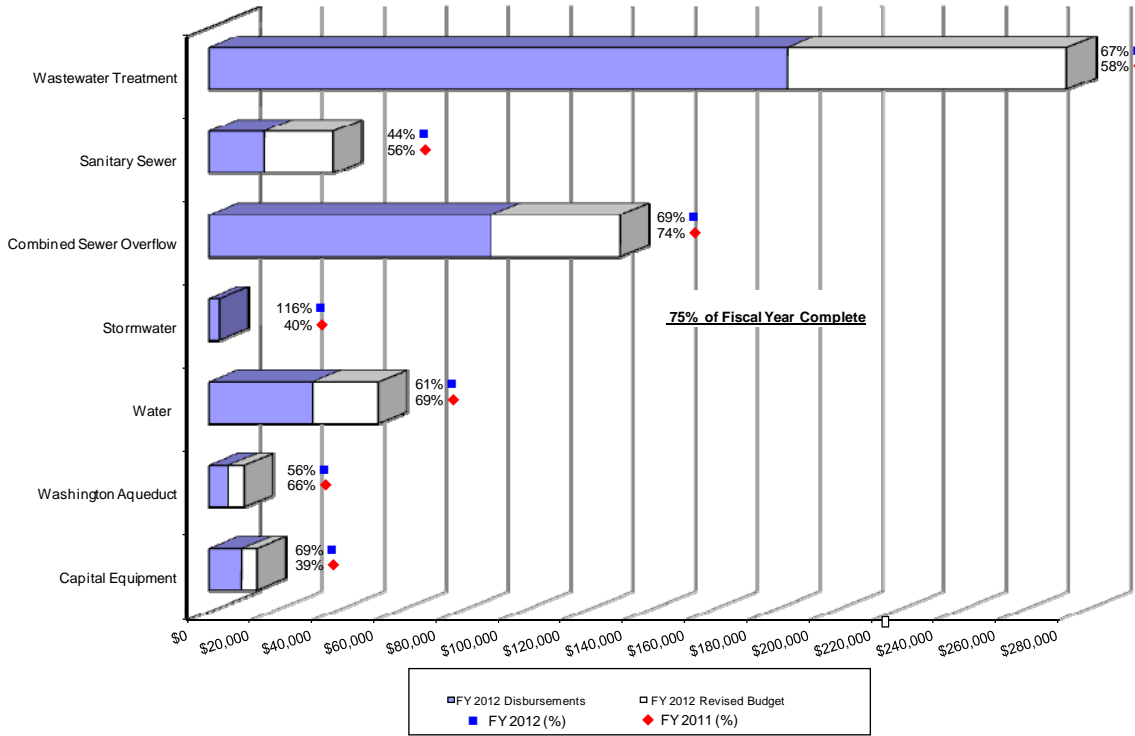
In the Combined Sewer Overflow Service Area, spending for the Clean Rivers Project, at 96 percent, on a year-to-date basis, is only marginally lower than budgeted. There is no impact on project progress, and spending should be on target for the remainder of FY 2012. As indicated previously, the under-spending in the Combined Sewer Projects Program due to a delayed close-out process related to the Outfall Sewer Rehabilitation (Project D2) and the Main & O Pump Station (Project K1), is expected to continue for the remainder of FY 2012.

The Water Service Area under-spending of approximately \$8 million is primary driven by the Lead, Water Pumping Facilities, and Water Distribution Programs. Activity under the Lead Program has been relatively low, and, therefore, spending is not anticipated to recover. With regards to the Pumping Program, the reduced spending is attributable to the Conversion of Anacostia Pump Station to Customer Service (Project HD) and Rehabilitation of Bryant St. Pump Station (Project M6). There are a number of items impacting the spending at the Bryant St. Pump Station (painting, change order for the hydraulic loop, SCADA, etc.) none of which are critical to the project, but the spending is not anticipated to recover in FY 2012. Customer Services is now scheduled to move to M Street S.E. and thus the renovations at the Anacostia Pump Station are not needed. Under-spending in the Water Distribution Program is related to the Crosstown Watermain Rehabilitation, and some of the Small Diameter Watermain Rehabilitation projects. With regards to the latter, there are a variety of reasons for the under spending ranging from a late start date for design to a delay in the closeout of a project. Overall spending in the Water Distribution Program is anticipated to recover by the September.

The Washington Aqueduct's billings remain below what was originally budgeted, but the Aqueduct staff has indicated that the billings will recover over the fourth quarter of FY 2012 to come within the budgeted disbursements.

Capital Equipment spending, estimated on a pro-rata basis for the fiscal year, is in close proximity to the budgeted disbursements on a year-to-date basis.

**FY 2012 Capital Disbursements Compared to Plan
By Service Area
As of June 30, 2012
(\$ in 000's)**



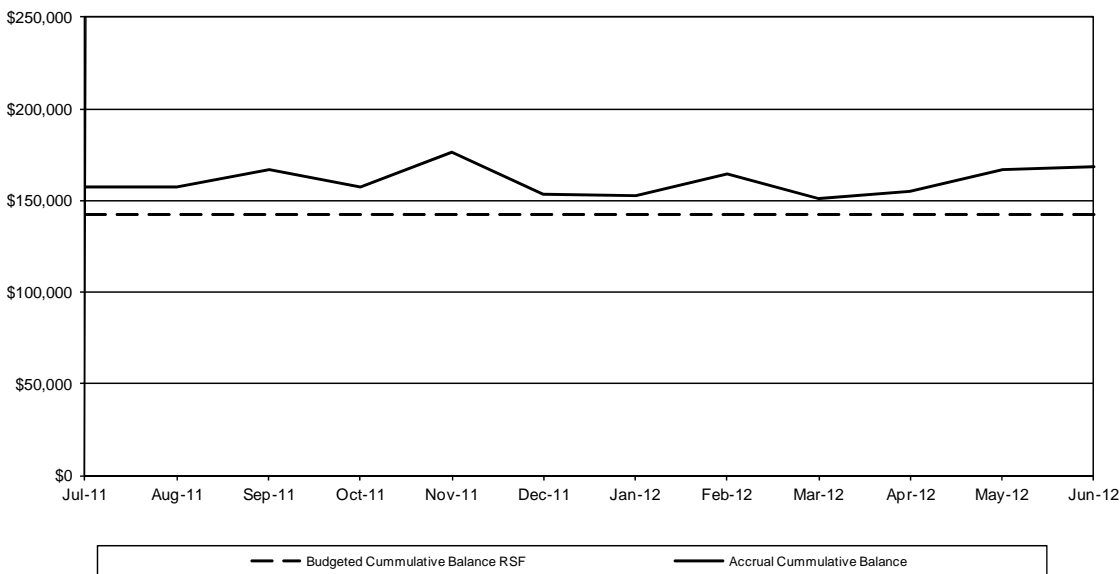
CASH AND INVESTMENT BALANCES

At the end of June, our operating reserve balance was \$152.1 million as compared to the FY 2012 operating reserve level objective of \$125.5 million. The following table provides a summary of all cash and investment account balances.

**Cash Balances
As of June 30, 2012
(\$ in millions)**

| | |
|---|----------------|
| Rate Stabilization Fund Account (RSF) | \$16.7 |
| Operating Reserve Accounts | 152.1 |
| DC PILOT Fund | 10.0 |
| Operating Cash Balance Including RSF | 178.8 |
| | |
| Debt Service Reserve - Series 98 | 24.0 |
| Bond Construction Fund - Series 10 | 56.3 |
| Bond Construction Fund - Series 12 | 233.0 |
| CSO LTCP Appropriations Account | 60.1 |
| Total All Funds | \$552.2 |

**FY 2012 Operating Cash Balances
(\$ in 000's)
(Operating Reserve and RSF)**



Overall Portfolio Performance

As of June 2012, DC Water's total investment portfolio continues to perform well and complies with the Authority's Investment Policy. Returns continue to exceed the established benchmarks for short term (less than one year) and core (one plus years) funds. Interest income for June **(on a cash basis)** was \$11,522 with year-to-date totals of \$422,779 as compared to the budget of \$535,376 for the year. A detailed investment performance report is attached.

Bond Counsel – Request for Proposal

The current bond counsel contract expires on October 1, 2012. DC Water issued a Request for Proposal (RFP) for bond counsel services on June 11, 2012. Nine (9) firms responded by the due date of July 10, 2012. The RFP was sent via email to 43 law firms and advertised in The Bond Buyer newspaper. An evaluation panel is reviewing the responses and plans to make a recommendation to the Finance and Budget Committee at its September meeting.

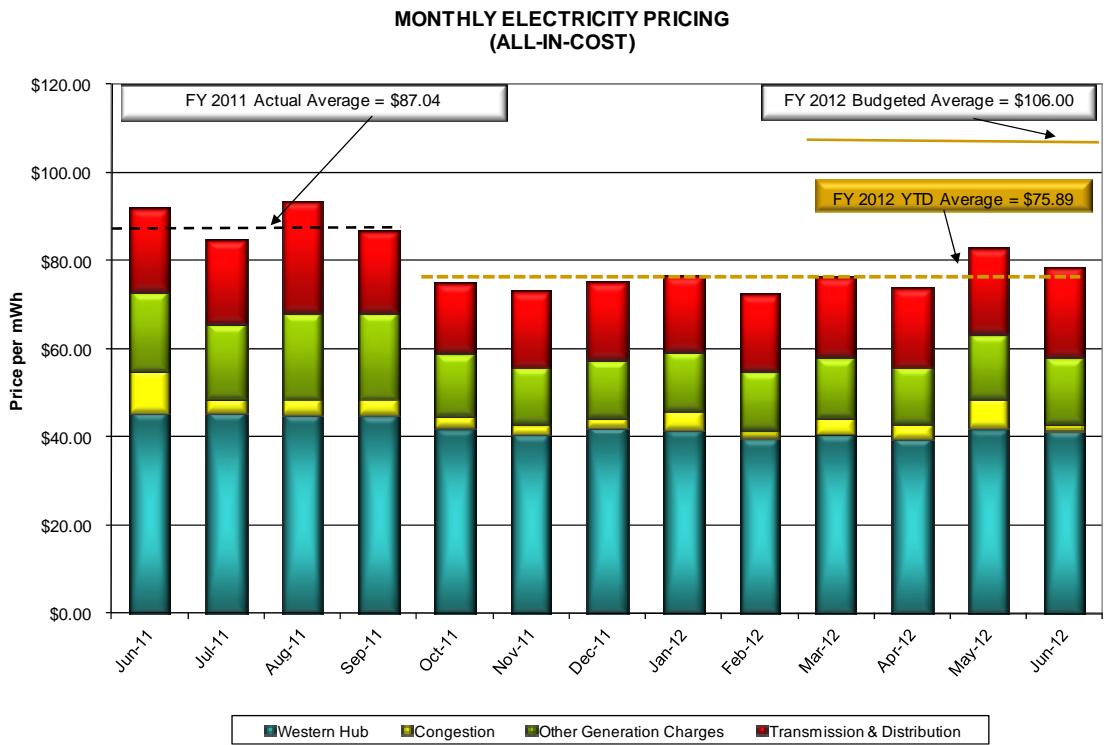
OTHER STATUS REPORTS

ELECTRICITY

As of June 2012, we have purchased approximately 79 percent, or 23MW, of the Authority's electric load at annual Western Hub average unit price of \$43.67/mWh. For FY 2013, staff has already purchased approximately 69 percent, or 20MW, of the Authority's electric load through January 31 at the Western Hub average unit price of \$39.98/mWh.

Electricity market conditions continue to be significantly below prior years' experience. Staff continues to monitor the futures market with intent to purchase additional electric loads for FY 2013 if market conditions are appropriate and in line with budget assumptions.

The chart below depicts the all-in-cost for the electricity purchased by the Authority. As indicated in the chart, electricity prices generally increase during the winter and summer peak months. The average all-in-cost paid for June 2012 was \$78.24/mWh, with the year-to-date average at \$75.89/mWh.



Notes: A) Other generation charges include the capacity charges, loss factor adjustments, ancillary costs, and other adder (administrative) fees associated with electricity procurement over the spot market
 B) Prices include accruals for invoices not yet received.

Electricity Costs

The revised FY 2012 electricity budget of \$29.2 million represents 78 percent of the total utilities budget and assumes an average all-in-cost of \$106.00/mWh.

The current purchasing strategy can be compared to two benchmarks: the Standard Offer Service (S.O.S.) and spot market prices. As indicated in the chart below, DC Water's average year-to-date actual price is higher than the spot market price and significantly below the S.O.S. price.

| All-In-Cost (\$/mWh) | | | | Electricity Budget (\$000) | | |
|-----------------------------|---------------------------------|----------------|---------------------|-----------------------------------|-----------------|--------------------|
| Unit Price | | | | Amount | | Variance |
| | Standard Offer Service (S.O.S.) | Spot Market | Actual ¹ | Budgeted | Actual | Budgeted vs Actual |
| Oct-11 | \$127.19 | 69.51 | 74.96 | \$1,943 | \$1,103 | \$840 |
| Nov-11 | \$128.01 | 67.03 | 73.07 | \$1,933 | \$1,641 | \$292 |
| Dec-11 | \$127.72 | 66.39 | 75.07 | \$2,475 | \$1,550 | \$925 |
| Jan-12 | \$128.30 | 67.79 | 76.41 | \$2,474 | \$1,734 | \$740 |
| Feb-12 | \$125.39 | 62.97 | 72.65 | \$2,515 | \$1,503 | \$1,011 |
| Mar-12 | \$126.87 | 65.34 | 76.15 | \$1,878 | \$1,521 | \$357 |
| Apr-12 | \$128.30 | 63.31 | 73.80 | \$1,876 | \$1,571 | \$305 |
| May-12 | \$128.30 | 74.61 | 82.63 | \$2,269 | \$1,663 | \$605 |
| Jun-12 | \$128.30 | 64.22 | 78.24 | \$2,724 | \$1,749 | \$975 |
| YTD Average | \$127.60 | \$66.80 | \$75.89 | \$20,087 | \$14,036 | \$6,051 |
| | | | | YTD Total | | |
| | | | | Remainder | \$9,130 | |
| | | | | Total Budget | \$29,218 | |

¹ Actual prices are inclusive of the price mix of monthly block purchases and spot market unit prices.

Overall, the FY 2012 electricity expenditure to date continues to track favorably to budget. We expect to end the fiscal year with significant savings in this category mainly attributable to lower than anticipated market prices for electricity.

RETAIL & WHOLESALE ACCOUNTS RECEIVABLE

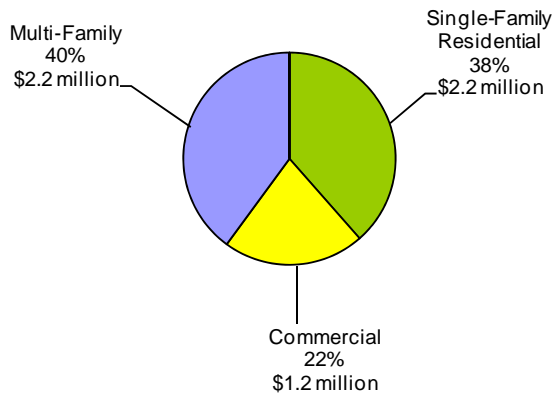
The following tables and chart show retail and wholesale accounts receivable over 90 days including a breakdown by customer class.

**Delinquent Accounts Receivable
Greater Than 90 Days by Customer
June 30, 2012**

| | RETAIL | | WHOLESALE | | TOTAL | |
|--------------------|----------------------|---------------|----------------------|---------------|----------------------|---------------|
| | Greater than 90 Days | | Greater than 90 Days | | Greater than 90 Days | |
| | \$ in millions | # of accounts | \$ in millions | # of accounts | \$ in millions | # of accounts |
| September 30, 2006 | \$7.4 | 14,762 | \$0.0 | 0 | \$7.4 | 14,762 |
| September 30, 2007 | \$7.1 | 14,917 | \$0.0 | 0 | \$7.1 | 14,917 |
| September 30, 2008 | \$6.1 | 15,635 | \$0.0 | 0 | \$6.1 | 15,635 |
| September 30, 2009 | \$4.9 | 10,211 | \$0.0 | 0 | \$4.9 | 10,211 |
| September 30, 2010 | \$5.1 | 13,441 | \$0.0 | 0 | \$5.1 | 13,441 |
| September 30, 2011 | \$5.5 | 13,039 | \$0.0 | 0 | \$5.5 | 13,039 |
| October 31, 2011 | \$5.5 | 12,831 | \$0.0 | 0 | \$5.5 | 12,831 |
| November 30, 2011 | \$5.4 | 12,629 | \$0.0 | 0 | \$5.4 | 12,629 |
| December 31, 2011 | \$5.6 | 13,549 | \$0.0 | 0 | \$5.6 | 13,549 |
| January 31, 2012 | \$5.6 | 13,541 | \$0.0 | 0 | \$5.6 | 13,541 |
| February 29, 2012 | \$5.6 | 12,938 | \$0.0 | 0 | \$5.6 | 12,938 |
| March 31, 2012 | \$5.4 | 12,533 | \$0.0 | 0 | \$5.4 | 12,533 |
| April 30, 2012 | \$5.5 | 12,384 | \$0.0 | 0 | \$5.5 | 12,384 |
| May 31, 2012 | \$5.5 | 12,232 | \$0.0 | 0 | \$5.5 | 12,232 |
| June 30, 2012 | \$5.6 | 13,244 | \$0.0 | 0 | \$5.6 | 13,244 |

**In June 09 the Authority wrote off approximately \$1.3M of bad debt*

**Retail Accounts
Greater Than 90 Days by Customer Class
June 30, 2012**



**Delinquent Accounts Receivable
Greater Than 90 Days by Customer
June 30, 2012**

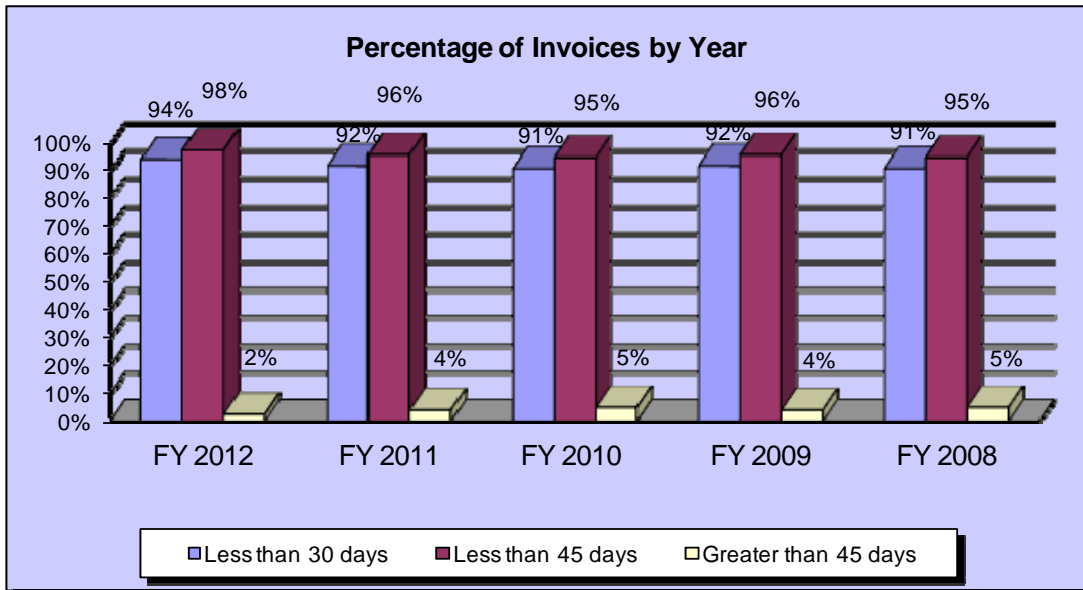
| | Number of Accounts | | | Month of June (All Categories) | | | | Total Delinquent | | | |
|---------------------------|--------------------|---------------------|------------------|--------------------------------|---------------------|--------------|-------------------|------------------|---------------------|---------------|---------------------|
| | | | | Active | | Inactive | | a/c May | | a/c June | |
| | W & S a/c | Impervious Only a/c | Total No. of a/c | No. of a/c | Amount (\$) | No. of a/c | Amount (\$) | No. of a/c | Amount (\$) | No. of a/c | Amount (\$) |
| Commercial | 11,807 | 3,441 | 15,248 | 1,797 | 1,061,595.84 | 157 | 143,559.65 | 1,426 | 1,090,274.10 | 1,954 | 1,205,155.49 |
| Multi-family | 7,371 | 457 | 7,828 | 970 | 2,076,190.50 | 144 | 157,434.93 | 1,013 | 2,315,048.33 | 1,114 | 2,233,625.43 |
| Single-Family Residential | 103,624 | 3,488 | 107,112 | 8,476 | 1,504,509.95 | 1,700 | 649,867.94 | 9,793 | 2,072,524.14 | 10,176 | 2,154,377.89 |
| Total | 122,802 | 7,386 | 130,188 | 11,243 | 4,642,296.29 | 2,001 | 950,862.52 | 12,232 | 5,477,846.57 | 13,244 | 5,593,158.81 |

-Included in the above \$4.64m (or 11,243 accounts) of the DC Water Over 90 days delinquent accounts, 1,085,597.46 (or 3,543 accounts) represents Impervious only Accounts over 90 days delinquent.
 -Reportable delinquencies do not include balances associated with long-standing disputes between DC Water and two large commercial customers.

ACCOUNTS PAYABLE PERFORMANCE

During the first nine months of FY 2012, a total of 8,685 invoices were processed and paid compared to 8,219 in FY 2011 (as shown in the table below) and with a dollar value of \$386.5 million compared to \$277.2 million for FY 2011. Year to date, approximately **94 percent** of the invoices were paid within 30 days compared to 92 percent paid within 30 days during FY 2011. The percentages for April, May and June 2012 were 94.9%, 95.4% and 96.3% respectively. The Authority’s goal is to pay 97 percent of all undisputed invoices within 30 days.

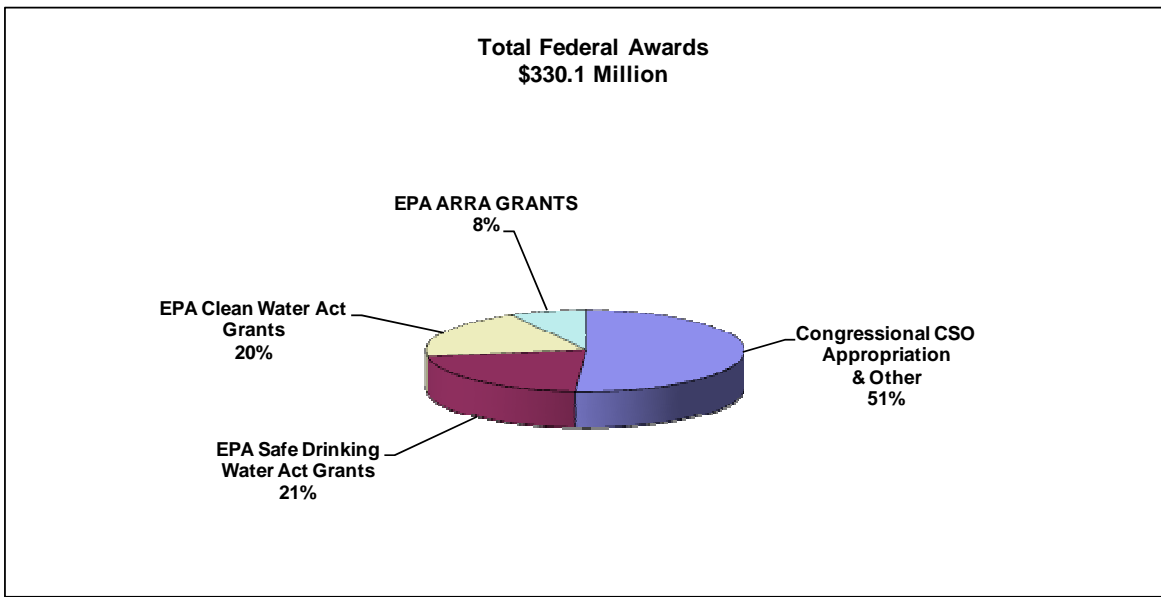
| Accounts Payable Performance FY 2012 v. FY 2011 | | | | |
|--|--------------|-------------|--------------|-------------|
| Days | FY 2012 | | FY 2011 | |
| | Number | Percent | Number | Percent |
| Less than 30 | 7,424 | 94% | 7,326 | 92% |
| Less than 45 | 7,673 | 98% | 7,658 | 96% |
| Greater than 45 | 193 | 2% | 278 | 4% |
| Subtotal | 7,866 | 100% | 7,936 | 100% |
| Retainage/Dispute | 819 | | 283 | |
| Total | 8,685 | | 8,219 | |



GRANTS REPORT

The Authority receives grants to fund a portion of its capital costs from the U.S. Environmental Protection Agency (EPA) under two acts, the Clean Water Act of 1972 and the Safe Drinking Water Act of 1974. DC Water also receives a limited amount of EPA grant funding for certain operating functions. Additionally, we have now received thirteen federal appropriations (including \$12.6 million received on January 16, 2012 as part of the continuing resolution) for CSO projects.

As of June 30, 2012, including the CSO appropriation, DC Water has a total of \$330.1 million awarded in federal funds for active projects.



The cumulative federal appropriation for CSO through FY 2012 is \$168.6 million. Cumulative life-to-date cash disbursements for the CSO appropriation total \$132.7 million through June 30, 2012.

D.C. WATER AND SEWER AUTHORITY
 FY 2012 CASH FLOW SUMMARY
 through 6/30/12
 (\$ in 000's)

| | Annual Budget Cash Basis | YTD 75% Cash Budget | YTD Actual Cash Oct. 1, 2011 - Jun. 30, 2012 | Variance Favorable (Unfavorable) | | FY 2012 Year End Projection |
|--|--------------------------------|---------------------------|---|--|-------------|-----------------------------------|
| OPERATING BUDGET | | | | | | |
| Cash Provided | | | | | | |
| Retail | 302,041 | 226,531 | 217,410 | (9,121) | -4% | 297,506 |
| Wholesale | 74,361 | 55,771 | 56,651 | 880 | 2% | 74,361 |
| Other | 43,259 | 32,444 | 35,612 | 3,168 | 10% | 43,919 |
| Transfer from Rate Stabilization Fund | 6,500 | 4,875 | | (4,875) | -100% | 6,500 |
| Total Cash Provided | 426,161 | 319,620 | 309,673 | (9,947) | -3% | 422,285 |
| Operating Cash Used | | | | | | |
| Personnel Services | 97,114 | 72,836 | 72,031 | 805 | 1% | 93,852 |
| Contractual Services | 79,746 | 59,810 | 48,753 | 11,056 | 18% | 73,516 |
| Chemicals & Supplies | 29,946 | 22,460 | 21,507 | 952 | 4% | 26,112 |
| Utilities | 37,447 | 28,085 | 15,296 | 12,789 | 46% | 29,800 |
| Water Purchases | 31,517 | 23,638 | 20,329 | 3,309 | 14% | 29,400 |
| Small Equipment | 995 | 746 | 725 | 21 | 3% | 787 |
| Total Operating Cash Used | 276,765 | 207,574 | 178,642 | 28,932 | 14% | 253,467 |
| Other Cash Used | | | | | | |
| Debt Service | 100,776 | 75,582 | 71,368 | 4,215 | 6% | 99,025 |
| Payment In Lieu of Taxes/Right of Way | 22,365 | 16,774 | 13,136 | 3,638 | 22% | 21,982 |
| Total Other Cash Used | 123,141 | 92,356 | 84,503 | 7,852 | 9% | 121,007 |
| Total Cash Used | 399,906 | 299,929 | 263,145 | 36,784 | 12% | 374,474 |
| Net Cash Provided (Used) by Operating Act. | 26,255 | 19,691 | 46,528 | 26,837 | | 47,811 |
| CAPITAL BUDGET | | | | | | |
| Cash Provided | | | | | | |
| Debt Proceeds | 258,889 | 194,167 | 149,252 | (44,915) | -23% | 249,477 |
| Capital Equipment Financing | 8,184 | 6,138 | | (6,138) | -100% | 8,184 |
| EPA Grants | 25,455 | 19,091 | 18,729 | (362) | -2% | 23,905 |
| CSO Grants | 31,332 | 23,499 | 16,065 | (7,434) | -32% | 21,065 |
| Interest Income | 93 | 70 | 336 | 266 | 379% | 305 |
| Wholesale Capital Contributions | 175,242 | 131,432 | 124,769 | (6,662) | -5% | 164,571 |
| Total Cash Provided | 499,195 | 374,397 | 309,151 | (65,246) | -17% | 467,507 |
| Cash Used | | | | | | |
| WASA Capital Program | 520,368 | 390,276 | 341,352 | 48,924 | 13% | 488,680 |
| Washington Aqueduct Projects | 11,373 | 8,530 | 6,357 | 2,173 | 25% | 11,373 |
| Total Cash Used | 531,741 | 398,806 | 347,709 | 51,097 | 13% | 500,053 |
| Net Cash/PAYGO Provided (Used) by Cap. Act. | (32,546) | (24,409) | (38,558) | (14,149) | | (32,546) |
| Beginning Balance, October 1 (Net of Rate Stab. Fund) | 150,035 | | 150,035 | | | 150,035 |
| Plus (Less) Operating Surplus | 26,255 | 19,691 | 46,528 | | | 47,811 |
| Wholesale Customer Refunds from Prior Years | (5,250) | (3,938) | (5,661) | | | (5,661) |
| Interest Earned From Bond Reserve | 256 | 192 | 246 | | | 223 |
| Transfer to Rate Stabilization Fund | (12,250) | (9,188) | 0 | | | (12,250) |
| Prior Year Federal Billing Reconciliation | (1,000) | (750) | (500) | | | (1,000) |
| Cash Used for Capital | (32,546) | (24,410) | (38,558) | | | (32,546) |
| Balance Attributable to O&M Reserve | 125,500 | | 152,090 | | | 146,613 |
| OTHER CASH RESERVES | | | | | | |
| | Current Balance | | | | | |
| Rate Stabilization Fund | 16,700 | | | | | |
| CSO Long-Term Control Plan Appropriation | 60,085 | | | | | |
| DC PILOT Reserve Fund | 10,003 | | | | | |

Finance and Budget Committee - 2. June 2012 Financial Report (Attachment 1) - Olu Adebo and Robert Hunt

**FY 2012 Overtime
Budget vs Actual
Period Ended June 30, 2012**

| Department | FY 2011 | | | | FY 2012 | | | | | | | |
|----------------------------------|--------------------|--------------------|----------------------------|------------------------------|--------------------|-----------------------------------|--|----------------------------|---|--|----------------------------------|--|
| | Annual Budget | Actual | Percent of Budget Expended | Actual to Budget \$ Variance | Annual Budget | Percent of Annual Budget Expended | FY 2012 Year-to-Date | | | | | |
| | | | | | | | Straight-Line Budget 10/01/11 - 06/30/12 | Actual 10/01/11 - 06/30/12 | Actual to Straight-Line Budget Variance | Percentage YTD Straight-Line Budget Expended | YTD Overtime as % of YTD Regular | |
| Office of the Secretary | 4,000 | 1,854 | 46% | 2,146 | 4,000 | 60% | 3,011 | 2,392 | 619 | 79% | 2% | |
| General Manager | 15,000 | 671 | 4% | 14,329 | 13,000 | 9% | 9,786 | 1,179 | 8,607 | 12% | 0% | |
| General Counsel | 2,000 | 2,731 | 137% | (731) | 2,000 | 26% | 1,505 | 524 | 981 | 35% | 0% | |
| External Affairs | 2,000 | 2,703 | 135% | (703) | 2,000 | 32% | 1,505 | 636 | 870 | 42% | 0% | |
| Internal Audit | - | - | 0% | - | - | 0% | 0 | 0 | 0 | 0% | 0% | |
| Information Technology | 25,000 | 15,471 | 62% | 9,529 | 24,006 | 74% | 18,070 | 17,864 | 206 | 99% | 1% | |
| Procurement | 30,000 | 24,545 | 82% | 5,455 | 30,000 | 79% | 22,582 | 23,680 | (1,098) | 105% | 1% | |
| Customer Service | 250,000 | 188,688 | 75% | 61,312 | 240,000 | 50% | 180,659 | 120,926 | 59,734 | 67% | 2% | |
| Finance & Budget | 30,000 | 28,140 | 94% | 1,860 | 30,000 | 51% | 22,582 | 15,330 | 7,252 | 68% | 1% | |
| Risk Management | 1,000 | 94 | 9% | 906 | 1,000 | 12% | 753 | 121 | 632 | 16% | 0% | |
| Assistant General Manager | 1,000 | 222 | 22% | 778 | 1,000 | 83% | 753 | 829 | (77) | 110% | 0% | |
| Human Capital Management | 5,000 | 2,852 | 57% | 2,148 | 5,000 | 70% | 3,764 | 3,487 | 276 | 93% | 0% | |
| Occupational Safety & Health | 2,000 | 154 | 8% | 1,846 | 2,000 | 40% | 1,505 | 809 | 696 | 54% | 0% | |
| Facilities & Security | 150,000 | 203,883 | 136% | (53,883) | 150,000 | 98% | 112,912 | 147,701 | (34,789) | 131% | 5% | |
| Water / Sewer Pump Maintenance | 200,000 | 110,681 | 55% | 89,319 | 200,000 | 43% | 150,549 | 86,252 | 64,297 | 57% | 6% | |
| Engineering & Technical Services | 549,960 | 611,204 | 111% | (61,244) | 548,481 | 95% | 412,868 | 519,722 | (106,855) | 126% | 6% | |
| Water Services | 1,080,000 | 1,111,758 | 103% | (31,758) | 1,080,000 | 59% | 812,967 | 631,933 | 181,034 | 78% | 7% | |
| Clean Rivers | 10,000 | 3,745 | 37% | 6,255 | 25,000 | 12% | 18,819 | 2,968 | 15,850 | 16% | 0% | |
| Sewer Services | 900,000 | 1,063,680 | 118% | (163,680) | 900,000 | 77% | 677,473 | 693,965 | (16,493) | 102% | 10% | |
| Wastewater Treatment | 956,000 | 1,010,473 | 106% | (54,473) | 956,000 | 84% | 719,626 | 805,715 | (86,088) | 112% | 13% | |
| Maintenance Services | 800,000 | 880,595 | 110% | (80,595) | 800,000 | 67% | 602,198 | 535,354 | 66,844 | 89% | 8% | |
| Permit Operations | 1,000 | 1,503 | 150% | (503) | 2,500 | 67% | 1,882 | 1,675 | 207 | 89% | 0% | |
| Fleet Management | 1,000 | 926 | 93% | 74 | 1,000 | 34% | 753 | 336 | 417 | 45% | 0% | |
| Total DC WATER | \$5,014,960 | \$5,266,573 | 105% | -\$251,613 | \$5,016,987 | 72% | \$3,776,523 | \$3,613,400 | \$163,123 | 96% | 6% | |

Notes:

- (1) "Budget 10/01/11 - 06/30/12 " reflects annual budget straight-lined
- (2) "% YTD Budget Expended" reflects variance between straight-lined budget to-date and actual overtime
- (3) YTD payroll does not include fringe benefits

Finance and Budget Committee - 2. June 2012 Financial Report (Attachment 1) - Olu Adebo and Robert Hunt

Capital Projects
 FY 2012 Disbursements Analysis
 As of June 30, 2012
 (dollars in thousands)

| Description | FY 2012 Revised Disbursements Budget | | | Actual Disbursements | | | % of FY 2012 Revised Disbursements Budget | | Commitments |
|---|--------------------------------------|------------------|--------------------|-----------------------|-----------------|------------------|---|-------------------------------------|------------------|
| | Annual | YTD | Annual - Projected | Oct. -'11 to May -'12 | JUNE -'12 | ¹ YTD | Annual | YTD | |
| Wastewater Treatment | | | | | | | | <i>75% of Fiscal Year Completed</i> | |
| Liquid Processing Projects | \$23,263 | \$16,702 | \$20,198 | \$13,093 | \$1,519 | \$14,611 | 63% | 87% | 38,338 |
| Plantwide Projects | 18,018 | 14,870 | 21,096 | 11,026 | 2,789 | 13,814 | 77% | 93% | 24,743 |
| Solids Processing Projects | 119,295 | 82,946 | 104,813 | 56,825 | 8,756 | 65,581 | 55% | 79% | 372,639 |
| Enhanced Nitrogen Removal Facilities (formerly Total Nitrogen Program) | <u>115,269</u> | <u>82,365</u> | <u>122,561</u> | <u>79,511</u> | <u>12,483</u> | <u>91,996</u> | 80% | 112% | <u>251,683</u> |
| Total Wastewater Treatment | 275,845 | 196,883 | 268,667 | 160,455 | 25,546 | 186,002 | 67% | 94% | 687,403 |
| Sanitary Sewer | | | | | | | | | |
| Sanitary Collection Sewers | 2,140 | 1,676 | 1,241 | 877 | 72 | 948 | 44% | 57% | 1,830 |
| Sanitary On-Going Projects | 16,081 | 10,835 | 6,483 | 4,610 | 675 | 5,285 | 33% | 49% | 8,580 |
| Sanitary Pumping Facilities | 659 | 563 | 318 | 137 | 18 | 155 | 23% | 27% | 674 |
| Sanitary Sewer Program Management | 6,880 | 5,514 | 4,829 | 3,201 | 539 | 3,740 | 54% | 68% | 17,465 |
| Sanitary Interceptor/Trunk Force Sewers | <u>14,162</u> | <u>9,847</u> | <u>11,461</u> | <u>7,054</u> | <u>500</u> | <u>7,555</u> | 53% | 77% | <u>18,401</u> |
| Total Sanitary Sewer | 39,922 | 28,435 | 24,332 | 15,879 | 1,804 | 17,683 | 44% | 62% | 46,951 |
| Combined Sewer Overflow | | | | | | | | | |
| CSO Program Management | 1,590 | 1,345 | 1,602 | 1,188 | 213 | 1,401 | 88% | 104% | 12,373 |
| Combined Sewer Projects | 14,504 | 12,899 | 11,135 | 7,826 | 225 | 8,051 | 56% | 62% | 10,486 |
| D.C. Clean Rivers Project (aka Long-Term Control Plan) | <u>115,922</u> | <u>84,858</u> | <u>117,404</u> | <u>69,669</u> | <u>11,535</u> | <u>81,204</u> | 70% | 96% | <u>268,794</u> |
| Total Combined Sewer Overflow | 132,016 | 99,102 | 130,140 | 78,684 | 11,972 | 90,656 | 69% | 91% | 291,653 |
| Stormwater | | | | | | | | | |
| Stormwater Local Drainage | 17 | 13 | 1 | 0 | 0 | 0 | 0% | 0% | 239 |
| Stormwater On-Going Program | 731 | 433 | 1,181 | 1,181 | 0 | 1,181 | 162% | 273% | 400 |
| Stormwater Pumping Facilities | - | - | - | 0 | 0 | 0 | 0 | 0 | 0 |
| DDOT Stormwater Program | 2 | - | - | 0 | 0 | 0 | 0% | 0% | 0 |
| Stormwater Research and Program Management | 499 | 440 | 322 | 263 | 8 | 271 | 54% | 62% | 1,356 |
| Stormwater Trunk/Force Sewers | <u>1,527</u> | <u>1,099</u> | <u>1,461</u> | <u>1,531</u> | <u>240</u> | <u>1,771</u> | 116% | 161% | <u>764</u> |
| Total Stormwater | 2,775 | 1,985 | 2,965 | 2,976 | 248 | 3,223 | 116% | 162% | 2,759 |
| Water | | | | | | | | | |
| Water Distribution Systems | 23,024 | 17,423 | 20,681 | 13,739 | 2,100 | 15,838 | 69% | 91% | 35,611 |
| Water On-Going Projects | 8,239 | 6,338 | 10,185 | 5,580 | 332 | 5,912 | 72% | 93% | 4,313 |
| Water Pumping Facilities | 5,327 | 3,359 | 1,788 | 1,388 | 151 | 1,540 | 29% | 46% | 5,228 |
| DDOT Water Projects | 4,002 | 3,123 | 3,665 | 2,918 | 0 | 2,918 | 0 | 0 | 7,336 |
| Water Storage Facilities | 2,083 | 1,697 | 2,557 | 1,665 | 5 | 1,671 | 80% | 98% | 618 |
| Water Projects Program Management | 4,109 | 3,104 | 3,375 | 2,155 | 377 | 2,532 | 62% | 82% | 11,325 |
| Water Lead Program | 4,801 | 4,313 | 2,102 | 1,286 | 61 | 1,347 | 28% | 31% | 7,023 |
| AMR Installation / Replacement | <u>2,876</u> | <u>2,157</u> | <u>2,876</u> | <u>877</u> | <u>560</u> | <u>1,437</u> | 50% | 67% | <u>729</u> |
| Total Water | 54,461 | 41,514 | 47,228 | 29,608 | 3,587 | 33,196 | 61% | 80% | 72,182 |
| Washington Aqueduct | 11,373 | 10,000 | 11,373 | 3,436 | 2,921 | 6,357 | 56% | 64% | |
| Capital Equipment | 15,349 | 11,511 | 15,349 | 9,435 | 1,159 | 10,595 | 69% | 92% | 5,769 |
| Total Capital Projects | \$531,741 | \$389,431 | 500,053 | \$300,472 | \$47,238 | \$347,710 | 65% | 89% | 1,106,718 |

Notes:

¹ Includes actual OCIP related disbursements of \$1,527,617.22

**DC WATER
LISTING OF EPA/MISC OPEN GRANTS
JUNE 30, 2012**

| | | Total EPA | | Federal | Cumulative | | Cumulative | |
|---|---------------|-----------------------|---------|-----------------------|----------------------|---------------------|----------------------|----------------------|
| | | Allowable | % of | Grant | Federal | Current | Federal | Remaining |
| Name | Period | Project | Federal | Award | Expenditures | Quarter | Expenditures | Federal |
| | | Budget | Funding | Amount | as of 03/31/12 | Expenditures | as of 06/30/12 | Balance |
| <u>CLEAN WATER ACT GRANTS</u> | | | | | | | | |
| Nitrification Facilities Upgrade | 9/04 - 02/13 | \$51,858,033 | 55% | \$28,521,918 | 21,872,700 | | 21,872,700 | 6,649,218 |
| Filtration and Disinfection Facility Upgrade Phase 2 | 9/06 - 09/12 | 9,872,426 | 55% | 5,429,834 | 4,887,700 | | 4,887,700 | 542,134 |
| Raw Wastewater Pump Station 1 Upgrade | 09/08 - 03/13 | 3,834,893 | 55% | 2,109,191 | 1,581,900 | | 1,581,900 | 527,291 |
| Biological Sludge Thickening Facility Rehabilitation | 8/10 - 12/13 | 14,060,069 | 55% | 7,733,038 | 6,921,900 | | 6,921,900 | 811,138 |
| Area Substation 6 | 9/10 - 12/13 | 6,829,465 | 53% | 3,626,566 | 2,252,700 | | 2,252,700 | 1,373,866 |
| Rehabilitation of Sewers, Various Locations Companion | 9/10 - 12/13 | 447,397 | 23% | 101,752 | | | 0 | 101,752 |
| Blue Plains Enhanced Nitrogen Removal Facilities | 5/12/- 9/17 | 27,327,655 | 55% | 15,030,210 | | | | 15,030,210 |
| Rock Creek Combined Sewer Separation | 5/06 - 12/12 | 2,743,336 | 55% | 1,508,835 | 700,500 | | 700,500 | 808,335 |
| Filtration/Disinfection Facilities Upgrade, Phase 3 | 11/10 - 11/13 | 2,116,364 | 55% | 1,164,000 | 87,400 | 216,500 | 303,900 | 860,100 |
| Nit/Denit Sedimentation Basin Replacement Actuators | 7/11 - 4/14 | 529,144 | 55% | 291,000 | | | 0 | 291,000 |
| TOTAL OPEN CLEAN WATER ACT GRANTS | | \$ 119,618,782 | | \$ 65,516,344 | \$ 38,304,800 | \$ 216,500 | \$ 38,521,300 | \$ 26,995,044 |
| <u>SAFE-DRINKING WATER GRANTS</u> | | | | | | | | |
| Large Valve Replacements, Contract 7 | 09/08 - 09/13 | \$3,458,000 | 80% | \$2,766,400 | 624,200 | 262,000 | 886,200 | 1,880,200 |
| Large Valve Replacements, Contract 9 | 12/11 - 08/14 | 2,697,597 | 80% | 2,158,077 | | | | |
| Small Diameter Water Main Replacements 2008 | 09/08 - 06/13 | 12,560,176 | 80% | 10,048,141 | 6,214,800 | 131,800 | 6,346,600 | 3,701,541 |
| Anacostia Pumping Station Replacement | 08/07 - 06/13 | 21,988,000 | 80% | 17,590,400 | 14,993,800 | | 14,993,800 | 2,596,600 |
| Bryant Street Pumping Discharge Piping Replacement | 9/10 - 4/14 | 10,180,000 | 80% | 8,144,000 | | | 0 | 8,144,000 |
| Fort Reno Pumping Station Rehabilitation & Upgrade | 9/10 - 8/12 | 7,300,000 | 80% | 5,840,000 | | 206,300 | 206,300 | 5,633,700 |
| Small Diameter Water Main Replacements for 2010 | 9/10 - 6/12 | 2,648,917 | 80% | 2,119,134 | | | 0 | 2,119,134 |
| Cross-Town Tunnel Water Main Rehabilitation | 6/11 - 5/13 | 6,064,214 | 80% | 4,851,371 | 557,400 | 142,900 | 700,300 | 4,151,071 |
| Small Diameter Water Main Rehabilitation Contract | 6/11 - 5/14 | 14,978,250 | 80% | 11,982,600 | | 1,460,000 | 1,460,000 | 10,522,600 |
| Storage Facility Upgrades - Contract 2 | 6/12 - 03/15 | 1,900,000 | 80% | 1,520,000 | | | | |
| Steel Water Mains, Contract 1 | 7/12 - 1/14 | 3,143,507 | 80% | 2,514,805 | | | | |
| 16th & Alaska Pumping Station Upgrades | 6/12 - 9/14 | 1,420,000 | 80% | 1,136,000 | | | | |
| TOTAL SAFE DRINKING WATER GRANTS | | \$ 88,338,661 | | \$ 70,670,928 | \$22,390,200 | \$2,203,000 | \$24,593,200 | \$38,748,846 |
| TOTAL EPA GRANTS (SRF) | | \$ 207,957,443 | | \$ 136,187,272 | \$ 60,695,000 | \$ 2,419,500 | \$ 63,114,500 | \$ 65,743,890 |

**DC WATER
LISTING OF EPA/MISC OPEN GRANTS
JUNE 30, 2012**

| | | Total EPA Allowable | % of Federal | Federal Grant Award | Cumulative Federal Expenditures | Current Quarter Expenditures | Cumulative Federal Expenditures | Remaining Federal Balance |
|--|---------------|------------------------|-----------------|---------------------------|---------------------------------------|------------------------------------|---------------------------------------|---------------------------------|
| Name | Period | Project Budget | Funding | Amount | as of 03/31/12 | | as of 06/30/12 | |
| <u>ARRA FUNDING--SAFE DRINKING WATER</u> | | | | | | | | |
| Large Valve Replacement Contract 8 | 12/09 - 12/12 | 1,997,348 | 100% | 1,997,348 | 1,858,600 | | 1,858,600 | 138,748 |
| Small Diameter Distrib. Main Rehab., Contract 6 | 12/09 - 6/13 | 5,789,629 | 100% | 5,789,629 | 3,768,700 | 950,700 | 4,719,400 | 1,070,229 |
| Small Diameter Water Main Replacements 2010 | 12/09 - 6/12 | 7,164,058 | 100% | 7,164,058 | 6,376,900 | 787,158 | 7,164,058 | 0 |
| Fort Stanton Site Work & Joint Seals | 9/09 - 05/12 | 1,626,680 | 100% | 1,626,680 | 723,500 | 903,180 | 1,626,680 | 0 |
| TOTAL ARRA SAFE DRINKING GRANTS | | \$ 19,500,000 | | \$19,500,000 | \$12,727,700 | \$2,641,038 | \$15,368,738 | \$1,208,977 |
| <u>ARRA FUNDING CLEAN WATER GRANTS</u> | | | | | | | | |
| Watts Branch Sewer Rehab, Phase 2 | 10/09 - 12/12 | \$ 680,511 | 100% | \$680,511 | \$613,400 | | \$613,400 | \$67,111 |
| Rehabilitation of Sewers, Various Locations | 02/10 - 10/12 | 3,558,379 | 100% | 3,558,379 | 3,014,300 | 291,600 | 3,305,900 | 252,479 |
| Rehabilitation of Sewers, Various Locations/MOU-DDOE | 02/10 - 10/12 | 935,000 | 100% | 935,000 | 935,000 | | 935,000 | 0 |
| TOTAL ARRA CLEAN WATER GRANTS | | \$ 5,173,890 | | \$ 5,173,890 | \$ 4,562,700 | \$ 291,600 | \$ 4,854,300 | \$ 319,590 |
| GRAND TOTAL ARRA GRANTS | | \$ 25,295,442 | | \$ 24,673,890 | \$ 17,290,400 | \$ 2,932,638 | \$ 20,223,038 | \$ 1,528,567 |
| GRAND TOTAL ALL EPA GRANTS | | \$ 233,252,885 | | \$ 160,861,162 | \$ 77,985,400 | \$ 5,352,138 | \$ 83,337,538 | \$ 67,272,457 |
| <u>MISC. GRANTS</u> | | | | | | | | |
| DC Office of Deputy Mayor for Planning & Economic Dev. | 12/07 - 05/09 | | 50% | 1,100,000 | 581,935 | | 581,935 | 518,065 |
| DC Dept. Parks & Rec., DDOE and DCWASA | 06/06 - 06/10 | | 48% | 921,000 | 233,226 | | 233,226 | 687,774 |
| FTSS-DDOE,DCOP, GSA,SI, DCHSEMA/DCWASA | 10/09 - 3/10 | | | 545,000 | 459,243 | 85,757 | 545,000 | 0 |

**DC WATER
LISTING OF CSO CONGRESSIONAL FUNDING AND PROJECTS
AS OF
JUNE 30, 2012**

| Footnote | Name | Period | Federal Award Amount | Cumulative Federal Expenditures as of 03/31/12 | Current Quarter Expenditures | Cumulative Federal Expenditures as of 06/30/12 | Remaining Federal Balance |
|----------|--|----------------|----------------------|--|------------------------------|--|---------------------------|
| 1 | <u>CONGRESSIONAL CSO APPROPRIATION BUDGET</u> | 02/03 - | | | | | |
| | <u>LTCP Projects</u> | | | | | | |
| | Anacostia CSS LTCP - Facility Plan Phase | | 49,272,154 | 40,337,790 | 11,276,082 | 51,613,872 | (2,341,718) |
| | Potomac CSS LTCP Facility Plan | | 1,753,000 | 355,261 | 20,009 | 375,270 | 1,377,730 |
| | CSO LTCP Rock Creek Projects | | 1,753,000 | 149,404 | 7,325 | 156,729 | 1,596,271 |
| | Total LTCP Projects | | 52,778,154 | 40,842,455 | 11,303,416 | 52,145,871 | 632,283 |
| | <u>Program Management</u> | | | | | | |
| | CSO Program Management | | 3,457,000 | 234,081 | 226,199 | 460,280 | 2,996,720 |
| | CSO Long Term Control Plan | | 5,120,155 | 251,439 | | 251,439 | 4,868,716 |
| | Total Program Management | | 8,577,155 | 485,520 | 226,199 | 711,719 | 7,865,436 |
| | <u>Nine Minimum Control Projects</u> | | | | | | |
| | WASA Low Impact Development Projects | | 1,500,000 | 155,914 | | 155,914 | 1,344,086 |
| | Potomac Pumping Station Rehabilitation | | 8,737,500 | 5,045,455 | | 5,045,455 | 3,692,045 |
| | Rock Creek CSO Projects | | 4,776,214 | 4,728,798 | 286,712 | 5,015,510 | (239,296) |
| | CSO Nine Minimum Control Projects | | 575,000 | 574,226 | | 574,226 | 774 |
| | Outfall Sewer Rehabilitation | | 22,970,002 | 19,665,151 | 25,042 | 19,690,193 | 3,279,809 |
| | Potomac Pumping Station Phase III | | 9,469,599 | 225,495 | 62,041 | 287,536 | 9,182,063 |
| | Swirl Facilitation Rehabilitation | | 1,830,000 | 61,425 | | 61,425 | 1,768,575 |
| | CSO Fabridam Replacement | | 4,479,579 | 4,479,579 | | 4,479,579 | 0 |
| | Main and O Pumping Station | | 37,838,285 | 35,665,557 | 21,266 | 35,686,823 | 2,151,462 |
| | East Side Pumping Station | | 9,227,822 | 7,761,444 | | 7,761,444 | 1,466,378 |
| | Poplar Point Pumping Station | | 3,178,000 | 877,143 | | 877,143 | 2,300,857 |
| | Dry Weather Overflow Elimination | | 2,478,724 | 154,912 | | 154,912 | 2,323,812 |
| | CSO Wet Weather Water Quality Monitoring | | 24,657 | 24,657 | | 24,657 | 0 |
| | Total Nine Minimum Control Projects | | 107,085,382 | 79,419,756 | 395,061 | 79,814,817 | 27,270,565 |
| | TOTAL CSO APPROPRIATION | | \$168,440,691 | \$120,747,731 | \$11,924,676 | \$132,672,407 | \$35,768,284 |

DC WATER
LISTING OF CSO CONGRESSIONAL FUNDING AND PROJECTS
AS OF
JUNE 30, 2012

| Footnote | Name | Period | Federal Award Amount | Cumulative Federal Expenditures as of 03/31/12 | Current Quarter Expenditures | Cumulative Federal Expenditures as of 06/30/12 | Remaining Federal Balance |
|----------|------|--------|----------------------------|---|------------------------------------|---|---------------------------------|
| | | | | | | | 11,924,677 |
| | | | | | | | 12,391,860 |
| | | | | | | | \$60,084,821 |
| | | | | | | | |

Plus Unreimbursed 2nd Quarter Expenditures

Interest Earned

Grand Total CSO Remaining Balance

FOOTNOTES

| | | |
|---|---|--------------------|
| 1 | Appropriation on February 20, 2003 | \$49,675,000 |
| | Appropriation on January 22, 2004 | 29,823,000 |
| | Appropriation on November, 2004 | 4,800,000 |
| | Less Federal Recission | (38,400) |
| | Appropriation on December 15, 2005 | 7,000,000 |
| | Less Federal Recission | (70,000) |
| | Appropriation on April 5, 2007 (\$7,000,000 less recission) | 7,000,000 |
| | Less Federal Recission | (70,000) |
| | Appropriation on March 25, 2008 | 8,000,000 |
| | Appropriation on April 3, 2009 | 16,000,000 |
| | Appropriation on February 17, 2010 | 20,000,000 |
| | Appropriation on November 3, 2010 | 3,506,000 |
| | Appropriation on February 2, 2011 | 4,986,000 |
| | Appropriation on June 8, 2011 | 2,984,002 |
| | Appropriation on December 14, 2011 | 2,378,068 |
| | Appropriation on January 16, 2012 | 12,621,932 |
| | Total Appropriation | 168,595,602 |



DC Water
Finance Division
Economic Update

ECONOMIC COMMENTARY

- After the June 20th Federal Open Market Committee (FOMC) meeting, the Federal Reserve lowered its economic growth forecast and raised its unemployment forecast.
- EU officials announced that they have agreed to provide direct support to European banks, which hopefully will provide some stability in the region. The stock market responded positively with the Standard & Poor's 500 Index increasing 4.12%.
- The June employment report was weaker than expected with job growth of only 80,000. The unemployment rate was unchanged at 8.2%.
- Consumer confidence remains weak at a level of 62.0. This is after a reading of 71.6 in February 2012.
- Interest Rates increased slightly during June. The yield on two-year Treasury notes rose 4 basis points to 0.30%.

PORTFOLIO RECAP

- The portfolio is diversified among Bank Deposits, Commercial Paper, Federal Agencies, U.S. Treasuries, FDIC Insured CDs, and SEC registered money market funds.
- The overall yield-to-cost of the portfolio is 0.35%.
- The portfolio is in compliance with the Authority's Investment Policy.

Operating Reserve Account

- In June, the Authority purchased \$10 million of 3 month commercial paper at a yield of 0.15%.

CSO LTCP Account

- The Authority purchased \$20 million of 3 month agency discount notes at an average yield of 0.11%.

2010 Bond Construction Fund

- The Authority purchased \$10 million of 2 ½ month commercial paper at a yield of 0.15%.

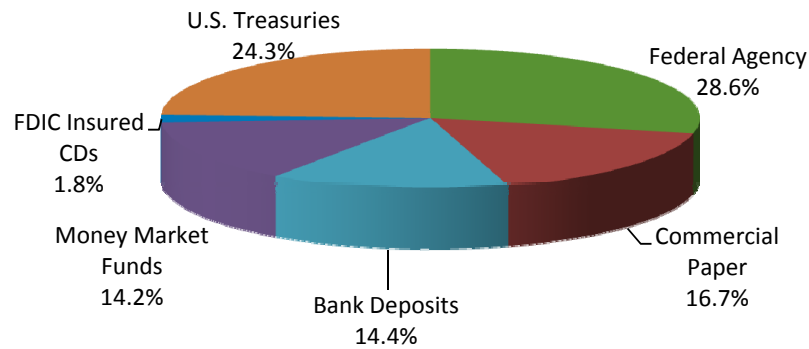
2012 Bond Construction Fund

- The Authority purchased \$10 million of 2 month commercial paper at a yield of 0.17%.



Investment Performance Report – June 2012

DC Water
Finance Division
Investments - By Security Type
As of June 30, 2012

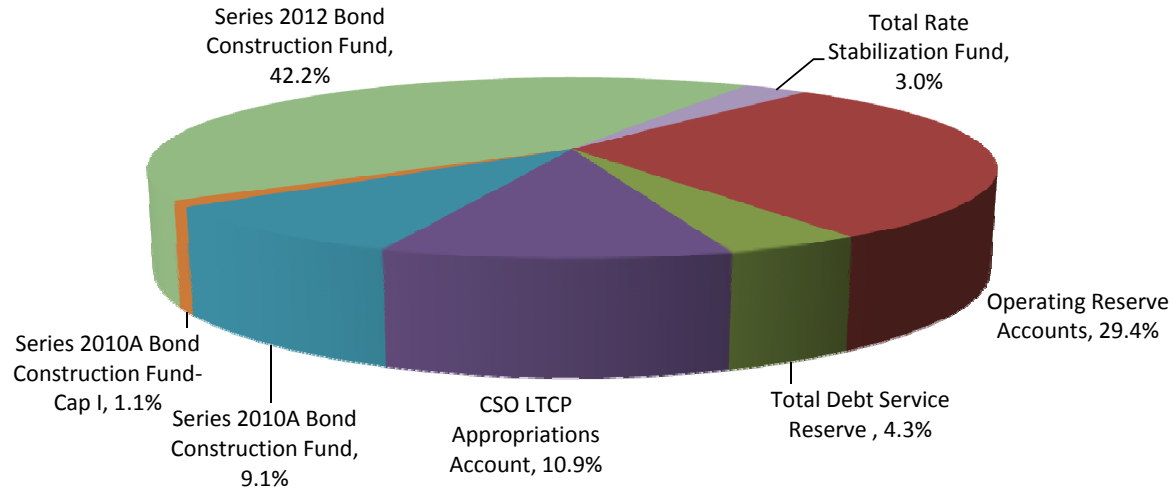


| Security Type | Book Value + Accrued Interest | Asset Allocation | Permitted By Policy |
|-----------------------|----------------------------------|---------------------|------------------------|
| Bank Deposits | \$ 79,530,848 | 14.4% | 100.0% |
| Money Market Funds | 78,507,866 | 14.2% | 100.0% |
| Bankers Acceptances | - | 0.0% | 40.0% |
| Commercial Paper | 92,467,911 | 16.7% | 35.0% |
| U.S. Treasuries | 133,955,453 | 24.3% | 100.0% |
| Federal Agency | 157,738,781 | 28.6% | 80.0% |
| FDIC Insured CDs | 10,022,568 | 1.8% | 30.0% |
| Municipal Obligations | - | 0.0% | 20.0% |
| Total | \$ 552,223,428 | 100.0% | |



Investment Performance Report – June 2012

DC Water
Finance Division
Investment Analysis – By Fund
As of June 30, 2012



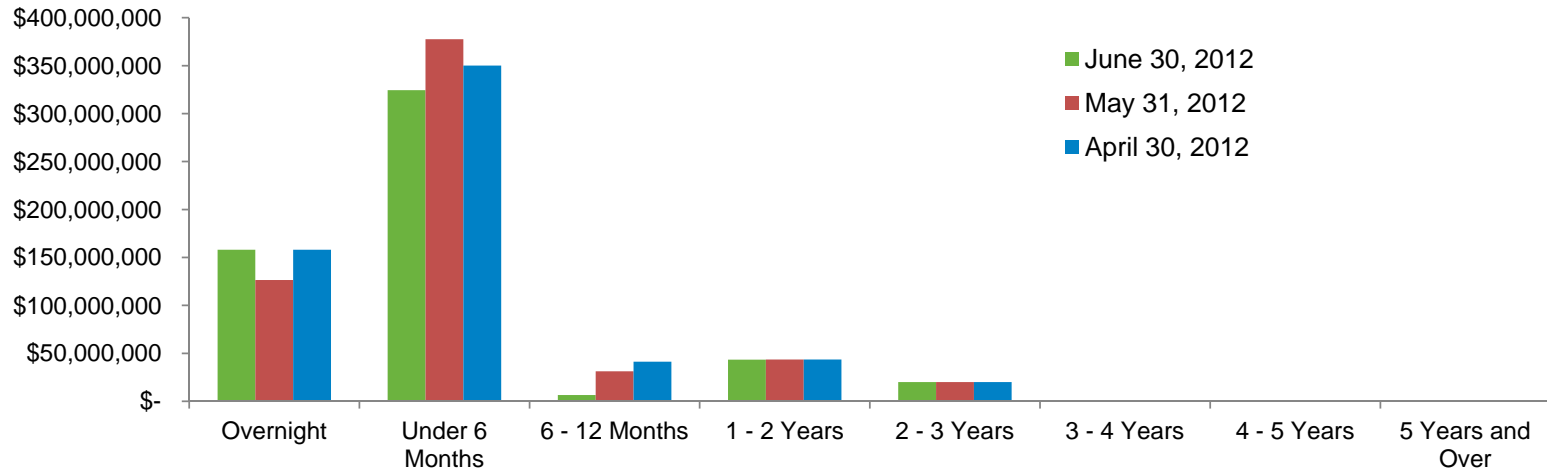
| Fund Name | Book Value + Accrued Interest | Yield-to- Maturity at Cost | Effective Duration (years) | Weighted Average Maturity (days) |
|--|----------------------------------|----------------------------------|----------------------------------|--|
| Total Rate Stabilization Fund | \$ 16,700,000 | 0.00% | 0.00 | 1.0 |
| Operating Reserve Accounts | \$ 162,104,396 | 3.49% | 0.45 | 247.2 |
| Total Debt Service Reserve | \$ 23,953,761 | 0.53% | 0.55 | 203.8 |
| Series 2010A Bond Construction Fund | \$ 50,209,210 | 0.08% | 0.07 | 24.7 |
| Series 2010A Bond Construction Fund- Cap I | \$ 6,067,097 | 0.77% | 0.90 | 330.4 |
| Total CSO LTCP Appropriations Account | \$ 60,090,896 | 0.08% | 0.14 | 50.1 |
| 2012 Bond Construction Fund | \$ 233,098,067 | 0.11% | 0.19 | 70.6 |
| Total | \$ 552,223,428 | 0.35% | 0.27 | 122.5 |



Investment Performance Report – June 2012

DC Water
Finance Division
Investment Analysis – By Maturity

| Maturity Distribution | June 30, 2012 | May 31, 2012 | April 30, 2012 |
|-----------------------|--------------------------|--------------------------|-----------------------|
| Overnight \$ | 158,038,714.34 \$ | 126,456,808.39 \$ | 158,050,890.11 |
| Under 6 Months | 324,381,753.21 | 377,621,806.72 | 350,108,868.71 |
| 6 - 12 Months | 6,456,182.99 | 31,204,603.49 | 41,212,860.91 |
| 1 - 2 Years | 43,332,850.96 | 43,538,574.15 | 43,547,243.42 |
| 2 - 3 Years | 20,013,926.60 | 19,999,747.36 | 20,069,318.84 |
| 3 - 4 Years | - | - | - |
| 4 - 5 Years | - | - | - |
| 5 Years and Over | - | - | - |
| Totals \$ | 552,223,428.10 \$ | 598,821,540.11 \$ | 612,989,181.99 |





**DC Water
Finance Division
Investments – Issuer Allocation**

| | Credit Ratings S&P / Moody's | Book Value | | Investment Policy Limit | Compliance with Investment Policy |
|--|---------------------------------|--------------------------|---------------|----------------------------|--------------------------------------|
| Bank Deposits | | | | | |
| TD Bank | | 69,486,791.54 | 12.6% | 100.0% | Yes |
| Premier Bank | | 5,023,711.64 | 0.9% | 100.0% | Yes |
| Capital One Bank | | 5,020,345.17 | 0.9% | 100.0% | Yes |
| Sub-Total Bank Deposits | | 79,530,848.35 | 14.4% | 100.0% | Yes |
| Money Market Mutual Funds | | | | | |
| American Beacon MMF | AAA | 1,482,407.62 | 0.3% | 50.0% | Yes |
| Williams Capital Money Market Fund | AAA | 2,500,114.13 | 0.5% | 50.0% | Yes |
| Merrill Lynch MMF | AAA | 1,184,219.80 | 0.2% | 50.0% | Yes |
| Wells Fargo Cash MMF | AAA | 93,265.95 | 0.0% | 50.0% | Yes |
| Wells Fargo Advantage Treasury Plus | AAA | 19,206,058.93 | 3.5% | 50.0% | Yes |
| Wells Fargo Government MMF | AAA | 54,041,799.56 | 9.8% | 50.0% | Yes |
| Sub-Total Money Market Mutual Funds | | 78,507,865.99 | 14.2% | 100.0% | Yes |
| Certificates of Deposit | | | | | |
| CDARs - Placed by Industrial Bank | NR / NR | 5,015,054.79 | 0.9% | 30.0% | Yes |
| CDARs - Placed by City First Bank | NR / NR | 5,007,513.66 | 0.9% | 30.0% | Yes |
| Sub-Total Certificates of Deposit | | 10,022,568.45 | 1.8% | 30.0% | Yes |
| Commercial Paper | | | | | |
| Bank Of Nova Scotia Ny Comm Paper | A-1+ / P-1 | 9,999,000.00 | 1.8% | 5.0% | Yes |
| Brown-Forman Corp Comm Paper | A-1 / P-1 | 9,999,155.60 | 1.8% | 5.0% | Yes |
| Fcar Owner Trust Comm Paper | A-1+ / P-1 | 9,994,133.30 | 1.8% | 5.0% | Yes |
| General Elec Cap Corp Comm Paper | A-1+ / P-1 | 9,996,333.30 | 1.8% | 5.0% | Yes |
| Jp Morgan Chase & Co Comm Paper | A-1 / P-1 | 9,997,138.90 | 1.8% | 5.0% | Yes |
| Metlife Short Term Funding Comm Paper | A-1+ / P-1 | 9,995,055.60 | 1.8% | 5.0% | Yes |
| Mizuho Funding Llc Comm Paper | A-1 / P-1 | 4,997,261.10 | 0.9% | 5.0% | Yes |
| Northwest University Comm Paper | A-1+ / P-1 | 9,997,166.70 | 1.8% | 5.0% | Yes |
| Private Export Funding Comm Paper | A-1 / P-1 | 7,495,749.98 | 1.4% | 5.0% | Yes |
| Vanderbilt University Comm Paper | A-1+ / P-1 | 9,996,916.70 | 1.8% | 5.0% | Yes |
| Sub-Total Commercial Paper | | 92,467,911.18 | 16.7% | 35.0% | Yes |
| Federal Agencies | | | | | |
| Fannie Mae | AA+ / Aaa | 44,335,142.10 | 8.0% | 40.0% | Yes |
| Freddie Mac | AA+ / Aaa | 85,040,910.56 | 15.4% | 40.0% | Yes |
| Federal Home Loan Bank | AA+ / Aaa | 28,362,728.46 | 5.1% | 40.0% | Yes |
| Federal Farm Credit Bank | AA+ / Aaa | - | 0.0% | 40.0% | Yes |
| Sub-Total Federal Agencies | | 157,738,781.12 | 28.6% | 100% | Yes |
| Treasuries | | | | | |
| Treasury Note | AA+ / Aaa | 133,955,453.01 | 24.3% | 100.0% | Yes |
| Sub-Total Treasuries | | 133,955,453.01 | 24.3% | 80.0% | Yes |
| Total | | \$ 552,223,428.10 | 100.0% | | |



Investment Performance Report – June 2012

DC Water
Finance Division
Book Value Performance
As of June 30, 2012

The portfolio is in compliance with the Authority's Investment Policy

| | Trailing 1 Months | | Trailing 3 Months | | Trailing 6 Months | | Trailing 12 Months |
|---|-------------------|--------------|-------------------|--------------|-------------------|--------------|--------------------|
| | Periodic | Annualized | Periodic | Annualized | Periodic | Annualized | |
| Total Rate Stabilization Fund | 0.04% | 0.54% | 0.14% | 0.55% | 0.28% | 0.56% | 0.63% |
| Operating Reserve Accounts | 0.05% | 0.60% | 0.15% | 0.62% | 0.31% | 0.62% | 0.58% |
| Total Debt Service Reserve | 0.05% | 0.55% | 0.13% | 0.51% | 0.27% | 0.54% | 0.58% |
| Total CSO LTCP Appropriations Account | 0.02% | 0.18% | 0.06% | 0.25% | 0.16% | 0.32% | 0.39% |
| 2010A Construction Fund | 0.01% | 0.08% | 0.02% | 0.08% | 0.06% | 0.12% | 0.18% |
| 2010A Capitalized Interest Fund | 0.07% | 0.79% | 0.20% | 0.79% | 0.37% | 0.74% | 0.69% |
| 2012 Construction Fund | 0.01% | 0.12% | 0.03% | 0.11% | n/a | n/a | n/a |
| Short-Term | 0.02% | 0.29% | 0.07% | 0.28% | 0.17% | 0.34% | 0.42% |
| Merrill Lynch 3-Month Treasury Index (Book Value) ¹ | 0.01% | 0.08% | 0.02% | 0.08% | 0.03% | 0.07% | 0.05% |
| Core (1+ Years) | 0.07% | 0.82% | 0.20% | 0.82% | 0.43% | 0.87% | 0.89% |
| Merrill Lynch 1-3 Year Treasury Index (Book Value) ² | 0.03% | 0.34% | 0.08% | 0.33% | 0.15% | 0.30% | 0.31% |

(1) The Merrill Lynch 3-Month Treasury Bill is an unmanaged index tracking the on-the-run 3-month Treasury Bill. The index is produced and maintained by Merrill Lynch & Co. Performance for this index is shown on a book value basis.

(2) The Merrill Lynch 1-3 Year Treasury Index is an unmanaged index tracking a basket of U.S. Treasuries with 1 to 3 year maturities. The index is produced and maintained by Merrill Lynch & Co. Performance for this index is shown on a book value basis.

(3) Performance prior to February 2011 provided by the Authority.

*Weighted average maturity



Investment Performance Report – June 2012

DC Water
Finance Division
Portfolio Holdings by Fund

| DESCRIPTION | PAR AMOUNT | COUPON RATE | MATURITY DATE | SETTLEMENT DATE | YTM AT COST | ORIGINAL COST | MARKET VALUE + ACCRUED INTEREST | AMORTIZED COST + ACCRUED INTEREST | TOTAL VALUE |
|---|---------------|-------------|---------------|-----------------|-------------|---------------|---------------------------------|-----------------------------------|-------------------|
| Total Rate Stabilization Fund | | | | | | | | | |
| TD BANK BANK DEPOSIT | \$ 16,700,000 | | 7/1/2012 | | 1.05% | \$ 16,700,000 | \$ 16,700,000 | \$ 16,700,000 | \$ 16,700,000.00 |
| Operating Reserve Accounts | | | | | | | | | |
| TD BANK BANK DEPOSIT | \$ 39,191,792 | | 7/1/2012 | | 1.05% | \$ 39,191,792 | \$ 39,191,792 | \$ 39,191,792 | |
| CAPITAL ONE BANK | 5,020,345 | | 7/1/2012 | | 0.50% | 5,020,345 | 5,020,345 | 5,020,345 | |
| WILLIAMS CAPITAL MONEY MARKET FUND | 2,500,114 | | 7/1/2012 | | 0.00% | 2,500,114 | 2,500,114 | 2,500,114 | |
| JP MORGAN CHASE & CO COMM PAPER | 5,000,000 | - | 7/25/2012 | 4/25/2012 | 0.15% | 4,998,104 | 4,999,520 | 4,999,500 | |
| FHLMC NOTES | 10,000,000 | 1.000 | 8/28/2012 | 7/27/2010 | 0.73% | 10,068,578 | 10,047,377 | 10,038,426 | |
| MIZUHO FUNDING LLC COMM PAPER | 5,000,000 | - | 8/28/2012 | 5/24/2012 | 0.34% | 4,995,467 | 4,997,835 | 4,997,261 | |
| FCAR OWNER TRUST COMM PAPER | 10,000,000 | - | 9/5/2012 | 5/21/2012 | 0.32% | 9,990,489 | 9,994,920 | 9,994,133 | |
| JP MORGAN CHASE & CO COMM PAPER | 5,000,000 | - | 9/24/2012 | 5/24/2012 | 0.20% | 4,996,583 | 4,997,500 | 4,997,639 | |
| GENERAL ELEC CAP CORP COMM PAPER | 10,000,000 | - | 9/27/2012 | 6/29/2012 | 0.15% | 9,996,250 | 9,996,250 | 9,996,333 | |
| METLIFE SHORT TERM FUNDING COMM PAPER | 10,000,000 | - | 9/28/2012 | 5/21/2012 | 0.20% | 9,992,778 | 9,991,890 | 9,995,056 | |
| INDUSTRIAL BANK CDARS | 2,500,000 | 0.500 | 1/27/2013 | 1/26/2012 | 0.50% | 2,500,000 | 2,505,377 | 2,505,377 | |
| CITY FIRST BK OF WASHINGTON, DC (CDARS) | 2,500,000 | 0.500 | 3/23/2013 | 3/23/2012 | 0.50% | 2,500,000 | 2,504,464 | 2,503,415 | |
| FHLB NOTES | 10,000,000 | 0.750 | 8/28/2013 | 5/18/2011 | 0.72% | 10,008,025 | 10,062,065 | 10,013,268 | |
| FREDDIE MAC (CALLABLE) GLOBAL NOTES | 10,000,000 | 0.500 | 10/18/2013 | 10/18/2011 | 0.56% | 9,987,200 | 10,015,569 | 10,001,821 | |
| FHLB TAP BONDS | 10,000,000 | 3.125 | 12/13/2013 | 5/19/2011 | 0.99% | 10,675,134 | 10,418,235 | 10,322,213 | |
| INDUSTRIAL BANK CDARS | 2,500,000 | 0.900 | 1/27/2014 | 1/26/2012 | 0.90% | 2,500,000 | 2,509,678 | 2,509,678 | |
| CITY FIRST BK OF WASHINGTON, DC (CDARS) | 2,500,000 | 0.600 | 3/23/2014 | 3/23/2012 | 0.60% | 2,500,000 | 2,502,776 | 2,504,098 | |
| FHLMC NOTES (CALLABLE) | 10,000,000 | 0.875 | 11/14/2014 | 11/18/2011 | 0.87% | 10,000,972 | 10,026,514 | 10,011,424 | |
| FNMA NOTES (CALLABLE) | 10,000,000 | 0.800 | 11/21/2014 | 11/21/2011 | 0.83% | 9,992,000 | 10,023,199 | 10,002,503 | \$ 162,104,396.43 |
| Total Debt Service Reserve | | | | | | | | | |
| WELLS FARGO GOVERNMENT MMF | \$ 103,903 | | 7/1/2012 | | 0.01% | \$ 103,903 | \$ 103,903 | \$ 103,903 | |
| MERRILL LYNCH MMF | 1,184,220 | | 7/1/2012 | | 0.06% | 1,184,220 | 1,184,220 | 1,184,220 | |
| PRIVATE EXPORT FUNDING COMM PAPER | 7,500,000 | - | 9/24/2012 | 5/21/2012 | 0.24% | 7,493,700 | 7,493,873 | 7,495,750 | |
| FHLMC NOTES | 10,000,000 | 0.515 | 11/26/2012 | 11/22/2010 | 0.64% | 9,981,294 | 10,019,597 | 9,999,976 | |
| FHLB TAP BONDS | 5,000,000 | 3.125 | 12/13/2013 | 5/25/2011 | 0.87% | 5,354,034 | 5,209,118 | 5,169,912 | \$ 23,953,761.06 |



Investment Performance Report – June 2012

DC Water
Finance Division
Portfolio Holdings by Fund

| DESCRIPTION | PAR AMOUNT | COUPON RATE | MATURITY DATE | SETTLEMENT DATE | YTM AT COST | ORIGINAL COST | MARKET VALUE + ACCRUED INTEREST | AMORTIZED COST + ACCRUED INTEREST | TOTAL VALUE |
|---|---------------|-------------|---------------|-----------------|-------------|--------------------------|---------------------------------|-----------------------------------|--------------------------|
| Series 2010A Bond Construction Fund | | | | | | | | | |
| WELLS FARGO ADVANTAGE TREASURY PLUS | \$ 2,117,640 | | 7/1/2012 | | 0.01% | \$ 2,117,640 | \$ 2,117,640 | \$ 2,117,640 | |
| WELLS FARGO GOVERNMENT MMF | 19,045,748 | | 7/1/2012 | | 0.01% | 19,045,748 | 19,045,748 | 19,045,748 | |
| BROWN-FORMAN CORP COMM PAPER | 10,000,000 | - | 7/20/2012 | 5/21/2012 | 0.16% | 9,997,333 | 9,998,950 | 9,999,156 | |
| FNMA GLOBAL NOTES | 9,000,000 | 1.125 | 7/30/2012 | 4/18/2012 | 0.12% | 9,047,549 | 9,049,291 | 9,049,750 | |
| VANDERBILT UNIVERSITY COMM PAPER | 10,000,000 | - | 9/13/2012 | 6/26/2012 | 0.15% | 9,996,708 | 9,996,708 | 9,996,917 | |
| | | | | | | | | | \$ 50,209,210.47 |
| Series 2010A Bond Construction Fund- Cap I | | | | | | | | | |
| WELLS FARGO ADVANTAGE TREASURY PLUS | \$ 237,589 | | 7/1/2012 | | 0.01% | \$ 237,589 | \$ 237,589 | \$ 237,589 | |
| WELLS FARGO GOVERNMENT MMF | 160,311 | | 7/1/2012 | | 0.01% | 160,311 | 160,311 | 160,311 | |
| FHLB GLOBAL BONDS | 1,400,000 | 1.625 | 9/26/2012 | 3/16/2011 | 0.43% | 1,436,191 | 1,410,818 | 1,409,945 | |
| FHLB TAP BONDS | 1,400,000 | 3.875 | 3/8/2013 | 3/16/2011 | 0.70% | 1,488,359 | 1,451,555 | 1,447,391 | |
| FNMA NOTES | 1,400,000 | 1.125 | 9/30/2013 | 3/16/2011 | 0.97% | 1,412,681 | 1,418,307 | 1,406,659 | |
| FNMA NOTES (EX-CALLABLE) | 1,400,000 | 1.250 | 3/14/2014 | 3/16/2011 | 1.19% | 1,402,617 | 1,426,523 | 1,405,201 | |
| | | | | | | | | | \$ 6,067,097.14 |
| Total CSO LTCP Appropriations Account | | | | | | | | | |
| TD BANK BANK DEPOSIT | \$ 13,594,999 | | 7/1/2012 | | 1.05% | \$ 13,594,999 | \$ 13,594,999 | \$ 13,594,999 | |
| PREMIER BANK DEPOSIT | 5,023,712 | | 7/1/2012 | | 0.24% | 5,023,712 | 5,023,712 | 5,023,712 | |
| AMERICAN BEACON MMF | 1,482,408 | | 7/1/2012 | | 0.09% | 1,482,408 | 1,482,408 | 1,482,408 | |
| BANK OF NOVA SCOTIA NY COMM PAPER | 10,000,000 | - | 7/25/2012 | 4/25/2012 | 0.15% | 9,996,208 | 9,998,940 | 9,999,000 | |
| FANNIE MAE DISC NOTE | 10,000,000 | - | 9/19/2012 | 6/29/2012 | 0.11% | 9,997,494 | 9,996,773 | 9,997,556 | |
| FHLMC DISC NOTE | 10,000,000 | - | 9/24/2012 | 6/26/2012 | 0.10% | 9,997,500 | 9,996,498 | 9,997,639 | |
| FHLMC DISC NOTE | 10,000,000 | - | 10/15/2012 | 4/18/2012 | 0.15% | 9,992,500 | 9,995,339 | 9,995,583 | |
| | | | | | | | | | \$ 60,090,896.18 |
| Series 2012 Bond Construction Fund | | | | | | | | | |
| WELLS FARGO GOVERNMENT MMF | \$ 51,582,667 | | 7/1/2012 | | 0.01% | \$ 51,582,667 | \$ 51,582,667 | \$ 51,582,667 | |
| WELLS FARGO CASH MMF | 93,266 | | 7/1/2012 | | 0.08% | 93,266 | 93,266 | 93,266 | |
| FNMA GLOBAL NOTES | 12,405,000 | 1.125 | 7/30/2012 | 3/27/2012 | 0.13% | 12,469,240 | 12,472,939 | 12,473,472 | |
| FHLMC DISC NOTE | 25,000,000 | - | 8/27/2012 | 3/30/2012 | 0.10% | 24,989,583 | 24,994,815 | 24,996,042 | |
| NORTHWEST UNIVERSITY COMM PAPER | 10,000,000 | - | 8/30/2012 | 6/26/2012 | 0.17% | 9,996,931 | 9,996,931 | 9,997,167 | |
| US TREASURY NOTES | 25,000,000 | 0.375 | 8/31/2012 | 3/27/2012 | 0.14% | 25,032,269 | 25,042,085 | 25,041,200 | |
| US TREASURY NOTES | 49,500,000 | 0.375 | 9/30/2012 | 3/27/2012 | 0.15% | 49,648,792 | 49,575,664 | 49,574,889 | |
| US TREASURY NOTES | 34,500,000 | 1.375 | 10/15/2012 | 3/27/2012 | 0.15% | 34,945,706 | 34,721,102 | 34,722,152 | |
| US TREASURY NOTES | 24,500,000 | 1.125 | 12/15/2012 | 3/27/2012 | 0.18% | 24,743,133 | 24,616,370 | 24,617,212 | |
| | | | | | | | | | \$ 233,098,066.82 |
| | | | | | | \$ 553,160,116.98 | \$ 552,514,077.19 | \$ 552,223,428.10 | \$ 552,223,428.10 |



Investment Performance Report – June 2012

DC Water
Finance Division
Security Transactions
Last 6 Months

| ACCOUNT | CUSIP | DESCRIPTION | PAR | COUPON | MATURITY DATE | SETTLE DATE | YTM | TRANSACTION AMOUNT |
|--|------------------|---|-------------------|----------|-----------------|-----------------|--------------|------------------------|
| Purchases | | | | | | | | |
| DC WASA 2010A CONSTRUCTION FUND | 14912DCS6 | CATERPILLAR FIN SERV CRP COMM PAPER | 10,000,000 | - | 03/26/12 | 01/17/12 | 0.041 | \$ 9,999,233.33 |
| DC WASA 2010A CONSTRUCTION FUND | 90526MDH7 | UNION BANK NA COMM PAPER | 10,000,000 | - | 04/17/12 | 01/17/12 | 0.304 | \$ 9,992,416.67 |
| DC WASA 2010A CONSTRUCTION FUND | 89233GEV4 | TOYOTA MOTOR CREDIT CORP COMM PAPER | 10,000,000 | - | 05/29/12 | 02/29/12 | 0.152 | \$ 9,996,250.00 |
| DC WASA 2010A CONSTRUCTION FUND | 31398AT77 | FNMA GLOBAL NOTES | 9,000,000 | 1.125 | 07/30/12 | 04/18/12 | 0.120 | \$ 9,047,548.80 |
| DC WASA 2010A CONSTRUCTION FUND | 313384YR4 | FHLB DISC NOTE | 15,000,000 | - | 06/27/12 | 04/25/12 | 0.101 | \$ 14,997,375.00 |
| DC WASA 2010A CONSTRUCTION FUND | 11563VGL5 | BROWN-FORMAN CORP COMM PAPER | 10,000,000 | - | 07/20/12 | 05/21/12 | 0.162 | \$ 9,997,333.33 |
| DC WASA 2010A CONSTRUCTION FUND | 92181NJD0 | VANDERBILT UNIVERSITY COMM PAPER | 10,000,000 | - | 09/13/12 | 06/26/12 | 0.152 | \$ 9,996,708.33 |
| DC WASA OPERATING RESERVE ACCOUNTS | RE0854415 | INDUSTRIAL BANK CDARS | 2,500,000 | 0.500 | 01/27/13 | 01/26/12 | 0.507 | \$ 2,500,000.00 |
| DC WASA OPERATING RESERVE ACCOUNTS | RE0854423 | INDUSTRIAL BANK CDARS | 2,500,000 | 0.900 | 01/27/14 | 01/26/12 | 0.913 | \$ 2,500,000.00 |
| DC WASA OPERATING RESERVE ACCOUNTS | 3024A6EF5 | FCAR OWNER TRUST COMM PAPER | 5,000,000 | - | 05/15/12 | 02/22/12 | 0.244 | \$ 4,997,233.33 |
| DC WASA OPERATING RESERVE ACCOUNTS | 3024A6EF5 | FCAR OWNER TRUST COMM PAPER | 5,000,000 | - | 05/15/12 | 02/22/12 | 0.264 | \$ 4,997,002.78 |
| DC WASA OPERATING RESERVE ACCOUNTS | 4662JOEP3 | JP MORGAN CHASE & CO COMM PAPER | 5,000,000 | - | 05/23/12 | 02/22/12 | 0.152 | \$ 4,998,104.17 |
| DC WASA OPERATING RESERVE ACCOUNTS | 60688FEN5 | MIZUHO FUNDING LLC COMM PAPER | 5,000,000 | - | 05/22/12 | 02/22/12 | 0.376 | \$ 4,995,375.00 |
| DC WASA OPERATING RESERVE ACCOUNTS | RE0857798 | CITY FIRST BK OF WASHINGTON, DC (CDARS) | 2,500,000 | 0.500 | 03/23/13 | 03/23/12 | 0.507 | \$ 2,500,000.00 |
| DC WASA OPERATING RESERVE ACCOUNTS | RE0857806 | CITY FIRST BK OF WASHINGTON, DC (CDARS) | 2,500,000 | 0.600 | 03/23/14 | 03/23/12 | 0.608 | \$ 2,500,000.00 |
| DC WASA OPERATING RESERVE ACCOUNTS | 4662J0GR7 | JP MORGAN CHASE & CO COMM PAPER | 5,000,000 | - | 07/25/12 | 04/25/12 | 0.152 | \$ 4,998,104.17 |
| DC WASA OPERATING RESERVE ACCOUNTS | 3024A6J52 | FCAR OWNER TRUST COMM PAPER | 10,000,000 | - | 09/05/12 | 05/21/12 | 0.325 | \$ 9,990,488.89 |
| DC WASA OPERATING RESERVE ACCOUNTS | 59157TJ08 | METLIFE SHORT TERM FUNDING COMM PAPER | 10,000,000 | - | 09/28/12 | 05/21/12 | 0.203 | \$ 9,992,777.78 |
| DC WASA OPERATING RESERVE ACCOUNTS | 4662J0J06 | JP MORGAN CHASE & CO COMM PAPER | 5,000,000 | - | 09/24/12 | 05/24/12 | 0.203 | \$ 4,996,583.33 |
| DC WASA OPERATING RESERVE ACCOUNTS | 60688FHU6 | MIZUHO FUNDING LLC COMM PAPER | 5,000,000 | - | 08/28/12 | 05/24/12 | 0.345 | \$ 4,995,466.67 |
| DC WASA OPERATING RESERVE ACCOUNTS | 36959HJT5 | GENERAL ELEC CAP CORP COMM PAPER | 10,000,000 | - | 09/27/12 | 06/29/12 | 0.152 | \$ 9,996,250.00 |
| DC WASA TOTAL CSO LTCP APPROPRIATIONS | 06416JDW0 | BANK OF NOVA SCOTIA NY COMM PAPER | 10,000,000 | - | 04/30/12 | 01/17/12 | 0.112 | \$ 9,996,822.22 |
| DC WASA TOTAL CSO LTCP APPROPRIATIONS | 86561AF51 | SUMITOMO CORP OF AMERICA COMM PAPER | 10,000,000 | - | 06/05/12 | 02/28/12 | 0.345 | \$ 9,990,744.45 |
| DC WASA TOTAL CSO LTCP APPROPRIATIONS | 313396K77 | FHLMC DISC NOTE | 10,000,000 | - | 10/15/12 | 04/18/12 | 0.152 | \$ 9,992,500.00 |
| DC WASA TOTAL CSO LTCP APPROPRIATIONS | 06416JGR8 | BANK OF NOVA SCOTIA NY COMM PAPER | 10,000,000 | - | 07/25/12 | 04/25/12 | 0.152 | \$ 9,996,208.33 |
| DC WASA TOTAL CSO LTCP APPROPRIATIONS | 313396H22 | FHLMC DISC NOTE | 10,000,000 | - | 09/24/12 | 06/26/12 | 0.101 | \$ 9,997,500.00 |
| DC WASA TOTAL CSO LTCP APPROPRIATIONS | 313588G58 | FANNIE MAE DISC NOTE | 10,000,000 | - | 09/19/12 | 06/29/12 | 0.112 | \$ 9,997,494.45 |
| DC WASA TOTAL DEBT SERVICE RESERVE | 7426MJQ1 | PRIVATE EXPORT FUNDING COMM PAPER | 7,500,000 | - | 09/24/12 | 05/21/12 | 0.244 | \$ 7,493,700.00 |
| DC WASA RATE STABILIZATION FD | 36959HFU6 | GENERAL ELEC CAP CORP COMM PAPER | 10,000,000 | - | 06/28/12 | 02/29/12 | 0.223 | \$ 9,992,666.67 |
| DC WASA 2012 CONSTRUCTION FUND | 31398AT77 | FNMA GLOBAL NOTES | 12,405,000 | 1.125 | 07/30/12 | 03/27/12 | 0.130 | \$ 12,469,239.67 |
| DC WASA 2012 CONSTRUCTION FUND | 912828LR9 | US TREASURY NOTES | 34,500,000 | 1.375 | 10/15/12 | 03/27/12 | 0.150 | \$ 34,945,706.01 |
| DC WASA 2012 CONSTRUCTION FUND | 912828MB3 | US TREASURY NOTES | 24,500,000 | 1.125 | 12/15/12 | 03/27/12 | 0.183 | \$ 24,743,133.01 |
| DC WASA 2012 CONSTRUCTION FUND | 912828NX4 | US TREASURY NOTES | 49,500,000 | 0.375 | 09/30/12 | 03/27/12 | 0.146 | \$ 49,648,791.62 |
| DC WASA 2012 CONSTRUCTION FUND | 912828PH7 | US TREASURY NOTES | 25,000,000 | 0.375 | 08/31/12 | 03/27/12 | 0.137 | \$ 25,032,269.03 |
| DC WASA 2012 CONSTRUCTION FUND | 313384YJ2 | FHLB DISC NOTE | 50,000,000 | - | 06/20/12 | 03/27/12 | 0.086 | \$ 49,989,965.28 |
| DC WASA 2012 CONSTRUCTION FUND | 313384YJ2 | FHLB DISC NOTE | 2,800,000 | - | 06/20/12 | 03/27/12 | 0.086 | \$ 2,799,438.06 |
| DC WASA 2012 CONSTRUCTION FUND | 313396D67 | FHLMC DISC NOTE | 25,000,000 | - | 08/27/12 | 03/30/12 | 0.101 | \$ 24,989,583.33 |
| DC WASA 2012 CONSTRUCTION FUND | 313374K25 | FHLB NOTES | 20,000,000 | 0.250 | 06/29/12 | 04/18/12 | 0.108 | \$ 20,020,738.89 |
| DC WASA 2012 CONSTRUCTION FUND | 43851TFS0 | HONEYWELL INTERNATIONAL COMM PAPER | 10,000,000 | - | 06/26/12 | 04/18/12 | 0.142 | \$ 9,997,316.67 |
| DC WASA 2012 CONSTRUCTION FUND | 66844CHW7 | NORTHWEST UNIVERSITY COMM PAPER | 10,000,000 | - | 08/30/12 | 06/26/12 | 0.172 | \$ 9,996,930.56 |

Securities highlighted in **blue font** denote trades executed during the current month.

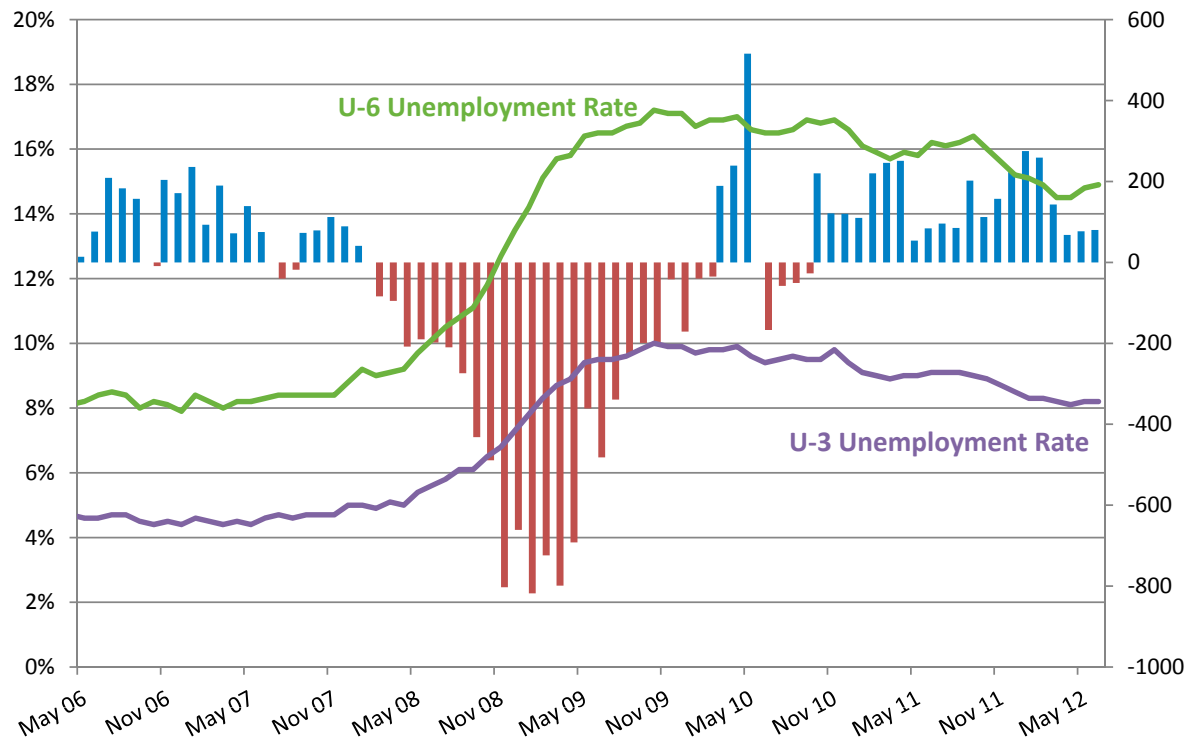


Appendix: Economic Update



Unemployment Remains Unchanged and Elevated

- In June, the national unemployment rate held at 8.2%.
- Only 80,000 jobs were added to the economy in June, the weakest in 10 months.

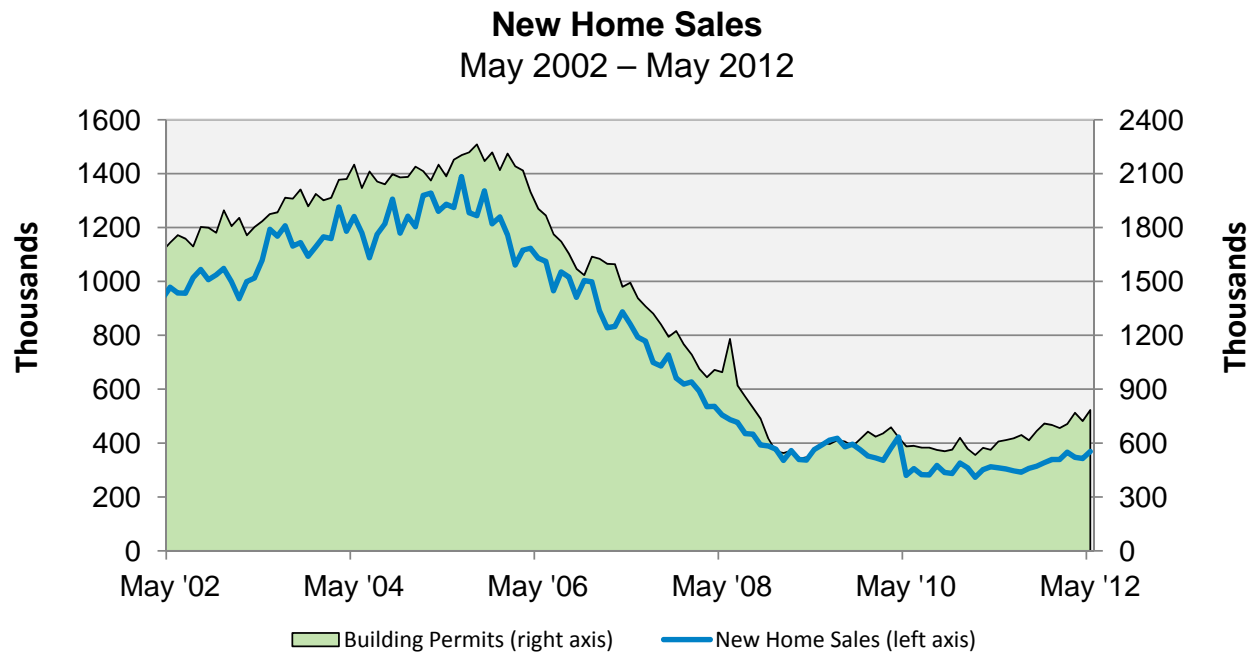


Source: Bloomberg



New Home Sales Unexpectedly Surge

- In May, new home sales surprised on the upside, posting a 7.6% gain, the best rate in more than two years.
- The mild winter and warm spring may have also pulled forward some of this year’s home building activity.

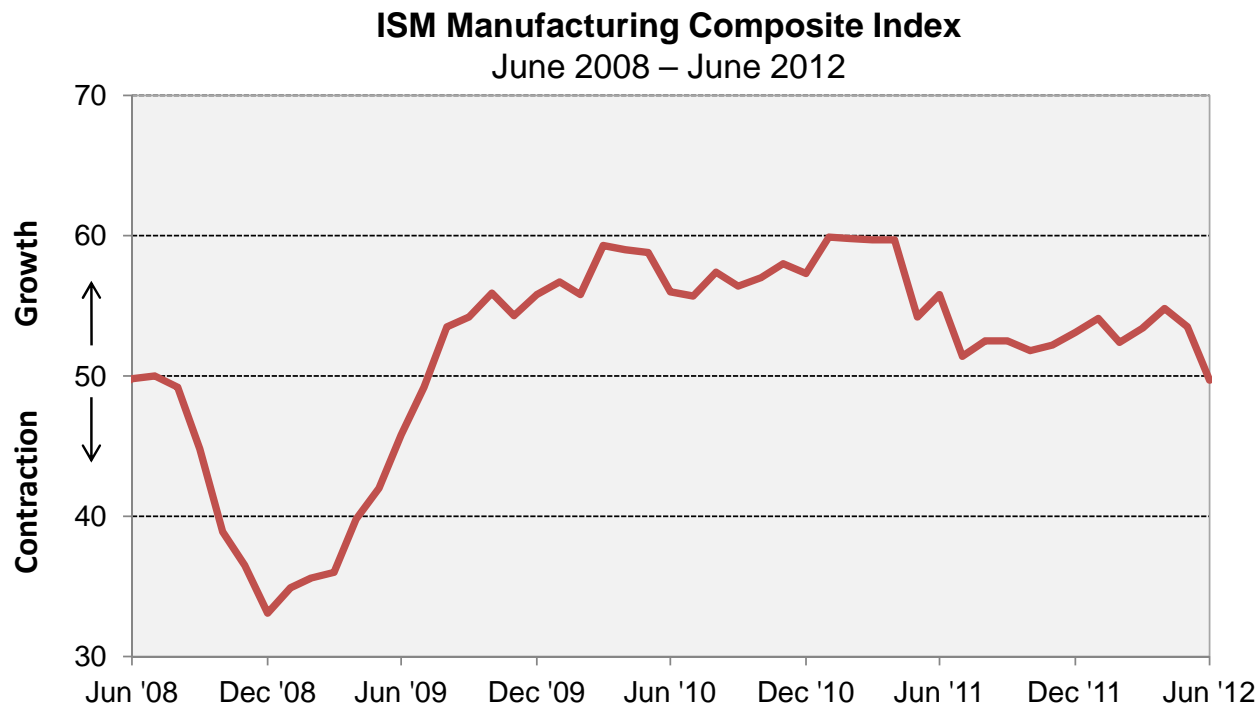


Source: U.S. Commerce Departments Bureau of the Census, Median Sales and Average Sales for New Single-Family Houses.



Manufacturing Dips into Contraction Territory

- In June, the ISM Manufacturing Index declined from 52.0 to 49.7.
 - A reading below 50 indicates contraction in the manufacturing sector.
 - This was the first reading below 50 since the official end of the recession.



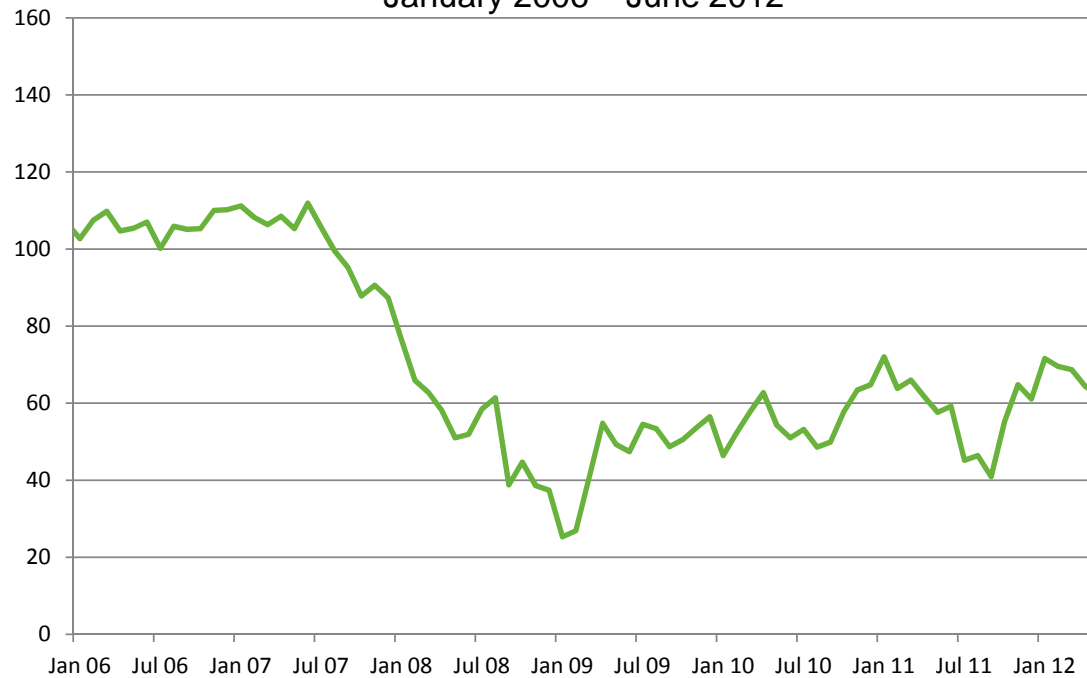
Source: Bloomberg



Consumer Confidence Continues to Drop

- Consumer Confidence fell for the fourth straight month in June to 62.0
- A decrease in consumer confidence may point to a decline in consumer spending.

Consumer Confidence Index
January 2006 – June 2012

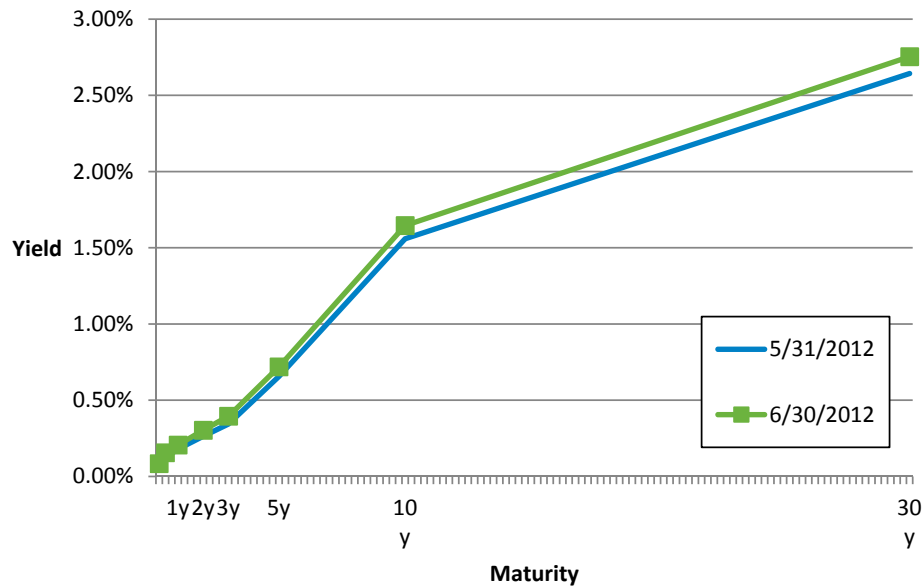


Source: Bloomberg



Interest Rates Increased Modestly

U.S. Treasury Yield Curve
May 31, 2012 versus June 30, 2012

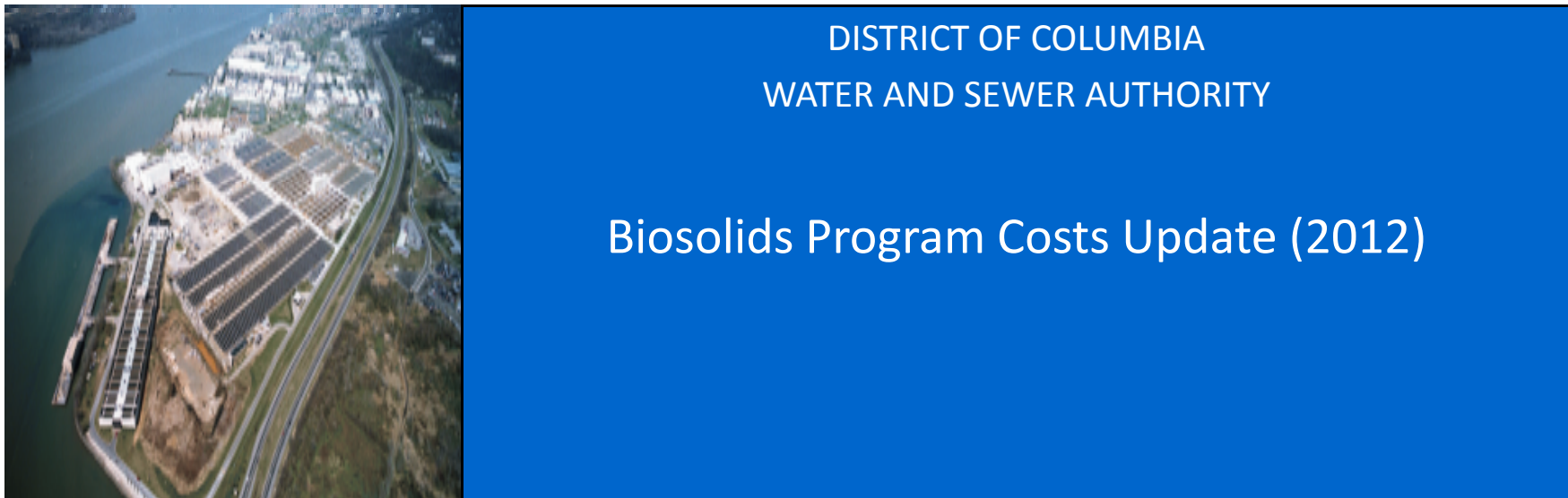


| | 5/31/2012 | 6/30/2012 | Change |
|---------|-----------|-----------|--------|
| 3 month | 0.07% | 0.08% | 0.02% |
| 6 month | 0.12% | 0.16% | 0.03% |
| 1 year | 0.18% | 0.21% | 0.03% |
| 2 year | 0.26% | 0.30% | 0.04% |
| 3 year | 0.34% | 0.40% | 0.05% |
| 5 year | 0.66% | 0.72% | 0.06% |
| 10 year | 1.56% | 1.65% | 0.09% |
| 30 year | 2.64% | 2.75% | 0.11% |

Source: Bloomberg



ATTACHMENT 2



Presented to the Finance and Budget Committee
July 26, 2012

Olu Adebo – Chief Financial Officer
Len Benson – Chief Engineer



Outline

1. Biosolids Program Overview
 1. Program Background
 2. Program Benefits
2. Project Update
 1. Project Schedule Status
3. Financial Impacts
 1. Capital Project Costs
 2. 2012 Zero Based Cost Model
 - Operating Cost Updates and Findings
 3. Future Opportunities for Class A Biosolids



BIOSOLIDS PROGRAM OVERVIEW



Biosolids Program Background

- In 2008, the Biosolids Management Plan (BMP) update evaluated various alternatives for biosolids processing and identified digestion as the most effective solution for biosolids management at DC Water
- Various options and alternatives were evaluated for best value
 - There was no “Do Nothing” option
- The 2008 update reaffirmed many of the broad objectives that were set in the previous BMP, including:
 - Digestion as the cornerstone of the BMP
 - Generation of Class A biosolids which provides greater sustainability by:
 - Hedging against Class B biosolids land application ban
 - Increases diversity of product use by expanding markets

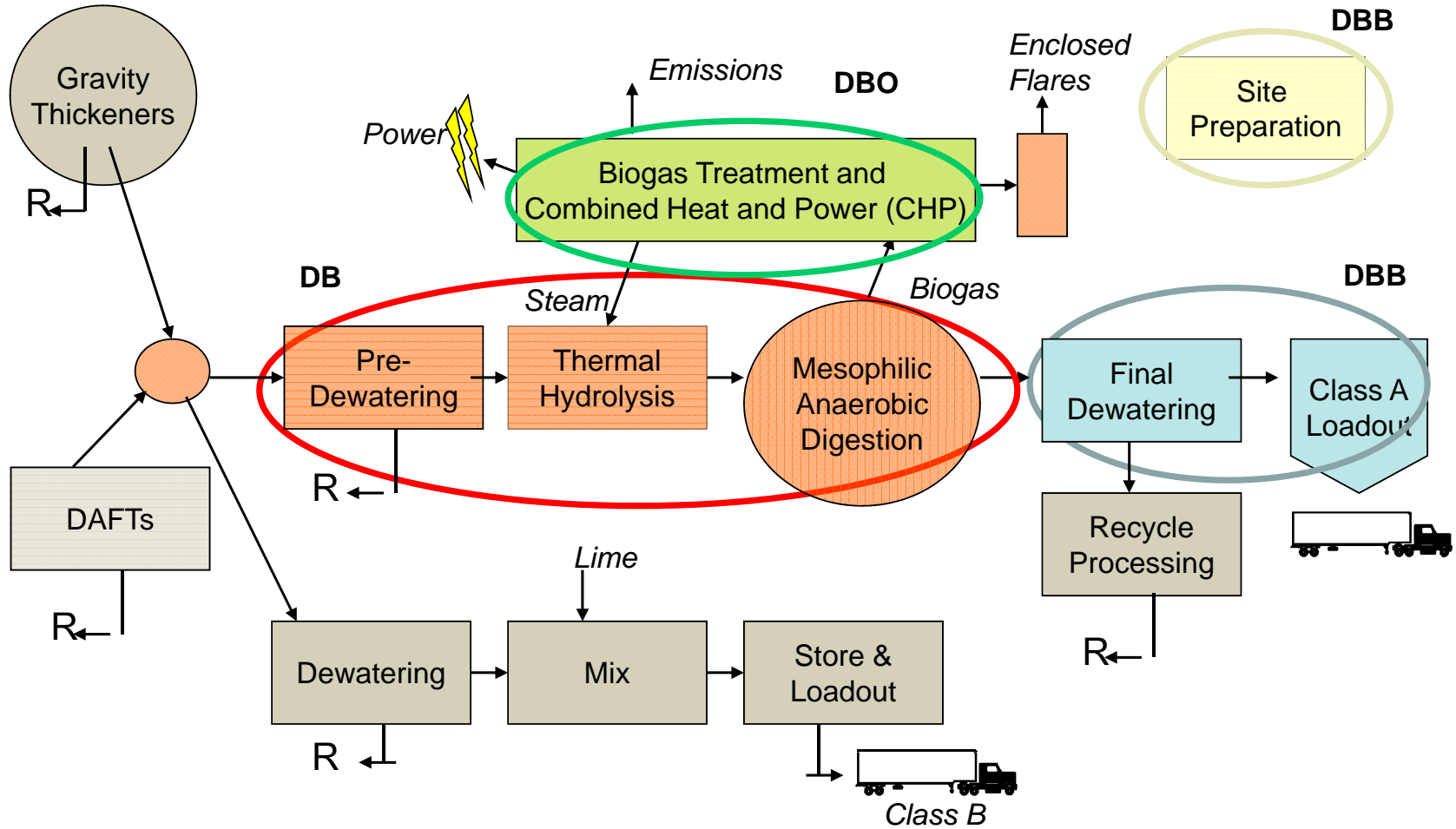


Biosolids Program Benefits

- Hedge against electricity cost uncertainty
 - Reliable supplemental power providing 1/3 of the energy use at the Blue Plains
- Reduction in quantity of biosolids that require disposal
 - Reduced carbon foot print
 - Minimal to zero lime usage
 - Expands land application sites
 - Reduced hauling distance
 - Lower land application unit costs
- Operating savings of \$15-\$30 million a year compared to the lime stabilization alternative



Biosolids Management Program





PROJECT UPDATE



Project Schedule Status

Through the 3rd quarter of FY 2012, all construction contracts have been awarded with final contract completion scheduled for late FY 2014 (The Site Preparation contract is complete)

| 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|------|------|------|------|------|------|------|
|------|------|------|------|------|------|------|

| | | | | | | |
|-------------------------------------|-----------------------------|------------------|----------------------------|----------------------------|--------|-----------|
| Site Preparation DBB | Jul-09 Design | Jul-10 RFP | Jan-11 NTP construction | Jan-12 | | |
| Main Process Train DB | Jul-09 Conceptual Design | Oct-10 RFP | Jul-11 NTP DB | | Jun-14 | 31-Jan-15 |
| Combined Heat & Power DBO | Jul-09 Conceptual Design | | May-11 RFP | Mar-12 NTP DBO | Apr-14 | 1-Feb-15 |
| DSLIF Odor Scrubber (FDF-1C) DBB | | Jan-11 Design | Aug-11 RFP | Dec-11 NTP Construction | | Dec-12 |
| Final Dewatering (FDF-2C) DBB | Jul-09 Conceptual Design | Oct-10 Design | Jan-12 RFP | Jun-12 NTP Construction | Jun-14 | 15-Feb-15 |



FINANCIAL IMPACTS



Capital Cost Update

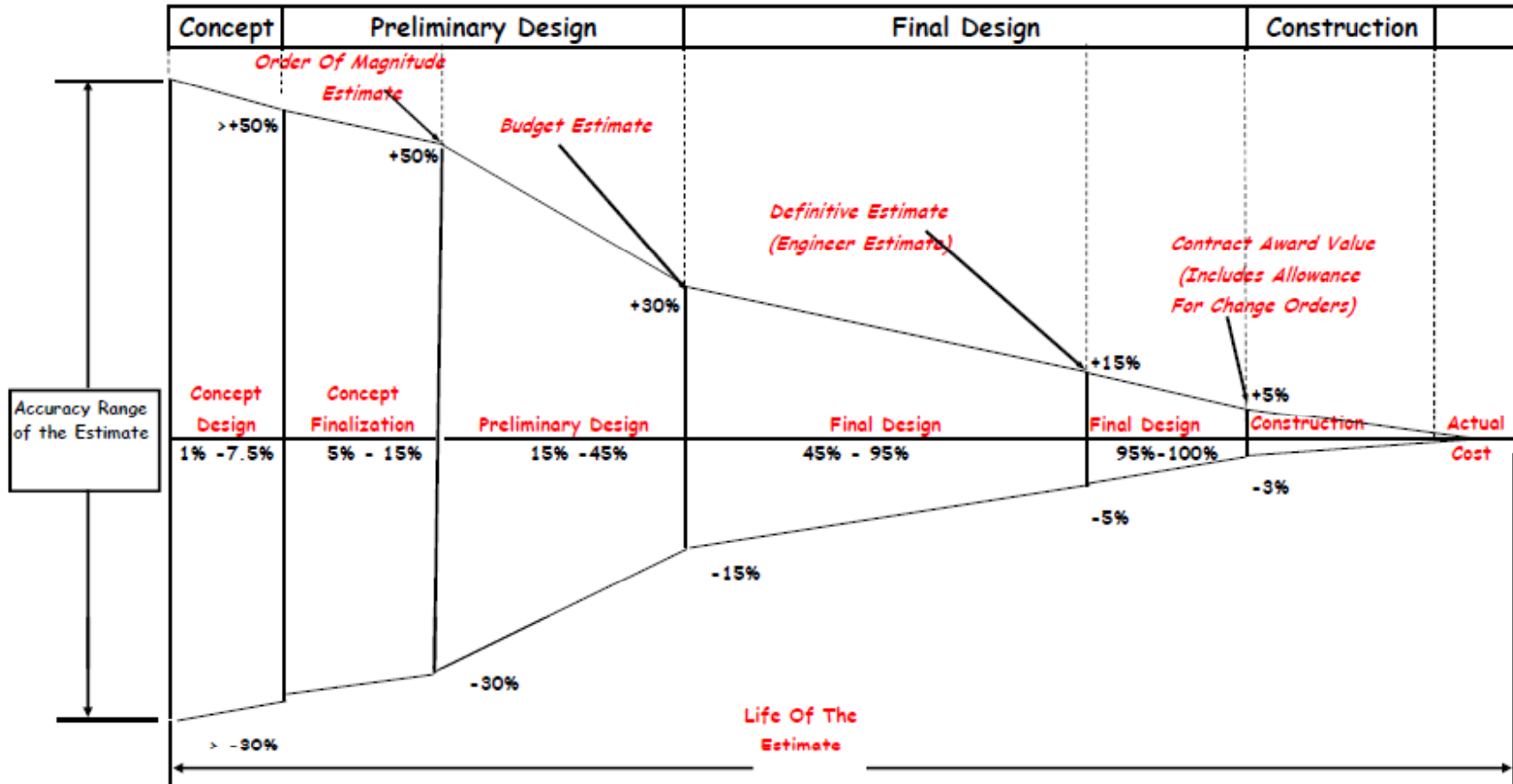
As the contract scope and designs have been finalized and awarded, the capital cost projections have been adjusted

| | 2009 CIP⁽¹⁾ | Current Projections⁽¹⁾ |
|--|--|--|
| Site Prep | \$29.98 M | \$ 7.43 M |
| Main Process Train (MPT) | \$234.77 M | \$ 237.94 M |
| Final Dewatering (FD) (2 contracts) | \$84.03 M | \$ 101.46 M |
| Combine Heat & Power (CHP) | \$38.52 M | \$93.24 |
| <i>Subtotal⁽²⁾ (at Completion)</i> | <i>\$387.30 M</i> | <i>\$ 440.06 M</i> |
| | | |
| | <i>PM Costs</i> | <i>\$35.65</i> |
| | <i>Budget Projections used for updated financial evaluation⁽³⁾</i> | <i>\$475.71 M</i> |

- (1) Does not include contingency, program management (except preliminary design) or sunk costs of early feasibility planning effort
- (2) At completion cost includes preliminary design (30% concept), CM, Design, Construction and other costs
- (3) Additional PM Cost are anticipated through commissioning of the projects. A complete revised project budget will be incorporated within the CIP proposal in October 2012



Capital Cost Update: Cone of Estimate Uncertainty



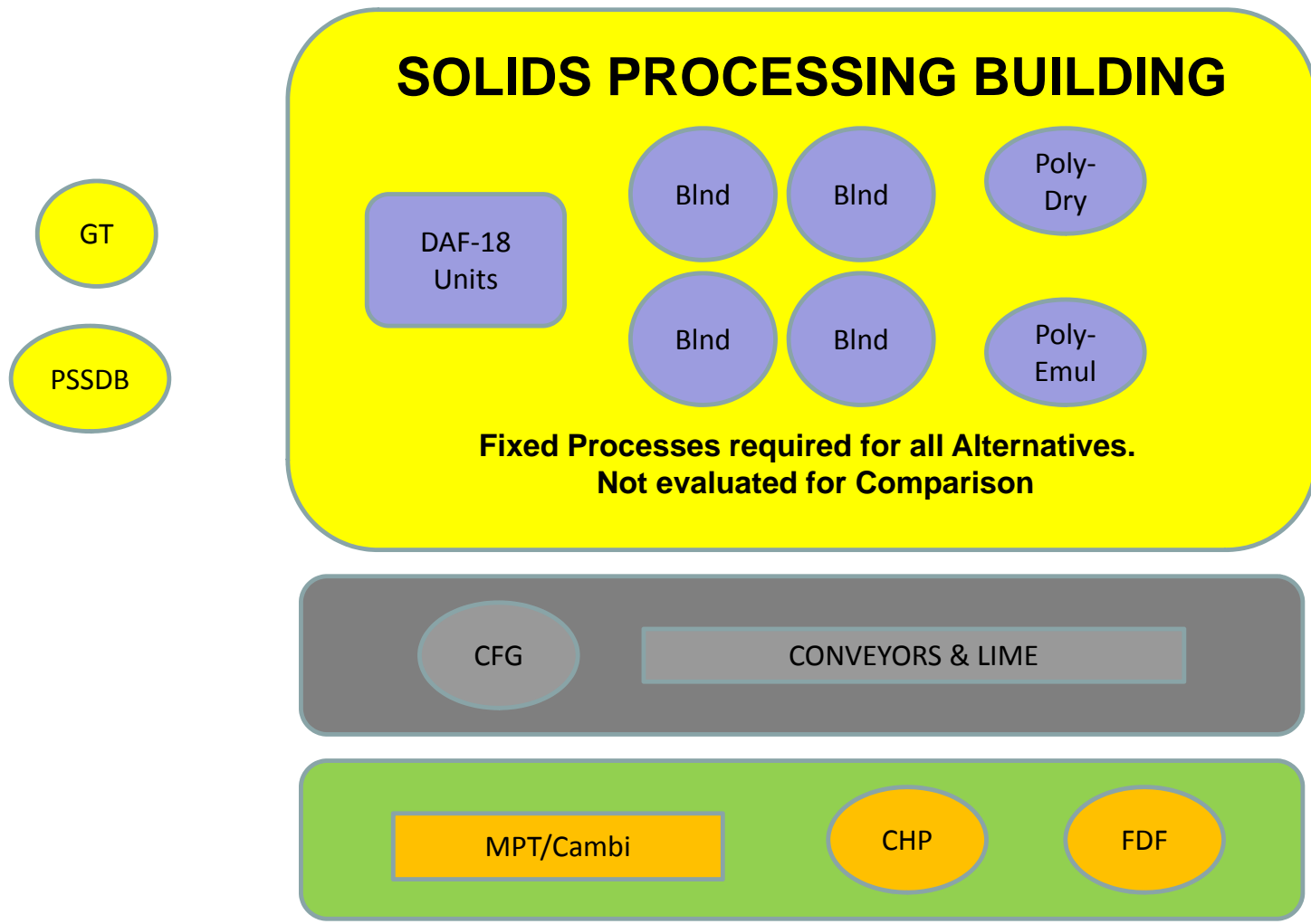


2012 Zero Base Model Overview

- Zero base model developed in 2012 to estimate O&M costs for new Biosolids program. Includes MPT, CHP, and FDF projects plus fixed processes common to all alternatives evaluated
 - *This is the first zero base cost model for Biosolids. The prior 2009 comparative model was built to compare different biosolids treatment alternatives and accordingly costs common to all alternates were not considered*
 - *This new zero base model will be replicated plant wide*
- Greater cost certainty: Update of projected costs and savings based on hard bid values and zero base operating costs



Alternatives Comparison Concept Level Evaluations





Operating Cost Update

As design concepts were finalized, the operating savings remain a significant project benefit

| O&M Costs | 2009 Biosolids O&M Cost Model | O&M Costs for Zero Base Biosolids Cost Model | O&M Costs for Lime Stabilization Option | Projected FY 2016 operating savings* (costs) |
|------------------------------------|-------------------------------|--|---|--|
| | | Fiscal Year 2016 | | |
| Electrical Energy Usage | \$4,077,159 | \$5,139,885 | \$3,392,000 | (\$1,747,885) |
| Lime & Chemicals | \$5,363,000 | \$5,940,089 | \$10,058,000 | \$4,117,911 |
| Other Maintenance & Materials | \$7,547,328 | \$10,326,082 | \$6,632,652 | (\$3,693,430) |
| Land Application | \$9,087,862 | \$9,087,862 | \$26,998,864 | \$17,911,002 |
| CHP Operation | (\$8,689,552) | (\$3,713,953) | 0 | \$3,713,953 |
| Total O&M for Biosolids | \$17,385,796 | \$26,779,965 | \$47,081,515 | \$20,301,551 |

*Annualized operating savings anticipated after FY 2014



Updated Biosolids Program Benefits

With final bid values on all Biosolids, the advancement of the design and award of the CHP operating contract, revisions have been made to operating processes, maintenance and costs assumptions

- Major BMP objectives and benefits remain
- Reliable supplemental power of 10 MW
- Additional staffing: a complete review of new equipment and processes reveals that 21 additional operating and maintenance staff will be required
- Increased energy use due to additional process and equipment
- Adjustment to chemical dosage assumptions



Major Findings from Zero Base Model

- CHP Operations: Increased \$5M
 - Manufacturer rated turbine hp versus expected hp
 - Additional steam turbine was removed
 - Credit of \$1.5M applied for steam generation
- Staffing and O&M Costs: Increased \$3M
 - Underestimation of materials costs and maintenance staffing levels based on available data in Maximo
 - Underestimation of PM costs for new equipment, major repairs and contracts.
 - Operations staffing costs were based on comparative approach and not zero base model including all biosolids processes
 - Labor rates were lower than burdened (did not include OH, OT, holidays, sick time – acceptable for comparison not for budgeting)



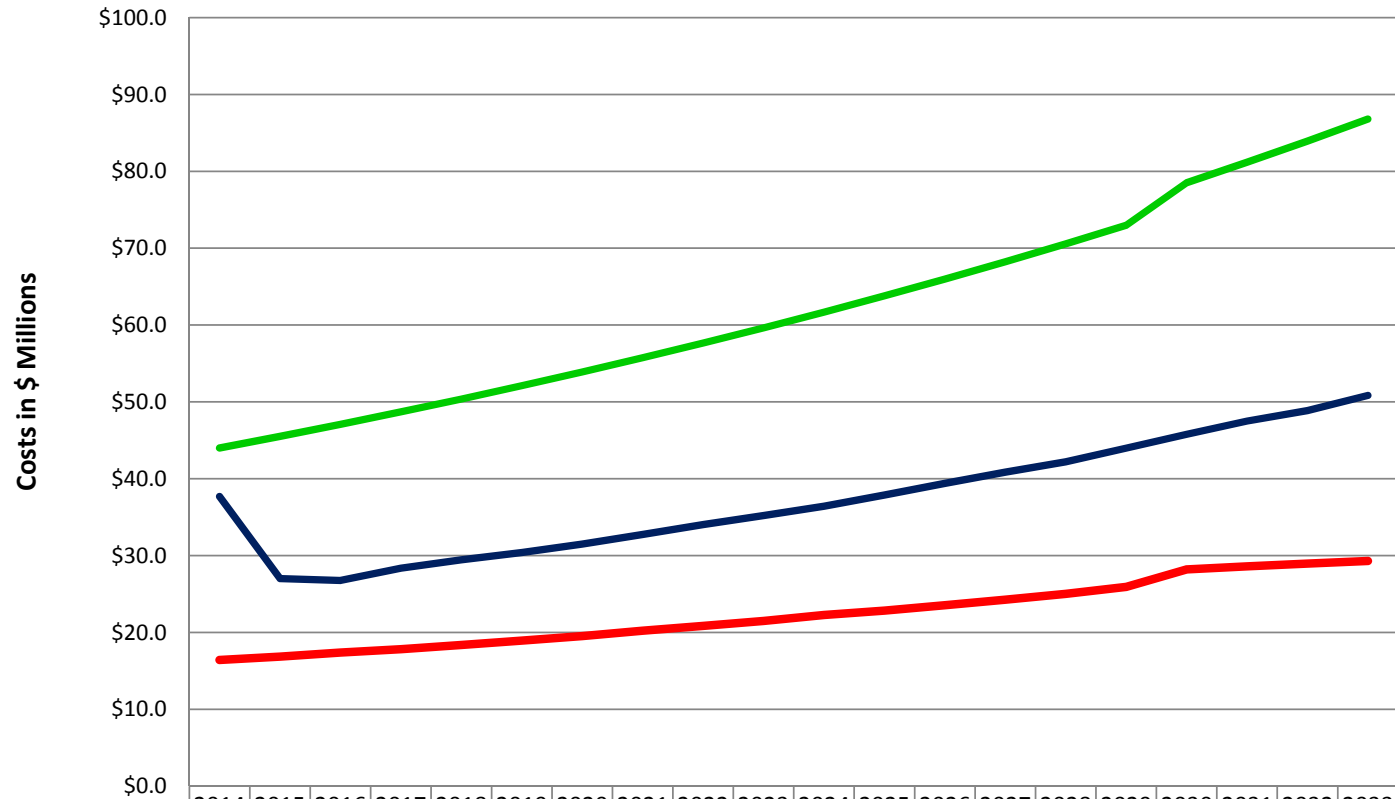
Major Findings from Zero Base Model

- Electricity Usage: Increased \$1M
 - Driver: Zero based versus comparative model – additional processes
 - Driver: Detailed design Phase versus Planning phase. (Equipment and hp)
- Chemicals Usage: Increased \$0.5M
 - Driver: Zero based versus comparative model– additional processes
 - Driver: Detailed design Phase versus Planning phase. (increased chemical dosage and additional chemicals)
- Land Application costs: Difference \$0M
 - Same basis of comparison
- Debt Service costs: Decreased \$0.2M
 - Favorable financing of \$125 M (DC Share) will result in reduced debt service costs



Operating Cost Update: O&M Savings Comparison

Total Annual O&M costs: Digester Project (2012 model) Vs Lime (2009 model)



| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| — Total O&M 2009 Model | \$16.4 | \$16.9 | \$17.4 | \$17.8 | \$18.4 | \$19.0 | \$19.5 | \$20.2 | \$20.9 | \$21.5 | \$22.3 | \$22.8 | \$23.6 | \$24.3 | \$25.0 | \$25.9 | \$28.2 | \$28.6 | \$29.0 | \$29.3 |
| — Total Biosolids O&M - 2012 Model | \$37.7 | \$27.0 | \$26.8 | \$28.4 | \$29.5 | \$30.4 | \$31.5 | \$32.8 | \$34.0 | \$35.2 | \$36.4 | \$37.9 | \$39.4 | \$40.9 | \$42.2 | \$44.0 | \$45.8 | \$47.5 | \$48.9 | \$50.8 |
| — Total O&M Estimated Lime | \$44.0 | \$45.5 | \$47.1 | \$48.7 | \$50.4 | \$52.1 | \$53.9 | \$55.7 | \$57.7 | \$59.6 | \$61.7 | \$63.8 | \$66.0 | \$68.2 | \$70.6 | \$73.0 | \$78.5 | \$81.2 | \$83.9 | \$86.8 |



Operating Cost Update: Debt Service Cost Comparison

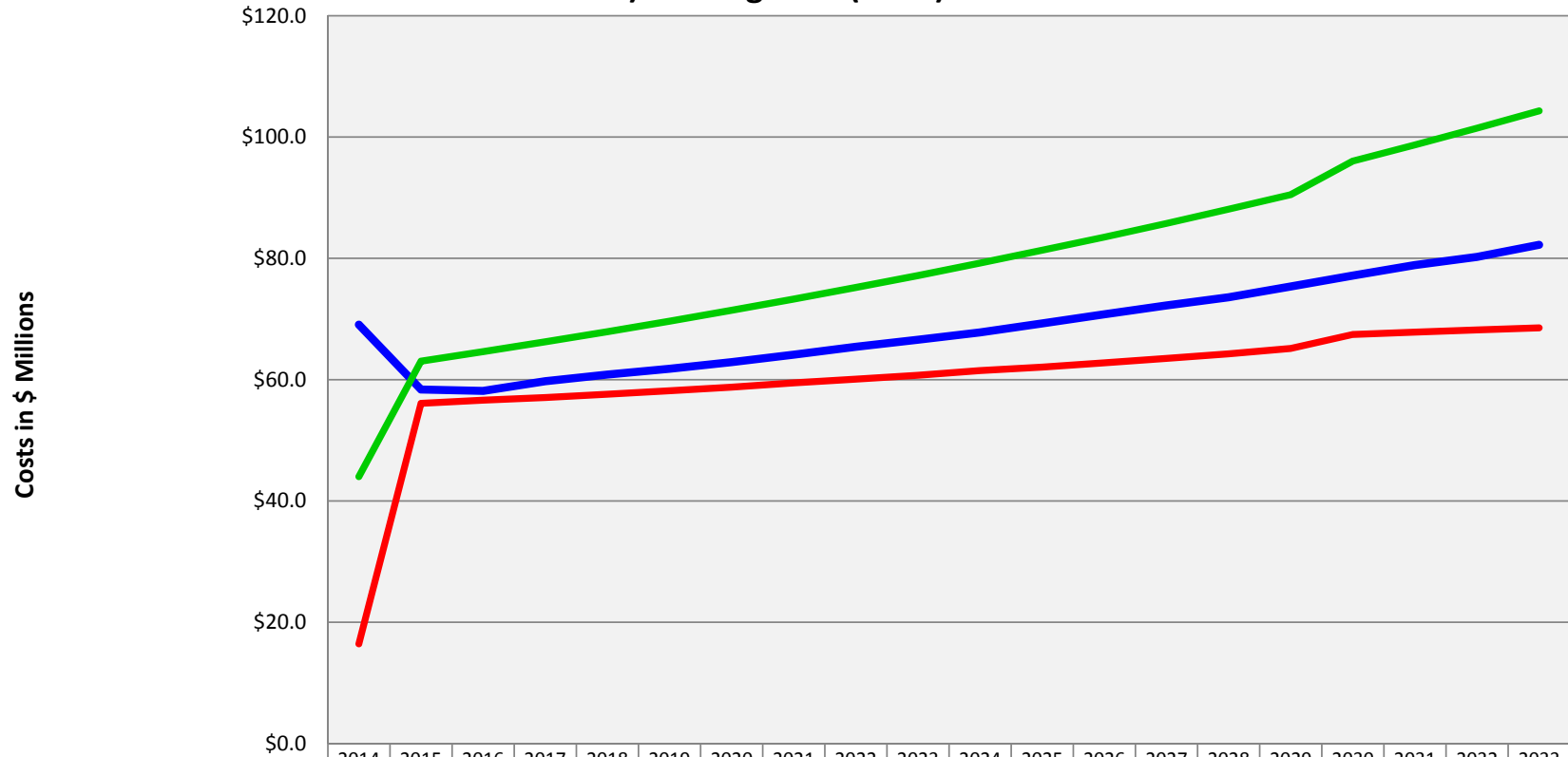
Total Annual Capital costs: Digester Project (2012 model) Vs Lime (2009 model)





Operating Cost Update

Total Annual O&M and Capital Costs: Digester Project (2012 model) Vs Lime (2009 model) and Digester (2009)

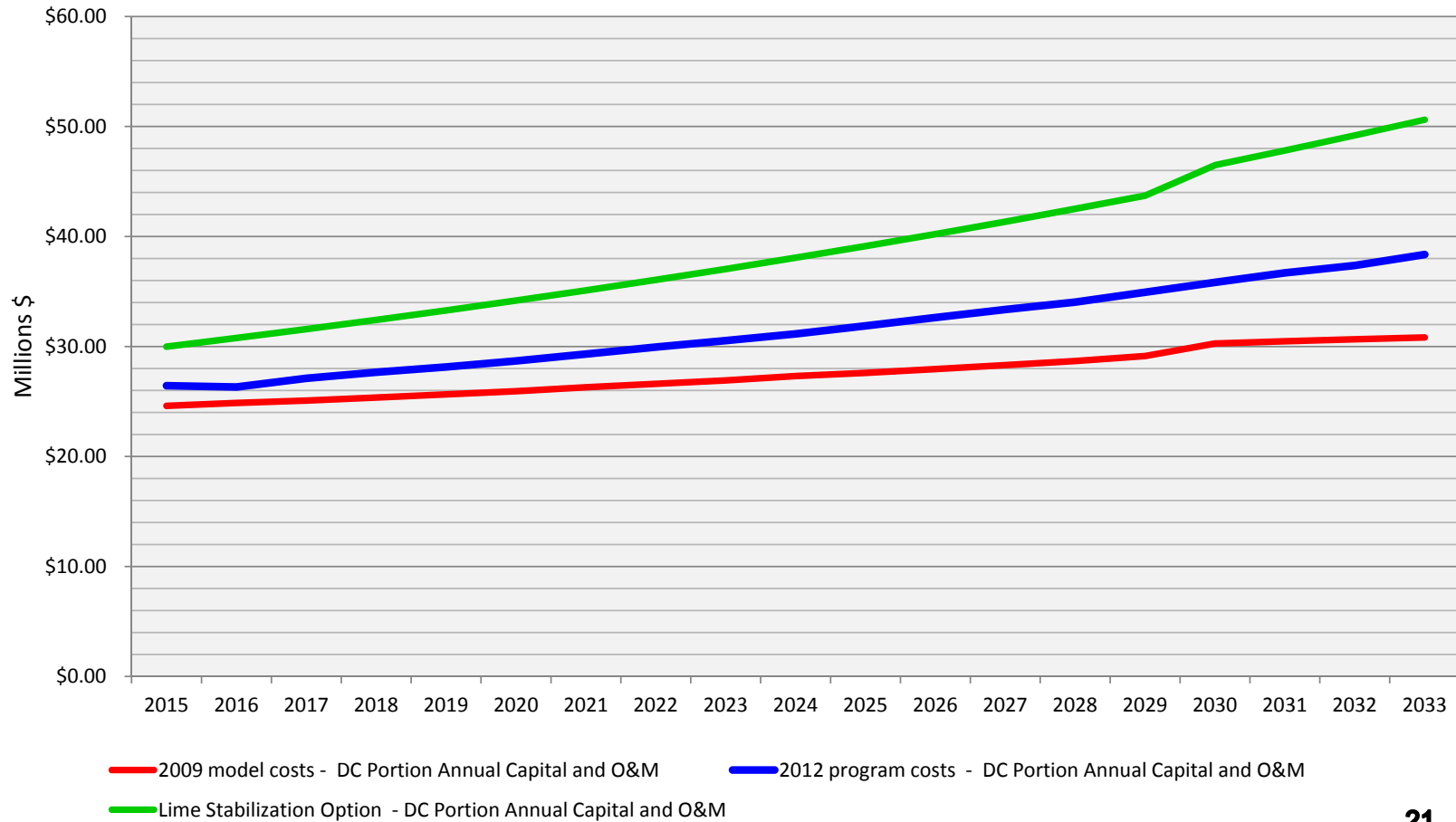


| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|
| — Total O&M and Capital Costs - 2009 | \$16.4 | \$56.1 | \$56.6 | \$57.1 | \$57.6 | \$58.2 | \$58.8 | \$59.5 | \$60.1 | \$60.7 | \$61.5 | \$62.1 | \$62.8 | \$63.5 | \$64.2 | \$65.2 | \$67.4 | \$67.8 | \$68.2 | \$68.5 |
| — Total O&M and Capital Costs - 2012 | \$69.1 | \$58.4 | \$58.1 | \$59.7 | \$60.8 | \$61.8 | \$62.9 | \$64.1 | \$65.4 | \$66.6 | \$67.8 | \$69.3 | \$70.8 | \$72.2 | \$73.6 | \$75.4 | \$77.2 | \$78.9 | \$80.2 | \$82.2 |
| — Total O&M and Capital Costs - Lime | \$44.0 | \$63.1 | \$64.6 | \$66.2 | \$67.9 | \$69.6 | \$71.4 | \$73.3 | \$75.2 | \$77.2 | \$79.2 | \$81.3 | \$83.5 | \$85.8 | \$88.1 | \$90.5 | \$96.0 | \$98.7 | \$101.5 | \$104.3 |



Operating Cost Update

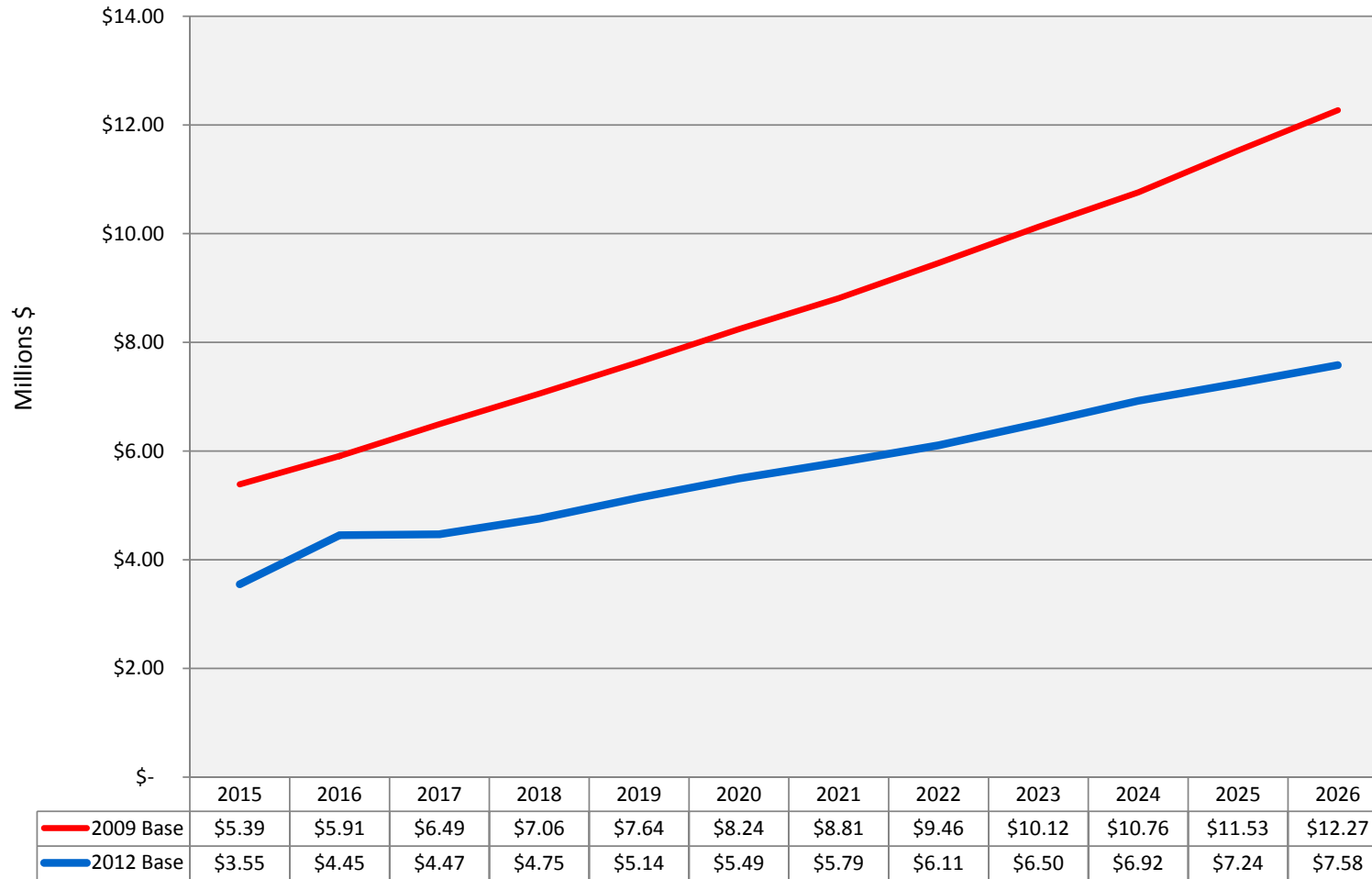
DC Share Total O&M and Capital Costs
2009 Model, 2012 Model and Lime Option (2009)





Operating Cost Update

DC Share Total O&M and Capital Savings
2009 Model and 2012 Model





Future Opportunities for Class A Biosolids

- Sustainable land application program
 - Base plan – risk mitigation
 - Lower application cost
- Examine potential to market Blue Plains Class A biosolids
 - Move from Net Cost to Zero Disposal Cost
 - Create marketable blended product
 - Build marketable products over time
 - Explore options for revenue



Future Opportunities for Class A Biosolids

Potential Use of Class A Biosolids

- Blended soil product (similar to compost)
- Outlets for blended product - bagged or bulk
 - Garden Centers
 - Tree planting
 - Green Roofs
 - LID Projects
 - Landscaping
 - Golf course



QUESTIONS AND DISCUSSION

District of Columbia Water and Sewer Authority

Debt Policy and Market Update

July 18, 2012

prepared by
Public Financial Management
4350 North Fairfax Drive, Suite 580
Arlington, VA 22203
703 741-0175
www.pfm.com





Agenda

- Discussion of “DC Water Debt Policy and Guidelines”
- Market Update
- Recent Issues in the Municipal Market
 - Trend in bankruptcies
 - LIBOR rate fixing





Debt Policy and Guidelines

Purpose:

Provide DC Water staff and stakeholders with a Board approved policy detailing the authorities, processes and decisions required with issuing debt.

Benefits:

- Enhancing the quality of decisions
- Documenting the decision-making process
- Identifying objectives clearly to facilitate staff implementation
- Demonstrating a commitment to long-term financial planning
- Enhancing the positive assessment of credit quality
- Implementing GFOA “Best Practices”

Next Steps





Document Structure

| Section | Topic | Comments |
|---------|--|--|
| I | Introduction | Reviews the Enabling Legislation |
| II | Purpose | Illustrates the benefits of adopting and applying this policy |
| III | Scope | Applies to all debt and debt-related transactions |
| IV | Debt Policy Objectives | Promotes and ensures compliance, efficiency, effectiveness and accountability/transparency |
| V | Use of Debt | Defines 2 purposes: New money and refunding/restructuring |
| VI | Responsible Parties | Details the roles and responsibilities of key DC Water staff and outside consultants |
| VII | Financing Team | Provides guidelines on how outside members of the Financing Team are selected (competitive process, no conflict of interest, etc.) |
| VIII | Guidelines for a Debt Transaction | Significant portion of the document that details the decisions and factors associated with: <ol style="list-style-type: none"> 1. Debt Capacity Limits 2. Size of the Bond Transaction 3. Timing of the Debt Issuance 4. Method of Sale 5. Security Provisions 6. Debt Structure 7. Credit Enhancement 8. Derivative Instruments |
| IX | Documentation | Details the significant legal documents for the transaction |
| X | Marketing | Discusses the channels used to target DC Water's stakeholders, investors and the rating agencies |
| XI | Pricing the Transaction | Sets the goal pricing is to achieve the lowest cost of finance while having a broad investor base (retail and institutional) |
| XII | Post-Pricing and Closing Activities | Discusses the signing of the Bond Purchase Agreement, posting of the Official Statement as well as evaluation and reporting the performance of the bond pricing and Finance Team |
| XIII | Investment of Proceeds, Post Issue Compliance and Monitoring | Details how DC Water will comply with applicable regulations involving Arbitrage Rebate and Private Use. Discusses how DC Water will annually comply with Disclosure requirements. |





Next Steps

| | |
|-----------|--|
| July | Policy Presented to Finance and Budget Committee for information and feedback |
| August | Refine document based on comments and feedback from F&B Committee |
| September | Formal presentation of Debt Policy and Guidelines to F&B Committee with incorporated feedback and guidance |
| October | Recommend adoption of the Debt Policy and Guidelines to the Board for their October meeting |



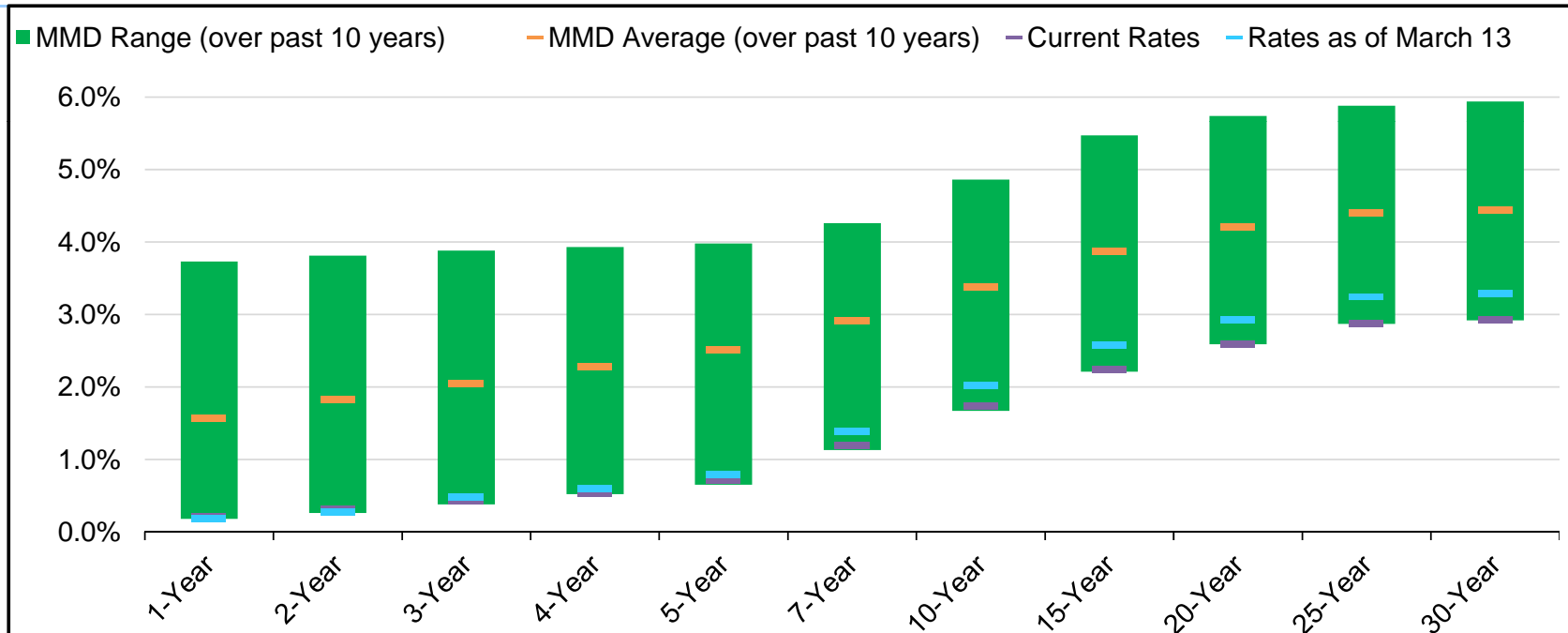


Market Update





MMD Rate Position



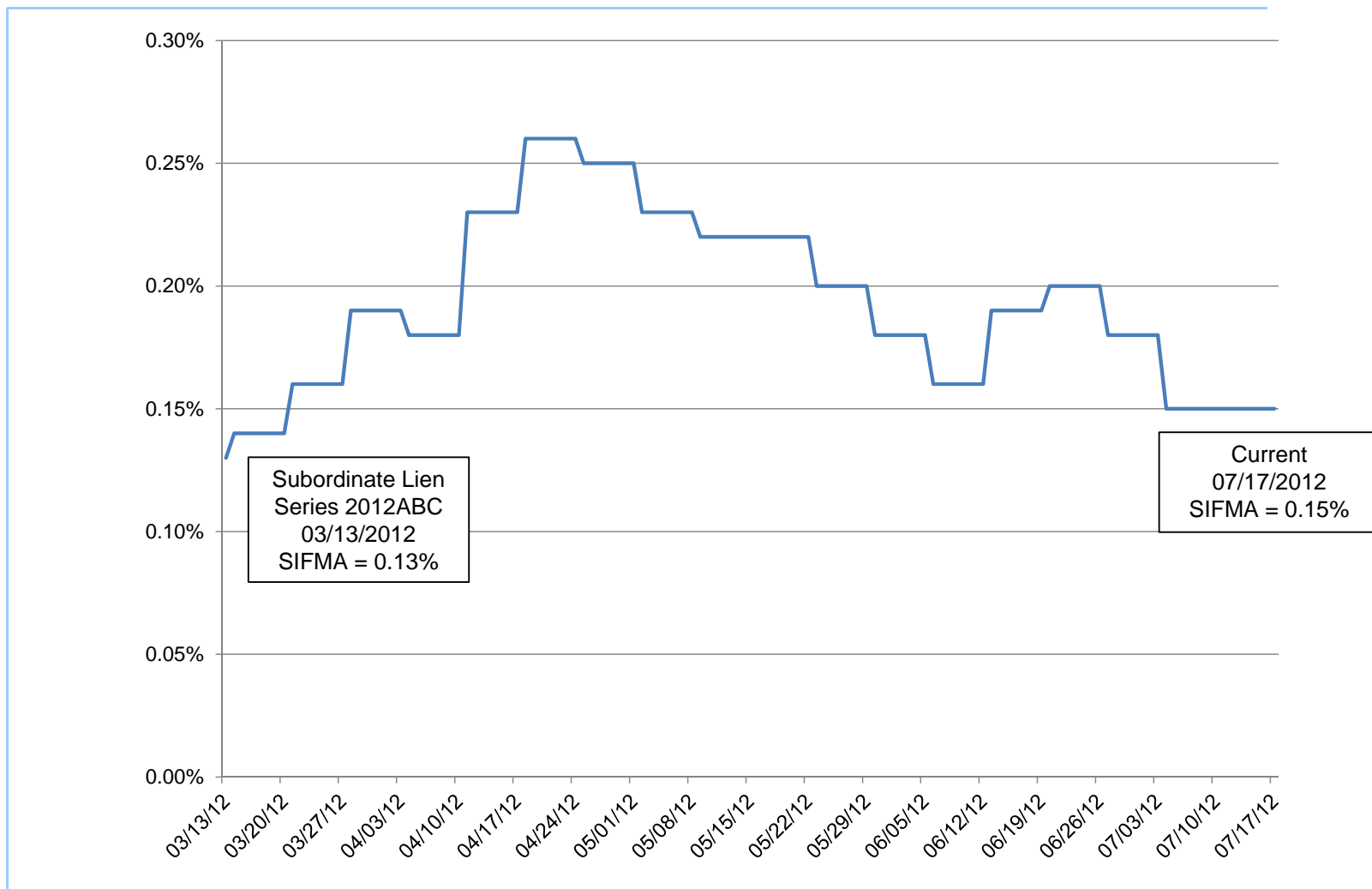
| Summary of Current v Historical (10 year) MMD Rates | | | | | | | | | | | |
|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Statistic | 1-Year | 2-Year | 3-Year | 4-Year | 5-Year | 7-Year | 10-Year | 15-Year | 20-Year | 25-Year | 30-Year |
| Current Rates | 0.20% | 0.31% | 0.43% | 0.53% | 0.71% | 1.19% | 1.73% | 2.24% | 2.59% | 2.87% | 2.92% |
| As of March 13, 2012 | 0.18% | 0.27% | 0.48% | 0.59% | 0.79% | 1.38% | 2.02% | 2.57% | 2.92% | 3.24% | 3.29% |
| Change since March 13, 2012 | 0.02% | 0.04% | -0.05% | -0.06% | -0.08% | -0.19% | -0.29% | -0.33% | -0.33% | -0.37% | -0.37% |
| Average | 1.57% | 1.83% | 2.05% | 2.28% | 2.50% | 2.91% | 3.37% | 3.87% | 4.20% | 4.40% | 4.44% |
| Spread to Average | -137 bps | -152 bps | -162 bps | -175 bps | -179 bps | -172 bps | -164 bps | -163 bps | -161 bps | -153 bps | -152 bps |
| Min | 0.18% | 0.26% | 0.38% | 0.52% | 0.65% | 1.13% | 1.67% | 2.21% | 2.59% | 2.87% | 2.92% |
| Max | 3.73% | 3.81% | 3.88% | 3.93% | 3.98% | 4.26% | 4.86% | 5.47% | 5.74% | 5.88% | 5.94% |
| High - Low | 3.55% | 3.55% | 3.50% | 3.41% | 3.33% | 3.13% | 3.19% | 3.26% | 3.15% | 3.01% | 3.02% |

AAA MMD Benchmark are near all-time lows (similar levels as the 2012 transaction)





SIFMA Index Rates Since March 14, 2012



2012 B Bonds continue to perform very well with interest rates below 1%

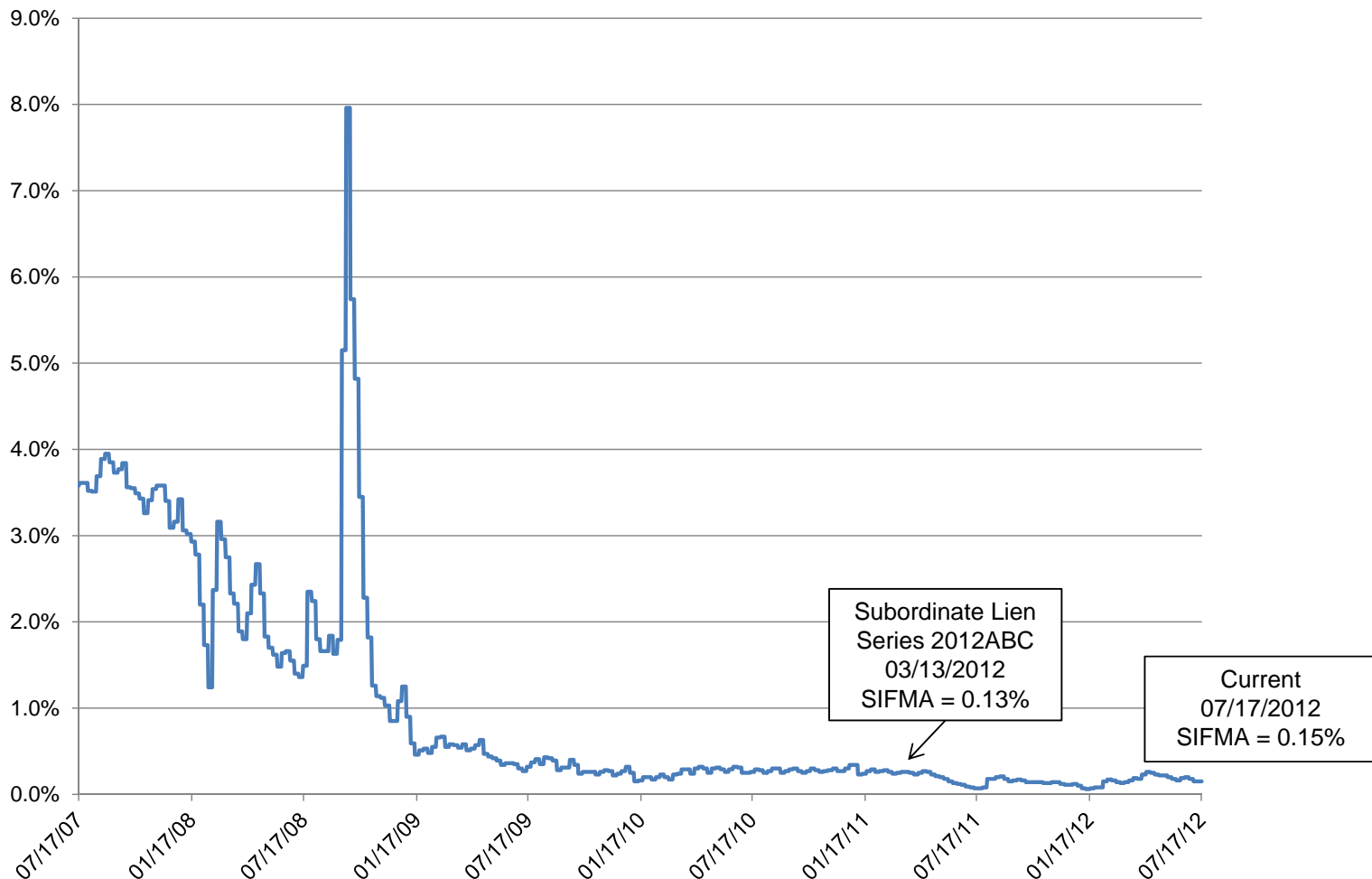




SIFMA Index Rates

Five Year History

☐ *SIFMA Index rates have been near historical lows for the past few years*

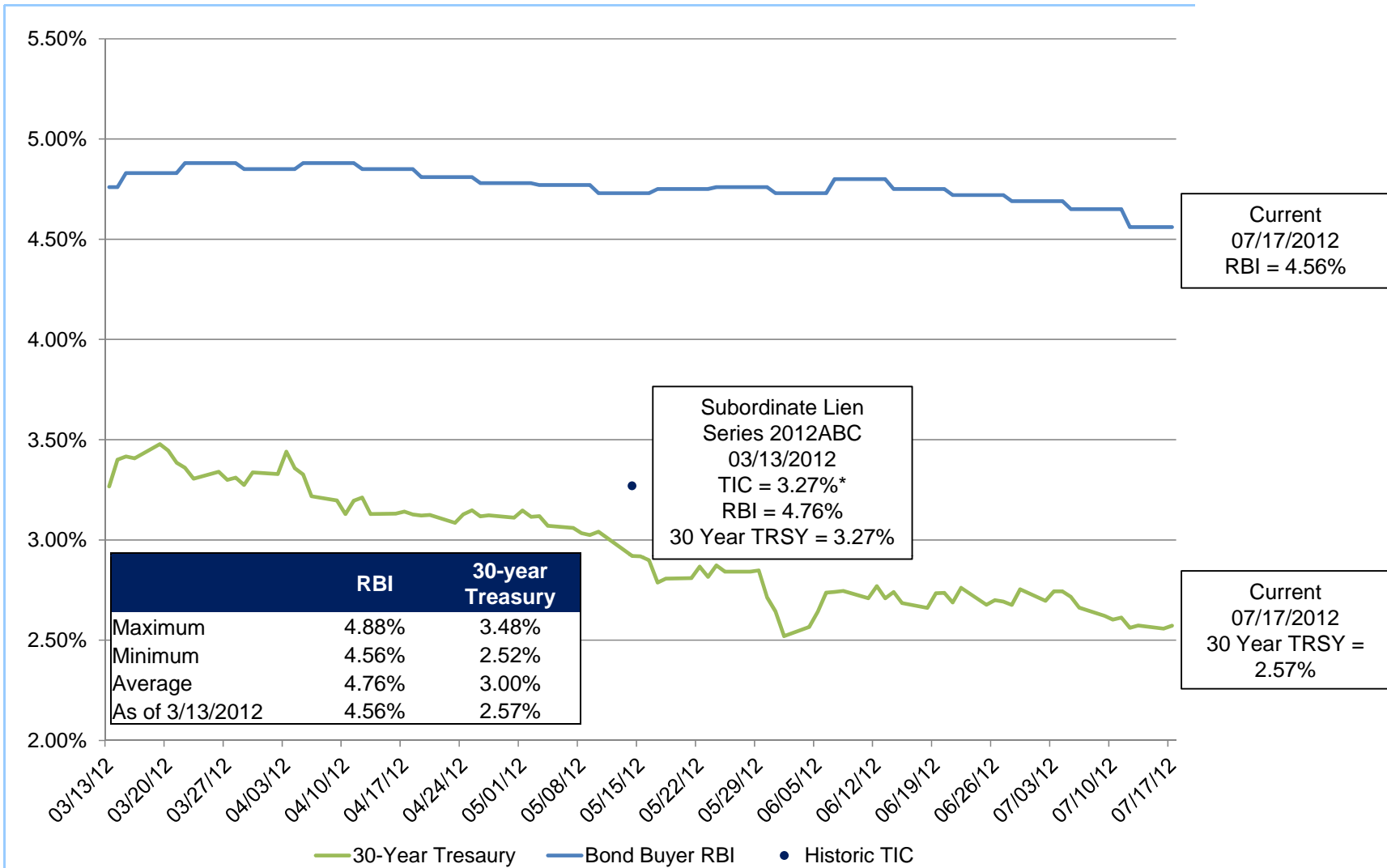


Source: Thomson Reuters





Recent Interest Rates – 2 Year History Since March 13, 2012

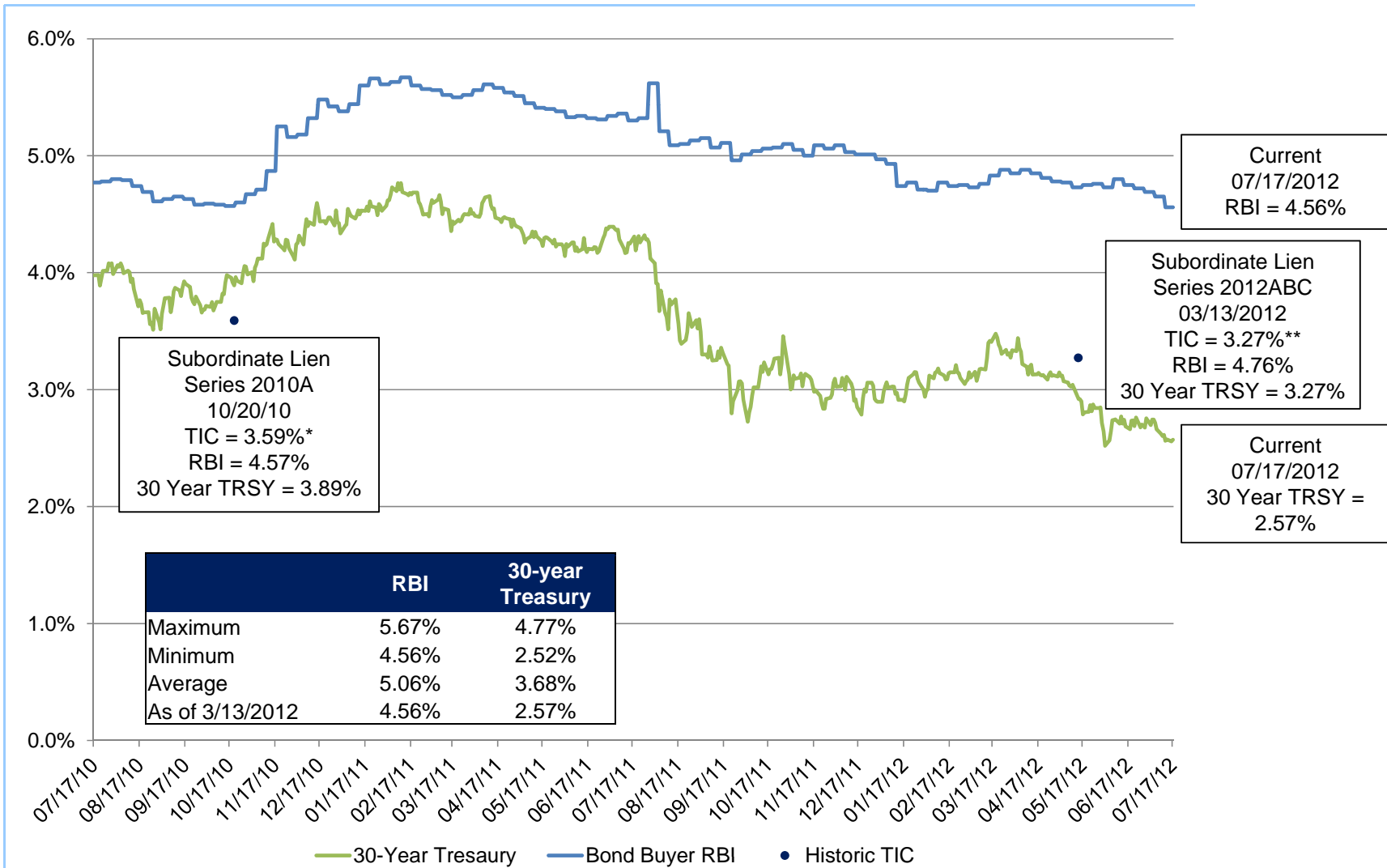


*Combined TIC assuming the Series 2012B Bonds price at 2.12%.





Recent Interest Rates – 2 Year History



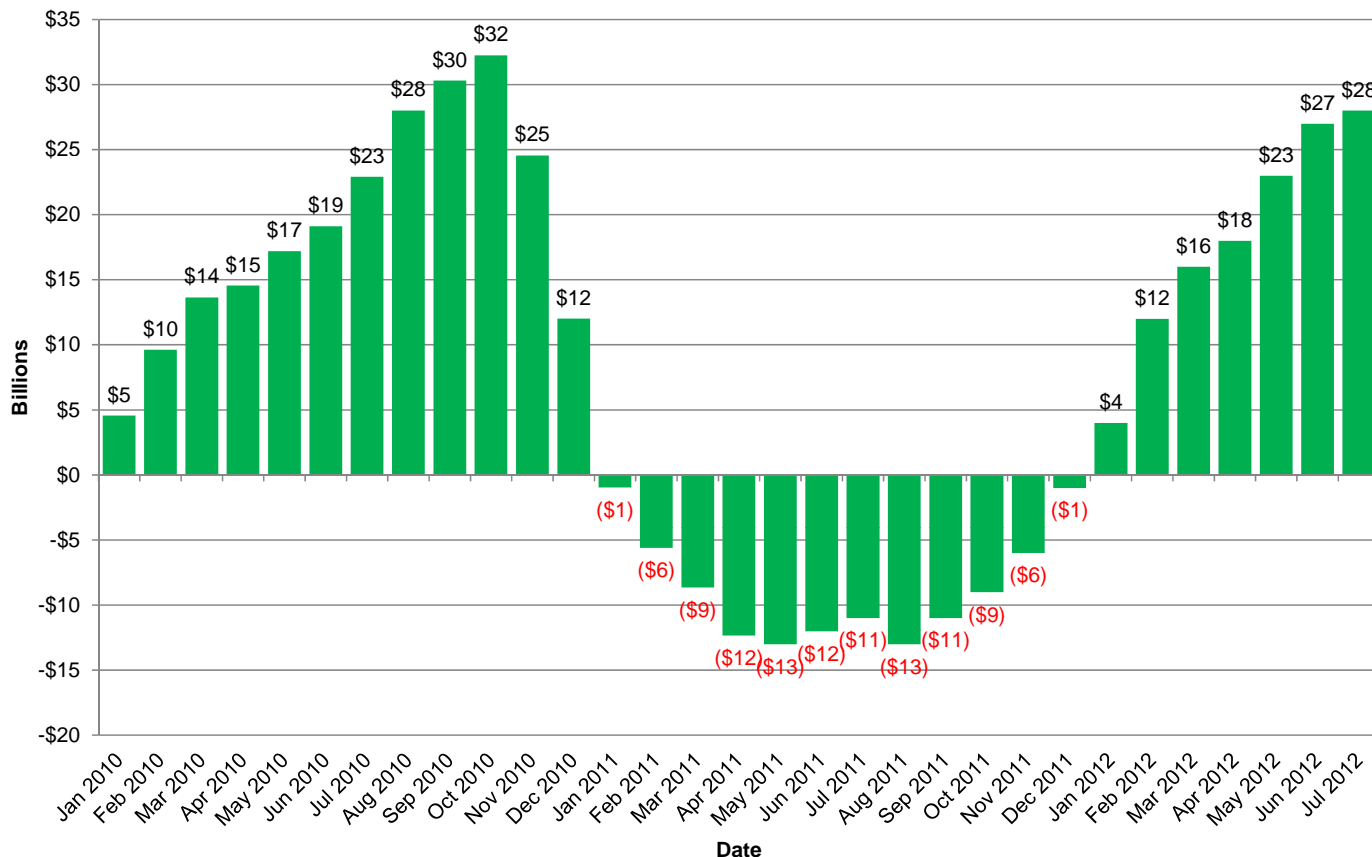
*The TIC on the 2010A Bonds is adjusted for the 35% federal subsidy.
 **Combined TIC assuming the Series 2012B Bonds price at 2.12%.





Money Market Mutual Fund Demand

Cumulative 2010-2012 Inflows (Outflows)



Source: Investment Company Institute, as of 7/17/2012.





Recent Issues in the Municipal Market





Recent Trends: Municipal Bankruptcies

- Recent headlines have focused attention on a possible trend in municipal bankruptcies
- States and Cities in the headlines include:
 - California: Vallejo, Stockton, San Bernardino
 - Rhode Island: Providence, Central Falls
- Causes are varied:
 - Pension burdens and labor costs
 - Recession impacts on local economy
 - Potential malfeasance
- Impact on DC Water:
 - Very limited to nothing, given strong DC Water credit /essential service nature
 - No bankruptcies in mid-Atlantic or among DC, VA, and MD
 - Has not affected the municipal market – rates remain near historical lows
 - Bankruptcies have not materialized as predicted at the end of 2010 (Meredith Whitney's forecast)
- Actions – Continue to monitor situation:
 - When appropriate communicate DC Water's strengths to investors and rating agencies regarding OPEB and local economic strength





Recent Trends: LIBOR Fixing with Bank of England

- Barclays – and likely several other banks – have admitted or alleged to have engaged in fixing of LIBOR at below-market rates starting in the 2005-2010 timeframe.
- Appears US Federal Reserve officials were aware from 2008 and regulators (CFTC already, and SEC to follow) are getting involved with settlements and potential criminal indictments
- Lawsuits already starting to appear among municipalities (City of Baltimore and others claiming interest rate swap receipts tied to LIBOR were less than they should have been)
- However, overall markets and tax-exempt (SIFMA) market largely not impacted as LIBOR has held steady in recent months
- Limited impact to DC Water:
 - Short-term investments linked to LIBOR might have earned below market rates
 - Failed Auction Rate Securities in 2008-09 were tied to LIBOR (may have been beneficial to DC Water if LIBOR was artificially low)
- Action – Continue to monitor situation including:
 - Potential lawsuits
 - Complaints against any of firms in investment banking group of DC Water



DC Water Debt Policy and Guidelines

Chief Financial Officer

7/18/2012

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SECTION I: INTRODUCTION

The District of Columbia Water and Sewer Authority (“DC Water”) is an independent Authority of the District of Columbia (the “District”). DC Water was created in April 1996 and began operating on October 1, 1996, under and pursuant to an act of the Council of the District (the “Council”) entitled the “Water and Sewer Authority Establishment and Department of Public Works Reorganization Act of 1996” (D.C. Law 11-111) (D.C. Code §§ 34-2201.01 *et seq.*), as amended and supplemented (the “Act”), and an act of the United States Congress entitled the “District of Columbia Water and Sewer Authority Act of 1996” (Public Law 104-184) (the “Federal Act”). The same legislation (§§ 34-2201.01) that created DC Water in 1996 also delegated to DC Water the authority to issue debt.

SECTION II: PURPOSE

The purpose of DC Water’s Debt Policy and Guidelines (the “Debt Policy”) is to provide DC Water officials and staff a comprehensive guide to DC Water’s use, and issuance of, debt to fund capital projects or to refund/refinance/restructure outstanding debt. The advantages of adopting and adhering to a clear, concise and comprehensive debt policy are:

- Enhancing the quality of decisions
- Documenting the decision-making process
- Identifying objectives clearly to facilitate staff implementation
- Demonstrating a commitment to long-term financial planning objectives that result in a sound financial position
- Enhancing the positive assessment of credit quality by the bond rating agencies in order to maintain and improve DC Water’s high credit ratings
- Integrating the Debt Policy with the operating and capital budgets, the multi-year Capital Improvement Program (CIP), multi-year financial plan and other financial policies.

The financial policies outlined in this document, in most cases, impose higher standards than the legal requirements contained in DC Water’s Master Indenture of Trust dated as of April 1, 1998 as amended and supplemented from time to time (the “Indenture”) and other legal requirements.

SECTION III: SCOPE

This Debt Policy applies to all debt issued by DC Water and debt issued on behalf of DC Water.

SECTION IV: DEBT POLICY OBJECTIVES

DC Water’s Debt Policy objectives are:

1. **Compliance:** Ensure compliance with all laws, legal agreements, contracts, best practices and adopted policies related to debt issuance and management, including:
 - Enabling Legislation, Master Indenture of Trust and Supplemental Indentures

*See Glossary for definitions for terms capitalized in the document.

- Policies adopted by DC Water’s Board of Directors (the “Board”)
 - Government Finance Officers Association (GFOA) Best Practices
 - Federal, State and local laws and regulations, as applicable
2. **Efficiency:** Promote cooperation and coordination with all stakeholders in the financing and delivery of services by:
- Seeking the lowest cost of capital reasonably available and minimizing financing costs for capital projects and other debt issuances.
 - Establishing criteria to determine use of financing sources (long and short-term debt, Pay-As-You-Go (PAYGO) financing, and grants).
 - Evaluating debt issuance options including the amount and type of debt.
 - Minimizing the use of unplanned, short-term cash flow borrowings by maintaining adequate working capital and authorizing the minimum amount required to offset mismatches between available cash and cash outflows determined by cash flow analysis.
3. **Effectiveness:** Promote sound financial management to maximize and best utilize future debt capacity by:
- Maximizing administrative and operating flexibility.
 - Minimizing legal and financial risk to current and future budgets.
 - Protecting the DC Water’s credit ratings in order to maintain access, on the best available terms, to local, regional and national credit markets.
 - Maintaining an appropriate level of operating cash reserves.
 - Maintaining reasonable and justifiable levels of rates and fees that address the current and future needs of stakeholders.
 - Improving the quality of decisions and parameters for justification on debt structure.
4. **Accountability and Transparency:** Ensure that the duties and responsibilities of those charged with the implementation of the Debt Policy are clearly conveyed and understood, and that the Debt Policy is implemented in accordance with the following tenets:
- Providing all stakeholders with information as required and sufficient for assessment purposes.
 - Addressing and mitigating debt portfolio risks to DC Water’s short and long-term operations.
 - Avoiding conflicts of interest.
 - Fully disclosing all proposed and actual costs in a timely manner, to include the selection of and payment for professional services associated with the issuance of debt.
 - Reviewing the debt financing decision, implementation, and maintenance plans with the Board
 - Timely providing all disclosures required by law

SECTION V: USE OF DEBT

Debt is a financing tool which should be used judiciously. Generally, DC Water will issue debt for two purposes:

1. Finance the costs associated with the CIP.
2. Refund existing debt to obtain debt service savings and/or restructure certain terms of existing debt, (See the attached checklist, “Refunding Guidelines”).

SECTION VI: RESPONSIBLE PARTIES

Several DC Water officials and staff, District officials and outside advisors are critical in the debt issuance process. This includes but is not limited to:

- DC Water’s Board is responsible for authorizing all debt (including refunding bonds, notes or other obligations) issuance via a Board resolution. The Board is also responsible for approving the Debt Policy and any material changes to it.
- DC Water’s Board Chairman, General Manager and/or the Chief Financial Officer, by delegation through a board resolution, are responsible for executing all documents related to debt issuance.
- DC Water’s Chief Financial Officer (the “CFO”) through the Office of Treasury and Debt Management is responsible for the administration and issuance of debt including the completion of specific tasks and responsibilities included in this Debt Policy.
- DC Water’s General Counsel is responsible for providing an opinion on certain legal matters associated with the debt transaction.
- The DC Auditor, pursuant to the Act, must certify that the revenues of DC Water are sufficient to pay its costs (including the principal and interest on the proposed new debt issuance) prior to any new debt issuance.
- Bond Counsel will be retained by DC Water to issue an opinion as to the legality and tax status of all debt obligations. DC Water also may seek the advice of Bond Counsel on other types of financing and on any other questions involving local, state or federal law. Bond Counsel also is responsible for the preparation of the resolution authorizing issuance of obligations, certain bond and closing documents necessary for the execution of the debt issuance, and the performance of other services as defined by contract approved by the Authority.
- Financial Advisor(s) will be retained by DC Water to provide DC Water with a comprehensive analysis of options available to DC Water. The Financial Advisor(s) will advise on the structuring and execution of all debt and debt-related transactions and provide other services as defined by approved contracts.

SECTION VII: FINANCING TEAM

DC Water must assemble a financing team that will provide advice and support for the best execution of each debt financing. The following applies to members of the financing team:

1. May consist of multiple parties with distinct responsibilities and is generally comprised of both DC Water staff and outside professional consultants. These outside professional consultants include the Financial Advisor, Bond and Tax Counsel, Feasibility Consultant, Independent Consulting Engineer, Underwriters, Underwriter’s Counsel, Printer, Trustee, Verification Agent, Escrow Agent, etc.
2. DC Water will select the members of the financing team through a competitive process; however, DC Water may also directly engage consultants on a case-by-case basis, if it is determined to be in the best interest of DC Water.
3. DC Water requires that its consultants and advisors provide objective advice and analysis, maintain the confidentiality of DC Water’s financial plans, and be free from any conflicts of interest.
4. All Financing Team Members will be required to provide full and complete disclosure, relative to agreements with other Financing Team members and outside parties. The extent of disclosure may vary depending on the nature of the transaction. However, in general terms, no agreements shall be permitted which could compromise the firm’s ability to provide independent advice which is solely in the Authority’s best interests or which could reasonably be perceived as a conflict of interest.

VIII: GUIDELINES FOR A DEBT TRANSACTION

The following section discusses several of the decisions that must be made for each debt issuance. Each and every debt transaction is unique. DC Water’s Chief Financial Officer, when making these decisions, will confer with the Financial Advisors and other members of the Financing Team to evaluate the relative costs and benefits of each decision individually and collectively. DC Water’s Chief Financial Officer will then provide a recommendation to the Board to be specified in the Board’s resolution authorizing that series of debt. The following areas must be addressed to successfully close a transaction.

1. **Debt Capacity Limits:** DC Water’s is authorized to issue additional debt only to the extent that it can satisfy the debt service coverage (annual net revenues as a percent of annual debt service) requirements established in the Indenture and certain Board polices as set forth below:

| Debt Service Coverage Requirements | | | |
|------------------------------------|------------------|------------------|---------------------|
| Debt Security Level | Master Indenture | Board Resolution | Management Practice |
| Senior | 120% | 140% | 140% |
| Subordinate | 100% | 100% | 100% |
| Combined | Not Applicable | Not Applicable | 120% |

2. **Size of the Bond Transaction:** DC Water shall use a variety of tools for determining the size of the debt issuance. The CIP is the primary driver of funding requirements. Debt will be issued to fund that portion of the CIP which will not be financed through other sources such as PAYGO, wholesale customer contributions and grants. Additional

factors that may impact the size of the bond transaction include the amount of Costs of Issuance/Underwriter's Discount, the use of a Debt Service Reserve Fund and/or Capitalized Interest for the transaction.

- **Costs of Issuance/Underwriter's Discount:** Costs of Issuance are those fees and expenses incurred by DC Water during, or associated with, the sale of debt. Underwriter's Discount represents the fees and expenses of the Underwriters payable by DC Water. These costs are typically funded through the issuance of additional bonds and are capped by the Board via the Authorizing Resolution.

All the agreed upon Costs of Issuance/Underwriter's Discount, will be communicated to all parties by the Chief Financial Officer prior to the sale date.

- **Debt Service Reserve Fund (the "DSRF"):** DC Water may consider providing a DSRF for a series of bonds. The DSRF is typically funded in its entirety with bond proceeds at the time of issuance but can also be funded through a letter of credit or a surety bond.
- **Capitalized Interest:** DC Water may choose to issue bonds to pay interest on all or a portion of that bond issue for a specified time after issuance and during the construction period.

3. Timing of the Debt Issuance: The scheduling and timing of the sale of debt will be determined by:

- **Multi-Year Financial Plan and CIP Needs:** These are the primary drivers of the timing of the bond transaction.
- **Refunding Timeline:** When economic conditions are advantageous and/or other considerations demand, DC Water may refund existing debt. The nature of the refunding – Current Refunding or Advance Refunding – will impact the timing of its execution. See the Attached checklist, "Refunding Guidelines".

Under certain conditions, DC Water may choose to initially fund project costs with cash on hand and to reimburse these expenditures from a future debt financing.

4. Method of Sale: The method of sale determines the process by which debt will be sold, the purchasers of the debt, and how the purchase price will be established. There are three primary options for each debt transaction:

- **Negotiated Sale:** DC Water can sell its bonds to the Underwriter(s) selected by DC Water at a price to be determined pursuant to negotiation. Bonds with complex security structures (e.g. revenue bonds), certain structural characteristics (e.g. variable rate bonds), and/or certain credit ratings (e.g. lower) frequently achieve best pricing execution via a negotiated sale process.
- **Competitive Sale:** DC Water can sell its bonds to the bidder providing the lowest true interest cost as long as the bid adheres to the requirements set forth in the official Notice of Sale. Competitive sales lend themselves most readily to very highly rated, simple security structures (e.g. general obligation bonds).
- **Private Placement:** From time to time, DC Water may elect to privately place its debt. Such placement shall only be considered if this method is demonstrated to

result in a cost savings or other benefit to DC Water relative to other methods of debt issuance.

5. **Security Provisions:** DC Water's Bond Indenture pledges the net operating revenues (generally, the revenues net of operating expenses) to secure the debt obligations that DC Water issues under the Bond Indenture. In connection with each particular bond issue, DC Water must determine whether to issue the proposed bonds with a Senior or Subordinate pledge of net revenues. In addition, DC Water also has the ability to use a third lien, when appropriate and approved by the Board.
6. **Debt Structure:** In addition to making the decisions detailed previously, DC Water must also make several significant structural choices regarding the proposed bonds. These structural decisions directly impact the associated debt service and, consequently, the multi-year Financial Plan, DC Water's operations and ratepayers. These structural decisions address:
 - **Term:** When determining the final maturity of proposed bonds, DC Water must consider the average life of the assets being financed, the relative level of interest rates, the year-to-year differential in interest rates, and the marketability of the longer term bonds. Generally, the term of the bonds shall not exceed the useful life of the assets being financed. The most basic decision DC Water must make regarding term is whether to use long-term or short-term debt:
 - Long-Term Debt is generally structured where the amortization of the debt matches the expected useful life of the project. Long-Term debt is generally considered to be debt with a maturity greater than 15 years.
 - Short-Term Debt may take several forms, including commercial paper and bond anticipation notes with either fixed or variable rates. DC Water will consider using short-term debt to finance shorter-term assets, obtain lower interest costs, and/or provide interim financing for certain projects.
 - **Fixed versus Variable Rate:** When determining the balance between fixed and variable rate debt, the goal is to provide DC Water with a balanced debt portfolio that manages the desire for the certainty of known quantity of future debt service payments provided by fixed rate debt versus the historically lower interest costs provided by variable rate debt. The fixed and/or variable rate decision will be influenced and guided by several factors:
 - Market Conditions: In certain market conditions, variable rate issuance may provide DC Water with a material cost advantage.
 - Cash and Investment Balances: The amount of cash and short term assets DC Water has on hand provides a "natural hedge" for variable rate debt. While changes in interest rates impact both assets and liabilities, the change is in opposite directions. For example, an increase in interest rates results in increased debt service on variable rate debt. However, this increased debt service is offset by the increased interest earnings on the short term investments.
 - Credit Considerations: In general, Rating Agencies prefer a prudent balance between fixed and variable rate debt. This preference is to insulate issuers from

sudden, sharp increases in interest rates and debt service costs. In general, Rating Agencies prefer the percentage of variable-rate debt outstanding (excluding debt which has been converted to synthetic fixed rate debt) shall not exceed 20-25%.

- **Debt Service Payments (Level, Wrapped or Loaded):** DC Water has to determine the amortization schedule of the bonds. This is a significant decision that will directly influence the amount of debt service required each year and, as a result, will have a significant impact on the amount of revenue which must be raised each year. In general, there are three primary options available:
 - Level Debt Service: Creates equal annual debt service payments (i.e., principal plus interest) over the life of the issued bonds. The debt will be structured while still matching debt service to the useful life of the financed facilities (discussed previously).
 - Wrapped Debt Service: Conforms the debt service on the new debt to DC Water's existing debt service burden, projected cash flows and other circumstances to create an overall debt service schedule that meets the objectives and parameters of DC Water.
 - Loaded Debt Service: Creates a principal maturity structure to achieve a desired goal for DC Water. Generally, principal is either "front-loaded" or "back-loaded".
- **Serial versus Term Bonds:** To achieve desired debt service levels while balancing the marketability of the bonds, DC Water may issue a combination of Serial and term bonds and can, if appropriate, incorporate sinking funds.
- **Redemption Provisions:** In some circumstances, DC Water may redeem (repurchase bonds from the bond holder) outstanding debt prior to its stated maturity. The most common redemption provisions are:
 - **Optional Redemption (Call option):** Allows DC Water the ability, at its option and subject to certain conditions, to re-purchase selected bonds prior to their stated maturity. Pursuant to the Act, all bonds issued by DC Water shall be callable not more than 11 years from the date of the issuance of the respective bond.
 - **Mandatory Redemption:** Requires DC Water to re-purchase outstanding debt prior to its stated maturity according to a Sinking Fund schedule established in the authorizing documents. Usually, Mandatory Redemption provisions allow issuer's to structure the annual debt service to match projected repayment sources. In other instances, a Mandatory Redemption can be triggered by the occurrence of certain one-time or extraordinary events.
- **Couponing of Bonds:** The coupons associated with bonds compared to the yield determine if the bonds will sell at a Premium, Discount or at Par. DC Water will consider the relative benefits and costs of couponing each maturity based on specific structuring requirements and prevailing market conditions.

7. **Credit Enhancement:** DC Water may consider the use of credit enhancement such as letter-of-credit or bond insurance in order to reduce the cost of borrowing. The use of credit enhancement will be made on a case-by-case basis whereby the cost of the credit enhancement will be weighed against the reduction in debt service resulting from improved marketability of the bonds and lower interest cost.
8. **Derivative Instruments:** The use of derivative instruments (e.g., swaps, swaptions and interest rate collars) can be useful to DC Water in structuring its debt portfolio more effectively, but each such instrument raises complex risk and credit issues. DC Water will only enter into any such derivative arrangement after the Board has adopted a formal and comprehensive derivatives policy.

IX: DOCUMENTATION

The completion of a debt transaction requires the Financing Team to develop, review, and adopt/execute several documents. While not exhaustive, the following represents the key documents in a debt transaction:

1. **Authorizing Resolution:** A document, approved by the Board, that authorizes DC Water to issue the bonds subject to several financial and other parameters as set forth in Authorizing Resolution as well as the Indenture and other Board Resolutions. Bond Counsel is the primary drafter of this document.
2. **Supplemental Indenture:** A document, approved by the Board, that amends the terms of the Indenture to incorporate the provisions of the additional debt being issued. Bond Counsel is the primary drafter of this document.
3. **Official Statement:** The offering document that is used to disclose details about the transaction as well as DC Water's financial and operating information. The document, in preliminary form (the Preliminary Official Statement), is used to assist in marketing the transaction Investors prior to Pricing. Underwriter's Counsel is the primary drafter of this document.
4. **Bond Purchase Agreement (BPA):** The contract between the underwriter and DC Water sets forth the final terms, prices and conditions upon which the Underwriter purchases a new issue of municipal securities in a negotiated sale. Underwriter's Counsel is the primary drafter of this document.

X: MARKETING

The goals of a marketing plan are to achieve the lowest cost of finance for a transaction and to have a diversified investor base. This is achieved by clearly developing and delivering the requisite message and information to key DC Water stakeholders, Investors and the Rating Agencies. Marketing involves different channels of communication:

1. **Investors:** Retail and Institutional Investors purchase DC Water's bonds. While both classes of investors rely on the formal credit ratings, institutional investors generally do an independent review and approval of DC Water's credit before making an investment

decision. Information is critical for both of these investor classes and, in addition to providing a Preliminary Official Statement to the Underwriters, DC Water will endeavor to maintain timely financial and operational data on the DC Water's web site and Investor Relations web page. DC Water can target these investors through different channels:

- **Retail Investors.** Retail marketing plans typically include print and online advertising and radio ads. Retail proxies (investment managers, trust departments, etc.) also can be reached via internet road show.
- **Institutional Investors.** To reach these investors, DC Water can conduct an institutional investor outreach program for each transaction. This program might include face-to-face meetings, calls with investors (individually or in groups) or an Internet-based presentation (NetRoadShow). All of these can inform investors and brokers of the upcoming sale and provide other salient updates. In addition, print and internet advertising is also an available marketing channel. DC Water can also engage Institutional Investors throughout the year to keep them informed of DC Water's current financial and operational position and the status of the CIP.

At the end of each sale, certain metrics will be used to assess the most suitable and successful means of marketing the new issue of bonds to investors. This information will inform the next transaction and improve future marketing efforts.

2. **Rating Agencies:** The Rating Agencies evaluate the credit quality of DC Water by measuring the probability of the timely repayment of principal and interest on the bonds. To help achieve the lowest cost of debt, DC Water will strive to achieve the highest, most cost-effective credit ratings. DC Water's debt management activities will be conducted to maintain its strong credit ratings, consistent with DC Water's financing objectives. Generally, DC Water obtains at least one credit rating for each debt issuance.

XI. PRICING THE TRANSACTION

Pricing represents the process by which DC Water, with assistance from the Financial Advisor(s) and Underwriters, determines the interest rates and prices at which the new issue will be offered to the public. The goal of Pricing is to sell the bonds to a wide variety of investors at the lowest rate through the development of:

1. **Syndicate Policies:** Syndicate policies describe the priority of orders, designation policy, definition of "Retail Order", and Underwriters' Liability governing the upcoming sale.
2. **Priority of Orders:** The agreed upon Priority of Orders will establish the sequence in which Orders are honored or "filled" during the allocation process.
3. **Designation Policies:** Establishes the rules that will govern the allocation of the Takedown or sales commission among the Underwriting Syndicate in the case of a Net Designated order.

XII: POST-PRICING AND CLOSING ACTIVITIES

Immediately following the Pricing of the bond transaction, several events occur:

1. **Bond Purchase Agreement:** DC Water and the Senior Manager are the signatories to the BPA.. Prior to signing the BPA, the Senior Manager will review the orders and allocations of the Bonds with DC Water. The purpose of this review is to ensure an equitable distribution of the bonds across investor classes and underwriters.
2. **Posting the Official Statement:** The Official Statement is required to be delivered to investors within business 7 days of signing the BPA.
3. **Closing and Bond Transcript:** Typically 1-2 weeks after pricing, the transaction is Closed. This is the formal signing of all of the required legal documentation for the bond transaction. Once all Closing documents are executed, DC Water will deliver the securities in exchange for the Purchase Price of the bonds from the Underwriter. The Purchase Price will be wired to the designated accounts in the pre-determined amounts to achieve the purpose of the transaction as detailed in the Closing Memorandum. Closing involves the participation of DC Water, Bond Counsel, the Underwriter(s), Underwriter's Counsel, the Trustee and the Financial Advisor. Subsequent to Closing, Bond Counsel will deliver the Closing Transcript. The Closing Transcript includes all of the legal and financial documents, including Bond Counsel's opinion and other legal opinions, associated with the transaction. DC Water will incorporate the Closing Transcript into their official records.
4. **Evaluation:** Determining the efficiency and effectiveness of the transaction and the performance of the Finance Team is an important activity. DC Water, through both formal and informal means, will review the bond transaction purpose, process and timing and compare this to the goals that were established for the transaction. The performance of all members of the Finance Team will be reviewed and evaluated for future reference. In addition, the Financial Advisor will provide a written report to DC Water of the transaction and how the pricing of the bonds compared to similar transactions concurrently in the market. A review of investor's orders and allotments will also be provided. This comparison will illustrate the borrowing costs of DC Water's new issue compared to similarly-rated entities.
5. **Reports:** The CFO, the Financial Advisor and Underwriter will provide the evaluation to the Board. This will be done no later than 30 days after the transaction and will also address market conditions, pricing results, investor response and a review of the cost of issuance and Underwriter's Discount associated with the transaction.

XIII. INVESTMENT OF PROCEEDS, POST ISSUANCE COMPLIANCE AND MONITORING

The Treasury and Debt Management department under the CFO is responsible for the investment of proceeds, as well as all post issuance and compliance activities.

1. **Investment of Bond Proceeds.** The Treasury and Debt Management department, after receipt of Bond Proceeds, will invest the funds based on the Bond Indenture, DC Water's Investment Policy and Federal regulations.
2. **Project Compliance (See attached "Use of Proceeds Checklist" and "Private Use Checklist")**

- **Arbitrage:** DC Water does not pay federal income tax and generally DC Water's bond holders do not pay federal income tax on interest earned from bonds issued by DC Water. With the investment of Bond Proceeds, the treatment of interest earned on the permitted investments during this period is governed by IRS arbitrage rules designed to eliminate any arbitrage incentive to:
 - Issue more bonds than needed,
 - Issue bonds earlier than needed, and
 - Leave bonds outstanding longer than needed

To accomplish the purpose of the bond issuance, DC Water must follow IRS rules governing the yield restriction (when you may legally earn the arbitrage yield from investing bond proceeds) and arbitrage rebate (when you must return the invested earnings above the arbitrage yield back to the IRS). The following guidelines apply:

- The Tax Certificate for the transaction provides the relevant information.
 - DC Water may retain the services of a qualified arbitrage rebate agent to calculate any arbitrage due to the IRS on outstanding bond issuances with proceeds remaining.
 - Arbitrage consultant selected by a RFP or RFQ will be used to determine compliance and rebates (see attached flowcharts).
- **Annual Review:** DC Water will review expenditures and reimbursements to determine if any private business use in facilities that were constructed using tax-exempt debt, except as specifically disclosed prior to sale of debt or as subsequently opined by nationally recognized Bond Counsel, do not impact the tax-exempt status of the debt.
 - **Bond Proceeds:** DC Water will track Bond Proceeds, ensuring expenditures are within the legally allowable construction period and other parameters to comply with legal requirements.
 - **Document Retention:** DC Water will retain documents related to the debt issue for the life of an issue or the life of the refunding of the issue plus three years.
3. **Continuing Disclosure Compliance.** The Official Statement and the Continuing Disclosure Agreement for the transaction will detail what information is required to be disclosed and on what timeline. To meet these disclosure requirements:
- A DC Water staff member or a contracted dissemination agent shall be named as responsible for the required reporting for each debt issue requiring continuing disclosure under Securities and Exchange Commission Rule 15c2-12,
 - Dissemination of the required information is accomplished through the Electronic Municipal Market Access system (EMMA).
 - Treasury and Debt staff will monitor required reporting dates to ensure annual and periodic reporting requirements are satisfied.

- Bond Counsel shall be consulted to determine compliance and updates in continuing disclosure
- Compliance status shall be reported annually to the Board at a public meeting

4. Refunding Opportunities Monitoring

- The CFO through the Office of Treasury and Debt Management staff will periodically monitor refunding opportunities.
- As refunding opportunities are more further defined and achieve financial targets, this information shall be reported to the Board.
- See the Attached checklist, “Refunding Guidelines.”

Glossary

For additional information see

<http://www.dcwater.com/about/board.cfm>

ADDITIONAL BONDS – An issue of bonds having a lien on the revenues or other security pledged to outstanding bonds issued under the same bond contract. Additional bonds typically are issued on a parity with the outstanding bonds, although in some cases additional bonds can have either a junior lien or a senior lien on pledged revenues or other security.

ADDITIONAL BONDS TEST – The financial test, sometimes referred to as a “parity test,” that must be satisfied under the bond contract securing outstanding revenue bonds as a condition to issuing additional bonds. Typically, the test would require that historical revenues (plus, in some cases, future estimated revenues) exceed projected debt service requirements for both the outstanding issue and the proposed issue by a certain ratio.

ADVANCE REFUNDING – For purposes of certain tax and securities laws and regulations, a refunding in which the refunded issue remains outstanding for a period of more than 90 days after the issuance of the refunding issue. The proceeds of the refunding issue are generally invested in Treasury securities or federal agency securities (although other instruments are sometimes used), with principal and interest from these investments being used (with limited exceptions) to pay principal and interest on the refunded issue. Bonds are “escrowed to maturity” when the proceeds of the refunding issue are deposited in an escrow account for investment in an amount sufficient to pay the principal of and interest on the issue being refunded on the original interest payment and maturity dates, although in some cases an issuer may expressly reserve its right (pursuant to certain procedures delineated by the SEC) to exercise an early call of bonds that have been escrowed to maturity. Bonds are considered “prerefunded” when the refunding issue’s proceeds are escrowed only until a call date or dates on the refunded issue, with the refunded issue redeemed at that time. The Internal Revenue Code and regulations thereunder restrict the yield that may be earned on investment of the proceeds of a refunding issue.

AMORTIZATION – The process of paying the principal amount of an issue of securities by periodic payments either directly to holders of the securities or to a sinking fund for the benefit of security holders.

AMORTIZATION SCHEDULE – A table showing the periodic repayment of an amount of indebtedness, such as a mortgage or bond. This table is often set up to show interest payments in addition to principal repayments.

ARBITRAGE – (1) With respect to the issuance of municipal securities, arbitrage usually refers to the difference between the interest paid on tax-exempt bonds and the interest earned by investing

the proceeds of the bonds in higher-yielding taxable securities. Federal income tax laws generally restrict the ability to earn arbitrage in connection with tax-exempt bonds.

AUTHORIZING RESOLUTION – With respect to an issue of municipal securities, the document adopted by the issuer that implements its power to issue the securities. The legal grant of such authority may be found in the enabling provisions of the constitution, statutes, charters and ordinances applicable to the issuer. Adoption of an authorizing resolution by the issuer’s governing body is a condition precedent to the issuance of the proposed securities. Typically, an issuer will be required to adopt a final “award” or “sale” resolution setting forth the specific terms of the offering. In certain jurisdictions, the governing body will act by means of an ordinance (“authorizing ordinance”) rather than by resolution.

BOND – A security evidencing the issuer’s obligation to repay a specified principal amount on a date certain (maturity date), together with interest either at a stated rate or according to a formula for determining that rate. Bonds are distinguishable from notes, which usually mature in a much shorter period of time. Bonds may be classified according to, among other characteristics, maturity structure (serial vs. term), source of payment (general obligation vs. revenue), issuer (state vs. municipality vs. special district), price (discount vs. premium), rating (rated vs. unrated, or among different categories of ratings) or purpose of financing (transportation vs. health care).

BOND COUNSEL – An attorney or law firm, typically retained by the issuer, to give a legal opinion that the issuer is authorized to issue proposed municipal securities, the issuer has met all legal requirements necessary for issuance and interest on the proposed securities (if they are intended to be tax-exempt bonds) will be excluded from gross income of the holders thereof for federal income tax purposes and, where applicable, from state and local taxation. Typically, bond counsel may prepare, or review and advise the issuer regarding, authorizing resolutions, trust indentures, official statements, validation proceedings and litigation.

BOND PURCHASE AGREEMENT (BPA) – The contract between the underwriter and the issuer setting forth the final terms, prices and conditions upon which the underwriter purchases a new issue of municipal securities in a negotiated sale. A conduit borrower also is frequently a party to the bond purchase agreement in a conduit financing. The bond purchase agreement is sometimes referred to as the “purchase contract” or, less commonly, the “underwriting agreement.”

BOND RESOLUTION – The document or documents in which the issuer authorizes the issuance and sale of municipal securities. Issuance of the securities is usually approved in the authorizing resolution, and sale is usually authorized in a separate document known as the “sale” or “award” resolution. All such resolutions, read together, constitute the bond resolution, which describes the nature of the obligation, the issuer’s duties to the bondholders and the issuer’s rights with respect to the obligations and the security for the obligations. In certain jurisdictions, the governing body will act by means of an ordinance (“bond ordinance”) rather than by resolution.

CALLABLE BOND – A bond that the issuer is permitted or required to redeem before the stated maturity at a specified price, usually at or above par, by giving notice of redemption in a manner specified in the bond contract.

CAPITALIZED INTEREST – A portion of the proceeds of an issue that is set aside to pay interest on the securities for a specified period of time. Interest is commonly capitalized for the construction period of a revenue-producing project, and sometimes for a period thereafter, so that debt service expense does not begin until the project is expected to be operational and producing revenues. Capitalized interest is sometimes referred to as “funded interest.”

CLOSING – The exchange of securities for payment in a new issue. This generally involves participation of representatives of the issuer, bond counsel, the underwriter and other relevant parties on the date of delivery of a new issue of municipal securities. On the closing date, the issuer delivers the securities and the requisite legal documents in exchange for the purchase price. In the case of book-entry securities, global certificates typically are delivered to a registered clearing agency in advance of closing, with the registered clearing agency effecting final delivery of the securities to the underwriter on the closing date by means of book entries. Sometimes a “pre-closing” is held before delivery, typically on the day preceding closing, to review the adequacy of the closing procedures and documents.

COMPETITIVE SALE – A method of sale where underwriters submit proposals for the purchase of a new issue of municipal securities and the securities are awarded to the underwriter or underwriting syndicate presenting the best bid according to stipulated criteria set forth in the notice of sale. The underwriting of securities in this manner is also referred to as a “public sale” or “competitive bid.”

CONSULTING ENGINEER – An expert who assists in the preparation of feasibility studies for proposed construction projects.

CONTINUING DISCLOSURE – Disclosure of material information relating to municipal securities provided to the marketplace from time to time by the issuer of the securities or any other entity obligated with respect to the securities. Such disclosures include, but are not necessarily limited to, annual financial information and material event notices provided by the issuer or obligor to various information repositories for the benefit of holders of the issuer’s securities under Rule 15c2-12.

COSTS OF ISSUANCE – The expenses associated with the sale of a new issue of municipal securities, including such items as printing, legal and rating agency fees and others. In certain cases, the underwriter’s discount may be considered one of the costs of issuance. The Internal Revenue Code restricts the use of bond proceeds to pay costs of issuance for certain types of tax-exempt bonds, such as private activity bonds.

COUPON – A colloquial term for a bond’s interest rate.

COUPON RATE – The annual rate of interest payable on a security expressed as a percentage of the principal amount. The coupon rate, sometimes referred to as the “nominal interest rate,” does not take into account any discount (or premium) in the purchase price of the security.

COVENANT or BOND COVENANT – The issuer’s enforceable promise to perform or refrain from performing certain actions. With respect to municipal securities, covenants are generally stated in the bond contract. Covenants commonly made in connection with a bond issue may include covenants to charge fees sufficient to provide required pledged revenues (called a “rate

covenant”); to maintain casualty insurance on the project; to complete, maintain and operate the project; not to sell or encumber the project; not to issue parity bonds unless certain tests are met (called an “additional bonds covenant”); and not to take actions that would cause the bonds to be arbitrage bonds. A covenant whereby the issuer is affirmatively obligated to undertake a duty in order to protect the interests of bondholders (e.g., to maintain insurance) is called a “protective covenant.” A covenant whereby the issuer obligates itself to refrain from performing certain actions (e.g., not to sell the project) is called a “negative covenant.”

COVERAGE – The ratio of pledged revenues available annually to pay debt service to the annual debt service requirement. This ratio is one indication of the availability of revenues for payment of debt service. The formula for determining coverage, often referred to as “debt service coverage” or the “coverage ratio,” is as follows:

| | | |
|----------|---|---|
| Coverage | = | $\frac{\text{Pledged Revenues}}{\text{Debt Service Requirement}}$ |
|----------|---|---|

EXAMPLE:

| | | | | |
|----------|---|-----------------------------------|---|------|
| Coverage | = | $\frac{\$2,000,000}{\$1,200,000}$ | = | 1.66 |
|----------|---|-----------------------------------|---|------|

I

CURRENT REFUNDING – A refunding transaction where the municipal securities being refunded will all mature or be redeemed within 90 days or less from the date of issuance of the refunding issue. Certain federal income tax rules relating to permitted yields of invested proceeds of the refunding issue, rebate of arbitrage earnings and the ability to refund certain types of municipal securities are significantly less restrictive in the case of current refundings as contrasted with advance refundings. In addition, underwriters are not obligated to submit refunding documents to the MSRB under Rule G-36 in the case of current refundings.

DEBT SERVICE – The amount of money necessary to pay interest on outstanding bonds, the principal of maturing bonds and the required contributions to a sinking fund for term bonds. This amount is also known as the “debt service requirement.” “Annual debt service” refers to the total principal and interest paid in a calendar year, fiscal year, or bond fiscal year. “Total debt service” refers to the total principal and interest paid throughout the life of a bond issue. “Average annual debt service” refers to the average debt service payable each year on an issue.

DEBT SERVICE RESERVE FUND REQUIREMENT – The amount required by the bond contract to be maintained in the debt service reserve fund. A typical debt service reserve fund requirement (sometimes referred to as the “reserve fund requirement” or “reserve requirement”) might be 10% of the par value of the issue, although the size and investment of the debt service reserve fund generally is subject to arbitrage regulations. Other options for sizing include maximum annual debt service or average annual debt service.

DEBT SERVICE SCHEDULE – A table listing the periodic payments necessary to meet principal and interest requirements over the period of time securities are to be outstanding.

DEFEASANCE – Termination of the rights and interests of the bondholders and of their lien on the pledged revenues or other security in accordance with the terms of the bond contract for an issue of securities. This is sometimes referred to as a “legal defeasance.” Defeasance usually occurs in connection with the refunding of an outstanding issue after provision has been made for future payment of all obligations under the outstanding bonds through funds provided by the issuance of a new series of bonds. In some cases, particularly where the bond contract does not provide a procedure for termination of these rights, interests and lien other than through payment of all outstanding debt in full, funds deposited for future payment of the debt may make the pledged revenues available for other purposes without effecting a legal defeasance. This is sometimes referred to as an “economic defeasance” or “financial defeasance.” If for some reason the funds deposited in an economic or financial defeasance prove insufficient to make future payment of the outstanding debt, the issuer would continue to be legally obligated to make payment on such debt from the pledged revenues.

DERIVATIVE SECURITY – A product, whose value is derived from an underlying security, structured to deliver varying benefits to different market segments and participants. The term encompasses a wide range of products offered in the marketplace including interest rate swaps, caps, floors, collars and other synthetic variable rate products.

ESCROW ACCOUNT – A fund established to hold moneys pledged and to be used solely for a designated purpose, typically to pay debt service on an outstanding issue in an advance refunding.

ESCROWED SECURITIES – Securities that are held, typically in an escrow account, to be used solely for a designated purpose.

FINANCING TEAM – A team of internal staff and outside consultants that will provide advice and support for the execution of each debt financing. Outside professional consultants that may include Financial Advisor, Bond and Tax Counsel, Feasibility Consultant, Independent Consulting Engineer, Underwriters, Underwriter’s Counsel, Printer, Trustee, Verification Agent, Escrow Agent, etc.

FINANCIAL ADVISOR – With respect to a new issue of municipal securities, a consultant who advises the issuer on matters pertinent to the issue, such as structure, timing, marketing, fairness of pricing, terms and bond ratings. A financial advisor may also be employed to provide advice on subjects unrelated to a new issue of municipal securities, such as advising on cash flow and investment matters. The financial advisor is sometimes referred to as a “fiscal consultant” or “fiscal agent.” A broker-dealer that acts as a financial advisor is subject to MSRB rules.

FLOW OF FUNDS – The order and priority of handling, depositing and disbursing pledged revenues, as set forth in the bond contract. Generally, the revenues are deposited, as received, into a general collection account or revenue fund for disbursement into the other accounts established by the bond contract. Such other accounts generally provide for payment of the costs of debt service, debt service reserve deposits, operation and maintenance costs, renewal and replacement and other requirements. Described below are funds and accounts commonly used in bond contracts. Not all such funds and accounts may exist in every bond contract and other funds and accounts not described below may be created under a particular bond contract:

Debt Service Fund – A fund into which the issuer makes periodic deposits to assure the timely availability of sufficient moneys for the payment of debt service requirements. Typically, the amounts of the revenues to be deposited into the debt service fund and the timing of such deposits are structured to ensure a proper matching between debt service fund deposits and debt service payments becoming due. For many issues, the debt service fund may contain a separate “principal account” and “interest account” in which moneys for such respective purposes are held. In addition, the debt service fund for many variable rate securities may contain a “letter of credit account” or “reimbursement account” in which moneys are held to reimburse the issuer of a liquidity facility for draws made to pay amounts owing on the securities.

Debt Service Reserve Fund or Reserve Fund – A fund in which moneys are placed in reserve to be used to pay debt service if pledged revenues are insufficient to satisfy the debt service requirements. The debt service reserve fund may be entirely funded with bond proceeds at the time of issuance, may be funded over time through the accumulation of pledged revenues, or may be funded only upon the occurrence of a specified event (e.g., upon failure to comply with a covenant in the bond contract). In addition, issuers may sometimes authorize the provision of a surety bond or letter of credit to satisfy the debt service reserve fund requirement in lieu of cash. If the debt service reserve fund is used in whole or part to pay debt service, the issuer usually is required to replenish the fund from the first available revenues.

Sinking Fund – A fund into which moneys are placed to be used to redeem securities in accordance with a redemption schedule in the bond contract. This term is sometimes used interchangeably with the term “mandatory redemption fund.”

INSTITUTIONAL ACCOUNT – For purposes of MSRB rules, the account of (i) a bank, savings and loan association, insurance company, or registered investment company; (ii) an investment adviser registered either with the SEC under the Investment Advisers Act of 1940 or with a state securities commission (or any agency or office performing like functions); or (iii) any other entity (whether a natural person, corporation, partnership, trust, or otherwise) with total assets of at least \$50 million. The term is sometimes used more generally to refer to an institutional customer.

INSTITUTIONAL CUSTOMER – A term that generally refers to banks, financial institutions, bond funds, insurance companies or other business organizations that possess or control considerable assets for large scale investing.

LETTER OF CREDIT (LOC) – A commitment, usually made by a commercial bank, to honor demands for payment of a debt upon compliance with conditions and/or the occurrence of certain events specified under the terms of the commitment. In municipal financings, bank letters of credit are sometimes used as additional sources of security for issues of municipal notes, commercial paper or bonds, with the bank issuing the letter of credit committing to pay principal of and interest on the securities in the event that the issuer is unable to do so. A letter of credit may also be used to provide liquidity for commercial paper, variable rate demand obligations and other types of securities.

LEVEL DEBT SERVICE – A debt service schedule in which the combined annual amount of principal and interest payments remains relatively constant over the life of the issue of bonds.

EXAMPLE:

Level Debt Service Assumptions:

Size of issue: \$10,000,000

Interest rate: 7%

Maturity of issue: 5 years

Debt Service Schedule

| Years | <u>Principal</u> | <u>Interest</u> | Total* |
|-------|------------------|-----------------|---------------|
| 1 | \$ 1,740,000 | \$ 700,000 | \$ 2,440,000 |
| 2 | 1,860,000 | 578,200 | 2,438,200 |
| 3 | 1,990,000 | 448,000 | 2,438,000 |
| 4 | 2,130,000 | 308,700 | 2,438,700 |
| 5 | 2,280,000 | 159,600 | 2,439,600 |
| Total | \$ 10,000,000 | \$ 2,194,500 | \$ 12,194,500 |

*Total of principal and interest remains substantially level throughout life of issue.

EXAMPLE:

Level Principal Assumptions:

Size of issue: \$10,000,000

Interest rate: 7%

Maturity of issue: 5 years

Debt Service Schedule

| Years | <u>Principal*</u> | <u>Interest</u> | Total* |
|-------|-------------------|-----------------|---------------|
| 1 | \$ 2,000,000 | \$ 700,000 | \$ 2,700,000 |
| 2 | 2,000,000 | 560,000 | 2,560,000 |
| 3 | 2,000,000 | 420,000 | 2,420,000 |
| 4 | 2,000,000 | 280,000 | 2,280,000 |
| 5 | 2,000,000 | 140,000 | 2,140,000 |
| Total | \$ 10,000,000 | \$ 2,100,000 | \$ 12,100,000 |

*Principal remains level and total debt service declines throughout life of issue.

LIQUIDITY FACILITY – A letter of credit, standby bond purchase agreement or other arrangement used to provide liquidity to purchase securities that have been tendered to the issuer or its agent but which cannot be immediately remarketed to new investors. The provider of the liquidity facility, typically a bank, purchases the securities (or provides funds to the issuer or its agent to purchase the securities) until such time as they can be remarketed.

LONG TERM – A designation given to maturities of a serial issue and term bonds typically having maturities of more than 15 years from issuance.

MANAGEMENT FEE – (1) A component of the underwriter’s discount. (2) A fee paid by an issuer of municipal fund securities to its investment advisor for management of the underlying investment portfolio and other services rendered. Typically, the management fee is based on a percentage of the portfolio’s asset value and is paid from portfolio assets. Thus, the management fee ultimately is paid by the investor.

MANAGER – The member (or members) of an underwriting syndicate charged with primary responsibility for conducting the affairs of the syndicate. The manager generally takes the largest underwriting commitment.

Lead Manager, Senior Manager or Bookrunning Manager – The underwriter serving as head of the syndicate. The lead manager generally handles negotiations in a negotiated underwriting of a new issue of municipal securities or directs the processes by which a bid is determined for a competitive underwriting. The lead manager also is charged with allocating securities among the members of the syndicate according to the terms of the agreement among underwriters and the orders received.

Joint Manager or Co-Manager – Any member of the management group (although the term is often used to refer to a member other than the lead manager).

MARKETABILITY – The ease or difficulty with which securities can be sold in the market. An issue’s marketability depends upon many factors, including its coupon, security provisions, maturity, credit quality and the existence of ratings. In the case of a new issue, marketability also depends upon the size of the issue, the timing of its issuance, and the volume of comparable issues being sold.

MASTER INDENTURE – The document stating the general terms and conditions under which an issuer can offer more than one series of bonds. Among the terms that generally must be satisfied in order for a new series of bonds to be issued is the “additional bonds” test. Typically, an issuer will enter into a supplemental indenture in connection with each series of bonds issued under a master indenture.

MASTER RESOLUTION – The document stating the general terms and conditions under which an issuer can offer more than one series of bonds. Among the terms that generally must be satisfied in order for a new series of bonds to be issued is the “additional bonds” test. Typically, an issuer will adopt a series resolution in connection with each series of bonds issued under a master resolution.

MATURITY SCHEDULE – An amortization schedule listing the maturity dates and maturity values of each maturity of an issue of bonds.

MUNICIPAL SECURITIES RULEMAKING BOARD (MSRB) – The Municipal Securities Rulemaking Board is an independent self-regulatory organization, consisting of representatives of securities firms, dealer banks and the public, that is charged with primary rulemaking authority over dealers, dealer banks and brokers in connection with their municipal securities activities. MSRB rules are approved by the SEC and enforced by NASD for broker-dealers other than dealer banks and by the appropriate regulatory agencies for dealer banks.

NEGATIVE ARBITRAGE – Investment of bond proceeds and other related funds at a rate below the bond yield.

NEGOTIATED SALE – The sale of a new issue of municipal securities by an issuer directly to an underwriter or underwriting syndicate selected by the issuer. A negotiated sale is distinguished from a sale by competitive bid, which requires public bidding by the underwriters. Among the primary points of negotiation for an issuer are the interest rate, call features and purchase price of the issue. The sale of a new issue of securities in this manner is also known as a negotiated underwriting.

OFFICIAL STATEMENT (O.S.) – A document or documents prepared by or on behalf of the issuer of municipal securities in connection with a primary offering that discloses material information on the offering of such securities. For primary offerings subject to Rule 15c2-12, the “final official statement” must include, at a minimum, information on the terms of the securities, financial information or operating data concerning the issuer and other entities, enterprises, funds, accounts or other persons material to an evaluation of the offering, and a description of the continuing disclosure undertaking made in connection with the offering (including an indication of any failures to comply with such undertaking during the past 5 years). Official statements typically also include information regarding the purposes of the issue, how the securities will be repaid, and the financial and economic characteristics of the issuer or obligor with respect to the offered securities. Investors may use this information to evaluate the credit quality of the securities. Although functionally equivalent to the prospectus used in connection with registered securities, an official statement for municipal securities is exempt from the prospectus requirements of the Securities Act of 1933.

ORIGINAL ISSUE DISCOUNT (O.I.D.) – An amount by which the par value of a security exceeded its public offering price at the time of its original issuance. The original issue discount is amortized over the life of the security and, on a municipal security, is generally treated as tax-exempt interest. When the investor sells the security before maturity, any profit realized on such sale is calculated (for tax purposes) on the adjusted book value, which is calculated for each year the security is outstanding by adding the accretion value to the original offering price. The amount of the accretion value (and the existence and total amount of original issue discount) is determined in accordance with the provisions of the Internal Revenue Code and the rules and regulations of the Internal Revenue Service.

ORIGINAL ISSUE DISCOUNT BOND or O.I.D. BOND – A bond that was sold at the time of issue at a price that included an original issue discount.

ORIGINAL ISSUE PREMIUM – The amount by which the public offering price of a security at the time of its original issuance exceeded its par value. The original issue premium is amortized over the life of the security and results in an adjustment to the basis of the security. Original issue premium generally is not deductible for federal income tax purposes. The amount of original issue premium received by the issuer in a primary offering, also known as the “bond premium,” is generally treated as proceeds of the issue.

PARITY BONDS – Two or more issues of bonds that have the same priority of claim or lien against pledged revenues or other security. Parity bonds are also referred to as “pari passu bonds.”

PRELIMINARY OFFICIAL STATEMENT (P.O.S.) – A preliminary version of the official statement, which is used to describe the proposed new issue of municipal securities prior to the determination of the interest rate(s) and offering price(s). The preliminary official statement may be used to gauge interest in an issue and is often relied upon by potential purchasers in making their investment decisions. Normally, offers for the sale of or acceptance of securities are not made on the basis of the preliminary official statement and a statement to that effect appears on the face of the document generally in red print, which gives the document its nickname, “red herring.”

PREMIUM – The amount by which the price paid for a security exceeds the security’s par value. For tax purposes, the actual amount of premium with respect to a particular security may be affected by the existence of any original issue premium or original issue discount.

PRESENT VALUE – The current value of a payment or stream of payments expected to be received in the future discounted at a given interest rate or rates.

PRESENT VALUE SAVINGS – Difference expressed in terms of current dollars between the debt service on an refunded bond issue and the debt service on a refunding bond issue for an issuer. It is calculated by discounting the difference in the future debt service payments on the two issues at a given rate.

PRICING – In a negotiated offering of a new issue of municipal securities, the process by which the issuer and underwriters determine the interest rates and prices at which the new issue will be offered to the public. The pricing of a new issue typically occurs immediately before or the day preceding the execution of the bond purchase agreement between the issuer and the underwriters.

PRIORITY OF ORDERS (PRIORITY PROVISIONS AND DESIGNATION) – The rules adopted by an underwriting syndicate specifying the priority to be given different types of orders received by the syndicate. MSRB rules require syndicates to adopt priority provisions in writing and to make them available to all interested parties. For competitive underwritings, orders received prior to the sale (“pre-sale orders”) generally are given top priority. In some negotiated offerings, retail orders or other restrictions designated by the issuer are given priority. Once the order period begins for either negotiated or competitive underwritings, the most common priority provision gives group net orders top priority, followed by designated orders and member orders. These types of orders are described below:

Designated Order – An order submitted by a syndicate member on behalf of a buyer on which all or a portion of the takedown is to be credited to certain members of the syndicate. The buyer directs the percentage of the total designation each member will receive. Generally two or more syndicate members will be designated to receive a portion of the takedown.

Group Net Order – An order that, if allocated, is allocated at the public offering price without deducting the concession or takedown. A group net order benefits all syndicate members according to their percentage participation in the account and consequently is normally accorded the highest priority of all orders received during the order period.

Member Order – An order submitted by a syndicate member where the securities would be confirmed to that member at syndicate terms (e.g., less the total takedown). Other priorities, such as retail orders or orders from local residents, may supercede those noted above.

RATING AGENCY – A company that provides ratings that indicate the relative credit quality or liquidity characteristics of securities.

RATINGS – Evaluations of the credit quality of notes and bonds made by rating agencies. Ratings are intended to measure the probability of the timely repayment of principal of and interest on municipal securities. Ratings often are assigned upon issuance and are periodically reviewed and may be amended to reflect changes in the issuer's credit position. Ratings also are sometimes assigned after the initial issuance, often on bonds that have been advance refunded. The factors upon which the rating agencies base their credit ratings vary with each type of issue. The ratings may derive from the credit worthiness of the issuer itself or from a credit enhancement feature of the security (e.g. guarantor, letter of credit provider, bond insurer, etc.). In the case of short term obligations, liquidity generally is a significant factor in determining a short term rating. Some rating agencies provide both long term and short term ratings on variable rate demand obligations.

The principal rating agencies in the municipal securities market use the following system of ratings as of the date of this publication – ratings from different rating agencies with the same or similar designation do not necessarily represent equivalent ratings – explanations of the significance of each rating classification are available from the rating agencies at the websites indicated:

| | | |
|---|---|---|
| Fitch Ratings (www.fitchratings.com) | Moody's Investors Service (www.moodys.com) | Standard & Poor's (www.standardandpoors.com) |
|---|---|---|

Long Term Ratings:

| | | |
|-----------------|------------------|-----------------|
| AAA | Aaa | AAA |
| AA+, AA, AA- | Aa1, Aa2, Aa3 | AA+, AA, AA- |
| A+, A, A- | A1, A2, A3 | A+, A, A- |
| BBB+, BBB, BBB- | Baa1, Baa2, Baa3 | BBB+, BBB, BBB- |
| BB+, BB, BB- | Ba1, Ba2, Ba3 | BB+, BB, BB- |
| B+, B, B- | B1, B2, B3 | B+, B, B- |
| CCC+, CCC, CCC- | Caa1, Caa2, Caa3 | CCC+, CCC, CCC- |
| CC | Ca | CC |
| C | C | C |
| DDD | -- | D |
| DD | -- | -- |
| D | -- | -- |

Short Term Ratings:

| | | |
|---------|--------------|-------------|
| F1+, F1 | MIG 1/VMIG 1 | SP-1+, SP-1 |
| F2 | MIG 2/VMIG 2 | SP-2 |
| F3 | MIG 3/VMIG 3 | SP-3 |
| B | SG | -- |
| C | -- | -- |
| D | -- | -- |

REFUNDING – A procedure whereby an issuer refinances outstanding bonds by issuing new bonds. There are generally two major reasons for refunding: to reduce the issuer’s interest costs or to remove a burdensome or restrictive covenant imposed by the terms of the bonds being refinanced. The proceeds of the new bonds are either deposited in escrow to pay the debt service on the outstanding bonds when due or used to promptly (typically within 90 days) retire the outstanding bonds. The new bonds are referred to as the “refunding bonds,” and the outstanding bonds being refinanced are referred to as the “refunded bonds” or the “prior issue.” Generally, refunded bonds are not considered a part of the issuer’s debt because the lien of the holders of the refunded bonds, in the first instance, is on the escrowed funds, not on the originally pledged source of revenues.

REFUNDING BONDS – Bonds issued to refund outstanding bonds.

REQUEST FOR PROPOSALS (RFP) – A formal process by which an issuer gathers written information from professionals for the purpose of selecting underwriters, financial advisors, attorneys, architects, and providers of other services.

RETAIL CUSTOMER – Any customer other than an institutional customer. Retail customers generally include individual investors and small organizations.

SERIES OF BONDS – Bonds of an issue sharing the same lien on revenues and other basic characteristics. A series of bonds may consist of serial bonds, term bonds or both. An issue of bonds can consist of one or more series of bonds. Typically, where a single issue consists of more than one series of bonds, the series are distinguished from one another based on one or more key characteristics. For example, one series may be senior lien bonds and the other may be junior lien bonds; two series may have liens on different revenue sources; one series may consist of capital appreciation bonds and the other may consist of current interest paying bonds; one series may be tax-exempt bonds and the other may be taxable municipal securities; one series may bear interest at a fixed rate and the other may bear interest at a variable rate.

SHORT TERM – A designation given to maturities of a serial issue typically having maturities of shorter than three years from issuance. However, depending upon the context, a shorter period to maturity may be intended (e.g., nine or thirteen months).

SLGS – An acronym (pronounced “slugs”) for “State and Local Government Series.” SLGS are special Treasury securities sold by the United States Treasury Department to states, municipalities and other local government bodies. The interest rates and maturities of SLGS can be subscribed for by an issuer of municipal securities in such a manner as to comply with arbitrage restrictions imposed under the Internal Revenue Code. SLGS are most commonly used for deposit in an escrow account in connection with the issuance of refunding bonds.

SUPPLEMENTAL INDENTURE – An agreement entered into by an issuer that supplements the issuer’s master indenture or trust indenture. Often, a supplemental indenture is executed in connection with the issuance of one or more series of additional bonds under the master or trust indenture. In some cases, a supplemental indenture merely amends terms of the master or trust indenture without providing for the issuance of additional bonds.

SURETY BOND – An instrument that provides security against a default in payment. Surety bonds are sometimes used in lieu of a cash deposit in a debt service reserve fund.

SWAP – A sale of a security and the simultaneous purchase of another security for purposes of enhancing the investor’s holdings. The swap may be used to achieve desired tax results, to gain income or principal, or to alter various features of a bond portfolio, including call protection, diversification or consolidation, and marketability of holdings.

SWAPTION – An option held by one party that provides that party the right to require that a counter-party enter into a swap contract on certain specified terms.

SYNDICATE – A group of underwriters formed to purchase a new issue of municipal securities from the issuer and offer it for resale to the general public. The syndicate is organized for the purposes of sharing the risks of underwriting the issue, obtaining sufficient capital to purchase an

issue and broadening the distribution channels of the issue to the investing public. One of the underwriting firms will be designated as the syndicate manager or lead manager to administer the operations of the syndicate.

SYNDICATE POLICIES - Syndicate policies describe, among other things, the priority of orders, designation policy, definition of “Retail Order”, and Underwriters’ Liability governing the upcoming sale.

TERM BONDS – Bonds comprising a large part or all of a particular issue that come due in a single maturity, typically due more than one year after the final amortization of the serial bonds. The issuer agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity or for payment at maturity.

TRUSTEE – A financial institution with trust powers that acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the trust indenture. In many cases, the trustee also acts as paying agent, registrar and/or transfer agent for the bonds.

TRUST INDENTURE – A contract between the issuer of municipal securities and a trustee for the benefit of the bondholders. The trustee administers the funds or property specified in the indenture in a fiduciary capacity on behalf of the bondholders. The trust indenture, which is generally part of the bond contract, establishes the rights, duties, responsibilities and remedies of the issuer and trustee and determines the exact nature of the security for the bonds. The trustee is generally empowered to enforce the terms of the trust indenture on behalf of the bondholders. In many governmental issues (particularly for general obligation bonds and some types of limited tax bonds and revenue bonds), the issuer may forego using a trust indenture and set forth the duties of the issuer and the rights of bondholders in the bond resolution.

UNDERWRITER – A broker-dealer that purchases a new issue of municipal securities from the issuer for resale in a primary offering. The underwriter may acquire the securities either by negotiation with the issuer or by award on the basis of competitive bidding.

UNDERWRITER’S COUNSEL – An attorney or law firm retained to represent the interests of an underwriter in connection with the purchase of a new issue of municipal securities. The duties of underwriter’s counsel may include review of the issuer’s bond resolution and documentation on behalf of the underwriter; review of the accuracy and adequacy of disclosure in the official statement; preparation of the agreement among underwriters, purchase contract and/or the official statement; assisting the underwriter in meeting the underwriter’s due diligence obligation; and delivery of a due diligence opinion.

UNDERWRITER’S DISCOUNT – The costs incurred/charged by the underwriter and the underwriting syndicate. It normally includes several cost categories. The costs of operating the syndicate for which the senior manager may be reimbursed is Underwriter Expense. The Management Fee is the amount paid to the senior manager and/or co-managers for handling the affairs of the syndicate. Takedown is normally the largest component of the Underwriter’s Discount, similar to a commission, and represents the income derived from the sale of the securities. The senior manager shall submit an itemized list of expenses charged to members of the underwriting group. Any additional expenses must be substantiated

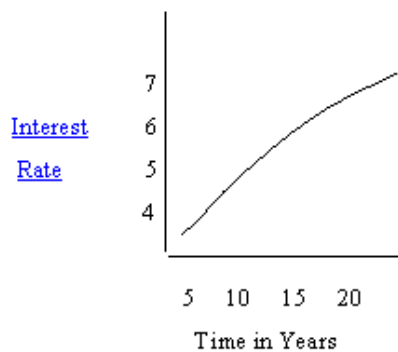
VARIABLE RATE – An interest rate, sometimes referred to as a “floating rate,” on a security that changes at intervals according to market conditions or a predetermined index or formula.

VERIFICATION REPORT – In a refunding, a report, prepared by a certified public accountant or other independent third party, that demonstrates that the cash flow from investments purchased with the proceeds of the refunding bonds and other moneys are sufficient to pay the principal of and interest on the refunded bonds that are being defeased.

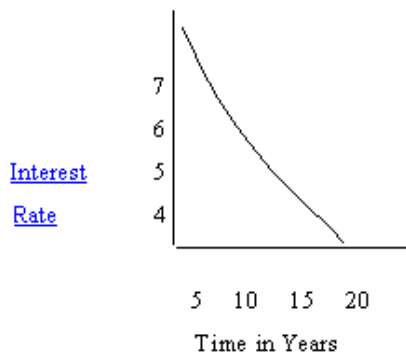
YIELD – The annual rate of return on an investment, based on the purchase price of the investment, its coupon rate and the length of time the investment is held.

YIELD CURVE – A graph that plots market yields on securities of equivalent quality but different maturities at a given point in time. The vertical axis represents the yields, while the horizontal axis depicts time to maturity. The relationship of interest rates over time, as reflected by the yield curve, will vary according to market conditions, resulting in a variety of yield curve configurations, as follows:

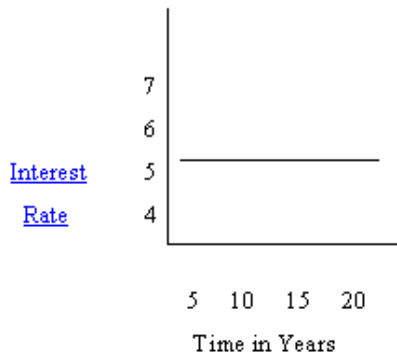
Normal or Positive Yield Curve – Indicates that [short-term securities](#) have a lower [interest rate](#) than [long-term securities](#).



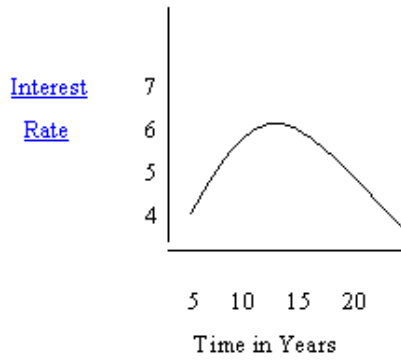
Inverted or Negative Yield Curve – Reflects the situation of [short-term](#) rates exceeding [long-term](#) rates.



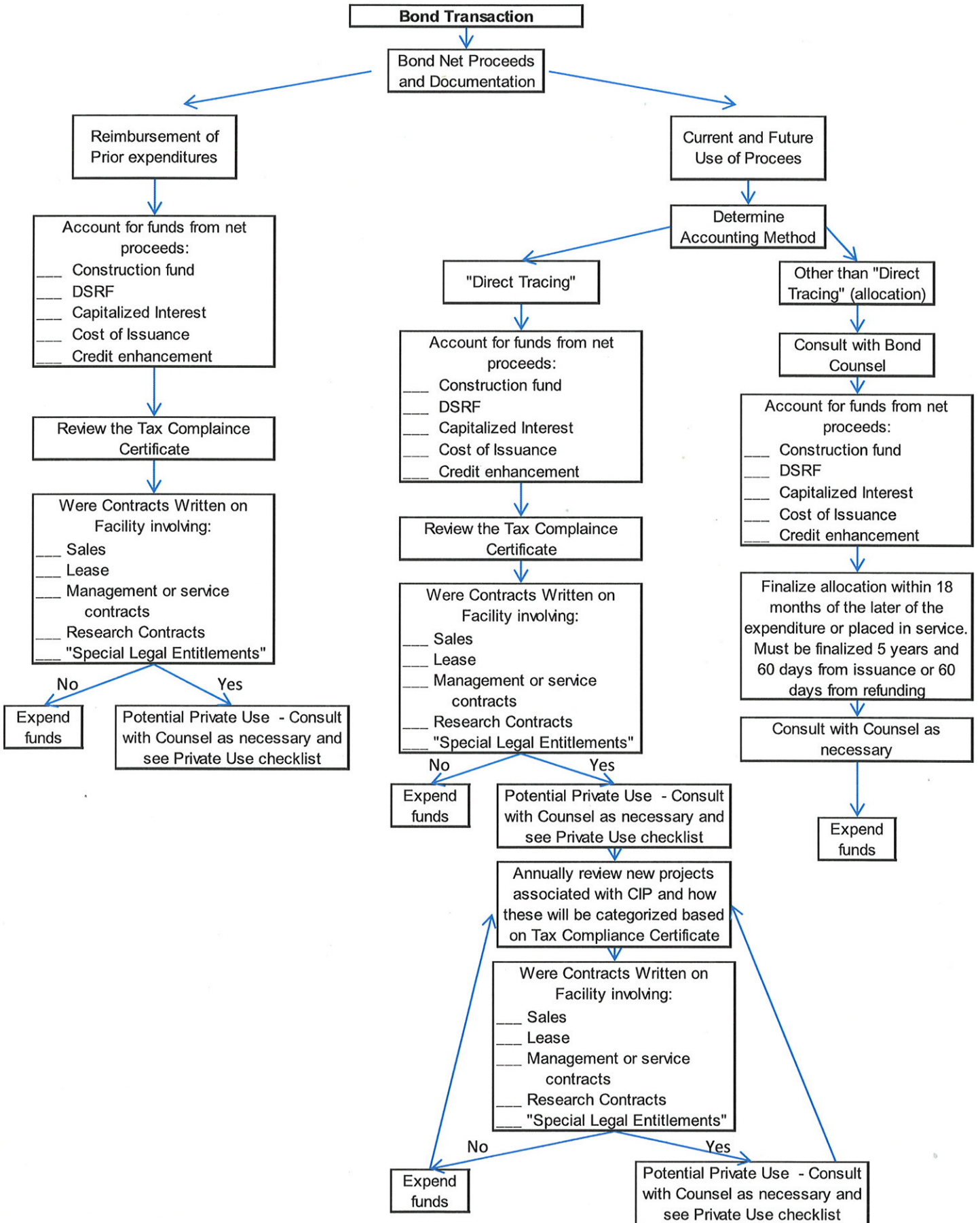
Flat Yield Curve – Reflects the situation when [short-](#) and [long-term](#) rates are approximately the same.



Humpbacked or Bell-Shaped Yield Curve – An unusual shape, indicating that rates are low in the early years, peak in the middle years and decline in later years.

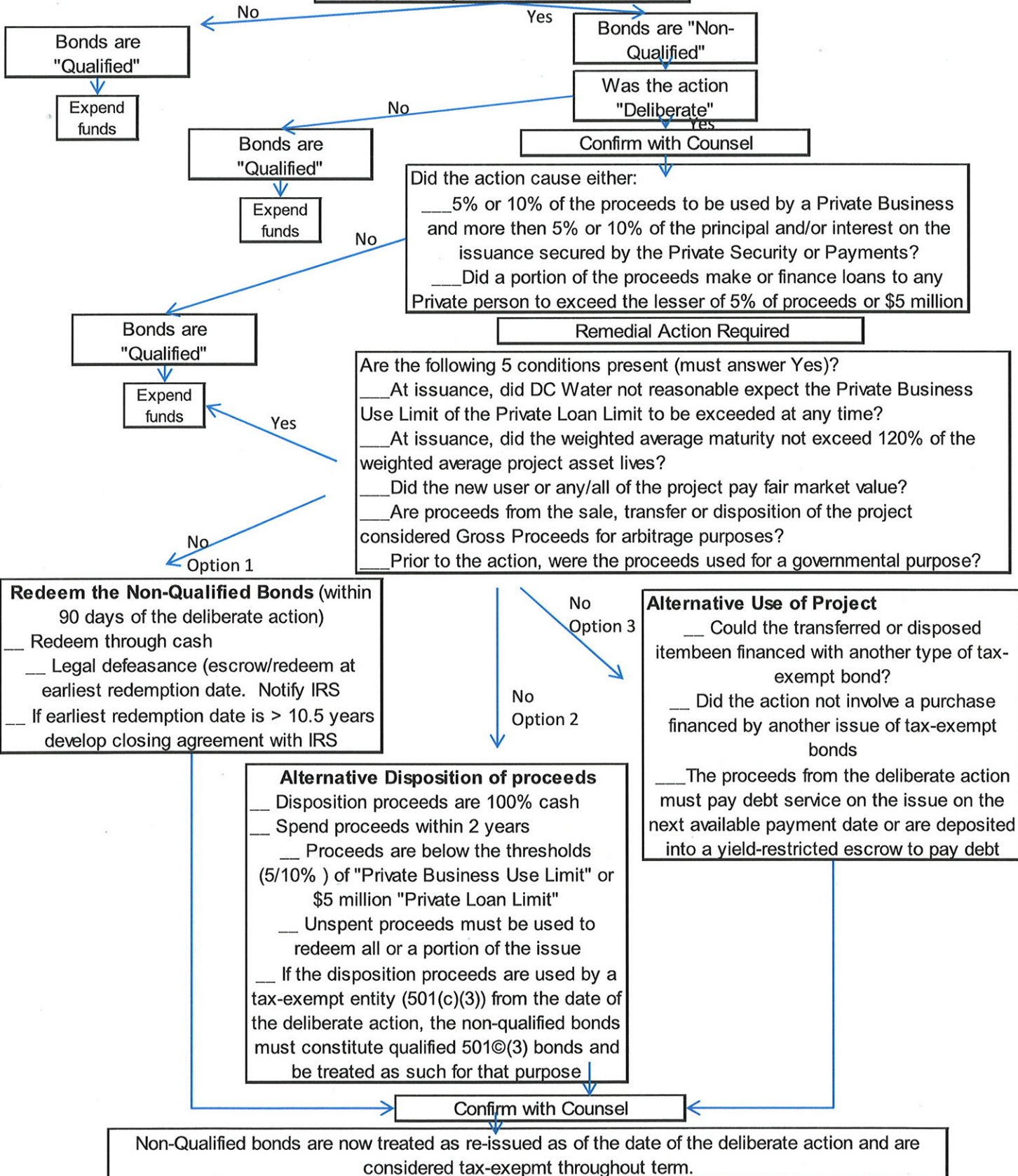


DC Water – Use of Proceeds Checklist

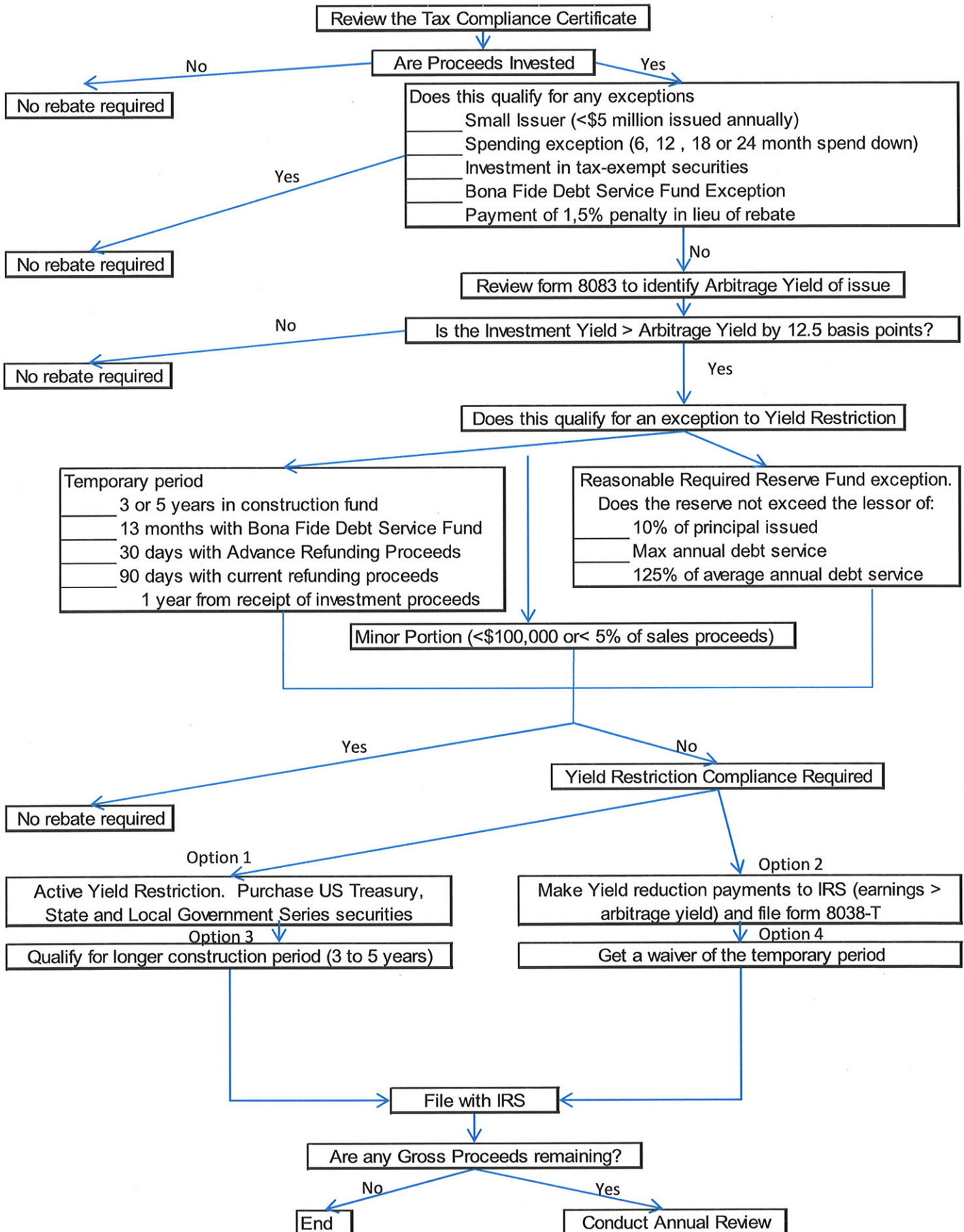


DC Water – Private Use Checklist

Were Contracts Written on Facility involving:
 Sales
 Lease
 Management or service
 Research Contracts
 "Special Legal Entitlements"



DC Water – Arbitrage Rebate



DC Water – Refunding Guidelines

(1 of 2)

The CFO (or designee), with assistance from DC Water’s Financial Advisor, has the responsibility to analyze outstanding bond issues for refunding opportunities. Normally, DC Water will refinance bonds to accomplish a Current Refunding, an Advanced Refunding or a Restructuring of existing debt. Such refunding will be limited to restructuring to meet unanticipated revenue expectations, achieve cost savings, mitigate irregular debt service payments, release reserve funds, and/or remove unduly restrictive bond covenants or administrative requirements.

DC Water will consider the following criteria when analyzing possible Refunding and Restructuring opportunities:

Cash Flow Savings: by maturity or by total issue, the newly issued bonds’ (the refunding bonds) debt service to the current debt service of the proposed refunded bonds.

Net Present Value Savings: by maturity or by total issue, the newly issued bonds’ (the refunding bonds) debt service to the current debt service of the proposed refunded bonds and discounts the debt service difference back to the proposed closing date. This can be viewed in the aggregate or, as preferred, the present value savings for that maturity is calculated as a percentage of the par value of the refunded bonds. DC Water has a target of a minimum present value savings threshold of 3%.

However, other factors may be considered.

Option Value: Refunded bonds have an imbedded call option and this call option has value based on several variables (e.g. prevailing rates, market volatility, yield curve environment, time to exercise option). This value can be calculated and compared to the present value savings of the refunded bonds. DC Water has a goal of capturing 70% of the option value. However, other factors will also be considered.

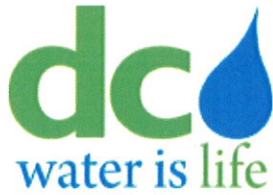
Negative Arbitrage: For bonds that are advanced refunded, an escrow will normally be established to legally defease the bonds debt service over time. An escrow, as detailed previously, is normally invested in low yielding, SLGS or Treasury securities. The difference between the yield of the escrow and the yield of the refunded bonds represents the negative arbitrage for that maturity. DC Water has a goal of minimizing the negative arbitrage in the escrow. However, other factors will also be considered.

DC Water – Refunding Guidelines (2 of 2)

Holistically, DC Water will review all of the above criteria for each refunded maturity. While DC Water will strive to achieve the applicable thresholds, other circumstances and considerations may warrant refunding bonds that do not meet these thresholds. For example, the Board will normally delegate to the CFO or his designee for the transaction, the ability to complete a refunding if it is determined that there will be limited opportunities in the future to achieve the necessary savings. The decision to take savings on an upfront or deferred basis must be explicitly approved by DC Water. For debt restructuring, the Board can waive the present value savings goal if it is in the best interest of DC Water to complete the restructure without achieving the refinancing savings. DC Water will refund bonds within the term of the originally issued debt. However, DC Water may consider maturity extension, when necessary to achieve a desired outcome, provided that such extension is legally permissible based on remaining asset life. DC Water may also consider shortening the term of the originally issued debt to realize greater savings.

Criteria for Current Refundings: For bonds redeemed within 90 days of their respective redemption date, the following criteria will be used to determine which bonds to be current refunded: Cash Flow Savings, Net Present Value Savings, and Option Value.

Criteria for Advanced Refunding: For bonds redeemed more than 90 days of their respective redemption date, the following criteria will be used to determine which bonds to be advanced refunded: Cash Flow Savings, Net Present Value Savings, Option Value and Negative Arbitrage.



**D.C. WATER AND SEWER AUTHORITY
BOARD OF DIRECTORS
FINANCE AND BUDGET
FEBRUARY COMMITTEE MEETING**

**Thursday, September 27, 2012; 11:00 a.m.
Blue Plains Wastewater Treatment Plant
5000 Overlook Avenue, SW, DC
AGENDA**

| | |
|---|------------------------------|
| Call to Order | Chairman |
| August 2012 Financial Report | Director of Finance & Budget |
| Action Items | Chairman |
| Agenda for October Committee Meeting | Chairman |
| Adjournment | Chairman |

*Detailed agenda can be found on DC Water's website at www.dewater.com/about/board_agendas.cfm

FOLLOW-UP ITEM #6: Confirm if the user share allocations on the ROCIP fact sheets are in line with actual results based on the year-end audit. **(Mr. Firestine)**

The user share allocation on the ROCIP Fact Sheet is based on the FY 2011 IMA settlement which was completed on March 31st 2012. That Settlement has not been audited. The latest IMA Settlement audit was for FY 2010 and it was finalized on May 7, 2012.

The FY 2011 settlement is shown below the User share percentages on the ROCIP Fact sheet.

D.C Water & Sewer Authority
Annual Billings Per Intermunicipal Agreement
Operations & Maintenance Costs
Summary of All Users
October 1, 2010 to September 30, 2011

| Line No. | Description | WSSC | Fairfax | Loudoun | Vienna /1 | Dulles /1 | Parks /1 | Navy /1 | DC | TOTAL |
|---|-------------------------------|------------|------------|-----------|-----------|-----------|----------|---------|------------|-----------------|
| Actual Costs for FY 2010: | | | | | | | | | | |
| 1 | A- Interceptors | 363,262 | 436,542 | 229,801 | 17,432 | 18,921 | 264 | 1,011 | 11,654 | 1,078,888 |
| 2 | B- Pumping Stations | 378,955 | 178,962 | 69,567 | 5,277 | 5,728 | 80 | 306 | 519,749 | 1,158,623 |
| 3 | C- Screen Chambers | - | - | - | - | - | - | - | - | - |
| 4 | D- Wastewater Treatment Plant | 30,881,241 | 7,452,829 | 2,897,114 | 219,767 | 238,540 | 3,331 | 12,739 | 32,327,098 | 74,032,660 |
| 5 | E- D.C. Sludge Costs | 6,018,415 | 1,450,611 | 563,891 | 42,775 | 46,429 | 648 | 2,480 | 6,237,613 | 14,362,862 |
| 6 | Subtotal | 37,641,873 | 9,518,944 | 3,760,374 | 285,251 | 309,618 | 4,324 | 16,536 | 39,096,114 | 90,633,033 |
| 7 | Indirect Costs | 7,699,300 | 1,956,607 | 771,923 | 58,556 | 63,558 | 888 | 3,394 | 7,964,523 | 18,518,747 |
| 8 | Subtotal | 45,341,173 | 11,475,551 | 4,532,297 | 343,807 | 373,176 | 5,211 | 19,930 | 47,060,636 | 109,151,780 |
| 9 | Rental and User Fees | 1,844,833 | 332,608 | 148,064 | - | - | - | - | - | 2,325,505 |
| 10 | WSSC Biosolids Costs | 3,347,336 | 806,804 | 313,626 | 23,791 | 25,823 | 361 | 1,379 | 3,469,250 | 7,988,370 |
| 11 | Subtotal | 5,192,169 | 1,139,412 | 461,691 | 23,791 | 25,823 | 361 | 1,379 | 3,469,250 | 10,313,875 |
| 12 | TOTAL ACTUAL COSTS | 50,533,341 | 12,614,963 | 4,993,987 | 367,598 | 398,999 | 5,572 | 21,309 | 50,529,887 | 119,465,655 |
| 13 | CONTROL TOTALS | 50,533,341 | 12,614,963 | 4,993,987 | 367,598 | 398,999 | 5,572 | 21,309 | 50,529,887 | 119,465,655 |
| Calculation of indirect cost rates | | | | | | | | | | |
| Total indirect costs (see indirect costs for distribution tab on the complete bill) | | | | | | | | | | 58,148,470.00 |
| Amount on the bill (see line 7 row 19 above) | | | | | | | | | | (18,518,747.00) |
| Unbilled balance to be borne by DC | | | | | | | | | | 39,629,723.00 |
| DC share from above (line 7, row 19) | | | | | | | | | | 7,964,523.00 |
| Total DC costs | | | | | | | | | | 47,594,246.00 |
| Rates | | | | | | | | | | |
| | | 13.241% | 3.365% | 1.328% | 0.101% | 0.109% | 0.002% | 0.006% | 81.850% | |

**HISTORY OF ACTUAL WHOLESALE USER SHARE ALLOCATION
FOR INDIRECT COSTS**

| Fiscal Year | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|----------------------|--------------------|--------------------|--------------------|--------------------|
| <u>USERS</u> | (Unaudited) | | | |
| District of Columbia | 81.85% | 80.79% | 80.17% | 81.84% |
| WSSC | 13.24% | 14.19% | 14.45% | 13.20% |
| Fairfax | 3.37% | 3.44% | 3.65% | 3.19% |
| Loudoun | 1.33% | 1.34% | 1.52% | 1.57% |
| Other PI | 0.22% | 0.23% | 0.21% | 0.19% |