



## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Board of Directors

*Finance and Budget Committee*

*Thursday, November 29, 2012*

11:00 a.m.

1. **Call to Order** ..... Timothy L. Firestine, Chairperson
2. **October 2012 Financial Report (Attachment 1)** ..... Yvette Downs and Robert Hunt
  - A. Operating Revenues & Expenditures
  - B. Cash Reserves & Investments
  - C. Capital Disbursements Summary
  - D. [Investment Report](#)
3. **Debt Policy & Guidelines Review (Attachment 2)** ..... Robert Hunt
  - A. [Glossary \(Attachment 2A\)](#)
  - B. [Multi-modal \(SIFMA Index\) Bonds Policy \(Attachment 2B\)](#)
  - C. [Use of Proceeds Checklist \(Attachment 2C\)](#)
4. **Discussion of Underwriters Pool** ..... Robert Hunt
5. **FY 2014 Proposed Budget Discussion (Attachment 3)** ..... George Hawkins  
Yvette Downs
6. **Action Item** ..... Yvette Downs
  - A. [Debt Policy & Guidelines \(Attachment 4\)](#)
7. **Other Business** ..... Yvette Downs
8. **Agenda for December Committee Meeting (Attachment 5)** ..... Timothy L. Firestine
9. **Adjournment**

#### ***FOLLOW-UP ITEMS – Finance & Budget Committee (Meeting held October 25, 2012)***

1. GM to follow-up with HR Committee regarding budget related issues (**Ms. Boucher**).  
**Status:** *Completed*

## ATTACHMENT 1



## October 2012 FINANCIAL REPORT

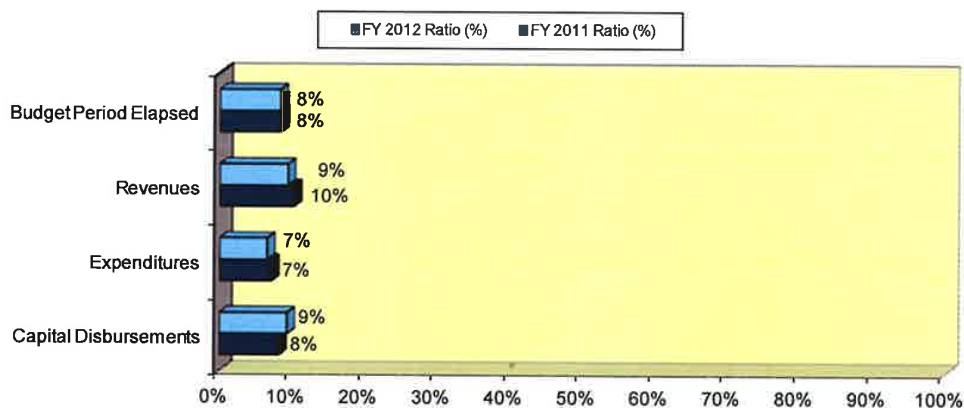
### FY 2013 FINANCIAL PERFORMANCE

The table below summarizes the first month of FY 2013. Detailed information is discussed later in this report. The FY 2012 closeout process continues, which includes finalizing a number of GAAP-related accruals.

#### Financial Performance As of October 31, 2012 (\$ in millions)

	Approved	Revised Budget	YTD Budget	YTD Actual	Variance		% Revised Budget
					Favorable (Unfavorable)	8% of Budget	
Revenues (Receipts)*	\$460.2	\$447.5	\$37.3	\$41.9	\$4.6	12.3%	9.4%
Expenditures*	\$456.8	\$440.3	\$36.7	\$30.3	\$6.4	17.4%	6.9%
Capital Disbursements	\$665.7	\$642.6	\$53.8	\$59.7	(\$5.9)	-11.0%	9.3%

\* Straight-lined (1/12 of revised budget)



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

FY 2012 120-day Operating Reserve Objective	\$125.5
Actual Average Daily Balances	\$162.3
Difference	\$36.8

**OPERATING REVENUES & RECEIPTS**

At this early stage of FY 2013, cash receipts are within budget. At the end of October 2012, cash receipts totaled \$41.9 million, or 9.4 percent of the revised FY 2013 budget. Several categories of customers make payments on a quarterly basis, including the federal and District governments (which made their first quarterly payments in October), and wholesale customers (scheduled to make their first quarter payment in November). The table below provides a summary of operating receipts at the end of October.

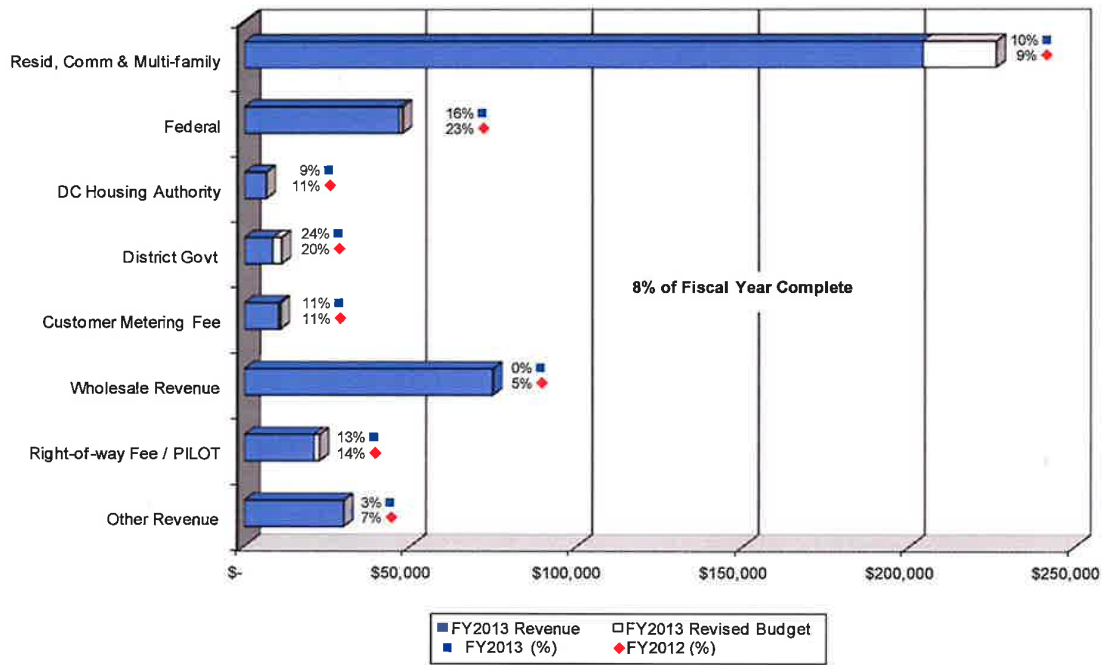
**REVENUE VARIANCE BY CATEGORY**

(\$ in 000's)

As of October 31, 2012

Revenue Category	FY 2012 Revised Budget	Year-to- Date Budget	Actual Received	Variance Favorable (Unfavorable)	Actual % of Budget
Residential, Commercial, and Multi-family	236.2	19.7	24.7	5.0	10.4%
Federal	52.8	4.4	8.6	4.2	16.3%
District Government	12.0	1.0	2.9	1.9	23.8%
DC Housing Authority	6.3	0.5	0.6	0.1	9.0%
Customer Metering Fee	10.8	0.9	1.2	0.3	10.6%
Wholesale	75.2	6.3	0.0	(6.3)	0.0%
Right-of-Way Fee/PILOT	22.2	1.8	3.0	1.2	13.5%
<b>Subtotal (before Other Revenues)</b>	<b>\$415.5</b>	<b>\$34.6</b>	<b>\$40.9</b>	<b>\$6.3</b>	<b>9.8%</b>
Other Revenue without RSF					
IMA Indirect Cost Reimb. For Capital Projects	6.0	0.5	0.0	(0.5)	0.0%
DC Fire Protection Fee	6.9	0.6	0.0	(0.6)	0.0%
Stormwater (MS4)	1.0	0.1	0.0	(0.1)	0.0%
Interest	0.7	0.1	0.0	0.0	6.7%
Developer Fees (Water & Sewer)	8.0	0.7	0.6	(0.1)	7.5%
Others	2.9	0.2	0.4	0.2	13.4%
<b>Subtotal</b>	<b>\$25.5</b>	<b>\$2.2</b>	<b>\$1.0</b>	<b>(1.2)</b>	<b>4.0%</b>
Rate Stabilization Fund Transfer	\$6.5	\$0.5	\$0.0	(0.5)	0.0%
<b>Other Revenue Subtotal</b>	<b>\$32.0</b>	<b>\$2.7</b>	<b>\$1.0</b>	<b>(1.7)</b>	<b>3.2%</b>
<b>Grand Total</b>	<b>\$447.5</b>	<b>\$37.3</b>	<b>\$41.9</b>	<b>\$4.6</b>	<b>9.4%</b>

**FY 2013  
OPERATING RECEIPTS BY CUSTOMER CATEGORY  
As of October 31, 2012**



**BREAKDOWN OF RETAIL RECEIPTS BY CUSTOMER CATEGORY**  
**(\$ in 000's)**  
**As of October 31, 2012**

Customer Category	Water	Sewer	Clean Rivers		Total
			IAC	Metering Fee	
Residential	2,772	3,375	843	415	7,405
Commercial	5,263	5,439	1,302	278	12,282
Multi-family	2,436	2,906	327	98	5,767
Federal	3,138	2,979	2,496	235	8,849
District Govt	1,020	1,247	588	114	2,970
DC Housing Authority	242	292	34	11	579
<b>Total:</b>	<b>14,872</b>	<b>16,238</b>	<b>5,591</b>	<b>1,152</b>	<b>37,852</b>

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**  
**(\$ in 000's)**  
**As of October 31, 2012**

Customer Category	FY 2013 Budget	Year-To-Date Budget	Actual Received	Variance		Actual % of Budget
				Favorable / <Unfavorable>	Variance % of YTD Budget	
Residential	11,883	990	843	(147)	-15%	7%
Commercial	13,905	1,159	1,302	143	12%	9%
Multi-family	4,665	389	327	(61)	-16%	7%
Federal	9,984	832	2,496	1,664	200%	25%
District Govt	3,145	262	588	326	124%	19%
DC Housing Authority	547	46	34	(12)	-26%	6%
<b>Total:</b>	<b>44,129</b>	<b>3,677</b>	<b>5,591</b>	<b>1,913</b>	<b>52%</b>	<b>13%</b>

## OPERATING EXPENDITURES

Total operating expenditures, at the end of October, are in line with expectations at this early stage in fiscal year 2013. At the end of October, operating expenditures (including debt service and the right of way and PILOT fees) totaled \$30.3 million, or 7 percent of the FY 2013 Board-revised budget of \$440.3 million. These numbers include estimated incurred but unpaid invoices.

As previously stated, the FY 2012 closeout process continues, which includes finalizing a number of GAAP-related accruals. Over the next several months, we will update our actual FY 2012 spending accordingly.

### Comparative Statement of Expenditures

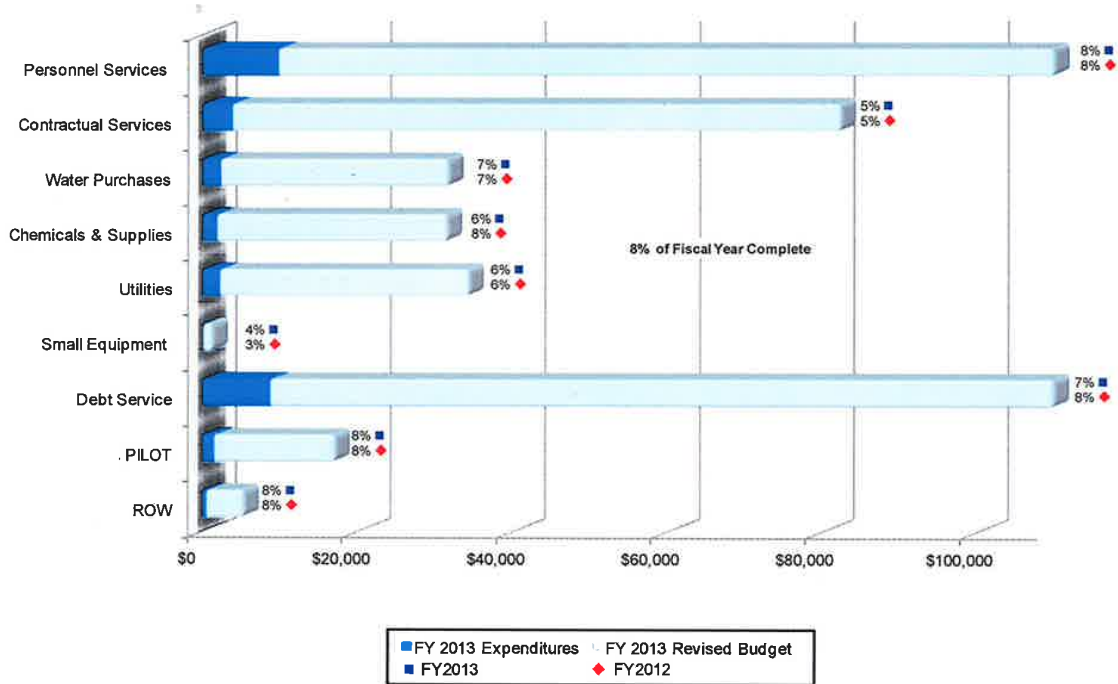
As of October 31, 2012

(\$000's)

	FY 2012			FY 2013			FY 2014
	Board Revised Budget	Projected 09/30/2012	Percent of Budget	Board Revised Budget	YTD as of 10/31/2012	Percent of Budget	Proposed Budget
Personnel Services	111,114	110,711	100%	116,609	9,736	8%	120,454
Contractual Services	79,747	68,354	86%	82,350	3,774	5%	84,094
Water Purchases	31,517	27,906	89%	31,513	2,272	7%	31,513
Chemicals and Supplies	29,947	27,619	92%	31,360	1,793	6%	32,909
Utilities	37,446	27,464	73%	34,185	2,134	6%	34,011
Small Equipment	995	1,177	118%	993	43	4%	993
<b>Subtotal O &amp; M Expenditures</b>	<b>290,765</b>	<b>263,231</b>	<b>91%</b>	<b>297,009</b>	<b>19,751</b>	<b>7%</b>	<b>303,973</b>
Debt Service	102,613	99,250	97%	121,330	8,672	7%	150,389
Payment in Lieu of Taxes	16,882	16,882	100%	16,882	1,407	8%	20,081
Right of Way	5,100	5,100	100%	5,100	425	8%	5,100
<b>Total O &amp; M Expenditures</b>	<b>415,360</b>	<b>384,463</b>	<b>93%</b>	<b>440,321</b>	<b>30,256</b>	<b>7%</b>	<b>479,543</b>
Personnel Services Charged to Capital Projects	(14,000)	(13,949)	100%	(16,690)	(1,393)	8%	(17,860)
<b>Total Net Operating Expenditures</b>	<b>401,360</b>	<b>370,513</b>	<b>92%</b>	<b>423,631</b>	<b>28,862</b>	<b>7%</b>	<b>461,683</b>

Note: Actuals include accruals

**FY 2013 Operating Expenditures  
by Category  
(\$ in 000's)  
As of October 31, 2012**



**CAPITAL SPENDING**

For the month of October 2012 (and also year-to-date) actual disbursements totaled \$59.7 million, or 9 percent of the (Proposed) FY 2013 Revised disbursements budget. Planned capital disbursements for (and through) October 2012 were \$53.8 million.

**Capital Disbursements Variance**  
(\$ in 000's)  
As of October 31, 2012

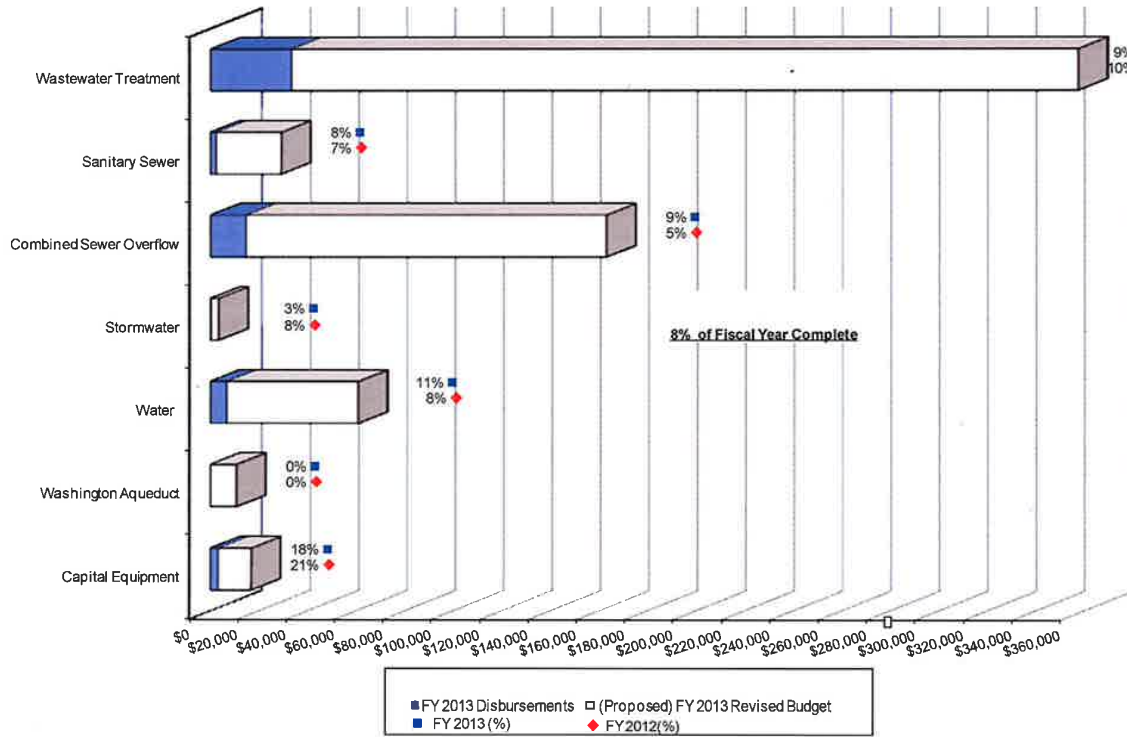
Description	(Proposed) FY 2013 Revised Disbursements Budget		Actual Disbursements		% of (Proposed) FY 2013 Revised Disbursements Budget	
	Annual	YTD	OCT. -'12	YTD	Variance Compared to Plan	Percent of Annual Budget
Wastewater Treatment	\$358,543	\$30,200	\$33,272	\$33,272	-10%	9%
Sanitary Sewer	29,084	1,941	2,245	2,245	-16%	8%
Combined Sewer Overflow	163,509	15,094	14,449	14,449	4%	9%
Stormwater	3,252	166	94	94	43%	3%
Water	60,858	4,984	6,541	6,541	-31%	11%
Washington Aqueduct	10,598	0	0	0		0%
Capital Equipment	16,722	1,394	3,086	3,086	-121%	18%
<b>Total Capital Projects</b>	<b>\$642,565</b>	<b>\$ 53,778</b>	<b>\$ 59,688</b>	<b>\$59,688</b>	<b>-11%</b>	<b>9%</b>

**Discussion**

The spending variance between the (Proposed) FY 2013 Revised Disbursements Budget and Actual disbursements, on a year-to-date basis, amounted to \$5.9 million, resulting from over-spending in most service areas except Combined Sewer Overflow, Stormwater, and Washington Aqueduct. Such over-spending is mainly attributable to the fact that an unusually large number of vendor invoices were booked, for year-end closing purpose, and paid out in the month of October 2012. There are no issues anticipated at this early stage in the fiscal year.



**FY 2013 Capital Disbursements Compared to Plan  
By Service Area  
(\$ in 000's)  
As of October 31, 2012**



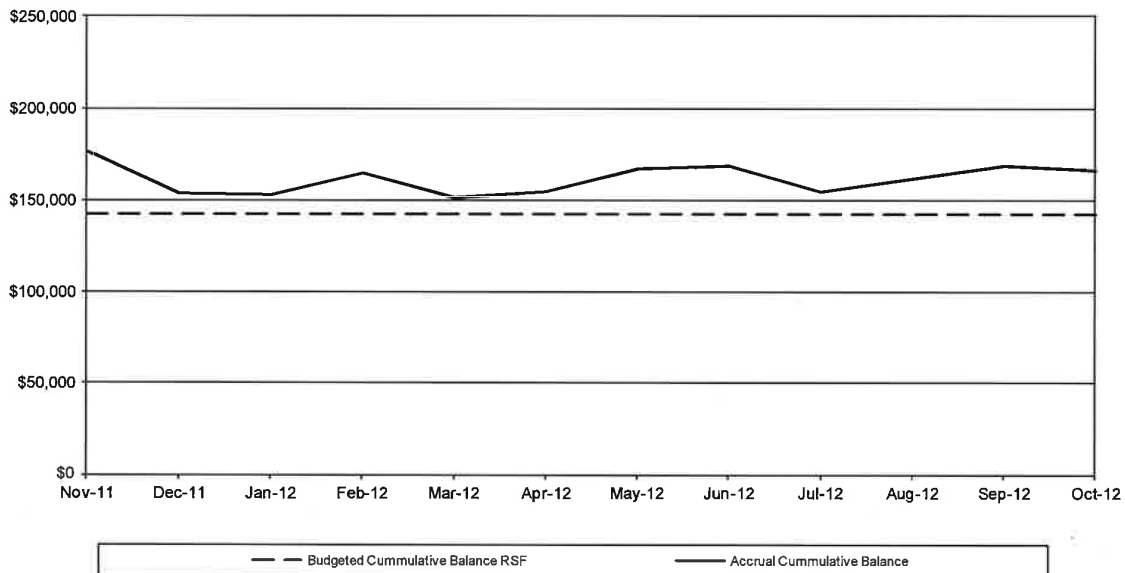
## CASH AND INVESTMENT BALANCES

At the end of October, our operating reserve balance was \$137.9 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 October 31, 2012**  
(\$ in millions)

Rate Stabilization Fund Account (RSF)	\$27.9
Operating Reserve Accounts	138.7
DC PILOT Fund	14.5
<b>Operating Cash Balance Including RSF</b>	<b>181.1</b>
Debt Service Reserve - Series 98	23.4
Bond Construction Fund - Series 10	41.1
Bond Construction Fund - Series 12	165.3
CSO LTCP Appropriations Account	40.1
<b>Total All Funds</b>	<b>\$451.0</b>

**FY 2013 Operating Cash Balances**  
(\$ in 000's)  
(Operating Reserve and RSF)



### **Overall Portfolio Performance**

At the end of October, DC Water's total investment portfolio performed well and complied with the Authority's Investment Policy. Returns exceeded the established benchmarks for short term (less than one year) and core (one plus years) funds. Interest income for October (on a cash basis) was \$44,258 as compared to the budget of \$539,336 for the year. A detailed investment performance report is attached.

### **DC Water Debt Policy and Guidelines**

Included with the package this month is the final version of the DC Water Debt Policy and Guidelines. Also included are the Glossary, Refunding Guidelines and SIFMA Policy. If the Committee approves, the policy will be forwarded to the Board for action.

### **Request for Qualifications (RFQ) – Bond Underwriters**

DC Water will issue a Request for Qualifications (RFQ) for Bond Underwriters on November 27, 2012. The RFQ will be sent to a list of underwriters and advertised in The Bond Buyer. The term of the pool is for one year with four one-year options.

### **Hurricane Sandy**

During the historic super storm in October 2012 which impacted the eastern regions, the Authority enacted unprecedented actions and preparations to ensure continuity of service to customers, ensure the safety and welfare of its employees and provide support to the District for recovery efforts. The estimated cost of the storm to the Authority for emergency provisions at various facilities and support provided to the District is \$75k. These estimated costs will be provided to the District for requested reimbursement from the Homeland Security and Emergency Management Agency (HSEMA).

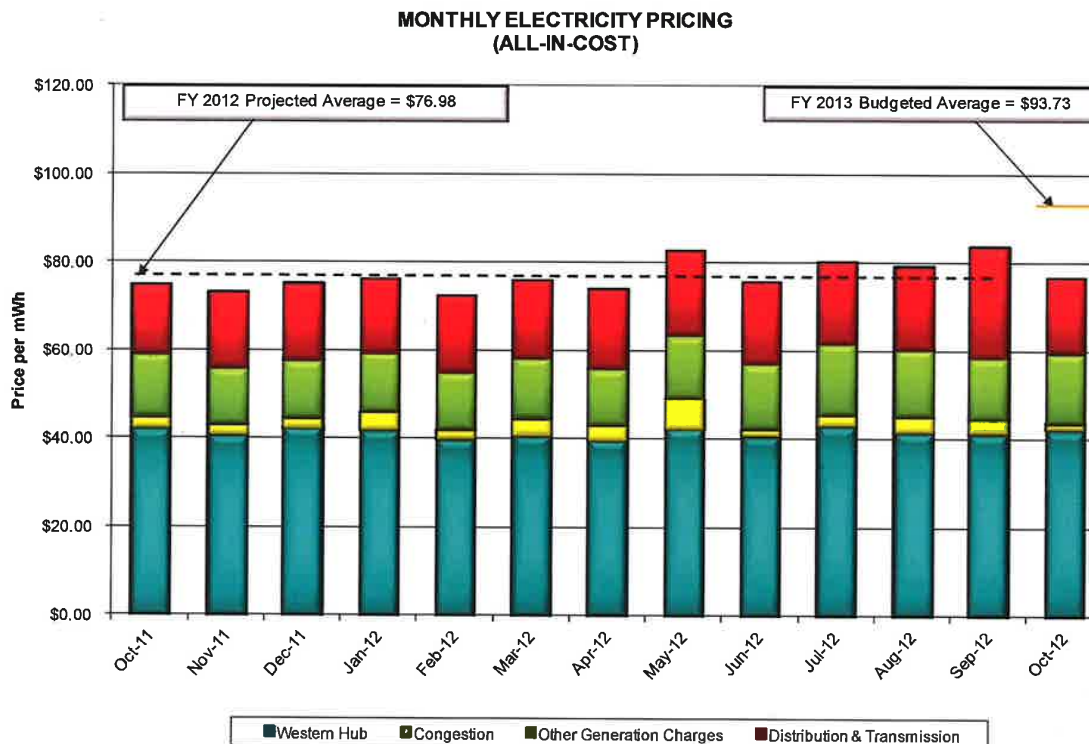
## OTHER STATUS REPORTS

### ELECTRICITY

As of October 2012, we have purchased approximately 69 percent, or 20MW, of the Authority's electric load through January 31, 2013 at the Western Hub average unit price of \$39.98/mWh.

Electricity market conditions continue to be significantly below prior years' experience. However, current events in Israel and Gaza have resulted in higher oil prices with impact of current futures market prices. 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 October 2012 was \$76.93/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.

**RETAIL & WHOLESALE ACCOUNTS RECEIVABLE**

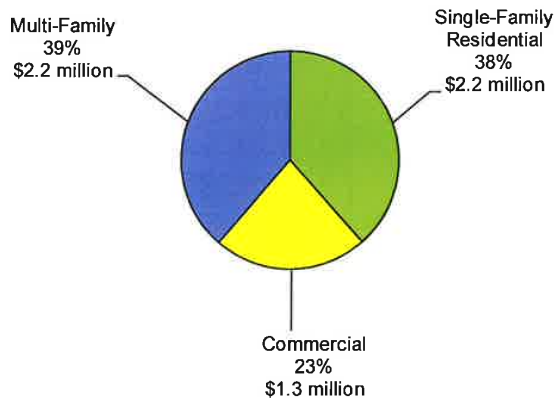
The following tables and chart show retail and wholesale accounts receivable over 90 days including a breakdown by customer class.

**Delinquent Accounts Receivable  
Greater Than 90 Days by Customer  
October 31, 2012**

	<b>RETAIL</b>		<b>WHOLESALE</b>		<b>TOTAL</b>	
	<b>Greater than 90 Days</b>		<b>Greater than 90 Days</b>		<b>Greater than 90 Days</b>	
	<b>\$ in millions</b>	<b># of accounts</b>	<b>\$ in millions</b>	<b># of accounts</b>	<b>\$ in millions</b>	<b># of accounts</b>
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
September 30, 2012	\$5.5	13,063	\$0.0	0	\$5.5	13,063
October 31, 2012	\$5.7	12,537	\$0.0	0	\$5.7	12,537

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

**Retail Accounts  
Greater Than 90 Days by Customer Class  
October 31, 2012**



**Delinquent Accounts Receivable  
Greater Than 90 Days by Customer  
October 31, 2012**

	Number of Accounts			Month of October (All Categories)				Total Delinquent			
	W & S a/c	Impervious Only a/c	Total No. of a/c	Active		Inactive		No. of a/c Sep.	Amount (\$)	No. of a/c Oct.	Amount (\$)
				No. of a/c	Amount (\$)	No. of a/c	Amount (\$)				
Commercial	11,858	3,355	15,213	1,369	1,173,625.03	145	122,406.88	1,829	1,295,778.34	1,514	1,296,031.91
Multi-family	7,372	451	7,823	820	2,083,360.58	146	107,523.21	1,068	2,031,686.03	966	2,190,883.79
Single-Family Residential	103,932	3,246	107,178	8,331	1,571,848.11	1,726	604,586.92	10,166	2,158,803.00	10,057	2,176,435.03
<b>Total</b>	<b>123,162</b>	<b>7,052</b>	<b>130,214</b>	<b>10,520</b>	<b>4,828,833.72</b>	<b>2,017</b>	<b>834,517.01</b>	<b>13,063</b>	<b>5,486,267.37</b>	<b>12,537</b>	<b>5,663,350.73</b>

-Included in the above \$4.83m (or 10,520 accounts) of the DC Water Over 90 days delinquent accounts, 964,845.52 (or 2,579 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.

**D.C. WATER AND SEWER AUTHORITY  
FY 2013 CASH FLOW SUMMARY  
through 10/31/12  
(\$ In 000's)**

	Annual Budget Cash Basis	YTD 8% Cash Budget	YTD Actual Cash Oct. 1, 2012 - Oct 31. 30, 2012	Variance Favorable (Unfavorable)	
<b>OPERATING BUDGET</b>					
<b>Cash Provided</b>					
Retail	318,168	26,514	37,852	11,338	43%
Wholesale	75,195	6,266	15	(6,251)	-100%
Other	47,497	3,958	4,012	54	1%
Transfer from Rate Stabilization Fund	6,500	542		(542)	-100%
<b>Total Cash Provided</b>	<b>447,359</b>	<b>37,280</b>	<b>41,880</b>	<b>4,600</b>	<b>12%</b>
<b>Operating Cash Used</b>					
Personnel Services	99,919	8,327	8,038	288	3%
Contractual Services	82,350	6,863	11,612	(4,750)	-69%
Chemicals & Supplies	31,360	2,613	3,719	(1,106)	-42%
Utilities	34,185	2,849	556	2,292	80%
Water Purchases	31,513	2,626	2,754	(128)	-5%
Small Equipment	993	83	182	(99)	-120%
<b>Total Operating Cash Used</b>	<b>280,320</b>	<b>23,360</b>	<b>26,862</b>	<b>(3,502)</b>	<b>-15%</b>
<b>Other Cash Used</b>					
Debt Service	116,179	9,682	8,672	1,009	10%
Payment In Lieu of Taxes/Right of Way	21,982	1,832		1,832	100%
<b>Total Other Cash Used</b>	<b>138,161</b>	<b>11,513</b>	<b>8,672</b>	<b>2,841</b>	<b>25%</b>
<b>Total Cash Used</b>	<b>418,481</b>	<b>34,873</b>	<b>35,535</b>	<b>(661)</b>	<b>-2%</b>
<b>Net Cash Provided (Used) by Operating Act.</b>	<b>28,878</b>	<b>2,407</b>	<b>6,345</b>	<b>3,939</b>	
<b>CAPITAL BUDGET</b>					
<b>Cash Provided</b>					
Debt Proceeds	319,568	26,631	42,326	15,696	59%
Capital Equipment Financing	10,799	900		(900)	-100%
EPA Grants	32,424	2,702	1,066	(1,636)	-61%
CSO Grants	30,000	2,500	8,136	5,636	225%
Interest Income	303	25	198	173	684%
Wholesale Capital Contributions	225,614	18,801		(18,801)	-100%
<b>Total Cash Provided</b>	<b>618,709</b>	<b>51,559</b>	<b>51,727</b>	<b>168</b>	<b>0%</b>
<b>Cash Used</b>					
WASA Capital Program	631,968	52,664	59,688	(7,024)	-13%
Washington Aqueduct Projects	10,598	883		883	100%
<b>Total Cash Used</b>	<b>642,566</b>	<b>53,547</b>	<b>59,688</b>	<b>(6,140)</b>	<b>-11%</b>
<b>Net Cash/PAYGO Provided (Used) by Cap. Act.</b>	<b>(23,857)</b>	<b>(1,988)</b>	<b>(7,961)</b>	<b>(5,973)</b>	
<b>Beginning Balance, October 1 (Net of Rate Stab. Fund) Projected</b>	<b>139,565</b>		<b>139,565</b>		
Plus (Less) Operating Surplus	28,878	2,407	6,345		
Wholesale Customer Refunds from Prior Years	(5,800)	(483)			
Interest Earned From Bond Reserve	120	10			
Transfer to Rate Stabilization Fund	(4,100)	(342)			
Prior Year Federal Billing Reconciliation	(5,105)	(425)			
Customer Rebate	(4,200)	(350)			
Cash Used for Capital	(23,857)	(1,988)	(7,961)		
<b>Balance Attributable to O&amp;M Reserve</b>	<b>125,500</b>		<b>137,949</b>		
<b>OTHER CASH RESERVES</b>		<b>Current Balance</b>			
Rate Stabilization Fund		27,950			
CSO Long-Term Control Plan Appropriation		40,049			
DC PILOT Reserve Fund		14,473			

FY 2013 Overtime  
Budget vs Actual  
Period Ended October 31, 2012

Department	FY 2012			FY 2013						
	Annual Budget	Actual	Percent of Budget Expended	Annual Budget	Percent of Annual Budget Expended	FY 2013 Year-to-Date				
						Straight-Line Budget 10/01/12 - 10/31/12	Actual 10/01/12 - 10/31/12	Actual to Straight-Line Budget Variance	Percentage YTD Straight-Line Budget Expended	YTD Overtime as % of YTD Regular
Office of the Secretary	4,000	2,729	68%	4,000	2%	333	94	239	28%	1%
General Manager	13,000	1,493	11%	10,000	2%	833	192	642	23%	0%
General Counsel	2,000	619	31%	2,000	0%	167	0	167	0%	0%
External Affairs	2,000	1,090	54%	2,000	5%	167	92	75	55%	0%
Internal Audit	-	-	0%	-	0%	0	0	0	0%	0%
Information Technology	24,006	23,207	97%	20,000	30%	1,667	5,912	(4,246)	355%	6%
Procurement	30,000	15,792	53%	30,000	19%	2,500	5,704	(3,204)	228%	2%
Customer Service	240,000	178,495	74%	240,000	8%	20,000	20,243	(243)	101%	3%
Finance & Budget	30,000	18,725	62%	30,000	24%	2,500	7,059	(4,559)	282%	2%
Risk Management	1,000	132	13%	1,000	0%	83	0	83	0%	0%
Assistant General Manager	1,000	1,040	104%	1,000	9%	83	90	(7)	108%	0%
Human Capital Management	5,000	26,255	525%	5,000	4%	417	194	222	47%	0%
Occupational Safety & Health	2,000	924	46%	2,000	1%	167	19	147	12%	0%
Facilities & Security	150,000	190,193	127%	200,000	16%	16,667	32,215	(15,548)	193%	8%
Water / Sewer Pump Maintenance	200,000	142,036	71%	200,000	14%	16,667	27,968	(11,301)	168%	10%
Engineering & Technical Services	548,481	784,446	143%	680,000	9%	56,667	59,711	(3,044)	105%	5%
Water Services	1,080,000	880,798	82%	1,080,000	7%	90,000	77,174	12,826	86%	7%
Clean Rivers	25,000	0	0%	5,000	9%	417	443	(27)	106%	1%
Sewer Services	900,000	872,734	97%	900,000	16%	75,000	145,199	(70,199)	194%	14%
Wastewater Treatment - Operations	956,000	1,092,676	114%	847,209	12%	70,601	99,197	(28,596)	141%	11%
WWWT - Process Engineering	0	0		195,000	3%	16,250	5,092	11,158	31%	4%
Maintenance Services	800,000	717,769	90%	700,000	7%	58,333	50,127	8,206	86%	7%
Permit Operations	2,500	1,803	72%	11,000	0%	917	0	917	0%	0%
Fleet Management	1,000	808	81%	1,000	36%	83	365	(281)	437%	1%
<b>Total DC WATER</b>	<b>\$5,016,987</b>	<b>\$4,953,761</b>	<b>99%</b>	<b>\$5,166,209</b>	<b>10%</b>	<b>\$430,517</b>	<b>\$537,090</b>	<b>-\$106,572</b>	<b>125%</b>	<b>6.7%</b>

Notes:

- (1) "Budget 10/01/12 - 10/31/12" 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. October 2012 Financial Report (Attachment 1) - Yvette Downs and Robert Hunt**

**Capital Projects**  
FY 2013 Disbursements Analysis  
as of Oct. 31, 2012  
(dollars in thousands)

Description	(Proposed) FY 2013 Revised Disbursements Budget		Actual Disbursements		% of (Proposed) FY 2013 Revised Disbursements Budget		Commitments
	Annual	YTD	OCT. '12	<sup>1</sup> YTD	Annual	YTD	
<b>Wastewater Treatment</b>						<i>8% of Fiscal Year Completed</i>	
Liquid Processing Projects	\$23,884	\$2,096	\$2,568	\$2,568	11%	123%	31,054
Plantwide Projects	27,128	1,685	1,879	1,879	7%	112%	38,255
Solids Processing Projects	159,690	11,143	17,551	17,551	11%	158%	331,825
Enhanced Nitrogen Removal Facilities (formerly Total Nitrogen Program)	<u>147,842</u>	<u>15,276</u>	<u>11,274</u>	<u>11,274</u>	8%	74%	<u>213,766</u>
<b>Total Wastewater Treatment</b>	<b>358,543</b>	<b>30,200</b>	<b>33,272</b>	<b>33,272</b>	<b>9%</b>	<b>110%</b>	<b>614,900</b>
<b>Sanitary Sewer</b>							
Sanitary Collection Sewers	858	97	56	56	6%	57%	1,717
Sanitary On-Going Projects	10,544	260	754	754	7%	290%	6,230
Sanitary Pumping Facilities	679	70	170	170	25%	243%	480
Sanitary Sewer Program Management	4,229	453	258	258	6%	57%	15,668
Sanitary Interceptor/Trunk Force Sewers	<u>12,774</u>	<u>1,061</u>	<u>1,007</u>	<u>1,007</u>	8%	95%	<u>16,562</u>
<b>Total Sanitary Sewer</b>	<b>29,084</b>	<b>1,941</b>	<b>2,245</b>	<b>2,245</b>	<b>8%</b>	<b>116%</b>	<b>40,636</b>
<b>Combined Sewer Overflow</b>							
CSO Program Management	1,634	113	0	0	0%	0%	11,600
Combined Sewer Projects	8,955	1,035	318	318	4%	31%	7,209
D.C. Clean Rivers Project (aka Long-Term Control Plan)	<u>152,920</u>	<u>13,946</u>	<u>14,131</u>	<u>14,131</u>	9%	101%	<u>235,728</u>
<b>Total Combined Sewer Overflow</b>	<b>163,509</b>	<b>15,094</b>	<b>14,449</b>	<b>14,449</b>	<b>9%</b>	<b>96%</b>	<b>254,537</b>
<b>Stormwater</b>							
Stormwater Local Drainage	28	1	0	0	0%	0%	239
Stormwater On-Going Program	812	52	1	1	0%	3%	381
Stormwater Pumping Facilities	-	-	0	0			0
DDOT Stormwater Program	2	-	0	0	0%		0
Stormwater Research and Program Management	289	23	0	0	0%	0%	1,240
Stormwater Trunk/Force Sewers	<u>2,120</u>	<u>90</u>	<u>93</u>	<u>93</u>	4%	103%	<u>735</u>
<b>Total Stormwater</b>	<b>3,252</b>	<b>166</b>	<b>94</b>	<b>94</b>	<b>3%</b>	<b>57%</b>	<b>2,595</b>
<b>Water</b>							
Water Distribution Systems	25,445	2,385	3,744	3,744	15%	157%	30,193
Water On-Going Projects	10,321	484	535	535	5%	110%	2,150
Water Pumping Facilities	3,226	244	219	219	7%	90%	15,423
DDOT Water Projects	5,791	527	0	0			6,663
Water Storage Facilities	1,353	136	7	7	1%	5%	1,385
Water Projects Program Management	4,332	323	975	975	22%	302%	9,622
Water Lead Program	1,860	174	323	323	17%	186%	6,211
AMR Installation / Replacement	<u>8,529</u>	<u>711</u>	<u>739</u>	<u>739</u>	9%	104%	<u>498</u>
<b>Total Water</b>	<b>60,856</b>	<b>4,984</b>	<b>6,541</b>	<b>6,541</b>	<b>11%</b>	<b>131%</b>	<b>72,144</b>
<b>Washington Aqueduct</b>	<b>10,598</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0%</b>		
<b>Capital Equipment</b>	<b>16,722</b>	<b>1,394</b>	<b>3,086</b>	<b>3,086</b>	<b>18%</b>	<b>221%</b>	<b>5,652</b>
<b>Total Capital Projects</b>	<b>\$642,565</b>	<b>\$53,778</b>	<b>\$59,688</b>	<b>\$59,688</b>	<b>9%</b>	<b>111%</b>	<b>990,465</b>

<sup>1</sup> Includes actual OCIP related disbursements of \$206,071



**DC Water**

*Investment Performance Report – October 2012*



## Investment Performance Report – October 2012

### DC Water Finance Division Economic Update

#### ECONOMIC COMMENTARY

- Hurricane Sandy disrupted the financial markets, as U.S. stock and bond markets were closed from October 29 to October 30. When the markets reopened there was little change from pre-storm levels.
- The housing market continues to show signs of recovery. In September, new home sales climbed 5.7% to a 389,000 annual pace, the highest level since April of 2010.
- The cost of living in the U.S. rose in September for a second straight month, mostly due to the increased cost in energy prices. The consumer price index rose 0.6%, while the core measure (excluding food and energy) rose 0.1%. The core rate remains below the Federal Reserve's target of 2.0%.
- Treasury yields remain range-bound and ended the month slightly higher.

#### 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 0.42%.
- The portfolio is in compliance with the Authority's Investment Policy.

#### 2010A Construction Fund

- The Authority purchased \$20 million of 2 month Treasury Bills with a yield of 0.11%.

#### Operating Reserve Fund

- The Authority purchased \$10 million of 1 to 2 year certificates of deposit with an average yield of 0.63%.

#### Debt Service Reserve Fund

- The Authority purchased \$5 million of 3 month commercial paper with a yield of 0.18%.

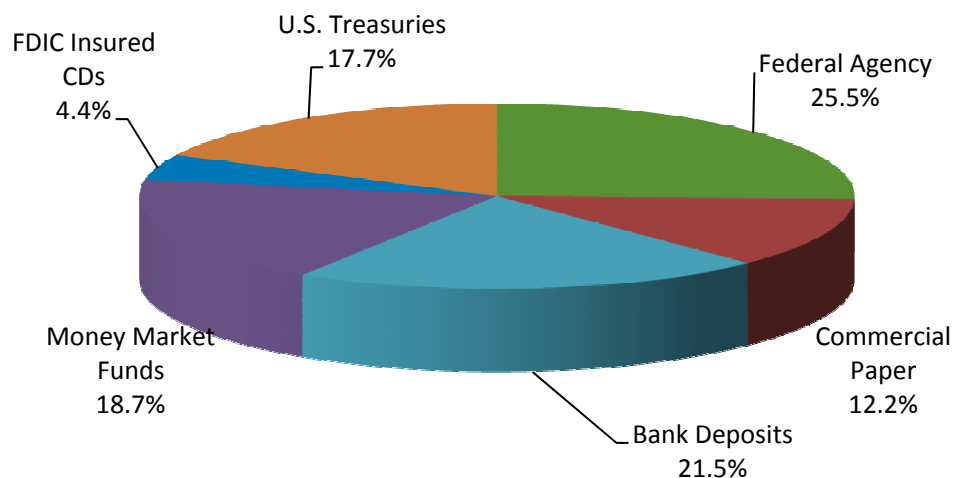
#### 2012 Bond Construction Fund

- As Treasury notes matured, the Authority purchased \$35 million of 2 month Treasury Notes at a yield of 0.14%.

## Investment Performance Report – October 2012



**DC Water  
Finance Division  
Investments - By Security Type  
As of October 31, 2012**

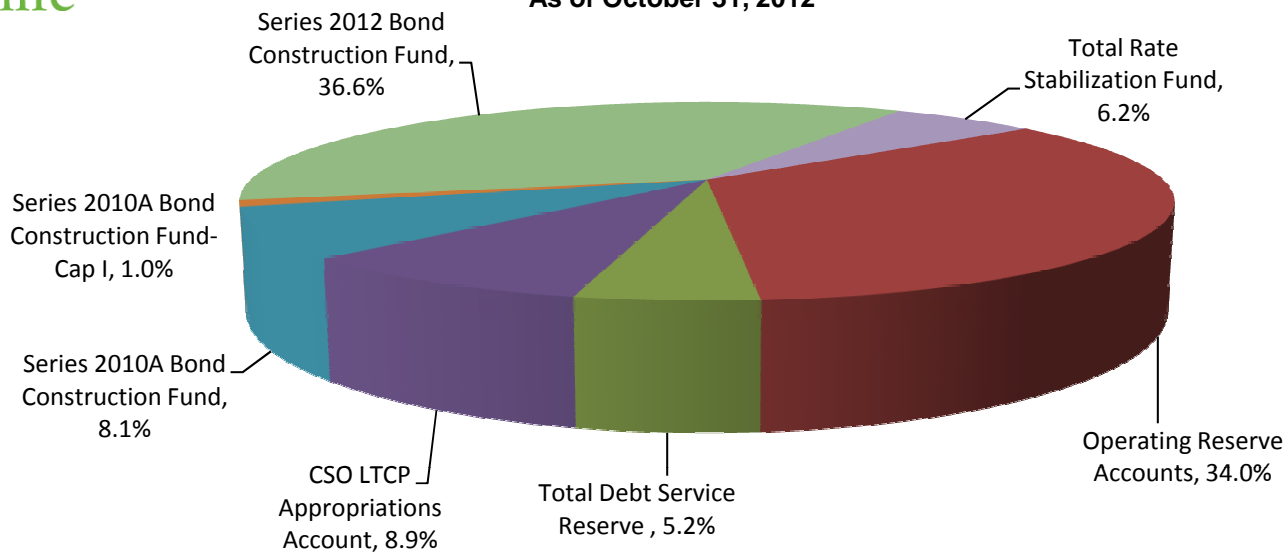


Security Type	Book Value + Accrued Interest	Asset Allocation	Permitted By Policy
Bank Deposits	\$ 96,813,245	21.5%	100.0%
Money Market Funds	84,464,307	18.7%	100.0%
Bankers Acceptances	-	0.0%	40.0%
Commercial Paper	54,977,163	12.2%	35.0%
U.S. Treasuries	79,820,148	17.7%	100.0%
Federal Agency	114,887,503	25.5%	80.0%
FDIC Insured CDs	20,046,002	4.4%	30.0%
Municipal Obligations	-	0.0%	20.0%
<b>Total</b>	<b>\$ 451,008,369</b>	<b>100.0%</b>	

## Investment Performance Report – October 2012



**DC Water  
Finance Division  
Investment Analysis – By Fund  
As of October 31, 2012**



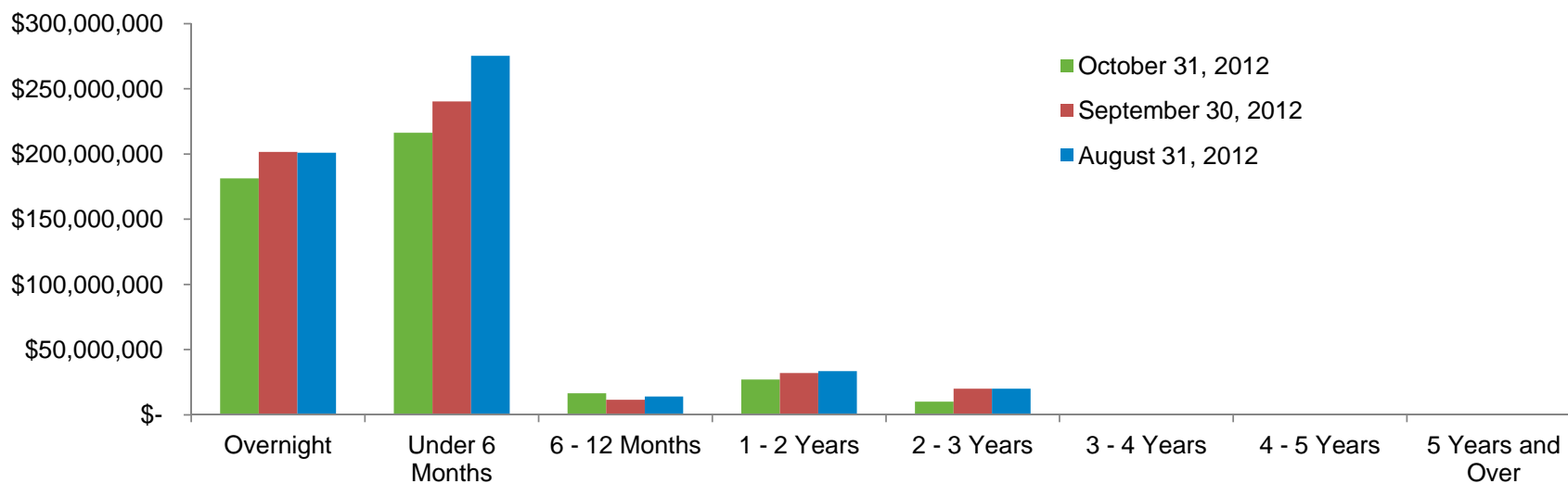
Fund Name	Book Value + Accrued Interest	Yield-to- Maturity at Cost	Effective Duration (years)	Weighted Average Maturity (days)
Total Rate Stabilization Fund	\$ 27,957,900	0.48%	0.12	45.0
Operating Reserve Accounts	\$ 153,274,285	0.81%	0.30	159.3
Total Debt Service Reserve	\$ 23,399,280	0.51%	0.32	119.6
Series 2010A Bond Construction Fund	\$ 36,510,026	0.06%	0.09	31.7
Series 2010A Bond Construction Fund- Cap I	\$ 4,556,674	0.88%	0.81	296.5
Total CSO LTCP Appropriations Account	\$ 40,051,347	0.44%	0.10	36.2
2012 Bond Construction Fund	\$ 165,258,857	0.09%	0.11	39.7
<b>Total</b>	<b>\$ 451,008,369</b>	<b>0.42%</b>	<b>0.19</b>	<b>86.5</b>

## Investment Performance Report – October 2012



**DC Water  
Finance Division  
Investment Analysis – By Maturity**

Maturity Distribution	October 31, 2012	September 30, 2012	August 31, 2012
Overnight \$	181,277,552.58 \$	201,530,950.36 \$	200,889,979.33
Under 6 Months	216,277,509.14	240,361,970.84	275,329,878.87
6 - 12 Months	16,441,628.36	11,433,371.94	13,979,820.40
1 - 2 Years	26,971,088.16	31,968,862.75	33,365,046.90
2 - 3 Years	10,040,590.28	20,056,464.10	20,042,284.96
3 - 4 Years	-	-	-
4 - 5 Years	-	-	-
5 Years and Over	-	-	-
<b>Totals \$</b>	<b>451,008,368.52 \$</b>	<b>505,351,619.99 \$</b>	<b>543,607,010.46</b>



## Investment Performance Report – October 2012



**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		86,757,455.05	19.2%	100.0%	Yes
Premier Bank		5,027,070.80	1.1%	100.0%	Yes
Capital One Bank		5,028,719.33	1.1%	100.0%	Yes
Sub-Total Bank Deposits		96,813,245.18	21.5%	100.0%	Yes
Money Market Mutual Funds					
American Beacon MMF	AAAm	1,482,966.73	0.3%	50.0%	Yes
Williams Capital Money Market Fund	AAAm	2,500,161.50	0.6%	50.0%	Yes
Merrill Lynch MMF	AAAm	1,184,600.68	0.3%	50.0%	Yes
Wells Fargo Advantage Treasury Plus	AAAm	14,485,672.93	3.2%	50.0%	Yes
Wells Fargo Government MMF	AAAm	64,810,905.56	14.4%	50.0%	Yes
Sub-Total Money Market Mutual Funds		84,464,307.40	18.7%	100.0%	Yes
Certificates of Deposit					
CDARs - Placed by Industrial Bank	NR / NR	15,029,246.57	3.3%	30.0%	Yes
CDARs - Placed by City First Bank	NR / NR	5,016,755.46	1.1%	30.0%	Yes
Sub-Total Certificates of Deposit		20,046,002.03	4.4%	30.0%	Yes
Commercial Paper					
Baylor University Comm Paper	A-1+ / NR	9,996,916.70	2.2%	5.0%	Yes
Bank Of Nova Scotia Ny Comm Paper	A-1+ / P-1	9,997,866.70	2.2%	5.0%	Yes
Jp Morgan Chase & Co Comm Paper	A-1 / P-1	4,997,925.00	1.1%	5.0%	Yes
Mizuho Funding Llc Comm Paper	A-1 / P-1	9,995,100.00	2.2%	5.0%	Yes
Sumitomo Corp Of America Comm Paper	A-1 / P-1	9,990,729.40	2.2%	5.0%	Yes
Wells Fargo & Company Comm Paper	A-1 / P-1	9,998,625.00	2.2%	5.0%	Yes
Sub-Total Commercial Paper		54,977,162.80	12.2%	35.0%	Yes
Federal Agencies					
Fannie Mae	AA+ / Aaa	12,835,659.76	2.8%	40.0%	Yes
Freddie Mac	AA+ / Aaa	45,056,333.99	10.0%	40.0%	Yes
Federal Home Loan Bank	AA+ / Aaa	56,995,509.34	12.6%	40.0%	Yes
Sub-Total Federal Agencies		114,887,503.09	25.5%	100.0%	Yes
Treasuries					
Treasury Note	AA+ / Aaa	79,820,148.02	17.7%	100.0%	Yes
Sub-Total Treasuries		79,820,148.02	17.7%	100.0%	Yes
Total		\$ 451,008,368.52	100.0%		

## Investment Performance Report – October 2012



**DC Water  
Finance Division  
Book Value Performance  
As of October 31, 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%	0.41%	0.15%	0.60%	0.33%	0.66%	0.61%
Operating Reserve Accounts	0.06%	0.74%	0.16%	0.62%	0.30%	0.60%	0.61%
Total Debt Service Reserve	0.04%	0.46%	0.13%	0.51%	0.26%	0.52%	0.55%
Total CSO LTCP Appropriations Account	0.01%	0.14%	0.03%	0.13%	0.08%	0.16%	0.29%
2010A Construction Fund	0.00%	0.02%	0.01%	0.04%	0.03%	0.06%	0.12%
2010A Capitalized Interest Fund	0.08%	0.89%	0.20%	0.81%	0.40%	0.79%	0.75%
2012 Construction Fund	0.01%	0.07%	0.02%	0.09%	0.05%	0.10%	n/a
<b>Short-Term</b>	<b>0.03%</b>	<b>0.38%</b>	<b>0.08%</b>	<b>0.34%</b>	<b>0.16%</b>	<b>0.31%</b>	<b>0.36%</b>
Merrill Lynch 3-Month Treasury Index (Book Value) <sup>1</sup>	0.01%	0.10%	0.02%	0.10%	0.05%	0.09%	0.07%
<b>Core (1+ Years)</b>	<b>0.07%</b>	<b>0.88%</b>	<b>0.21%</b>	<b>0.85%</b>	<b>0.42%</b>	<b>0.83%</b>	<b>0.87%</b>
Merrill Lynch 1-3 Year Treasury Index (Book Value) <sup>2</sup>	0.02%	0.29%	0.07%	0.26%	0.14%	0.27%	0.28%

- (1) The Merrill Lynch 3-Month Treasury Bill is an unmanaged index tracking the on-the-run 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 3-Month Treasury Bill 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.



## Investment Performance Report – October 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
<b>Total Rate Stabilization Fund</b>									
TD BANK BANK DEPOSIT	\$ 7,965,883		11/1/2012		0.90%	\$ 7,965,883	\$ 7,965,883	\$ 7,965,883	
MIZUHO FUNDING LLC COMM PAPER	10,000,000	-	12/20/2012	8/29/2012	0.36%	9,988,700	9,997,410	9,995,100	
BAYLOR UNIVERSITY COMM PAPER	10,000,000	-	1/14/2013	9/26/2012	0.15%	9,995,417	9,995,417	9,996,917	
									\$ 27,957,900.03
<b>Operating Reserve Accounts</b>									
TD BANK BANK DEPOSIT	\$ 65,245,990		11/1/2012		0.90%	\$ 65,245,990	\$ 65,245,990	\$ 65,245,990	
CAPITAL ONE BANK	5,028,719		11/1/2012		0.50%	5,028,719	5,028,719	5,028,719	
WILLIAMS CAPITAL MONEY MARKET FUND	2,500,162		11/1/2012		0.00%	2,500,162	2,500,162	2,500,162	
FNMA NOTES (CALLED, OMD 11/21/2014)	10,000,000	0.800	11/21/2012	11/21/2011	0.83%	9,992,000	10,038,276	10,030,053	
WELLS FARGO & COMPANY COMM PAPER	10,000,000	-	12/4/2012	8/29/2012	0.15%	9,995,958	9,998,320	9,998,625	
SUMITOMO CORP OF AMERICA COMM PAPER	10,000,000	-	1/14/2013	8/29/2012	0.45%	9,982,712	9,995,000	9,990,729	
INDUSTRIAL BANK CDARS	2,500,000	0.500	1/27/2013	1/26/2012	0.50%	2,500,000	2,509,589	2,509,589	
CITY FIRST BK OF WASHINGTON, DC (CDARS)	2,500,000	0.500	3/23/2013	3/23/2012	0.50%	2,500,000	2,509,493	2,507,616	
FHLB NOTES	10,000,000	0.750	8/28/2013	5/18/2011	0.72%	10,008,025	10,078,865	10,037,156	
INDUSTRIAL BANK CDARS	5,000,000	0.600	10/17/2013	10/18/2012	0.60%	5,000,000	5,001,151	5,001,151	
FHLB TAP BONDS	10,000,000	3.125	12/13/2013	5/19/2011	0.99%	10,675,134	10,441,452	10,356,259	
INDUSTRIAL BANK CDARS	2,500,000	0.900	1/27/2014	1/26/2012	0.90%	2,500,000	2,517,260	2,517,260	
CITY FIRST BK OF WASHINGTON, DC (CDARS)	2,500,000	0.600	3/23/2014	3/23/2012	0.60%	2,500,000	2,514,949	2,509,139	
INDUSTRIAL BANK CDARS	5,000,000	0.650	10/16/2014	10/18/2012	0.65%	5,000,000	5,001,247	5,001,247	
FHLMC NOTES (CALLABLE)	10,000,000	0.875	11/14/2014	11/18/2011	0.87%	10,000,972	10,042,480	10,040,590	
									\$ 153,274,285.30
<b>Total Debt Service Reserve</b>									
MERRILL LYNCH MMF	1,184,601		11/1/2012		0.06%	1,184,601	1,184,601	1,184,601	
WELLS FARGO GOVERNMENT MMF	2,010,549		11/1/2012		0.02%	2,010,549	2,010,549	2,010,549	
FHLMC NOTES	10,000,000	0.515	11/26/2012	11/22/2010	0.64%	9,981,294	10,024,634	10,021,306	
JP MORGAN CHASE & CO COMM PAPER	5,000,000	-	1/23/2013	10/24/2012	0.18%	4,997,725	4,998,653	4,997,925	
FHLB TAP BONDS	5,000,000	3.125	12/13/2013	5/25/2011	0.87%	5,354,034	5,220,726	5,184,898	
									\$ 23,399,279.59

## Investment Performance Report – October 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
<b><u>Series 2010A Bond Construction Fund</u></b>									
WELLS FARGO ADVANTAGE TREASURY PLUS	\$ 14,395,808		11/1/2012		0.01%	\$ 14,395,808	\$ 14,395,808	\$ 14,395,808	
WELLS FARGO GOVERNMENT MMF	2,117,640		11/1/2012		0.02%	2,117,640	2,117,640	2,117,640	
US TREASURY BILL	20,000,000	-	12/27/2012	10/24/2012	0.11%	19,996,089	19,996,880	19,996,578	
								\$	36,510,025.58
<b><u>Series 2010A Bond Construction Fund- Cap I</u></b>									
WELLS FARGO GOVERNMENT MMF	\$ 237,589		11/1/2012		0.02%	\$ 237,589	\$ 237,589	\$ 237,589	
WELLS FARGO ADVANTAGE TREASURY PLUS	89,865		11/1/2012		0.01%	89,865	89,865	89,865	
FHLB TAP BONDS	1,400,000	3.875	3/8/2013	3/16/2011	0.70%	1,488,359	1,426,320	1,423,613	
FNMA NOTES	1,400,000	1.125	9/30/2013	3/16/2011	0.97%	1,412,681	1,412,916	1,403,322	
FNMA NOTES (EX-CALLABLE)	1,400,000	1.250	3/14/2014	3/16/2011	1.19%	1,402,617	1,420,860	1,402,285	
								\$	4,556,673.95
<b><u>Total CSO LTCP Appropriations Account</u></b>									
TD BANK BANK DEPOSIT	\$ 13,545,582		11/1/2012		0.90%	\$ 13,545,582	\$ 13,545,582	\$ 13,545,582	
PREMIER BANK DEPOSIT	5,027,071		11/1/2012		0.24%	5,027,071	5,027,071	5,027,071	
AMERICAN BEACON MMF	1,482,967		11/1/2012		0.11%	1,482,967	1,482,967	1,482,967	
BANK OF NOVA SCOTIA NY COMM PAPER	10,000,000	-	1/4/2013	9/26/2012	0.12%	9,996,667	9,996,340	9,997,867	
FHLB DISC NOTE	10,000,000	-	1/17/2013	9/27/2012	0.10%	9,996,889	9,996,751	9,997,861	
								\$	40,051,346.92
<b><u>Series 2012 Bond Construction Fund</u></b>									
WELLS FARGO GOVERNMENT MMF	\$ 60,445,127		11/1/2012		0.02%	\$ 60,445,127	\$ 60,445,127	\$ 60,445,127	
US TREASURY NOTES	24,500,000	1.125	12/15/2012	3/27/2012	0.18%	24,743,133	24,632,436	24,632,385	
US TREASURY NOTES	35,000,000	1.125	12/15/2012	10/24/2012	0.13%	35,126,785	35,189,194	35,191,185	
FHLB DISC NOTE	20,000,000	-	1/17/2013	9/27/2012	0.10%	19,993,778	19,993,502	19,995,722	
FHLMC DISC NOTE	25,000,000	-	1/29/2013	9/26/2012	0.09%	24,992,188	24,990,629	24,994,438	
								\$	165,258,857.15
						<b>\$ 451,398,708.78</b>	<b>\$ 451,218,300.24</b>	<b>\$ 451,008,368.52</b>	<b>\$ 451,008,368.52</b>



## Investment Performance Report – October 2012

**DC Water  
Finance Division  
Security Transactions  
Last 6 Months**

ACCOUNT	CUSIP	DESCRIPTION	PAR	COUPON	MATURITY DATE	SETTLE DATE	YTM	TRANSACTION AMOUNT
<b>Purchases</b>								
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 2010A CONSTRUCTION FUND	06416JJB0	BANK OF NOVA SCOTIA NY COMM PAPER	10,000,000	-	09/11/12	07/31/12	0.107	\$ 9,998,775.00
DC WASA 2010A CONSTRUCTION FUND	90526MJE8	UNION BANK NA COMM PAPER	10,000,000	-	09/14/12	07/31/12	0.071	\$ 9,999,125.00
<b>DC WASA 2010A CONSTRUCTION FUND</b>	<b>9127956Y2</b>	<b>US TREASURY BILL</b>	<b>20,000,000</b>	<b>-</b>	<b>12/27/12</b>	<b>10/24/12</b>	<b>0.112</b>	<b>\$ 19,996,088.89</b>
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	59157TJU8	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	4662J0JQ6	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 OPERATING RESERVE ACCOUNTS	86561ANE3	SUMITOMO CORP OF AMERICA COMM PAPER	10,000,000	-	01/14/13	08/29/12	0.458	\$ 9,982,711.67
DC WASA OPERATING RESERVE ACCOUNTS	9497F0M41	WELLS FARGO & COMPANY COMM PAPER	10,000,000	-	12/04/12	08/29/12	0.152	\$ 9,995,958.33
<b>DC WASA OPERATING RESERVE ACCOUNTS</b>	<b>RE0937269</b>	<b>INDUSTRIAL BANK CDARS</b>	<b>5,000,000</b>	<b>0.650</b>	<b>10/16/14</b>	<b>10/18/12</b>	<b>0.659</b>	<b>\$ 5,000,000.00</b>
<b>DC WASA OPERATING RESERVE ACCOUNTS</b>	<b>RE0937277</b>	<b>INDUSTRIAL BANK CDARS</b>	<b>5,000,000</b>	<b>0.600</b>	<b>10/17/13</b>	<b>10/18/12</b>	<b>0.608</b>	<b>\$ 5,000,000.00</b>
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 CSO LTCP APPROPRIATIONS	06416JN41	BANK OF NOVA SCOTIA NY COMM PAPER	10,000,000	-	01/04/13	09/26/12	0.122	\$ 9,996,666.67
DC WASA TOTAL CSO LTCP APPROPRIATIONS	313385AS5	FHLB DISC NOTE	10,000,000	-	01/17/13	09/27/12	0.101	\$ 9,996,888.89
DC WASA TOTAL DEBT SERVICE RESERVE	7426M4JQ1	PRIVATE EXPORT FUNDING COMM PAPER	7,500,000	-	09/24/12	05/21/12	0.244	\$ 7,493,700.00
<b>DC WASA TOTAL DEBT SERVICE RESERVE</b>	<b>4662J0NP3</b>	<b>JP MORGAN CHASE &amp; CO COMM PAPER</b>	<b>5,000,000</b>	<b>-</b>	<b>01/23/13</b>	<b>10/24/12</b>	<b>0.183</b>	<b>\$ 4,997,725.00</b>
DC WASA RATE STABILIZATION FD	60688FML0	MIZUHO FUNDING LLC COMM PAPER	10,000,000	-	12/20/12	08/29/12	0.365	\$ 9,988,700.00
DC WASA RATE STABILIZATION FD	07286MNE7	BAYLOR UNIVERSITY COMM PAPER	10,000,000	-	01/14/13	09/26/12	0.152	\$ 9,995,416.67
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
DC WASA 2012 CONSTRUCTION FUND	313384H69	FHLB DISC NOTE	20,000,000	-	09/28/12	07/31/12	0.101	\$ 19,996,722.22
DC WASA 2012 CONSTRUCTION FUND	313397BE0	FHLMC DISC NOTE	25,000,000	-	01/29/13	09/26/12	0.091	\$ 24,992,187.50
DC WASA 2012 CONSTRUCTION FUND	313385AS5	FHLB DISC NOTE	20,000,000	-	01/17/13	09/27/12	0.101	\$ 19,993,777.78
<b>DC WASA 2012 CONSTRUCTION FUND</b>	<b>912828MB3</b>	<b>US TREASURY NOTES</b>	<b>35,000,000</b>	<b>1.125</b>	<b>12/15/12</b>	<b>10/24/12</b>	<b>0.135</b>	<b>\$ 35,190,151.13</b>

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

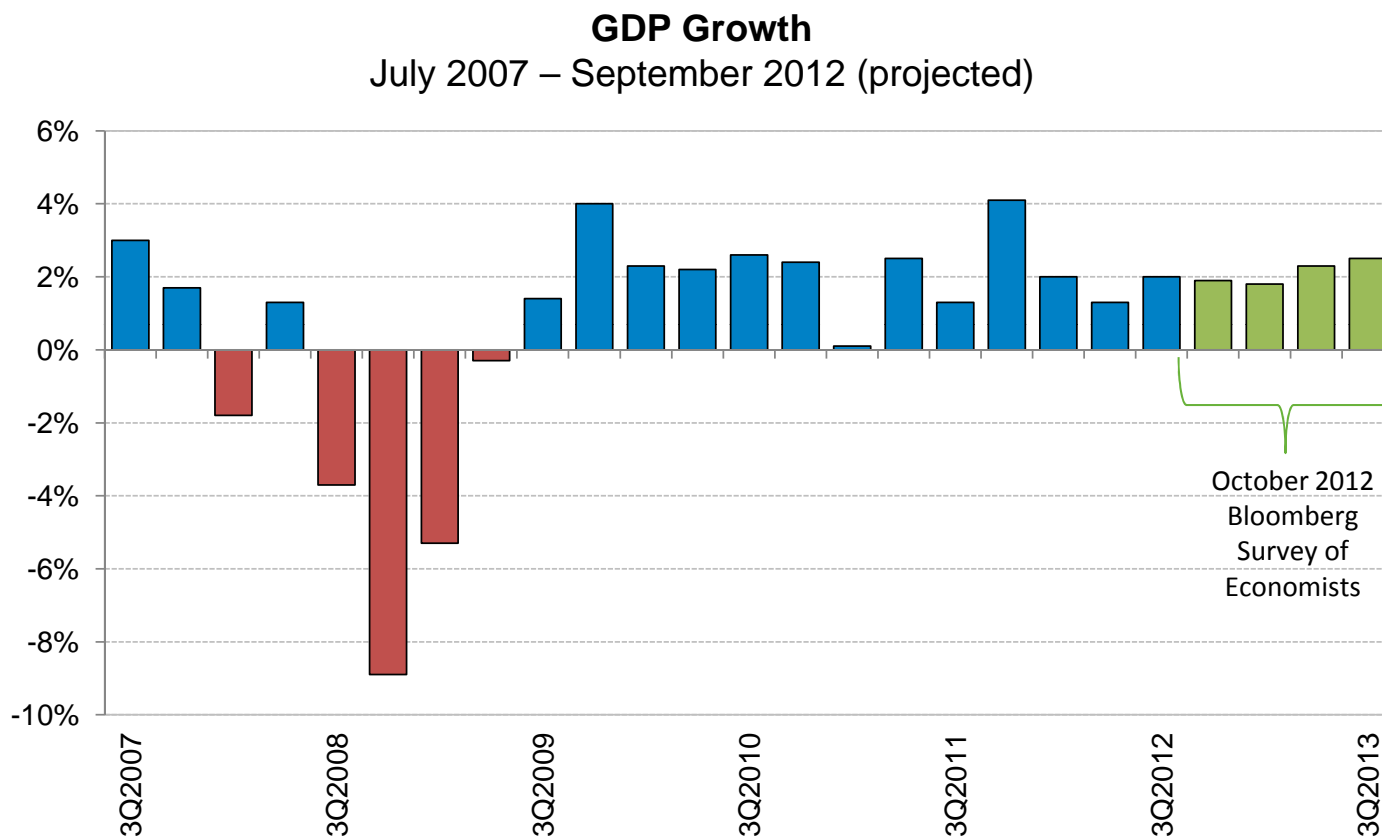


# Appendix: Economic Update



## GDP Grows at a Modest Rate

- In the third quarter, the economy grew by 2.0%.



Source: Bloomberg

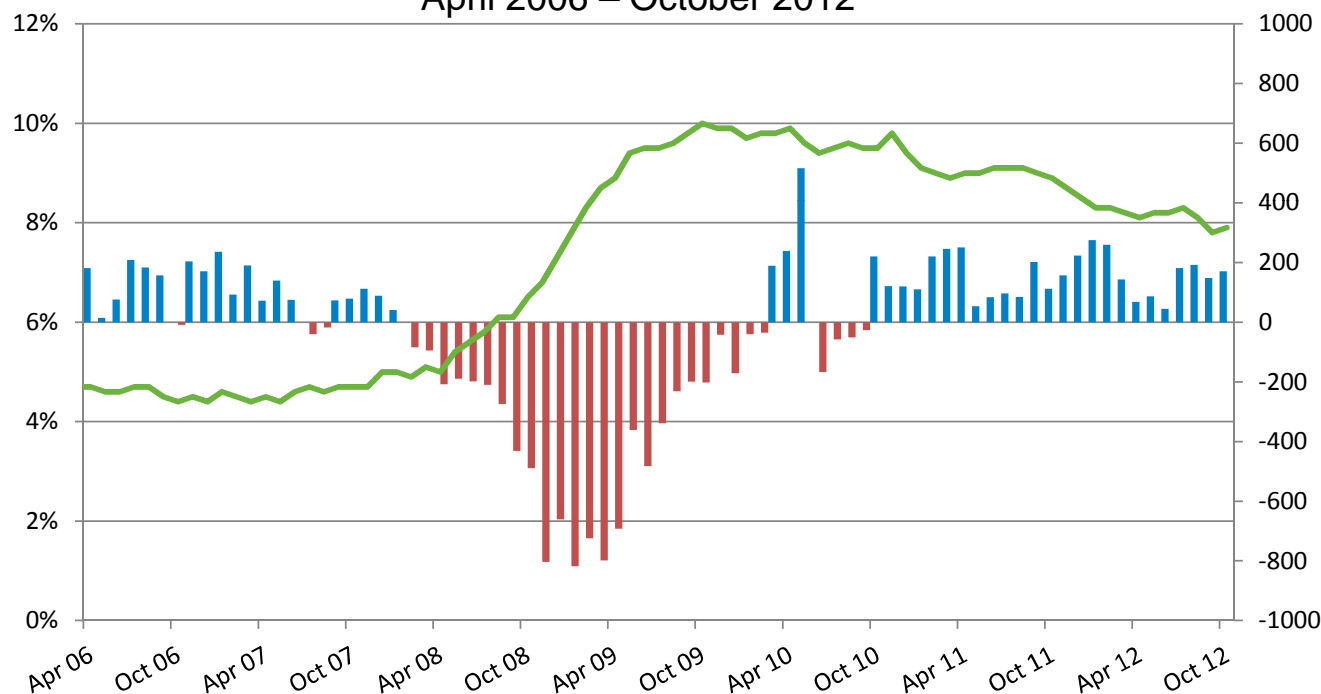


## Job Creation Slipping Below Population Growth

- The October employment report from the Bureau of Labor & Statistics showed job creation of 171,000 jobs and the unemployment rate rising to 7.9%.

### Unemployment vs. Non-Farm Payrolls

April 2006 – October 2012



Source: Bloomberg



## The Looming Fiscal Cliff

- At the end of 2012, unresolved budget and fiscal policy issues will automatically result in higher taxes and automatic spending cuts that could destabilize the fragile recovery.

### Year-end 2012

- The Bush tax cuts expire
- Payroll tax breaks and expanded unemployment benefits expire

### Early 2013

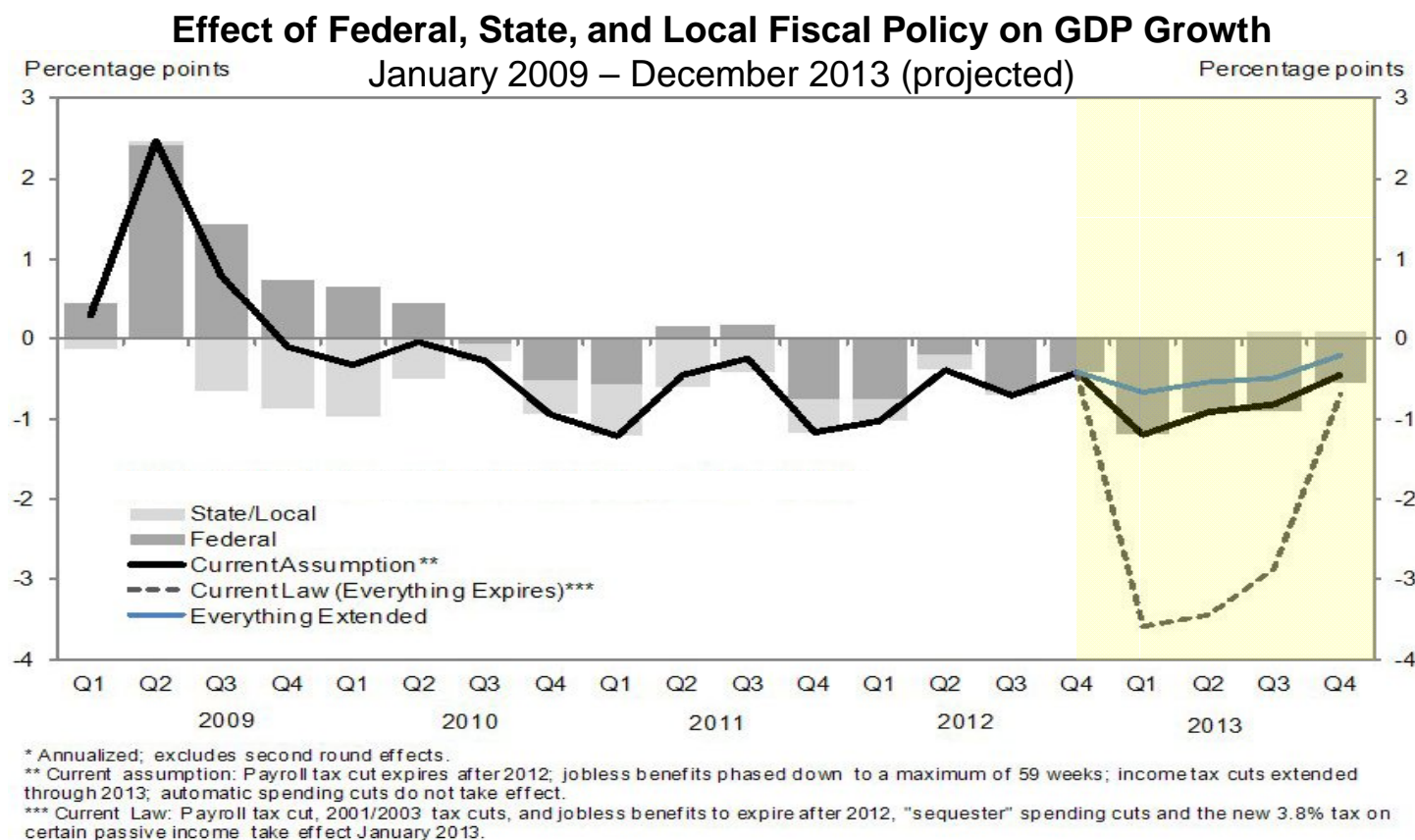
- Debt ceiling will have to be raised
- Automatic spending cuts (sequester) begin - \$2 trillion over the next ten years





## The Looming Fiscal Cliff

- Cuts in government spending have been a drag on GDP growth. If Congress fails to act, these automatic provisions could depress GDP by roughly 3.5%.



Source: GS Global ECS Research

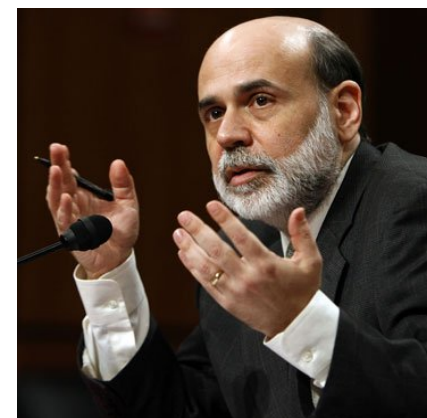




## Federal Reserve Will Likely Remain on Hold

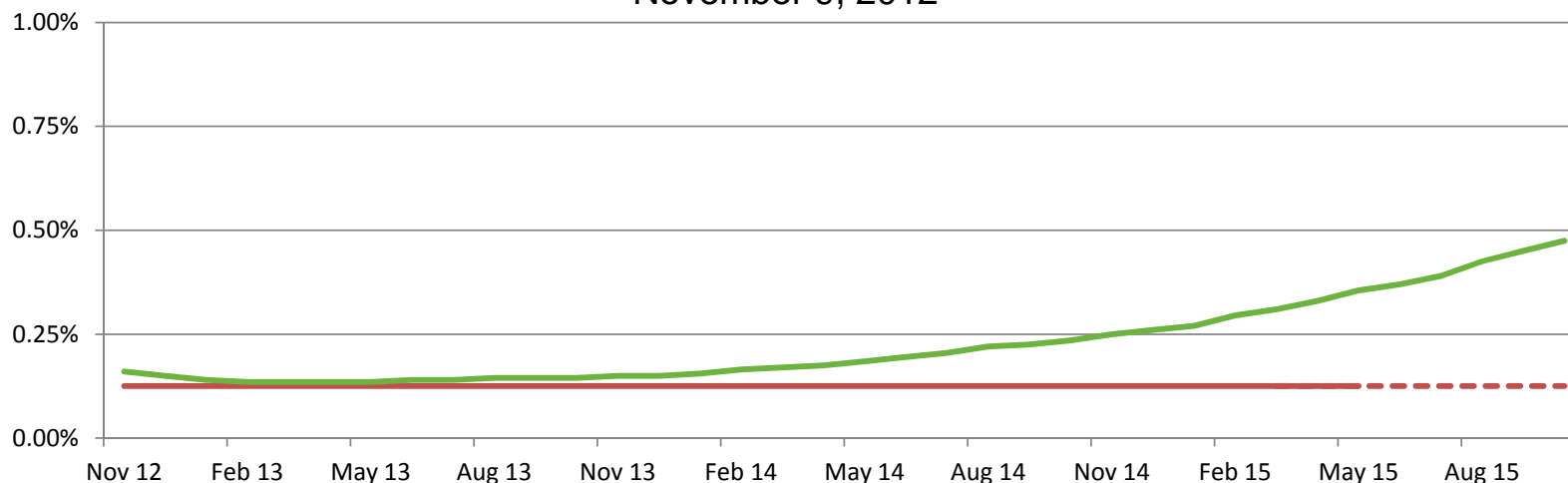
From the FOMC's statement from its October 24, 2012, meeting:

- *“To support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the economic recovery strengthens. In particular, the Committee also decided today to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that exceptionally low levels for the federal funds rate are likely to be warranted at least through **mid-2015**.”*



### Fed Funds Futures Contracts

November 9, 2012



Source: Bloomberg



## 30 Day LIBOR

- Credit spreads have continued to narrow as risk-on investors seek additional yield.

**30 Day LIBOR**  
November 2009 – November 2012

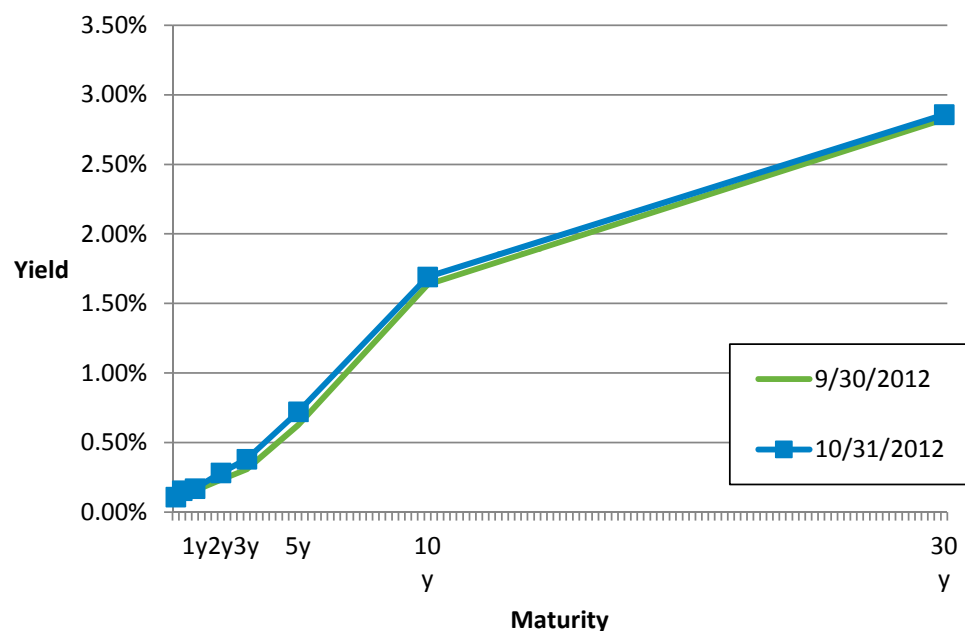




## Interest Rates Increased Modestly

### U.S. Treasury Yield Curve

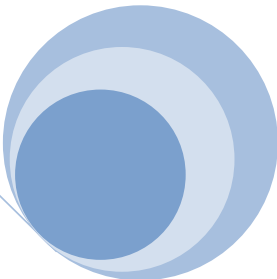
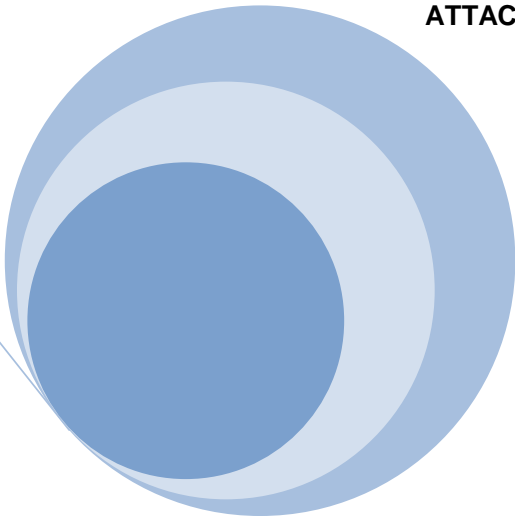
September 30, 2012 versus October 31, 2012



	9/30/2012	10/31/2012	Change
3 month	0.09%	0.11%	0.02%
6 month	0.13%	0.16%	0.03%
1 year	0.16%	0.17%	0.02%
2 year	0.23%	0.28%	0.05%
3 year	0.31%	0.38%	0.08%
5 year	0.63%	0.72%	0.10%
10 year	1.63%	1.69%	0.06%
30 year	2.82%	2.86%	0.03%

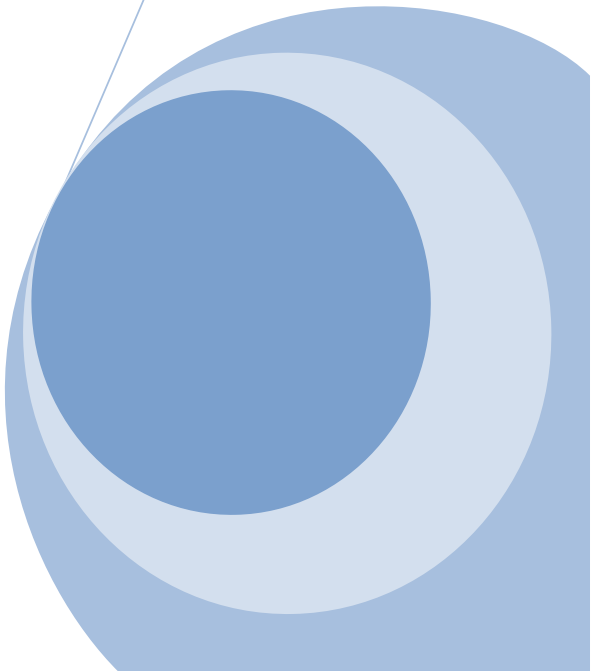
Source: Bloomberg

ATTACHMENT 2



DC Water Debt Policy and Guidelines

\_\_\_\_\_  
Chief Financial Officer



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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 and use 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
  - 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~~Long and Short-Term debt, Pay-As-You-Go (PAYGO) financing, grants and other Alternative Forms of Financing).
  - 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 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 the Board and all of DC Water's stakeholders with the required information as required and, in sufficient detail and with ample time to allow for assessment purposes and guidance. For example, for DC Water's SIFMA-Index Floating Rate Notes, the Board will review potential options and provide feedback to address a mandatory tender of the bonds 9 months prior to the mandatory tender date.
  - Addressing and mitigating debt portfolio risks to DC Water's ~~short~~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~~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 is 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.
- Disclosure Counsel may will be retained by DC Water, ~~at the discretion of the CFO,~~ to assist with development of the Official Statement and Continuing Disclosure ~~Agreements~~agreements. Disclosure Counsel will advise DC Water on matters pertaining to Continuing Disclosure needs and requirements. Disclosure Counsel will also provide a Due Diligence Opinion ("Rule 10(b)(5) opinion") at Closing to DC Water. Disclosure Counsel may also be Bond Counsel.
- 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.
- Feasibility Consultant(s) will be retained by DC Water to provide an engineering feasibility report as well as a financial feasibility opinion. The engineering feasibility report will have findings and recommendations regarding the maintenance of DC Water's system and the adequacy of the CIP. The financial feasibility opinion addresses DC Water's ability to effectively execute its mission, operate its system to provide uninterrupted service, maintain regulatory compliance and finance and implement the current CIP within the parameters established in the indenture as well as Board policies. Both can be incorporated into the bond offering documents.

## 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, Disclosure and Tax Counsel; Feasibility Consultant; feasibility consultant; Independent Consulting Engineer; Underwriters; Underwriter's Counsel; Printer; printer; Trustee; Verification Agent; Eserow Agent; escrow agent; and others as deemed necessary by the CFO.
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~~ review these options with the Board and provide a recommendation ~~to~~ on the Board preferred option, 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 policies 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, as market conditions dictate. A DSRF can be established to support each individual series of bonds or as a common reserve that can support more than one series of bond's Debt Service.~~ 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:** Represent 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 the Refunding transaction. See the Attached checklist, "Refunding Guidelines". Additionally, see DC Water's ~~"Policy Considerations for Multi-Modal (SIFMA Index) Bonds Policy"~~ and the attached checklist ~~for SIFMA Index Bonds,~~ "Timing and Considerations for Variable Rate Debt".
- **Market Access and Conditions:** DC Water, with advice of its Finance Team, prefers to issue debt in favorable market conditions. However, in the event of debt market stress, it might be difficult to issue debt in a cost effective manner. If this situation arises, 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 beneficial use of the assets, 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~~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~~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~~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~~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 shall not exceed 20-25%. For calculation purposes, this ratio will exclude both Variable Rate debt which has been converted through a hedging transaction to syntheticsynthetically Fixed Rate debt) shall not exceed 20-25%.~~ and debt that is “naturally hedged” by cash and investment balances.
- **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: and the Marketability of the bonds.
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:** DC Water recognizes that, in certain circumstances, a derivatives transaction (e.g., Swaps, Swaptions and interest rate collars) can manage risk exposures and produce a lower cost of financing. However, each Derivative instrument can raise complex risk and credit issues. DC Water's over-arching goals for a derivatives transaction address the following:
- DC Water shall not enter into a derivatives transaction for the purpose of speculation.
  - When compared to conventional market transactions, DC Water will achieve more savings or more flexibility in meeting its overall financial objectives.
  - Achieve diversification of a bond offering or achieve a debt management goal through the Derivative instrument.
  - Reduce or hedge exposure (to changes in interest rates, commodity prices, etc) in relation to the overall asset/liability portfolio management of DC Water.
  - Take advantage of market opportunities to produce a lower net cost of borrowing with respect to debt obligations.

By recommendation of the CFO, the Board is responsible for the approval to execute a derivatives transaction. The authorizing derivatives resolution will approve the derivatives transaction and its details, including notional amount, security, payment, risks and other conditions relating to the transaction. In the Authorizing Resolution, DC Water must state the goals of the derivatives transaction and each resolution will identify the appropriate official to execute and make changes, within limits, to the derivatives transaction being considered.



DC Water must receive an evaluation from its Financial Advisor(s) stating that the proposed Derivative transaction is in DC Water's best interest. DC Water must also receive an opinion from Bond Counsel that the approved Derivative transaction is a legal and valid obligation of DC Water. Actions approved by the Board must comply with applicable law and not violate existing Indenture and other contracts.

## 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. ~~Currently, Underwriter's Disclosure~~ Counsel is the primary drafter of this document ~~but this can also be authored by Disclosure Counsel, if appropriate.~~
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~~[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](#), [Disclosure 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, [\(e.g. Disclosure Counsel's Rule 10\(b\)\(5\) Opinion\)](#), 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. This comparison will illustrate the borrowing costs of DC Water's new issue compared to similarly-rated entities. A review of investor's orders and allotments will also be provided.
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 (and applicable expenses) 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 will use a contracted dissemination/disclosure agent~~ Dissemination / Disclosure Agent whom shall be named as responsible for the required reporting for each debt issue requiring Continuing Disclosure under Securities and Exchange Commission Rule ~~15c2-15(c)(2)(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 Disclosure 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 and in conjunction with the Financial Advisor(s), 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.”

## ATTACHMENT 2A

## DC Water Debt Policy and Guidelines

Glossary<sup>1</sup>

For additional information see

<http://www.dewater.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.

**ALTERNATIVE FORMS OF FINANCING AND FINANCING PRODUCTS** – As the economic and political landscape changes, new forms of debt and debt instruments may become available as an alternative to traditional debt financing through a bond transaction. Some of the more common types are listed below:

***Inter-fund Transfers*** – Under some circumstances, one fund, often the general fund, will provide financial resources to another fund to support its operations. This support can take place either as a transfer payment or a loan. Board approval is generally required for the Inter-fund transfers.

<sup>1</sup> Adapted from the Municipal Securities Rulemaking Board ([www.msrb.org](http://www.msrb.org)) glossary.

**Leases** – Lease debt encompasses a wide-range of instruments (lease-purchase agreements, lease revenue bonds and certificates of participation) whose most common characteristic is usually the lower cost of issuance and whose payment is specified in the multi-year annual financial plan. Leasing is usually appropriate for smaller borrowings where the interest rate disadvantage of a lease (compared to traditional borrowing) do not have as big of an impact.

**Other Forms of Debt** – As the municipal market adapts to legislative, regulatory and economic change, new products will avail themselves to potential use as a means to issue debt. DC Water will consider each product on a case by case basis with a thorough examination of the risks associated with each product. An example of this was the establishment in 2009 of Build America Bonds program which provided a federal subsidy on the taxable interest expense associated with the bonds issued under this program.

**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.— Bond is said to have a “Call Option” as part of an Optional Redemption at the discretion of the issuer. Optional redemptions often can be exercised only on or after a specified date, typically beginning approximately ten years after the issue date.

**CAPITAL IMPROVEMENT PROGRAM (CIP)** – The CIP represents a 10 year plan of major capital asset investments. These investments address programs and projects that will improve and enhance the operation of the system. The CIP normally includes all mandated projects as well as rehabilitation of assets required to meet permit and other regulatory requirements and all service needs. The CIP development process includes a review of major accomplishments, priorities, status of major projects and emerging regulatory and related issues impacting the capital program. The CIP is integrated into the Multi-Year Financial Plan. Due to the size of the CIP, it is the primary driver of rate changes as well as the timing and size of debt transactions.

**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 industry-recognized expert who assists in the preparation of feasibility studies for proposed construction projects and whose products and analysis may be included in the offering document.

**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	=	$\frac{\text{Pledged Revenues}}{\text{Debt Service Requirement}}$
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*EXAMPLE:*

Coverage	=	$\frac{\$2,000,000}{\$1,200,000}$	=	1.66
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**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 (DSRF)** – 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 or DERIVATIVE INSTRUMENT**– 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 or synthetic fixed rate products.

**DISCLOSURE COUNSEL** – An attorney or law firm retained by the issuer to provide advice on issuer disclosure obligations and to prepare the official statement and continuing disclosure agreement.

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**DISSEMINATION / DISCLOSURE AGENT** – Acts on behalf of the issuer or obligated person to provide timely and accurate disclosure information to meet regulatory and other mandates.

**DUE DILIGENCE OPINION** – A letter of counsel, often referred to as a “10b-5 opinion,” generally based upon an investigation of specified facts, and addressing the accuracy and completeness of the official statement. A due diligence opinion customarily states that, based on certain specified inquiries, nothing has come to such counsel’s attention indicating that the official statement contains any misstatements of material facts or any material omissions. A due diligence opinion may or may not be issued, depending on the nature and complexities of the new issue of municipal securities.

**ENABLING LEGISLATION** – a piece of legislation by which a legislative body grants an entity, which depends on it for authorization or legitimacy, the power to take certain actions.

**ESCROW ACCOUNT** – A fund established to hold monies 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, and others as deemed necessary by the CFO.

**FINANCIAL ADVISOR** – With respect to an 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 an 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.

**FIXED RATE** – An interest rate on a security that does not change for the remaining life of the security

**FLOW OF FUNDS** – The order and priority of handling, depositing and disbursing pledged revenues, as set forth in the bond indenture and documents. 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 the bond indenture and documents. 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 CUSTOMER or INSTITUTIONAL INVESTOR** – 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 INVESTOR** – 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.

Source: CFA Institute, Inc. 2012/2013

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 Principal Assumptions:  
 Size of issue: \$10,000,000  
Interest rate: 7%  
Maturity of issue: 5 years

Debt Service Schedule			
Years	Principal*	Interest	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.

**MSRB Rule G-17.** A rule published by the MSRB that details each broker, dealer, municipal securities dealer, and municipal advisor shall deal fairly with all persons and shall not engage in any deceptive, dishonest, or unfair practice. In particular, G-17 requires that underwriters disclose to municipal issuers (who must acknowledge) the risks associated with both fixed and variable rate bond offerings. Some of these risks are:

**Financial Risk** – Umbrella term for multiple types of risk associated with financing.

**Issuer Default Risk** – Funds pledges to secure bonds are not sufficient to pay the debt service or maintain specific financial ratios as detailed in the covenants of the Indenture. A default will likely negatively impact credit ratings as well as limit future access to capital borrowings at market rates.

**Legislative (Legal) Risk** – Decisions made by a legislative body can impact the operations of issuers. Laws that made a given debt instrument permissible or attractive to employ (such as tax laws) can change.

**Political Risk**– Broadly refers to the complications issuers may face as a result of political decisions that may change or alter the expected outcome and value of a given economic action by changing the probability of achieving the issuer desired objectives. Political Risk exists at all levels of government, from local to national, as governing bodies are asked to vote on issuer plans or legislation that might impact the issuer. In most instances, political risk can be understood and managed with reasoned foresight, planning and communication.

**Redemption Risk** – Depending on the optional redemption terms in the offering documents of a bond issue, the ability to redeem bonds at the specified call date may be limited. In the events that market rates increase, there would be no incentive to redeem outstanding bonds for a higher rate compared to the existing bonds.

**Refinancing Risk** – If the financing plan contemplates the refinancing of some or all bonds when those bonds reach maturity, there is a risk that market conditions or changes in law could limit or prevent this refinancing. For example, limitations in the federal tax rules on advance refunding of bonds may restrict the ability to refund bonds to take advantage of lower interest rates.

**Reinvestment Risk** – Proceeds from bonds can be invested for a period of time prior to their intended use. Based on market conditions, the rate of interest actually earned on these invested proceeds can be lower than the forecasted and anticipated rate.

**Tax Compliance Risk** – The issuance of tax-exempt bonds is subject to a number of requirements under the U.S. Internal Revenue Code, as enforced by the Internal Revenue Service. Prior to the issuance of tax-exempt bonds, certain steps and representations are required. Additionally, issuers must covenant to take certain actions after the issuance of the tax-exempt bonds. A breach of these representations and covenants may cause the interest of the bonds in question to be retroactively taxed to the date of issuance. This change in tax status could cause a higher rate of interest to be paid on the bonds or require a mandatory tender of the bonds. Additionally, the IRS may also elect to do an audit of the bonds and issuer. If the bonds are declared taxable or the IRS is conducting an audit, the market price of the bonds may be impacted and the future ability to issue tax-exempt debt may come into question.

**Interest Rate Risk** – Reflects the risk that the debt service costs associated with variable rate debt increase and negatively impact coverage ratios and liquidity. Overall market rates can increase due to broader economic conditions or to specific concerns about the region/sector or issuer.

**Liquidity Risk** – Some debt issues carry an imbedded option, where the investor can “put” the bond to the issuer and demand payment. For Floating Rate Notes (FRNs), this is typically a pre-determined date. For other variable rate debt, such as Variable Rate Demand Obligations (VRDO), this put option can be as often as weekly or even daily. If these “put” bonds cannot be remarketed and resold to another investor or refinanced, the issuer must have sufficient liquidity or liquidity support to purchase these tendered bonds on the day in question.

**MULTI-YEAR FINANCIAL PLAN** – The Multi-Year Financial represents a strategic budget that uses a 10 year planning horizon to address regulatory requirements, infrastructure needs, Board-determined priorities, general operations as well as funding and rate impacts on customers. A component of the Multi-Year Financial Plan is the Capital Improvement Program.

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

**NEGOTIATED SALE** – The sale of an 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. or Discount)** – 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 (O.I.P. or 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 lump sum of funds or a stream of funds over time that are expected to be received (or disbursed) 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 an issue of municipal securities, the process by which the issuer and underwriters determine the interest rates and prices at which the issue will be offered to the public. The pricing of an 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.

**PROFESSIONAL RETAIL CUSTOMER or PROFESSIONAL RETAIL INVESTOR** – A customer other than an institutional customer that typically purchases large blocks of bonds for centrally managed individual accounts or for municipal bond funds.

**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:

<a href="http://www.fitchratings.com">Fitch Ratings</a> (www.fitchratings.com)	<a href="http://www.moodys.com">Moody's Investors Service</a> (www.moodys.com)	<a href="http://www.standardandpoors.com">Standard &amp; Poor's</a> (www.standardandpoors.com)
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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.~~ **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 and providers of other services.

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

**RULE 10(b)(5)** – An SEC rule that makes it unlawful for any person, in connection with the purchase or sale of any security, to employ any device, scheme, or artifice to defraud; to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person. Normally pertains to Disclosure and the information contained in the Official Statement.

**RULE 15(c)(2)(12)** – An SEC rule setting forth certain obligations of (i) underwriters to receive, review and disseminate official statements prepared by issuers of most primary offerings of municipal securities, (ii) underwriters to obtain continuing disclosure agreements from issuers and other obligated persons to provide material event disclosures and annual financial information on a continuing basis, and (iii) broker-dealers to have access to such continuing disclosure in order to make recommendations of municipal securities in the secondary market.

**SERIAL BONDS** – Bonds of an issue that mature in consecutive years.

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**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** – Generally have a maturity of less than 15 years. 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 derivative transaction involving the 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 an 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, senior 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 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 an 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 and providing guidance on the transaction. 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 by syndicate members. 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.

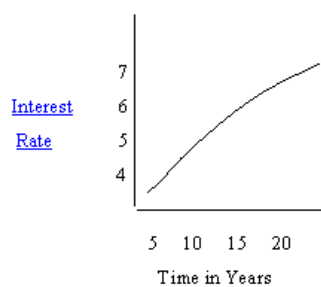
**VERIFICATION AGENT** – A certified public accountant or other independent third party that provides the Verification Report.

**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:

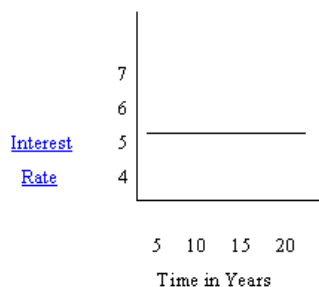
**Normal or Positive Yield Curve** – Indicates that [short-term securities](#) have a lower [interest rate](#) than [long-term](#) securities.



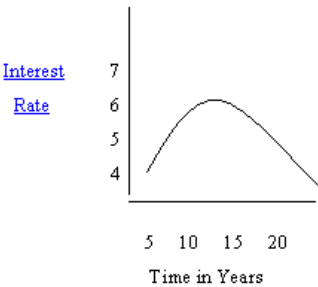
**Inverted or Negative Yield Curve** – Reflects the situation of [short-term](#) rates exceeding [long-term](#) rates.



**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.



## D.C. Water and Sewer Authority Multi-modal (SIFMA Index) Bonds Policy

<b>SUBJECT</b>	
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<b>Multi-modal (SIFMA Index) Bonds</b>	
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This policy sets-forth the methodologies and procedures that DC Water will undertake in structuring and utilizing SIFMA-Indexed Bonds.

The purpose of this policy is to provide more than adequate time to effect the remarketing or refunding of SIFMA Indexed Bonds well in advance of any mandatory tender or maturity date and, in addition, provides significant redundancy to safeguard against any liquidity risk to the Authority of the hard put/hard maturity feature of SIFMA Index Bonds.

In order to prudently manage its debt portfolio and ensure the orderly and timely remarketing or refunding of such securities prior to any mandatory tender dates or hard maturity dates, DC Water will:

1. Structure any SIFMA-Indexed or similar bonds with an optional redemption feature of at least six months prior to any mandatory tender or maturity date which affords the Authority an extended window to remarket or refund the SIFMA Index Bonds and not be subject to limited periods of no market access.
2. Throughout the three months preceding any Purchase Date, maintain sufficient liquidity (either in cash or cash equivalents) to cover the full amount of the Purchase Price payable on that Purchase Date; and
3. Maintain strong credit ratings to ensure market access.

The Authority will adhere to the schedule set-forth below to ensure timely and orderly remarketing or refunding of such securities:

1. The Authority will begin its review, preparation and strategy for remarketing/refunding approximately nine (9) months prior to each mandatory or stated maturity date for the SIFMA Index Bonds. During this period, the Authority will:
  - a. Assess and evaluate its options, taking into consideration the current market conditions;
  - b. Decide upon a preferred option and remarketing /refinancing strategy; and
  - c. Develop a formal plan of action with a timeline and details for completion, (including initiating the transactional dialogue with the rating agencies)
2. No later than 180 days (6-months) prior to the mandatory tender or stated maturity, the Authority will have determined the plan of finance, made the appropriate notifications as required by the Indenture, obtained, or be in the process of obtaining, all legal authorizations and will proceed with the bond issuance activities:

Approved by	Date Approved	Revision No.	Supersedes	Page
Olu Adebo, Chief Financial Officer	March 7, 2012			1 of 2



## D.C. Water and Sewer Authority Multi-modal (SIFMA Index) Bonds Policy

<b>SUBJECT</b>	
<b>Multi-modal (SIFMA Index) Bonds</b>	

**To the extent that the Authority determines to Refund the bonds:**

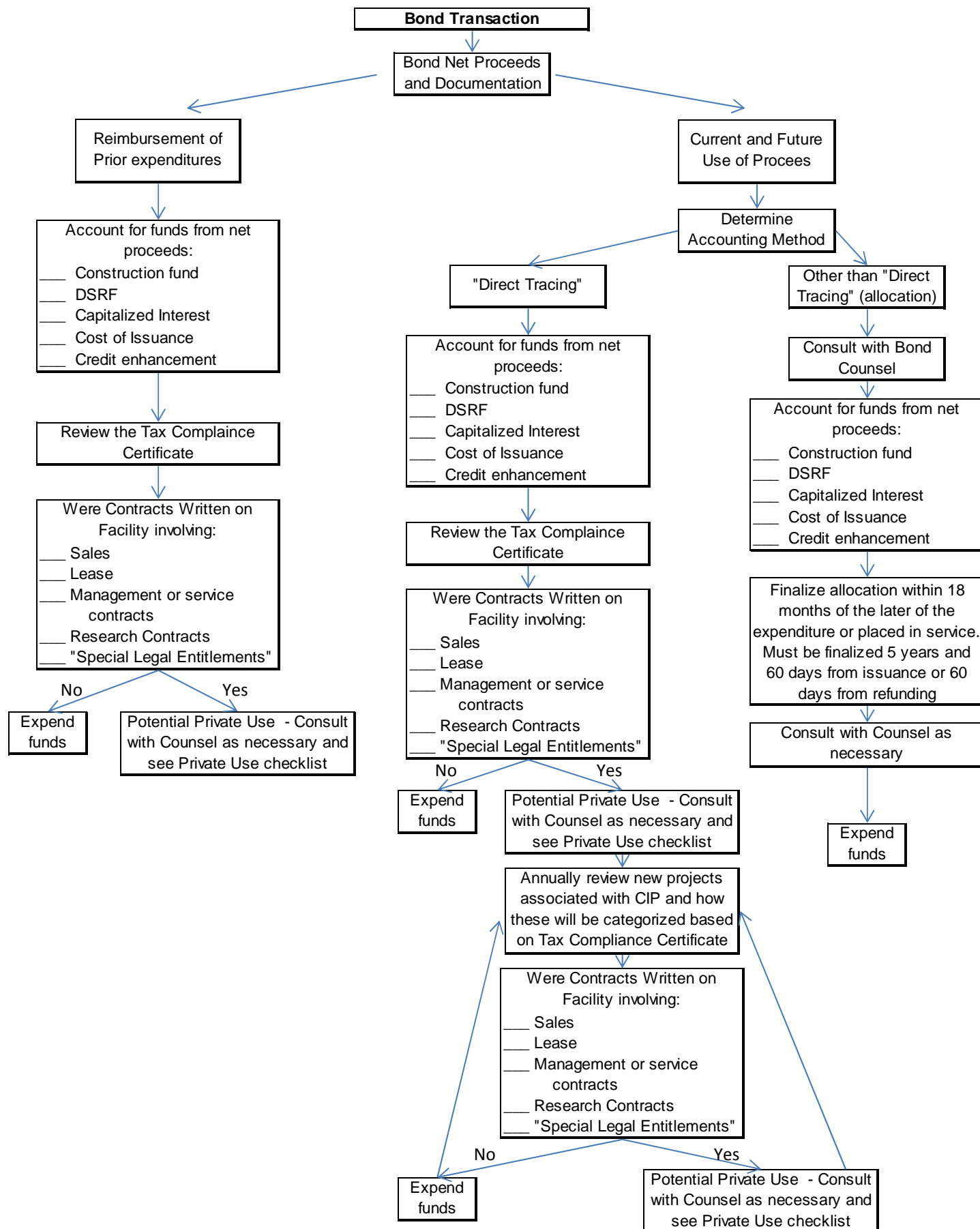
- a. 180-120 days prior to mandatory tender or stated maturity: complete near-final drafts of financing documents; circulate credit package to rating agencies.
- b. No later than required: send required notices to trustee, bondholders and other notice parties. Finalize financing documents.
- c. Approximately 100 days prior to mandatory tender or stated maturity: receive credit ratings; mail offering documents; price refinancing bonds; prepare for closing:
- d. No later than 30 days prior to mandatory tender date or stated maturity: close on the refunding transaction for the outstanding SIFMA Index Bonds.

**To the extent that the Authority determines to remarket the mandatory tender bonds:**

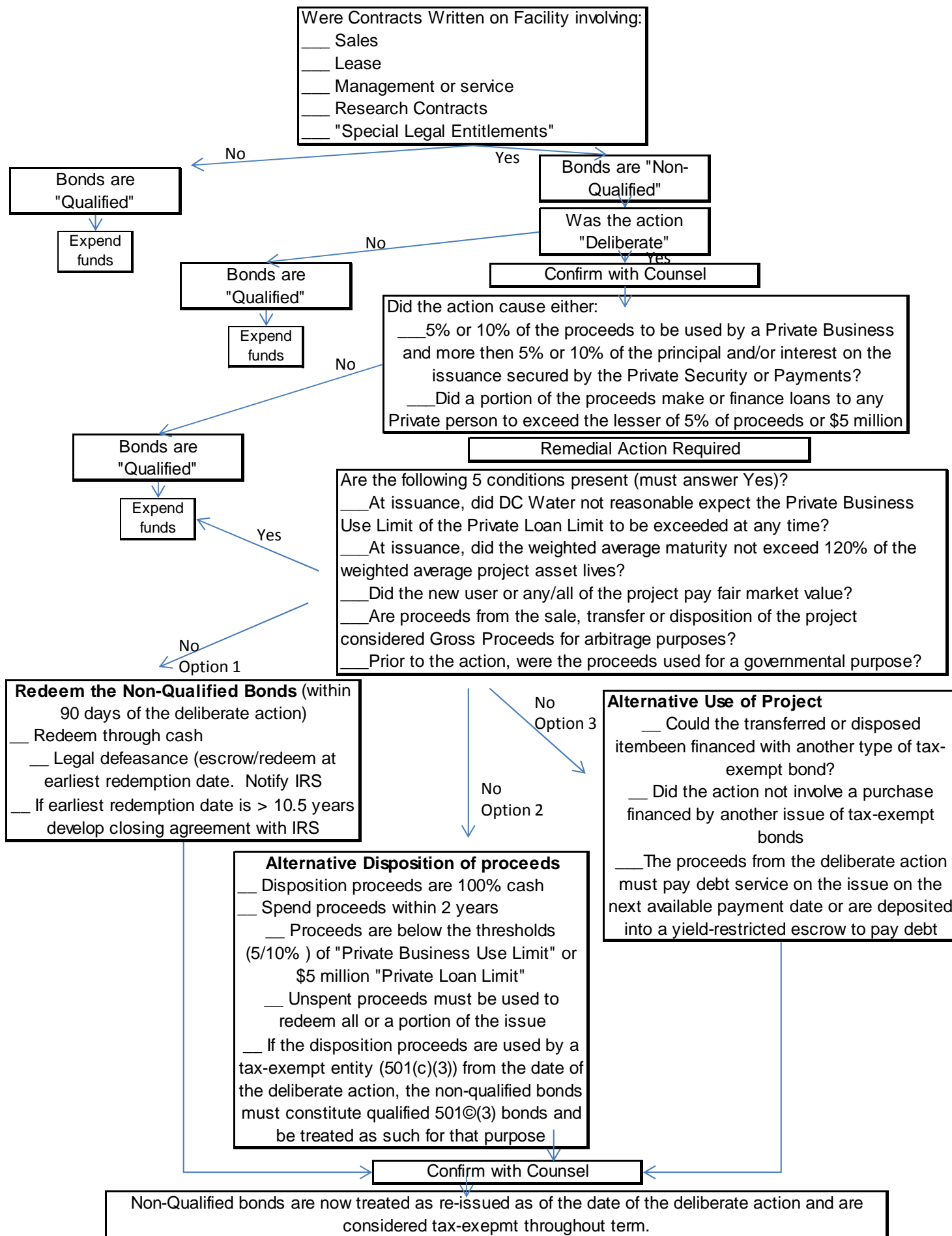
- a. No later than 90 days, make all necessary arrangement to meet Indenture liquidity requirements, by ensuring availability of:
  1. Sufficient cash and/or cash equivalents; or
  2. Commercial Paper capacity;
- b. 120-90 days prior to mandatory tender: complete near-final drafts of financing documents; circulate credit package to rating agencies.
- c. No later than required, send required notices to trustee, bondholders and other notice parties. Finalize financing documents.

Approved by	Date Approved	Revision No.	Supersedes	Page
Olu Adebo, Chief Financial Officer	March 7, 2012			2 of 2

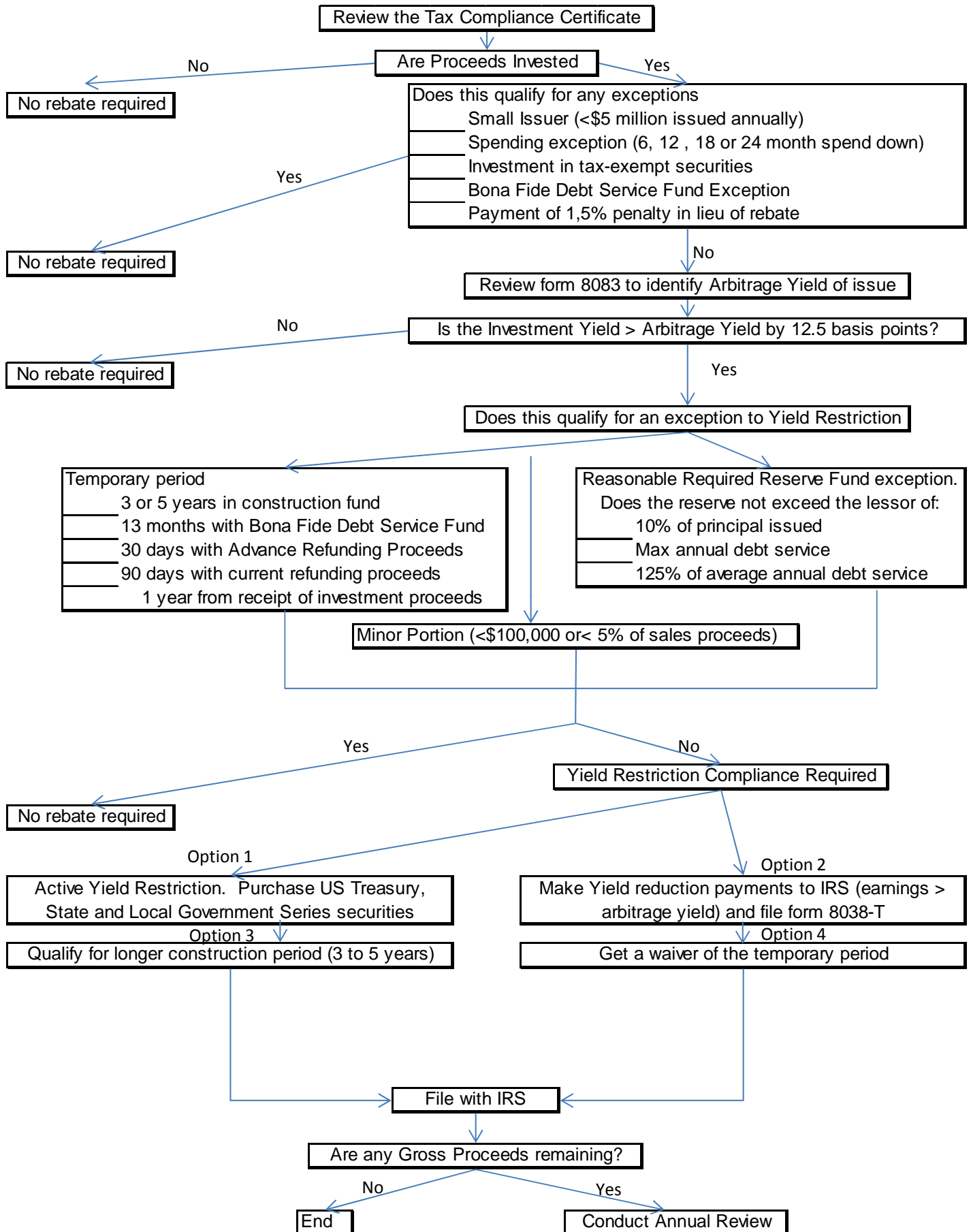
# DC Water – Use of Proceeds Checklist



# DC Water – Private Use Checklist



# 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%.~~

**DC Water has minimum present value savings threshold target of 3% based on the entire transaction.**

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.

# DC Water – Timing and Considerations for variable Rate Debt (i.e. Floating Rate Notes (FRNs))

DC Water recognizes that variable rate debt can be prudently issued in order to lower the effective cost of borrowing to DC Water and its ratepayers.

Currently, DC Water's Series 2012B are Floating Rate Notes that provide variable rate exposure. The interest rate for these bonds is based on a set spread to the floating SIFMA index. One of the unique features of the 2012 Series B notes is that they have a "hard put" date (called the "Initial Index Rate Bonds Purchase Date") where the bondholders will tender their bonds to purchase prior to the stated final maturity. Specifically:

Sub-Series	Par	Maturity	Initial Index Rate	
			Bonds Purchase Date	Rate
2012B-1	52,690,000	10/1/2044	6/1/2015	SIFMA Index + .48%
2012B-2	47,310,000	10/1/2040	6/1/2016	SIFMA Index + .58%

One of the risks associated with FRNs is refinancing risk. In this case, as the Initial Index Rate Bonds Purchase Date approaches, DC Water must have a comprehensive plan that addresses the upcoming tender of the bonds. The following actions will assist DC Water in addressing this risk:

## When *planning* a FRN transaction:

- \_\_\_\_\_ Limit the amount subject to a mandatory tender in any one year.
- \_\_\_\_\_ Compare the planned transaction size with DC Water's planned cash balance and/or CP capacity to ensure the tender amount can be addressed if there are market access problems. Make adjustments to the cash balance / CP as needed.
- \_\_\_\_\_ Include 6 month call option on FRNs in the documentation, allowing for additional time to remarket tendered bonds.
- \_\_\_\_\_ Incorporate provisions into documentation that allow DC Water to purchase tendered bonds.

## Once FRNs are issued (for financial planning):

- \_\_\_\_\_ Determine the years in which there is a hard put for the bonds.
- \_\_\_\_\_ Incorporate the hard put date and call date into the multi-year financial plan.
- \_\_\_\_\_ Review timing of planned bond transactions to ensure alignment with call date and hard put date.
- \_\_\_\_\_ Determine if FRN's should be refinanced with fixed-rate or variable rate debt
- \_\_\_\_\_ Incorporate necessary tender amount into planned bond offering
- \_\_\_\_\_ Review cash balance and CP capacity to address tender in the event of market access problems.



# District of Columbia Water and Sewer Authority Underwriting Pool Selection

Presented to the  
Finance and Budget Committee  
November 29, 2012







# Strategic Goals of the Underwriter RFQ Process

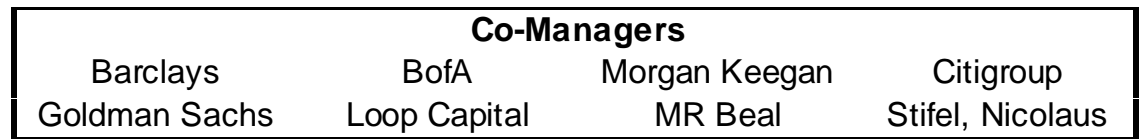
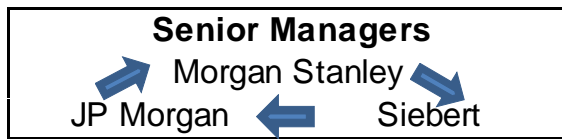
DC Water has issued an Request for Qualifications (RFQ) for underwriting services. The following goals were developed to guide RFQ process:

- Promote competition in/between Senior Pool and Co-Manager pool
- Improve DC Water's flexibility for each transaction
- Secure pools of banks that can best support DC Water in terms of:
  - Superior bond transaction execution
  - Wide retail and institutional distribution network
  - Developing creative ideas and innovative solutions
  - Providing a strong balance sheet that can extend credit
  - Adaptability to changing economic environments
  - Strong commitment to the Municipal market



# Current Underwriting Pool and Process

- Two (2) Pools with a total of 11 banks
  - Senior Pool of 3 banks
  - Co-Manager Pool of 8 banks
  - Bookrunner for a transaction has rotated among banks in the Senior Pool



- There are some observed disadvantages with current process:
  - Static membership of both senior and co-manager pools
  - Reduces price competition
  - Inhibits innovation



# Characteristics of the new Bank pools

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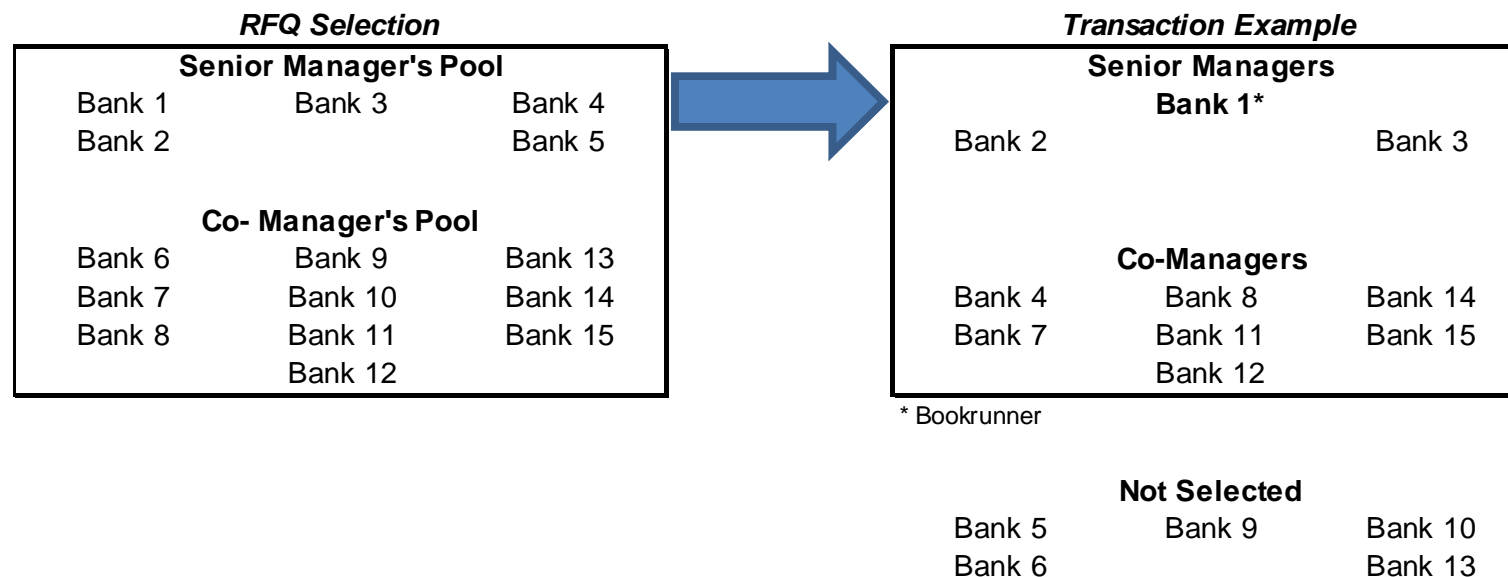
The new underwriter pools should/include:

- Quality pool of banks for transaction execution
  - Review bank's credit ratings and ability to extend credit as a criteria for selection
  - Provide DC Water with flexibility in structuring future debt offerings (fixed versus variable)
- Sufficient number of banks:
  - Ensures breadth of distribution (retail and institutional)
  - Promotes healthy competition and innovation
  - Provides economic incentive (potential cost savings)
- Provide all Senior Pool banks an opportunity to compete as Bookrunner.
- Promote creativity with the ability of DC Water to elevate a Co-Manager into Senior Pool
- Improve flexibility to reward banks that provide quality support



# Implementing the New Underwriter Pools

- Select 15 banks between the 2 pools
- 10 banks selected for the Transaction Underwriting Team
- Banks initially selected for the Co-Manager pool can be elevated to Senior Pool given support to DC Water
- Each member of the Senior Pool has an opportunity to compete to be Bookrunner based on support to DC Water and DC Water priorities
- Dynamic— past role does not guarantee the same future role





# Achieving Strategic Goals

DC Water's RFQ Underwriter Pools	
Benefits	Costs
Dynamic membership of Transaction Team promotes innovation and creativity	Changing team for each transaction
Greater number of banks - risk management tool over the 5 year engagement	Potential banks will "lose interest"
Competition can create price pressure and reduce transaction expense	Price competition optics (lowest bidder versus quality support)
Quality pool of banks provides current and future flexibility	Different from the way DC Water has done business
Improved Distribution Network - metric based	More attention from banks for staff
Improved flexibility for DC Water	
Adaptable to changing economics over time	

- ✓ Improve DC Water's flexibility and discretion
- ✓ Promote competition in/between Pools
- ✓ Secure pools of banks that can best support DC Water:
  - ✓ Superior bond transaction execution
  - ✓ Wide retail and institutional distribution network
  - ✓ Developing creative ideas and innovative solutions
  - ✓ Providing a strong balance sheet that can extend credit
  - ✓ Adaptability to changing economic environments
  - ✓ Strong commitment to the Municipal market



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

ATTACHMENT 3

## OPERATING and CAPITAL BUDGETS

LEADERSHIP  
VALUE  
INNOVATION



REVISED FY 2013 PROPOSED FY 2014  
Presentation to the Finance and Budget Committee  
November 29, 2012

**George S. Hawkins**, *General Manager*

**Yvette Downs**, *Chief Financial Officer, Acting*

## Table of Contents

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<b>Section 4</b>	Budget Summary <ul style="list-style-type: none"><li>• Operating Budget</li><li>• Capital Improvement Program</li><li>• Revenues, Rates &amp; Fees</li></ul>
<b>Section 5</b>	Emerging Topics and Opportunities
<b>Section 6</b>	Appendix

# Section 1

## ***BUDGET CALENDAR & NEXT STEPS***



# FY 2014 Budget Calendar

Month	Event
May 16	General Manager's Budget Kickoff Meeting
May 16	Distribute budget manual and other preparation materials
May 18	CIP draft submitted for initial review
May 21	FY 2014 Final Capital and Operating numbers submitted to update Financial Plan
May 28 – June 4	CIP Program area meetings with CFO/Finance and Budget
June 13	Proposed FY 2014 Operating Budget Submission due to Budget Office
June 18 – June 29	Budget Staff Review of Departmental submissions
June 21 – 29	CIP Program area meetings with CFO/Finance and Budget
July 5	Revised FY 2013 Budget Proposal Delivered to Full Board for Action
July – August	Begin Preliminary 10-year Financial Plan update IMA and Treasury (Submit IMA, CSO and EPA grants) CFO Budget review
August	Operating and Capital Budget Review with General Manager/Chief of Staff
August 31	FY 2014 Final Budget Decision Process Completed
September – October	Budget Preparation and Production
October 4	GM's Proposal to the Board for Proposed FY 2014 Budget
October 25	Submit Proposed FY 2014 Budget to Joint Committees
October – December	Board Committees Conduct In-depth Review of Budget Proposal
December 2012	Committees forward Recommendations to full Board for Deliberation/Action
January 2013	▪Board Adoption ▪Submission to the District of Columbia
April 2013	▪District submits budget for Congressional Review

## Next Steps

- Board Members' Question(s)
  - Submit budget-related questions to Board Secretary
  - Board Secretary will distribute questions to appropriate staff and ensure timely response
- Committees review proposed budgets (November – December)
  - Environmental Quality & Sewerage Services Committee – November 15, 2012
  - Water Quality & Water Services Committee – November 15, 2012
  - DC Retail Water & Sewer Rates committee – November 27, 2012
  - Finance & Budget Committee – November 29, 2012
- Additional budget review sessions can be scheduled if required by Board
- Committee Recommendations in December
- Board Action in January 2013

## Section 2

# ***GENERAL MANAGER'S BUDGET OVERVIEW***

## FY 2014 Operating Budget Development Guideline

- O&M Ceiling (\$301.4M) - Assumed 0.6% below the Approved FY 2013 budget in line with the Board-approved ten-year Financial Plan (inclusive of \$13.8M savings anticipated from the Digester Project)

	Total O&M
Initial Departmental Submissions	\$315.2M
Department/AGM Requests	\$311.5M
<b>GM Recommendation</b>	<b>\$304.0M</b>

- Debt Service Ceiling -\$150.4M
- PILOT/ROW - \$25.3M

# General Manager's Budget Proposal

## Revised FY 2013 operating budget totals \$440.3 million

- As revised by Board on July 5, 2012
  - \$16.5 million below the Board-approved FY 2013 budget

## Proposed FY 2014 operating budget totals \$479.5 million (including capital charge backs)

- \$39.2 million increase above the revised FY 2013 budget
  - \$6.96 million O&M increase

## Capital Budget

- Lifetime Budget totals \$8.4 billion<sup>1</sup>
- Disbursements Budget totals \$3.8 billion (FY 2012 – 2021)<sup>2</sup>
- Authority Request totals \$407 million<sup>3</sup>

## Additional FY 2014 revenue requirement would be funded through:

- Retail Revenue – increase of \$22.6 million
  - Proposed FY 2014 combined water and sewer rate increase of \$0.42 per Ccf {\$0.56 per 1,000 gallons}
  - Proposed FY 2014 monthly Clean Rivers Impervious Area Charge (IAC) increase of \$3.20 per ERU
  - Proposed FY 2014 PILOT fee increase of \$0.03 per Ccf {\$0.04 per 1,000 gallons}
  - Proposed FY 2014 ROW fee increase of \$0.01 per Ccf {\$0.01 per 1,000 gallons}
- Wholesale Revenue – increase of \$5.7 million
- Other Revenue – increase of \$1.27 million

<sup>1</sup>Lifetime budget includes total budgeted costs for all activities planned from the inception of the project until its completion; this includes all activities whether they pre-date, or extend beyond the current 10-year CIP.

<sup>2</sup>Capital Improvement Program (CIP) Disbursements Budget projects disbursements for various projects by fiscal year. Includes estimates for FY 2012 and may be adjusted slightly once year-end data is available.

<sup>3</sup>Appropriations Authority – As part of DC Water's enabling legislation, Congressional appropriation authority is required before any capital design or construction contract can be entered into.

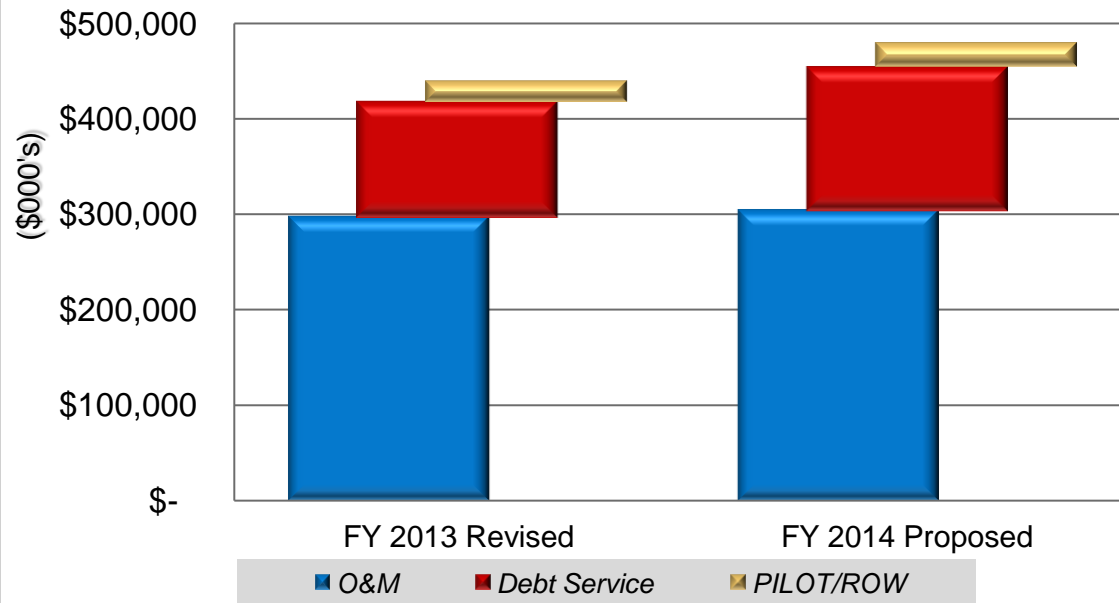
## General Manager's Recommended Rate Adjustments

	Units	Revised FY 2013	Proposed FY 2014
DC Water Retail Rates – Water	Ccf	\$3.42	\$3.61
DC Water Retail Rates – Sewer	Ccf	\$4.18	\$4.41
DC Water Clean Rivers IAC	ERU	\$9.57	\$12.77
DC Water Customer Metering Fee	5/8"	\$3.86	\$3.86
District of Columbia PILOT Fee	Ccf	\$0.50	\$0.53
District of Columbia Right of Way Fee	Ccf	\$0.16	\$0.17
District of Columbia Stormwater Fee	ERU	\$2.67	\$2.67

## New Customer Classification

- In FY 2011/2012, a Customer Segmentation Study was performed to identify classes of customers for the purpose of cost analysis, planning, supply management and rate-setting
- Budget proposal includes recommendations from the FY 2012 Cost of Service Study for creation of a new customer classification of **“Multi-family Residential”**

# Comparative Operating Budget Overview



- Proposed FY 2014 O&M budget maintained at nearly the same level as the Revised FY 2013 budget
- Debt Service in line with expectations

	FY 2013 Revised Budget	FY 2014 Proposed Budget	Increase / (Decrease)
O&M	\$297,009	\$303,973	\$6,964
Debt Service	\$121,330	\$150,389	\$29,059
PILOT/ROW	\$21,982	\$25,181	\$3,199

	Total O&M
Initial Departmental Submissions	\$315.2M
Department/AGM Requests	\$311.5M
GM Recommendation	\$304.0M



## Section 3

# ***BUDGET ASSUMPTIONS***

# Major Budget Development Assumptions

## Expenditures:

- **Financial Plan Operating Expenditure Increases**
  - Debt service – 11.2 percent average annual increase
  - All other O&M – 3.1 percent average annual increase
- **Financial Plan CIP**
  - No additional federal funding for Clean Rivers
    - \$168.6 million received to date
  - IMA commitment to share in multi jurisdictional sewer projects
  - Biosolids Management Project – Digester
    - Financing assumed to be rate neutral during most of the construction period
- **PILOT**
  - Consistent with conditions in the current MOU
- **FY 2014 Debt Service Interest Rates**
  - Budget:
    - Variable Rate - 3.25 percent
    - Fixed Rate - 5.50 percent
  - Financial Plan:
    - Variable Rate - 2.50 percent
    - Fixed Rate - 5.50 percent
- **Personnel**
  - Merit Increase - 3.0 percent
  - Increased head count - 17 positions to support the Digester Project
- **Chemicals**
  - Average flow of 290 MGD
  - Unit costs based on contract prices

# Major Budget Development Assumptions – cont.

## Revenues:

- **Board Financial Policies**
  - Rate setting – reliable, predictable and transparent
  - Debt coverage – 140 percent Senior debt coverage
  - Operating Reserves – target \$125.5 million
- **Fire Protection fee**
  - Assumes new charges based on FY 2012 Cost of Service Study (COS)
- **PILOT**
  - Consistent with conditions in the current MOU
- Assumes no change in **metering fee**
- Reduced **consumption** due to conservation of 2.24 percent in FY 2013 and 1.0 percent in FY 2014 and onwards in all classes
- **Interest Rate Assumptions (Investments)**
  - 0.375 percent in FY 2013
  - 0.450 percent in FY 2014
- **Rate Stabilization Fund**
  - \$6.5 million utilization in FY 2013 and \$7.0 million in FY 2014
  - Balance of \$18.55 million by the end of FY 2021

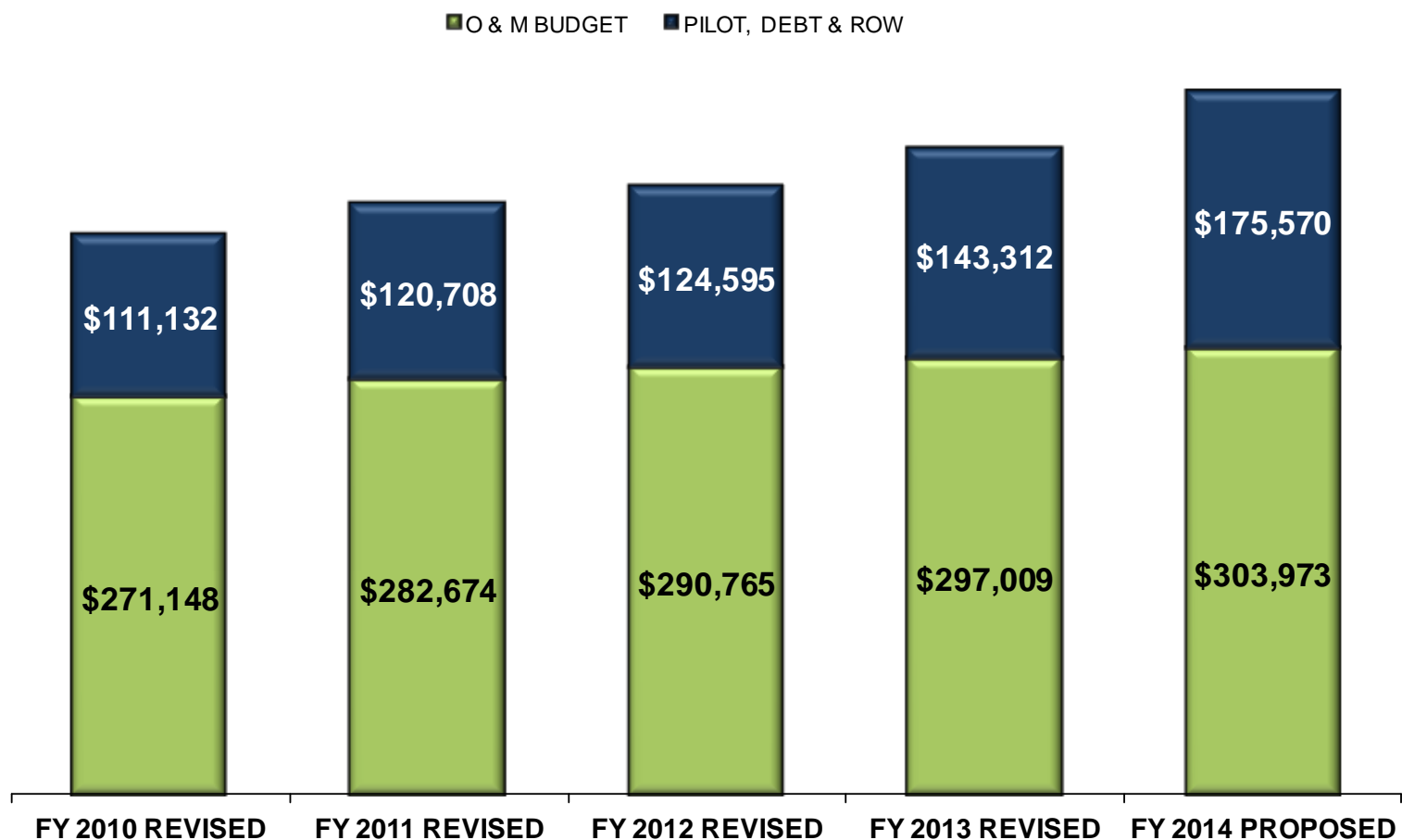
## Section 4

# ***BUDGET SUMMARY***

# ***OPERATING BUDGET***

## Comparative Operating Budgets

### Operating Budget Historical Trend FY 2010 - FY 2014

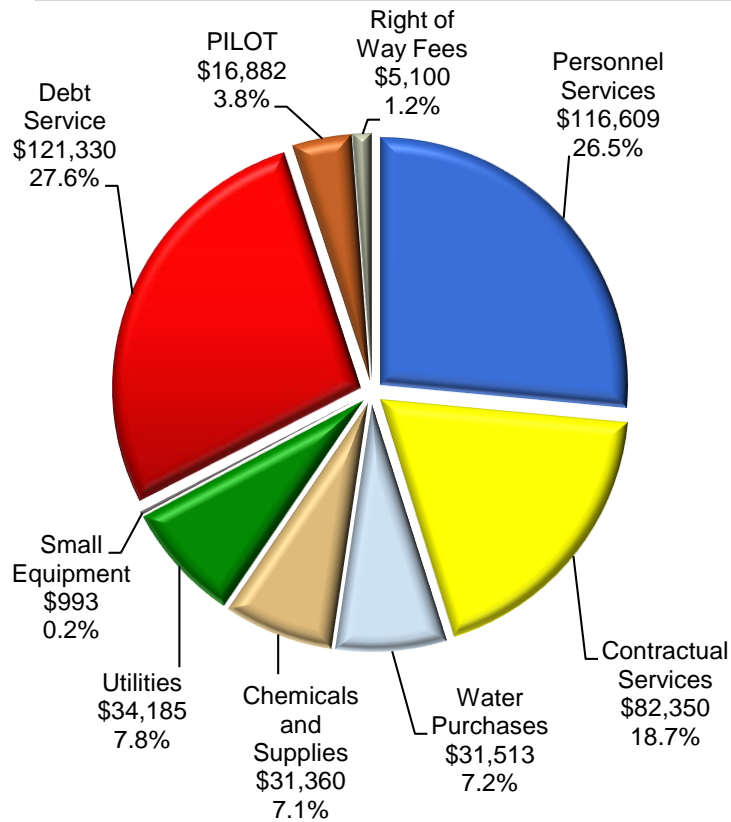


# Comparative Operating Budgets

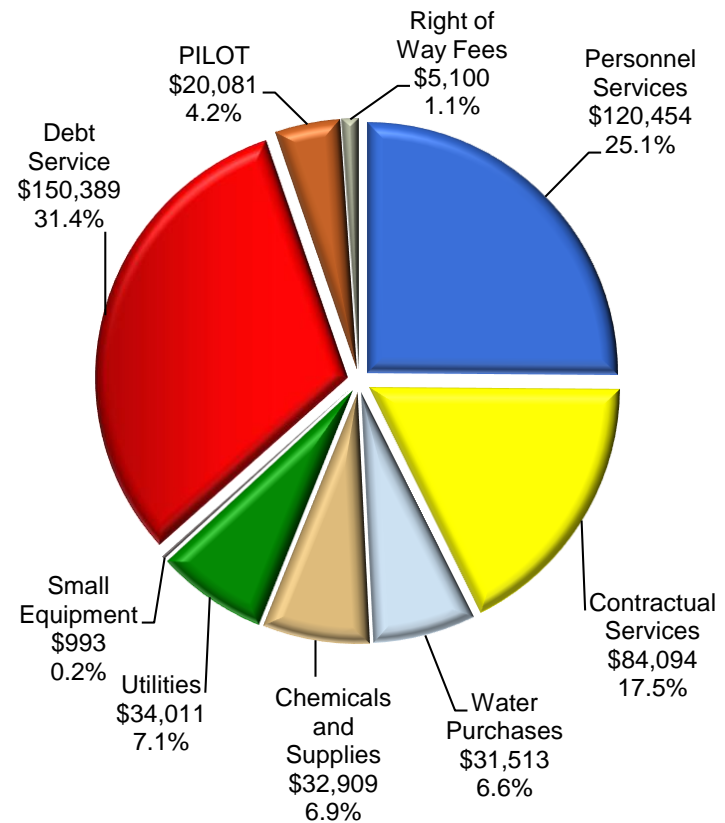
**Revised FY 2013**  
**\$440,321**

(\$000's)

**Proposed FY 2014**  
**\$479,543**



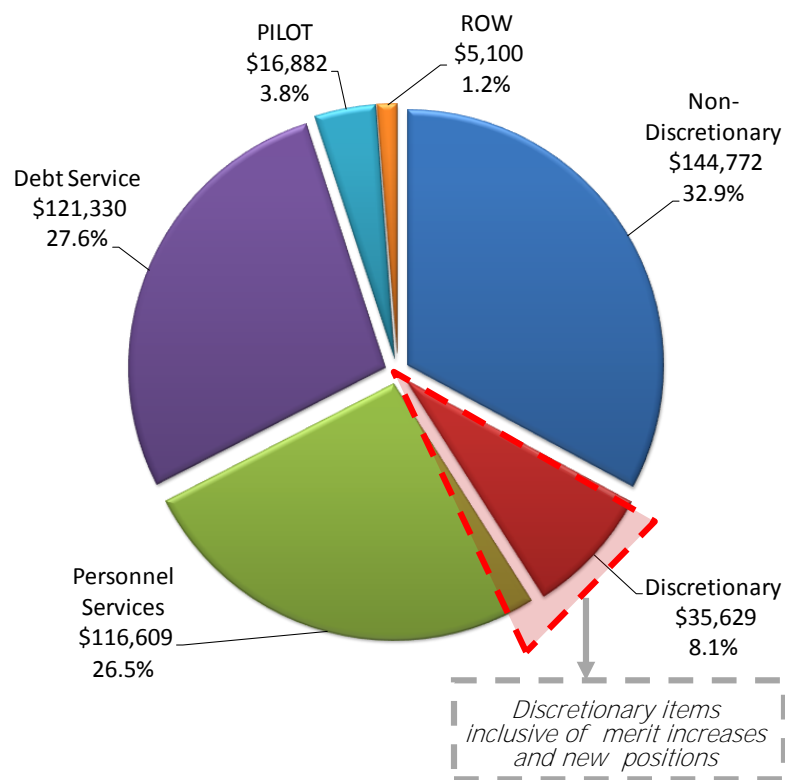
Approved July 5, 2012



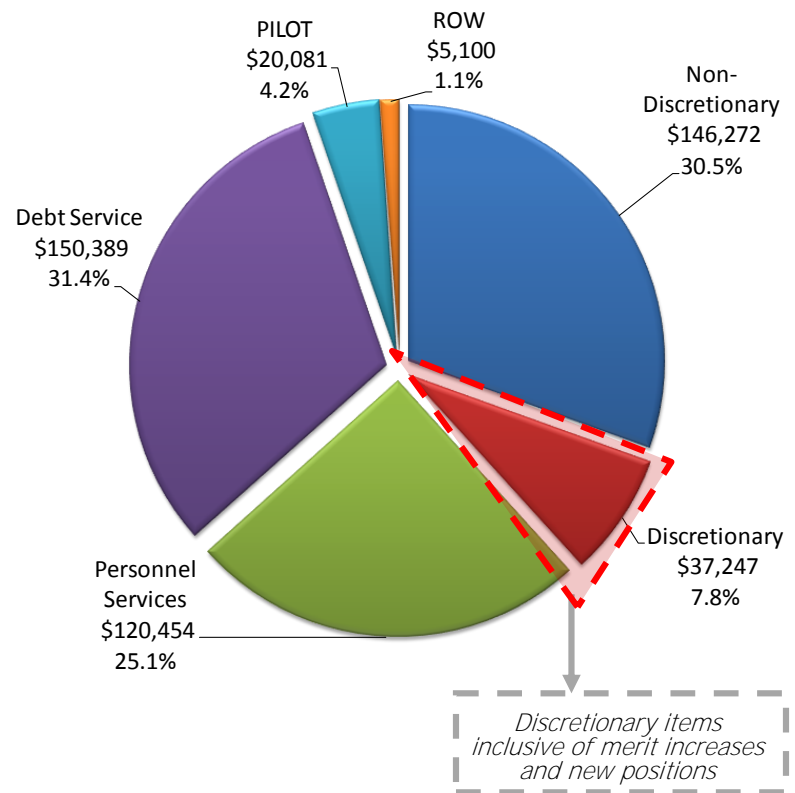
Note: Full discussion can be found in Section VII of the Operating Budget Book

# Less Than 9% of the Operating Budgets Are Discretionary

## Revised FY 2013



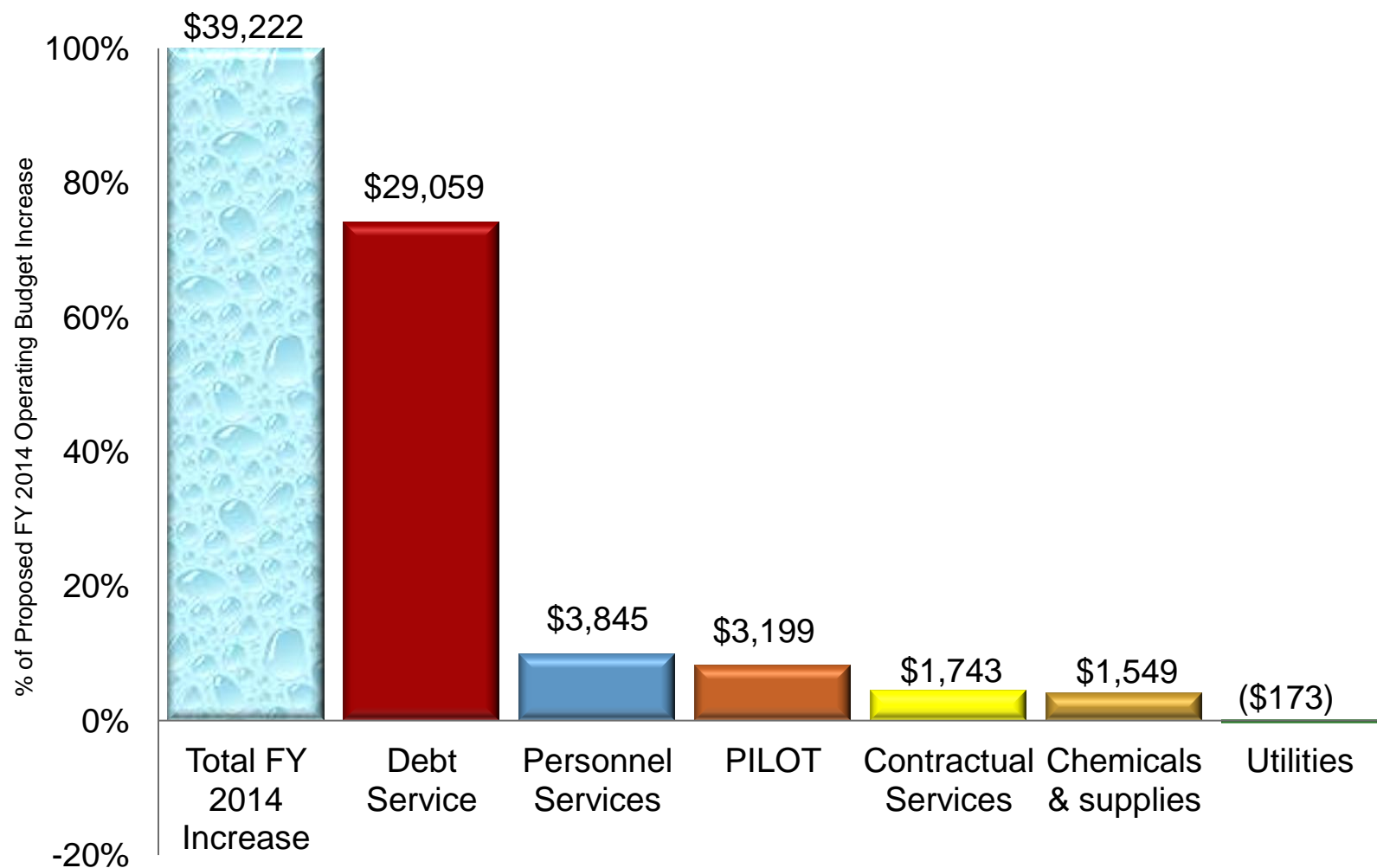
## Proposed FY 2014



- Non-discretionary items include costs for chemicals, utilities, biosolids, water purchases and 55% of contractual services
- Discretionary items comprise of new positions, merit increases, supplies, small equipment and the remaining contractual services

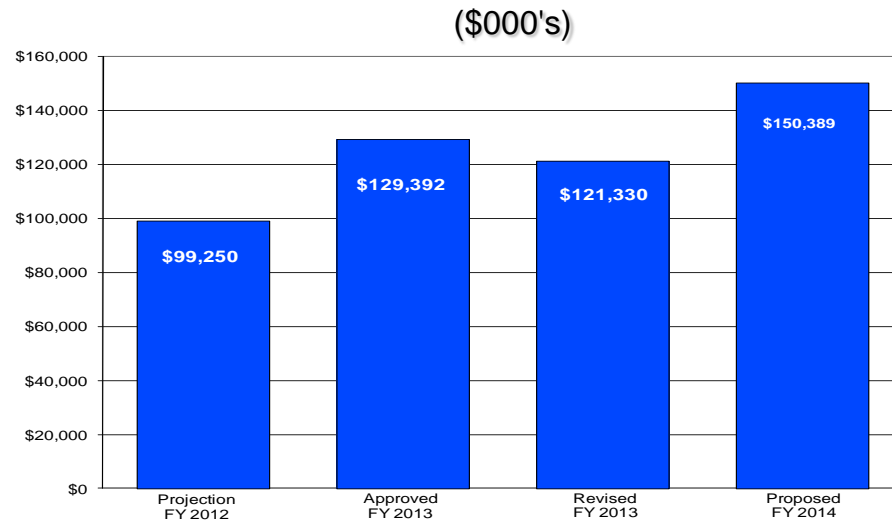


## FY 2014 Operating Budget Increases



# Major Operating Budget Driver – Debt Service

- As detailed in the table and chart, the proposed FY 2014 debt service increased by \$29.1M for:
  - Series 2013A - \$14.9M full year of debt service payment on \$300M issuance
  - Series 2014A - \$9.1M partial year debt service payment on \$300M issuance
  - Capital Equipment Financing - \$2.9M



	FY 2012	FY 2013	FY 2014	FY 2013 vs 2014
	Projection	Revised	Proposed	Incr. / (Decr.)
<b>Debt Issuance</b>		\$ 300,000	\$ 300,000	
<b>Interest Rate</b>	-	5.75%	5.50%	
<b>Debt Service Coverage</b>				
Senior Debt Service Coverage	3.54	3.25	2.53	
Subordinate Debt Service Coverage	1.86	1.52	1.48	
Combined Debt Service Coverage	1.49	1.31	1.24	
<b>Debt Service Payments</b>		<b>Budget Appropriation</b>		
Series 2010A	\$ 7,552.482	\$ 7,552.482	\$ 9,078.522	\$ 1,526
Series 2012	\$ 9,031.000	\$ 22,128.821	\$ 22,724.234	\$ 595
Series 2013A	\$ -	\$ 8,148.500	\$ 23,047.500	\$ 14,899
Series 2014A	\$ -	\$ -	\$ 9,054.375	\$ 9,054
Commercial Paper	\$ 2,768.000	\$ 5,750.000	\$ 5,750.000	\$ -
Capital Equipment	\$ 1,590.000	\$ 3,819.000	\$ 6,759.524	\$ 2,941
Other Existing Debt	\$ 78,308.518	\$ 73,930.922	\$ 73,975.038	\$ 44
<b>Total Debt Service</b>	<b>\$ 99,250</b>	<b>\$ 121,330</b>	<b>\$ 150,389</b>	<b>\$ 29,059</b>

*Note: Full discussion on debt financing can be found in Section VI of the Operating Budget Book*

# Debt Service – Sensitivity Analysis

## FY 2014


Planned Issuance

Optimistic  
@ 3.50%  
\$8.6M

Moderate  
@ 4.50%  
\$9.7M

Budgeted  
@ 5.50%  
\$10.9M

 Risk: Low

 Sensitivity: Every 1% change in rate impacts the operating budget by approximately \$1.2M (based on \$300M bond issuance)

## FY 2015


Planned Issuance

Optimistic  
@ 3.75%  
\$3.1M

Moderate  
@ 4.75%  
\$3.5M

Budgeted  
@ 5.75%  
\$3.9M

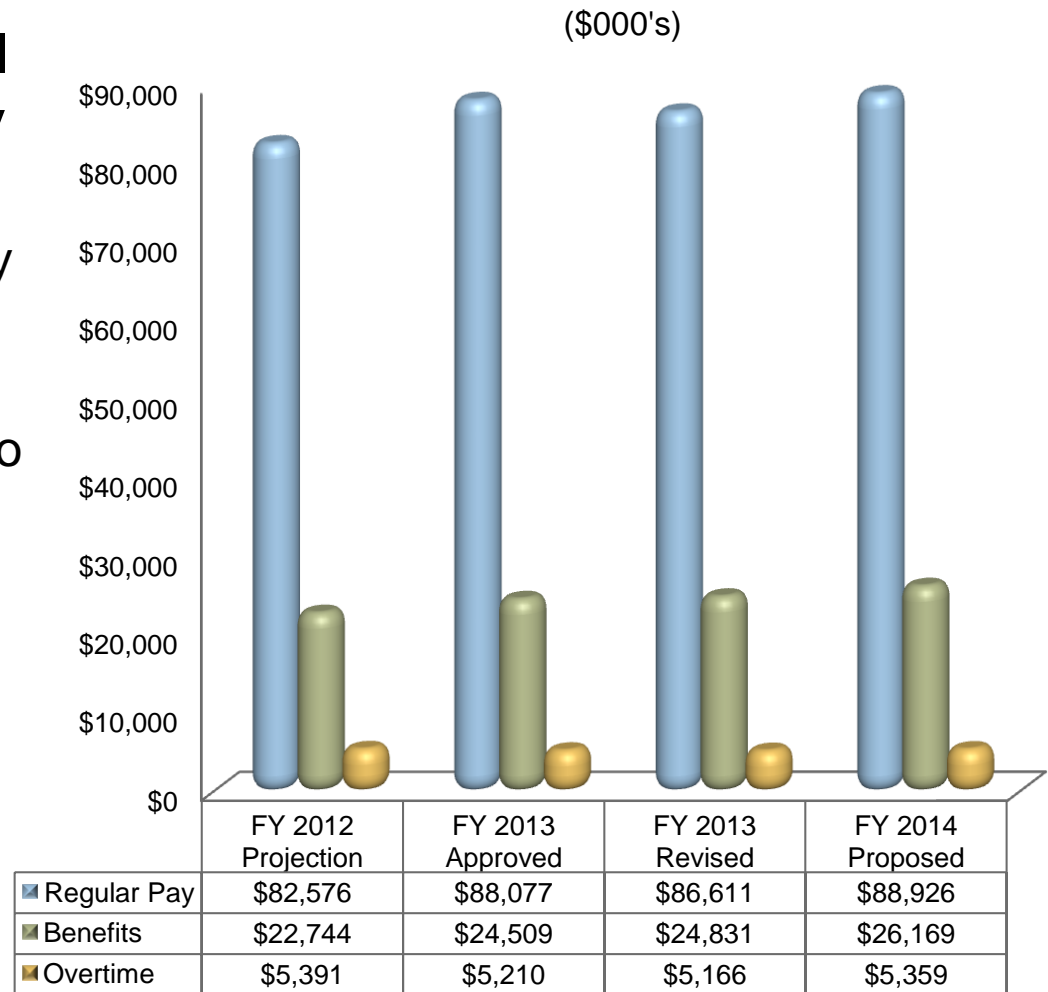
 Risk: Low

 Sensitivity: Every 1% change in rate impacts the operating budget by approximately \$0.4M based on \$105M bond issuance

 FY 2016 – 2021 Budgeted @ 6.50%

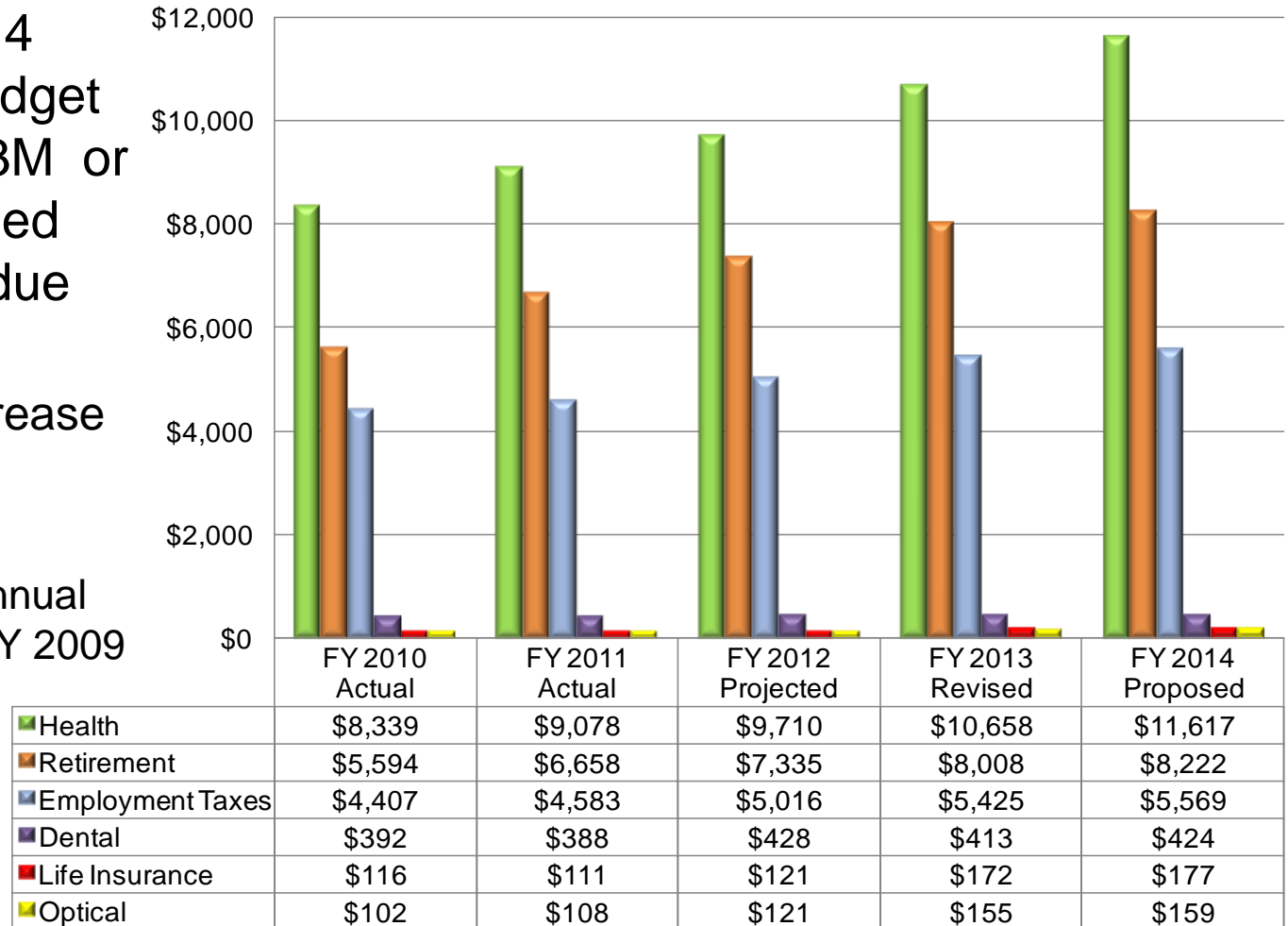
## O & M Budget Driver – Personnel Services

- Proposed FY 2014 personnel services budget increased by \$3.8M primarily for:
  - FY 2013 annualized vacancy costs for continuation of in-sourcing proposals
  - 17 new proposed positions to support the Digester Project - partial funding for six months
  - Increased merit (3% or \$2.5M) and benefits cost (mainly for health insurance)



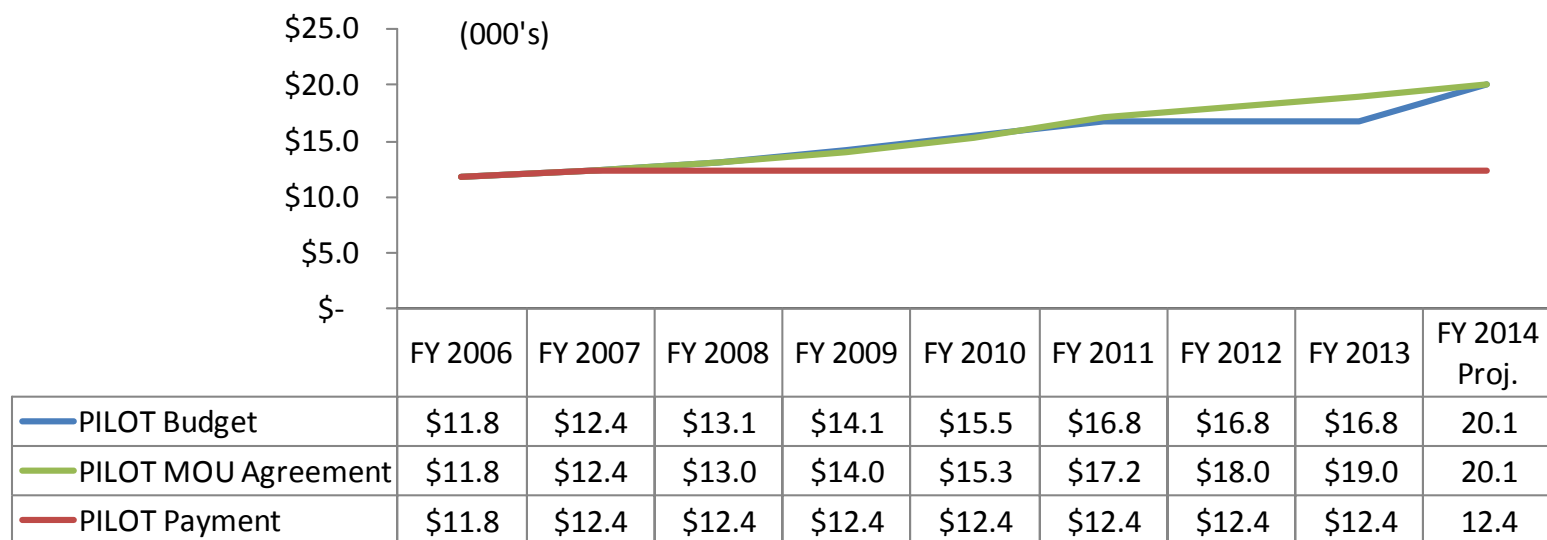
## O & M Budget Driver – Personnel Services

- Proposed FY 2014 fringe benefits budget increased by \$1.3M or 5% over the revised FY 2013 budget due to:
  - Health costs increase of 9% based on industry trend
  - 10% average annual increase from FY 2009 to FY 2011



## Major Operating Budget Driver – PILOT

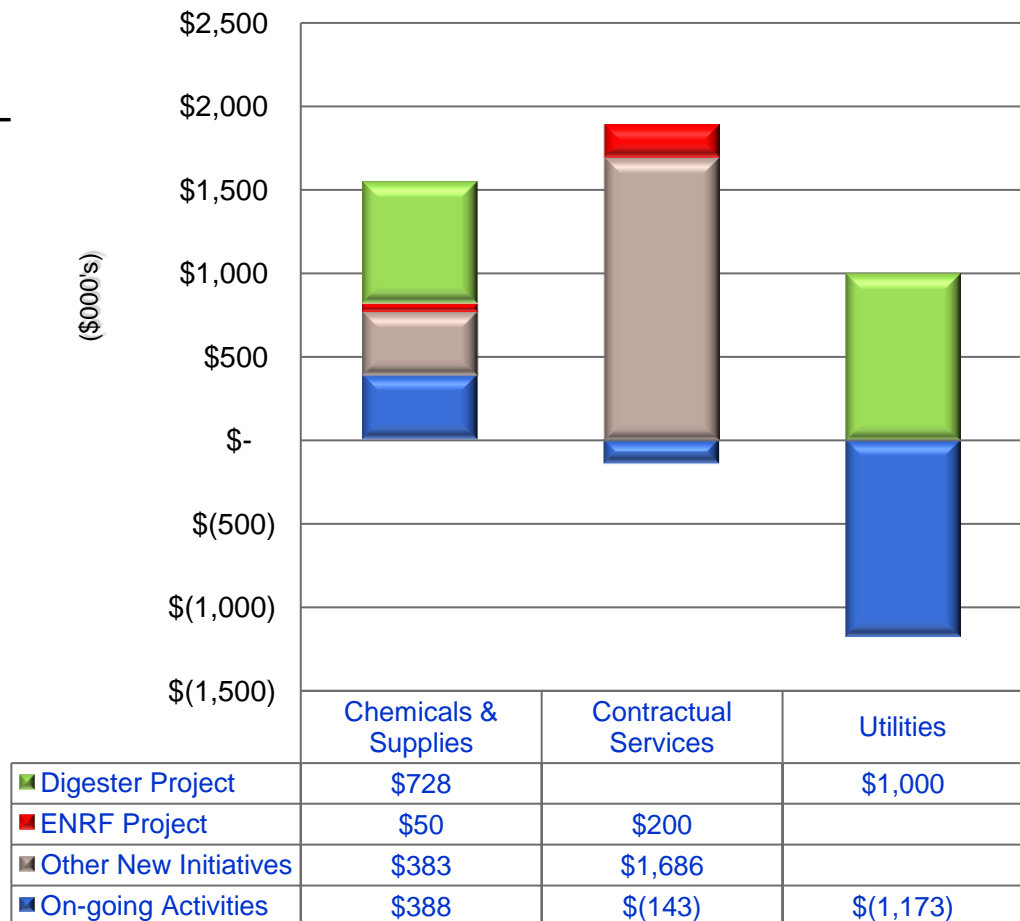
- FY 2014 proposed PILOT \$3.3million increase (~20%)
  - In line with current MOU
  - Board has held PILOT constant at \$16.8 million since FY 2011
  - Current MOU expires at the end of FY 2013



# Impact of Wastewater Treatment Projects on FY 2014 Non-Personnel Services

- **Digester Project** - Increase of \$1.7M
  - Chemicals operating costs (\$0.7M)
  - Electricity costs estimated at \$1M
- **Enhanced Nitrogen Removal Project** – Increase of \$0.3M
  - Maintenance costs of the Denitrification propeller pumps
- **Other New Initiatives** – Increase of \$2.1M
  - Maintenance costs for the new Process Control System and training (\$1.4M)
  - Maintenance costs for the new Methanol Facility (\$0.5M)
  - Spare parts for critical equipment and other preventive maintenance and repairs costs (\$0.2M)
- **On-going Activities** - Net decrease of \$0.9M

## FY 2014 NPS Budget Increase - \$3.1M



# ***CAPITAL IMPROVEMENT PROGRAM***

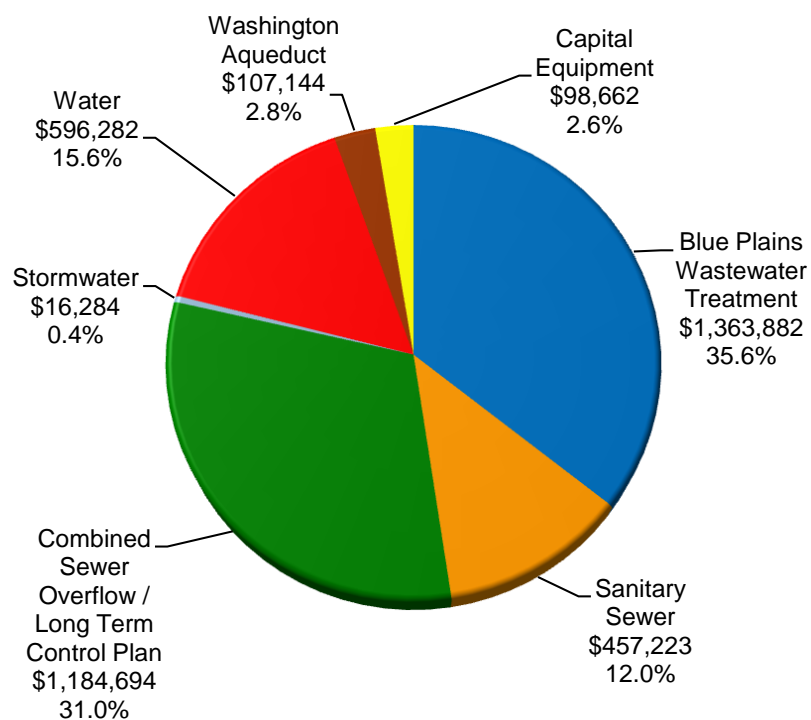


# \$3.8 Billion Ten-Year CIP by Service Area

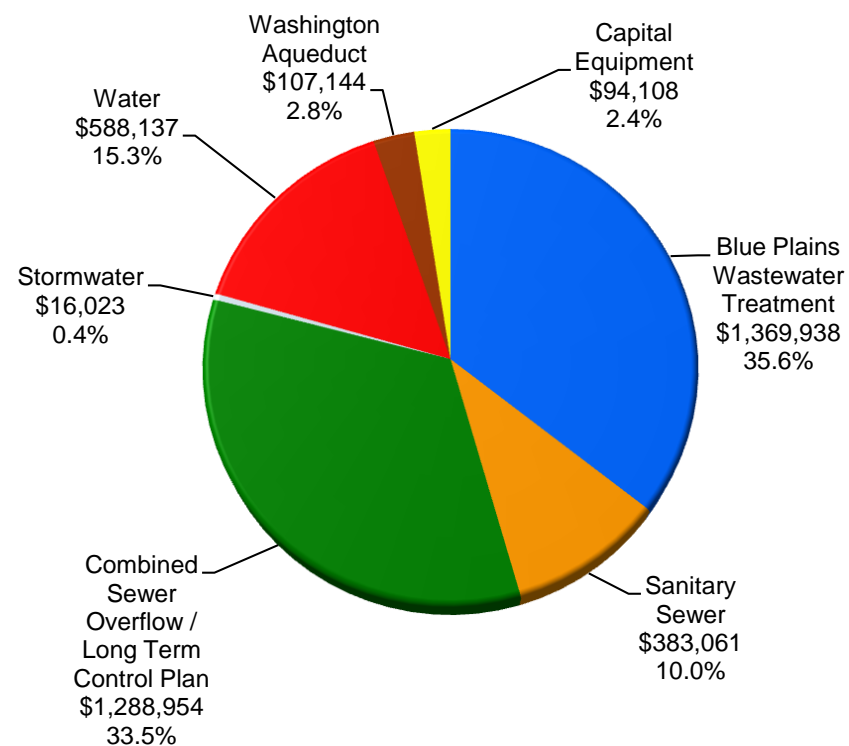
**FY 2011 – FY 2020**

(\$000's)

**FY 2012 – FY 2021**



Total \$3.8 billion (Cash Disbursements)



Total \$3.8 billion (Cash Disbursements)

*Note: Full discussion on debt financing can be found in the Capital Budget Book and Section V of the Operating Budget Book*

## Overview of CIP Budget Request

- **10-Year CIP Disbursements**
  - Proposed FY 2012 – FY 2021 CIP disbursements at \$3.8 billion are the same as the Board-approved FY 2011 – FY 2020 CIP disbursements
- **Lifetime Budget**
  - Proposed lifetime budget of \$8.4 billion - Increase of \$429.3 million over last year's Board-approved plan primarily for the Sanitary Sewer and Water service areas
- **Capital Authority Request**
  - Proposed FY 2014 authority request totals \$407 million - Decrease of \$199.1 million over the FY 2013 authority request

*See Appendix for details*

# FY 2012 – FY 2021 CIP (Cash Disbursements)

## Summary by Service Area

(\$000's)

	FY 2012 Projected*	FY 2013 Revised	FY 2014 Proposed	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Total FY '11 - '20	FY 2021	Total FY '12 - '21	FY '12 - '21 vs '11 - '20
Wastewater Treatment	254,762	358,543	267,836	180,493	113,542	100,679	59,777	18,896	7,289	1,363,882	8,120	1,369,938	6,056
Sanitary Sewer	23,074	29,084	42,136	43,170	48,458	45,989	43,023	38,259	35,620	457,223	34,249	383,061	(74,161)
Combined Sewer Overflow / Long Term Control Plan	113,053	163,509	152,345	207,114	194,390	112,043	63,893	72,005	102,613	1,184,694	107,988	1,288,954	104,261
Stormwater	3,354	3,252	3,680	952	859	736	795	866	793	16,284	736	16,023	(261)
Water	43,472	60,858	66,841	64,133	60,332	61,763	59,765	53,051	62,176	596,282	55,745	588,137	(8,146)
Washington Aqueduct	11,286	10,598	10,744	11,016	11,280	11,588	10,891	10,323	9,842	107,144	9,576	107,144	0
Capital Equipment	13,499	16,722	13,543	9,529	6,998	7,133	7,211	6,531	6,481	98,662	6,461	94,108	(4,554)
<b>Total FY 2014 DC Water CIP</b>	<b>\$462,500</b>	<b>\$642,566</b>	<b>\$557,125</b>	<b>\$516,408</b>	<b>\$435,861</b>	<b>\$339,931</b>	<b>\$245,355</b>	<b>\$199,930</b>	<b>\$224,814</b>	<b>3,824,171</b>	<b>\$222,876</b>	<b>\$3,847,366</b>	<b>\$23,196</b>
2011-2020	531,741	665,701	470,343	417,972	383,644	362,387	241,142	214,401	239,462	3,824,171	-		
<b>Variance: 2012-2021 vs 2011-2020</b>	<b>(69,241)</b>	<b>(23,135)</b>	<b>86,782</b>	<b>98,436</b>	<b>52,217</b>	<b>(22,456)</b>	<b>4,213</b>	<b>(14,471)</b>	<b>(14,648)</b>	<b>0</b>	<b>222,876</b>	<b>23,196</b>	

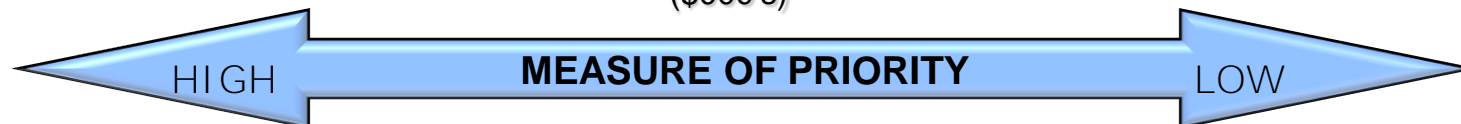
## Summary of Disbursements between Retail & Wholesale Customers

FY 2012											
Description	Projected*	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Total
EPA/FED	53,445	62,424	54,710	26,579	16,009	13,882	15,385	13,882	13,882	13,882	284,080
Retail	234,796	354,528	326,742	362,638	331,690	257,538	188,794	169,716	201,478	199,036	2,626,956
Wholesale	174,259	225,614	175,673	127,191	88,162	68,511	41,176	16,332	9,454	9,959	936,331
	<b>\$462,500</b>	<b>\$642,566</b>	<b>\$557,125</b>	<b>\$516,408</b>	<b>\$435,861</b>	<b>\$339,931</b>	<b>\$245,355</b>	<b>\$199,930</b>	<b>\$224,814</b>	<b>\$222,876</b>	<b>\$3,847,366</b>

\*The year-end projections were made as of August 2012 and may change based on the final year-end results.

# Prioritization of Spending

(\$000's)



Category	Mandates	Health & Safety	Board Policy	Potential Failure	High Profile / Good Neighbor	Good Engineering Practices / High Payback	Good Engineering Practices / Low Payback	Total
Description	Agreements, Regulatory standards, Court orders, Issues and Permits requirements, Stipulated Agreements, Etc.	Required to address Public Safety	Undertaken as a result of the Board's commitment to outside agencies	Related to Facilities in danger of failing, or critical to meeting permit requirements	Address Public concerns	Need to fulfill Mission and upgrade Facilities	Lower priority projects	
FY 2012 Projected*	\$223,121	\$9,323	\$10,891	\$38,010	\$7,060	\$166,506	\$7,591	\$462,501
FY 2013	297,463	9,508	10,649	41,992	5,822	257,607	19,526	642,565
FY 2014	217,719	19,984	8,571	54,829	8,631	235,627	11,764	557,126
FY 2015	255,818	25,634	5,874	54,327	18,214	136,090	20,450	516,408
FY 2016	216,995	18,615	5,302	53,095	13,073	96,063	32,718	435,861
FY 2017	163,346	7,983	3,321	48,988	2,996	88,392	24,904	339,931
FY 2018	81,501	8,456	1,923	35,172	0	87,737	30,566	245,355
FY 2019	62,977	8,152	2,018	19,402	0	99,550	7,831	199,930
FY 2020	92,082	5,235	1,967	11,454	0	103,815	10,261	224,814
FY 2021	91,131	2,573	0	9,954	0	97,599	21,620	222,877
<b>Total</b>	<b>\$1,702,154</b>	<b>\$115,464</b>	<b>\$50,515</b>	<b>\$367,220</b>	<b>\$55,796</b>	<b>\$1,368,987</b>	<b>\$187,230</b>	<b>\$3,847,366</b>
<b>% of Total</b>	<b>44.25%</b>	<b>3.00%</b>	<b>1.31%</b>	<b>9.54%</b>	<b>1.45%</b>	<b>35.58%</b>	<b>4.87%</b>	<b>100.00%</b>

## Ten-Year CIP Comparison (FY 2013 & FY 2014 Changes)

(\$000's)

	APPROVED FY 2011 - 2020			PROPOSED FY 2012 - 2021			VARIANCE		
	FY 2013	FY 2014	TOTAL	FY 2013	FY 2014	TOTAL	Increase/(Decrease)		
EPA/FED	\$ 64,423	\$ 40,914	\$ 105,337	\$ 62,424	\$ 54,710	\$ 117,134	\$ (1,999)	\$ 13,796	\$ 11,797
Retail	363,381	288,075	651,456	354,528	326,742	681,270	(8,853)	38,667	29,814
Wholesale	237,897	141,354	379,251	225,614	175,673	401,287	(12,283)	34,319	22,036
<b>Total CIP</b>	<b>\$ 665,701</b>	<b>\$ 470,343</b>	<b>\$ 1,136,044</b>	<b>\$ 642,566</b>	<b>\$ 557,125</b>	<b>\$ 1,199,691</b>	<b>\$ (23,135)</b>	<b>\$ 86,782</b>	<b>\$ 63,647</b>

- The proposed combined FY 2013 & 2014 cash disbursements increased by \$63.6 million from the approved plan:
  - EPA/FED - increase of \$11.8 million
  - Retail - increase of \$29.8 million
  - Wholesale - increase of \$22.0 million

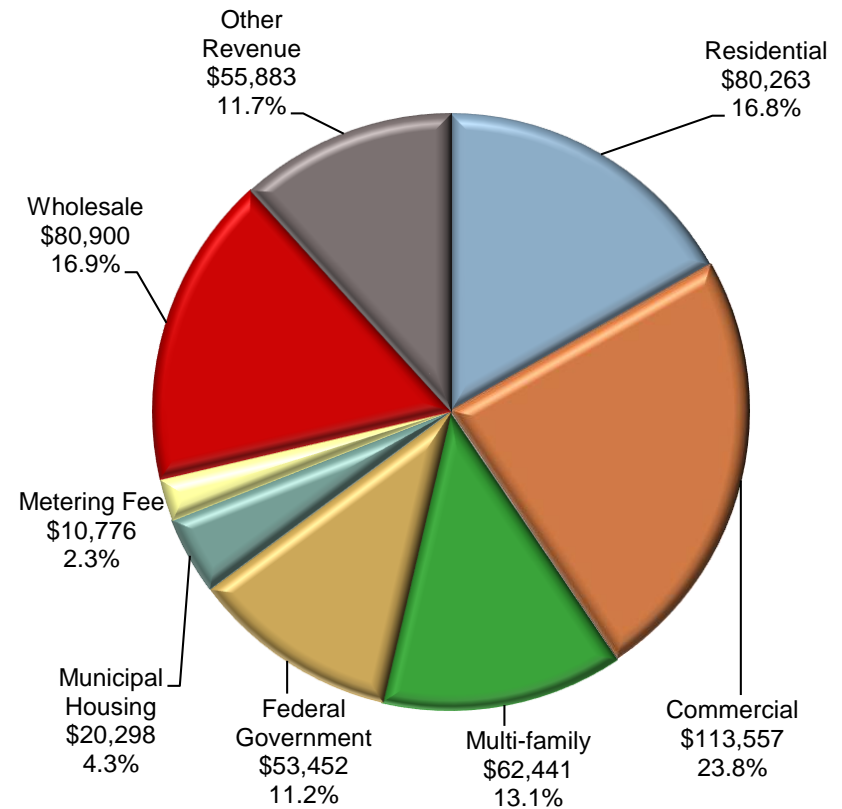
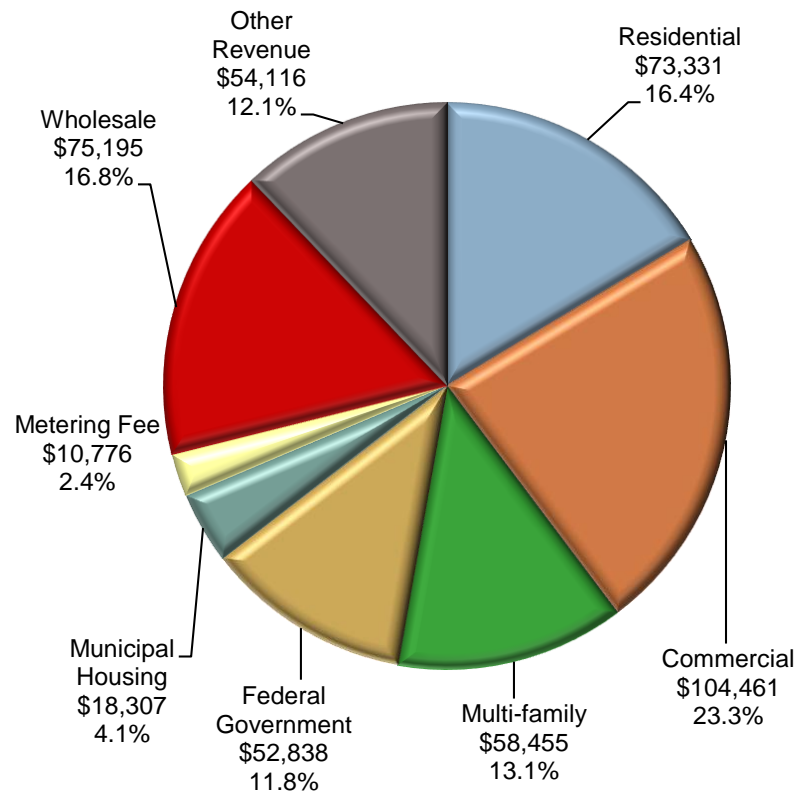
# ***REVENUES, RATES AND FEES***

# Operating Revenues

**Revised FY 2013**  
**\$447,479**

(\$000's)

**Proposed FY 2014**  
**\$477,570**



Approved July 5, 2012

*Note: Detailed discussion can be found in Section IV of the Operating Budget Book*

# Comparative Operating Revenues Budgets






(\$000's)

	FY 2012 Projections	FY 2013 Revised	FY 2014 Proposed	FY 2014 vs FY 2013 \$ %	
				Incr./ (Decr.)	
Retail Revenue	\$ 299,026	\$ 318,168	\$ 340,787	\$ 22,619	7.1%
Wholesale Revenue					
Potomac Interceptor	2,527	2,229	2,353	124	5.6%
Loudoun County Sanitation Authority	5,388	5,497	5,679	182	3.3%
Washington Suburban Sanitary Commission	53,309	53,491	58,423	4,932	9.2%
Fairfax County	13,481	13,978	14,445	466	3.3%
Total Wholesale Revenue	74,705	75,195	80,900	5,705	7.6%
Other Revenue	46,675	47,616	48,883	1,267	2.7%
Rate Stabilization Fund	6,500	6,500	7,000	500	7.7%
<b>Total Revenue</b>	<b>\$ 426,906</b>	<b>\$ 447,479</b>	<b>\$ 477,570</b>	<b>\$ 30,091</b>	<b>6.7%</b>

*The year-end projections were made as of August 2012 and may change based on the final year-end results.*

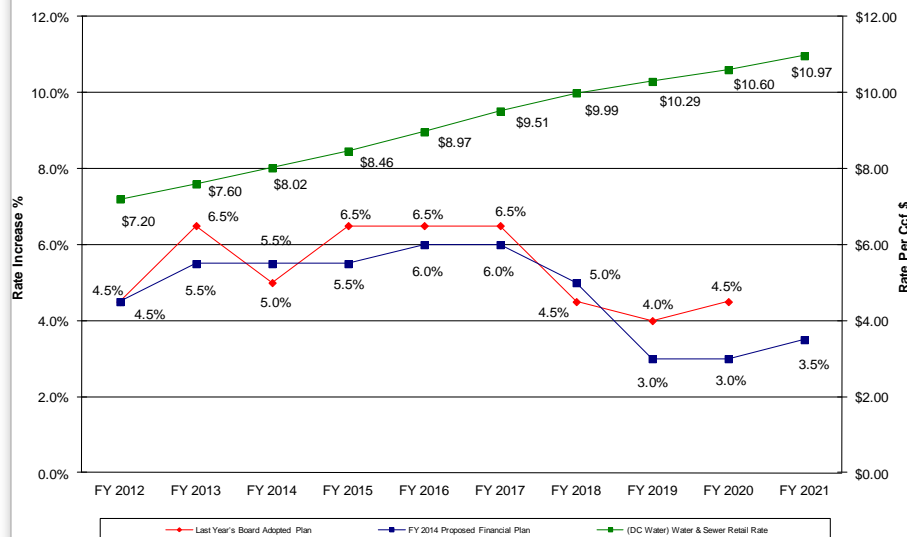


## Proposed Retail Rates & Fees

-  Recommendation for creation of “Multi-family Residential” customer classification
-  FY 2014 combined Water and Sewer rate increase of \$0.42 per Ccf or {\$0.56 per 1,000 gallons}
  - Water rate increase of \$0.19 per Ccf to \$3.61 per Ccf {increase of \$0.26 to \$4.83 per 1,000 gallons}
  - Sewer rate increase of \$0.23 per Ccf to \$4.41 per Ccf {increase of \$0.30 to \$5.89 per 1,000 gallons}
-  FY 2014 monthly Clean Rivers Impervious Area Charge increase of \$3.20 to \$12.77 per ERU to recover the costs of the DC Clean Rivers Project
-  FY 2014 PILOT fee increase of \$0.03 per Ccf to \$0.53 per Ccf {increase of \$0.04 to \$0.71 per 1,000 gallons}
-  FY 2014 ROW increase of \$0.01 per Ccf to \$0.17 per Ccf {increase of \$0.01 to \$0.22 per 1,000 gallons} to recover full cost of District charge per current MOU

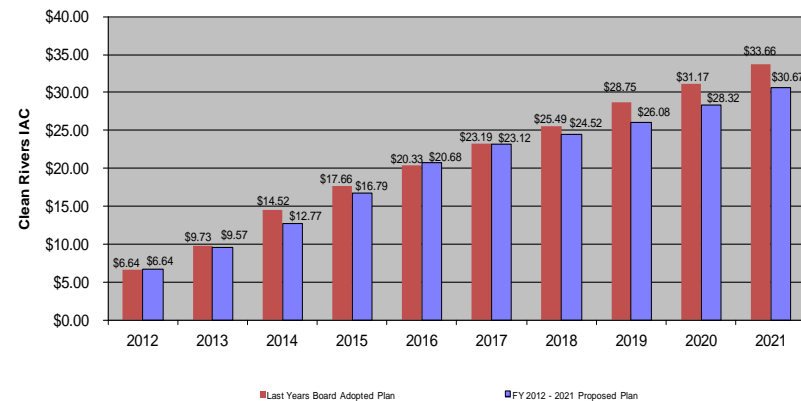
# FY 2014 Proposed Retail Rate Changes

## Water & Sewer Rates



- Proposed \$0.42 increase per Ccf, {\$0.56 per 1,000 gallons} in FY 2014
  - Combined Water and Sewer rate of \$8.02 per Ccf
- Rate increase ranging from 3.0% to 6.0% over ten years

## Clean Rivers IAC

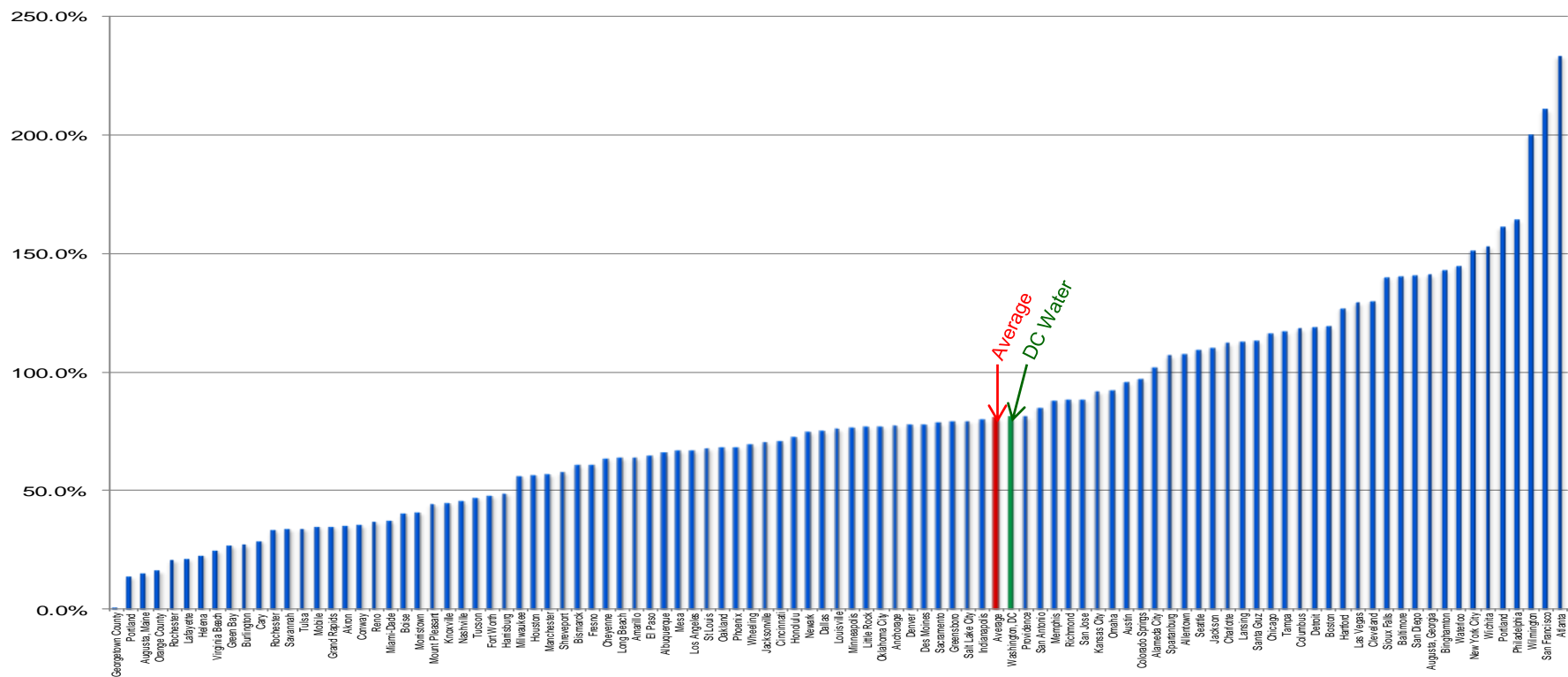


- Proposed Clean Rivers IAC ranges from \$6.64 to \$30.67 per monthly ERU
  - Annual revenues ranging from \$31.0 million to \$141.3 million over ten years
- Proposed PILOT increase of \$0.03 per Ccf (\$0.04 per 1,000 gallons)
- Proposed ROW increase of \$0.01 per Ccf (\$0.01 per 1,000 gallons)

## DC Water Rate Adjustments Over 12 Years Within National Norms\*

According to USA Today, water rates have increased an average of 80.6% between 2000-2012 among 100 US municipalities

- Largest 12 year change was Atlanta at 233.1% (19.5% annual average)
- DC Water was at average (81% or 6.75% annually)



\*Source: USA Today Newspaper - 09/28/2012

## ***SEARCHING THE HORIZON: EMERGING TOPICS & OPPORTUNITIES***

## Emerging Topics & Opportunities

- Implement Board Strategic Plan
- Negotiation of New Collective Bargaining Agreement
- Operational Impact of New Facilities
  - New Digester/Combined Heat & Power (CHP) Processes
  - Enhanced Nitrogen Removal Facilities
- Re-organizations and Business Process Re-engineering
- Unfunded CIP needs – approximately \$1 billion
- Bloomingdale/LeDroit Park Flooding Review

# Section 5

## ***APPENDIX***

# ***ACCOMPLISHMENTS & STRATEGIC VISION***

# FY 2012 Accomplishments

**Improved  
Safety  
Culture**

**Exceptional  
Financial  
Performance**

**Broad  
Customer  
Outreach**

**Reduced  
Overtime**

**Transparency  
that includes  
Customer Input**

**Flexibility  
To Meet  
Emerging  
Needs**

**Operational  
Efficiencies**



## Strategic Vision for FY 2013 & Beyond

The Revised FY 2013 and Proposed FY 2014 operating budgets represents significant savings opportunities, while accommodating new business objectives to support policy and DC Water's goal to be *"Best in Class"*:

- Start-up of Digesters
- Smaller crew sizes
- Realignment of resources to enhance operating performance
- Enhancement of employee training opportunities
- Additional revenue enforcement personnel
- Expansion of cost saving technologies - Trenchless Technology
- Continuation of in-sourcing proposals

# Macro Picture



# Budget Decision Framework



Efficiency




Customer  
Service



Health/Safety  
of our  
Employees &  
Customers

Strategic budget development considered the above budget prioritization within:

- 
- 🚰 Board Strategic Goals
  - 🚰 Capital and Operating Budgets Linkage
  - 🚰 Management Priority Initiatives

# Comparative Operating Expenditure Budgets

(\$000's)

	FY 2012 Projections	FY 2013 Revised	FY 2014 Proposed	FY 2014 v FY 2013 \$ %	
				<i>Incr. / (Decr.)</i>	
Personnel Services	\$ 110,711	\$ 116,609	\$ 120,454	\$ 3,845	3.3%
Non-Personnel Services	152,519	180,401	183,519	3,118	1.7%
<b>Operations &amp; Maintenance Expenditures</b>	<b>263,231</b>	<b>297,009</b>	<b>303,973</b>	<b>6,964</b>	<b>2.3%</b>
Debt Service	99,250	121,330	150,389	29,059	24.0%
Payment in Lieu of Taxes	16,882	16,882	20,081	3,199	18.9%
Right of Way Fee	5,100	5,100	5,100	-	0.0%
<b>Total Operating Budget</b>	<b>\$ 384,463</b>	<b>\$440,321</b>	<b>\$479,543</b>	<b>\$39,222</b>	<b>8.9%</b>
PS Charged to Capital Projects	(13,949)	(16,690)	(17,860)	1,170	7.0%
Net Operating Expenditures	\$370,513	\$423,631	\$461,683	\$40,392	9.5%
Authorized Positions	1,202	1,243	1,260	17	1.4%

- Proposed FY 2014 budget increases by \$39.2 million or 8.9 percent over the Board-revised FY 2013 budget

*The year-end projections were made as of August 2012 and may change based on the final year-end results.*

# Operating Budget Departmental Summary

(\$000's)						
	FY 2013 APPROVED	FY 2013 REVISED	Percent Change	FY 2014 PROPOSED	FY 13 & 14 Incr./(Decr.)	Percent Change
O Wastewater Treatment - Operations	87,735	83,305	-5.0%	84,900	1,594	1.9%
p Wastewater Treatment - Process Engineering <sup>1</sup>	-	3,317		7,816	4,499	135.6%
e Maintenance Services	21,217	21,062	-0.7%	21,160	98	0.5%
r Water Services	61,207	18,743	-69.4%	19,312	569	3.0%
a Sewer Services	21,213	59,331	179.7%	57,603	(1,728)	-2.9%
t Customer Service	16,602	16,574	-0.2%	15,994	(580)	-3.5%
i Water & Sewer Pumping Services	4,691	4,843	3.2%	5,136	292	6.0%
o Engineering and Technical Services	19,829	19,501	-1.7%	19,566	65	0.3%
n Clean Rivers	1,394	1,431	2.7%	1,645	214	15.0%
s Permit Operations	1,522	1,909	25.4%	2,015	106	5.5%
Subtotal Operations	235,409	230,017	-2.3%	235,147	5,129	2.2%
A General Manager	3,985	3,691	-7.4%	3,979	288	7.8%
d Office of the Board Secretary	598	611	2.2%	619	7	1.2%
m Internal Audit	840	840	0.0%	830	(10)	-1.2%
i General Counsel	7,033	6,941	-1.3%	7,316	375	5.4%
n External Affairs	2,213	2,233	0.9%	2,202	(31)	-1.4%
i Information Technology	10,261	9,969	-2.8%	10,229	260	2.6%
s Finance and Budget	8,184	8,381	2.4%	8,819	438	5.2%
t Risk Management	6,194	5,918	-4.5%	6,033	115	1.9%
r Assistant General Manager - Support Services	330	332	0.6%	340	8	2.4%
a Human Capital Management	4,470	4,536	1.5%	4,630	94	2.1%
t Facilities Management and Security	12,990	13,048	0.4%	12,879	(168)	-1.3%
i Procurement	4,362	4,105	-5.9%	4,140	35	0.9%
o Occupational Safety and Health	1,733	1,760	1.6%	1,894	134	7.6%
n Fleet Management	4,466	4,625	3.6%	4,918	293	6.3%
Subtotal Administration	67,659	66,991	-1.0%	68,827	1,836	2.7%
<b>Subtotal O &amp; M Expenditures</b>	303,069	297,009	-2.0%	303,973	6,965	2.3%
Debt Service	129,392	121,330	-6.2%	150,389	29,059	24.0%
Payment in Lieu of Taxes	19,215	16,882	-12.1%	20,081	3,199	18.9%
Right of Way	5,100	5,100	0.0%	5,100	-	0.0%
<b>Total Operating Expenditures</b>	456,775	440,321	-3.6%	479,543	39,222	8.9%
Personnel Services charged to Capital Projects	(16,690)	(16,690)	0.0%	(17,860)	1,170	-7.0%
<b>Total Net Operating Expenditures</b>	\$ 440,085	\$ 423,631	-3.7%	\$ 461,683	\$ 40,392	9.5%

<sup>1</sup> In FY 2012, the reorganization of wastewater treatment and maintenance services functions in Blue Plains, resulted in the creation of a new Process Engineering Department.

# Operating Revenues Comparison

	(\$000's)					
	FY 2013 Approved	FY 2013 Revised	Percent Change	FY 2014 Proposed	Increase/ (Decrease)	Percentage Change
Residential	76,270	73,331	-3.9%	80,263	6,932	9.5%
Commercial	108,866	104,461	-4.0%	113,557	9,096	8.7%
Multi-family	62,258	58,455	-6.1%	62,441	3,985	6.8%
<b>Sub-Total Residential, Commercial and Multi-family</b>	<b>247,394</b>	<b>236,247</b>	<b>-4.5%</b>	<b>256,261</b>	<b>20,014</b>	<b>8.5%</b>
Federal Government(1)	52,551	52,838	0.5%	53,452	615	1.2%
District Government	12,677	12,037	-5.0%	13,560	1,522	12.6%
D.C. Housing Authority	6,960	6,270	-9.9%	6,738	468	7.5%
Transfer from Rate Stabilization Fund	6,500	6,500		7,000	500	7.7%
Metering Fee	10,776	10,776	0.0%	10,776	-	0.0%
<b>Total Retail</b>	<b>336,858</b>	<b>324,668</b>	<b>-3.6%</b>	<b>347,787</b>	<b>23,120</b>	<b>7.1%</b>
IMA Wastewater Charges	69,818	67,469	-3.4%	72,868	5,399	8.0%
Potomac Interceptor Wastewater Charges	7,629	7,726	1.3%	8,032	306	4.0%
<b>Total Wholesale</b>	<b>77,446</b>	<b>75,195</b>	<b>-2.9%</b>	<b>80,900</b>	<b>5,705</b>	<b>7.6%</b>
District Stormwater Revenue (2)	1,100	1,000	-9.1%	1,000	-	0.0%
Misc. Rev. (e.g. water tap installation, fire hydrant usage, etc.)	18,898	23,609	24.9%	21,609	(2,000)	-8.5%
Washington Aqueduct Debt Service Revenue for Falls Church & /	206	206	0.0%	201	(5)	-2.6%
Interest Income (including interest on Bond Debt Service Reserve	1,328	659	-50.4%	892	234	35.5%
Other Misc Revenue	21,531	25,474	18.3%	23,703	(1,772)	-7.0%
Right of Way	5,100	5,100	0.0%	5,100	-	0.0%
PILOT Fee	19,214	17,042	-11.3%	20,081	3,039	17.8%
<b>Total Other</b>	<b>45,846</b>	<b>47,616</b>	<b>3.9%</b>	<b>48,883</b>	<b>1,267</b>	<b>2.7%</b>
<b>Total Operating Cash Receipts</b>	<b>460,150</b>	<b>447,479</b>	<b>-2.8%</b>	<b>477,570</b>	<b>30,091</b>	<b>6.7%</b>

- (1) Historical actuals are presented on revenue basis. Projected amounts shown are billed revenues. Actual Federal receipts are a combination of current year projected revenues and prior year adjustments, which are presented as reserve items. See Section 3 for further explanation.
- (2) Reflects District stormwater fee revenue that will fund DC Water share of District stormwater permit compliance activities, and will not be funded through DC Water retail rates or other DC Water revenue sources. See Section 3 for further explanation.

## CIP Cost Drivers by Service Areas (Cash Disbursements)

FY 2012 – 2021 10 Year CIP disbursements are \$3.8 billion. The primary changes are as follows\*:

- **Wastewater Treatment:** \$6.1 million increase
  - Planned disbursements similar to last year's plan. Increases in digester budget and addition of the Asset Management project are offset by elimination of prior years disbursements
- **Combined Sewer Overflow/Clean Rivers (LTCP):** 10-year increase of \$104.3 million
  - New Green Infrastructure Demonstration project represents accelerated spending within the Clean Rivers Program
  - Increase in estimated costs for Anacostia River Tunnel, Main Pump Station and Outfall Sewer Diversion Tunnels
  - New Headquarters Building at Main and O Streets

\*A list of new and closed projects can be found in section VI of the budget book



## CIP Cost Drivers by Service Areas (Cash Disbursements) – cont.

- **Water:** \$6.1million decrease
  - No major changes from last year's plan
- **Sewer:** \$74.2 million decrease
  - Review of program has resulted in potential lower disbursements based on inspections completed in the last fiscal year
- **Washington Aqueduct:** \$0
  - Anticipated projects unchanged
- **Capital Equipment:** \$4.6 million decrease



## Project Highlights

- **Asset** Management: Five year program with \$20 million of funding in Wastewater, Water and Sewer Service Areas
  - Project to fully leverage technology to operate maintain, upgrade and dispose of assets to achieve the greatest efficiencies as well as asset life cycle value
  - Separate presentation to be provided to Committees in upcoming months
- Green Infrastructure Demonstration Project (\$40 million)
  - Large-scale low impact development demonstration project in the Potomac and Rock Creek watersheds
  - Project will help understand the practicality and efficacy of green infrastructure for CSO control
  - A pending green infrastructure partnership agreement will define the framework under which green infrastructure may advance

## Project Highlights

- **Administrative Headquarters (\$62 million)**
  - New administration building to consolidate functions and address growing space needs
  - Located near public transit
  - Leverages available land
- **New Warehouse (\$18 million) to be completed in FY 2013 (rendering)**

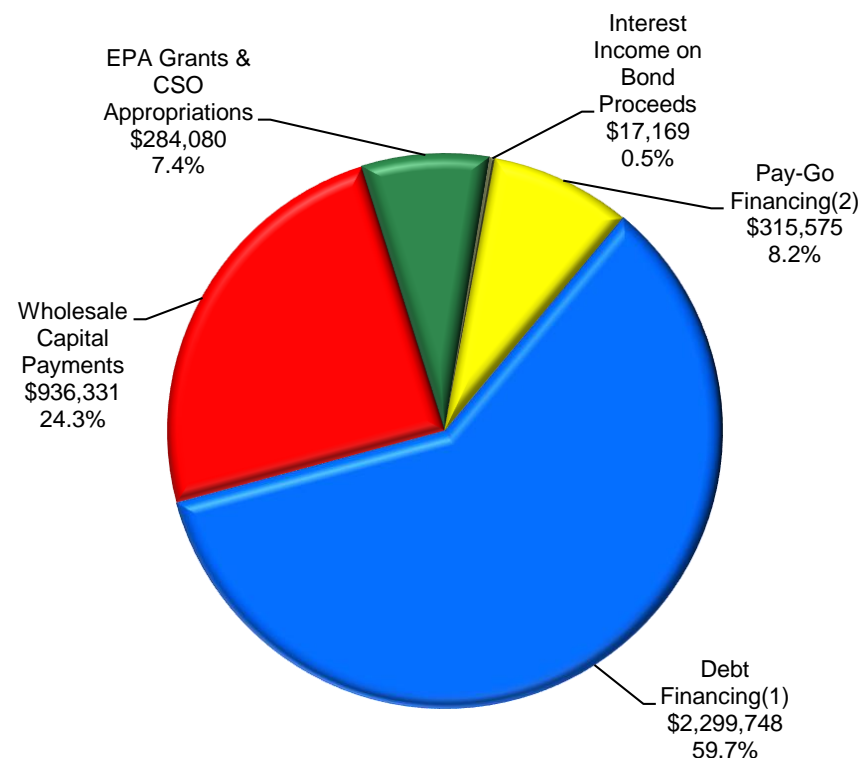
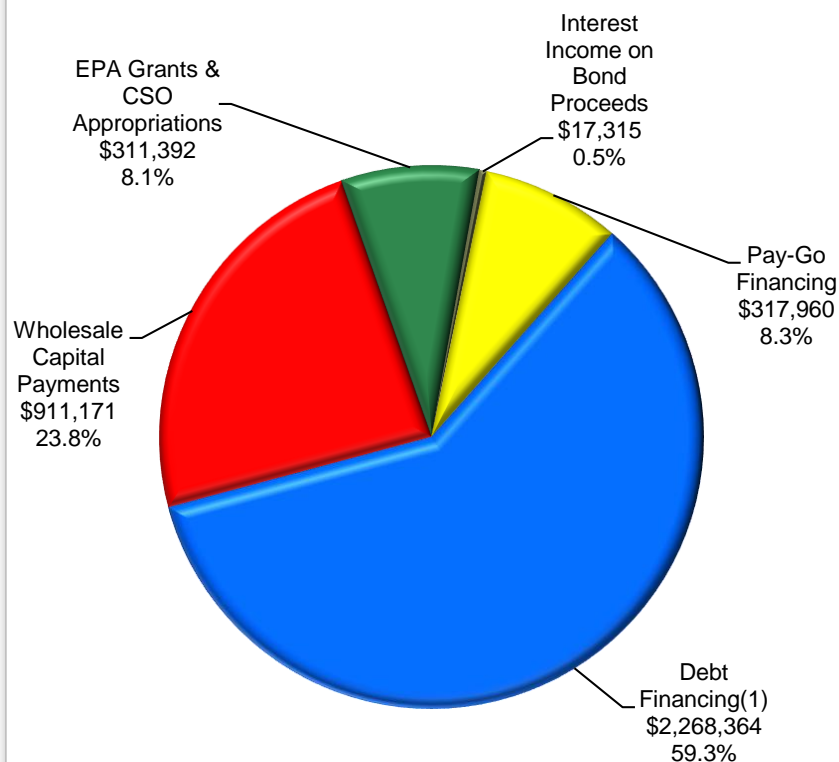


# Ten-Year CIP Sources of Fund

**FY 2011 – FY 2020**

(\$000's)

**FY 2012 – FY 2021**



(1) Debt financing refers to the borrowing of funds through revenue bonds, commercial paper and other short-term notes.

(2) Pay-Go financing is any funds available after meeting the greater of 120 days or \$125.5 million in operating and maintenance reserve, approximately \$125.5 million in FY 2013. These transfers will reduce the amount of new debt issuance.

# FY 2012 – FY 2021 CIP

## Project Lifetime Budgets by Program Area

	(\$000's)		
	<u>FY 2013 Approved</u>	<u>FY 2013 Revised / FY 2014 Proposed</u>	<u>Variance</u>
<b><u>Wastewater Treatment</u></b>			
Liquid Processing Projects	622,106	632,948	10,842
Plantwide Projects	345,887	360,994	15,107
Solids Processing Projects	719,537	772,912	53,375
Enhanced Nitrogen Removal Facilities (formerly BTN - Total Nitrogen Program)	988,778	966,888	(21,890)
<b>Sub-total</b>	<b>2,676,308</b>	<b>2,733,742</b>	<b>57,434</b>
<b><u>Sanitary Sewer</u></b>			
Sanitary Collection Sewers	133,906	162,656	28,750
Sanitary On-Going Projects	159,677	173,757	14,080
Sanitary Pumping Facilities	25,898	30,458	4,560
Sanitary Sewer Projects Program Management	103,135	91,086	(12,049)
Sanitary Interceptor/Trunk Force Sewers	432,583	466,541	33,958
<b>Sub-total</b>	<b>855,199</b>	<b>924,498</b>	<b>69,299</b>
<b><u>Combined Sewer Overflow</u></b>			
CSO Program Management	55,239	55,239	-
Combined Sewer Projects: Nine Minimum Controls	213,888	213,388	(500)
Combined Sewer Projects: Others	244,844	339,926	95,082
D.C. Clean Rivers Project (aka Long-Term Control Plan)			
Anacostia Tunnel	1,672,282	1,714,720	42,438
Potomac Tunnel	418,700	423,700	5,000
Rock Creek Tunnel	70,342	65,342	(5,000)
<b>Sub-total</b>	<b>2,675,295</b>	<b>2,812,315</b>	<b>137,020</b>
<b><u>Stormwater</u></b>			
Stormwater Extensions/Local Drainage	17,999	22,816	4,817
Stormwater On-Going Program	9,658	11,323	1,665
Stormwater Pumping Facilities	0	0	-
DDOT Stormwater Program	4,720	3,237	(1,483)
Stormwater Projects Program Management	10,630	10,630	-
Stormwater Trunk/Force Sewers	15,504	15,162	(342)
<b>Sub-total</b>	<b>58,511</b>	<b>63,168</b>	<b>4,657</b>

# FY 2012 – FY 2021 CIP Project Lifetime Budgets by Program Area – cont.

(\$000's)

	<b>FY 2013 Approved</b>	<b>FY 2013 Revised / FY 2014 Proposed</b>	<b>Variance</b>
<b><u>Water</u></b>			
Water Distribution Systems	695,720	858,878	163,158
Water Lead Program	191,040	191,040	0
Water On-Going Projects	117,541	127,879	10,338
Water Pumping Facilities	161,372	155,908	(5,464)
DDOT Water Projects	91,538	38,184	(53,354)
Water Storage Facilities	74,311	75,762	1,451
Water Projects Program Management	47,559	78,756	31,197
Meter Replacement /AMR Installation	73,534	91,264	17,730
<b>Sub-total</b>	<b>1,452,615</b>	<b>1,617,671</b>	<b>165,056</b>
<b>Washington Aqueduct</b>	<b>203,138</b>	<b>203,138</b>	<b>0</b>
<b>Capital Equipment</b>	<b>98,307</b>	<b>94,108</b>	<b>(4,199)</b>
<b>Total DC Water CIP Lifetime (see notes)</b>	<b>8,019,373</b>	<b>8,448,640</b>	<b>429,267</b>

## Notes:

- 1 Lifetime budgets shown here represent total budgets for projects that are active during the current 10-year CIP. Lifetime budgets include historical spending prior to the beginning of the current 10-year plan, spending during the 10-year plan, and projected spending beyond the current 10-year plan. Projects completed in FY 2012 will be dropped from the CIP next year.
- 2 These budgets do not include inhouse labor costs, estimated to be in the \$9 to \$10 million range, annually, and are applicable to, primarily, the time charged to capital projects by employees in the Departments of Engineering and Technical Services, Sewer Services, and Water Services.

## FY 2014 Capital Authority Request\*

(\$000's)

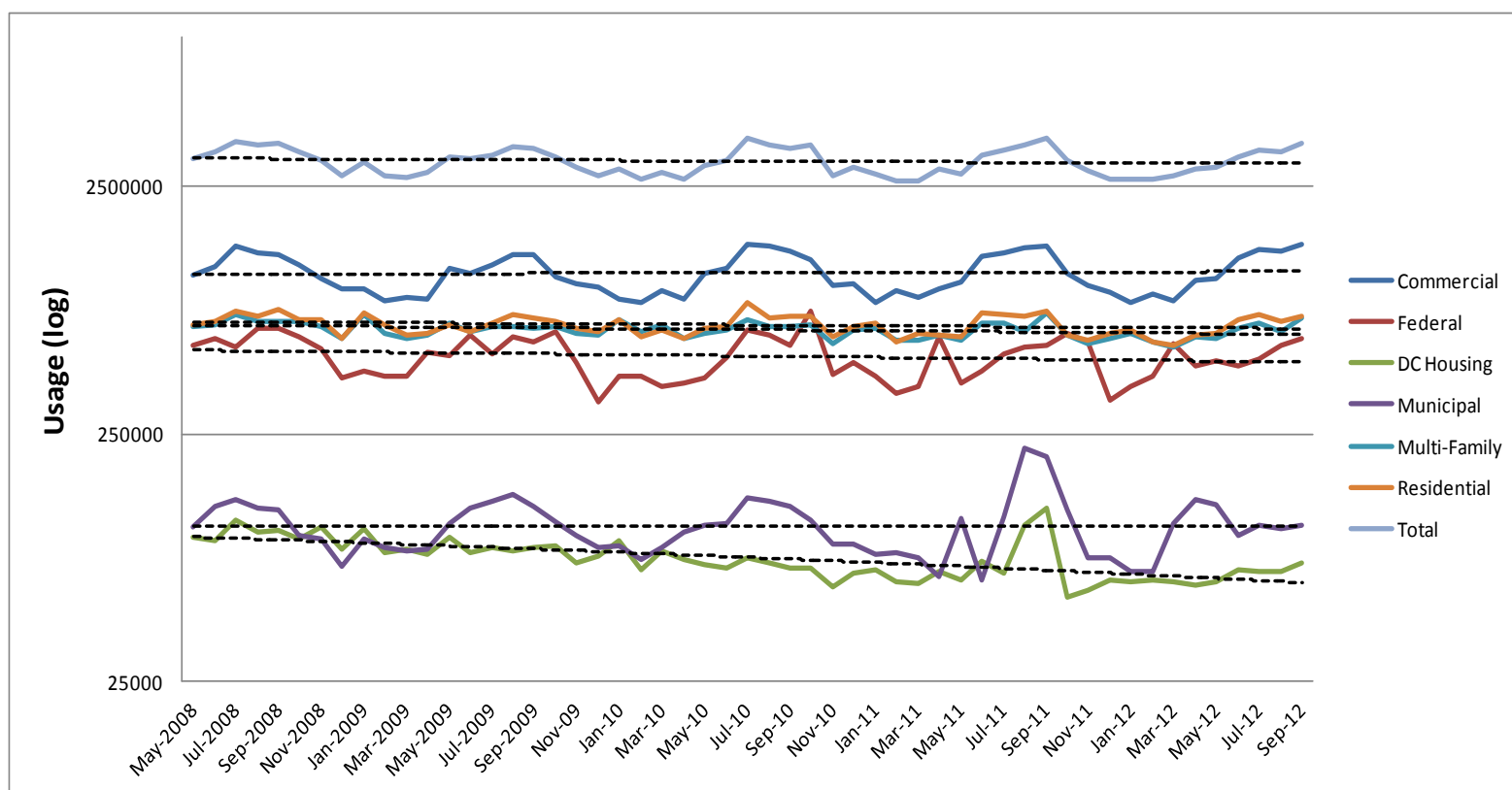
<u>Service Areas</u>	<u>Amount</u>
Blue Plains Wastewater Treatment	\$49,419
Sanitary Sewer System	35,233
Combined Sewer Overflow <sup>1</sup>	229,603
Stormwater	0
Water System	73,839
Washington Aqueduct (DC Water share)	11,192
Capital Equipment	7,750
<b>Total</b>	<b><u>\$407,036</u></b>

\* The authority request includes a 24 month look-ahead, i.e., it also takes into account projected commitments for FY 2015 and FY 2016.

<sup>1</sup> Includes Special Risk Allowance of \$74 million for the D.C. Clean Rivers Project (aka Long Term Control Plan - "LTCP"), although not part of this Project's Lifetime Budget.

# Consumption Trends

Monthly Usage by Customer Category (May 2008 – September 2012)

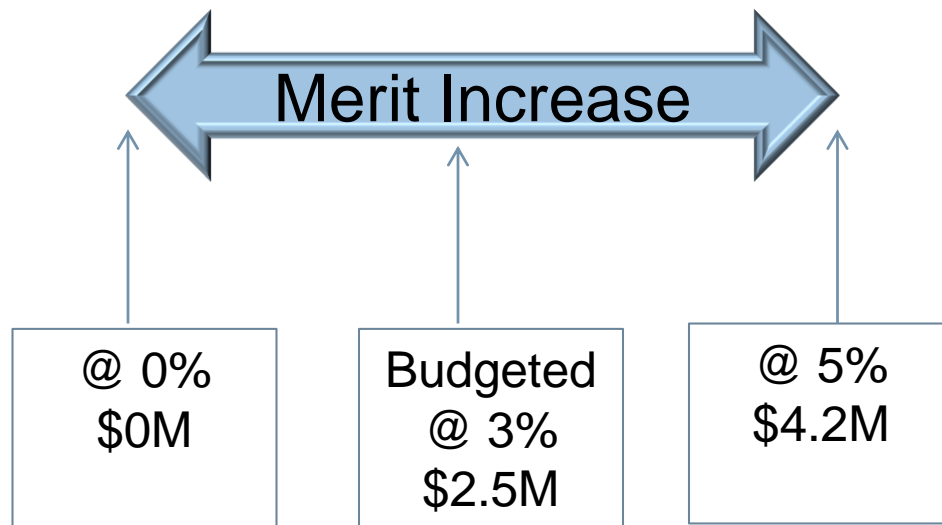


# Ten-Year Financial Plan

	(\$000's)									
<b>OPERATING</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
<i>Retail*</i>	321,702	340,310	365,968	397,732	430,974	458,277	478,207	492,574	510,169	524,915
<i>Wholesale*</i>	74,705	75,195	80,900	75,124	75,485	77,756	80,156	82,555	85,063	97,191
<i>Other</i>	23,998	25,474	23,703	25,650	26,419	29,259	32,128	33,258	33,423	27,008
<i>RSF</i>	6,500	6,500	7,000	-	-	-	-	-	-	-
<b>Operating Receipts (1)</b>	<b>\$ 426,906</b>	<b>\$ 447,479</b>	<b>\$ 477,570</b>	<b>\$ 498,506</b>	<b>\$ 532,878</b>	<b>\$ 565,292</b>	<b>\$ 590,490</b>	<b>\$ 608,387</b>	<b>\$ 628,655</b>	<b>\$ 649,114</b>
<b>Operating Expenses</b>	<b>(271,659)</b>	<b>(302,302)</b>	<b>(311,295)</b>	<b>(304,976)</b>	<b>(310,711)</b>	<b>(320,565)</b>	<b>(330,632)</b>	<b>(343,388)</b>	<b>(353,596)</b>	<b>(365,853)</b>
<b>Debt Service</b>	<b>\$ (99,251)</b>	<b>\$ (116,179)</b>	<b>\$ (147,792)</b>	<b>\$ (168,985)</b>	<b>\$ (185,775)</b>	<b>\$ (206,160)</b>	<b>\$ (219,425)</b>	<b>\$ (227,102)</b>	<b>\$ (239,755)</b>	<b>\$ (253,255)</b>
<b>Net Revenues After Debt Service</b>	<b>\$ 55,996</b>	<b>\$ 28,998</b>	<b>\$ 18,484</b>	<b>\$ 24,545</b>	<b>\$ 36,392</b>	<b>\$ 38,567</b>	<b>\$ 40,433</b>	<b>\$ 37,898</b>	<b>\$ 35,305</b>	<b>\$ 30,006</b>
<b>Operating Reserve-Beg Balance</b>	<b>150,035</b>	<b>139,565</b>	<b>125,500</b>	<b>125,500</b>	<b>125,500</b>	<b>125,500</b>	<b>125,500</b>	<b>125,500</b>	<b>125,500</b>	<b>125,500</b>
<b>Other Misc (Disbursements)/Receipts</b>										
Wholesale/Federal True Up	(6,660)	(10,905)	(7,500)	-	-	-	-	-	-	-
Customer Rebate	-	(4,200)								
Transfers To RSF	(17,750)	(4,100)								
Transfers To DC PILOT Fund	(4,468)									
Pay-Go Financing	(37,588)	(23,857)	(10,984)	(24,545)	(36,392)	(38,567)	(40,433)	(37,898)	(35,305)	(30,006)
<b>Operating Reserve - Ending Balance</b>	<b>\$ 139,565</b>	<b>\$ 125,500</b>	<b>\$ 125,500</b>	<b>\$ 125,500</b>	<b>\$ 125,500</b>	<b>\$ 125,500</b>	<b>\$ 125,500</b>	<b>\$ 125,500</b>	<b>\$ 125,500</b>	<b>\$ 125,500</b>
<b>Rate Stabilization Fund Balance RSF (2)</b>	<b>\$ (27,950)</b>	<b>\$ (25,550)</b>	<b>\$ (18,550)</b>	<b>\$ (18,550)</b>	<b>\$ (18,550)</b>	<b>\$ (18,550)</b>	<b>\$ (18,550)</b>	<b>\$ (18,550)</b>	<b>\$ (18,550)</b>	<b>\$ (18,550)</b>
<b>Senior Debt Service Coverage</b>	<b>354%</b>	<b>325%</b>	<b>253%</b>	<b>250%</b>	<b>241%</b>	<b>221%</b>	<b>209%</b>	<b>197%</b>	<b>189%</b>	<b>179%</b>
<b>Combined Debt Service Coverage</b>	<b>149%</b>	<b>131%</b>	<b>124%</b>	<b>130%</b>	<b>134%</b>	<b>133%</b>	<b>132%</b>	<b>130%</b>	<b>128%</b>	<b>125%</b>
<b>Actual/Projected Water/Sewer Rate Incre:</b>	<b>4.5%</b>	<b>5.5%</b>	<b>5.5%</b>	<b>5.5%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>5.0%</b>	<b>3.0%</b>	<b>3.0%</b>	<b>3.5%</b>
<i>*Operating Receipts \$ Increase/Decrease</i>										
Retail	21,103	18,608	25,658	31,765	33,242	27,303	19,930	14,367	17,595	14,745
Wholesale	5,444	490	5,705	(5,776)	361	2,271	2,400	2,399	2,508	12,129
<i>*Operating Receipts % Increase/Decrease</i>										
Retail	7.0%	5.8%	7.5%	8.7% <sup>(3)</sup>	8.4% <sup>(3)</sup>	6.3%	4.3%	3.0%	3.6%	2.9%
Wholesale	7.9%	0.7%	7.6%	-7.1%	0.5%	3.0%	3.1%	3.0%	3.0%	14.3%
<i>(1) Includes interest earnings on senior lien revenue bonds' debt service reserve fund</i>										
<i>(2) FY 2012 Rate Stabilization Fund utilization brought the total fund balance to \$27.95 million</i>										
<i>(3) Savings anticipated from implementation of new biosolids management beginning in FY 2015</i>										



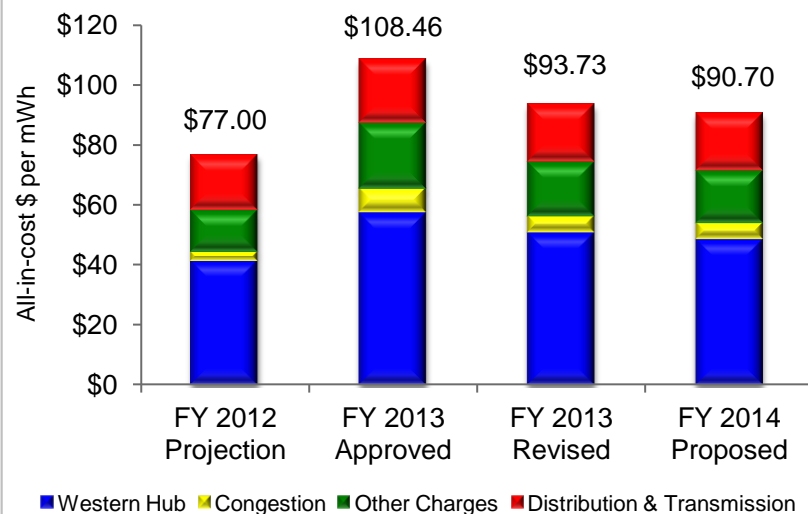
## Sensitivity Analysis - Personnel Services



- ⚙️ *Risk:* Medium
- ⚙️ *Sensitivity:* Every 1% change in merit increase impacts the operating budget by \$840,000

# Sensitivity Analysis - Electricity

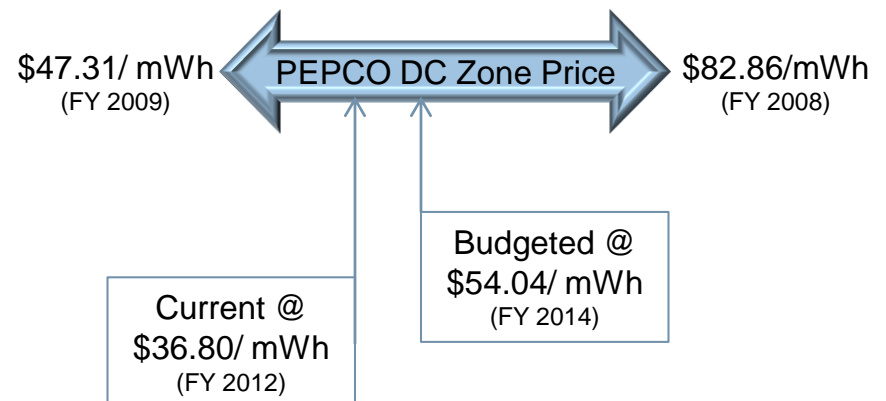
## Unit Prices



Proposed FY 2014 electricity budget of \$25.2 million assumes

- 3 percent increase in unit prices due to instability in oil market & unknown future market unit prices
- Estimated 1.2MW consumption for the new WWT facilities @ \$1M
- New energy procurement contract anticipated after existing contract expires January 31, 2014

## Sensitivity Analysis



- **Volatility:** Pepco DC Zone which comprises of the Western Hub & Congestion spot market prices.
- **Risk:** Medium
- **Sensitivity:** Every \$1 change in unit price impacts the operating budget by \$278,000 (based on 278,090 mWh)

## 2012 Digester Costs/Savings Update

- The original 2009 comparative model used to evaluate the cost/benefit of the Digester/Cambi program assumed approximately \$13 million operating reductions in FY 2014
- Greater cost certainty: Update of projected costs and savings based on hard bid values and zero base operating costs have been developed
- 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
  - *The prior 2009 comparative model was built to compare different biosolids treatment alternatives and accordingly costs common to all alternates were not considered*
  - *As design concepts were finalized, the operating savings remain a significant project benefit*

## 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

## Digester Operating Cost Update

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
<b>Total O&amp;M for Biosolids</b>	<b>\$17,385,796</b>	<b>\$26,779,965</b>	<b>\$47,081,515</b>	<b>\$20,301,551</b>

\*Annualized operating savings deferred until FY 2015.

- Additional costs of operation begin in mid-year FY 2014 (~\$2.4m)
- Deferred savings included within FY 2014 budget proposal (which is still less than 3% increase over Revised FY 2013 O&M)

# FY 2011 – FY 2021 Projected Average Residential Monthly Bill

*District of Columbia Water & Sewer Authority*

## FY 2011 - 2021 Projected Average Residential Monthly Bill

	Units	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
DC Water Retail Rates (1)	Ccf	\$ 46.09	\$ 48.17	\$ 50.84	\$ 53.65	\$ 56.60	\$ 60.01	\$ 63.62	\$ 66.83	\$ 68.84	\$ 70.91	\$ 73.39
DC Water Clean Rivers IAC	ERU	3.45	6.64	9.57	12.77	16.79	20.68	23.12	24.52	26.08	28.32	30.67
DC Water Customer Metering Fee		3.86	3.86	3.86	3.86	3.86	3.86	3.86	3.86	3.86	3.86	3.86
<b>Subtotal DC Water Rates &amp; Charges</b>		<b>\$ 53.40</b>	<b>\$ 58.67</b>	<b>\$ 64.27</b>	<b>\$ 70.28</b>	<b>\$ 77.25</b>	<b>\$ 84.55</b>	<b>\$ 90.60</b>	<b>\$ 95.21</b>	<b>\$ 98.78</b>	<b>\$ 103.09</b>	<b>\$ 107.92</b>
Increase / Decrease		\$ 8.25	\$ 5.27	\$ 5.60	\$ 6.01	\$ 6.97	\$ 7.30	\$ 6.05	\$ 4.61	\$ 3.57	\$ 4.31	\$ 4.83
District of Columbia PILOT (1)	Ccf	\$ 3.28	3.28	3.35	3.55	\$ 3.75	\$ 3.95	\$ 4.21	\$ 4.42	\$ 4.55	\$ 4.68	\$ 4.82
District of Columbia Right of Way Fee (1)	Ccf	0.94	1.00	1.07	1.14	1.20	1.27	1.34	1.40	1.47	1.54	1.61
District of Columbia PILOT/ROW Fee	Ccf	4.22	4.28	4.42	4.69	4.95	5.22	5.55	5.82	6.02	6.22	6.43
District of Columbia Stormwater Fee (2)	ERU	2.67	2.67	2.67	2.67	2.67	2.67	2.67	2.67	2.67	2.67	2.67
<b>Subtotal District of Columbia Charges</b>		<b>\$ 6.89</b>	<b>\$ 6.95</b>	<b>\$ 7.09</b>	<b>\$ 7.36</b>	<b>\$ 7.62</b>	<b>\$ 7.89</b>	<b>\$ 8.22</b>	<b>\$ 8.49</b>	<b>\$ 8.69</b>	<b>\$ 8.89</b>	<b>\$ 9.10</b>
<b>Total Amount Appearing on DC Water Bill</b>		<b>\$ 60.29</b>	<b>\$ 65.62</b>	<b>\$ 71.36</b>	<b>\$ 77.64</b>	<b>\$ 84.87</b>	<b>\$ 92.44</b>	<b>\$ 98.82</b>	<b>\$ 103.70</b>	<b>\$ 107.47</b>	<b>\$ 111.98</b>	<b>\$ 117.02</b>
Increase / Decrease Over Prior Year		\$ 8.76	\$ 5.33	\$ 5.74	\$ 6.28	\$ 7.23	\$ 7.57	\$ 6.38	\$ 4.88	\$ 3.77	\$ 4.51	\$ 5.04
<b>Percent Increase in Total Bill</b>		<b>17.0%</b>	<b>8.8%</b>	<b>8.7%</b>	<b>8.8%</b>	<b>9.3%</b>	<b>8.9%</b>	<b>6.9%</b>	<b>4.9%</b>	<b>3.6%</b>	<b>4.2%</b>	<b>4.5%</b>

(1) Assumes average monthly consumption of 6.69 Ccf, or (5,004 gallons)

(2) District Department of the Environment stormwater fee of \$2.67 effective November 1, 2010

## Average Residential Monthly Bill (FY 2012 – FY 2014)

	Units	FY 2012	FY 2013	FY 2014
DC Water Retail Rates (1)	Ccf	\$ 48.17	\$ 50.84	\$ 53.65
DC Water Clean Rivers IAC	ERU	6.64	9.57	12.77
DC Water Customer Metering Fee		3.86	3.86	3.86
<b>Subtotal DC Water Rates &amp; Charges</b>		<b>\$ 58.67</b>	<b>\$ 64.27</b>	<b>\$ 70.28</b>
Increase / Decrease		\$ 5.27	\$ 5.60	\$ 6.01
District of Columbia PILOT (1)	Ccf	3.28	3.35	3.55
District of Columbia Right of Way Fee (1)	Ccf	1.00	1.07	1.14
District of Columbia Stormwater Fee (2)	ERU	2.67	2.67	2.67
<b>Subtotal District of Columbia Charges</b>		<b>\$ 6.95</b>	<b>\$ 7.09</b>	<b>\$ 7.36</b>
<b>Total Amount Appearing on DC Water Bill</b>		<b>\$ 65.62</b>	<b>\$ 71.36</b>	<b>\$ 77.64</b>
Increase / Decrease Over Prior Year		\$ 5.33	\$ 5.74	\$ 6.28
<b>Percent Increase in Total Bill</b>		<b>8.8%</b>	<b>8.7%</b>	<b>8.8%</b>

(1) Assumes average monthly consumption of 6.69 Ccf, or (5,004 gallons)

(2) District Department of the Environment stormwater fee of \$2.67 effective November 1, 2010

# Average CAP Residential Monthly Bill (FY 2012 – FY 2014)

	Units	FY 2012	FY 2013	FY 2014
DC Water Retail Rates (1)	Ccf	48.17	50.84	53.65
DC Water Clean Rivers IAC	ERU	6.64	9.57	12.77
DC Water Customer Metering Fee		3.86	3.86	3.86
<b>Subtotal DC Water Rates &amp; Charges</b>		<b>\$ 58.67</b>	<b>\$ 64.27</b>	<b>\$ 70.28</b>
Increase / Decrease		\$ 5.27	\$ 5.60	\$ 6.01
District of Columbia PILOT (1)	Ccf	3.28	3.35	3.55
District of Columbia Right of Way Fee (1)	Ccf	1.00	1.07	1.14
District of Columbia Stormwater Fee (3)	ERU	2.67	2.67	2.67
<b>Subtotal District of Columbia Charges</b>		<b>\$ 6.95</b>	<b>\$ 7.09</b>	<b>\$ 7.36</b>
<b>Total Amount</b>		<b>\$ 65.62</b>	<b>\$ 71.36</b>	<b>\$ 77.64</b>
Less: CAP Discount (4 Ccf per month) (1), (2)		(31.36)	(33.04)	(34.88)
<b>Total Amount Appearing on DC Water Bill</b>		<b>\$ 34.26</b>	<b>\$ 38.32</b>	<b>\$ 42.76</b>
Increase / Decrease Over Prior Year		\$ 4.05	\$ 4.06	\$ 4.44
<b>CAP Customer Discount as a Percent of Total Bill</b>		<b>-47.8%</b>	<b>-46.3%</b>	<b>-44.9%</b>

(1) Assumes average monthly consumption of 6.69 Ccf, or (5,004 gallons)

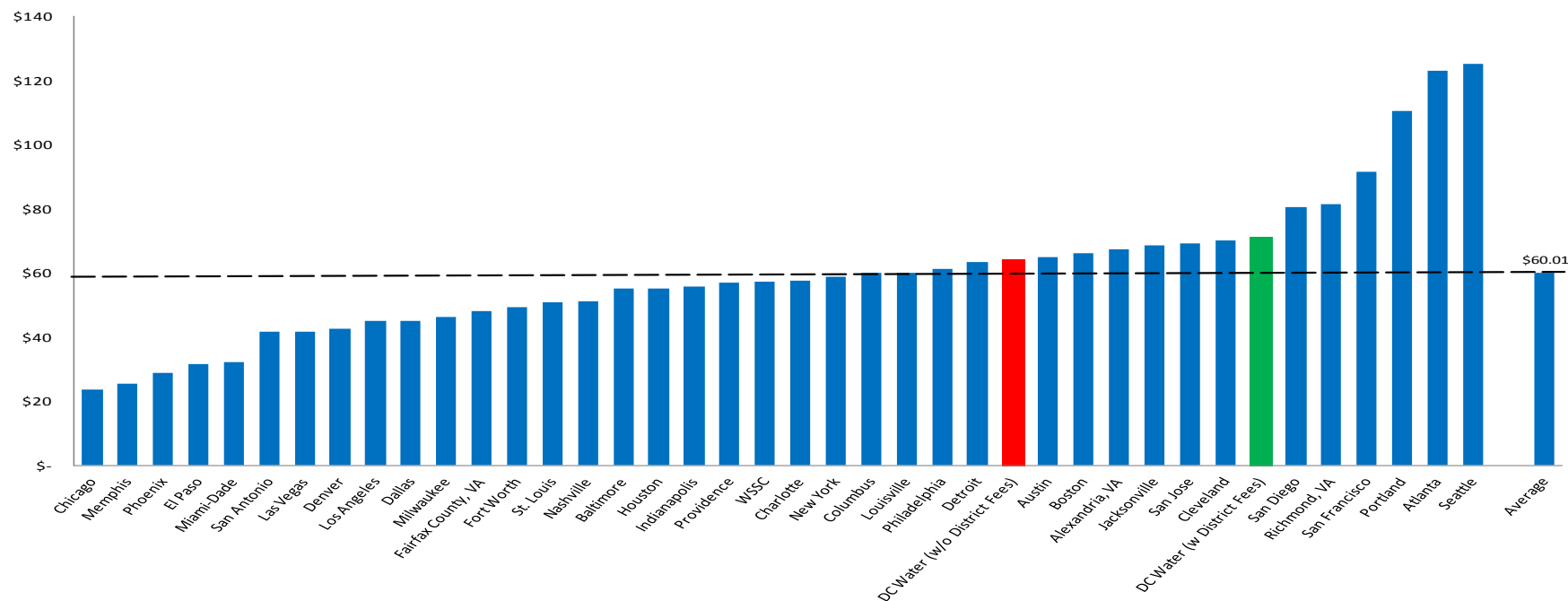
(2) Extension of CAP program in FY 2011 to first 4 Ccf of PILOT and ROW

(3) District Department of the Environment stormwater fee of \$2.67 effective November 1, 2010



# DC Water Retail Rates Compared to Other Large Utilities

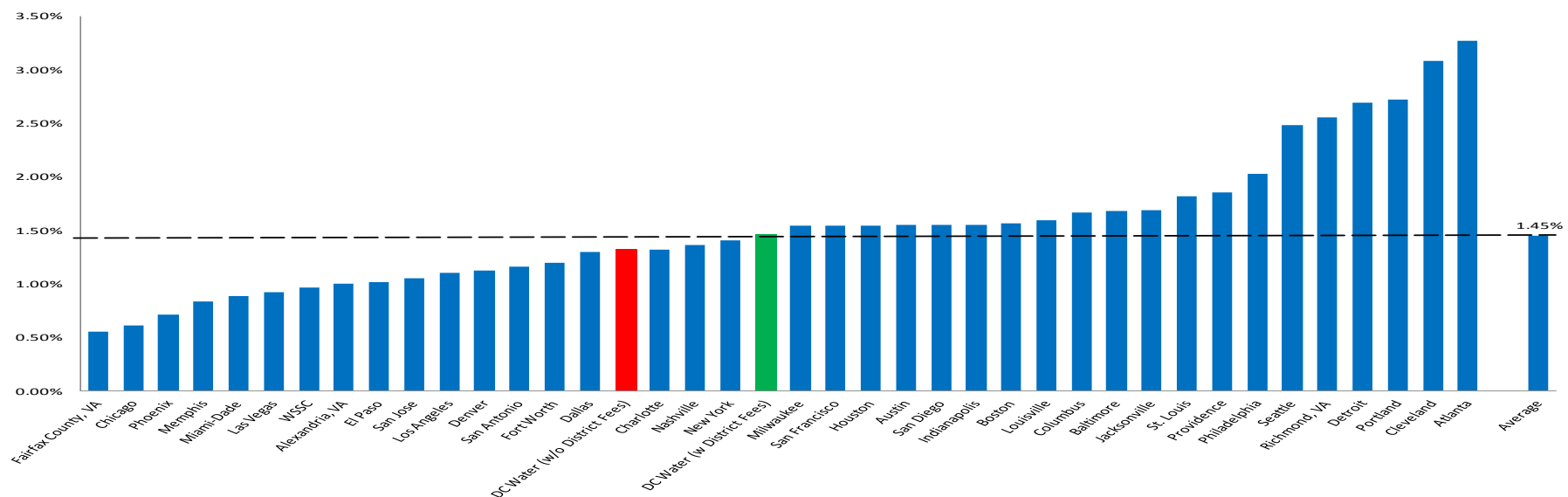
Single Family Residential (SFR) Average Monthly Bill  
(Based on Rates in effect Fall 2012)  
Large National Utilities



- (1) Assumes average residential consumption of 6.69 Ccf, or 5,004 gallons, per month. Ccf = hundred cubic feet, or 748 gallons.
- (2) Reflects DC Water's rate and fee changes in FY 2012. Excludes the District PILOT/ROW and stormwater fees.

## Average Utility Bill as a Percent of Median Income

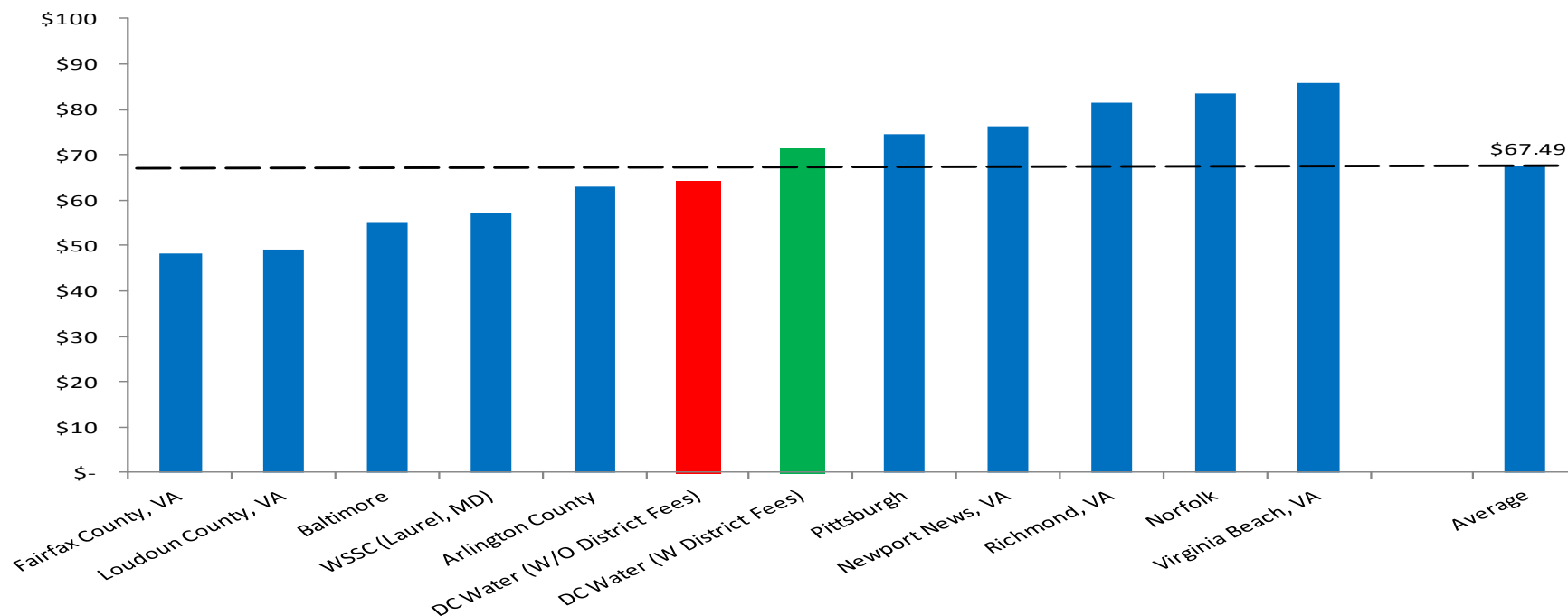
*Single Family Residential (SFR) Monthly Bill as %  
of Median Household Income - Large National Utilities  
(Based on Rates in effect Fall 2012)*



- The results of a recent AWWA survey of large utilities shows that DC Water's charges for water service and for wastewater service as a percentage of median household income are comparable to the median percentages for other large water and wastewater utilities.
- In the chart above DC Water charges rank slightly above the median for bill comparison purposes for water and wastewater services compared to a select group of large, regional and CSO utilities.

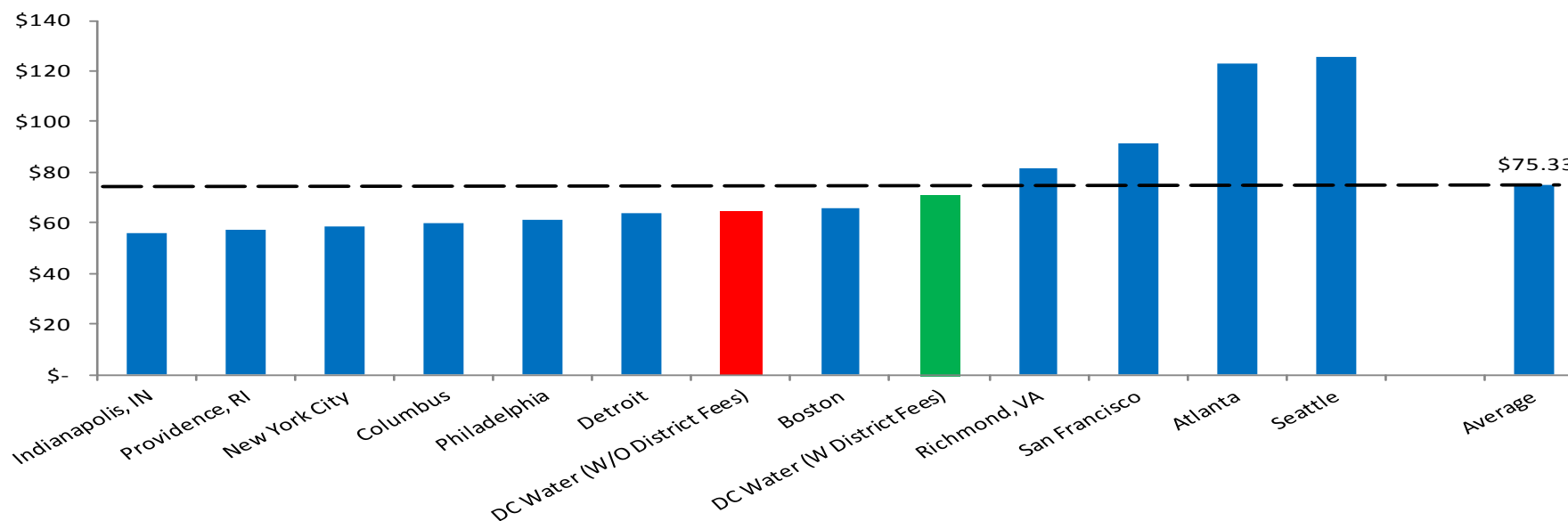
# DC Water Compared to Local and Regional Utilities

*DC Water Retail Rates Compared to Regional Utilities  
(Based on Rates in effect Fall 2012)*



# Water & Sewer Rate Comparison to Other Large CSO Utilities

DC Water Compared to CSO Communities  
(Based on Rates in effect Fall 2012)



- Most CSO communities have implemented double digit rate increases to recover CSO LTCP costs.
- Increases do not reflect other available dedicated taxes or state funding potentially available to some agencies.
- Chicago and Milwaukee both receive tax subsidies and are therefore not included in the chart above

**ATTACHMENT 4**

**FINANCE & BUDGET COMMITTEE  
PROPOSED DEBT POLICY**

**ACTION ITEM A: DEBT POLICY AND GUIDELINES**

The Board will be asked to approve a resolution to approve a debt policy and guidelines which will provide DC Water staff and stakeholders with a comprehensive approved policy detailing the Authority's processes and decisions required with issuing debt.

The benefits derived from a comprehensive policy will be:

- a. Enhancing the quality of decisions
- b. Documenting the decision-making process
- c. Identifying objectives clearly to facilitate staff implementation
- d. Demonstrating a commitment to long-term financial planning
- e. Enhancing the positive assessment of credit quality
- f. Implementing GFOA "Best Practices"



**ATTACHMENT 5**

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

Friday, December 21, 2012; 9:30 a.m.  
Blue Plains Wastewater Treatment Plant  
5000 Overlook Avenue, SW, DC  
**AGENDA**

<b>Call to Order</b>	Chairman
<b>November 2012 Financial Report</b>	Director of Finance & Budget
<b>Action Items</b>	Chairman
<b>Agenda for January Committee Meeting</b>	Chairman
<b>Adjournment</b>	Chairman

\*Detailed agenda can be found on DC Water's website at [www.dewater.com/about/board\\_agendas.cfm](http://www.dewater.com/about/board_agendas.cfm)