



# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Board of Directors

*Finance and Budget Committee*

*Thursday, June 27, 2013*

11:00 a.m.

1. **Call to Order** ..... Timothy L. Firestine, Chairperson
2. **May 2013 Financial Report (Attachment 1)**..... Gail Alexander-Reeves and Robert Hunt
  - A. Operating Revenues & Expenditures
  - B. Capital Disbursements Summary
  - C. Cash Reserves & Investments
  - D. Investment Report
3. **Revised FY 2014 Budget Proposal (Attachment 2)**..... George Hawkins and Mark Kim
  - A. FY 2013 Operating Surplus Recommendations
  - B. FY 2014 Revised Operating Budget Proposal
4. **Bond Financing Update** ..... Mark Kim
5. **Action Items** ..... Mark Kim
  - A. FY 2013 Rate Stabilization Fund Transfer and PayGo Capital Recommendations  
**(Attachment 2-A)**
  - B. FY 2014 Revised Operating Budget **(Attachment 2-B)**
  - C. Approval of Bond Documents
    1. **Draft Board Resolution (Attachment 3)**
    2. **Preliminary Offering Statement (POS) (Attachment 4)**
    3. **Fourteenth Supplemental Indenture (Attachment 5)**
    4. **Bond Purchase Agreement (Attachment 6)**
6. **Agenda for July Committee Meeting (Attachment 7)** ..... Timothy L. Firestine
7. **Follow-up Discussion – Selection of Legal Services**.....Randy Hayman
8. **Adjournment**

***FOLLOW-UP ITEMS – Finance & Budget Committee (Meeting held May 23, 2013)***

1. Provide Committee with a reconciliation of the revenues associated with the St Elizabeth’s account.  
**(Mr. Firestine) Status: See Attachment 8**

2. Provide the Committee with a historical review of Contractual services budgets versus actual. **(Ms. Nancoo) Status:** *See Attachment 2*
3. Provide the Committee with a review of labor charges to the capital program. **(Mr. Firestine) Status:** *To be discussed at the July Committee meeting.*
4. Include KPI charts by critical project milestone along with the current KPI charts by project in future quarterly capital reports. **(Mr. Seamon) Status:** *Completed and will be submitted at the September committee meeting.*
5. Solicit a qualified group of Lawyers and create a panel or a bench from which to choose from. **(Ms. Nancoo) Status:** *To be provided by General Counsel.*



**May 2013  
FINANCIAL REPORT**

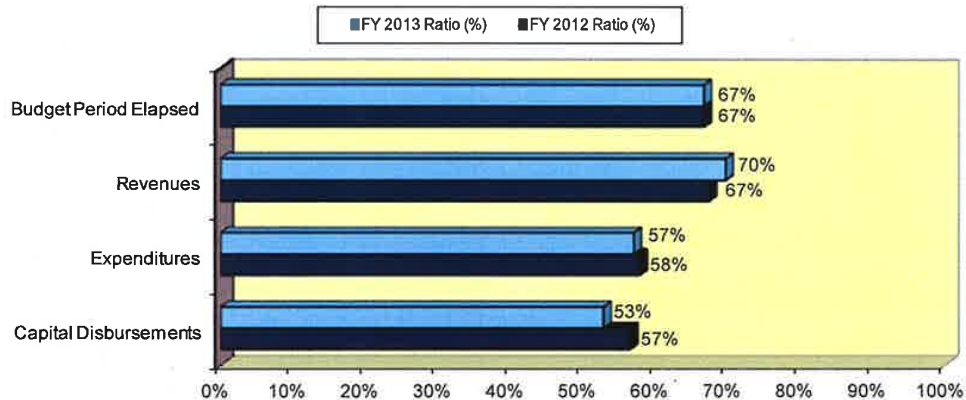
**FY 2013 FINANCIAL PERFORMANCE**

At the end of May, with approximately 66.7 percent of the fiscal year completed, we are on track with budgetary expectations, with the exception of major under spending in Capital Disbursements as reported in prior months and discussed later in this report. The table below summarizes detailed information provided in the report.

**Financial Performance  
As of May 31, 2013  
(\$ in millions)**

	Approved	Revised Budget	YTD Budget	YTD	Variance		% Revised Budget	Year-End Projection
				Actual	Favorable (Unfavorable)	66.7% of Budget		
Revenues (Receipts)*	\$460.2	\$447.5	\$298.3	\$311.7	\$13.4	4.5%	70%	\$453.9
Expenditures*	\$456.8	\$440.3	\$293.5	\$250.9	\$42.6	15%	57%	\$399.9
Capital Disbursements	\$865.7	\$644.3	\$432.2	\$340.1	\$92.1	21%	53%	\$549.1

\* Straight-lined (8/12 of revised budget)



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

FY 2013 120-day Operating Reserve Objective	\$125.5
Actual Average Daily Balances	\$172.4
Difference	\$46.9

**OPERATING REVENUES & RECEIPTS**

At the end of May 2013, cash receipts totaled \$311.7 million, or 69.7 percent of the revised FY 2013 Budget. Several categories of customers make payments on a quarterly basis, including the federal and District governments, and wholesale customers. The table below provides a summary of operating receipts at the end of May.

**REVENUE VARIANCE BY CATEGORY**  
 (\$ in 000's)  
 As of May 31, 2013

Revenue Category	FY 2013 Revised Budget	Year-to-Date Budget	Actual Received	Variance		Actual % of Budget	Year End Projections	Variance Proj v. Bud	Percent of Budget
				Favorable	(Unfavorable)				
Residential, Commercial, and Multi-family	236.2	157.5	166.1	8.6	5.5%	70.3%	247.6	11.4	104.8%
<b>Federal</b>	52.8	35.2	39.4	4.2	11.9%	74.6%	52.8	0.0	100.0%
District Government	12.0	8.0	4.7	(3.3)	-41.6%	38.9%	6.4	(5.6)	53.1%
DC Housing Authority	6.3	4.2	4.2	0.0	1.2%	67.0%	6.1	(0.2)	97.3%
Customer Metering Fee	10.8	7.2	7.5	0.3	4.2%	69.4%	11.0	0.2	102.2%
Wholesale	75.2	50.1	53.2	3.1	6.2%	70.8%	74.8	(0.4)	99.4%
Right-of-Way Fee/PILOT	22.2	14.8	14.8	0.0	0.0%	66.7%	21.8	(0.4)	98.3%
<b>Subtotal (before Other Revenues)</b>	<b>\$415.5</b>	<b>\$277.0</b>	<b>\$289.9</b>	<b>\$12.9</b>	<b>4.7%</b>	<b>69.8%</b>	<b>\$420.5</b>	<b>\$5.0</b>	<b>101.2%</b>
Other Revenue without RSF									
IMA Indirect Cost Reimb. For Capital Projects	6.0	4.0	8.9	4.9	123.3%	148.8%	8.9	2.9	148.8%
DC Fire Protection Fee	6.9	4.6	4.9	0.3	0.1	70.7%	6.9	0.0	99.9%
Stormwater (MS4)	1.0	0.7	0.7	0.0	-1.3%	65.8%	0.8	(0.2)	83.6%
Interest	0.7	0.4	0.6	0.2	38.6%	87.9%	0.8	0.1	115.8%
Developer Fees (Water & Sewer)	8.0	5.3	5.2	(0.1)	-2.7%	64.9%	7.4	(0.6)	92.8%
Others	2.9	1.9	1.5	(0.4)	-21.4%	52.4%	2.1	(0.8)	71.4%
<b>Subtotal</b>	<b>\$25.5</b>	<b>\$17.0</b>	<b>\$21.8</b>	<b>4.8</b>	<b>28.2%</b>	<b>85.5%</b>	<b>\$26.9</b>	<b>\$1.4</b>	<b>105.7%</b>
Rate Stabilization Fund Transfer	\$6.5	\$4.3	\$0.0	(4.3)	-100.0%	0.0%	\$6.5	\$0.0	100.0%
<b>Other Revenue Subtotal</b>	<b>\$32.0</b>	<b>\$21.3</b>	<b>\$21.8</b>	<b>0.5</b>	<b>2.1%</b>	<b>68.1%</b>	<b>\$33.4</b>	<b>\$1.4</b>	<b>104.5%</b>
<b>Grand Total</b>	<b>\$447.5</b>	<b>\$298.3</b>	<b>\$311.7</b>	<b>\$13.4</b>	<b>4.5%</b>	<b>69.6%</b>	<b>\$453.9</b>	<b>\$6.4</b>	<b>101.4%</b>

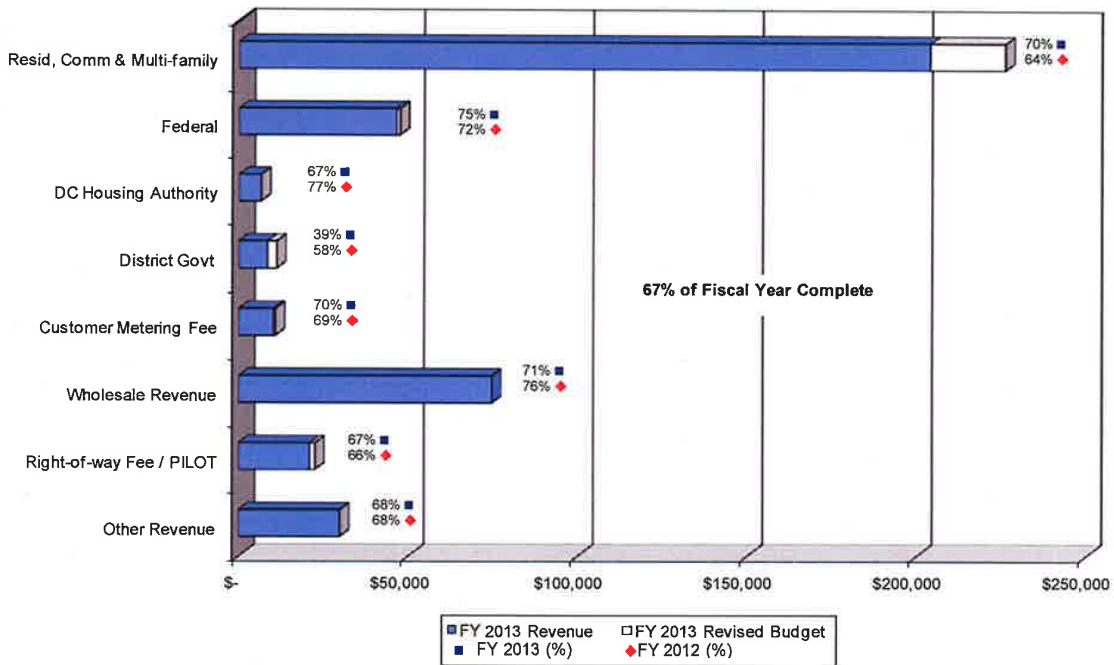
**Discussion of Relevant Variance**

In general, revenues are on target with the exception for District Government and Other Revenues.

The District Government's actual receipts for the three quarters total \$4.7 million or 38.9 percent of the revised FY 2013 budget. The District Government had disputed consumption on large account (St. Elizabeth Hospital) and withheld a portion of quarterly payment while the account was being investigated. The dispute has been resolved and DC Water has adjusted the District Government's bill by crediting \$2.26 million in November 2012 (FY 2013) and \$0.48 million in January 2013, which resulted in lower receipt as compared to Budget.

Other Revenue receipts are lower than the straight-lined budget at \$21.8 million or 68.1 percent of the budgeted category primarily due to transfer of Rate Stabilization Fund. The Rate Stabilization Fund transfer is anticipated in the fourth quarter of the fiscal year.

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



**BREAKDOWN OF RETAIL RECEIPTS BY CUSTOMER CATEGORY**  
 (\$ in 000's)  
 As of May 31, 2013

Customer Category	Water	Sewer	Clean Rivers IAC	Metering Fee	Total
Residential	19,058	23,199	8,374	3,324	53,956
Commercial	32,273	33,218	10,731	2,263	78,484
Multi-family	16,499	19,683	3,102	785	40,069
Federal	16,383	15,553	7,488	705	40,128
District Govt	1,085	1,326	2,268	342	5,022
DC Housing Authority	1,723	2,080	368	90	4,261
<b>Total:</b>	<b>87,021</b>	<b>95,059</b>	<b>32,331</b>	<b>7,509</b>	<b>221,920</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 May 31, 2013

Customer Category	FY2013 Budget	Year-To-Date Budget	Actual Received	Variance Favorable / <Unfavorable>	Variance % of YTD Budget	Actual % of Budget
Residential	11,883	7,922	8,374	452	6%	70%
Commercial	13,905	9,270	10,731	1,461	16%	77%
Multi-family	4,665	3,110	3,102	(8)	0%	66%
Federal	9,984	6,656	7,488	832	12%	75%
District Govt	3,145	2,097	2,268	171	8%	72%
DC Housing Authority	547	365	368	3	1%	67%
<b>Total:</b>	<b>44,129</b>	<b>29,419</b>	<b>32,331</b>	<b>2,912</b>	<b>10%</b>	<b>73%</b>

**OPERATING EXPENDITURES**

At the end of May, with approximately 67 percent of the fiscal year completed, operating expenditures (including debt service and the right of way and PILOT fees) totaled \$250.9 million, or 57 percent of the FY 2013 Board-revised budget of \$440.3 million. These numbers include estimated incurred but unpaid invoices.

**Comparative Statement of Expenditures  
As of May 31, 2013  
(000's)**

	Board Revised Budget	YTD Budget	YTD as of 05/31/2013	FY 2013			Preliminary Year-End Projections	Projection Percent of Budget	Year-End Variance	FY 2014 Approved Budget
				YTD Variance Favorable(Unfavorable) \$	%	Percent of Budget				
Personnel Services	116,609	77,739	75,114	2,626	3.4%	64%	115,511	99%	1,098	120,454
Contractual Services	82,350	54,900	41,117	13,783	25.1%	50%	67,793	82%	14,557	84,094
Water Purchases	31,513	21,009	17,053	3,956	18.8%	54%	27,176	86%	4,337	31,513
Chemicals and Supplies	31,360	20,907	15,852	5,055	24.2%	51%	28,073	90%	3,287	32,909
Utilities	34,185	22,790	16,749	6,041	26.5%	49%	26,898	79%	7,287	34,011
Small Equipment	993	662	711	(49)	-7.4%	72%	1,054	106%	(61)	993
<b>Subtotal O &amp; M Expenditures</b>	<b>297,009</b>	<b>198,008</b>	<b>166,595</b>	<b>31,413</b>	<b>15.9%</b>	<b>56%</b>	<b>266,504</b>	<b>90%</b>	<b>30,506</b>	<b>303,973</b>
Debt Service	121,330	80,887	69,611	11,275	13.9%	57%	111,419	92%	9,911	150,389
Payment in Lieu of Taxes	16,882	11,255	11,255	-	0.0%	67%	16,882	100%	-	20,081
Right of Way	5,100	3,400	3,400	-	0.0%	67%	5,100	100%	-	5,100
<b>Total O &amp; M Expenditures</b>	<b>440,321</b>	<b>293,549</b>	<b>250,861</b>	<b>42,688</b>	<b>14.5%</b>	<b>57%</b>	<b>399,905</b>	<b>91%</b>	<b>40,417</b>	<b>479,543</b>
Personnel Services Charged to Capital Projects	(16,690)	(11,127)	(7,410)	3,717	33.4%	44%	(10,706)	64%	(5,984)	(17,860)
<b>Total Net Operating Expenditures</b>	<b>423,631</b>	<b>282,422</b>	<b>243,451</b>	<b>38,971</b>	<b>13.8%</b>	<b>57%</b>	<b>389,198</b>	<b>92%</b>	<b>34,434</b>	<b>461,683</b>

Note: Actuals include accruals

**Discussion**

*Personnel services (\$116.6 million annual budget; 39.3 percent of O&M budget)* – At the end of May, personnel costs total \$75.1 million or 64 percent of budget. Of the 1,212 positions budgeted (1,243 positions authorized), 1,064 positions were filled at the end of May. Overtime spending totals \$4.1 million of the annual budget of \$5.2 million, or 7.6 percent of regular payroll costs. Overtime costs to date continue to trend higher than the level of spending for the same period last year due to the impact of the open sinkhole at the intersection of 14th and F Streets NW, Hurricane Sandy, emergency response to water main breaks caused by the fluctuation in temperature, support to the District for snow removal and the Presidential Inauguration. We will continue to monitor and report overtime activities and risks.

*Contractual Services (\$82.4 million annual budget; 27.7 percent of O&M budget)* – At the end of May, contractual services expenditures total \$41.1 million or 50 percent of budget and below the level of spending for the same period last year.

*Water Purchases (\$31.5 million annual budget; 10.6 percent of O&M budget)* – At the end of May, water purchases incurred total \$17.1 million or 54 percent of budget. The current variance in this category is attributable to hiring delays and lower than anticipated water demand at the Washington Aqueduct.

*Chemicals and Supplies (\$31.2 million annual budget; 10.6 percent of O&M budget)* – At the end of May, chemicals and supplies costs total \$15.9 million or 51 percent of budget. We continue to experience lower than anticipated spending on major chemicals, including ferric chloride, caustic soda (sodium hydroxide), various polymer and sodium hypochlorite resulting from lower flows.

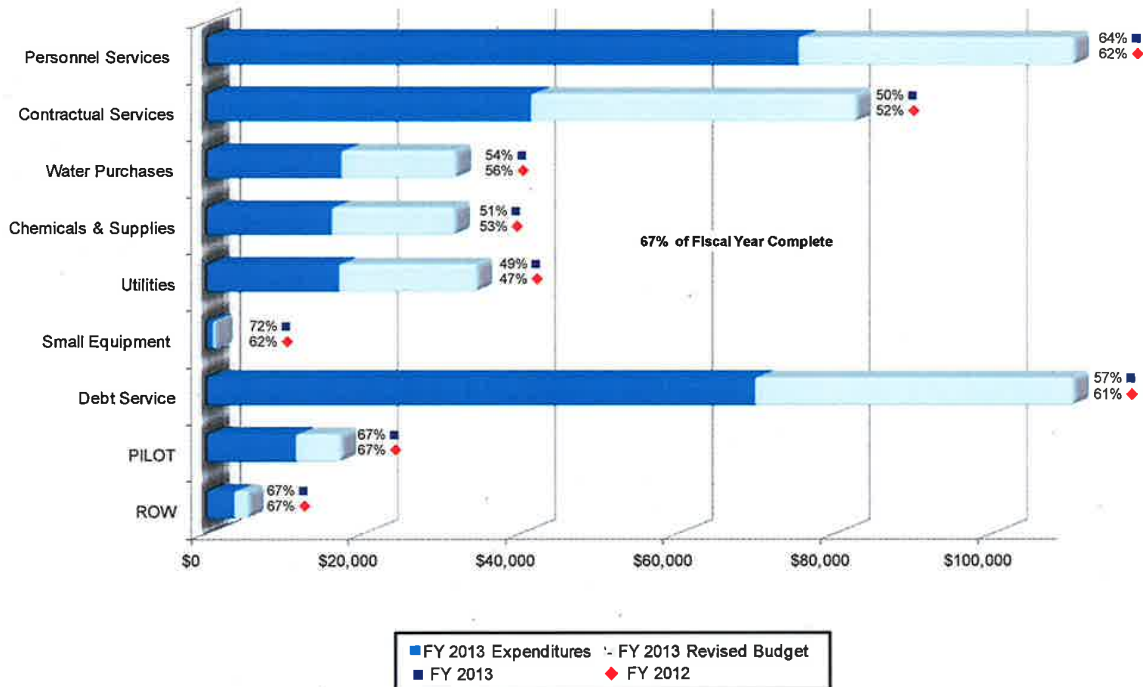
*Utilities (\$34.2 million annual budget; 11.5 percent of O&M budget)* – At the end of May, utilities expenditures total \$16.7 million or 49 percent of the budget. Additional information concerning actual performance in this category can be found later in this report.

*Small Equipment (\$1 million annual budget; 0.3 percent of O&M budget)* – At the end May, expenditures are slightly above the straight-line budget at 72 percent due to additional equipment (pumps, valves, valve actuators, and other motor parts) purchased to meet needed maintenance repairs.

*Debt Service (\$121.3 million annual budget)* – At the end of May, debt service expenditures total \$69.6 million or 57 percent of the budget. We expect to end the fiscal year at 92 percent of the budget in this category with savings primarily due to successfully renegotiating the Letters of Credit and lower than anticipated interest rates on the SIFMA Notes and Commercial Paper.

*Payment in Lieu of Taxes – (\$16.9 million annual budget)* – Payments and accrued expenses for the District’s PILOT fee totaled \$11.3 million. Actual payment differs due to previous Board direction and resulting offsets associated with the Fire Protection Fee.

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





**CAPITAL SPENDING**

For the month of May 2013, actual disbursements totaled \$63.9 million, with year-to-date disbursements totaling \$340.1 million, or 53 percent of the FY 2013 Revised Disbursements Budget. Planned capital disbursements through May 2013 were \$432.2 million, or 67 percent of the FY 2013 Revised Disbursement Budget.

**Capital Disbursements Variance  
(\$ in 000's)  
As of May 31, 2013**

Description	FY 2013 Revised Disbursements Budget		Actual Disbursements			% of FY 2013 Revised Disbursements Budget		FY 2013 Projected Disbursements Budget	
	Annual	YTD	Oct. '12 to Apr. '13	MAY '13	YTD	Variance Compared to Plan	Percent of Annual Budget	Amount	Percent of Annual Budget
Wastewater Treatment	\$358,543	\$243,937	159,353	\$39,506	\$198,859	18%	55%	\$313,823	88%
Sanitary Sewer	29,084	17,716	12,634	2,118	14,753	17%	51%	24,615	85%
Combined Sewer Overflow	163,509	110,098	65,844	13,047	78,892	28%	48%	138,074	84%
Stormwater	3,252	2,213	2,128	144	2,270	-3%	70%	2,846	88%
Water	60,858	40,839	26,373	4,989	31,362	23%	52%	45,979	76%
Washington Aqueduct	10,598	5,300	1,418	3,053	4,471	16%	42%	7,418	70%
Capital Equipment	18,422	12,092	8,420	1,066	9,487	22%	51%	16,332	89%
<b>Total Capital Projects</b>	<b>\$644,265</b>	<b>\$432,195</b>	<b>\$276,171</b>	<b>\$ 63,923</b>	<b>\$340,094</b>	<b>21%</b>	<b>53%</b>	<b>\$549,087</b>	<b>85%</b>

**Discussion**

The disbursement-variance pattern remains similar to what was reported in previous months, with almost 90 percent of the spending variance between the FY 2013 Revised Disbursements Budget and Actual Disbursements, on a year-to-date basis, being attributable to three Service Areas: Wastewater Treatment, Combined Sewer Overflow and Water.

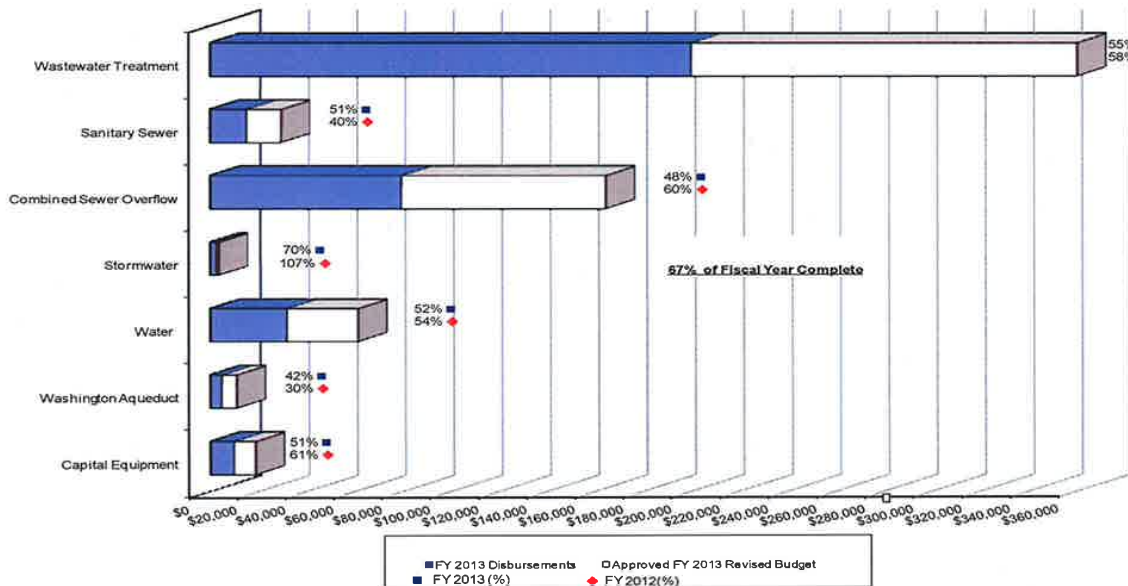
The Wastewater Treatment Service Area disbursements have been lower than budgeted, especially, for the Enhanced Nitrogen Removal Facilities (ENRF) Program. The shortfall in ENRF Program disbursements spans most major projects in the Program, including the Wet Weather Peak Mitigation (aka Blue Plains Tunnel – 'EG'), Enhanced Clarification Facilities ('E8'), Centrate Treatment Facilities ('EE') and the Nitrogen Removal Facilities ('E9') projects. Shortfall in spending for project E9 continues to be, partly, the result of a later- than-expected procurement of equipment associated with the second construction contract. There has been no impact on the schedule of the project, and the spending is expected to recover in this fiscal year. The spending shortfall for project E8 is due to costs that were projected at higher amounts, but later revised downwards; spending is not expected to recover in this fiscal year.

As reported previously, spending in the Clean Rivers Projects (project CY and others) has been lower than budgeted mainly due to schedule delays associated with concrete quality issues on the Wet Weather Peak Mitigation (aka Blue Plains Tunnel project 'EG'), and Poplar Point shaft diaphragm walls. Although the quality issues have been rectified, the delays hindered progress on the shafts and follow-up tunneling work. A recovery plan to mitigate the delays, by adding one work day per week during the tunneling operations, is anticipated to begin this summer. Additionally, the spending is impacted by transfer of the CSO 019 Overflow Structure and Diversion Chamber work to a subsequent contract (Anacostia River Tunnel) in order to mitigate critical interface requirements. Although remediation plans are in place to mitigate impact to the critical path and to meet the consent decree of the project, spending is currently not anticipated to fully recover in this fiscal year.

In the Water Service Area, DDOT, and Water On-Going Programs are responsible for majority of the year-to-date underspending. The primary reason for the shortfall on the DDOT Program is delayed invoicing. Restructuring of the paving contract bid items and better management of the contract have contributed to lower spending in the Water On-Going Program.

A \$3.1 million disbursement was made during May, bringing Washington Aqueduct disbursements to 84%, on a year-to-date basis; however, the year-end disbursements are not projected to recover in this fiscal year.

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

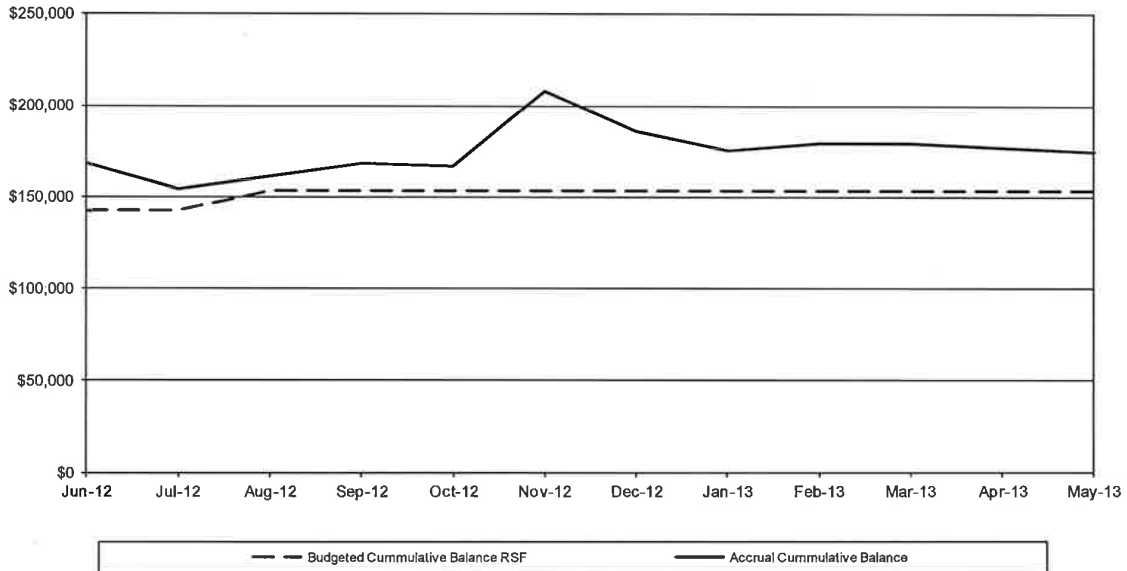


**CASH AND INVESTMENT BALANCES**

At the end of May, our operating reserve balance was \$146.6 million as compared to the FY 2013 operating reserve level objective of \$125.5 million. The following table provides a summary of all cash and investment account balances.

<b>Cash Balances</b>	
<b>As of May 31, 2013</b>	
(\$ in millions)	
Rate Stabilization Fund Account (RSF)	\$27.9
Operating Reserve Accounts	146.6
DC PILOT Fund	<u>14.5</u>
<b>Operating Cash Balance Including RSF</b>	<b>189.0</b>
Debt Service Reserve - Series 98	23.4
Bond Construction Fund - Series 10	16.3
Bond Construction Fund - Series 12	107.7
CSO LTCP Appropriations Account	<u>44.6</u>
<b>Total All Funds</b>	<b>\$381.0</b>

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



### **Overall Portfolio Performance**

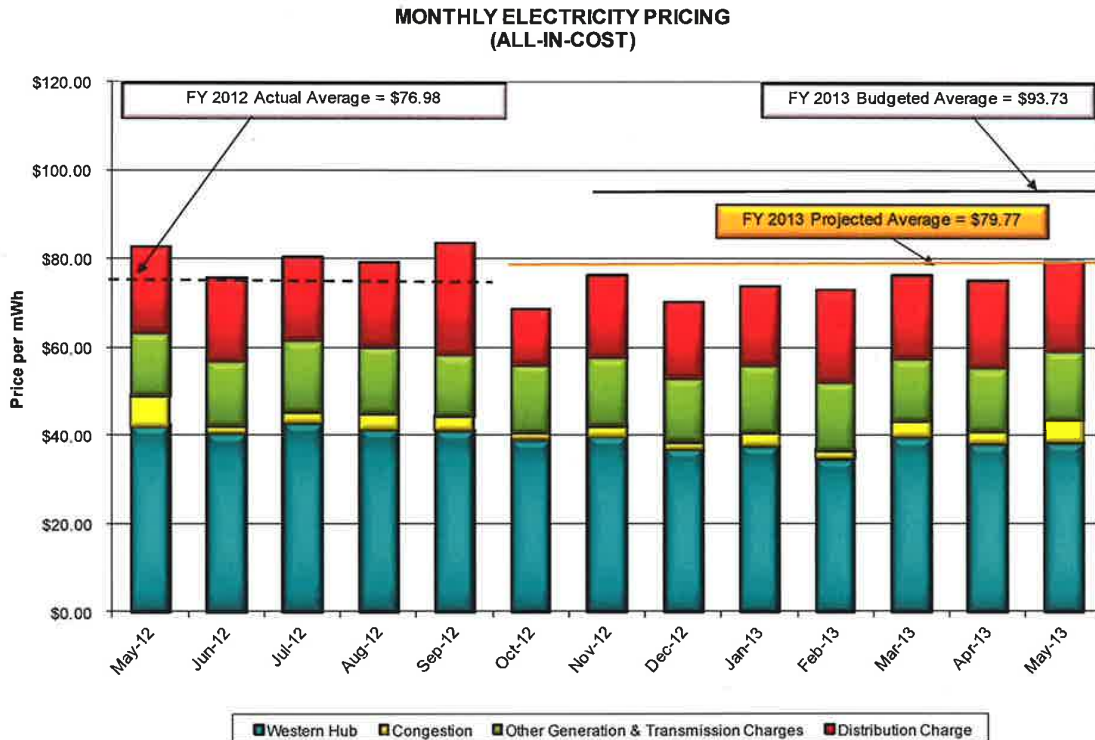
At the end of May, DC Water's total investment portfolio performed well and complied with the Authority's Investment Policy. Returns exceeded the established benchmarks for short term (less than one year) and core (one plus years) funds. Interest income for May (on a cash basis) was \$45,654, with year-to-date totals of \$538,910 as compared to the budget of \$539,336 for the year. A detailed investment performance report is attached.

## OTHER STATUS REPORTS

### ELECTRICITY

Consistent with the adopted electricity purchase strategy, for the remainder of FY 2013, we have purchased approximately 83 percent, or 25MW, of the Authority's monthly electric load at the Western Hub average unit price of \$43.84/mWh. For FY 2014, we have locked approximately 67 percent, or 20MW, of the monthly electric load from October 1, 2013 through January 31, 2014 at the Western Hub unit price of \$43.50/mWh.

Electricity market conditions continue to be significantly below prior years' experience. 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 May 2013 was \$79.39/mWh with the year-to-date average price of \$74.21/mWh.



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

**Electricity Costs**

The revised FY 2013 electricity budget of \$25.2 million represents 78 percent of the total utilities budget and assumes an average all-in-cost of \$93.73/mWh.

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

<b>All-In-Cost (\$/mWh)</b>			
<b>Unit Price</b>			
	Standard Offer Service (S.O.S.)	Spot Market	Actual <sup>1</sup>
Oct-12	\$124.80	66.56	68.75
Nov-12	\$123.11	76.60	76.40
Dec-12	\$126.49	63.91	70.44
Jan-13	\$128.31	70.18	73.98
Feb-13	\$123.38	73.20	73.20
Mar-13	\$128.34	76.42	76.42
Apr-13	\$126.63	75.11	75.11
May-13	\$126.23	79.39	79.39
<b>YTD Average</b>	<b>\$125.91</b>	<b>72.67</b>	<b>74.21</b>

<b>Electricity Budget (\$000)</b>			
	Amount	Variance	
	Budgeted	Actual	
Oct-12	\$1,878	\$1,473	\$405
Nov-12	\$1,827	\$1,550	\$277
Dec-12	\$2,278	\$1,401	\$876
Jan-13	\$2,492	\$1,757	\$735
Feb-13	\$2,054	\$1,698	\$356
Mar-13	\$1,905	\$1,962	(\$57)
Apr-13	\$1,756	\$1,536	\$220
May-13	\$1,795	\$1,717	\$78
<b>YTD Total</b>	<b>\$15,985</b>	<b>\$13,094</b>	<b>\$2,891</b>
Remainder	\$9,238		
<b>Total Budget</b>	<b>\$25,223</b>		

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

Overall, the FY 2013 electricity expenditure is tracking favorably to budget. We expect to end the fiscal year at approximately 81 percent of the electricity budget with the significant savings mainly attributable to lower than anticipated market prices for electricity and the adopted block purchasing strategy.

**RETAIL & WHOLESALE ACCOUNTS RECEIVABLE**

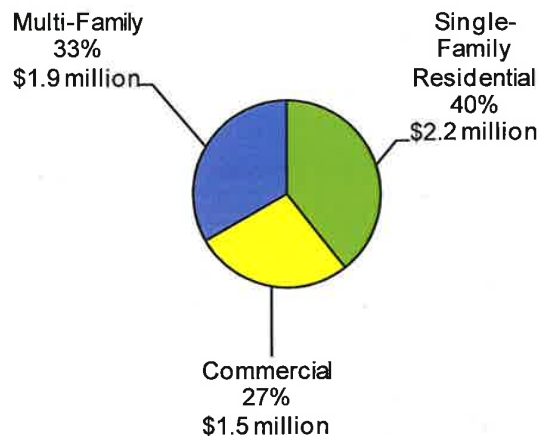
The following tables and chart show retail and wholesale accounts receivable over 90 days including a breakdown by customer class.

**Delinquent Accounts Receivable  
Greater Than 90 Days by Customer  
May 31, 2013**

	<b>RETAIL</b>		<b>TOTAL</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>
September 30, 2008	\$6.1	15,635	\$6.1	15,635
September 30, 2009	\$4.9	10,211	\$4.9	10,211
September 30, 2010	\$5.1	13,441	\$5.1	13,441
September 30, 2011	\$5.5	13,039	\$5.5	13,039
September 30, 2012	\$5.5	13,063	\$5.5	13,063
October 31, 2012	\$5.7	12,537	\$5.7	12,537
November 30, 2012	\$5.8	12,876	\$5.8	12,876
December 31, 2013	\$6.0	13,480	\$6.0	13,480
January 31, 2013	\$5.9	12,700	\$5.9	12,700
February 28, 2013	\$5.8	12,269	\$5.8	12,269
March 31, 2013	\$5.7	12,077	\$5.7	12,077
April 30, 2013	\$5.8	11,638	\$5.8	11,638
May 31, 2013	\$5.6	11,455	\$5.6	11,455

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

**Retail Accounts  
Greater Than 90 Days by Customer Class  
May 31, 2013**



**Delinquent Accounts Receivable  
Greater Than 90 Days by Customer  
May 31, 2013**

	Number of Accounts			Month of April (All Categories)				Total Delinquent			
	W & S a/c	Impervious Only a/c	Total No. of a/c	Active		Inactive		No. of a/c Apr.	Amount (\$)	No. of a/c May	Amount (\$)
				No. of a/c	Amount (\$)	No. of a/c	Amount (\$)				
Commercial	11,916	3,360	15,276	1,167	1,397,536.67	161	140,092.49	1,441	1,608,155.84	1,328	1,537,629.16
Multi-family	7,365	430	7,795	751	1,684,110.80	159	182,535.94	933	1,975,671.59	910	1,866,646.74
Single-Family Residential	104,219	3,129	107,348	7,238	1,552,026.57	1,979	657,154.12	9,264	2,199,013.79	9,217	2,209,180.69
<b>Total</b>	<b>123,500</b>	<b>6,919</b>	<b>130,419</b>	<b>9,156</b>	<b>4,633,674.04</b>	<b>2,299</b>	<b>979,782.55</b>	<b>11,638</b>	<b>5,782,841.22</b>	<b>11,455</b>	<b>5,613,456.59</b>

Notes: Including in the above \$4.63m (or 9,156 accounts) of the DC Water Over 90 days delinquent accounts, \$966,284.19 (or 1,985 accounts) represents Impervious only accounts over 90 days delinquent.

-Reportable delinquencies do not include balances associated with a long standing dispute between DC Water and a large commercial customer.



D.C. WATER AND SEWER AUTHORITY  
 FY 2013 CASH FLOW SUMMARY  
 through 5/31/13  
 (\$ In 000's)

	Annual Budget Cash Basis	YTD 67% Cash Budget	YTD Actual Cash Oct. 1, 2012 - May 31, 2013	Annual Budget Variance Favorable (Unfavorable)		FY 2013 Year End Projection
<b>OPERATING BUDGET</b>						
<b>Cash Provided</b>						
Retail	318,168	212,112	221,920	9,808	5%	324,005
Wholesale	75,195	50,130	53,222	3,092	6%	74,737
Other	47,497	31,664	36,561	4,896	15%	48,690
Transfer from Rate Stabilization Fund	6,500	4,333		(4,333)	-100%	6,500
<b>Total Cash Provided</b>	<b>447,359</b>	<b>298,240</b>	<b>311,702</b>	<b>13,463</b>	<b>5%</b>	<b>453,932</b>
<b>Operating Cash Used</b>						
Personnel Services	99,919	66,613	67,165	(552)	-1%	104,805
Contractual Services	82,350	54,900	46,503	8,397	15%	67,793
Chemicals & Supplies	31,360	20,907	18,609	2,297	11%	28,073
Utilities	34,185	22,790	13,239	9,551	42%	26,898
Water Purchases	31,513	21,009	17,711	3,297	16%	27,176
Small Equipment	993	662	634	28	4%	1,054
<b>Total Operating Cash Used</b>	<b>280,320</b>	<b>186,880</b>	<b>163,862</b>	<b>23,018</b>	<b>12%</b>	<b>255,799</b>
<b>Other Cash Used</b>						
Debt Service	116,179	77,453	69,611	7,842	10%	111,419
Payment In Lieu of Taxes/Right of Way	21,982	14,655	13,136	1,519	10%	17,514
<b>Total Other Cash Used</b>	<b>138,161</b>	<b>92,108</b>	<b>82,747</b>	<b>9,360</b>	<b>10%</b>	<b>128,933</b>
<b>Total Cash Used</b>	<b>418,481</b>	<b>278,988</b>	<b>246,609</b>	<b>32,379</b>	<b>12%</b>	<b>384,732</b>
<b>Net Cash Provided (Used) by Operating Act.</b>	<b>28,878</b>	<b>19,252</b>	<b>65,094</b>	<b>45,842</b>		<b>69,200</b>
<b>CAPITAL BUDGET</b>						
<b>Cash Provided</b>						
Debt Proceeds	320,582	213,722	122,750	(90,972)	-43%	259,806
Capital Equipment Financing	10,799	7,199		(7,199)	-100%	10,799
EPA Grants	32,424	21,616	22,020	404	2%	32,424
CSO Grants	30,000	20,000	17,795	(2,205)	-11%	25,295
Interest Income	303	202	188	(14)	-7%	201
Wholesale Capital Contributions	225,614	150,409	131,475	(18,934)	-13%	196,019
<b>Total Cash Provided</b>	<b>619,723</b>	<b>413,149</b>	<b>294,229</b>	<b>(118,920)</b>	<b>-29%</b>	<b>524,544</b>
<b>Cash Used</b>						
DC Water Capital Program	633,668	422,445	335,623	86,823	21%	541,669
Washington Aqueduct Projects	10,598	7,065	4,471	2,594	37%	7,418
<b>Total Cash Used</b>	<b>644,266</b>	<b>429,511</b>	<b>340,094</b>	<b>89,417</b>	<b>21%</b>	<b>549,087</b>
<b>Net Cash/PAYGO Provided (Used) by Cap. Act.</b>	<b>(24,543)</b>	<b>(16,362)</b>	<b>(45,865)</b>	<b>(29,503)</b>		<b>(24,543)</b>
<b>Beginning Balance, October 1 (Net of Rate Stab. Fund) Projected</b>						
Plus (Less) Operating Surplus	140,251		140,251			140,251
Wholesale Customer Refunds from Prior Years	28,878	19,252	65,094			69,200
Interest Earned From Bond Reserve	(5,800)	(3,867)	(5,800)			(5,800)
Interest Earned From Bond Reserve	120	80	40			41
Transfer to Rate Stabilization Fund	(4,100)	(2,733)				(4,100)
Prior Year Federal Billing Reconciliation	(5,105)	(3,403)	(3,829)			(5,105)
PILOT Reserve Fund						
Customer Rebate	(4,200)	(2,800)	(3,298)			(3,298)
Cash Used for Capital	(24,543)	(16,362)	(45,865)			(24,543)
<b>Balance Attributable to O&amp;M Reserve</b>	<b>125,500</b>		<b>146,592</b>			<b>166,645</b>
<b>OTHER CASH RESERVES</b>						
<b>Rate Stabilization Fund</b>		<b>Current Balance</b>				
Rate Stabilization Fund		27,950				
CSO Long-Term Control Plan Appropriation		44,624				
DC PILOT Reserve Fund		14,477				

Finance and Budget Committee - 2. May 2013 Financial Report (Attachment 1) - Gail Alexander-Reeves and Robert Hunt

FY 2013 Overtime  
Budget vs Actual  
Period Ended June 1, 2013

Department	FY 2012				FY 2013							
	Annual Budget	Actual	Percent of Budget Expended	Actual to Budget \$ Variance	Annual Budget	Percent of Annual Budget Expended	FY 2013 Year-to-Date					
							Straight-Line Budget 10/01/12 - 06/01/13	Actual 10/01/12 - 06/01/13	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%	1,271	4,000	48%	2,681	1,919	763	72%	2%	
General Manager	13,000	1,493	11%	11,507	10,000	8%	6,703	805	5,898	12%	0%	
General Counsel	2,000	619	31%	1,381	2,000	0%	1,341	0	1,341	0%	0%	
External Affairs	2,000	1,090	54%	910	2,000	44%	1,341	874	466	65%	0%	
Internal Audit	-	-	0%	-	-	0%	0	0	0	0%	0%	
Information Technology	24,006	23,207	97%	799	20,000	80%	13,407	16,082	(2,675)	120%	2%	
Procurement	30,000	15,792	53%	14,208	30,000	132%	20,110	39,647	(19,537)	197%	2%	
Customer Service	240,000	178,495	74%	61,505	240,000	70%	160,879	168,623	(7,744)	105%	3%	
Finance & Budget	30,000	18,725	62%	11,275	30,000	88%	20,110	26,422	(6,312)	131%	1%	
Risk Management	1,000	132	13%	868	1,000	2%	670	16	654	2%	0%	
Assistant General Manager	1,000	1,040	104%	(40)	1,000	154%	670	1,537	(866)	229%	1%	
Human Capital Management	5,000	26,255	525%	(21,255)	5,000	50%	3,352	2,502	850	75%	0%	
Occupational Safety & Health	2,000	924	46%	1,076	2,000	1%	1,341	24	1,316	2%	0%	
Facilities & Security	150,000	190,193	127%	(40,193)	200,000	108%	134,066	215,509	(81,443)	161%	8%	
Water / Sewer Pump Maintenance	200,000	142,036	71%	57,964	200,000	58%	134,066	116,565	17,501	87%	8%	
Engineering & Technical Services	548,481	780,106	142%	(231,625)	680,000	75%	455,824	508,123	(52,299)	111%	6%	
Water Services	1,080,000	880,798	82%	199,202	1,080,000	73%	723,956	788,264	(64,308)	109%	11%	
Clean Rivers	25,000	2,333	9%	22,667	5,000	90%	3,352	4,509	(1,157)	135%	1%	
Sewer Services	900,000	874,742	97%	25,258	900,000	101%	603,297	906,223	(302,926)	150%	14%	
Wastewater Treatment - Operations	958,000	1,092,676	114%	(136,676)	847,209	84%	567,909	711,871	(143,961)	125%	13%	
Process Engineering	0	0	-	-	195,000	23%	130,714	44,131	86,583	34%	4%	
Maintenance Services	800,000	717,769	90%	82,231	700,000	78%	469,231	544,253	(75,022)	116%	12%	
Permit Operations	2,500	1,803	72%	697	11,000	23%	7,374	2,500	4,873	34%	0%	
Fleet Management	1,000	808	81%	192	1,000	109%	670	1,089	(418)	162%	0%	
<b>Total DC WATER</b>	<b>\$5,016,987</b>	<b>\$4,953,761</b>	<b>99%</b>	<b>\$63,225</b>	<b>\$5,166,209</b>	<b>79%</b>	<b>\$3,463,063</b>	<b>\$4,101,486</b>	<b>-\$638,423</b>	<b>118%</b>	<b>7.6%</b>	

Notes:

- (1) "Budget 10/01/12 - 06/01/13 " reflects annual budget straight-lined
- (2) "% YTD Budget Expended" reflects variance between straight-lined budget to-date and actual overtime
- (3) "Actual 10/01/12 thru, 06/01/13"
- (3) YTD payroll does not include fringe benefits

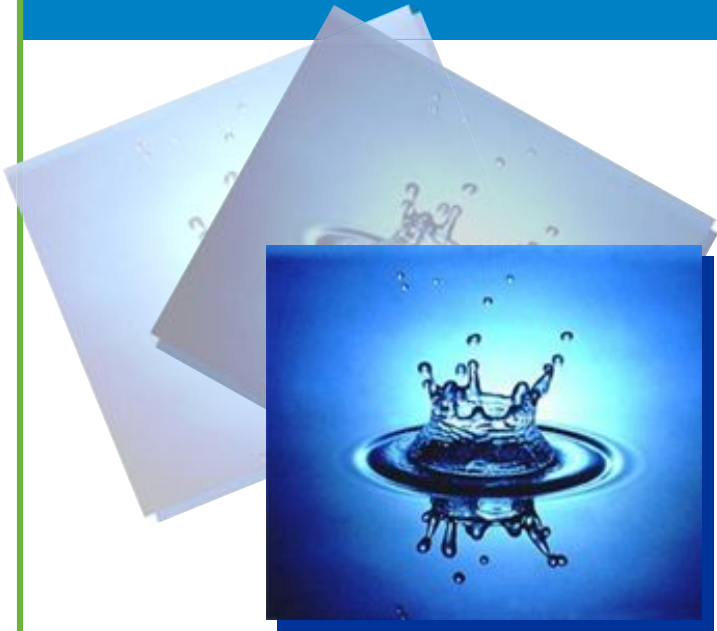
**Finance and Budget Committee - 2. May 2013 Financial Report (Attachment 1) - Gail Alexander-Reeves and Robert Hunt**

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

Description	Approved FY 2013 Revised Disbursements Budget		* Projected FY 2013 Disbursements Budget	Actual Disbursements			% of Approved FY 2013 Revised Disbursements Budget		Commitments
	Annual	YTD		Annual	Oct. '12 to Apr. '13	MAY '13	<sup>1</sup> YTD	Annual	
<b>Wastewater Treatment</b>									
Liquid Processing Projects	\$23,884	\$16,292	\$20,389	\$11,672	\$2,512	\$14,184	59%	87%	41,619
Plantwide Projects	27,128	17,328	23,641	10,955	2,294	13,249	49%	76%	101,407
Solids Processing Projects	159,690	103,043	139,194	75,795	24,354	100,150	63%	97%	253,321
Enhanced Nitrogen Removal Facilities (formerly Total Nitrogen Program)	147,842	107,274	130,599	60,930	10,345	71,276	48%	66%	174,715
<b>Total Wastewater Treatment</b>	<b>358,543</b>	<b>243,937</b>	<b>313,823</b>	<b>159,353</b>	<b>39,506</b>	<b>198,859</b>	<b>55%</b>	<b>82%</b>	<b>571,062</b>
<b>Sanitary Sewer</b>									
Sanitary Collection Sewers	858	561	689	351	41	392	46%	70%	2,032
Sanitary On-Going Projects	10,544	5,543	6,721	2,793	559	3,352	32%	60%	8,567
Sanitary Pumping Facilities	679	530	735	269	85	354	52%	67%	229
Sanitary Sewer Program Management	4,229	2,865	4,759	2,664	918	3,582	85%	125%	12,752
Sanitary Interceptor/Trunk Force Sewers	12,774	8,217	11,711	6,557	516	7,073	55%	86%	13,437
<b>Total Sanitary Sewer</b>	<b>29,084</b>	<b>17,716</b>	<b>24,615</b>	<b>12,634</b>	<b>2,118</b>	<b>14,753</b>	<b>51%</b>	<b>83%</b>	<b>37,017</b>
<b>Combined Sewer Overflow</b>									
CSO Program Management	1,634	977	1,567	932	401	1,333	82%	136%	10,252
Combined Sewer Projects	8,955	5,820	6,106	1,594	1,037	2,631	29%	45%	19,947
D.C. Clean Rivers Project (aka Long-Term Control Plan)	152,920	103,301	130,401	63,319	11,609	74,928	49%	73%	463,806
<b>Total Combined Sewer Overflow</b>	<b>163,509</b>	<b>110,098</b>	<b>138,074</b>	<b>65,844</b>	<b>13,047</b>	<b>78,892</b>	<b>48%</b>	<b>72%</b>	<b>494,005</b>
<b>Stormwater</b>									
Stormwater Local Drainage	28	8	16	0	0	0	0%	0%	239
Stormwater On-Going Program	812	500	534	409	3	412	51%	82%	492
Stormwater Pumping Facilities	-	-	-	0	0	0			0
DDOT Stormwater Program	2	-	0	0	0	0	0%		0
Stormwater Research and Program Management	289	183	1,279	1,123	137	1,260	436%	688%	808
Stormwater Trunk/Force Sewers	2,120	1,522	1,017	595	3	598	28%	39%	461
<b>Total Stormwater</b>	<b>3,252</b>	<b>2,213</b>	<b>2,846</b>	<b>2,128</b>	<b>144</b>	<b>2,270</b>	<b>70%</b>	<b>103%</b>	<b>2,000</b>
<b>Water</b>									
Water Distribution Systems	25,445	16,844	23,315	14,240	2,812	17,052	67%	101%	36,805
Water On-Going Projects	10,321	7,208	7,081	4,095	839	4,934	48%	68%	7,070
Water Pumping Facilities	3,226	2,039	2,367	1,398	166	1,564	48%	77%	14,657
DDOT Water Projects	5,791	3,962	1,035	1,035	5	1,040			8,128
Water Storage Facilities	1,353	748	1,139	332	570	902	67%	121%	1,732
Water Projects Program Management	4,332	2,758	3,517	2,043	365	2,408	56%	87%	7,453
Water Lead Program	1,860	1,594	2,227	1,484	66	1,550	83%	97%	6,522
AMR Installation / Replacement	8,529	5,686	5,298	1,744	166	1,910	22%	34%	987
<b>Total Water</b>	<b>60,858</b>	<b>40,839</b>	<b>45,979</b>	<b>26,373</b>	<b>4,989</b>	<b>31,362</b>	<b>52%</b>	<b>77%</b>	<b>83,355</b>
<b>Washington Aqueduct</b>	<b>10,598</b>	<b>5,300</b>	<b>7,418</b>	<b>1,418</b>	<b>3,053</b>	<b>4,471</b>	<b>42%</b>	<b>84%</b>	
<b>Capital Equipment</b>	<b>18,422</b>	<b>12,092</b>	<b>16,332</b>	<b>8,420</b>	<b>1,066</b>	<b>9,487</b>	<b>51%</b>	<b>78%</b>	<b>7,626</b>
<b>Total Capital Projects</b>	<b>\$644,265</b>	<b>\$432,195</b>	<b>549,087</b>	<b>\$276,171</b>	<b>\$63,923</b>	<b>\$340,094</b>	<b>53%</b>	<b>79%</b>	<b>1,195,065</b>

\* Actuals - Oct. 2012 through Apr. 2013, and Projections for May through Sep.

<sup>1</sup> Includes actual OCIP related disbursements of \$5,463,718



# DC Water

*Investment Performance Report – May 2013*



DC Water  
Finance Division  
Economic Update

**ECONOMIC COMMENTARY**

- Evidence that the economy is gaining ground has changed the market tone and now has investors wondering when the Federal Reserve (Fed) might scale back its unprecedented monetary stimulus efforts.
- U.S. gross domestic product (GDP) grew at a pace of 2.4%, which was slightly below earlier estimates.
- The national unemployment rate rose 0.1%, to 7.6% in May.
- Housing starts fell 16.5% in April, led by a pullback in apartment construction, while the S&P Case-Shiller index of home prices soared 10.9% from March 2012 to March 2013, marking its biggest 12-month increase in seven years.
- Treasury yields moved steadily higher throughout May, with the 10-year Treasury adding 46 basis points, rising from 1.67% to 2.13%.

**PORTFOLIO RECAP**

- The portfolio is diversified among Bank Deposits, Commercial Paper, Federal Agencies, FDIC Insured CDs, and SEC registered money market funds.
- The overall yield-to-cost of the portfolio is 0.38%.
- The portfolio is in compliance with the Authority's Investment Policy.

**Operating Reserve Fund**

- The Authority purchased \$10 million of 4 month Commercial Paper at a yield of 0.16%.

**CSO LTCP Appropriations Funds**

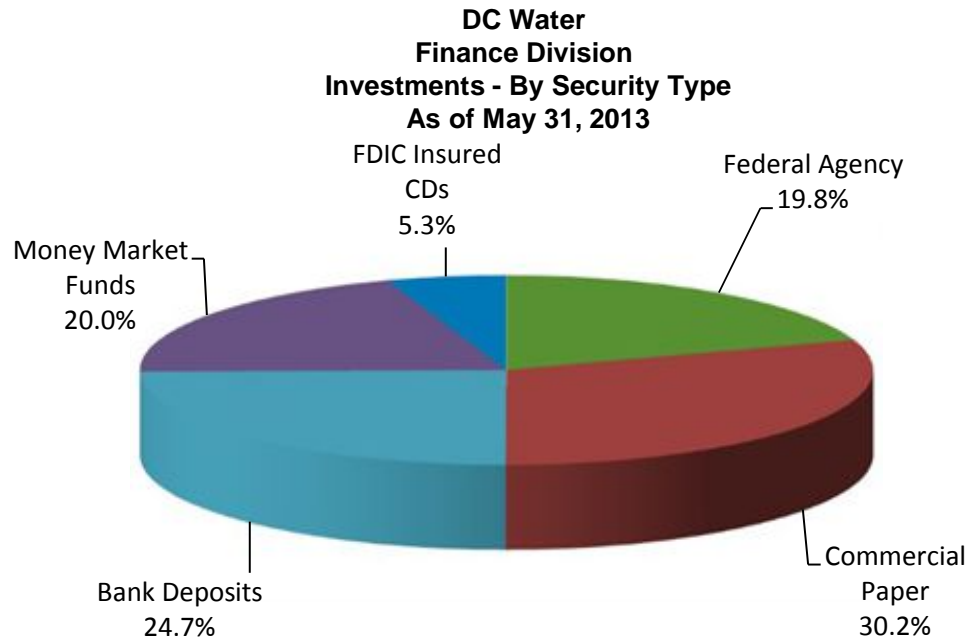
- The Authority purchased \$10 million of 3 month Commercial Paper at a yield of 0.15%.

**Total Debt Service Reserve Fund**

- The Authority purchased \$10 million of 3 year federal agency notes at a yield of 0.43%.

**2012 Bond Construction Fund**

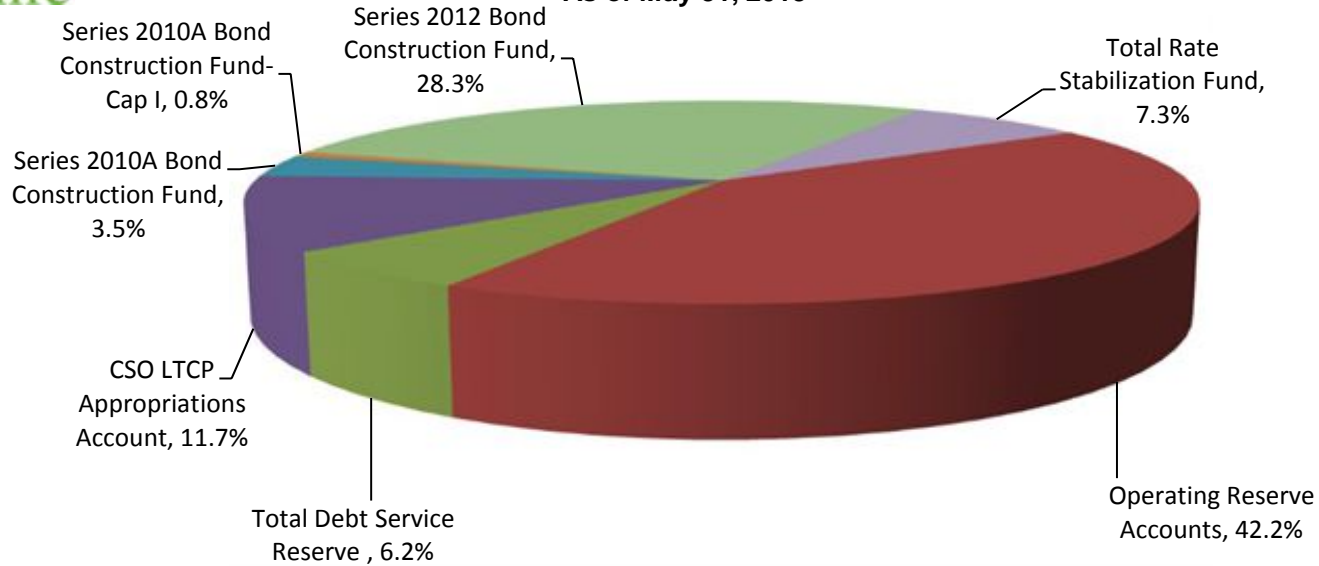
- The Authority purchased \$22 million of 2 month federal agency discount notes at a yield of 0.02%.



Security Type	Book Value + Accrued Interest	Asset Allocation	Permitted By Policy
Bank Deposits	\$ 94,108,606	24.7%	100.0%
Money Market Funds	76,246,551	20.0%	100.0%
Bankers Acceptances	-		40.0%
Commercial Paper	114,972,488	30.2%	35.0%
U.S. Treasuries	-	0.0%	100.0%
Federal Agency	75,606,175	19.8%	80.0%
FDIC Insured CDs	20,107,883	5.3%	30.0%
Municipal Obligations	-	0.0%	20.0%
<b>Total</b>	<b>\$ 381,041,703</b>	<b>100.0%</b>	



**DC Water  
Finance Division  
Investment Analysis – By Fund  
As of May 31, 2013**

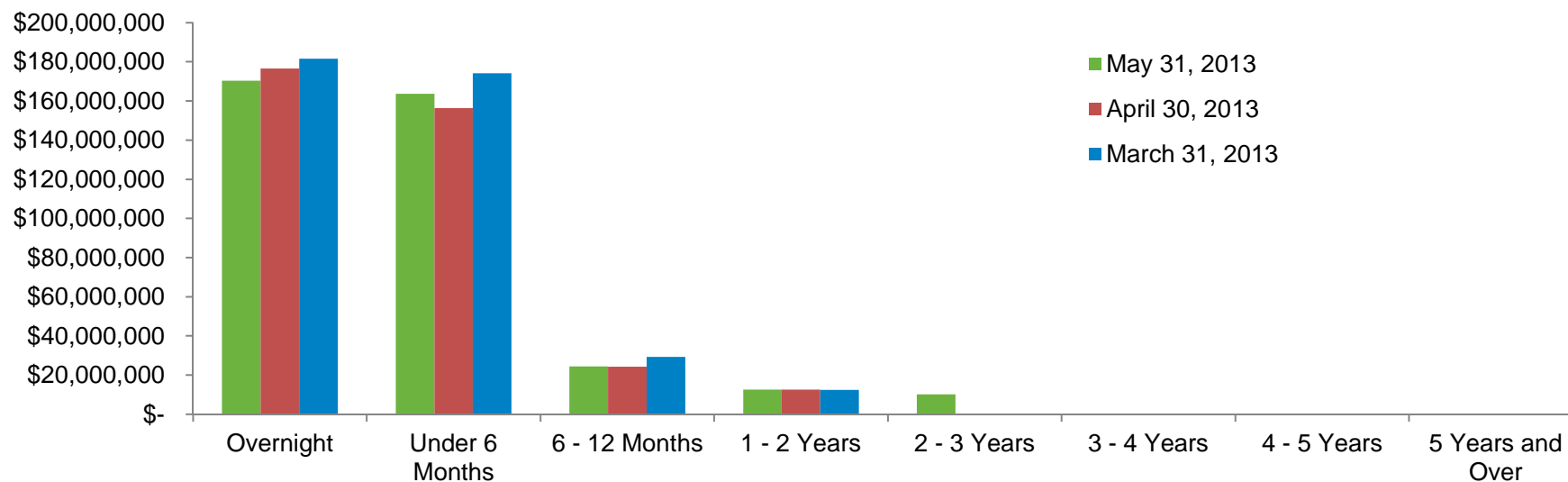


Fund Name	Book Value + Accrued Interest	Yield-to- Maturity at Cost	Effective Duration (years)	Weighted Average Maturity (days)
Total Rate Stabilization Fund	\$ 27,954,094	0.66%	0.03	9.2
Operating Reserve Accounts	\$ 160,870,562	0.58%	0.22	80.3
Total Debt Service Reserve	\$ 23,440,399	0.45%	1.67	618.2
Series 2010A Bond Construction Fund	\$ 13,359,625	0.10%	0.11	41.4
Series 2010A Bond Construction Fund- Cap I	\$ 3,052,422	0.99%	0.51	188.2
Total CSO LTCP Appropriations Account	\$ 44,630,934	0.30%	0.10	37.7
2012 Bond Construction Fund	\$ 107,733,665	0.04%	0.04	15.6
<b>Total</b>	<b>\$ 381,041,703</b>	<b>0.38%</b>	<b>0.23</b>	<b>84.4</b>



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

Maturity Distribution	May 31, 2013	April 30, 2013	March 31, 2013
Overnight \$	170,355,156.38 \$	176,581,268.05 \$	181,628,687.57
Under 6 Months	163,623,374.58	156,395,586.34	174,117,595.67
6 - 12 Months	24,361,838.44	24,343,733.16	29,339,335.10
1 - 2 Years	12,522,412.61	12,517,130.90	12,511,978.25
2 - 3 Years	10,178,920.52	-	-
3 - 4 Years	-	-	-
4 - 5 Years	-	-	-
5 Years and Over	-	-	-
<b>Totals \$</b>	<b>381,041,702.53 \$</b>	<b>369,837,718.45 \$</b>	<b>397,597,596.59</b>







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

	Credit Ratings S&P / Moody's	Book Value		Investment Policy Limit	Compliance with Investment Policy
<b>Bank Deposits</b>					
TD Bank		84,033,247.37	22.1%	100.0%	Yes
Premier Bank		5,032,031.08	1.3%	100.0%	Yes
Capital One Bank		5,043,327.05	1.3%	100.0%	Yes
<b>Sub-Total Bank Deposits</b>		<b>94,108,605.50</b>	<b>24.7%</b>	100.0%	Yes
<b>Money Market Mutual Funds</b>					
American Beacon MMF	AAA	1,483,617.50	0.4%	50.0%	Yes
Williams Capital Money Market Fund	AAA	2,500,437.37	0.7%	50.0%	Yes
Merrill Lynch MMF	AAA	1,185,334.94	0.3%	50.0%	Yes
Wells Fargo Advantage Treasury Plus	AAA	3,369,284.40	0.9%	50.0%	Yes
Wells Fargo Government MMF	AAA	67,707,876.67	17.8%	50.0%	Yes
<b>Sub-Total Money Market Mutual Funds</b>		<b>76,246,550.88</b>	<b>20.0%</b>	100.0%	Yes
<b>Certificates of Deposit</b>					
CDARs - Placed by Industrial Bank	NR / NR	15,087,063.15	4.0%	30.0%	Yes
CDARs - Placed by City First Bank	NR / NR	5,020,820.29	1.3%	30.0%	Yes
<b>Sub-Total Certificates of Deposit</b>		<b>20,107,883.44</b>	<b>5.3%</b>	30.0%	Yes
<b>Commercial Paper</b>					
Bank Of Nova Scotia Ny Comm Paper	A-1 / P-1	9,998,751.40	2.6%	5.0%	Yes
Coca-Cola Company Comm Paper	A-1+ / P-1	9,999,166.70	2.6%	5.0%	Yes
Fcar Owner Trust Comm Paper	A-1+ / P-1	9,993,994.40	2.6%	5.0%	Yes
General Elec Cap Corp Comm Paper	A-1+ / P-1	9,995,155.60	2.6%	5.0%	Yes
Jp Morgan Chase & Co Comm Paper	A-1 / P-1	9,997,300.00	2.6%	5.0%	Yes
Mizuho Funding Llc Comm Paper	A-1 / P-1	9,998,466.70	2.6%	5.0%	Yes
Nestle Finance Intl Ltd Comm Paper	A-1+ / P-1	9,998,050.00	2.6%	5.0%	Yes
Sumitomo Mitsui Bank Ny Comm Paper	A-1 / P-1	9,998,594.40	2.6%	5.0%	Yes
Union Bank Na Comm Paper	A-1 / P-1	9,996,950.00	2.6%	5.0%	Yes
University Of California Comm Paper	A-1+ / P-1	9,996,708.30	2.6%	5.0%	Yes
Wells Fargo & Company Comm Paper	A-1 / P-1	14,999,350.05	3.9%	5.0%	Yes
<b>Sub-Total Commercial Paper</b>		<b>114,972,487.55</b>	<b>30.2%</b>	35.0%	Yes
<b>Federal Agencies</b>					
Fannie Mae	AA+ / Aaa	2,807,124.37	0.7%	40.0%	Yes
Freddie Mac	AA+ / Aaa	22,209,358.35	5.8%	40.0%	Yes
Federal Home Loan Bank	AA+ / Aaa	50,589,692.44	13.3%	40.0%	Yes
<b>Sub-Total Federal Agencies</b>		<b>75,606,175.16</b>	<b>19.8%</b>	100.0%	Yes
<b>Total</b>		<b>\$ 381,041,702.53</b>	<b>100.0%</b>		



**DC Water  
Finance Division  
Book Value Performance  
As of May 31, 2013**

*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	0.01%	0.15%	0.07%	0.27%	0.11%	0.23%	0.44%
Operating Reserve Accounts	0.04%	0.43%	0.08%	0.33%	0.18%	0.36%	0.43%
Total Debt Service Reserve	0.03%	0.31%	0.07%	0.28%	0.14%	0.27%	0.39%
Total CSO LTCP Appropriations Account	0.01%	0.15%	0.03%	0.14%	0.06%	0.12%	0.13%
2010A Construction Fund	0.01%	0.11%	0.02%	0.07%	0.03%	0.06%	0.06%
2010A Capitalized Interest Fund	0.09%	1.01%	0.23%	0.92%	0.46%	0.92%	0.87%
2012 Construction Fund	0.00%	0.05%	0.01%	0.05%	0.03%	0.06%	0.08%
<b>Short-Term</b>	<b>0.03%</b>	<b>0.38%</b>	<b>0.10%</b>	<b>0.38%</b>	<b>0.17%</b>	<b>0.33%</b>	<b>0.32%</b>
Merrill Lynch 3-Month Treasury Index (Book Value) <sup>1</sup>	0.00%	0.05%	0.02%	0.07%	0.03%	0.07%	0.08%
<b>Core (1+ Years)</b>	<b>0.04%</b>	<b>0.47%</b>	<b>0.12%</b>	<b>0.48%</b>	<b>0.28%</b>	<b>0.56%</b>	<b>0.70%</b>
Merrill Lynch 1-3 Year Treasury Index (Book Value) <sup>2</sup>	0.02%	0.22%	0.06%	0.24%	0.13%	0.26%	0.26%

- (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.



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	\$ 17,955,500		6/1/2013		0.90%	\$ 17,955,500	\$ 17,955,500	\$ 17,955,500	
SUMITOMO MITSUI BANK NY COMM PAPER	10,000,000	-	6/24/2013	3/26/2013	0.22%	9,994,500	9,998,960	9,998,594	
									\$ 27,954,094.40
<b>Operating Reserve Accounts</b>									
TD BANK BANK DEPOSIT	\$ 57,955,221		6/1/2013		0.90%	\$ 57,955,221	\$ 57,955,221	\$ 57,955,221	
CAPITAL ONE BANK	5,043,327		6/1/2013		0.50%	5,043,327	5,043,327	5,043,327	
WILLIAMS CAPITAL MONEY MARKET FUND	2,500,437		6/1/2013		0.00%	2,500,437	2,500,437	2,500,437	
WELLS FARGO & COMPANY COMM PAPER	15,000,000	-	6/14/2013	2/26/2013	0.12%	14,994,600	14,999,190	14,999,350	
COCA-COLA COMPANY COMM PAPER	10,000,000	-	6/26/2013	4/3/2013	0.12%	9,997,200	9,999,780	9,999,167	
UNION BANK NA COMM PAPER	10,000,000	-	8/1/2013	4/3/2013	0.18%	9,994,000	9,997,540	9,996,950	
FHLB NOTES	10,000,000	0.750	8/28/2013	5/18/2011	0.72%	10,008,025	10,033,828	10,019,972	
FCAR OWNER TRUST COMM PAPER	10,000,000	-	9/3/2013	4/3/2013	0.23%	9,990,225	9,994,060	9,993,994	
GENERAL ELEC CAP CORP COMM PAPER	10,000,000	-	9/18/2013	5/21/2013	0.16%	9,994,667	9,995,720	9,995,156	
INDUSTRIAL BANK CDARS	5,000,000	0.600	10/17/2013	10/18/2012	0.60%	5,000,000	5,018,575	5,018,575	
FHLB TAP BONDS	10,000,000	3.125	12/13/2013	5/19/2011	0.99%	10,675,134	10,303,453	10,259,104	
INDUSTRIAL BANK CDARS	2,512,497	0.620	1/23/2014	1/24/2013	0.62%	2,512,497	2,518,036	2,518,036	
INDUSTRIAL BANK CDARS	2,500,000	0.900	1/27/2014	1/26/2012	0.90%	2,500,000	2,530,329	2,530,329	
CITY FIRST BK OF WASHINGTON, DC (CDARS)	2,500,000	0.600	3/23/2014	3/23/2012	0.60%	2,500,000	2,517,853	2,517,853	
INDUSTRIAL BANK CDARS	5,000,000	0.650	10/16/2014	10/18/2012	0.65%	5,000,000	5,020,123	5,020,123	
CITY FIRST BK OF WASHINGTON, DC (CDARS)	2,500,452	0.600	3/19/2015	3/21/2013	0.60%	2,500,452	2,502,967	2,502,967	
									\$ 160,870,562.34
<b>Total Debt Service Reserve</b>									
MERRILL LYNCH MMF	1,185,335		6/1/2013		0.06%	1,185,335	1,185,335	1,185,335	
WELLS FARGO GOVERNMENT MMF	1,944,048		6/1/2013		0.01%	1,944,048	1,944,048	1,944,048	
FHLB TAP BONDS	5,000,000	3.125	12/13/2013	5/25/2011	0.87%	5,354,034	5,151,727	5,132,773	
FEDERAL HOME LOAN BANK GLOBAL NOTES	5,000,000	0.250	2/20/2015	1/30/2013	0.30%	4,995,000	4,995,697	4,999,322	
FHLB NOTES	10,000,000	1.000	3/11/2016	5/22/2013	0.43%	10,158,100	10,161,442	10,178,921	
									\$ 23,440,399.34



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>Series 2010A Bond Construction Fund</b>									
WELLS FARGO ADVANTAGE TREASURY PLUS	\$ 3,361,575		6/1/2013		0.01%	\$ 3,361,575	\$ 3,361,575	\$ 3,361,575	
NESTLE FINANCE INTL LTD COMM PAPER	10,000,000	-	7/25/2013	3/26/2013	0.13%	9,995,631	9,998,570	9,998,050	
									\$ 13,359,625.04
<b>Series 2010A Bond Construction Fund- Cap I</b>									
WELLS FARGO GOVERNMENT MMF	\$ 237,589		6/1/2013		0.01%	\$ 237,589	\$ 237,589	\$ 237,589	
WELLS FARGO ADVANTAGE TREASURY PLUS	7,709		6/1/2013		0.01%	7,709	7,709	7,709	
FNMA NOTES	1,400,000	1.125	9/30/2013	3/16/2011	0.97%	1,412,681	1,407,331	1,403,381	
FNMA NOTES (EX-CALLABLE)	1,400,000	1.250	3/14/2014	3/16/2011	1.19%	1,402,617	1,415,483	1,403,743	
									\$ 3,052,422.46
<b>Total CSO LTCP Appropriations Account</b>									
TD BANK BANK DEPOSIT	\$ 8,122,526		6/1/2013		0.90%	\$ 8,122,526	\$ 8,122,526	\$ 8,122,526	
PREMIER BANK DEPOSIT	5,032,031		6/1/2013		0.24%	5,032,031	5,032,031	5,032,031	
AMERICAN BEACON MMF	1,483,618		6/1/2013		0.01%	1,483,618	1,483,618	1,483,618	
BANK OF NOVA SCOTIA NY COMM PAPER	10,000,000	-	7/2/2013	3/26/2013	0.15%	9,996,053	9,999,080	9,998,751	
JP MORGAN CHASE & CO COMM PAPER	10,000,000	-	7/25/2013	3/26/2013	0.18%	9,993,950	9,997,860	9,997,300	
UNIVERSITY OF CALIFORNIA COMM PAPER	10,000,000	-	8/19/2013	5/21/2013	0.15%	9,996,250	9,996,250	9,996,708	
									\$ 44,630,934.18
<b>Series 2012 Bond Construction Fund</b>									
WELLS FARGO GOVERNMENT MMF	\$ 65,526,240		6/1/2013		0.01%	\$ 65,526,240	\$ 65,526,240	\$ 65,526,240	
FEDERAL HOME LOAN BANKS DISC NOTE	10,000,000	-	6/19/2013	3/26/2013	0.08%	9,998,111	9,999,756	9,999,600	
MIZUHO FUNDING LLC COMM PAPER	10,000,000	-	6/25/2013	3/26/2013	0.23%	9,994,186	9,998,940	9,998,467	
FHLMC DISC NOTE	22,210,000	-	7/23/2013	5/31/2013	0.02%	22,209,346	22,207,861	22,209,358	
									\$ 107,733,664.77
						<b>\$ 381,522,414.99</b>	<b>\$ 381,115,568.60</b>	<b>\$ 381,041,702.53</b>	<b>\$ 381,041,702.53</b>



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	313589DP5	FNMA DISC NOTE	10,000,000	-	03/27/13	12/28/12	0.081	\$ 9,998,022.00
DC WASA 2010A CONSTRUCTION FUND	64105RUR9	NESTLE FINANCE INTL LTD COMM PAPER	10,000,000	-	07/25/13	03/26/13	0.132	\$ 9,995,630.56
DC WASA OPERATING RESERVE ACCOUNTS	91411SR93	UNIVERSITY OF CALIFORNIA COMM PAPER	7,520,000	-	04/09/13	01/14/13	0.162	\$ 7,517,159.11
DC WASA OPERATING RESERVE ACCOUNTS	RE0962176	INDUSTRIAL BANK CDARS	2,512,497	0.620	01/23/14	01/24/13	0.629	\$ 2,512,497.09
DC WASA OPERATING RESERVE ACCOUNTS	9497F0TE2	WELLS FARGO & COMPANY COMM PAPER	15,000,000	-	06/14/13	02/26/13	0.122	\$ 14,994,600.00
DC WASA OPERATING RESERVE ACCOUNTS	RE1000216	CITY FIRST BK OF WASHINGTON, DC (CDARS)	2,500,000	0.600	03/19/15	03/21/13	0.606	\$ 2,500,000.00
DC WASA OPERATING RESERVE ACCOUNTS	19121ATS0	COCA-COLA COMPANY COMM PAPER	10,000,000	-	06/26/13	04/03/13	0.122	\$ 9,997,200.00
DC WASA OPERATING RESERVE ACCOUNTS	3024A6W32	FCAR OWNER TRUST COMM PAPER	10,000,000	-	09/03/13	04/03/13	0.233	\$ 9,990,225.00
DC WASA OPERATING RESERVE ACCOUNTS	90526MV12	UNION BANK NA COMM PAPER	10,000,000	-	08/01/13	04/03/13	0.183	\$ 9,994,000.00
<b>DC WASA OPERATING RESERVE ACCOUNTS</b>	<b>36959HWJ2</b>	<b>GENERAL ELEC CAP CORP COMM PAPER</b>	<b>10,000,000</b>	<b>-</b>	<b>09/18/13</b>	<b>05/21/13</b>	<b>0.162</b>	<b>\$ 9,994,666.67</b>
DC WASA TOTAL CSO LTCP APPROPRIATIONS	313385DB9	FEDERAL HOME LOAN BANKS DISC NOTE	10,000,000	-	03/15/13	12/18/12	0.061	\$ 9,998,550.00
DC WASA TOTAL CSO LTCP APPROPRIATIONS	313589CZ4	FANNIE MAE DISC NOTE	10,000,000	-	03/13/13	01/31/13	0.031	\$ 9,999,646.94
DC WASA TOTAL CSO LTCP APPROPRIATIONS	06416JU27	BANK OF NOVA SCOTIA NY COMM PAPER	10,000,000	-	07/02/13	03/26/13	0.147	\$ 9,996,052.78
DC WASA TOTAL CSO LTCP APPROPRIATIONS	4662JOUR1	JP MORGAN CHASE & CO COMM PAPER	10,000,000	-	07/25/13	03/26/13	0.183	\$ 9,993,950.00
<b>DC WASA TOTAL CSO LTCP APPROPRIATIONS</b>	<b>91411SVK3</b>	<b>UNIVERSITY OF CALIFORNIA COMM PAPER</b>	<b>10,000,000</b>	<b>-</b>	<b>08/19/13</b>	<b>05/21/13</b>	<b>0.152</b>	<b>\$ 9,996,250.00</b>
DC WASA TOTAL DEBT SERVICE RESERVE	313589DU4	FANNIE MAE DISC NOTE	10,000,000	-	04/01/13	12/18/12	0.051	\$ 9,998,555.56
DC WASA TOTAL DEBT SERVICE RESERVE	313381YP4	FEDERAL HOME LOAN BANK GLOBAL NOTES	5,000,000	0.250	02/20/15	01/30/13	0.299	\$ 4,995,173.61
<b>DC WASA TOTAL DEBT SERVICE RESERVE</b>	<b>313375RN9</b>	<b>FHLB NOTES</b>	<b>10,000,000</b>	<b>1.000</b>	<b>03/11/16</b>	<b>05/22/13</b>	<b>0.432</b>	<b>\$ 10,177,822.22</b>
DC WASA RATE STABILIZATION FD	313397DM0	FHLMC DISC NOTE	10,000,000	-	03/25/13	12/28/12	0.081	\$ 9,998,067.00
DC WASA RATE STABILIZATION FD	07286MSM4	BA YLOR UNIVERSITY COMM PAPER	10,000,000	-	05/21/13	01/14/13	0.152	\$ 9,994,708.33
DC WASA RATE STABILIZATION FD	86562KTQ7	SUMITOMO MITSUI BANK NY COMM PAPER	10,000,000	-	06/24/13	03/26/13	0.223	\$ 9,994,500.00
DC WASA 2012 CONSTRUCTION FUND	313397DP3	FHLMC DISC NOTE	40,000,000	-	03/27/13	12/18/12	0.051	\$ 39,994,500.00
DC WASA 2012 CONSTRUCTION FUND	313589CZ4	FANNIE MAE DISC NOTE	20,000,000	-	03/13/13	01/30/13	0.025	\$ 19,999,416.67
DC WASA 2012 CONSTRUCTION FUND	9127957M7	US TREASURY BILL	25,000,000	-	03/21/13	01/31/13	0.031	\$ 24,998,945.14
DC WASA 2012 CONSTRUCTION FUND	3137EACJ6	FHLMC GLOBAL NOTES	25,000,000	1.625	04/15/13	02/26/13	0.123	\$ 25,198,891.61
DC WASA 2012 CONSTRUCTION FUND	60688FTR0	MIZUHO FUNDING LLC COMM PAPER	10,000,000	-	06/25/13	03/26/13	0.233	\$ 9,994,186.11
DC WASA 2012 CONSTRUCTION FUND	313385HB5	FEDERAL HOME LOAN BANKS DISC NOTE	10,000,000	-	06/19/13	03/26/13	0.081	\$ 9,998,111.11
DC WASA 2012 CONSTRUCTION FUND	313397GE5	FREDDIE MAC DISC NOTE	25,000,000	-	05/29/13	03/26/13	0.081	\$ 24,996,444.44
<b>DC WASA 2012 CONSTRUCTION FUND</b>	<b>313397JM4</b>	<b>FHLMC DISC NOTE</b>	<b>22,210,000</b>	<b>-</b>	<b>07/23/13</b>	<b>05/31/13</b>	<b>0.020</b>	<b>\$ 22,209,346.04</b>

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



**DC Water  
Finance Division  
Upcoming Transaction Cash Flows  
Next 30 Days**

DATE	TRANSACTION	CUSIP	DESCRIPTION	COUPON	MATURITY DATE	PAR VALUE/SHARES	PRINCIPAL	INTEREST	TOTAL
<b>Total Rate Stabilization Fund</b>									
06/24/13	MATURITY	86562KTQ7	SUMITOMO MITSUI BANK NY COMM PAPER		06/24/13	10,000,000	9,994,500.00	5,500.00	10,000,000.00
<b>Operating Reserve Accounts</b>									
06/13/13	INTEREST	3133XSP93	FHLB TAP BONDS	3.125	12/13/13	10,000,000		156,250.00	156,250.00
06/14/13	MATURITY	9497F0TE2	WELLS FARGO & COMPANY COMM PAPER		06/14/13	15,000,000	14,994,600.00	5,400.00	15,000,000.00
06/26/13	MATURITY	19121ATS0	COCA-COLA COMPANY COMM PAPER		06/26/13	10,000,000	9,997,200.00	2,800.00	10,000,000.00
<b>Total Debt Service Reserve</b>									
06/13/13	INTEREST	3133XSP93	FHLB TAP BONDS	3.125	12/13/13	5,000,000		78,125.00	78,125.00
<b>Series 2012 Bond Construction Fund</b>									
06/19/13	MATURITY	313385HB5	FEDERAL HOME LOAN BANKS DISC NOTE		06/19/13	10,000,000	9,998,111.11	1,888.89	10,000,000.00
06/25/13	MATURITY	60688FTR0	MIZUHO FUNDING LLC COMM PAPER		06/25/13	10,000,000	9,994,186.11	5,813.89	10,000,000.00



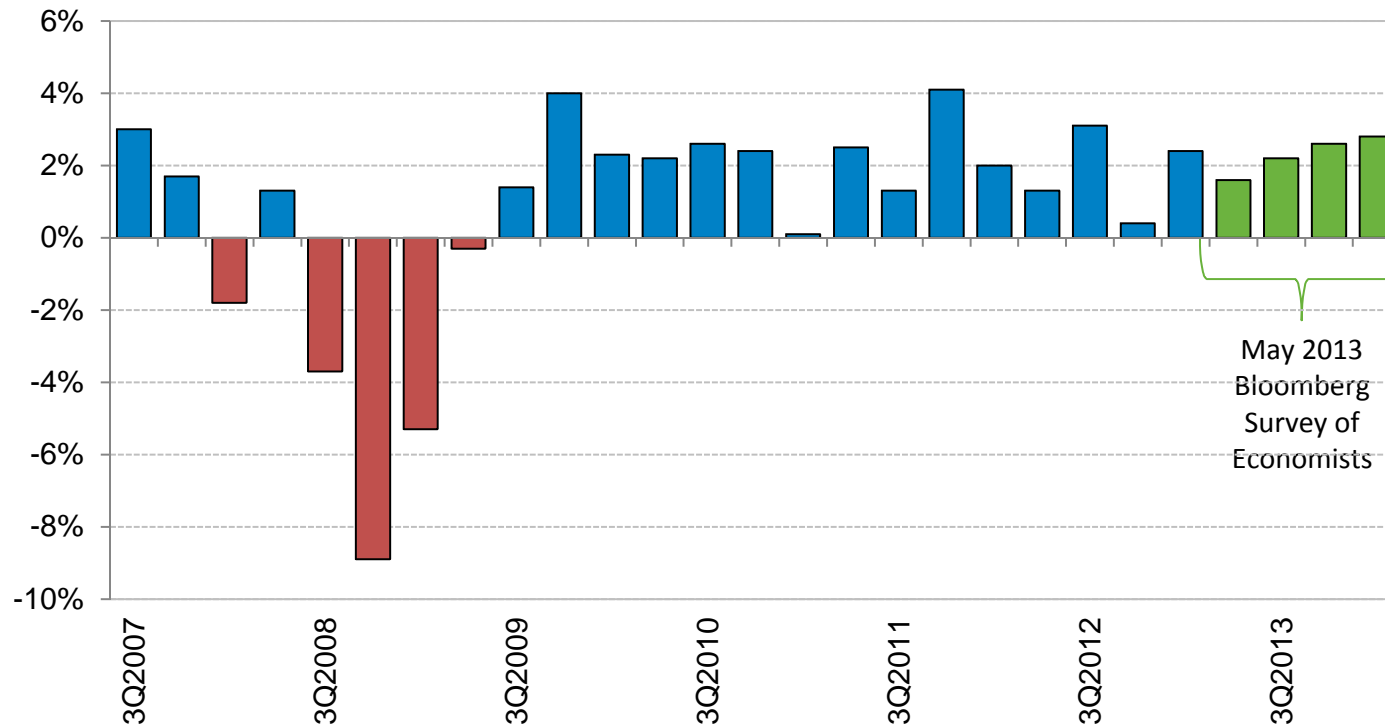
# Appendix: Economic Update



## Moderate GDP Growth in the First Quarter

- First quarter U.S. gross domestic product (GDP) growth was 2.4%.

**GDP Growth**  
July 2007 – March 2014 (projected)



Source: Bloomberg

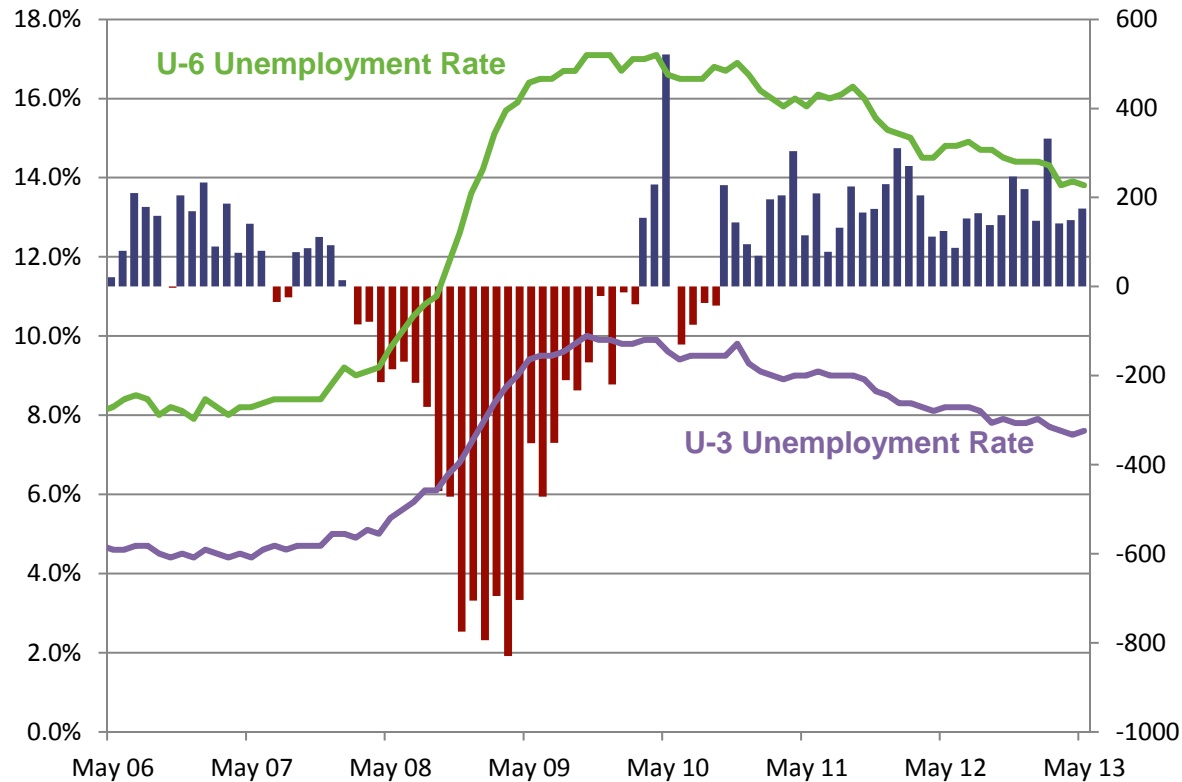




## Job Growth Remains Consistent

- The U.S. economy added 175,000 jobs in May, weaker than the previous 6 month average of 215,000.

**Unemployment vs. Non-Farm Payrolls**  
May 2006 – May 2013



Source: Bloomberg



## Employment Improvement is Gradual

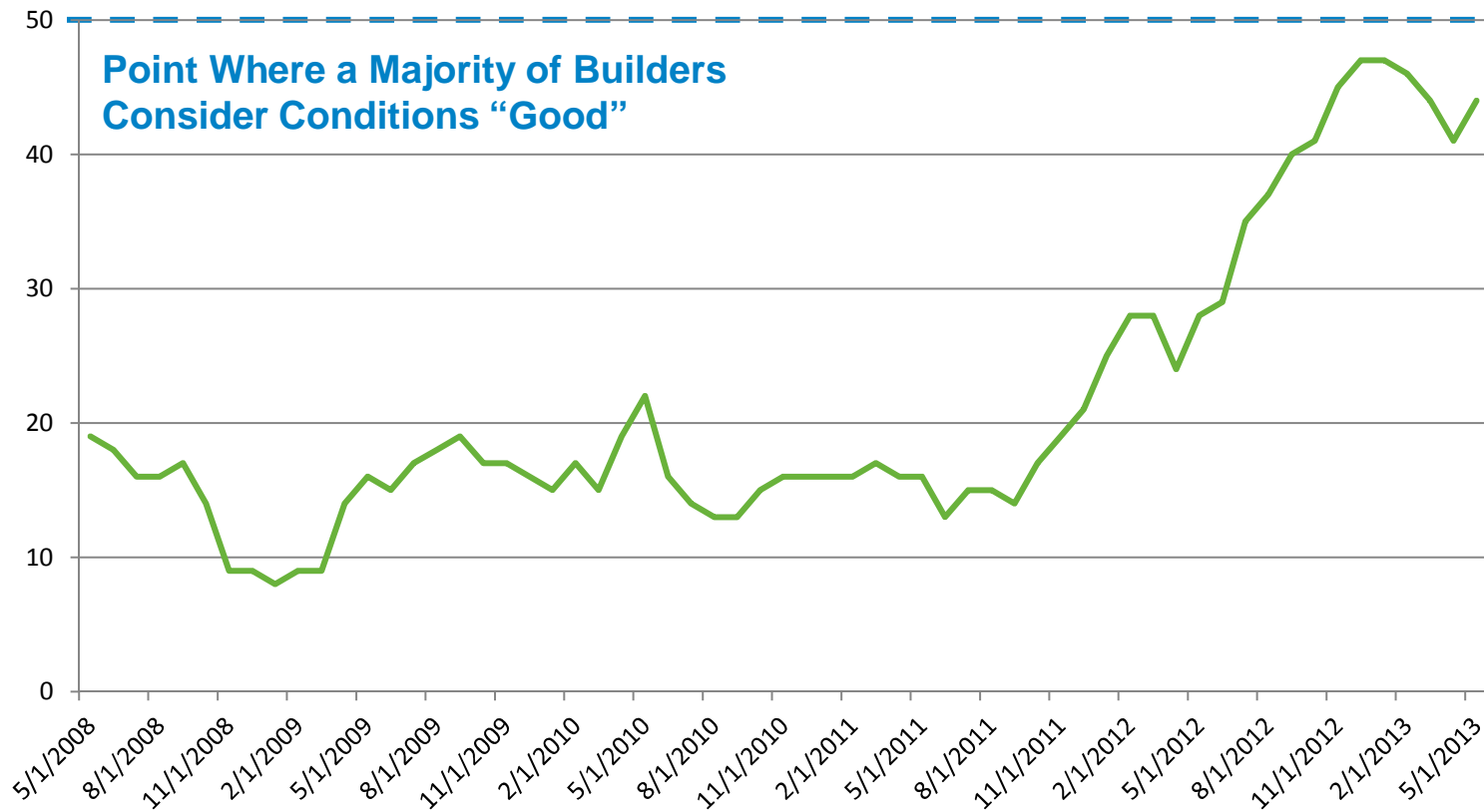
**Initial Jobless Claims**  
January 2007 – May 2013





# Building Activity is Slow

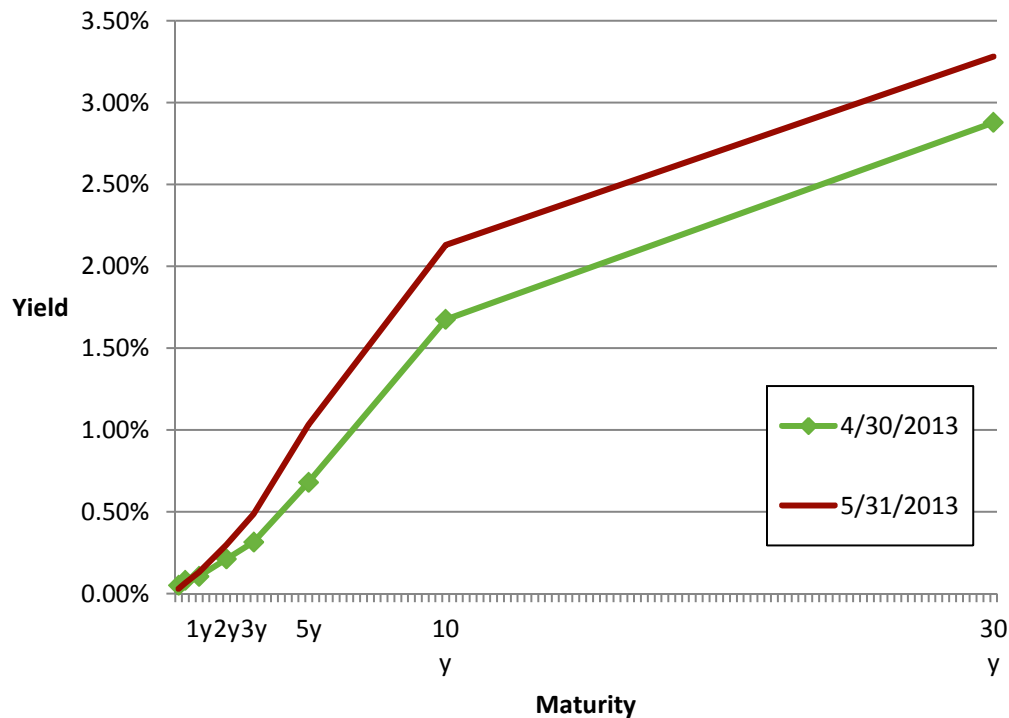
**National Association of Home Builders Market Index**  
May 2008 – May 2013





## Yield Curve Shifted Upward in May

**U.S. Treasury Yield Curve**  
April 30, 2013 versus May 31, 2013



	<b>4/30/2013</b>	<b>5/31/2013</b>	<b>Change</b>
3 month	0.05%	0.03%	-0.02%
6 month	0.08%	0.06%	-0.02%
1 year	0.10%	0.13%	0.03%
2 year	0.21%	0.30%	0.09%
3 year	0.31%	0.49%	0.17%
5 year	0.68%	1.03%	0.35%
10 year	1.67%	2.13%	0.46%
30 year	2.88%	3.28%	0.40%

Source: Bloomberg



## Disclosure

*This material is based on information obtained from sources generally believed to be reliable and available to the public; however, PFM Asset Management LLC (PFMAM) cannot guarantee its accuracy, completeness or suitability.*

*PFMAM makes judgmental evaluations before recommending specific investment opportunities. In making these evaluations, PFMAM uses its best efforts to review sources of information that it has found to be valuable, accurate and reliable, but it may not survey all sources of publicly available information.*

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*Past performance does not necessarily reflect and is not a guaranty of future results. The information contained in this presentation is not an offer to purchase or sell any securities.*



# Revised FY 2014 Budget Proposal

## Finance and Budget Committee

### June 27, 2013

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Presented by:

George S. Hawkins  
General Manager

Mark Kim  
Chief Financial Officer



## AGENDA

-  FY 2013 Budget Projections & Recommendations
-  Revised FY 2014 Operating Budget Proposal
-  Next Steps



# **FY 2013 BUDGET PROJECTIONS & RECOMMENDATIONS**



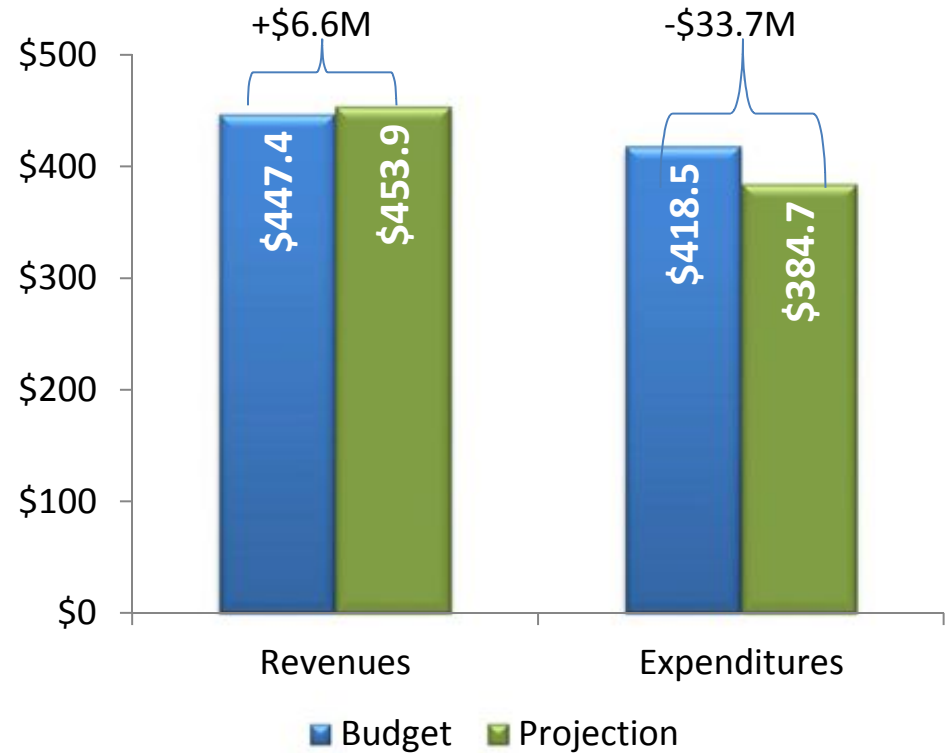


## FY 2013 FINANCIAL PERFORMANCE (PROJECTIONS – CASH BASIS)

💧 \$40.3M cash surplus is projected at year end

- Revenues slightly higher than budget (\$6.6M or 1% )
- Expenditures significantly below budget (\$33.7M or 8%)

Cashflow Projections (\$ in millions)





## RECOMMENDATIONS FOR FY 2013 PROJECTED CASH SURPLUS

- 💧 Increase refund to wholesale customers by \$3.9M
- 💧 Transfer \$7.9M to PILOT Reserve
- 💧 Increase contribution to Rate Stabilization Fund by \$3.4M
- 💧 Increase contribution to PAYGO by \$10M
- 💧 Maintain working capital of \$16M above the O&M Reserve

Cash Basis (\$ in millions)			
	FY 2013 REVISED	FY 2013 PROJECTION	VARIANCE \$
<b>Beginning Cash Balance</b>	\$ 140.3	\$ 140.3	\$ -
Plus (Less) Operating Surplus	28.9	69.2	(40.3)
Wholesale Customer Refunds from Prior Years	(5.8)	(5.8)	
Interest Earned From Bond Reserve	0.1	0.1	
Transfer to Rate Stabilization Fund	(4.1)	(4.1)	
Prior Year Federal Billing Reconciliation	(5.1)	(5.1)	
DC PILOT Reserve Fund			
Customer Rebate	(4.2)	(3.3)	(0.9)
Cash Used for Capital	(24.5)	(24.5)	
<b>Ending Cash Balance</b>	<b>\$ 125.5</b>	<b>\$ 166.7</b>	<b>\$ (41.2)</b>
<b>Recommendations</b>			
Additional Refund to Wholesale Customers			\$ 3.9
Transfer to DC PILOT Reserve			7.9
Additional Transfer to Rate Stabilization Fund			3.4
Additional Transfer to PAYGO			10.0
Maintain working capital above O&M Reserve			16.0
<b>Total Cash Surplus Recommendations</b>			<b>\$ 41.2</b>



**REVISED FY 2014 OPERATING  
BUDGET PROPOSAL**



## STRATEGIC BUDGET DEVELOPMENT

- The Revised FY 2014 Budget process includes consideration of the following factors:
  - Bottom up review of operational funding needs
  - Tighter budgeting with working capital to meet emergency operational needs
  - Revenue projections taken into account customer affordability
  
- Revised FY 2014 Budget Performance Goals:
  - Establish budget as an operational target
  - Reduce line item variances versus FY 2013 performance
  - Reduce total surplus versus FY 2013 performance



## REVISED FY 2014 BUDGET OVERVIEW

- 💧 Operating Expenditure Budget - \$441.7M
  - \$37.8M below the Board-approved budget of \$479.5M
  - \$1.4M above the Revised FY 2013 budget of \$440.3M
  
- 💧 Operating Revenue Budget - \$467.2M
  - \$10.4M below the Board-approved revenue of \$477.6M
  
- 💧 Capital Disbursement Budget - \$620.2M
  - Remains at the Board-approved cash disbursement



## REVISED FY 2014 OPERATING EXPENDITURE BUDGET SUMMARY

(\$000's)

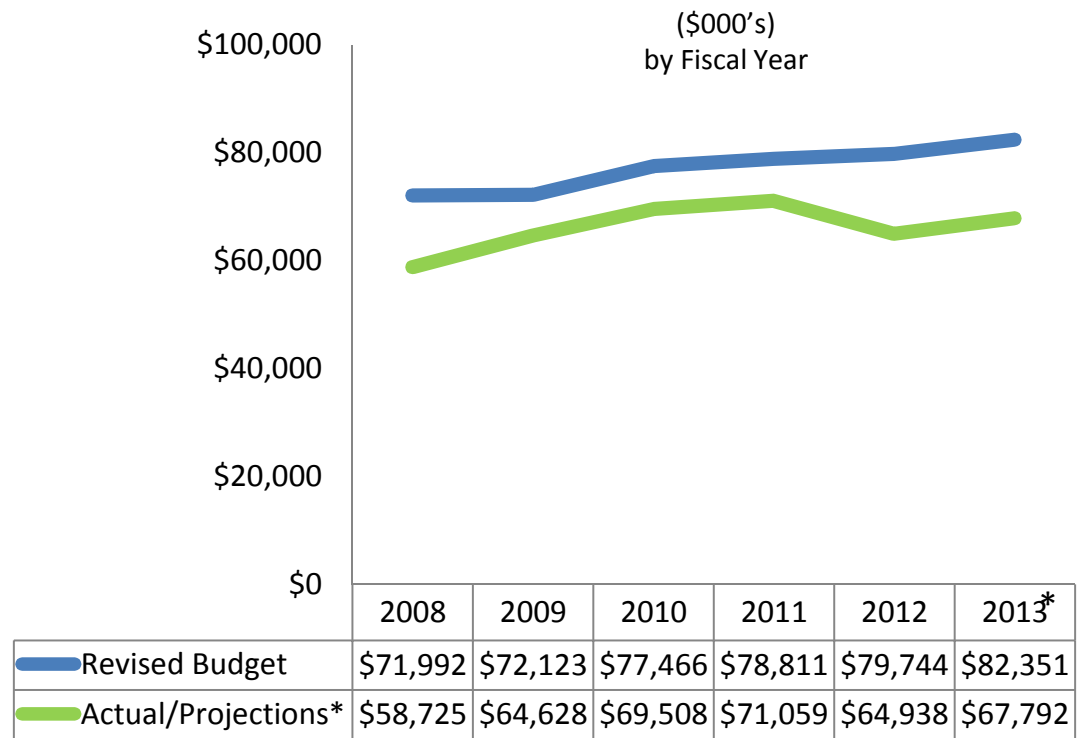
	<b>FY 2013 Revised</b>	<b>FY 2014 Approved</b>	<b>FY 2014 Revised</b>	<b>Increase / (Decrease)</b>	<b>Percentage Change</b>
Personnel Services	\$ 116,609	\$ 120,454	\$ 119,765	\$ (689)	-0.6%
Contractual Services	82,350	84,093	76,043	(8,050)	-9.6%
Water Purchases	31,513	31,513	27,991	(3,522)	-11.2%
Chemicals and Supplies	31,360	32,909	30,909	(2,000)	-6.1%
Utilities	34,185	34,011	30,714	(3,297)	-9.7%
Small Equipment	993	993	993	-	0.0%
<b>Subtotal O &amp; M Expenditures</b>	<b>\$ 297,009</b>	<b>\$ 303,973</b>	<b>\$ 286,416</b>	<b>\$ (17,557)</b>	<b>-5.8%</b>
Debt Service	121,330	150,389	130,120	(20,269)	-13.5%
Payment in Lieu of Taxes	16,882	20,081	20,081	-	0.0%
Right of Way	5,100	5,100	5,100	-	0.0%
<b>Subtotal Debt Service &amp; PILOT/ROW</b>	<b>\$ 143,312</b>	<b>\$ 175,570</b>	<b>\$ 155,301</b>	<b>\$ (20,269)</b>	<b>-11.5%</b>
<b>Total O &amp; M Expenditures</b>	<b>\$ 440,321</b>	<b>\$ 479,543</b>	<b>\$ 441,717</b>	<b>\$ (37,826)</b>	<b>-7.9%</b>



## HISTORICAL TREND OF CONTRACTUAL SERVICES

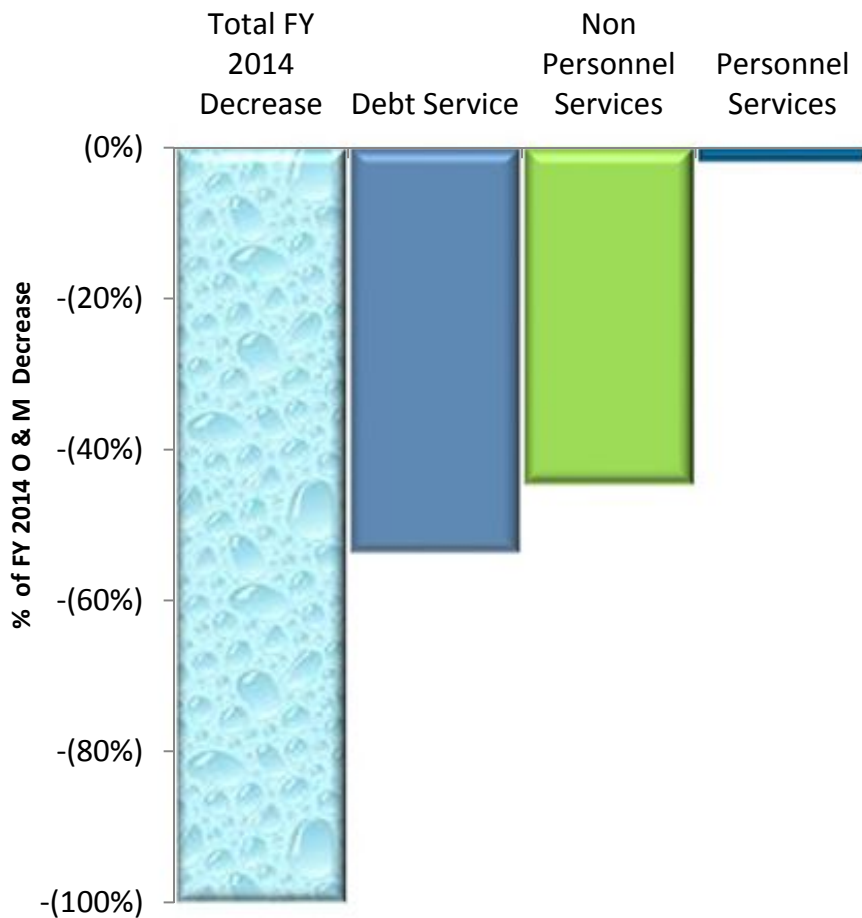
Average 5 year trend - 13% variance

- 10% in FY 2009 – FY 2011
- 19% in FY 2012
  - Attributable to various professional and consultancy services, claims and information technology support services
- 18% projected for FY 2013





## REVISED FY 2014 BUDGET DECREASE FROM APPROVED - \$37.8M



### Debt Service (-\$20.3M)

- Extended Letter of Credit and renegotiated lower facility fees
- Reduced interest rate assumptions

### Non-Personnel Services (-\$16.8M)




- Contractual Services (-\$8.0M )
- Water Purchase (-\$3.5M )
- Utilities/Electricity (-\$3.3M)
- Chemicals (-\$2.0M)

### Personnel Services (-\$0.7M)





## REVISED FY 2014 OPERATING REVENUE REQUIREMENT

-  Consumption assumption
  - Revenue projections assume a 1.0% decline in consumption and beyond
  
-  Clean Rivers IAC projected to be lower by approximately \$0.4M consistent with lower projected capital spending
  
-  Wholesale Revenue
  - Lower by \$9.8M in line with projected decrease in the O&M budget

(\$000's)


	Approved Budget	Revised Budget	Increase / (Decrease)
Retail Revenue	\$365,968	\$363,651	\$ (2,317)
Wholesale Revenue:			
PI	2,353	2,302	(51)
LCSA	5,679	5,002	(677)
WSSC	58,423	50,873	(7,550)
Fairfax	14,445	12,949	(1,496)
Subtotal - Wholesale	\$ 80,900	\$ 71,126	\$ (9,774)
Non-Operating Revenue	\$ 30,703	\$ 32,410	\$ 1,708
<b>Total Operating Revenues</b>	<b>\$477,570</b>	<b>\$467,187</b>	<b>\$ (10,383)</b>



## MANAGING OPERATIONAL RISKS

### Operational risks to FY 2014 Revised Budget

- Chemicals and Utilities
  - Actual Plant flows above budgeted projections
- Contractual Services
  - Biosolids production and hauling
  - Claims and litigation
- Debt Service
  - Higher interest rates

 The Revised FY 2014 budget provides for the management of these operational risks



## NEXT STEPS



## NEXT STEPS

- 💧 Committee Recommendations – June
- 💧 Board Adoption – July
  - Revised FY 2014 operating budget
  - FY 2014 retail rates and fees
  - PAYGO and RSF contributions

**ATTACHMENT 2-A**

**FINANCE & BUDGET COMMITTEE  
PROPOSED FY 2013 EXCESS OPERATING FUND TRANSFERS TO THE  
DC PILOT RESERVE FUND, RATE STABILIZATION FUND AND PAYGO  
FINANCING**

**ACTION ITEM 2-A: FY 2013 Excess Cash Above Operating Requirements**

The FY 2013 estimated cash surplus above operating requirements is thirty seven million, and three hundred thousand dollars (\$37,300,000). In accordance with Resolution #12-68, portions of this excess cash would be used as follows:

- Transfer the sum of seven million and nine hundred thousand dollars (\$7,900,000) to the DC PILOT Reserve Fund;
- Transfer the sum of three million and four hundred thousand dollars (\$3,400,000) to the Rate Stabilization Fund. This brings the balance in the Rate Stabilization Fund in FY 2013 to twenty eight million, nine hundred and fifty thousand dollars (\$28,950,000). This transfer is to be no later than September 1, 2013;
- Transfer the sum of ten million dollars (\$10,000,000) to PAYGO financing; and
- Maintain working capital of sixteen million dollars (\$16,000,000) above the O&M Reserve.

**FINANCE & BUDGET COMMITTEE  
PROPOSED FY 2014 REVISED BUDGET ACTION ITEM**

**ACTION ITEM 2-B: Revised FY 2014 Operating Budget**

The Revised FY 2014 operating budget to be considered by the Board of Directors totals \$441,717,000, which is below the originally approved budget.

**FY 2014**

Operations & Maintenance Expenditures	\$286,416,000
Debt Service	130,120,000
Payment In Lieu of Taxes	20,081,000
Right of Way Fee	<u>5,100,000</u>
<b>Subtotal (Debt Service / PILOT / ROW)</b>	<b>\$155,301,000</b>
<b>Revised FY 2014 Operating Budget</b>	<b><u><u>\$441,717,000</u></u></b>

\* Also see Attachment 2-B Detail

Presented and Adopted: July 3, 2013  
Subject: Approving the Final Form of Certain Documents,  
Authorizing the Sale and Setting Terms and Details of the  
Series 2013 Subordinate Bonds

#13-\_\_\_\_  
RESOLUTION  
OF THE  
BOARD OF DIRECTORS  
OF THE  
DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

The Board of Directors (“Board”) of the District of Columbia Water and Sewer Authority (“Authority”), at its meeting on July 3, 2013, by a vote of \_\_\_\_\_ (\_\_\_) in favor and \_\_\_\_\_ (\_\_\_) opposed, decided to approve the following:

**WHEREAS**, the Authority is authorized pursuant to the *Water and Sewer Authority Establishment and Department of Public Works Reorganization Act of 1996*, as amended, D.C. Code Section 34-2201.01 et seq. (the “WASA Act”), and the *District of Columbia Water and Sewer Authority Act of 1996*, Public Law 104-184; 110 Stat. 1696, to issue revenue bonds for undertakings authorized by the WASA Act, including to finance or refinance any cost, as defined in the WASA Act, D.C. Code Section 34-2202.01(2); and

**WHEREAS**, in accordance with the WASA Act, the Authority and Wells Fargo Bank, N.A., as trustee (the “Trustee”) (its predecessors in that capacity having been Norwest Bank Minnesota, N.A. and Wells Fargo Bank Minnesota, N.A.), entered into the Master Indenture of Trust, dated as of April 1, 1998 (the “Master Indenture” and, as supplemented and amended, the “Indenture”), to provide for financing or refinancing the acquisition, construction, operation, maintenance and extension of the System (as defined in the Master Indenture) by the issuance of bonds, notes and other obligations payable solely from Net Revenues (as defined in the Master Indenture); and

**WHEREAS**, the Authority has heretofore entered into thirteen (13) supplemental indentures of trust with the Trustee in connection with the issuance of Senior Debt and Subordinate Debt (as defined in the Indenture) or to amend or clarify provisions of the Master Indenture; and

**WHEREAS**, the Authority now intends (i) to issue Public Utility Subordinate Lien Revenue Bonds, Series 2013A (the “Series 2013 Subordinate Bonds”) to finance certain Costs of the System, retire Series C Notes, fund a Series 2013 Debt Service Reserve Requirement (as defined herein) if any, and pay certain costs of issuance, (ii) to designate the Series 2013 Subordinate Bonds as Subordinate Debt for purposes of the Indenture, and (iii) to secure the Series 2013 Subordinate Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures other

Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future; and

**WHEREAS**, the General Manager, the Chief Financial Officer, the Chief Engineer and the General Counsel of the Authority have informed the Board that their offices have established “due diligence” procedures for reviewing the documents authorized by this Resolution with the Authority’s bond counsel, disclosure counsel, financial advisors, underwriters and other consultants and advisors, with a view to ensuring the accuracy of disclosure; and

**WHEREAS**, the Finance and Budget Committee met on June 27, 2013, to review the issuance of the Series 2013 Subordinate Bonds and has recommended approval of this Resolution by the Board.

**NOW, THEREFORE, BE IT RESOLVED**, that:

Section 1. Definitions and Interpretations. Unless otherwise defined herein and unless the context indicates otherwise, the terms used herein and defined in the Indenture (including the Fourteenth Supplemental Indenture as hereby approved) shall have the meanings assigned to them therein. In addition, the following terms used as defined terms in this Resolution shall have the meaning ascribed to them in this Section:

“Authorized Officials” means the Chairman and Vice Chairman of the Board, the General Manager, Chief Financial Officer, Director of Budget and Finance, Controller and Treasury & Debt Manager of the Authority, provided that any official other than the Chairman shall be designated by the Chairman as his designee for the purpose of executing and delivering any document authorized hereunder.

“Bond Purchase Agreement” means the Bond Purchase Agreement between the Authority and the Series 2013 Original Purchasers, dated as of the same date as the Certificate of Award.

“Certificate of Award” means the certificate of an Authorized Official awarding the Series 2013 Subordinate Bonds to the Series 2013 Original Purchasers and specifying terms of the Series 2013 Subordinate Bonds, as provided for in Section 4 of this Resolution.

“Continuing Disclosure Agreement” means the Continuing Disclosure Agreement executed by the Authority and the Trustee, dated as of the same date as the date of issuance and delivery of the Series 2013 Subordinate Bonds, as originally executed and as it may be amended from time to time in accordance with its terms.

“Financial Advisor” means Public Financial Management, Inc. and G-Entry Principle, P.C.

“Fourteenth Supplemental Indenture” means the Fourteenth Supplemental Indenture of Trust by and between the Authority and the Trustee, dated as of the same date as and relating to the Series 2013 Subordinate Bonds.



“Interest Payment Dates” for the Series 2013 Subordinate Bonds means each April 1 and October 1, commencing on the April 1 or October 1 specified in the Certificate of Award as the first Interest Payment Date, and thereafter during the time the Series 2013 Subordinate Bonds are outstanding.

“Series 2013 Debt Service Reserve Requirement” means a required fund balance, if any, in the Series 2013 Debt Service Reserve Account or Accounts established under the Fourteenth Supplemental Indenture, the amount of which shall be specified in the Certificate of Award, but which shall not exceed the maximum amount permitted to constitute a “reasonably required reserve or replacement fund” under Section 1.148-2(f)(2) of the Code (taking into account any moneys in any other fund or account that may be required to be included in such computation) unless the Authority furnishes to the Trustee the opinion of nationally recognized bond counsel to the effect that the existence of a balance in the Series 2013 Debt Service Reserve Account greater than such maximum amount will not cause the interest on any Series 2013 Subordinate Bonds that had been excluded from gross income for federal income tax purposes to cease to be so.

“Series 2013 Original Purchasers” for the Series 2013 Subordinate Bonds means the purchasers identified as such in the Bond Purchase Agreement for the Series 2013 Subordinate Bonds.

Any reference to the Authority or the Board, or to their members or officers, or to other public officers, boards, commissions, departments, institutions, agencies, bodies or entities, shall include those which succeed to their functions, duties or responsibilities by operation of law and also those who at the time may legally act in their place.

Section 2. Authorization, Designation and Purposes of Series 2013 Subordinate Bonds. The Authority is authorized to issue, sell and deliver, as provided in this Resolution and the Certificate of Award, not to exceed (except as provided below) Four Hundred Million Dollars (\$400,000,000) principal amount of bonds of the Authority, which shall be designated “Public Utility Subordinate Lien Revenue Bonds, Series 2013A,” and constituting Subordinate Debt for purposes of the Indenture, for the purpose of: (i) financing certain Costs of the System; (ii) retiring such portion of the Series C Notes as may be specified in the Certificate of Award; (iii) funding a Series 2013 Debt Service Reserve Requirement, if any; and (iv) paying issuance costs of the Series 2013 Subordinate Bonds. For those purposes the proceeds from the sale of the Series 2013 Subordinate Bonds shall be allocated and deposited, as provided in the Fourteenth Supplemental Indenture. If and to the extent that any Series 2013 Subordinate Bonds are issued for the purpose of funding a Series 2013 Debt Service Reserve Requirement, then the aggregate principal amount of Series 2013 Subordinate Bonds hereby authorized may exceed \$400,000,000 by the aggregate principal amount of the Series 2013 Subordinate Bonds to be issued for that purpose.

Section 3. Terms and Provisions Applicable to Series 2013 Subordinate Bonds.

(a) Form, Numbering, Transfer and Exchange. The Series 2013 Subordinate Bonds: (i) shall initially be issued only in fully registered form and substantially in the form or

forms attached as Exhibits to the Fourteenth Supplemental Indenture; (ii) shall initially be issued only to a Depository for holding in a book entry system, and shall be registered in the name of the Depository or its nominee, as Holder, and immobilized in the custody of the Depository, and (iii) shall not be transferable or exchangeable except as provided in the Fourteenth Supplemental Indenture.

(b) Denominations and Dates. The Series 2013 Subordinate Bonds shall be dated as of the date of issuance and delivery, but in no event later than December 31, 2013, and there shall be a single Series 2013 Bond representing each interest rate for each maturity of the Series 2013 Subordinate Bonds bearing the same series or subseries designation.

(c) Principal Maturities and Interest Rates. The Series 2013 Subordinate Bonds shall bear interest on their unpaid principal amount payable on each Interest Payment Date, commencing on the first Interest Payment Date specified in the Certificate of Award, at such fixed rates per annum as set forth in the Certificate of Award as provided in Section 4(c) hereof, provided, however, that the “true interest cost” (i.e., interest cost on bonds defined as the rate, compounded semiannually, necessary to discount the amounts payable on the respective interest and principal payment dates to the purchase price received for the bonds) on the Series 2013 Subordinate Bonds shall not exceed six and one half percent (6.50%) per annum. The principal of the Series 2013 Subordinate Bonds shall be paid in such amounts on each principal retirement date (whether at stated maturity date or a mandatory redemption date) as set forth in the Certificate of Award, provided that the final principal retirement date shall be no later than December 31, 2048.

(d) Optional and Mandatory Redemption.

(i) *Optional Redemption* - The Series 2013 Subordinate Bonds, maturing on or before any date specified in the Certificate of Award as the Earliest Optional Redemption Date (which shall be no later than April 1, 2024), are not subject to prior optional redemption. Any Series 2013 Subordinate Bond maturing after the Earliest Optional Redemption Date shall be subject to redemption at the option of the Authority, prior to their stated maturities on or after the Earliest Optional Redemption Date in whole or in part (in whole multiples of \$5,000) on any date, at redemption prices specified in the Certificate of Award, provided that no such redemption price (not including accrued interest) shall exceed 102% of the principal amount of the Series 2013 Subordinate Bonds to be redeemed.

(ii) *Mandatory Sinking Fund Redemption* - The Series 2013 Subordinate Bonds may be designated in the Certificate of Award as Term Bonds and be subject to mandatory sinking fund redemption by lot on specified principal retirement dates at a price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption.

(e) Redemption Provisions. Redemption of Series 2013 Subordinate Bonds shall be effected in accordance with Article IV of the Master Indenture, provided, however, that notices of redemption of Series 2013 Subordinate Bonds sent pursuant to Section 402 of the Master Indenture may specify that the redemption is conditional upon the Authority’s obtaining the funds needed to effect that redemption prior to the specified redemption date.

(f) Places and Manner of Payment, and Paying Agents. The principal of and the interest and any redemption premium on the Series 2013 Subordinate Bonds shall be payable as specified in the Fourteenth Supplemental Indenture.

(g) Execution. The Authorized Officials are, and each of them is, authorized and directed to execute the Series 2013 Subordinate Bonds, and the Secretary of the Board is authorized and directed to affix the seal of the Authority to the Series 2013 Subordinate Bonds and to deliver them to the Trustee for authentication in accordance with the Indenture.

Section 4. Sale of Series 2013 Subordinate Bonds.

(a) General. The Series 2013 Subordinate Bonds shall be awarded and sold to the Series 2013 Original Purchasers in accordance with the Bond Purchase Agreement and the Certificate of Award, at a purchase price of not less than ninety-five percent (95%) of the aggregate of the products from multiplying the principal amount of each Series 2013 Bond times the percentage of such principal amount at which such Series 2013 Bond shall be initially offered to the public.

(b) Bond Purchase Agreement. The Authorized Officials are, and each of them is, authorized and directed to execute and deliver the Bond Purchase Agreement between the Authority and the Series 2013 Original Purchasers, substantially in the form presented to this Authority, but with such changes not inconsistent with the Indenture and this Resolution and not substantially adverse to the Authority as may be approved by the Authorized Official executing the same on behalf of the Authority. The approval of any such changes by such Authorized Official and the determination by such Authorized Official that no such change is substantially adverse to the Authority shall be conclusively evidenced by the execution of the Bond Purchase Agreement by such Authorized Official. The price for and terms of the Series 2013 Subordinate Bonds and the sale thereof, all as provided in this Resolution, the Bond Purchase Agreement, the Certificate of Award, and the Fourteenth Supplemental Indenture, are hereby approved and determined to be in the best interests of the Authority.

(c) Certificate of Award. Such sale and award shall be further evidenced by the Certificate of Award executed by an Authorized Official. The terms of the Series 2013 Subordinate Bonds approved in the Certificate of Award shall be incorporated into the Fourteenth Supplemental Indenture. The Certificate of Award, subject to the restrictions set forth herein, shall: (i) state, with respect each series and subseries of the Series 2013 Subordinate Bonds, the aggregate principal amount, the purchase price, the Interest Payment Dates, the interest rates, the principal retirement dates, the mandatory sinking fund requirements (if any), the redemption dates, and the redemption prices thereof; (ii) specify what, if any, portion of the Series C Notes are to be retired; (iii) specify the amount, if any, of the Series 2013 Debt Service Reserve Requirement and determine whether it shall be met entirely with (X) cash and Permitted Investments; (Y) a Qualified Reserve Credit Facility (as defined in the Fourteenth Supplemental Indenture); or (Z) a specified combination of (X) and (Y); and (iv) include any additional information that may be required or permitted to be stated therein by the terms of this Resolution and the Bond Purchase Agreement.

(d) Certificates. The Authorized Officials are, and each of them is, authorized and directed, in their official capacities, and only in those capacities, to execute and deliver to the Series 2013 Original Purchasers the certificates required by the Bond Purchase Agreement to be executed on behalf of the Authority.

(e) Delivery of Bonds. The Authorized Officials are, and each of them is, authorized and directed to make the necessary arrangements with the Series 2013 Original Purchasers to establish the date, location, procedure and conditions for the delivery of the Series 2013 Subordinate Bonds to the Series 2013 Original Purchasers. The Authorized Officials are, and each of them is, further authorized and directed to make the necessary arrangements for the printing of the Series 2013 Subordinate Bonds, and the execution, authentication and delivery of the Series 2013 Subordinate Bonds to DTC for the accounts of the Series 2013 Original Purchasers in accordance with this Resolution and the Indenture, and upon the receipt of payment of the purchase price, to cause such amount to be applied in accordance with the terms and provisions of this Resolution and the Indenture.

Section 5. Allocation of Proceeds of the Series 20130 Subordinate Bonds; Tax Covenants.

(a) Allocation of Proceeds of the Series 2013 Subordinate Bonds. The proceeds from the sale of the Series 2013 Subordinate Bonds, including any accrued interest, shall be allocated, deposited and credited for the purposes approved in this Resolution and as specified in the Fourteenth Supplemental Indenture.

(b) Tax Covenants. The Board authorizes the Authorized Officials to approve the tax covenants, authorizations and agreements necessary to achieve and maintain the tax-exempt status of the Series 2013 Subordinate Bonds.

Section 6. Fourteenth Supplemental Indenture and Other Documents. The Authorized Officials are, and each of them is, authorized in connection with the issuance of the Series 2013 Subordinate Bonds, to execute, acknowledge and deliver in the name of and on behalf of the Authority, the Fourteenth Supplemental Indenture, substantially in the form thereof submitted to the Authority at or prior to this meeting, but with such changes therein as may be permitted by the Indenture and approved by the Authorized Officer executing the document on behalf of the Authority. The approval of those changes shall be conclusively evidenced by the execution of the document by an Authorized Official.

The Authorized Officials and any other member, officer or employee of the Authority are each authorized to execute and deliver, on behalf of the Authority, such other certificates, documents and instruments related to the Series 2013 Subordinate Bonds as are necessary in connection with the transactions authorized in this Resolution, and to do all other things required of them or the Authority pursuant to the Indenture, the Fourteenth Supplemental Indenture, the Bond Purchase Agreement and this Resolution.

No covenant, agreement or obligation contained herein shall be deemed to be a covenant, agreement or obligation of any present or future member of the Board or officer, employee or agent of the Authority in his or her individual capacity, and neither the members of

the Board nor any officer of the Authority executing the Series 2013 Subordinate Bonds shall be liable personally thereon or be subject to any personal liability or accountability by reason of the issuance thereof. No member of the Board or officer, employee, agent or advisor of the Authority shall incur any personal liability with respect to any other action taken by him pursuant to this Resolution or the Indenture or any other document authorized by this Resolution, provided such member, officer, employee, agent or advisor acts in good faith.

Section 7. Official Statement; Continuing Disclosure. The Authorized Officials shall cause to be prepared and issued on behalf of the Authority, an official statement (the "Official Statement") relating to the original issuance of the Series 2013 Subordinate Bonds. The Authorized Officials are, and each of them is, authorized to execute the Official Statement on behalf of the Authority, which shall be in substantially the form of the Official Statement submitted to the Authority at this meeting, with such changes as the Authorized Official who executes it may approve, the execution thereof on behalf of the Authority by an Authorized Official to be conclusive evidence of such authorization and approval (including approval of any such changes), and copies thereof are hereby authorized to be prepared and furnished to the Series 2013 Original Purchasers for distribution to prospective purchasers of the Series 2013 Subordinate Bonds and other interested persons. The preliminary Official Statement shall be "deemed substantially final" by the Authority within the meaning of Rule 15c2-12 of the Securities Exchange Commission, subject to completion as provided below.

The distribution by the Authority and by the Series 2013 Original Purchasers of the preliminary Official Statement and the Official Statement, in such form and with any changes as may be approved in writing by an Authorized Official, is hereby authorized and approved.

The Authority shall make sufficient copies of the Official Statement, with any supplements, available to the Series 2013 Original Purchasers to sell book-entry interests in the Series 2013 Subordinate Bonds, and will provide copies as appropriate to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access.

The Authorized Officials are each hereby authorized to furnish such information, to execute such instruments and to take such other action in cooperation with the Series 2013 Original Purchasers as may be reasonably requested to qualify the Series 2013 Subordinate Bonds for offer and sale under the Blue Sky or other securities laws and regulations and to determine their eligibility for investment under the laws and regulations of such states and other jurisdictions of the United States of America as may be designated by the Series 2013 Original Purchasers; provided, however, that the Authority shall not be required to register as a dealer or broker in any such state or jurisdiction or become subject to the service of process in any jurisdiction in which the Authority is not now subject to such service.

The Authorized Officials are each hereby further authorized: (i) to supplement and complete the "deemed substantially final" preliminary Official Statement by affixing thereto or inserting therein information to identify the Series 2013 Original Purchasers, and to specify the final principal amount, interest rates and redemption provisions of the Series 2013 Subordinate Bonds, the price of the Series 2013 Subordinate Bonds to the general public and such other information as is necessary to supplement and complete the Official Statement with the approved and agreed upon terms of Series 2013 Subordinate Bonds, and (ii) to make such other changes to

the preliminary Official Statement or the Official Statement as are, in the judgment of an Authorized Official, necessary and appropriate in order to make the preliminary Official Statement or the Official Statement not materially misleading, and to comply with applicable securities laws or otherwise to enable the Authority to fulfill its obligations regarding the preliminary Official Statement or the Official Statement under the Bond Purchase Agreement.

The Authority hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of this Resolution or the Indenture, failure of the Authority to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, any Holder of Series 2013 Subordinate Bonds may, and the Trustee may (and, at the request of the Holders of at least 25% in aggregate principal amount of Outstanding Series 2013 Subordinate Bonds, shall) take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Authority to comply with its obligations under this paragraph. The Authorized Officials are, and each of them is, hereby authorized and directed to execute and deliver the Continuing Disclosure Agreement in substantially the form submitted to the Authority at or prior to this meeting with such changes therein as may be approved by the officer executing the Continuing Disclosure Agreement. The approval of those changes shall be conclusively evidenced by the execution of the Continuing Disclosure Agreement by an Authorized Official.

Section 8. General. The appropriate officers and employees of the Authority will do all things necessary and proper to implement and carry out the orders and agreements set forth or approved in this Resolution for the proper fulfillment of the purposes thereof. The Authority shall furnish to the Series 2013 Original Purchasers of the Series 2013 Subordinate Bonds a true and certified transcript of all proceedings relating to the authorization and issuance of the Series 2013 Subordinate Bonds along with other information as is necessary or proper with respect to the Series 2013 Subordinate Bonds.

Section 9. Multiple Series. Notwithstanding anything herein to the contrary, the Series 2013 Subordinate Bonds may be issued in one or more separate series, each bearing a distinctive designation, provided that each Series 2013 Subordinate Bonds of each series, and the Series 2013 Subordinate Bonds of all series in the aggregate, must satisfy the requirements and comply with the restrictions of this Resolution and the Indenture. Separate series of Series 2013 Subordinate Bonds may be issued at the same or different times and so may have different dates of issuance. The Series 2013 Subordinate Bonds of each series shall be designated as provided in the applicable Certificate of Award. A separate Certificate of Award may be delivered for each series, and each reference in this Resolution to the Certificate of Award shall refer to each and all such Certificates of Award. A separate Supplemental Trust Indenture may be entered into for each series, and each reference in this Resolution to the Fourteenth Supplemental Indenture shall refer to each and all such Supplemental Trust Indentures, but any Supplemental Trust Indenture subsequent to the Fourteenth Supplemental Indenture may bear a different designation. A separate Bond Purchase Agreement and Continuing Disclosure Agreement may be entered into for each series, and each reference in this Resolution to the Bond Purchase Agreement or to the Continuing Disclosure Agreement shall refer to each and all such Bond Purchase Agreements or Continuing Disclosure Agreements, respectively. A separate Official Statement may be prepared

for each series, and each reference in this Resolution to the Official Statement shall refer to each and all such Official Statements.

Section 10. Effective Date. This Resolution shall take effect immediately.

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Secretary to the Board of Directors

PRELIMINARY OFFICIAL STATEMENT DATED \_\_\_\_\_, 2013

NEW ISSUE – BOOK-ENTRY ONLY

Ratings: Standard & Poor's: \_\_\_  
Moody's: \_\_\_  
Fitch: \_\_\_  
See "Ratings" herein.

In the opinion of Co-Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Series 2013A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (ii) the Series 2013A Bonds and the interest thereon are exempt from District of Columbia (the "District") taxation, except estate, inheritance and gift taxes. Interest on the Series 2013A Bonds may be subject to certain federal taxes imposed only on certain corporations, including the corporate alternative minimum tax on a portion of that interest. See "TAX MATTERS."

[logo]

\$ \_\_\_\_\_\*

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**  
**Public Utility Subordinate Lien Revenue Bonds**  
**Series 2013A**

This cover page, including the inside cover page, contains certain information for quick reference only. It is not a summary of this Official Statement. Prospective purchasers must read the entire Official Statement to obtain the information essential to the making of an informed investment decision.

**Dated: Date of Delivery**

**Due: As shown on inside cover**

The Public Utility Subordinate Lien Revenue Bonds, Series 2013A (the "Series 2013A Bonds") are being issued by the District of Columbia Water and Sewer Authority (the "Authority," also commonly referred to as "DC Water") pursuant to a Master Indenture of Trust, dated as of April 1, 1998 (the "Master Indenture"), by and between the Authority and Wells Fargo Bank, N.A., as trustee (the "Trustee"), as amended and supplemented to the date of issuance of the Series 2013A Bonds (the "Indenture"). The proceeds of the Series 2013A Bonds will be used to pay (i) a portion of the costs of certain capital improvements to the System (as defined herein) and (ii) costs of issuing the Series 2013A Bonds. The Series 2013A Bonds will be secured by a pledge of Net Revenues that will be subordinate to the pledge of Net Revenues that secures any Outstanding Senior Debt and other Senior Debt the Authority may issue from time to time in the future, and on a parity with the pledge of Net Revenues that secures the Outstanding Subordinate Debt and other Subordinate Debt the Authority may issue from time to time in the future, without preference, priority or distinction of any Subordinate Debt over any other Subordinate Debt, all as further described and defined herein. See "SECURITY FOR THE SERIES 2013A BONDS."

The Series 2013A Bonds will be issued in fully registered form in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC") under the book-entry only system maintained by DTC. So long as Cede & Co. is the registered owner of the Series 2013A Bonds, the principal of and premium, if any, and interest on the Series 2013A Bonds will be payable by the Trustee to DTC, which will in turn remit such payments to its participants for subsequent disbursement to beneficial owners of the Series 2013A Bonds, as more fully described herein. See Appendix E – "DTC BOOK-ENTRY ONLY SYSTEM."

The Series 2013A Bonds will be issued initially in denominations of \$5,000 or any integral multiple thereof and in fully registered form in the name of Cede & Co., as nominee of DTC.

Interest on the Series 2013A Bonds will be calculated on the basis of a 360-day year of twelve 30-day months, payable semi-annually on each April 1 and October 1, commencing October 1, 2013.

The Series 2013A Bonds are subject to redemption prior to maturity, as more fully described herein.

The Series 2013A Bonds shall be special, limited obligations of the Authority payable solely from the Net Revenues of the Authority. The Series 2013A Bonds shall be without recourse to the District of Columbia (the "District"). The Series 2013A Bonds shall not be general obligations of the District or of the Authority. The Series 2013A Bonds shall not be a pledge of or involve the faith and credit or the taxing power of the District, shall not constitute a debt of the District, the United States of America or any User Jurisdiction (as defined herein) or any agency or instrumentality of any User Jurisdiction, and neither the District, the United States, any User Jurisdiction nor any agency or instrumentality of any User Jurisdiction shall be liable thereon. The Series 2013A Bonds also shall not constitute the lending of the public credit for private undertakings as prohibited by the Home Rule Act (as defined herein). The Authority has no taxing power.

The Series 2013A Bonds are offered when, as and if issued by the Authority and received by the Underwriters. Certain legal matters with respect to issuance of the Series 2013A Bonds are subject to the approval of Squire Sanders (US) LLP, Washington, D.C., and Leftwich & Ludaway, LLC, Washington, D.C., Co-Bond Counsel to the Authority. Squire Sanders (US) LLP and Leftwich & Ludaway, LLC also serve as disclosure counsel to the Authority in connection with the preparation of this Official Statement. Certain legal matters will be passed upon for the Authority by Randy Hayman, Esq., its General Counsel, and for the Underwriters by Orrick, Herrington & Sutcliffe LLP, Washington, D.C. and McKenzie & Associates, Washington, D.C., Co-Underwriters' Counsel. It is expected that the Series 2013A Bonds will be available for delivery through the facilities of DTC in New York, New York on or about \_\_\_\_\_, 2013.

**BARCLAYS**

(Joint Book Runners)

**LOOP CAPITAL MARKETS**

**BofA Merrill Lynch**

**Goldman, Sachs & Co.**

**Ramirez & Co., Inc.**

**Jefferies**

**Lebenthal & Co., LLC**

**Raymond James**

Dated: \_\_\_\_\_, 2013

\* Preliminary, subject to change.

THIS PRELIMINARY OFFICIAL STATEMENT AND THE INFORMATION CONTAINED HEREIN ARE SUBJECT TO COMPLETION AND AMENDMENT IN A FINAL OFFICIAL STATEMENT. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Series 2013A Bonds offered hereby, in any jurisdiction in which such offer, solicitation or sale would be unlawful.



\$ \_\_\_\_\_ \*

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**  
**Public Utility Subordinate Lien Revenue Bonds**  
**Series 2013A**

Maturity Date (October 1)	Principal Amount	Interest Rate	Yield or Price	CUSIP <sup>†</sup>
20__				

\$ \_\_\_\_\_ .\_\_% Term Bonds, due [October] 1, 20\_\_, Yield \_\_\_\_% CUSIP \_\_\_\_\_<sup>†</sup>

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\* Preliminary; subject to change.

<sup>†</sup> CUSIP® is a registered trademark of the American Bankers Association. CUSIP numbers are provided by the CUSIP Service Bureau, operated by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the Authority and are included solely for the convenience of investors. Neither the Authority nor the Underwriters are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Series 2013A Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2013A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2013A Bonds.

**District of Columbia Water and Sewer Authority**  
**5000 Overlook Avenue, S.W.**  
**Washington, D.C. 20032**  
**(202) 787-2150**

[www.dcwater.com](http://www.dcwater.com)

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Rachna Butani  
Timothy L. Firestine  
Robert Hoyt  
Edward L. Long, Jr.  
Robert Mallett  
Alethia N. Nancoo  
Carla Reid  
Alan J. Roth  
Bradford Seamon  
Vacancy

**Jurisdiction**

*District of Columbia*  
*District of Columbia*  
*Montgomery County*  
*Montgomery County*  
*Fairfax County*  
*District of Columbia*  
*District of Columbia*  
*Prince George's County*  
*District of Columbia*  
*Prince George's County*  
*District of Columbia*

**Alternate Members**

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David W. Lake  
Dawn Hawkins-Nixon  
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Vacancy

**Jurisdiction**

*District of Columbia*  
*Montgomery County*  
*District of Columbia*  
*District of Columbia*  
*District of Columbia*  
*Montgomery County*  
*Prince George's County*  
*Prince George's County*  
*Fairfax County*  
*District of Columbia*  
*District of Columbia*

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*Assistant General Manager, Customer Care & Operations*

**Authority Consultants and Counsel**

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Johnson, Mirmiran, and Thompson, Inc.  
Public Financial Management, Inc. and G-Entry Principle, P.C.

*Co-Bond Counsel and*  
*Co-Disclosure Counsel*  
*Financial Feasibility Consultant*  
*Engineering Feasibility Consultant*  
*Co-Financial Advisors*

### IMPORTANT NOTICES

This Official Statement is provided in connection with the issuance of the Series 2013A Bonds referred to herein and may not be reproduced or be used, in whole or in part, for any other purpose. The information contained in this Official Statement has been derived from information provided by the Authority and other sources which are believed to be reliable. Additional information, including financial information, concerning the Authority is available from the Authority's website. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded.

No dealer, broker, salesperson or other person has been authorized by the Authority or the Underwriters to give any information or to make any representations with respect to this offering, other than as contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2013A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in such information since the date thereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

THE SERIES 2013A BONDS HAVE NOT BEEN REGISTERED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXCEPTIONS CONTAINED IN THE ACT. NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SERIES 2013A BONDS OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2013A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THIS OFFICIAL STATEMENT IS BEING PROVIDED TO PROSPECTIVE PURCHASERS EITHER IN BOUND PRINTED FORM ("ORIGINAL BOUND FORMAT") OR IN ELECTRONIC FORMAT ON THE FOLLOWING WEBSITE: WWW.MUNIOS.COM. THIS OFFICIAL STATEMENT MAY BE RELIED UPON ONLY IF IT IS IN ITS ORIGINAL BOUND FORMAT OR AS PRINTED IN ITS ENTIRETY DIRECTLY FROM SUCH WEBSITE.

### CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Some statements contained in this Official Statement reflect not historical facts but forecasts and "forward-looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe," "plan," "budget," and similar expressions are intended to identify forward-looking statements. Projections, forecasts, assumptions, expressions of opinions, estimates and other forward-looking statements are not to be construed as representations of fact and are qualified in their entirety by the cautionary statements set forth in this Official Statement.

The achievement of results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Authority does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur or do not occur.

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## OFFICIAL STATEMENT

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**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**  
**Public Utility Subordinate Lien Revenue Bonds**  
**Series 2013A**

### INTRODUCTION

#### General

This Official Statement, including the cover page and the appendices hereto (the “Official Statement”) is provided in connection with the issuance by the District of Columbia Water and Sewer Authority (the “Authority,” also commonly referred to as “DC Water”) of its Public Utility Subordinate Lien Revenue Bonds, Series 2013A, in the original principal amount of \$ \_\_\_\_\_ \* (the “Series 2013A Bonds”).

The Series 2013A Bonds are being issued pursuant to the Master Indenture of Trust, dated as of April 1, 1998 (the “Master Indenture”), as amended and supplemented to the date of delivery of the Series 2013A Bonds (the “Indenture”), including by the Fourteenth Supplemental Indenture of Trust, to be dated the date of issuance and delivery of the Series 2013 Bonds (the “Fourteenth Supplemental Indenture”), each by and between the Authority and Wells Fargo Bank, N.A., as trustee (the “Trustee”).

Capitalized terms used in this Official Statement and not otherwise defined herein shall have the meanings ascribed thereto in APPENDIX C – “GLOSSARY AND SUMMARY OF THE INDENTURE.”

#### District of Columbia Water and Sewer Authority

The Authority is an independent authority of the District of Columbia (the “District”), which 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”), which is 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 Council was authorized to adopt the Act pursuant to the authority set forth in the District of Columbia Self-Government and Governmental Reorganization Act (P.L. 93-198; 87 Stat 777; D.C. Official Code, 2006 Repl., §§ 1-201 *et seq.*), as amended (the “Home Rule Act”). See “THE AUTHORITY.”

The Authority provides retail water and wastewater services to more than 625,000 residents in the District and wholesale wastewater conveyance and treatment to approximately 1.6 million people in major suburban areas of Prince George’s and Montgomery Counties in Maryland and Fairfax and Loudoun Counties in Virginia (collectively, the “User Jurisdictions”). Pursuant to the Act, the District authorized the Authority to use all of the property and assets of the water distribution system (the “Water System”) and the wastewater collection, treatment and disposal system (the “Wastewater System” and, together with the Water System, the “System”) formerly operated by the District, for as long as any revenue bonds of the Authority, including the Series 2013A Bonds, remain outstanding. In accordance with the Act, the District retains full legal title to and a complete equitable interest in the System. See “THE SYSTEM.”

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\* Preliminary; subject to change.

The Authority's service area consists of the District and certain areas of the User Jurisdictions and, therefore, certain demographic, economic and statistical information relating to the District and the User Jurisdictions may be relevant to prospective purchasers of the Series 2013A Bonds. The Authority makes no representation as to the accuracy or completeness of such information.

#### **Use of the Series 2013A Bond Proceeds**

The proceeds of the Series 2013A Bonds will be used to (i) pay a portion of the costs of certain capital improvements to the System (as defined herein) and (ii) pay costs of issuing the Series 2013A Bonds. See "SOURCES AND USES OF FUNDS" and "CAPITAL IMPROVEMENT PROGRAM – Categories of CIP Projects"

#### **Security and Source of Payment**

Under the Indenture, the Authority may issue "Senior Debt" and "Subordinate Debt" from time to time. The Series 2013A Bonds will constitute Subordinate Debt under the Indenture. The Series 2013A Bonds will be secured by a pledge of Net Revenues that is subordinate to the pledge of Net Revenues that secures any Outstanding Senior Debt and other Senior Debt the Authority may issue from time to time in the future, and on a parity with the pledge of Net Revenues that secures the Outstanding Subordinate Debt and other Subordinate Debt the Authority may issue from time to time in the future, without preference, priority or distinction of any Subordinate Debt over any other Subordinate Debt. Upon the issuance of the Series 2013A Bonds, approximately \$[REDACTED]\* aggregate principal amount of Subordinate Debt and \$501,455,000\* aggregate principal amount of Senior Debt will be outstanding. See "OUTSTANDING INDEBTEDNESS." The Series 2013A Bonds will be payable solely from Net Revenues after the funding of certain Funds and Accounts established under the Indenture. The principal sources of Net Revenues are the payments received by the Authority pursuant to its rates and charges imposed for the use of and the services furnished by the System, as described in the Indenture. See "RATES AND CHARGES." The Series 2013A Bonds will not be secured by a Debt Service Reserve Fund.

**The Series 2013A Bonds shall be special and limited obligations of the Authority. The Series 2013A Bonds shall be without recourse to the District. The Series 2013A Bonds shall not be general obligations of the District or of the Authority. The Series 2013A Bonds shall not be a pledge of or involve the faith and credit or the taxing power of the District, shall not constitute a debt of the District, the United States of America or any User Jurisdiction or any agency or instrumentality of any User Jurisdiction, and neither the District, the United States, any User Jurisdiction, nor any agency or instrumentality of any User Jurisdiction shall be liable thereon. The Series 2013A Bonds also shall not constitute the lending of the public credit for private undertakings as prohibited by the Home Rule Act of the District. The Authority has no taxing power.**

The Indenture prohibits the acceleration of Subordinate Debt if any Senior Debt is outstanding. The right of acceleration of the Series 2013A Bonds is also subject to the requirement that acceleration of the Series 2013A Bonds may occur only in connection with the acceleration of all Subordinate Debt, and accordingly shall be subject to the rights of the holders (including bond insurers acting on behalf of the bondholders to the extent their policies so provide) of other Subordinate Debt. The Fourteenth Supplemental Indenture confers upon the holders of the Series 2013A Bonds comparable rights to direct the Trustee in the exercise of remedies (other than acceleration while any Senior Debt is outstanding) for the enforcement of their right to be paid debt service on the Series 2013A Bonds from moneys in the Subordinate Bond Fund required by the Indenture to be used for such payment, but the exercise of all

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\* Preliminary; subject to change.

other remedies for the protection of the rights of holders of the Series 2013A Bonds are discretionary with the Trustee and subject to the herein described rights of the holders of the Bonds (the term “Bonds” as defined in the Indenture does not include Other System Indebtedness and Subordinate Debt). See “SECURITY FOR THE SERIES 2013A BONDS.”

### **Rate Covenant and Financial Forecast**

The Master Indenture includes a rate covenant as described herein. Rates, fees and charges are established by the Authority and are not subject to regulatory approval, nor are they subject to other regulations under current law. In general, and as more fully described herein, the Rate Covenant, which provides that the Authority covenants to fix, charge, revise and collect rates, fees and other charges for the use of and the services furnished by the System sufficient in each Fiscal Year so that:

(A) Revenues collected by the Authority in such Fiscal Year will be sufficient to pay at least the actual Operating Expenses and required deposits and payments; and

(B) Net Revenues shall be sufficient in each Fiscal Year to be at least equal to the sum of (i) an amount equal to one hundred and twenty percent (120%) of the Annual Debt Service on Senior Debt; and (ii) one hundred percent (100%) of the Annual Debt Service on Subordinate Debt.

See “SECURITY FOR THE SERIES 2013A BONDS – Rate Covenant.” Financial information, including projections and projected debt service coverages are included in “FINANCIAL OPERATIONS – Projected Financial Operations” herein.

### **Capital Improvement Program**

The Authority utilizes an annually adopted ten-year Capital Improvement Program (the “Capital Improvement Program” or the “CIP”) to plan and manage the capital investments necessary to fulfill its service missions, comply with regulatory requirements and preserve and upgrade its water and wastewater systems. The Authority updates the CIP annually in conjunction with its budget process, based on detailed project review by engineering staff, external engineering consultants retained by the Authority, operations staff and senior management. The Authority intends to finance the costs of the CIP from a number of sources, including the proceeds of the Series 2013A Bonds, proceeds of future bonds, grants, certain operating revenues and wholesale customer contributions. As more fully described herein, the Authority estimates the cost of the current ten-year CIP (which includes funds spent in Fiscal Year 2012) at \$3.8 billion on a cash disbursement basis. The Board approved the CIP on January 3, 2013. See “CAPITAL IMPROVEMENT PROGRAM.”

### **Miscellaneous**

This Official Statement contains brief descriptions of the Series 2013A Bonds, the Authority, the System, the Capital Improvement Program, the Indenture and certain provisions of the Act. Such descriptions and the summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be comprehensive or definitive, and each such document, statute, report or instrument is qualified in its entirety by reference to each such document, statute, report or instrument, copies of which are available from the Authority. All references to the Series 2013A Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Indenture. Insofar as any statements are made in this Official Statement involving matters of opinion, regardless of whether expressly so stated, they are intended merely as such and not as representations of fact.



The information in this Official Statement is subject to change without notice, and neither the delivery of this Official Statement, nor any sale made hereunder shall under any circumstances create an implication that there has been no change in the affairs of the Authority since the date hereof. This Official Statement is not to be construed as a contract or agreement between the Authority or the Underwriters and the purchasers or owners of any of the Series 2013A Bonds.

Inquiries regarding information about the Authority and the financial matters contained in this Official Statement may be directed to the Chief Financial Officer of the Authority at (202) 787-2150.

## THE SERIES 2013A BONDS

### General

The Series 2013A Bonds will be dated their date of delivery and will bear interest at the rates set forth on the inside cover page hereof. Interest on the Series 2013A Bonds will be calculated on the basis of a 360-day year of twelve 30-day months, payable semi-annually on each April 1 and October 1, commencing October 1, 2013 (each, an “Interest Payment Date”), and will mature on October 1 in the years and in the principal amounts set forth on the inside cover page hereof.

### Book-Entry Only System

The Series 2013A Bonds will be issued in fully registered form and, when issued, will be held by DTC or its nominee, as securities depository with respect to the Series 2013A Bonds. Individual purchases of interests in the Series 2013A Bonds will be made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof. Individual purchasers will not receive physical delivery of bond certificates. So long as Cede & Co. is the registered owner of the Series 2013A Bonds as nominee of DTC, references herein to the holders or registered owners of the Series 2013A Bonds will mean Cede & Co. and will not mean the beneficial owners of the Series 2013A Bonds. Beneficial interests in the Series 2013A Bonds may be held through DTC directly as a participant or indirectly through organizations that are participants in such system. See APPENDIX E – “DTC BOOK-ENTRY ONLY SYSTEM.”

As long as the Series 2013A Bonds are held by DTC or its nominee, interest will be paid to Cede & Co., as nominee of DTC, in same-day funds on each Interest Payment Date. If the book-entry only system is discontinued, bond certificates will be delivered as described in the Indenture, and Beneficial Owners (as defined herein) will become registered owners of the Series 2013A Bonds (the “Bondholders”). If the book-entry only system is discontinued, interest on the Series 2013A Bonds shall be payable on each Interest Payment Date by check or draft mailed to the registered owner at the address as it appears on the 15th day of the month preceding an Interest Payment Date on the registration books kept by the Trustee.

Neither the Authority, the Trustee nor the Underwriters will have any responsibility or obligation to the Participants, DTC or the persons for whom they act with respect to (i) the accuracy of any records maintained by DTC or by any Direct or Indirect Participant of DTC, (ii) payments or the providing of notice to Direct Participants, the Indirect Participants or the beneficial owners, (iii) the selection by DTC or by any Direct or Indirect Participant of any beneficial owner to receive payment in the event of a partial redemption of the Series 2013A Bonds or (iv) any other action taken by DTC or its partnership nominee as owner of the Series 2013A Bonds. For more information on DTC and the book-entry only system, see APPENDIX E – “DTC BOOK-ENTRY ONLY SYSTEM.”

### Redemption Provisions<sup>\*</sup>

#### *Optional Redemption*

The Series 2013A Bonds maturing on or after October 1, 20[24] are subject to optional redemption prior to maturity on or after October 1, 20[23] from any source, in whole or in part on any date, in such order of maturities as shall be determined by the Authority (and by lot within a maturity), at

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<sup>\*</sup> Preliminary; subject to change.

a redemption price of 100% of the principal amount thereof, together with accrued interest, if any, to the redemption date.

*Mandatory Redemption*

The Series 2013A Bonds maturing on October 1, 20\_\_ (the “Series 2013A Term Bonds”) are subject to mandatory sinking fund redemption in part (in accordance with the procedures described below in “*Selection of the Series 2013A Bonds to be Redeemed*”), prior to maturity on October 1, in the years set forth below, at a redemption price equal to the principal amount of the Series 2013A Bonds called for redemption plus interest accrued to the redemption date.

\$ _____			
<b>20__ Term Bonds</b>			
Year	Amount	Year	Amount
20__	\$	20__	\$
20__		20__ <sup>†</sup>	
20__			
<sup>†</sup> Final Maturity			

The principal amount of the Series 2013A Term Bonds required to be redeemed on any redemption date pursuant to the operation of mandatory sinking fund redemption provisions will be reduced, at the option of the Authority, by the principal amount of any Series 2013A Term Bond scheduled for redemption on such redemption date or dates, which, at least 45 days prior to the mandatory sinking fund redemption date, (1) have been acquired by the Authority and delivered to the Trustee for cancellation, (2) have been acquired and canceled by the Trustee, at the direction of the Authority, at a price not exceeding the principal amount of such Series 2013A Term Bond plus accrued interest to the date of acquisition thereof, or (3) have been redeemed pursuant to the optional redemption provisions and not previously credited to a scheduled mandatory redemption. Upon such purchase of such Series 2013A Term Bonds, the Trustee shall then credit an amount equal to the principal of such Series 2013A Term Bonds so purchased towards the sinking fund installments for the Series 2013A Term Bonds of such maturity in such order as may be determined by the Authority in a certificate of an Authorized Official, which will direct the reduction of a ratable portion of each annual mandatory sinking fund installment requirement in accordance with the procedures set forth under “*Selection of the Series 2013A Bonds to be Redeemed*” below.

*Selection of the Series 2013A Bonds to be Redeemed*

The particular maturities of the Series 2013A Bonds to be redeemed at the option of the Authority will be determined by the Authority in its sole discretion.

If less than all of the Series 2013A Bonds of a maturity are called for prior redemption and if the Series 2013A Bonds are registered in book-entry only form and DTC or a successor securities depository is the sole registered owner of such Series 2013A Bonds, the particular Series 2013A Bonds or portions thereof to be redeemed shall be selected by DTC in accordance with DTC procedures, or, if the book-entry only system is discontinued, by the Trustee by lot in such manner as the Trustee in its discretion may determine. In either case, (a) the portion of any Series 2013A Bond to be redeemed shall be in the principal amount of \$5,000 or integral multiples thereof and (b) in selecting Series 2013A Bonds for redemption, each Series 2013A Bond shall be considered as representing that number of the Series 2013A Bonds which is obtained by dividing the principal amount of such Series 2013A Bond by \$5,000.

*Notice of Redemption*

The Authority shall not be responsible for mailing a notice of redemption to anyone other than DTC or another qualified securities depository or its nominee unless no qualified securities depository is the registered owner of the Series 2013A Bonds. If no qualified securities depository is the registered owner of the Series 2013A Bonds, a notice of redemption shall be mailed to the registered owners of the Series 2013A Bonds. See “THE SERIES 2013A BONDS – Book-Entry Only System.”

The Trustee shall send notice of the call for redemption, identifying the Series 2013A Bonds or portions thereof to be redeemed, not less than 30 nor more than 60 days prior to the redemption date (a) by registered or certified mail or overnight express delivery, to the holder of each Series 2013A Bond to be redeemed at the address as it appears on the registration books kept by the Trustee, (b) by registered or certified mail or overnight express delivery, to all organizations registered as securities depositories with the SEC and (c) to each nationally recognized municipal securities information repository designated as such by the SEC. Failure to give any notice specified in (a) above, or any defect therein, shall not affect the validity of any proceedings for the redemption of any Series 2013A Bond with respect to which no such failure or defect has occurred. Failure to give any notice specified in (b) or (c) above, or any defect therein, shall not affect the validity of any proceedings for the redemption of any Series 2013A Bond with respect to which the notice specified in (a) above is correctly given. If the notices of redemption are sent before there is sufficient money on deposit in the applicable fund or account to pay the full redemption price of the Series 2013A Bonds, the notice of redemption of the Series 2013A Bonds shall specify that the redemption is conditional upon there being on deposit in the applicable fund or account on the redemption date sufficient money to pay the full redemption price of the Series 2013A Bonds to be redeemed.

Any notice of redemption shall be mailed by first-class mail, postage prepaid. Notice of redemption also shall be given by Electronic Means to a Depository. A certificate of the Trustee shall conclusively establish the mailing of any such notice for all purposes.

**SOURCES AND USES OF FUNDS**

**General**

The proceeds of the Series 2013A Bonds are expected to be applied as follows:

<b>Sources of Funds</b>	
Par Amount of Bonds	\$
Original Issue Premium/Discount	
Total Sources <sup>†</sup>	<u>\$</u>
 <b>Uses of Funds</b>	
Deposit to 2013A Construction Account	\$
Underwriters' Discount	
Other Costs of Issuance <sup>*</sup>	
Total Uses <sup>†</sup>	<u>\$</u>

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\* Costs of issuance include legal fees, Trustee fees, co-financial advisor fees, rating agency fees, and other costs of issuing the Series 2013A Bonds.

† Totals may not equal the sum of the components due to rounding.

## SECURITY FOR THE SERIES 2013A BONDS

### Pledge of the Master Indenture

#### *General*

The Series 2013A Bonds are authorized and will be issued in accordance with the statutes of the District and the United States, and will constitute valid and legally binding special and limited obligations of the Authority.

Under the Indenture, the Authority may at any time issue Subordinate Debt and pledge Net Revenues thereto so long as rates, fees and charges are in effect or scheduled to go into effect to meet the Rate Covenant (as defined herein) immediately after the issuance of such Subordinate Debt. The Series 2013A Bonds will constitute Subordinate Debt under the Indenture, payable solely from the Net Revenues of the System, subject to the prior payment of the principal of and interest due and payable on the Outstanding Senior Debt and any other Senior Debt hereafter issued or incurred by the Authority, the replenishment of the Debt Service Reserve Fund for the Senior Debt and the funding of the Operating Reserve Fund and the Renewal and Replacement Reserve Fund. The Series 2013A Bonds are payable and secured on a parity basis with the Outstanding Subordinate Debt and all other Subordinate Debt hereafter issued or incurred by the Authority pursuant to the Indenture. The Authority expects to issue additional Senior Debt and Subordinate Debt in the future. For a listing of the Authority's Outstanding Senior Debt and Subordinate Debt, see "OUTSTANDING INDEBTEDNESS."

The Master Indenture defines "Senior Debt" as Bonds and Other Senior Indebtedness, and "Bonds" as bonds, notes or other obligations issued pursuant to the Master Indenture, but not including Other System Indebtedness and Subordinate Debt. "Other System Indebtedness" means any indebtedness issued or incurred in connection with the System that the Authority is required, or has elected, to treat as payable on a parity basis with the Bonds with respect to the pledge of Net Revenues. "Subordinate Debt" means bonds, notes or other obligations issued in connection with the System that are expected to be paid from and have pledged to their payment Net Revenues on a subordinate lien basis after the pledge of Net Revenues to Senior Debt.

The Indenture pledges to the payment of the principal of and premium, if any, and interest on all Senior Debt and Subordinate Debt (at their respective levels of priority of security) that may from time to time be outstanding: (i) all right, title and interest of the Authority in and to the Net Revenues; (ii) all moneys or securities in any of the funds or Accounts established under the Indenture (other than the Operating Fund, and all Accounts in the Construction Fund other than the Construction Account, except to the extent a specific Account or subaccount therein relates, and is pledged, solely to specific series of Bonds or Subordinate Debt); and (iii) all rights and privileges of every kind and nature appurtenant to, all proceeds of, and all right, title and claim which the Authority now or may hereafter acquire in the aforesaid property, subject only to the provisions of the Indenture and the Act relating to the use and application thereof. Furthermore, the Indenture provides for specific Accounts in the Debt Service Reserve Fund to be pledged solely to the Senior Debt to which they relate and specific Accounts in the Subordinate Debt Service Reserve Fund to be pledged solely to the Subordinate Debt to which they relate. No such Account has been established for the Series 2013A Bonds.

The Direct Payments on the Series 2010A Bonds do not constitute Revenues under the Indenture and so are not part of the pledged Net Revenues, but the Twelfth Supplemental Indenture provides that, upon receipt of any Direct Payment, the Authority or the Trustee shall cause it to be deposited (i) in the appropriate subaccounts in the Interest Account in the Bond Fund if such Direct Payment relates to Bonds or Other System Indebtedness, and (ii) in the appropriate subaccount in the Subordinate Interest Account

in the Subordinate Bond Fund if such Direct Payment relates to Subordinate Debt, and shall cause it to be applied solely to the purposes to which the Indenture permits funds in such subaccount, account and fund to be applied.

### **Amendment of the Master Indenture**

*Effective October 26, 2010*

The Twelfth Supplemental Indenture amended the Master Indenture to provide that, for purposes of determining the Authority's compliance with the Rate Covenant (but not for the purposes of determining compliance with the Indenture's restrictions on the Authority's issuance of additional Senior Debt or additional Subordinate Debt), the amount of any Direct Payment received by the Authority or the Trustee in any Fiscal Year shall be credited against (i) Annual Debt Service on Senior Debt in such Fiscal Year if such Direct Payment is related to Senior Debt or (ii) Annual Debt Service on Subordinate Debt in such Fiscal Year if such Direct Payment is related to Subordinate Debt. This amendment became effective upon the execution of the Twelfth Supplemental Indenture.

#### *Springing Amendment*

The Twelfth Supplemental Indenture also included a proposed amendment to the Master Indenture which provides that for the purposes of computing Annual Debt Service on any Direct Payment BABs or Other System Indebtedness as to which Direct Payments are expected to be made (whether previously issued or proposed to be issued by the Authority) in connection with any proposed issuance of additional Bonds or Other System Indebtedness, the amount of any Direct Payment expected to be received by the Authority or the Trustee in the then current or any future Fiscal Year shall be credited against the Annual Debt Service on such Direct Payment BABs.

**This proposed amendment is subject to the requirements of the Master Indenture for obtaining the consent of the holders of not less than a majority in aggregate principal amount of only Outstanding Bonds to certain amendments to the Master Indenture and will become effective upon receiving consent of holders of not less than a majority in aggregate principal amount of Outstanding Bonds. The Authority intends to seek such consent in connection with its future issuances of additional Bonds; however, there is no assurance that the Authority will be able to obtain such consent.**

### **Effect of Sequestration on Direct Payments**

The Series 2010A Bonds are Build America Bonds, a form of "direct payment bonds." An amount equal to thirty-five percent (35%) of the Authority's semiannual interest payments on the Series 2010A Bonds is to be paid to the Authority by the federal government in the form of Direct Payments. It is possible that the Direct Payments could be reduced or discontinued or that the timing of their receipt could be changed as a result of a change in federal law. For example, the Direct Payments expected to be received by the Authority with respect to the Series 2010A Bonds will be adversely affected by implementation of certain provisions of the Budget Control Act of 2011 (the "Budget Control Act"), which was signed into law by the President on August 2, 2011. As a result of the failure of the Joint Select Committee on Deficit Reduction to reach an agreement on the deficit reduction actions as required by the Budget Control Act, sequestration – automatic spending cuts to federal spending in designated agencies and programs – has been triggered. Sequestration will result in cuts in federal programs to states and localities, including payments to issuers of direct payment bonds such as the Series 2010A Bonds.

On March 1, 2013, the President signed an executive order, as required by the Budget Control Act and the American Taxpayer Relief Act of 2012, reducing the spending authority in accounts subject to sequestration in accordance with the Report of the Office of Management and Budget (“OMB”) to the Congress on the Joint Committee Sequestration for Fiscal Year 2013. According to a release entitled *Service Effect of Sequestration on Certain State & Local Government Filers of Form 8038-CP* and issued on March 4, 2013 by the office of Tax Exempt Bonds within the Internal Revenue Service, interest subsidy payments to issuers of direct payment bonds on or after March 1, 2013 through and including September 30, 2013 will be reduced by 8.7%, unless intervening congressional action changes the reduction percentage.

The President’s March 1, 2013 sequester order does not affect interest subsidy payments for future years, but under the Budget Control Act there could be additional sequester orders for future fiscal years through and including fiscal year 2021. The largest Direct Payment the Authority currently expects to collect in any future year is \$5,710,149; 8.7% of that amount is \$496,783. It is too soon to predict by what percentage, if any, cuts may be made to interest subsidy payments in the future. The Authority is obligated to make all payments of principal of and interest on the Series 2010A Bonds whether or not such Direct Payments are received.

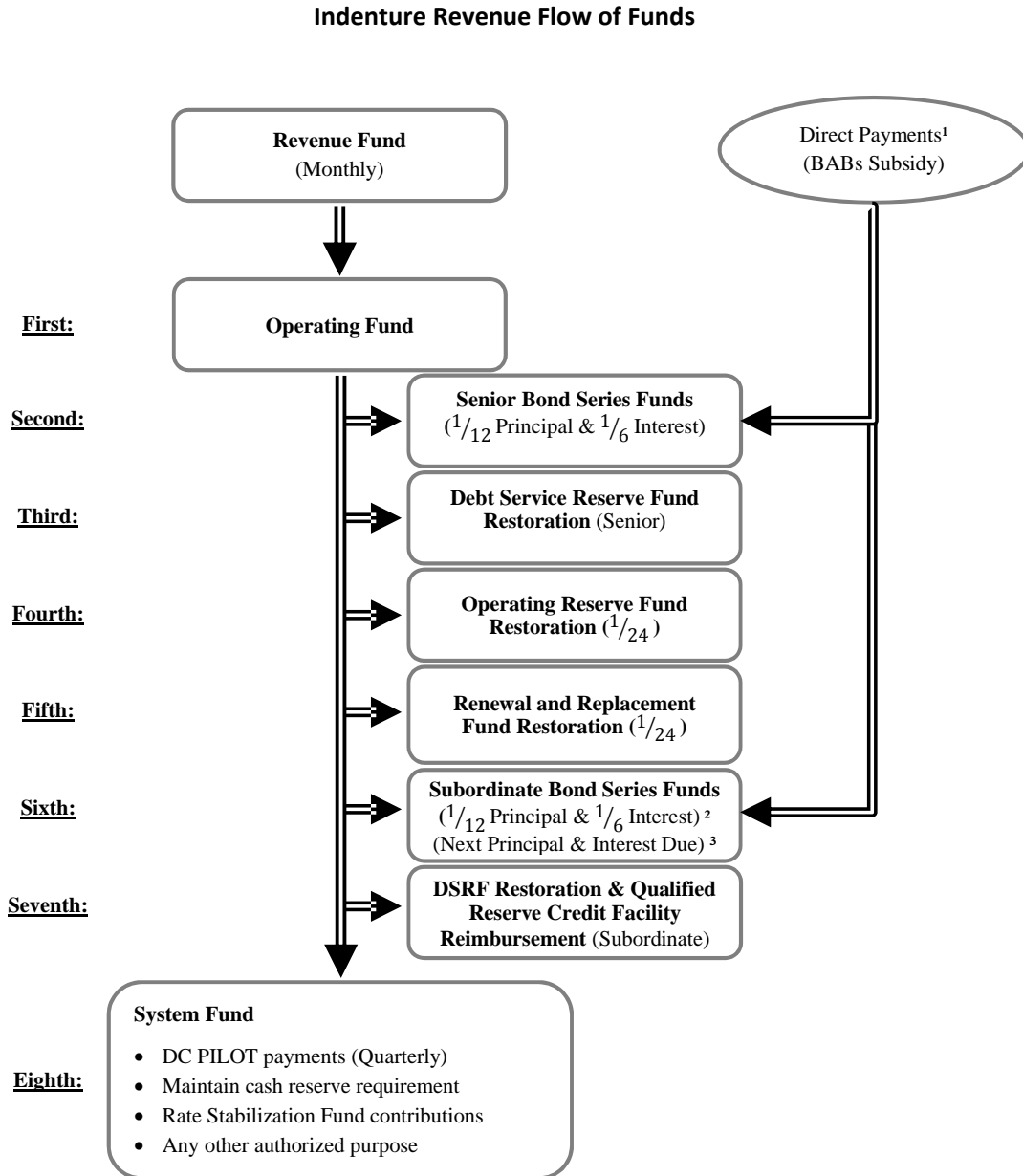
#### **Limited Remedies of Holders of Subordinate Debt**

The Indenture prohibits the acceleration of Subordinate Debt if any Senior Debt (including Bonds) is outstanding. In addition, the acceleration of the Series 2013A Bonds may occur only in connection with the acceleration of all Subordinate Debt. Therefore, the right of acceleration of the Series 2013A Bonds also is subject to the rights of the holders (including bond insurers acting on behalf of the bondholders to the extent their policies so provide) of other Subordinate Debt. The Indenture confers upon the holders of not less than 25% of the aggregate principal amount of Outstanding Bonds (which includes Senior Debt only, not Subordinate Debt) the right to direct the Trustee to protect and enforce their rights by mandamus or other suit, action or proceeding, and confers upon the holders of a majority of the aggregate principal amount of Outstanding Bonds the right to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture or any other proceedings under the Indenture, in accordance with the provisions of law and the Indenture. The Indenture does not confer those rights upon any specified percentage of the holders of Subordinate Debt, including the Series 2013A Bonds. The Fourteenth Supplemental Indenture confers upon the holders of the Series 2013A Bonds comparable rights to direct the Trustee in the exercise of remedies (other than acceleration while any Senior Debt is outstanding) for the enforcement of their right to be paid debt service on the Series 2013A Bonds from moneys in the Subordinate Bond Fund required by the Indenture to be used for such payment, but the exercise of all other remedies for the protection of the rights of holders of the Series 2013A Bonds is discretionary with the Trustee and subject to the above-described rights of the holders of Bonds.



**Flow of Funds**

The following chart depicts a simplified flow of Revenues through the Indenture:



<sup>1</sup> The Twelfth Supplemental Indenture amended the above-described deposit requirements in the Master Indenture by providing that, upon receipt of any Direct Payment, the Authority or the Trustee shall cause it to be deposited (i) in the appropriate subaccounts in the Interest Account in the Bond Fund if such Direct Payment relates to Bonds or Other System Indebtedness, and (ii) in the appropriate subaccount in the Subordinate Interest Account in the Subordinate Bond Fund if such Direct Payment relates to Subordinate Debt, and shall cause it to be applied solely to the purposes to which the Indenture permits funds in such subaccount, account and fund to be applied.

<sup>2</sup>For fixed rate Subordinate Debt

<sup>3</sup>For variable rate Subordinate Debt

This chart is for illustrative purposes only, is in no way comprehensive or definitive, and must be read in conjunction with the entire Official Statement.

Pursuant to the Indenture, all Revenues received by the Authority shall be deposited in the Revenue Fund to be held by the Authority; provided, however, that upon an Event of Default, the Authority will transfer all amounts in all Authority-held funds to the Trustee, and the Trustee shall hold such moneys in trust for the benefit of the holders of Indebtedness.

Each month, the Authority shall transfer from the Revenue Fund to the Operating Fund an amount sufficient to pay Operating Expenses during such month. Thereafter, Net Revenues shall be disbursed on the last Business Day of each month in the following order (except that deposits pursuant to (1) and (2) below shall be on a parity basis with each other):

- (1) To the subaccounts in the Interest Account established for each Series of Bonds the amounts, if any, set forth in the applicable Supplemental Indentures with respect to each Series of Bonds, and an amount equal to 1/6 of the interest due on each Series of Bonds to pay interest required to be paid on any interest payment date related to such Series of Bonds.
- (2) To the subaccounts in the Principal Account established for each Series of Bonds and Sinking Fund Account in the Bond Fund the amounts, if any, set forth in the applicable Supplemental Indentures with respect to each Series of Bonds and an amount equal to 1/12 of the principal due on each Series of Bonds.
- (3) To the applicable Account in the Debt Service Reserve Fund with respect to each Series of Bonds the amounts, if any, necessary to restore the amount on deposit therein to the related Series Debt Service Reserve Requirement. For a description of the requirements for and the uses of the Debt Service Reserve Fund, see “Certain Reserve Funds – Debt Service Reserve Fund and Subordinate Debt Service Reserve Fund” below.
- (4) To the Operating Reserve Fund the amounts, if any, necessary to restore the amounts on deposit therein to the Operating Reserve Requirement, which requirement shall be funded within 24 months of any withdrawal and replenished from time to time by depositing 1/24 of the Operating Reserve Requirement on the last Business Day of each month after such withdrawal, if necessary. For a description of the requirements for and the uses of the Operating Reserve Fund, see “Certain Reserve Funds – *Operating Reserve Fund*” below.
- (5) To the Renewal and Replacement Reserve Fund, to the extent that there has been a withdrawal from such fund, the Authority shall deposit Net Revenues to the fund, in the amounts necessary to make the amounts on deposit therein equal to the Renewal and Replacement Reserve Requirement. Such withdrawn amounts shall be funded within 24 months by depositing in such fund 1/24 of the Renewal and Replacement Reserve Requirement on the last Business Day of each month after such withdrawal. For a description of the uses of the Renewal and Replacement Reserve Fund, see “Certain Reserve Funds – *Renewal and Replacement Reserve Fund*” below.
- (6) To the Subordinate Bond Fund, the amount equal to the deposits to such funds and Accounts required by the related Supplemental Indentures or other documents evidencing such debt. Generally, an amount equal to 1/6 of the interest and 1/12 of the principal next due on any fixed rate Subordinate Debt shall be deposited each month, and generally an

amount equal to interest and principal next due on any variable rate Subordinate Debt shall be deposited prior to any date on which such interest and principal is due.

- (7) To the applicable Account, if any, in the Subordinate Debt Service Reserve Fund with respect to each Subordinate Debt issue the amounts, if any, necessary to restore the amount on deposit therein to the related Subordinate Debt Reserve Requirement or to reimburse the provider of any Qualified Reserve Credit Facility for amounts drawn thereunder and to pay related costs.
- (8) To the System Fund, any moneys remaining in the Revenue Fund, after all deposits and transfers required by (1) through (7) above have been made. Moneys in the System Fund may be used for any authorized purpose. On the following dates, moneys on deposit in the System Fund shall be used to make the following payments:
  - (i) on each May 15, and quarterly thereafter, to the District to make the payment in lieu of taxes (the “PILOT”) required by the District Memorandum of Understanding relating to the PILOT dated January 29, 1998;
  - (ii) on each September 1, an amount retained by the Authority in the System Fund necessary to satisfy the Cash Reserve Requirement (\$125.5 million as of the date of this Official Statement); and
  - (iii) on each September 30, to the Rate Stabilization Fund, the amount that the Board determines based on an analysis of the Authority’s financial performance conducted by the General Manager and reported to the Board for approval not later than its regularly scheduled meeting in July of each Fiscal Year. For a description of the uses of the Rate Stabilization Fund, see “Certain Reserve Funds – *Rate Stabilization Fund*” below.

The Twelfth Supplemental Indenture amended the above-described deposit requirements in the Master Indenture by providing that, upon receipt of any Direct Payment, the Authority or the Trustee shall cause it to be deposited (i) in the appropriate subaccounts in the Interest Account in the Bond Fund if such Direct Payment relates to Bonds or Other System Indebtedness, and (ii) in the appropriate subaccount in the Subordinate Interest Account in the Subordinate Bond Fund if such Direct Payment relates to Subordinate Debt, and shall cause it to be applied solely to the purposes to which the Indenture permits funds in such subaccount, account and fund to be applied. See “ – Amendments to the Master Indenture” above.

For a more extensive discussion of the terms and provisions of the Indenture including the security for the Series 2013A Bonds, the funds and Accounts established by the Indenture and the purposes to which moneys in such funds and Accounts may be applied, see APPENDIX C – “GLOSSARY AND SUMMARY OF THE INDENTURE.”

### **Certain Reserve Funds**

*Debt Service Reserve Fund and Subordinate Debt Service Reserve Fund.* The Indenture creates a Debt Service Reserve Fund and a Subordinate Debt Service Reserve Fund, each to be held by the Trustee. The Indenture permits, but does not require, the Authority to specify a debt service reserve requirement for each issuance of Senior Debt or Subordinate Debt and to make provision for the means by which any such reserve requirements will be met. The Authority will not fund a debt service reserve requirement for the Series 2013A Bonds.

The Series 1998 Senior Bonds are the only outstanding Senior Debt for which the Authority has specified a debt service reserve requirement. The Account in the Debt Service Reserve Fund securing the Series 1998 Senior Bonds is funded in the amount sufficient to meet the Debt Service Reserve Requirement for the Series 1998 Senior Bonds, which is equal to 125% of the average annual principal and interest due on the Series 1998 Senior Bonds in the current and each future Fiscal Year, and as of March 31, 2013, totaled \$23.6 million.

*Operating Reserve Fund.* The Master Indenture creates an Operating Reserve Fund in which the Authority must maintain a balance equal to at least 60 days of operating and maintenance expenses. Moneys in the Operating Reserve Fund shall be used to pay, to the extent necessary, Operating Expenses of the Authority. In addition, to the extent that moneys on deposit in the Bond Fund are insufficient to make the required interest and principal payments, moneys in the Operating Reserve Fund shall be used prior to any withdrawal from the Debt Service Reserve Fund to satisfy any such deficiencies. The Board has adopted a policy of funding operating reserves to a level in excess of that required by the Master Indenture. See “ – *Discretionary Reserves*” below. As of March 31, 2013, the balance in the Operating Reserve Fund was \$41.1 million which represents 60 days of operating and maintenance expenses.

*Renewal and Replacement Reserve Fund.* The Master Indenture creates a Renewal and Replacement Reserve Fund to be held by the Authority to provide funding for unforeseen or emergency needs. Moneys in the Renewal and Replacement Reserve Fund may be used to pay for any capital expenditures related to the System. In addition, to the extent that moneys on deposit in the Bond Fund and the Operating Reserve Fund are insufficient to make the required interest and principal payments, moneys in the Renewal and Replacement Reserve Fund shall be used prior to any withdrawal from the Debt Service Reserve Fund to satisfy any such deficiencies. The Master Indenture allows this requirement to be met if an amount equal to 2% of original plant in service cost, or some other amount as approved by the Board, is held by the Authority. The Board has adopted a policy requiring the Authority to maintain a balance of at least \$35 million in the Renewal and Replacement Reserve Fund. As of March 31, 2013, the balance in the Renewal and Replacement Reserve Fund was \$35.0 million.

*Rate Stabilization Fund.* The Master Indenture creates a Rate Stabilization Fund to be held by the Authority, the moneys in which may be transferred by the Authority to the Revenue Fund at any time. The Board has adopted a policy allowing moneys to be transferred to the Rate Stabilization Fund from the System Fund annually based on an analysis of the Authority’s financial performance conducted by the General Manager and reported to the Board for approval during the fourth quarter of each Fiscal Year, and at other times at the direction of the Board. The Authority expects to withdraw certain funds on deposit in the Rate Stabilization Fund between Fiscal Years 2013 and 2018, in order to reduce rate increases that might otherwise be required. See “FINANCIAL OPERATIONS – Reserve Funds – Rate Stabilization Fund.” The Rate Stabilization Fund has no minimum balance requirements. As of March 31, 2013, the balance in the Rate Stabilization Fund was \$27.9 million. See also “FINANCIAL OPERATIONS – Projected Financial Operations.”

*Discretionary Reserves.* The Board has adopted a policy of funding operating reserves at a level in excess of the 60-day operating and maintenance reserve required by the Master Indenture. To comply with the Board’s policy, the Authority is required to have cash reserves equal to 120 days of budgeted operating and maintenance costs calculated on an average daily balance basis, with the objective of maintaining at least \$125.5 million in operating reserves. For purposes of calculating this requirement, the balances in the Operating Reserve Fund and the Renewal and Replacement Reserve Fund are included. For Fiscal Year 2013, the operating reserves requirement is \$125.5 million. As of March 31, 2013, the Authority had satisfied and exceeded this required reserve balance.

The adequacy of the Authority reserves was independently evaluated by Amawalk in Fiscal Year 2013. Amawalk concluded that the current Board policy provides for an appropriate level of reserves. The actual cash balances maintained by the Authority in recent years and as of the date of the Official Statement exceed the amounts required by Board policy.

**Rate Covenant**

*Master Indenture Covenant.* The Master Indenture includes a rate covenant (the “Rate Covenant”) as described below. Rates, fees and charges are established by the Authority and are not subject to regulatory approval, nor are they subject to other regulations under current law. The Authority has never failed to satisfy the Rate Covenant, which provides that the Authority covenants to fix, charge, revise and collect rates, fees and other charges for the use of and the services furnished by the System sufficient in each Fiscal Year so that:

(A) Revenues collected by the Authority in such Fiscal Year will be sufficient to pay at least: (i) the actual Operating Expenses; (ii) Annual Debt Service on Senior Debt; (iii) any amount necessary to be deposited in any Account in the Debt Service Reserve Fund relating to a Series of Bonds to restore the amount on deposit therein to the Series Debt Service Reserve Requirement; (iv) the amount required to pay Annual Debt Service on the Subordinate Debt (including any reserves in connection therewith and the restoration thereof); (v) any amount necessary to be deposited in the Operating Reserve Fund and the Renewal and Replacement Reserve Fund to maintain the required balances therein; and (vi) any amount necessary to make any PILOT payments in such Fiscal Year; and

(B) Net Revenues shall be sufficient in each Fiscal Year to be at least equal to the sum of (i) an amount equal to one hundred and twenty percent (120%) of the Annual Debt Service on Senior Debt; and (ii) one hundred percent (100%) of the Annual Debt Service on Subordinate Debt.

If at the end of any Fiscal Year the Authority is not in compliance with the Rate Covenant, or if the Authority fails for three consecutive months to make the deposits required under the Indenture to the Interest Account and the Principal Account (or the Sinking Fund Account, as applicable) or there is a deficiency in a Series Debt Service Reserve Account for longer than three consecutive months, the Authority shall immediately request a Qualified Independent Consultant to submit a written report and recommendations with respect to increases in the Authority’s rates, fees and other charges and improvements in the operations of and the services rendered by the System and the Authority’s accounting and billing procedures necessary to bring the Authority into compliance with the Rate Covenant. The report and recommendations shall be filed with the Trustee and the Authority within 120 days from the date of discovery of noncompliance with the Rate Covenant. The Authority shall promptly revise its rates, fees and charges, and alter its operations and services to conform with the report and recommendations of the Qualified Independent Consultant to the extent permitted by law.

*Deposit and Crediting of Direct Payments.* The Twelfth Supplemental Indenture amended the Master Indenture to provide that, for purposes of determining the Authority’s compliance with the Rate Covenant (but not for the purposes of determining compliance with the Indenture’s restrictions on the Authority’s issuance of additional Senior Debt or additional Subordinate Debt), the amount of any Direct Payment received by the Authority or the Trustee in any Fiscal Year shall be credited against (i) Annual Debt Service on Senior Debt in such Fiscal Year if such Direct Payment related to Senior Debt or (ii) Annual Debt Service on Subordinate Debt in such Fiscal Year if such Direct Payment related to Subordinate Debt. This amendment became effective upon the execution of the Twelfth Supplemental Indenture. See “SECURITY FOR THE SERIES 2013A BONDS – Amendments to the Master Indenture.”

*Additional Board Policy.* In addition to the Rate Covenant described above, in 1997, the Board adopted a financial policy of fixing, charging, revising and collecting rates, fees and other charges for the use of and the services furnished by the System sufficient in each Fiscal Year so that Net Revenues shall be at least equal to one hundred and forty percent (140%) of the Annual Debt Service on Senior Debt in each such Fiscal Year. See “FINANCIAL OPERATIONS – Financial Policies.” To date, the Authority consistently has met or exceeded this policy goal. There can be no assurance, however, that the Board will not change this financial policy or that the Authority will continue to meet this policy goal.

### **Additional Senior Debt**

The Indenture provides that the Authority may issue additional Senior Debt and Other System Indebtedness, including Bonds, to pay Costs of the System only upon satisfaction of certain requirements, including, among other things, receipt by the Trustee of the following:

- (a) evidence that upon issuance of such Bonds, each Series Debt Service Reserve Account within the Debt Service Reserve Fund will contain the applicable Series Debt Service Reserve Requirement; and
- (b) either: (A) a certificate of the Authorized Representative of the Authority stating that, based on the Authority’s financial records, the Authority would have been able to meet the Rate Covenant taking into account (i) the maximum Annual Debt Service on the proposed additional Series of Bonds, and (ii) the rates, fees and other charges which are in effect at the time of the delivery of the proposed additional Series of Bonds; or (B) a written statement of a Qualified Independent Consultant, which projects Operating Expenses, Revenues and Net Revenues for five (5) full Fiscal Years following the date of issuance of such proposed additional Series of Bonds, which projection does not include the actual debt service for any Indebtedness to be refunded, and which demonstrates that, on the basis of such projection, the Authority can comply with the Rate Covenant.

If any Bonds are issued to refund any Indebtedness, the Trustee must receive the following:

- (a) evidence that the Authority has made provision as required by the Indenture for the payment or redemption of all Indebtedness to be refunded; and
- (b) either: (A) a written determination by the Authorized Representative of the Authority that the Annual Debt Service requirements for each Fiscal Year in which there will be Outstanding Indebtedness not to be refunded will not increase more than 5% over what the Annual Debt Service requirements for such Fiscal Year would have been on all Senior Debt immediately prior to the issuance of such Bonds, and that the final maturity of Indebtedness being refunded has not been extended; or (B) a certificate of the Authority stating that, based on the Authority’s financial records, the Authority would have been able to meet the Rate Covenant, taking into account (i) the maximum Annual Debt Service on the proposed additional Series of Bonds, and (ii) the rates, fees and other charges which are in effect at the time of the delivery of the proposed additional Series of Bonds; or (C) a written statement of a Qualified Independent Consultant, that projects Operating Expenses, Revenues and Net Revenues for five (5) full Fiscal Years following the date of issuance of such proposed additional Series of Bonds, which projection does not include the actual debt service for any Indebtedness to be refunded, and that demonstrates that, on the basis of such projection, the Authority can comply with the Rate Covenant.

The Authority may incur or refinance Other System Indebtedness provided that: (1) the documents relating to the Other System Indebtedness acknowledge that such debt constitutes Other System Indebtedness under the Master Indenture and is subject to the applicable terms and conditions thereof, and specify the amounts and due dates of Annual Debt Service with respect to the Other System Indebtedness; (2) the conditions of the Master Indenture regarding the issuance of Bonds have been met as if the Other System Indebtedness was an additional Series of Bonds; (3) the Trustee receives written notice of the issuance of the Other System Indebtedness and the material terms and conditions thereof, and the Trustee shall register the holder as owner thereof as such on its books and records; and (4) the Trustee receives an Opinion of Counsel that the documents creating the Other System Indebtedness have been duly authorized, executed and delivered on behalf of the Authority and constitute valid, binding and enforceable obligations. In connection with the incurrence of any Other System Indebtedness, the Trustee shall enter into an intercreditor arrangement with the holder of such Other System Indebtedness, the terms of which shall be determined at the time of incurrence of such Other System Indebtedness.

The Authority has proposed to modify the Master Indenture to include provisions regarding the crediting of Direct Payments for the purposes of computing Annual Debt Service on any Direct Payment BABs or Other System Indebtedness as to which Direct Payments are expected to be made in connection with any proposed issuance of additional Bonds or Other System Indebtedness. See “SECURITY FOR THE SERIES 2013A BONDS – Amendments to Master Indenture.”

#### **Additional Subordinate Debt**

Under the Indenture, the Authority may at any time issue Subordinate Debt and pledge Net Revenues thereto so long as rates, fees and charges are in effect or scheduled to go into effect to meet the Rate Covenant immediately after the issuance of such Subordinate Debt. The Authority has proposed to modify the Master Indenture to include provisions regarding the crediting of Direct Payments for the purposes of computing Annual Debt Service on any Direct Payment BABs or other Indebtedness as to which Direct Payments are expected to be made in connection with any proposed issuance of additional Bonds, Subordinate Debt or Other System Indebtedness. See “SECURITY FOR THE SERIES 2013A BONDS – Amendments to Master Indenture.”

#### **District and User Jurisdictions Not Liable**

**Neither the members of the Board nor employees or agents of the Authority executing the Series 2013A Bonds shall be liable personally on the Series 2013A Bonds by reason of the issuance thereof. The Series 2013A Bonds shall be special and limited obligations of the Authority payable solely from the Net Revenues of the Authority. The Series 2013A Bonds shall be without recourse to the District. The Series 2013A Bonds shall not be general obligations of the District or of the Authority. The Series 2013A Bonds shall not be a pledge of or involve the faith and credit or the taxing power of the District, shall not constitute a debt of the District, the United States of America or any User Jurisdiction or any agency or instrumentality of any User Jurisdiction, and neither the District, the United States, any User Jurisdiction nor any agency or instrumentality of any User Jurisdiction shall be liable thereon. The Series 2013A Bonds also shall not constitute the lending of the public credit for private undertakings as prohibited by the Home Rule Act. The Authority has no taxing power.**

**DEBT SERVICE REQUIREMENTS**

The following tables set forth the annual principal and interest requirements for (i) Outstanding Senior Debt, (ii) Outstanding Subordinate Debt and (iii) the Series 2013A Bonds, as well as annual and aggregate totals.

Fiscal Year Ending September 30 <sup>1</sup>	Outstanding Senior Debt	Outstanding Subordinate Debt <sup>2</sup>	Direct Payments Relating to Series 2010A Bonds	Series 2013A Bonds			Total Subordinate Debt <sup>3,4</sup>	Total Senior and Subordinate Debt <sup>3,4</sup>
				Principal	Interest	Total		
2013	41,903,783	72,794,695	(5,710,149)					
2014	42,045,433	73,426,354	(5,710,149)					
2015	42,320,433	75,138,627	(5,710,149)					
2016	42,478,583	74,988,943	(5,710,149)					
2017	42,688,533	74,784,877	(5,710,149)					
2018	42,949,683	74,577,877	(5,710,149)					
2019	43,317,358	74,250,339	(5,710,149)					
2020	43,264,008	77,896,918	(5,710,149)					
2021	43,746,633	77,338,369	(5,645,864)					
2022	43,915,528	77,098,030	(5,577,224)					
2023	44,191,668	76,751,563	(5,504,934)					
2024	27,220,503	93,657,064	(5,428,752)					
2025	25,546,068	95,231,483	(5,336,049)					
2026	24,558,443	96,128,275	(5,241,069)					
2027	24,681,968	95,903,513	(5,143,717)					
2028	26,444,368	94,049,899	(5,043,803)					
2029	18,782,655	101,500,501	(4,841,414)					
2030	19,515,305	100,554,244	(4,628,817)					
2031	20,166,775	99,547,822	(4,412,354)					
2032	20,837,675	98,803,054	(4,189,707)					
2033	21,518,675	95,048,772	(3,957,686)					
2034	22,224,975	95,825,476	(3,718,708)					
2035	39,770,575	78,033,000	(3,472,579)					
2036	39,780,275	77,777,819	(3,220,265)					
2037	39,885,875	76,983,054	(2,959,060)					
2038	39,978,625	75,457,661	(2,690,608)					
2039	40,158,575	74,882,678	(2,414,232)					
2040	-	114,646,250	(2,131,382)					
2041	-	69,399,412	(1,062,212)					
2042	-	30,124,464	(810,574)					
2043	-	29,736,397	(549,853)					
2044	-	29,338,172	(279,758)					
Total	<u>\$923,892,970</u>	<u>\$2,551,675,605</u>	<u>(\$133,941,811)</u>					

<sup>1</sup> Amounts due October 1 are shown as debt service for the preceding Fiscal Year ending September 30 (since the amounts actually are required to be set aside in such Fiscal Year). For example, debt service payments due October 1, 2013, are shown in the Fiscal Year ending September 30, 2013.

<sup>2</sup> Series 2010 A Bonds are Build America Bonds. Debt Service is calculated excluding the impact of the direct payment. With respect to the effect of sequestration on the receipt by the Authority of Direct Payments on its Series 2010A Bonds, see "SECURITY FOR THE SERIES 2013A BONDS – Effect of Sequestration on Direct Payments."

<sup>3</sup> Series 2012 B Bonds have a variable rate based on SIFMA plus a spread to that benchmark of 48 bps and 58 bps for the Sub-Series B-1 and B-2, respectively. For calculation of the debt service requirement, the 2013 rate was assumed to be .6%, the 2014 assumed rate was assumed to be 1.25% and 3.25% thereafter. The applicable spread was applied for 2013 and 2014 debt service requirements. The 2012 B-1 bonds have capitalized interest through 4/14/2014.

<sup>4</sup> The Authority currently has \$41.2 million of Commercial Paper outstanding. Debt service is based on a hypothetical amortization of 20 years with an assumed interest rate of 3.25%.

<sup>5</sup> Includes the Authority's Debt Service requirements for Government Notes associated with Jennings Randolph and Little Seneca Reservoir.



## OUTSTANDING INDEBTEDNESS

### List of Outstanding Indebtedness

A table summarizing the Authority's existing indebtedness as March 31, 2013 is set forth below. For a summary of the annual debt service payments for the Authority's existing indebtedness, see "FINANCIAL OPERATIONS – Debt Service."

### Outstanding Indebtedness

(\$ in thousands)

	Original Principal Amount	Interest Rates	Final Maturity	Amount Outstanding as of 3/31/2013 <sup>1</sup>
<b>Senior Debt</b>				
Series 1998 Bonds	\$ 266,120	5.50-6.00%	2028	\$ 207,735
Series 2009A Bonds	300,000	3.00-6.00	2039	293,720
Total Senior Debt	\$ 566,120			\$ 501,455
<b>Subordinate Debt</b>				
Series 2007A Bonds	\$ 218,715	4.75-5.50%	2041	\$ 218,715
Series 2008A Bonds	290,375	4.00-5.00	2034	274,210
Series 2010A Bonds	300,000	4.07-5.52 <sup>2</sup>	2044	300,000
Series 2012A Bonds	177,430	2.00-5.00	2037	177,430
Series 2012B-1 Bonds	52,690	0.63 <sup>3</sup>	2044	52,690
Series 2012B-2 Bonds	47,310	0.737 <sup>3</sup>	2040	47,310
Series 2012C Bonds	163,215	4.00-5.00	2033	163,215
<b>Government Notes</b>				
Jennings Randolph Reservoir Debt	\$ 18,269	3.25%	2041	\$ 14,347
Little Seneca Reservoir Debt	3,258	5.98-6.60	2014	22
<b>The "CP Notes"</b>				
Series A CP Notes (tax-exempt)	\$ -			\$ -
Series B CP Notes (tax-exempt)	6,000	0.28-0.35%	2015	12,000
Series C CP Notes (taxable)	29,200	0.28-0.35	2015	29,200
Total Subordinate Debt	\$ 1,306,462			\$ 1,289,139
<b>Total</b>	<b>\$ 1,872,582</b>			<b>\$ 1,790,594</b>

<sup>1</sup> Amounts outstanding don't reflect any amortization of accrued principal.

<sup>2</sup> Taking into account the Direct Payment subsidy, the Series 2010A Bonds had an all-in-true interest cost of 3.6%. With respect to the effect of sequestration on the receipt by the Authority of Direct Payments on its Series 2010A Bonds, see "SECURITY FOR THE SERIES 2013A BONDS – Effect of Sequestration on Direct Payments."

<sup>3</sup> Series 2012 B Bonds have a variable rate based on SIFMA plus a spread to that benchmark. The spread to SIFMA is 48 and 58 basis points for the Sub-Series 2012 B-1s and Sub-Series 2012 B-2's, respectively. As of May 29, 2013, SIFMA was 15 basis points.

<sup>4</sup> Final maturity of CP reflects expiration of current credit facility.

Source: Authority records.

### Outstanding Senior Debt

As indicated above, as of March 31, 2013, the Authority had Senior Debt outstanding in the aggregate principal amount of \$501,455,000 consisting of its Public Utility Senior Lien Revenue Bonds, Series 1998 (the "Series 1998 Senior Bonds") and its Public Utility Senior Lien Revenue Bonds, Series 2009A (the "Series 2009A Senior Bonds"). The Authority expects to issue additional Senior Debt in the future to finance capital improvements to the System. See "CAPITAL IMPROVEMENT PROGRAM."

**Outstanding Subordinate Debt**

The Subordinate Debt summarized above consists of the following categories of outstanding debt: (i) Subordinate Revenue Bonds; (ii) Government Notes; and (iii) Commercial Paper Notes. As of March 31, 2013, the Authority has Subordinate Debt outstanding in the aggregate principal amount of \$1,289,139,000. Upon the issuance of the Series 2013A Bonds, the amount of Outstanding Subordinate Debt, including the Series 2013A Bonds, will be \$\_\_\_\_\_\*.

Government Notes. The Authority is responsible for debt service on notes payable to the federal government and the Washington Suburban Sanitary Commission (“WSSC”) for the (i) construction of the Jennings Randolph Reservoir; and, (ii) construction of the Little Seneca Reservoir.

Commercial Paper Notes. The Authority has established a commercial paper program to provide interim financing for Costs of the System. Three series of notes have been issued under the commercial paper program: the tax-exempt Series A CP Notes in an aggregate principal amount not to exceed \$75 million, the tax-exempt Series B CP Notes in an aggregate principal amount not to exceed \$50 million, and the taxable Series C CP Notes in an aggregate principal amount not to exceed \$75 million (collectively, the “Commercial Paper Notes”), each as Subordinate Debt. See “OUTSTANDING INDEBTEDNESS – Outstanding Senior Debt.” To provide liquidity and credit support for the Commercial Paper Notes, the Authority obtained irrevocable, direct-pay letters of credit (the “Letters of Credit”) issued by J.P. Morgan Chase Bank and U.S. Bank, National Association (collectively, the “Banks”) which currently expire on May 28, 2015. In connection with the Banks’ issuance of the Letters of Credit, the Authority and each Bank entered into a Reimbursement Agreement dated as of June 1, 2010, each as amended (collectively, the “Reimbursement Agreements”) that obligates the Authority to pay Bank Obligations and Reimbursement Obligations (both as defined in the Eleventh Supplemental Indenture relating to the Commercial Paper Notes) and Fee Obligations (as defined in each Reimbursement Agreement) to the applicable Bank. The Bank Obligations, the Reimbursement Obligations and Fee Obligations are Subordinate Debt under the Indenture. The amount of the Commercial Notes outstanding as of March 31, 2013 is set forth in the table above.

**Swap Agreements and Guaranteed Investment Contracts**

The Authority has not entered into any interest swap agreements or any guaranteed investment contracts.

**THE AUTHORITY**

**General**

The Authority is a corporate body and an independent authority created pursuant to the Act that has a separate legal existence within the District government. It was created in 1996 to expedite the repair, replacement, rehabilitation, modernization and extension of existing water distribution and sewage collection, treatment and disposal systems, and the financing, on a self-sustaining basis, of capital and operation expenses relating thereto. The Authority began operations on October 1, 1996, and in June 2010, adopted a new logo and rebranded itself as “DC Water.” Prior to creation of the Authority, the District, through its Department of Public Works, Water and Sewer Utility Administration (“WASUA”), owned, operated and maintained the System. In accordance with the Act, the District authorized the Authority to use all of the property and assets of the System and transferred to the Authority any liabilities of the District that were directly attributable to the System. The District has retained full legal title to, and a complete equitable interest in, the System. In accordance with the Act, however, the

System must remain under the control of the Authority for as long as any Authority revenue bonds remain outstanding.

The Authority currently provides retail water and wastewater services to more than 625,000 residents of the District of Columbia and wholesale wastewater services to approximately 1.6 million residents of Prince George's and Montgomery Counties in Maryland and Fairfax and Loudoun Counties in Virginia. In addition, the Authority annually serves approximately 17.9 million visitors to the area and approximately 700,000 workers in the District. In addition to providing services to the White House, the U.S. Congress and the Supreme Court, the Authority also counts among its customers a number of international organizations, including the International Monetary Fund and numerous diplomatic embassies. The Authority also provides services to a number of nationally recognized cultural and educational institutions, including the John F. Kennedy Center for the Performing Arts, and Georgetown, Howard, American, Catholic and George Washington Universities.

The Authority operates the largest advanced wastewater treatment facility in the United States and is in compliance with all requisite permits. Since its creation as an independent authority of the District, the Authority has become a leader in the water and wastewater industry. The Board has provided stable leadership and a focus on establishing long-term policies and planning, particularly financial stability. Under its leadership, the Authority has adopted and implemented financial and rate-setting policies that have enhanced financial performance. The Authority has received the Distinguished Budget Presentation Award (2001-2012) and Certificate of Achievement for Excellence in Financial Reporting (1997-2011) from the Government Finance Officers Association. The Authority's unrestricted cash, cash equivalents and investment balances have increased from \$20.5 million as of September 30, 1997, to \$195 million as of September 30, 2012. The Authority's operating revenues have increased, from \$221.5 million in Fiscal Year 1997 to \$440.6 million in Fiscal Year 2012.

The Authority's accomplishments have been recognized by several industry associations:

- *American Academy of Environmental Engineers*: Excellence in Environmental Engineering for Environmental Communications Award (2012)
- *Silver Communicators Award*: Award of Distinction (2012)
- *National Association of Clean Water Agencies*: Outstanding Contributions to Environmental Protection and the Clean Water Community (2012); National Environmental Achievement Award in Research and Technology (2012) for innovation of external carbon based suspended growth technology for enhanced nitrogen removal; Platinum Peak Performance Award (2010-2011) for 100 percent compliance with the National Pollutant Discharge Elimination System ("NPDES") requirements for a consecutive five-year period; Gold Peak Performance Award (2002-2009) for wastewater treatment facilities that have achieved outstanding plant effluent quality and 100 percent compliance with the NPDES requirements at Blue Plains; Research and Technology Award (2009) for its collaboration with the Alexandria Sanitation Authority on "Enhancing Nitrogen Removal and Increasing Sustainability with Innovative Sidestream Treatment"; and Public Information and Education Award (2009) for public information and outreach efforts as part of the Virginia Biosolids Council.
- *Water Environmental Research Foundation*: Award for Excellence in Innovation (2011) for the Digester Project.
- *Emerson Process Management Power and Solutions*: Innovation Award for Water and Wastewater for the Blue Plains Process Control System (2011).

- *Water Environmental Federation*: George Bradley Gascoigne Medal for Operational Problem Solving and Improvement (2011).
- *Computerworld and Storage Networking Industry Association*: Best Practice Award for Adopting Emerging and Innovative Technologies (2011).
- *ESRI*: Special Achievement Geographic Information System (“GIS”) Award (2009) for innovative use of GIS technology for managing data on public fire hydrants.
- *CIO Magazine*: Chief Information Officer Top 100 Award (2009), for creating business value using innovative technology for new infrastructure to support Supervisory Control and Data Acquisition system needs.
- *Association of Metropolitan Water Agencies*: Platinum Award for Utility Excellence (2008) for operational and strategic excellence in water utility management.

### **Purposes and Powers**

The Act requires the Authority to establish, fix and revise fees, rates or other charges for the use of, or services furnished, rendered or made available by the System, owned, leased or utilized by the Authority at least in an amount sufficient, together with other revenues available to the Authority, if any, to pay its costs, the principal of and interest on and other requirements pertaining to its bonds, and to make transfers to the District of amounts equal to the debt service payments on the District General Obligation Bonds, which financed WASUA capital projects, as such debt service and transfers become due and payable. All such General Obligation Bonds are now retired.

Pursuant to the Home Rule Act, the Council delegated to the Authority, under the Act, its power to issue revenue bonds, including the Series 2013A Bonds, for the purpose of financing “water and sewer facilities” (as such term is defined in the Home Rule Act). Pursuant to the Home Rule Act and the Act, the Authority is required to submit its annual operating budget to the District for its review and recommendations; however, the District has no power to change the annual budget of the Authority. See “FINANCIAL OPERATIONS – Annual Budget.”

The Authority may not borrow money or issue bonds unless it first certifies to the reasonable satisfaction of the District Auditor that the revenues of the Authority are sufficient to pay its costs, the principal of and interest on and the other requirements pertaining to the proposed debt and outstanding revenue bonds of the Authority, and amounts owed to the District for the District General Obligation Bonds in the then current Fiscal Years. On [REDACTED], 2013, the Authority received the District Auditor’s certificate regarding the sufficiency of such revenues in connection with the issuance of the Series 2013A Bonds.

### **Board of Directors**

The Authority is governed by a Board of Directors consisting of 11 principal and 11 alternate members, each appointed for a staggered four-year term. Six principal members (appointed by the Mayor of the District with the advice and consent of the Council) represent the District and five principal members (appointed by the Mayor on the recommendations of the User Jurisdictions) represent the User Jurisdictions, two each from Prince George’s and Montgomery Counties in Maryland, and one from Fairfax County, Virginia. The powers of the Authority are vested in and exercised by the Board at meetings duly called and held where a quorum of at least six members is present. All Board members participate in decisions directly affecting the management of joint-use facilities which are those facilities

used by all three jurisdictions. Only the District members participate in those matters that affect District ratepayers and in setting fees for various services that affect only District residents. The Board meets monthly and operates through various standing and ad-hoc committees. The committees include Environmental Quality and Sewerage Services, Water Quality and Water Services, Finance and Budget, Human Resources and Labor Relations, Audit, Strategic Planning, Governance, and District of Columbia Retail Water and Sewer Rates. The current principal members of the Board are listed below.

<u>Principal Board Members</u>	<u>Appointing Authority</u>	<u>Term Start Date</u> *	<u>Term Expiration</u>
Allen Y. Lew, Chairman	District of Columbia	July 2011	September 2015
Rachna Butani	District of Columbia	July 2012	September 2014
Timothy L. Firestine	Montgomery County	February 2007	May 2016
Robert Hoyt	Montgomery County	January 2008	May 2015
Edward Long, Jr.	Fairfax County	June 2012	September 2015
Robert Mallet	District of Columbia	April 2013	September 2016
Alethia N. Nancoo	District of Columbia	February 2010	September 2012**
Carla Reid	Prince George's County	March 2011	September 2014
Alan J. Roth	District of Columbia	April 2007	September 2015
Bradford Seamon	Prince George's County	March 2011	September 2014
Vacancy	District of Columbia	N/A	N/A

\* Term start date indicates start of the Board member's initial term as a principal member.

\*\* Member serves until member is renominated or a successor is appointed.

Source: Authority records.

The following are short biographies of the principal members of the Board.

*Allen Y. Lew (Chairman) (District of Columbia)*

Mr. Lew was appointed as District of Columbia City Administrator by Mayor Vincent Gray. Mr. Lew served as a Principal Member of DC Water's Board of Directors for two years prior to being appointed Chairman of the Board in December 2012. Mr. Lew has served as Executive Director of the District of Columbia Office of Public Education Facilities Modernization (OPEFM). From 2004 until 2007, Mr. Lew was the chief executive officer of the DC Sports and Entertainment Commission. From 1996 until 2004, Mr. Lew served as the managing director of the Washington Convention Center Authority. In 2003 Mr. Lew was appointed acting chief executive officer and general manager for the new convention center. Mr. Lew graduated from Brooklyn Technical High School, earned a Bachelor of Science degree and a Bachelor of Architecture degree from the City College of New York School of Architecture. Mr. Lew also earned a Master of Science in Architecture and Urban Design degree from the Columbia University Graduate School of Architecture and Planning.

*Timothy L. Firestine (Montgomery County)*

Mr. Firestine was appointed as a principal member to the Board in February 2007. Mr. Firestine serves as the Chief Administrative Officer for Montgomery County. Prior to his current position, Mr. Firestine was Chief Financial Officer for Montgomery County and held other positions in public sector financial management. Mr. Firestine holds a B.A. in Political Science from Albright College and an M.P.A. from the University of Pittsburgh.

*Rachna Butani (District of Columbia)*

Ms. Butani was appointed as a principal member to the Board in September 2012. Ms. Butani serves as Director at HRGM Corporation. Ms. Butani has been with HRGM since 2001. Previously, Ms. Butani served as an Associate for Wachovia Securities, and as a consultant for Deloitte & Touche, LLP. Ms. Butani holds an MBA from The Wharton School, University of Pennsylvania, with a major in real estate and management, and a Bachelor of Science in business administration from Georgetown University. Ms. Butani serves as a Board member for the Professional Women in Construction and holds a Virginia Class A Contractors License.

*Robert Hoyt (Montgomery County)*

Mr. Hoyt was appointed as a principal member to the Board in January 2008. Mr. Hoyt serves as Director of Montgomery County Department of Environmental Protection. He also has served as Senior Vice President for the Chesapeake Bay Foundation, as Deputy Attorney General for the New Jersey Division of Law and has taught environmental law at the University of Maryland School of Law and Widener University School of Law. He also founded The EcoLogix Group, Inc. which provides organizations with solutions that temper economic goals with environmental and social values. Mr. Hoyt holds a B.A. in Political Science from Princeton University and a J.D. from Rutgers University.

*Edward Long, Jr. (Fairfax County)*

Mr. Long was appointed as a principal member to the Board in September 2012. He was named Fairfax County Executive in April 2012, marking his return from retirement. Mr. Long has more than 34 years of experience in Fairfax County government, and retired as Deputy County Executive and Chief Financial Officer. In his role as Deputy County Executive, Mr. Long oversaw all of the county's financial and human resources functions, including tax administration and assessments, revenue collection, investments, internal and external auditing, budgeting, revenue projections, purchasing and supply management, facilities management, fleet management, issuance and management of county debt, retirement funds administration and more. Under Mr. Long's leadership, Fairfax County maintained the highest credit rating possible for a local government - Aaa from Moody's Investors Service, AAA from Standard and Poor's and AAA from Fitch Ratings. Long received the 2012 Distinguished Local Government Leadership Award from the Association of Government Accountants, and in 2006 he received the A. Heath Onthank Award - Fairfax County's highest employee award. Mr. Long has a bachelor degree in political science from Emory and Henry College and a master of arts in urban studies from the University of Maryland.

*Robert Mallett (District of Columbia)*

Mr. Mallett is the Peter P. Mullen Visiting Professor of Law at Georgetown University. Before coming to Georgetown, he served as Executive Vice President & General Counsel, Public and Senior Markets Group, a division of United Health Group. Immediately prior to joining United Health Group, Mr. Mallett served as Senior Vice President, Worldwide Policy & Public Affairs, Pfizer Inc. Prior to joining Pfizer in April 2001, Mr. Mallett served as Deputy Secretary of the U.S. Department of Commerce. Prior to his federal executive service, Mr. Mallett was a shareholder and associate attorney at two major law firms in Washington, D.C. He also served as City Administrator and Deputy Mayor for the District of Columbia under Mayor Sharon Pratt Kelly, and Legal Counsel to former United States Senator Lloyd Bentsen. He has been an adjunct professor at Georgetown University's Law Center, and was a Visiting Professor at Harvard University's John F. Kennedy School of Government. He served as a law clerk to the Honorable John R. Brown of the United States Court of Appeals for the Fifth Circuit. Mr. Mallett is a Phi Beta Kappa graduate of Morehouse College (1979) and received his law degree from

Harvard University in 1982, where he was Projects Editor of the Harvard Civil Right-Civil Liberties Law Review.

*Alethia N. Nancoo (District of Columbia)*

Ms. Nancoo was appointed as a principal member to the Board in February 2010. Ms. Nancoo is a Partner at Edwards Wildman Palmer LLP. Her practice focuses on public finance, securities, and general corporate law. She primarily handles municipal financings and private equity transactions, including a variety of matters relating to corporate organization, structure, governance, public/private partnerships, private placements and financings. Ms. Nancoo obtained a B.A in Psychology and a Master's degree in Education from the University of Maryland and also holds a J.D. from the University of Wisconsin Law School.

*Carla Reid (Prince George's County)*

Ms. Reid was appointed as a principal member to the Board in March 2011. Ms. Reid is the Deputy Chief Administrative Officer for Economic Development and Public Infrastructure in the Office of the County Executive, Prince George's County. She has over 21 years of experience leading organizations, which includes serving as Deputy General Manager of the Washington Suburban Sanitary Commission and as the Director of Permitting Services in Montgomery County Government. Ms. Reid also was an adjunct professor at the University of the District of Columbia. She currently serves on the Board of Directors of Melwood, Montgomery Alliance and Arts on the Block. Ms. Reid has a B.S. in Civil Engineering from Howard University and a Master's degree in Human Resource Management from the University of Maryland, University College.

*Alan J. Roth (District of Columbia)*

Mr. Roth was appointed as a principal member to the Board in April 2007. He is Senior Executive Vice President of the United States Telecom Association and has 23 years of senior congressional staff and government relations consulting experience. Mr. Roth served as Staff Director and Chief Counsel to the Committee on Energy and Commerce, U.S. House of Representatives, Counsel to the Committee's Chairman and Counsel to the Committee's Minority. Prior to those management roles, Mr. Roth also served as Counsel to the Committee. Mr. Roth earned his B.A. in Government, *magna cum laude*, from American University and his J.D. from New York University School of Law.

*Bradford Seamon (Prince George's County)*

Mr. Seamon was appointed as a principal member to the Board in March 2011. Mr. Seamon is the Chief Administrative Officer for Prince George's County. He also has served in roles for the Office of the County Executive as the Deputy Chief Administrative Officer ("DCAO") for Health, Human Services and Education, as well as the DCAO for Budget, Finance and Administration. Prior to his service in the County, he served as Senior Staff Auditor at Deloitte. Mr. Seamon has 20 years of experience as Chief Executive Officer for a professional services firm managing Human Resources, Information Technology, and Finance and Business Development departments. Mr. Seamon is a Certified Public Accountant with a B.S. in Business Administration and Accounting from Howard University. He also holds a Master's degree in Financial Management from University of Maryland.

**Organizational Structure**

The Authority's day-to-day operations are managed by the General Manager, who is appointed by the Board. The General Manager is supported by the Assistant General Managers for Blue Plains,

Consumer Services, and Support Services; the Chief Financial Officer; and the Chief Engineer. The Assistant General Manager for Blue Plains oversees the departments of Wastewater Treatment Services and Maintenance Services. The Assistant General Manager for Consumer Services oversees the departments of Customer Service, Sewer Services, Water Services and Water / Sewer Pump Maintenance. The Assistant General Manager for Support Services oversees the departments of Human Capital Management, Labor Relations, Facilities and Security, Procurement, Fleet Management, and Safety and Occupational Management. The Chief Financial Officer oversees the departments of the Controller, Finance and Budget, Treasury and Debt, and Risk Management. The Chief Engineer oversees the Capital Improvement Program as well as the departments of Engineering and Technical Services, Permit Operations, and DC Clean Rivers. Also reporting to the General Manager are the offices of the General Counsel, Information Technology and External Affairs.

### **Senior Management**

The Authority has in place a senior and mid-level management team with a broad range of private and public sector utility experience. Over half of the Authority's mid-level management team has been with the Authority since 1996, and some have been with the organization for more than 20 years. The following are short biographies of key members of the Authority's senior management.

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

Mr. Hawkins was appointed General Manager in September 2009. Prior to joining the Authority, Mr. Hawkins served as the Director of the District Department of the Environment. Prior to coming to the District, Mr. Hawkins served as Executive Director of New Jersey Future, a non-profit organization promoting smart growth, and Executive Director of the Stony Brook-Millstone Watershed Association. He also has held senior posts with the U.S. Environmental Protection Agency. Mr. Hawkins has served as the Chair of the Green Building Advisory Council, a member of the Mayor's Green Collar Jobs Advisory Committee and a Board member of the Authority. Since 1999, Mr. Hawkins has taught Environmental Law and Policy for the Princeton Environment Institute at Princeton University. He began his career practicing law for the Boston firm of Ropes & Gray, and is a member of the Bar in Massachusetts and the District of Columbia. Mr. Hawkins holds an A.B. from Princeton University and a J.D. from Harvard Law School.

#### *Mark Kim, Chief Financial Officer*

Mr. Kim is Chief Financial Officer for DC Water. Mr. Kim joined DC Water in March, 2013 from the Office of the New York City Comptroller, where he was Deputy Comptroller for Economic Development. He has spent the last decade in the public finance industry, previously serving as New York City's Assistant Comptroller for Public Finance, and earlier as an investment banker at several leading global financial institutions. In these roles, Mr. Kim has raised in excess of \$50 billion in the capital markets, including issuing more than \$27 billion for the City of New York and its related issuers to finance and refinance the city's capital program. Mr. Kim holds a Ph.D. in public policy from Harvard University; J.D. from Cornell Law School; and B.A. from Northwestern University. He is a member of the Bars of the State of New York and the District of Columbia.

#### *Walter Bailey, Assistant General Manager of Wastewater Treatment*

Mr. Bailey was appointed Assistant General Manager of Wastewater Treatment in August, 2010. He had served as the Director of Blue Plains for more than 20 years. Prior to this assignment, he served as Wastewater Operations Manager, Plant Process Engineer and Civil Engineer in the Department of Engineering and Technical Services. He is a Licensed Professional Engineer, a Licensed Wastewater



Treatment Plant Operator, and a Board Certified Environmental Engineer. Mr. Bailey holds a B.S. in Civil Engineering from Virginia Polytechnic Institute and State University (Virginia Tech) and a M.S. in Environmental Engineering from George Washington University.

*Leonard R. Benson, Chief Engineer*

Mr. Benson was appointed Chief Engineer in August 2010, after serving as Acting Chief Engineer and Deputy General Manager since May 2008. Mr. Benson transferred to the Authority as Director of Engineering and Technical Services from its predecessor agency when the Authority was created in 1996. Mr. Benson began his career as a Project Manager for the District of Columbia's Department of Highways and Traffic in 1968 and later transferred to the Department of Sanitary Engineering, and successor agencies including the Department of Environmental Services and the Department of Public Works. Mr. Benson holds a B.S. in Civil Engineering from the University of Maryland.

*Randy Hayman, General Counsel*

Mr. Hayman assumed the position of General Counsel on November 1, 2010. He previously served as General Counsel to the Metropolitan St. Louis Sewer District ("MSD"), which provides wastewater collection, treatment, and stormwater management to 1.4 million people. Prior to joining MSD in 2000, Mr. Hayman worked as an attorney in law firms in Washington, D.C., Kansas City and St. Louis, Missouri, and served as an Assistant Attorney General for the State of Missouri in Jefferson City. Prior to attending law school, he worked as an intern for ABC News, a reporter for KMOX Radio and, more recently, as a talk show host with KTRS Radio. Mr. Hayman holds a B.A. in Political Science from the University of Michigan and a J.D. from Georgetown University Law Center.

*Charles W. Kiely, Assistant General Manager, Consumer Care & Operations*

Mr. Kiely joined the Authority as Director of Customer Services Department in November 2002. Prior to joining the Authority, Mr. Kiely was Executive Vice President of Customer Services for Commonwealth Electric, Cambridge Electric and Commonwealth Gas Companies serving 78 communities in eastern and central Massachusetts. He was later appointed Vice President of Customer Care for NSTAR, formed after the BEC Energy and Commonwealth Energy merger, creating the largest investor-owned gas and electric utility in Massachusetts. Mr. Kiely received a B.S. in Management from the University of Massachusetts and an M.B.A. from Bentley College.

**Relationship to District**

Section 424A of the Home Rule Act (D.C. Official Code Section 1-204.25) sets forth the powers and responsibilities of the District's Chief Financial Officer (the "District's CFO"). The "District of Columbia Water and Sewer Authority Independence Preservation Act," P.L. 110-273, enacted by the Congress on July 15, 2008, amended the Home Rule Act to make clear that (i) the authority of the District's CFO to hire, supervise and remove certain financial management employees does not apply to personnel of the Authority and (ii) the financial management, personnel and procurement functions and responsibilities of the Authority shall be established exclusively pursuant to the rules and regulations adopted by the Board. The Act provides that, except as provided in the Act, the District will not limit or alter rights vested in the Authority to fulfill agreements made with holders of Authority bonds, or in any way impair the rights and remedies of the holders of Authority bonds. See "COVENANT BY THE DISTRICT OF COLUMBIA."

The Authority is presently operating under, and is in compliance with, the following Memoranda of Understanding (each, a “Memorandum of Understanding” or “MOU”) with the District.

- A January 29, 1998 Memorandum of Understanding provides that the Authority will pay the District a PILOT for government services it receives from the District (e.g., police, fire, emergency services, etc.). This MOU provides that, beginning in Fiscal Year 1999, the annual PILOT will be based on the amount due from the Authority to the District for the previous Fiscal Year plus a percentage increase in an amount equivalent to the Authority’s System-wide rate increase for the current Fiscal Year. The amount the Authority pays to the District, however, shall not exceed the amount provided in the annual cost certification produced by the District CFO. In June 2009, the Authority received a cost certification from the District CFO that estimated the value of the government services rendered by the District to the Authority in Fiscal Year 2008. In the Authority’s view, the District CFO’s estimates were significantly higher than the amounts permitted based on the criteria established in this MOU. The Authority is engaged in negotiations with the District regarding the District’s estimates. The Authority has continued to make payments of the undisputed portions of its PILOT obligations to the District at the levels paid in Fiscal Year 2007, and has set aside approximately \$14.5 million in reserves for the disputed portion of the PILOT pending resolution of its negotiations with the District.
- A September 12, 2003 Memorandum of Understanding provides that the Authority will make quarterly payments to the District for its public right of way occupancy permit fee. This fee is levied on all utilities in the District for the occupancy of public rights of way for underground infrastructure. Under the terms of this MOU, the Authority’s annual obligation under this fee is capped at \$5.1 million through September 30, 2013, the expiration date of the MOU.
- Effective February 2007, the administration of the District’s stormwater program was transferred to DDOE. In July 2008, the Authority executed a Memorandum of Understanding, which extends for one year periods at the option of the parties, with DDOE pursuant to which the Authority collects a stormwater fee on behalf of DDOE and transfers it to DDOE. See “THE SYSTEM – The Wastewater System – District Stormwater Permit and Management Program” and “CUSTOMER BASE, RATES AND CHARGES – Components of Retail Rates and Charges.”
- A October 25, 2007 Memorandum of Understanding provides for the replacement and upgrade of all fire hydrants in the District, with the initial phase of the upgrade program providing for the replacement of 3,500 hydrants within 5 years of this MOU’s execution. This MOU also provides that while the District of Columbia Fire and Emergency Medical Services Department is responsible for the inspection of all fire hydrants in the District, the Authority is responsible for identifying and installing new fire hydrants, determining protocols for inspection and inspection data collection and management, as well as for appropriate fire hydrant use and maintenance standards to ensure that they are maintained and fully operational. The Authority annually bills the District for fire protection to recover the cost of service.

### **Employees and Labor Relations**

The total number of authorized positions for the Authority for Fiscal Year 2013 was 1,243. As of January 1, 2013, the Authority had 1,059 full time equivalent employees, of which approximately 733 were represented by five unions.

The Authority and the unions operate under a single Master Collective Bargaining Agreement for Compensation which expired on September 30, 2011, but remains in full force and effect until a new agreement takes effect. There are five separate working conditions agreements with the unions, all of which also expired on September 30, 2011, but remain in full force and effect until a new agreement takes effect, or in the event of an impasse, pending the completion of mediation and arbitration. By law, the Authority employees may not strike.

The percentage of current employees eligible to retire within the next ten years (based on age and years of service) is shown in the table below.

**Percentage of Current Employees Eligible to Retire Within the Next Ten Years**  
(based on age and years of service)

	12/31/2012	12/31/2017	12/31/2022
Employees	11.63%	23.81%	33.86%
Directors and Executives	16.25%	18.75%	43.75%

Source: Authority records.

Although the percentage of current Authority employees eligible to retire in five years is higher than the median five-year retirement eligibility for combined water and wastewater utilities, which is 22% (as reported by the 2010 American Water Works Association/Water Environment Federation Qualserve Survey), it is within the range experienced by other large municipal water and wastewater utilities. To prepare for future retirements, since 2006, the Authority has had in place a comprehensive succession planning program for senior executives and a knowledge capture program for operational elements of the organization. In addition to identifying tacit knowledge use in operational activities, the knowledge capture program is identifying needed competencies to improve the replacement process, as well as improving the efficiency of the studied processes.

### **Retirement/Pension Plan**

The Authority employees hired before October 1, 1987, participate in the U.S. Civil Service Retirement System (the “CSRS”). The employees and the Authority each annually contribute 7% of the employee’s base pay to the CSRS. The Authority employees who retire under the CSRS receive retiree medical and life insurance benefits under the Federal Employees’ Health Benefits Program and the Federal Employees’ Group Life Insurance Program at no cost to the Authority. The Authority has no other post-employment benefits liability relating to medical or life insurance benefits under the CSRS programs.

With a few exceptions, all of the employees hired after September 30, 1987, participate in the U.S. Social Security System and the Authority’s Defined Contribution Plan. Under the Authority’s Defined Contribution Plan, the Authority annually contributes 7% of base pay plus an additional 5% of base pay earning above the Social Security Wage Base. Employees do not contribute to this plan and are 100% vested in the plan after three years of continuous service. The Authority has no other post-employment benefits liability relating to medical or life insurance benefits under the Defined Contribution Plan. The Authority employees hired after September 30, 1987, do not receive any retiree medical or life insurance benefits.

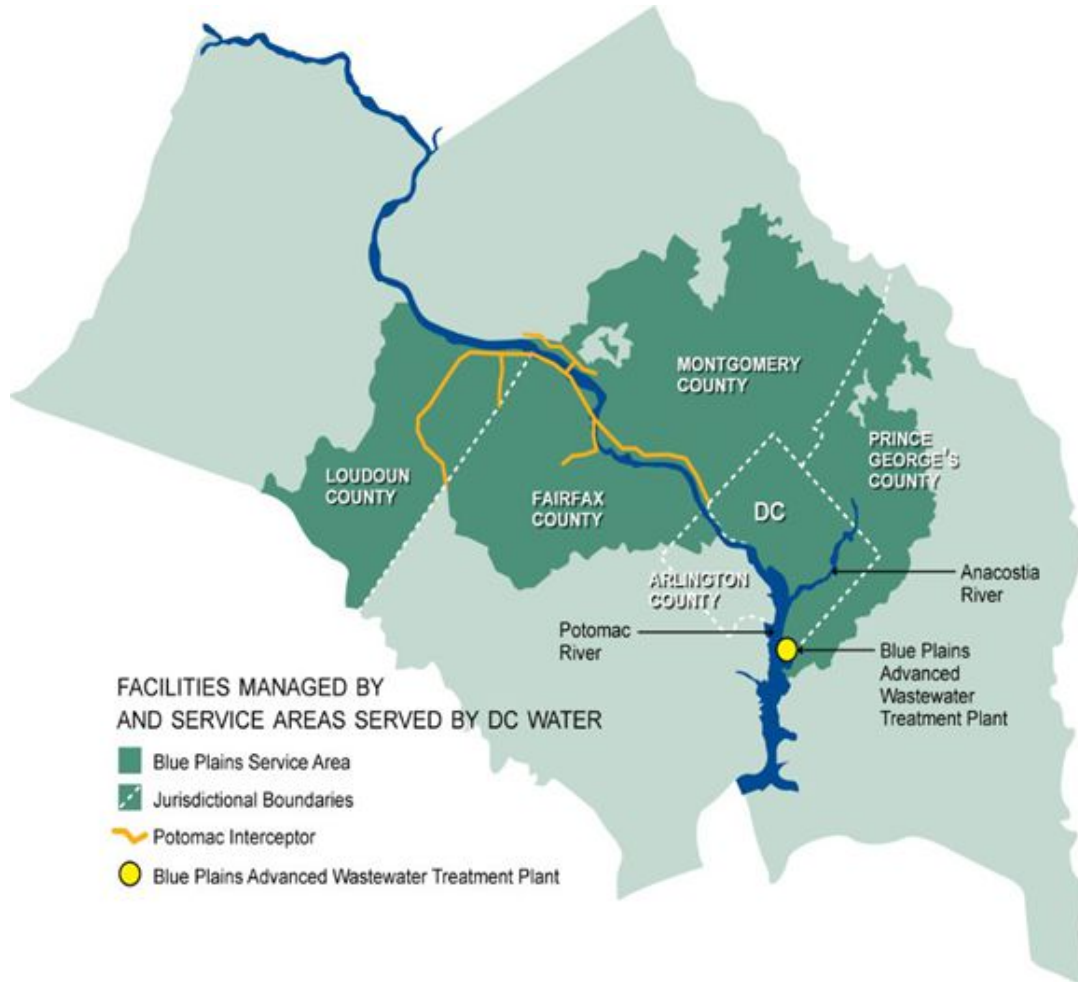
The Authority has no unfunded pension liability or other post-employment benefits liability under any of the plans described above.

### **Risk Management and Insurance**

The Authority has developed a comprehensive risk management and insurance program which is annually reviewed and periodically bid by management and their independent insurance advisors through qualified brokers and direct insurance writers. The most recent risk management, insurance assessment and bid process was completed in July, 2012. The Authority's insurance policies (including liability insurance and workers' compensation, property, equipment, crime, fiduciary, public officials' and employment practices liability) renew in July 2013. Since the passage of the Terrorism Risk Insurance Act of 2002 ("TRIA"), terrorism coverage is included under all insurance policies.

## THE SYSTEM

The Authority provides retail water distribution to the District and wastewater treatment, collection and disposal services to the District and certain neighboring counties in Maryland and Virginia. The following section describes the Water and Wastewater Systems of the Authority, including a description of the Aqueduct.



### The Wastewater System

#### *History and Description of Blue Plains Advanced Wastewater Treatment Plant*

The Authority operates the Blue Plains Advanced Wastewater Treatment Plant, the largest advanced wastewater treatment facility in the United States. The original wastewater treatment facility at the site of Blue Plains was built in 1938. The original facility provided only primary treatment for up to 130 million gallons per day (mgd). Subsequently, there have been several expansions and upgrades. Since 1983, Blue Plains has provided advanced treatment, which includes nutrient removal, filtration and

dechlorination. The most recent expansion of Blue Plains was completed in 1997, which increased the plant's capacity to 370 mgd.

#### *Service Area*

The Blue Plains service area includes the District (retail service), parts of Fairfax and Loudoun Counties, the Town of Vienna in Virginia, parts of Prince George's and Montgomery Counties in Maryland, Washington Dulles International Airport and various U.S. Government agencies located in Virginia and Maryland (wholesale service). The population of the Blue Plains service area totals approximately 2.2 million, consisting of more than 625,000 residents of the District and 1.6 million residents of the surrounding jurisdictions. In addition, the Authority annually serves approximately 17.9 million visitors to the area and approximately 700,000 workers in the District.

#### *Wholesale Customer Agreements*

*Intermunicipal Agreements* – In 1985, the District signed the Blue Plains Intermunicipal Agreement of 1985 (the "1985 IMA") with Fairfax County in Virginia, Montgomery and Prince George's Counties in Maryland and the WSSC in order to address wastewater treatment, biosolids management and cost allocation rights, obligations and objectives with respect to the Blue Plains Wastewater Treatment Plant. A significant portion of the wastewater collection and all of the wastewater treatment and related biosolids management required by the 1985 IMA was provided by the District at Blue Plains until 1996, when the District created the Authority as an independent authority with regional responsibilities to provide those services through the operation and management of Blue Plains and associated facilities. The District, however, retained and continues to hold title to the real property, appurtenances and fixtures of Blue Plains.

The 1985 IMA was replaced in 2012 by a new Intermunicipal Agreement (the "2012 IMA"), which was negotiated, approved and executed by each of the signatories to the 1985 IMA, in addition to the Authority. The 2012 IMA incorporates provisions and establishes terms relating to: facility location; current and long-range infrastructure planning and development; allocation of wastewater treatment capacity of Blue Plains and associated facilities and related peak flows for the collection system; funding and allocation of the capital costs of wastewater treatment, biosolids management and O&M costs; responsibilities with respect to pretreatment and operational requirements; the process of making future wastewater capacity planning decisions, including load allocations; mechanisms for coordination among the parties; and long-term management of the wastewater treatment and disposal process. Under those terms, the cost of operations, maintenance and the capital program of Blue Plains is shared among the 2012 IMA signatories commensurate with their respective capacity allocations, with 45.8 % of Blue Plains flow capacity allocated to the District and the remainder to the WSSC (Montgomery and Prince George's Counties) and Fairfax County. The 2012 IMA also establishes the Authority's right to require the User Jurisdictions to off-load flows to other wastewater treatment plants as necessary to provide the Authority capacity as needed to serve the District's portion of the service area.

*Potomac Interceptor Agreements* – Since October 1963, the District has entered into separate, limited allocation agreements with several entities that were tributary to the Potomac Interceptor sewer as provided by statute. Certain of those agreements remain in effect and include users that did not participate in the IMA as signatories, but are allocated flow capacity under the 2012 IMA in accordance with the original individual agreements they entered into with the District prior to the 1985 IMA. Those entities include the Department of Transportation/Federal Aviation Administration on behalf of Washington Dulles International Airport, the Department of the Navy, the National Park Service, and the Town of Vienna, Virginia which together account for less than 1% of Blue Plains allocated flow capacity. These Potomac Interceptor agreements provide for the pro-rata recovery, through the District, of the

Authority's costs of constructing, operating and maintaining the Potomac Interceptor sewer and certain major interceptor sewers within the District and Blue Plains. A separate Potomac Interceptor agreement was executed after the 1985 IMA with the Loudoun County Sanitation Authority and is described below.

*Loudoun County Sanitation Authority Agreement* – In November 1998, the Authority and the District executed an agreement with the Loudoun County Sanitation Authority (“LCSA”) allocating the right to limited Potomac Interceptor flow capacity to the LCSA, including the treatment and disposal of the associated wastewater at Blue Plains. Consistent with that agreement, the 2012 IMA allocates commensurate Blue Plains flow capacity to the LCSA, although it is also not a signatory to the IMA. The agreement requires LCSA to pay for its share of the Potomac Interceptor and Blue Plains operating and capital costs through the District, following the IMA methodology, i.e., based upon metered flows for operating costs and a pro rata capacity allocation for capital costs.

#### *Wastewater Collection*

The wastewater collection system consists of approximately 1,800 miles of sanitary, stormwater and combined sewers, 125,000 building sewer laterals, 22 flow-metering stations, nine off-site wastewater pumping stations and 16 stormwater pumping stations. The system is predominantly sanitary sewers; however, combined sanitary and stormwater sewer systems are prevalent in the downtown area and older portions of the service area. Combined sewers serve approximately one-third of the District. The Authority has completed detailed assessments and a large number of improvements to many of the pumping stations. See “THE SYSTEM – Wastewater Regulation and Permits” below.

#### *Sanitary Sewer System*

A sanitary sewer system serves two-thirds of the District's land area. The system includes 1,200 miles of interceptor and sewer collection pipes with eight sanitary pumping stations. The typical operation is a gravity flow system with a few pumping stations to pump across higher grades in the District. A series of recent upgrades to the Authority's sanitary sewer system have made the system compliant with new code standards and regulations, and increased the efficiency and effectiveness of several of the system's pump stations.

#### *Combined Sewer Overflow Wastewater System*

Approximately one-third of the District's land area is served by a combined sewer overflow (“CSO”) wastewater system that combines both stormwater and wastewater in a single conveyance system. Combined sewer systems are common among older cities throughout the United States. The District's combined sewer system conveys only sanitary flow to Blue Plains during dry weather. During and immediately following periods of heavy rainfall, however, the combined sanitary and stormwater flows frequently exceed the capacity of the combined sewer system and a combination of stormwater and untreated wastewater is discharged through one or more of the 53 existing CSO outfalls authorized in the Authority's NPDES Permit. See “Wastewater Regulation and Permits – NPDES Permit” below.

#### *Biosolids Disposal*

Blue Plains currently produces approximately 1,200 wet tons or 60 truckloads of biosolids on a daily basis. Currently these biosolids are considered Class B and are applied directly to land at various sites in Virginia and Maryland, with disposal in landfills being utilized as an alternate method if weather conditions do not allow land application. The CIP includes approximately \$454.2 million for the costs of implementing the new biosolids disposal process. The Authority expects to begin operating the new

biosolids digestion process in Fiscal Year 2015. See “CAPITAL IMPROVEMENT PROGRAM – Categories of CIP Projects – Wastewater Treatment Projects.”

### **Wastewater Regulation and Permits**

*NPDES Permit.* Blue Plains is authorized to discharge treated effluent to the Potomac River through two outfalls (Outfalls 001 and 002) pursuant to an NPDES permit (the “NPDES Permit”) that was reissued to the Authority by the United States Environmental Protection Agency (the “EPA”). The NPDES Permit became effective on September 30, 2010 and expires on September 30, 2015. Discharges through Outfall 002, which consist of sanitary flow and some combined sewer flow from the CSO system during and following rainfall events, receive complete treatment. Combined sewer flows that exceed Blue Plains’ capacity to provide complete treatment receive partial treatment and are discharged through Outfall 001. The NPDES Permit also authorizes discharges to the Anacostia River, the Potomac River and Rock Creek from the combined sewer system through a total of 53 CSO outfalls and four emergency relief outfalls.

The NPDES Permit requires that discharges from the CSO outfalls not exceed those limits necessary to comply with applicable water quality standards under the Clean Water Act, 33 U.S.C. 1251 et seq. (the “Clean Water Act”). The Authority was the first agency to meet the voluntary nutrient reduction goal of the 1987 Chesapeake Bay Agreement. See “*The Chesapeake Bay Agreements*” below. The NPDES Permit also requires the development and implementation of a Nine Minimum Controls program (the “NMC Program”), consisting of proper operation and maintenance of the existing collection and treatment system to minimize untreated discharges from the CSO outfalls, as well as the implementation of a CSO Long-Term Control Plan (the “CSO LTCP”) designed to control CSO discharges to prevent them from causing or contributing to violations of applicable water quality standards.

The CSO LTCP project continues on schedule. The Anacostia River Facilities Plan was approved by EPA in July 2010 and the implementation of the plan commenced. The CIP includes approximately \$1.3 billion for the costs of the CSO LTCP and combined sewer projects. See “CAPITAL IMPROVEMENT PROGRAM – Categories of CIP Projects – Combined Sewer Overflow Projects.” Once completed, the CSO LTCP project will create 12 miles of tunnels with a combined storage capacity of 184 million gallons, two new tunnels dewatering pumping stations, and several diversion structures and sewers to collect CSO overflows. Effective May 1, 2009, the Authority implemented a rate structure that more equitably allocates the costs of the CSO LTCP to retail customers based on the impervious surface area on customers’ properties. See “CUSTOMER BASE, RATES AND CHARGES – Rate-Setting Authority – Components of Retail Rates and Charges – Clean Rivers Impervious Area Charge.”

*Industrial Pretreatment Program.* As with most large wastewater systems, the Authority, under the provisions of the Clean Water Act, operates an industrial pretreatment program to control the discharge into the wastewater system of industrial wastewater containing certain toxins or prohibited pollutants. The Authority regulates 71 “significant industrial users” as defined by EPA regulations. Twenty-five of these users are located within the District; the remaining users are located in the User Jurisdictions.

*Wastewater Consent Decree and Stipulated Agreement and Orders.* Upon its creation, the Authority assumed responsibility for compliance with various legal actions taken against the District related to operation of, and discharges from, Blue Plains, specifically including a judicial Consent Decree issued in 1995 (the “1995 Consent Decree”) and a subsequent Stipulated Agreement and Order (the “1996 Stipulated Agreement and Order”). The Authority has completed all of the requirements under both the



1995 Consent Decree and the 1996 Stipulated Agreement and Order. The EPA Region III has acknowledged satisfaction of these requirements, although the 1995 Consent Decree remains in effect.

*The Chesapeake Bay Agreements.* In 1987, the Mayor of the District and the Governors of the Commonwealths of Virginia and Pennsylvania and the State of Maryland entered into the 1987 Chesapeake Bay Agreement, committing each jurisdiction to, and subsequently achieving, a 40% reduction of nutrients such as nitrogen and phosphorus reaching the main stem of the Chesapeake Bay by the year 2000. In 2000, the parties entered into Chesapeake 2000, a comprehensive agreement to guide further efforts to improve the water quality in the Chesapeake Bay through 2010. Unlike many municipal wastewater treatment facilities that discharge into the Chesapeake Bay, the Authority has historically removed phosphorus and nitrogen and is currently meeting the reduction goal. As a supplemental environmental project in settlement of liability for stipulated penalties under the 1995 Consent Decree, the Authority installed a pilot program to test a nitrogen reduction process on one-half of its wastewater, which demonstrated a greater than 40% nitrogen reduction in completely treated effluent. As a result, in 2000, the Authority began operation of full plant scale biological nutrient removal.

The NPDES Permit requires the Authority to comply with a new total nitrogen discharge limit by January 1, 2015. The new total nitrogen discharge limit matches the 2010 goal of the Chesapeake 2000 Agreement. The Authority has negotiated with EPA Region III to define the scope and schedule of capital improvements that are necessary to implement this modification and as a result has developed the Blue Plains Enhanced Nitrogen Removal Program (“ENRP”), which is designed to improve treatment processes to achieve advanced treatment with nitrification and denitrification facilities. The CIP includes approximately \$673 million for the cost of the ENRP, which is expected to be completed in 2015. See “CAPITAL IMPROVEMENT PROGRAM – Categories of CIP Projects – Wastewater Treatment Projects.”

*Air Quality Issues.* In March 2008, the Authority submitted an application to the District of Columbia Department of Environment for a Title V air quality operating permit pursuant to Chapter 3 of Title 20 of the District of Columbia Municipal Regulations (referred to as a Chapter 3 Operating Permit). As of the date of this Official Statement, the Authority’s application was still pending.

*Future Matters.* In addition to continued compliance with its current permits and regulations described above, in the future, the Authority’s wastewater discharges may become subject to additional requirements based on new federal or local requirements. As the EPA promulgates additional regulations, the Authority may be required to modify operations and/or construct facilities beyond those contemplated in the CIP.

## **The Water System**

### *The Washington Aqueduct*

Established in 1852, the Washington Aqueduct Division of the United States Army Corps of Engineers (the “Army”) provides water to the District and parts of Virginia. The Army owns and operates the Aqueduct, including its two water treatment plants, raw water conduits, reservoirs, pumping stations and treated water transmission lines.

The Aqueduct facilities supply treated water to distribution systems of the Authority, the federal government, Arlington County, the City of Falls Church and other parts of northern Virginia. The Authority is responsible for managing the treated Water System that serves the District and several other governmental customers outside the District. The Authority purchases approximately 73% of the finished water produced by the Aqueduct, and Arlington County and the City of Falls Church, Virginia

(collectively, the “Aqueduct Customers”) purchase the remainder. The Authority’s share of the water purchased from the Aqueduct in the last ten Fiscal Years is set forth in the following table. For a discussion regarding the reduction in consumption and customer demand, see “CUSTOMER BASE, RATES AND CHARGES – Customer Demand.”

**Historical Water Demand**

Fiscal Year ended September 30	Annual Deliveries to System (MG)	Average Day (MGD)	Max Day (MGD)
2003	45,655	125.1	164.9
2004	46,725	128.0	164.6
2005	45,057	123.4	149.6
2006	41,541	113.8	161.6
2007	41,687	114.2	156.5
2008	40,755	111.7	150.5
2009	39,998	109.6	150.4
2010	38,589	105.7	146.9
2011	37,556	102.9	143.7
2012	36,930	100.9	142.9

Source: Authority’s CAFR.

The Aqueduct draws water from the Potomac River, which is the predominant source of water in the District and the User Jurisdictions. As a result of the Potomac River's importance for maintaining adequate water supply, the Interstate Commission on the Potomac River Basin (“ICPRB”) and the Metropolitan Washington Council of Governments (“COG”), have maintained a draught plan since 1978, through which the Potomac River’s water supply is supplemented by a 23.5 billion gallon reserve that is stored at three separate off-river reservoirs. Due to the maintenance of this strategic reserve, the ICPRB has been able to effectively manage drought conditions and effectively allocate water resources during drought events.

The federal Safe Drinking Water Act Amendments of 1996 authorized the Aqueduct Customers to establish a non-federal public or private utility to receive title to operate, maintain and manage the Aqueduct or to allow the Army to remain as owner and operator with the Aqueduct Customers having some input into strategic operations, direction, operations and capital improvement of the Aqueduct. In May 1998, the Aqueduct Customers and the Army executed a Memorandum of Understanding that the Army would continue to own and operate the Aqueduct facilities.

The Aqueduct has developed a capital improvement program, including improvements to the Dalecarlia and McMillan Water Treatment Plants (each a “WTP”), raw water conduits, pumping stations and reservoirs. The Authority’s share of the costs of Aqueduct capital improvements in the CIP totals approximately \$107.1 million. See “CAPITAL IMPROVEMENT PROGRAM – Categories of CIP Projects – Washington Aqueduct Projects.”

*Water Sales Agreement*

Pursuant to a Water Sales Agreement, dated as of July 31, 1997, by and between the Authority and the Army (the “Water Sales Agreement”), the Army sells and furnishes to the Authority all of the finished water that the Authority requires for the operation of the Water System to the extent that the Army has water and facilities available at the Aqueduct. In accordance with the Water Sales Agreement, the Authority is obligated to make monthly payments into an escrow account to be used by the Army to cover the Authority’s pro rata share, based on its consumption of water, of the costs of the operation and

capital improvement of the Aqueduct. The Authority currently contributes approximately 73% of capital and operating expenditures of the Aqueduct. The Water Sales Agreement will remain in effect until September 30, 2023, unless earlier terminated in accordance with its terms. Thereafter, the Water Sales Agreement may continue until terminated by either party giving the other party not less than six months' prior written notice.

#### *Water Supply*

The Aqueduct obtains its water supply from two Potomac River intakes at Great Falls and Little Falls. Two other regional water suppliers, Fairfax County Water Authority ("FCWA") and WSSC, also obtain water from the same area of the Potomac River. Water for the Authority is withdrawn at the Great Falls intake and flows by gravity through two nine-mile conduits and is then pumped to the Dalecarlia Reservoir. Water also may be withdrawn from the Little Falls intake and pumped to the Dalecarlia Reservoir. The Dalecarlia Reservoir acts as a presedimentation basin for water drawn into the Dalecarlia WTP and for water diverted to the Georgetown Reservoir for subsequent treatment at the McMillan WTP.

In 1978, the U.S. Government, the District, the State of Maryland, the Commonwealth of Virginia and the FCWA entered into a Low Flow Allocation Agreement to provide a basis for allocation of resources during severe drought conditions and outline procedures to be followed in such circumstances. Water supply reservoirs developed on Little Seneca Creek and the north branch of the Potomac River are designed to augment the natural flow of the Potomac River during low flow conditions and ensure that the Washington metropolitan area will have sufficient water for years to come.

#### *Raw Water Supply Agreements*

A series of agreements ensures the continuous adequate supply of water to the Aqueduct's and the Authority's customers. The following are the Authority's raw water supply agreements:

*The Savage Reservoir Maintenance and Operation Cost Sharing Agreement* was executed in June 1982. Pursuant to the laws of the State of Maryland, the Upper Potomac River District contracted with the District, WSSC, FCWA and Allegheny County, Maryland, to share the operation, maintenance, repair and replacement costs of the Savage Reservoir project located in western Maryland. This agreement provides for releases from Savage Reservoir that mix with, and thereby reduce, the acidic nature of the Jennings Randolph Lake waters. The Savage Reservoir cost-sharing agreement was incorporated by reference into the Water Supply Coordination Agreement described below.

*The Little Seneca Lake Cost Sharing Agreement* was executed in July 1982 by and among the District, WSSC and FCWA to construct a dam and reservoir to provide an adequate supply of potable water continuing into the current century. This agreement calls for WSSC to finance, construct, operate and maintain Little Seneca Lake. The Authority's share of the project and operating and maintenance costs under the agreement is 40%. The Little Seneca Lake Cost Sharing Agreement was incorporated by reference into the Water Supply Coordination Agreement described below.

*The Water Supply Coordination Agreement* was executed in July 1982 by and among WSSC, FCWA and the Aqueduct to provide for the coordinated operation of its water supply sources and cooperative regional management of the water supply system and the cost-sharing arrangement for any water supply projects for the Washington metropolitan area, if and when they are needed.

*The Novation and Future Water Supply Storage Agreement* was executed in July 1982, by and among the United States, the Maryland Potomac Water Authority, WSSC, FCWA and the District, to provide for an initial water supply storage in the Jennings Randolph Lake reservoir of approximately two billion gallons. The Novation and Future Water Supply Storage Agreement increases the amount of water

supply storage to 13.4 billion gallons, or 32% of the reservoir's total storage. Of the remaining reservoir storage 40% is designated for water quality and 28% for flood control.

#### *Water Treatment and Storage*

The Authority receives finished water from the Dalecarlia and McMillan WTPs. The original Dalecarlia WTP was completed in 1928, and underwent major expansion and improvements in 1964. The McMillan WTP was constructed in 1985 on the site of the original 1905 plant. The design capacity of the Dalecarlia and McMillan WTPs was based on population growth and water use projections that are greater than have been realized to date. The total treatment capacity of the plants of 370 mgd currently exceeds the day-to-day demands and peak requirements of their respective service areas.

Finished water from the Dalecarlia WTP is pumped by the Dalecarlia Pumping Station to the following reservoirs which serve various pressure zones within the District: Brentwood, Foxhall, Van Ness and Fort Reno Reservoir No. 1 and No. 2. Finished water from the McMillan WTP is pumped by the Authority's Bryant Street Pumping station to District customers. Brentwood and Reno No. 1 reservoirs, which can store up to 143.5 MG of finished water, are the Authority facilities. The other three reservoirs are owned and operated by the Aqueduct and can store up to 125 MG of finished water. Flexibility in the distribution system is provided so that each of the two water pumping stations can pump to other reservoirs in the distribution system as circumstances dictate.

#### *Sold vs. Pumped Ratio*

The Authority regularly monitors the ratio of water billed to customers (sold water) versus water it purchases from the Aqueduct (pumped water). Unlike many other water utilities, the Authority does not adjust this ratio for water used in normal system activities, such as firefighting and system maintenance, including flushing of water mains and hydrant testing.

The sold vs. pumped ratio increased from 69% in 2003, to 76% in 2012, partly due to improvements in meter reading as a result of the Authority's comprehensive meter replacement and AMR project which began in 2002. The Authority has replaced approximately 99% of all meters designated for replacement. See "CAPITAL IMPROVEMENT PROGRAM – Categories of CIP Projects – Meter Replacement Projects." Water sales are derived from the operating budget of the Authority and may not be consistent with the audited financial statements for each year. The cost of unbilled water is not substantial relative to total annual expenses of the Authority.

### **Water System Regulation and Permits**

#### *Drinking Water Quality*

The water operations of the Aqueduct and the Authority are subject to the requirements of the federal Safe Drinking Water Act of 1974, as amended in 1986 and 1996 by Congress. The 1986 amendments to the Safe Drinking Water Act extended the regulatory agenda of the EPA to include, among other things, the development of drinking water standards for 90 contaminants.

The Aqueduct and the Authority are in substantial compliance with all physical, chemical, radiological and bacteriological standards established by the regulations currently in effect under the Safe Drinking Water Act and are studying the potential impacts of proposed rules as well as those still under development by the EPA. As the EPA promulgates additional regulations, there is a potential that the Aqueduct or the Authority will be required to modify operations and/or construct facilities beyond those

contemplated by the CIP. The Aqueduct and the Authority management believe, however, that planned capital projects should address all current regulatory requirements.

*NPDES Permit and Water Treatment System Sediments*

Until April 2003, during high flow periods, the Aqueduct discharged into the Potomac River the river sediments that are removed during the treatment process. The NPDES Permit issued in March 2003 included discharge limitations on sediments. The Aqueduct entered into a Federal Facilities Compliance Agreement (“FFCA”) with EPA Region III, which provides a legally-mandated plan and an enforceable compliance schedule for achieving the effluent discharge limitations in the NPDES Permit. The Aqueduct evaluated various options for residuals collection, conveyance, processing and disposal and selected a process which dewateres the residuals on site and transports them off-site for disposal. Construction on this project commenced in Fiscal Year 2008, was completed and placed into service on November 22, 2012. The Authority’s share of the total cost of this project was \$98.1 million. See “CAPITAL IMPROVEMENT PROGRAM – Categories of CIP Projects – Washington Aqueduct Projects.”

*Lead Levels*

Pursuant to the Safe Drinking Water Act, the Lead and Copper Rule promulgated in 1991 by the EPA (the “Lead and Copper Rule”) establishes maximum contaminant level goals and action levels for lead and copper. Large water suppliers, such as the Authority, are required to perform periodic monitoring and optimize corrosion control of water so as to minimize leaching of lead and copper contaminants into drinking water. If more than 10% of the tap water samples contain lead above the “action level” of 15 micrograms per liter, the water supplier is required to perform public education and to optimize the corrosion control treatment. If, after optimal corrosion control treatment has been implemented, the lead level in water at the tap continues to exceed the action level, the supplier must annually replace 7% of existing lead service lines that it owns. Alternatively, the supplier may demonstrate through testing that individual lead service lines that it owns do not have lead levels above the action level (called “sampling in lieu of replacement”). The supplier may perform a combination of these two actions to attain the 7% annual replacement level.

In August 2002, the Authority reported to EPA Region III that results for the sampling period from July 2001 to June 2002 demonstrated lead levels in excess of the threshold for action established by the Lead and Copper Rule. Elevated lead levels were believed to be linked to changes in the Aqueduct’s water treatment methods. In November 2000, the Aqueduct had switched from free chlorine to chloramines disinfection to reduce the concentration of disinfection byproducts under the federal Disinfectant Byproducts Rule. Elevated lead levels began appearing within a year of the chlorine/chloramines switchover.

In February 2004, EPA Region III commenced an audit of the Authority’s compliance with the Lead and Copper Rule and found noncompliance with regard to sampling, monitoring, public notification and reporting requirements. In an Administrative Order dated June 17, 2004, as supplemented on January 14, 2005, and amended on June 8, 2005 (collectively, the “Administrative Order”), EPA Region III and the Authority agreed to remedies for the issues identified by the compliance audit. The Authority and the Aqueduct undertook appropriate measures to implement corrosion control treatment. Lead levels have consistently been below the action level since 2005 and the Authority is no longer subject to the Administrative Order from EPA Region III.

Pursuant to a Consent Agreement and Final Order (“CAFO”) executed on May 2, 2007, the Authority agreed to pay a civil penalty in the amount of \$10,000 to EPA Region III for certain alleged

reporting violations of the Lead and Copper Rule. The CAFO resolved all of the civil claims in connection with these allegations. EPA Region III and the DOJ also conducted an investigation to determine whether any criminal violations occurred in connection with the Annual Report on Lead Service Replacement Program the Authority filed with EPA Region III in October 2003 and the two different methods the Authority used to test lead levels. In October 2008, EPA Region III and the DOJ informed the Authority that it would take no adverse action against the Authority, thereby resolving all criminal claims against the Authority in connection with this matter.

In addition to the measures undertaken by the Authority pursuant to the Administrative Order, in 2004 the Authority commenced a voluntary lead service replacement program, even though not legally required to do so under the Lead and Copper Rule. In order to reduce adverse impacts and costs to ratepayers, lead service replacement construction work was performed in conjunction with sewer laterals, small valves and water main repair work, and the replacement of broken or defective hydrants. However, this resulted in a large number of partial lead service replacements because many property owners declined to replace the lead service line on their private property. In 2008, in response to research indicating that partial lead service replacements are not effective in reducing lead levels, the Authority discontinued its accelerated replacement program. In September 2009, the Board approved modifications of the Authority's lead service replacement policy to encourage full service line replacements and to manage costs. Under the modified policy, public lead service lines (between the main and the property line) will continue to be replaced with copper pipes in conjunction with: (i) the Authority's water main replacement projects when the Authority must replace the water service pipe to connect to a new water main, and (ii) when the customer replaces the private portion of lead service lines and requests that the Authority replace the public portion of the lead service line.

A study authored by Marc Edwards, PhD, an engineer at the Virginia Polytechnic Institute and State University, and Dana Best, MD, a physician at the Children's National Medical Center, published in the March 1, 2009, issue of *Environmental Science and Technology*, found that the number of toddlers and infants with high blood-lead concentrations more than doubled in certain District neighborhoods that experienced rising lead concentrations in 2001 (the "Edwards Study"). These findings contradicted a report published by the Centers for Disease Control and Prevention (the "CDC") on March 30, 2004 (the "2004 CDC Report"), which found that lead might have contributed a small increase in blood lead levels and claimed that no children with dangerously high blood lead levels were found in the District.

The Edwards Study prompted the United States House of Representative's Committee on Science and Technology to open an investigation into the 2004 CDC Report. The Majority Staff of the Subcommittee on Investigations and Oversight of the Committee on Science and Technology issued a report on May 20, 2010, releasing its findings. The Subcommittee's primary findings include, among others, that (i) the CDC knowingly used flawed data in drafting the 2004 CDC Report, leading to "scientifically indefensible" claims being included in the 2004 CDC Report, and (ii) the CDC failed to publicize later research showing that the harm was more serious than the 2004 CDC Report suggested. In May and June 2010, the CDC issued two notices to the readers of its digest, *Morbidity and Mortality Weekly Report*, admitting that the 2004 CDC Report was misleading and that it "should not be used to make conclusions about the contribution of water lead to blood levels in DC, to predict what might occur in other situations where lead levels in drinking water are high, or to determine safe levels of lead in drinking water." In December 2010, the CDC published a study of the District's water supply conducted from 1998 to 2006, which concluded that children living in the District were exposed to high levels of lead despite an attempt to prevent the water from being contaminated by partial lead service replacements. The 2010 CDC Study confirms information the Authority received in previous years which led the Authority in 2008 to discontinue the partial lead service line replacements. Partial line replacements can cause agitation that temporarily releases lead into the home, which can cause a temporary spike in lead levels. As described above, the Authority modified its lead service line replacement program in 2009 and

continues its efforts to address lead in drinking water by: (i) monitoring household lead levels to ensure drinking water is in compliance with the EPA drinking water standards, (ii) conducting research on household plumbing characteristics, (iii) offering free lead testing, (iv) recommending full lead service replacements on public and private property, (v) providing free water filters and lead testing following a full or partial lead service line replacement, (vi) recommending that pregnant women and children under the age six should use filtered tap water for drinking and cooking until all sources of lead impacting water are removed, and (vii) participating in coordinated District interagency meetings and responses to lead in water issues.

The Authority estimates the cost of the lead service line replacement program in the CIP at \$15.6 million. Since inception through March 31, 2013, the Authority expended \$132.5 million on the lead service line replacement program. See “CAPITAL IMPROVEMENT PROGRAM – Categories of CIP Projects – Water Projects.”

### **Protection of the Water System and Wastewater System**

In 2000, the Authority developed and began implementing an extensive security program in conjunction with the District’s Metropolitan Police Department and various federal agencies, including the Federal Bureau of Investigation and the Bureau of Alcohol, Tobacco and Firearms (the “2000 Security Program”). After the events of September 11, 2001, and in response to certain provisions of the Bioterrorism Act of 2002 and amendments to the Safe Drinking Water Act pertaining to security for community water systems, the Authority developed and implemented additional security measures beyond the 2000 Security Program.

The Aqueduct and each of the Aqueduct Customers have independent obligations under the law to protect the community water systems they operate. Both the Authority and the Aqueduct completed studies of Water System vulnerability using the Sandia National Laboratories RAM-W methodology. The vulnerability reports were submitted to EPA Region III in March 2003 to fulfill the Bioterrorism Act requirement for a vulnerability assessment.

Blue Plains and the primary water and sewer distribution facilities it operates are fenced, gated and manned 24 hours by security officers. Major security technology video surveillance, intrusion alarm monitoring, and access control management system upgrades are utilized, with significant security technology upgrades in progress at several facilities and properties. The secondary distribution facilities are monitored by vehicular security patrols as well as some security technologies. The Authority also employs cameras and other monitoring equipment at these facilities.

Access to facilities operated by the Aqueduct is also controlled and the Aqueduct has increased security at both staffed and remotely operated facilities. In conformance with the requirements of the Safe Drinking Water Act, the Aqueduct contracted with the Interstate Commission on the Potomac River Basin to develop a source water assessment and monitoring program. The program was implemented in 2002.

While the Aqueduct and the Authority have taken these actions to help ensure the security of the System, the Authority does not represent that any existing or additional safety and security measures will be adequate in the event that terrorist activities are directed against the System.

## **CAPITAL IMPROVEMENT PROGRAM**

### **General**

The Authority utilizes an annually adopted ten-year Capital Improvement Program to plan and manage the capital investments necessary to fulfill its service missions, comply with regulatory requirements and preserve and upgrade its Water and Wastewater Systems. The Authority updates the CIP annually in conjunction with its budget process, based on detailed project review by engineering staff, external engineering consultants retained by the Authority and senior management.

The Authority evaluates and prioritizes capital projects based on specific criteria. These criteria are fundamental in developing a CIP based on demonstrated needs and are set forth in the following table and described below.



**Capital Improvement Program Criteria**  
(\$ in thousands)

<u>Category</u>	<u>Mandates<sup>1A</sup></u>	<u>Health &amp; Safety<sup>2A</sup></u>	<u>Board Policy<sup>2B</sup></u>	<u>Potential Failure<sup>2C</sup></u>	<u>High Profile/ Good Neighbor<sup>2D</sup></u>	<u>Good Engineering Practices/High Payback<sup>3A</sup></u>	<u>Good Engineering Practices/Low Payback<sup>3B</sup></u>	<u>Total</u>
<u>Description</u>	<u>Agreements, Regulatory Standards, Court Orders, Issues and Permits Required, Stipulated Agreements, Etc.</u>	<u>Required to address Public Safety</u>	<u>Undertaken as a result of the Board's commitment to outside agencies</u>	<u>Related to Facilities in danger of failing or critical to meeting permit requirements</u>	<u>Address Public concerns</u>	<u>Need to fulfill Mission and upgrade Facilities</u>	<u>Lower priority projects</u>	
FY 2012	\$223,121	\$9,323	\$10,891	\$38,010	\$7,060	\$166,618	\$7,593	\$462,613
FY 2013	297,463	9,508	10,649	41,992	5,822	257,307	19,526	644,265
FY 2014	217,719	19,984	8,571	54,829	8,631	235,626	11,764	557,125
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	103,804	10,271	244,813
FY 2021	<u>91,131</u>	<u>2,573</u>	<u>-</u>	<u>9,954</u>	<u>0</u>	<u>97,598</u>	<u>21,620</u>	<u>222,876</u>
<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>\$3,849,178</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>35.57%</b>	<b>4.88%</b>	<b>100.00%</b>

Source: Authority records.

<sup>1A</sup> Mandates – projects undertaken to comply with agreements, regulatory standards, court orders, issues and permit requirements such as the CSO LTCP.

<sup>2A</sup> Health and safety – projects required to address public health and safety, including workplace health and safety.

<sup>2B</sup> Board policy, the Authority’s commitment to outside agencies – projects undertaken as a result of the Board’s commitment to outside agencies such as the hydrant replacements for the District’s Fire and Emergency Management Services and capital projects of the Washington Aqueduct.

<sup>2C</sup> Potential failure/ability to continue meeting permit requirement – projects to construct or rehabilitate facilities or equipment in danger of failing or critical to ensuring future compliance with permit requirements.

<sup>2D</sup> High profile, good neighbor policies – projects addressing concerns communicated by customers, citizens or public officials.

<sup>3A</sup> Good engineering, high payback, mission/function – projects needed for existing facilities and infrastructure required for the Authority to fulfill its mission as well as resolving operational issues.

<sup>3B</sup> Good engineering, low mission/function over long-term – lower priority projects which are needed for rehabilitation and upgrading of facilities and infrastructure.

Since its creation in 1996 through September 30, 2012, the Authority has expended approximately \$3.1 billion, on a cash disbursement basis, for capital improvement projects, including \$1.2 billion for projects at Blue Plains, \$602 million for Water System infrastructure projects, \$653 million for the CSO LTCP and combined sewer projects, \$161 million for sanitary sewer projects and \$53 million for meter replacement/AMR projects. The Authority estimates the cost of the CIP (which includes funds spent in Fiscal Year 2012) at \$3.8 billion on a cash disbursement basis, including approximately \$1.4 billion for wastewater treatment projects at Blue Plains, \$1.3 billion for the CSO LTCP and combined sewer projects, \$546 million for Water System infrastructure projects, \$384 million

for sanitary sewer projects and \$44 million for meter replacement/AMR projects. The Board approved the CIP on January 3, 2013.

An overview of the CIP project categories and the sources of funding is set forth in the following table.

**FISCAL YEAR 2012-2021 CAPITAL IMPROVEMENT PROGRAM  
SOURCES AND USES OF CAPITAL FUNDS**

Fiscal Years ending September 30  
(\$ in millions)

	<b>Actual 2012</b>	<b>Projected</b>									<b>Total</b>
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>		
<b>BEGINNING BALANCE</b>	\$132.63	\$244.48	\$223.90	\$221.77	\$ 0.30	\$ 1.93	\$ 1.88	\$ 1.60	\$ 1.40	\$ 1.83	\$ 132.63
<b>SOURCES OF FUNDS</b>											
Proceeds from Revenue											
Bonds/Commercial Paper	250.00	300.00	300.00	105.26	287.15	211.22	146.25	129.99	164.55	166.97	2,061.38
Proceeds from Treasury											
Notes/Digester Financing											
Option	50.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	50.00
Capital Equipment Financing	7.50	10.80	13.38	10.83	7.62	5.60	0.00	0.00	0.00	0.00	55.73
Pay-Go Financing	39.62	24.54	10.98	24.55	36.39	38.57	40.43	37.90	35.30	30.01	318.29
EPA Grants/D.C.											
Reimbursement	24.56	32.42	36.54	26.58	16.01	13.88	15.39	13.88	13.88	13.88	207.03
CSO Grants	27.99	30.00	18.17	0.00	0.00	0.00	0.00	0.00	0.00	0.00	76.16
Wholesale Customer											
Contributions	174.26	225.61	175.67	127.19	88.16	68.51	41.18	16.33	9.45	9.96	936.33
Interest Income	0.53	0.30	0.26	0.53	2.15	2.11	1.83	1.62	2.06	2.09	13.48
<b>TOTAL SOURCES OF FUNDS</b>	<b>\$574.46</b>	<b>\$623.68</b>	<b>\$555.00</b>	<b>\$294.93</b>	<b>\$437.49</b>	<b>\$339.89</b>	<b>\$245.07</b>	<b>\$199.73</b>	<b>\$225.24</b>	<b>\$222.91</b>	<b>\$3,718.40</b>
<b>USES OF FUNDS</b>											
Wastewater Treatment											
Projects	\$253.31	\$358.54	\$267.84	\$180.49	\$113.54	\$100.68	\$ 59.78	\$ 18.90	\$ 7.29	\$ 8.12	\$1,368.48
Sanitary Sewer Projects	23.78	29.08	42.14	43.17	48.46	45.99	43.02	38.26	35.62	34.25	383.77
Combined Sewer Projects	10.78	10.59	19.43	27.92	41.90	16.74	13.06	10.92	13.07	22.76	187.17
CSO LTCP Projects	101.88	152.92	132.91	179.19	152.49	95.30	50.83	61.09	89.54	85.23	1,101.39
Stormwater Projects	3.32	3.25	3.68	0.95	0.86	0.74	0.80	0.87	0.79	0.74	15.98
Washington Aqueduct											
Projects	11.29	10.60	10.74	11.02	11.28	11.59	10.89	10.32	9.84	9.58	107.14
Water Projects	42.64	52.33	63.77	59.98	56.09	57.37	55.48	48.73	57.84	51.39	545.62
Capital Equipment	13.71	18.42	13.54	9.53	7.00	7.13	7.21	6.53	6.48	6.46	96.02
Meter Replacement/AMR	1.91	8.53	3.07	4.15	4.24	4.39	4.28	4.32	4.34	4.36	43.60
<b>TOTAL USES OF FUNDS</b>	<b>\$462.61</b>	<b>\$644.27</b>	<b>\$557.13</b>	<b>\$516.41</b>	<b>\$435.86</b>	<b>\$339.93</b>	<b>\$245.36</b>	<b>\$199.93</b>	<b>\$224.81</b>	<b>\$222.88</b>	<b>\$3,849.18</b>
<b>SOURCES MINUS USES</b>	<b>\$111.85</b>	<b>(\$ 20.58)</b>	<b>(\$ 2.12)</b>	<b>(\$221.48)</b>	<b>\$ 1.63</b>	<b>(\$ 0.04)</b>	<b>(\$ 0.28)</b>	<b>(\$ 0.20)</b>	<b>\$ 0.43</b>	<b>\$ 0.03</b>	<b>(\$ 130.78)</b>
<b>ENDING BALANCE</b>	<b>\$244.48</b>	<b>\$223.90</b>	<b>\$221.77</b>	<b>\$ 0.30</b>	<b>\$ 1.93</b>	<b>\$ 1.88</b>	<b>\$ 1.60</b>	<b>\$ 1.40</b>	<b>\$ 1.83</b>	<b>\$ 1.86</b>	<b>\$ 1.86</b>

## Categories of CIP Projects

*Wastewater Treatment Projects.* Capital projects in the wastewater treatment service area are required to rehabilitate, upgrade or provide new facilities at Blue Plains to ensure that it can reliably meet its NPDES Permit requirements and produce a consistent, high-quality dewatered solids product for land application. Several major capital improvement projects to rehabilitate, replace or add new processes and capacity at Blue Plains were completed in recent years, including upgrades to the grit and screen facilities, primary treatment facilities and secondary treatment facilities. Improvements to the additional dewatering facilities, including seven new centrifuges and expanded storage facilities, have been completed. In addition, construction of new chemical handling facilities for metal salts, polymers and sodium hypochlorite has been completed, thereby eliminating bulk chlorine and sulfur dioxide gas storage and a major safety risk to workers and the surrounding neighborhood. In conjunction with placing these new facilities in service, the Authority has implemented the process computer controls system projects associated with each of these long-term improvements to enable monitoring and control of the upgraded equipment and systems, allowing the Authority to achieve greater control over operating costs, process and treatment efficiency.

The Authority currently contracts to haul the biosolids removed during the wastewater treatment process at Blue Plains to farms, forests and mine reclamation sites for recycling. This process involves costs for hauling as well as recycling. On average, the Authority annually hauls approximately 453,000 wet tons of biosolids. In Fiscal Year 2010, the Authority commenced implementation of a digester project, which involves the design and installation of a thermal hydrolysis solids digestion process (the “Digester Project”). The Digester Project is expected to be completed in Fiscal Year 2015. Once operational, the digestion process is expected to: (i) reduce the volume of biosolids produced and hauled by approximately 50%, thereby reducing hauling and recycling costs; (ii) produce Class A biosolids, which can be applied to the land without any pathogen-related restrictions at the site and also can be bagged and marketed to the public for application to lawns and gardens, thereby increasing beneficial reuse options; (iii) generate up to 30% of energy used for, and thereby reduce overall power costs of, operations at Blue Plains by converting organic matter to methane which will be burned to create electricity and by recovering excess heat generated during the combustion process; and (iv) substantially reduce the Authority’s carbon footprint.

The CIP budget for wastewater treatment projects is approximately \$1.4 billion, which includes approximately \$454.2 million in disbursements for solids processing projects such as major improvements to solids dewatering and thickening facilities and \$673.2 million for the ENRP program. In the event the EPA Region III requires the Authority to revise its current plans and/or proposals for the ENRP, the cost of implementing the ENRP could be substantially greater than the amount included in the CIP. See “THE SYSTEM – Wastewater Regulation and Permits – *The Chesapeake Bay Agreements.*”

*Sanitary Sewer Projects.* The CIP includes approximately \$383.8 million for sanitary sewer projects including the rehabilitation of three sanitary sewer pumping stations – Rock Creek, Earl Place and Upper Anacostia, sewer condition assessments that cover 90 miles of the system per year through year 2016, reconstruction of the 50-mile Potomac Interceptor and other on-going sewer projects such as repairs and replacement of manholes and improvements to access roads.

In 2009, the Authority completed a Sewer System Facilities Plan. This document culminated a five year effort involving sewer inspection and condition assessment, development of a sewer GIS database, hydraulic monitoring and modeling to assess system capacity and the development of prioritized activities for system improvement. The Sewer System Facilities Plan identified a significant increase in funding needed for sewer infrastructure improvement. As a result, the CIP budget includes approximately \$330 million to make improvements recommended in the Sewer System Facilities Plan.

*Combined Sewer Overflow Projects.* The CIP includes \$1.3 billion for the CSO LTCP and combined sewer projects. The CSO LTCP is designed to control combined sewer overflow discharges to prevent them from causing or contributing to violations of applicable water quality standards. See “THE SYSTEM – Wastewater Regulation and Permits – *NPDES Permit.*” Pursuant to the CSO LTCP, the Authority will construct combined sewage storage/conveyance tunnels that are designed to intercept and store water until Blue Plains can receive and treat the combined sewage. When completed, the CSO LTCP will reduce the combined sewer overflows by at least 96%, reducing pollution to the Potomac, Anacostia and Rock Creek waterways and exceeding the EPA standard of 85%. The Authority expects to implement the CSO LTCP over a 20-year period, which commenced in March 2005, at a total estimated cost (including funds spent prior to Fiscal Year 2012) of \$2.2 billion.

*Stormwater Projects.* The budget for the stormwater service area in the CIP is approximately \$16 million and includes extensions to the system and relief of certain sewers as well as rehabilitation or replacement of deteriorated storm sewers.

*Washington Aqueduct Projects.* The Washington Aqueduct provides wholesale water treatment services to the Authority and other Aqueduct Customers. See “THE SYSTEM – The Water System – *The Washington Aqueduct.*” Under federal legislation enacted and a memorandum of understanding executed in 1997, the Aqueduct Customers have a role in the oversight of the Aqueduct’s operations and its capital improvement program. The Aqueduct successfully designed, constructed and implemented a new orthophosphate corrosion control system at its water treatment plants in 2005 that meets the optimal corrosion control requirements of the Lead and Copper Rule. As a result, periodic sampling by the Authority shows that lead levels are below the action level, which supported the decision of the Authority to significantly modify its lead pipe replacement program. The CIP includes approximately \$107.1 million for Aqueduct projects. See “THE SYSTEM – The Water System – Water System Regulation and Permits – *NPDES Permit and Water Treatment System Sediments.*”

*Water System Projects.* Projects in the water service area are designed to maintain an adequate and reliable potable water supply to customers and fire protection. Categories of projects include the rehabilitation and replacement of water mains, storage facilities and pumping stations. They also include water service connection and meter replacement. The Authority has completed several critical improvements to the Water System, including cross connection removal and storage facility rehabilitation.

The CIP includes approximately \$546 million in improvements to the Water System, including new system storage facilities, a wide range of water distribution piping improvements such as new main extensions, major valve replacements, water main dead-end elimination and a large number of water transmission and distribution rehabilitation/replacements, fire-hydrant replacements, DDOT-related water main projects, and approximately \$15.6 million for the water lead program. See “THE SYSTEM – The Water System – Water System Regulation and Permits – *Lead Levels.*”

*Capital Equipment Projects.* The CIP includes approximately \$96 million for major information technology projects, vehicle fleet upgrades and maintenance of large equipment projects at Blue Plains and the major water and sewer pumping stations.

*Meter Replacement Projects.* The CIP includes approximately \$44 million for ongoing meter replacements and continued AMR system improvements and upgrades to the AMR equipment. This planned upgrade is part of the Authority’s preventative maintenance program for the Data Collection Units (“DCUs”), which collect approximately 260,000 meter readings per day and are an essential asset to the Authority’s billing process. The upgrades allow the Authority to move to the current version of AMR software and provide two-way communication from the meter transmitting units to the DCUs.

## CIP Financing Sources

The Authority will finance the CIP from the sources summarized below.

- *Revenue Bonds/Commercial Paper Notes* – The Authority expects to finance approximately \$2.3 billion, or 59.7%, of the CIP with new long-term debt. The Authority has used, and expects to use in the future, its Commercial Paper Notes to fund capital needs on an interim basis, followed by issuance of long-term revenue bonds to retire outstanding Commercial Paper Notes and provide permanent financing for CIP costs. As approved by the Board, the total amount of Commercial Paper Notes outstanding at any time cannot exceed \$200 million. As of the date of this Official Statement, \$12 million of the Series B CP Notes and \$29.2 million of the Series C CP Notes were outstanding. The Series B CP Notes and the Series C CP Notes will be retired in installments from proceeds of future tax-exempt bonds.

- *Wholesale Customer Contributions* – Under the terms of the 2012 IMA, the Authority’s wholesale customers share the cost of operating, maintaining and making capital improvements at Blue Plains. A separate agreement with the Loudoun County Sanitation Authority (“LCSA”) allows the Authority to recoup capital and operating costs from the LCSA on the same basis as provided for in the 2012 IMA. Contribution levels are governed by the agreements that provide for the pro-rata reimbursement for capital improvements based on the capacity allocated to each wholesale customer. The Authority expects to finance approximately \$936 million, or 24.3%, of the CIP, with capital funding from wholesale customers. As of the date of this Official Statement, all wholesale customers were current on their capital contributions payments.

- *Federal and Other Grants* – The Authority receives annual grants under the Clean Water Act and Safe Drinking Water Act for a variety of projects at Blue Plains and for the Water System. In addition, the Authority has received a special Congressional appropriation for improvements to the combined sewer system. The Authority expects to finance approximately \$283 million, or 7.4%, of the CIP with federal grants. Pursuant to the Safe Drinking Water Act and the Clean Water Act, the federal government makes annual appropriations for projects to improve drinking water supplies and wastewater treatment. Unlike most public water or wastewater utilities, the Authority receives appropriations in the form of grants and not as loans pursuant to a State Revolving Fund program. Under the terms of these grants, payments to the Authority are made on a reimbursable basis, with unclaimed appropriations remaining available to be obligated in subsequent years.

Under the Wet Weather Water Quality Act of 2000 that codified the EPA’s 1994 National CSO Policy, the United States Congress authorized grant funding for the CSO LTCP projects. These appropriations require a 50% match from the Authority. As of March 31, 2013, the Authority had received \$169 million in grant funding for the CSO LTCP projects.

- *Pay-As-You-Go Financing* – Revenues in excess of those required to meet operating and maintenance expenses, to make debt service payments and to fund reserves can be used, at the discretion of the Authority, to fund a portion of the CIP. In addition, the Board has adopted a policy that authorizes any funds in excess of the operations and maintenance reserve and any other significant one-time cash infusions to be used to finance the CIP or to pay off higher cost taxable debt. The Authority expects to finance approximately \$318 million, or 8.3% of the CIP, with pay-as-you-go funds.

- *Interest Income on Bond Proceeds* – Subject to Federal tax law requirements relating to use of the proceeds of tax-exempt bonds, the Authority uses interest earned on the proceeds of its bonds as a source of funds for the CIP. This interest income is treated as non-operating revenue of the Authority that is available to pay debt service, if needed. The use of this income for capital funding purposes

represents another source of pay-as-you-go capital. The Authority estimates that \$13.5 million in interest income will be available to finance the CIP.

**Cost Estimates**

Although actual bid prices for recent construction projects, on average, have been slightly below the engineering cost estimates for such projects, the costs shown in the CIP reflect the Authority’s practice of increasing construction cost estimates by 3% annually to the midpoint of construction. There are no assurances that the actual rate of inflation in construction costs will not increase significantly above the assumed rate of inflation or that such increases will not have an adverse impact on the financial operations of the Authority.

An additional consideration regarding the construction cost estimates is the value of change orders relative to the total cost of construction work performed. The cost of construction-related change orders executed by the Authority for contracts undertaken during the five-year period from Fiscal Year 2008 through Fiscal Year 2012 was \$30 million, or 2% of the total original value of the contracts of \$1.3 billion for this period. The relatively low value of change orders compared to the total construction costs incurred is an indication that project designs are thorough and that projects are being effectively managed during construction.

**CUSTOMER BASE, RATES AND CHARGES**

**Customer Categories and Accounts**

As of September 30, 2012, the System had 125,752 active, metered water and wastewater accounts. Except for wholesale accounts, the majority of accounts receive both water and wastewater service. The Authority’s customer accounts are divided into four categories: residential, commercial, governmental and wholesale. The number of accounts in each of the categories is as follows:

<u>Customer Category</u>	<u>Number of Accounts</u>
Residential	103,887
Commercial	19,242
Governmental	
Federal	538
District of Columbia	605
D.C. Housing Authority <sup>1</sup>	1,435
Authority <sup>1</sup>	36
Aqueduct	2
Wholesale	7
Total	<u>125,752</u>

<sup>1</sup> The D.C. Housing Authority is the only District agency that is billed separately. The remainder of District agencies are billed as part of a composite bill for the government.

Source: Authority records.

**Customer Base**

The Authority’s customer and revenue base is diverse, consisting of a wide variety of residential, commercial and governmental customers, as well as wholesale wastewater customers. For the three year

period from Fiscal Year 2010 through Fiscal Year 2012, the commercial customer revenue represented about 21.5% of total operating revenue.

This group includes a variety of commercial uses, including nationally-recognized universities and regional hospitals, commercial office space with tenants that are national associations, lobbying firms, major law firms and large hotels. The following table reflects the Authority's ten largest commercial customer accounts in Fiscal Year 2012, which in aggregate represented 3.5% of total revenues.

**Ten Largest Commercial Customer Accounts**

<u>Customer</u>	<u>FY 2012 Revenues</u>	<u>% of Total Revenues</u>
Howard University	\$ 2,596,564	0.6%
George Washington University	2,530,632	0.6
Georgetown University	1,842,860	0.4
William C. Smith & Co.	1,787,150	0.4
Georgetown University Hospital	1,643,380	0.4
Horning Brothers	1,163,586	0.3
Amtrak	937,430	0.2
Washington Hospital Center	933,027	0.2
American University	869,211	0.2
The Barac Company	839,884	0.2
<b>Total</b>	<b>\$ 15,143,724</b>	<b>3.5%</b>

Source: Authority records.

The Authority serves many facilities of the federal government as well as the District of Columbia. In Fiscal Year 2012, government revenue represented approximately 14.6% of total operating revenues including federal grants and interest income. The following table reflects the Authority's ten largest government customer accounts in Fiscal Year 2012, which in aggregate represented 9% of total revenues.

**Ten Largest Government Customer Accounts**

<u>Customer</u>	<u>FY 2012 Revenues</u>	<u>% of Total Revenues</u>
U.S. General Services Administration	\$ 7,443,691	1.7%
D.C. Housing Authority	5,669,475	1.3
U.S. Congress	5,225,952	1.2
Department of Defense (VA)	3,527,613	0.8
Bolling Air Force Base	2,925,847	0.7
D.C. Department of Human Services	2,834,355	0.6
Smithsonian Institution	2,681,705	0.6
National Park Service	2,481,144	0.6
D.C. Board of Education	2,213,636	0.5
Department of the Navy	1,886,750	0.4
<b>Total</b>	<b>\$ 36,890,168</b>	<b>8.4%</b>

Source: Authority records.

**Customer Demand**

The District of Columbia's economic base is driven by federal and local government agencies, diplomatic embassies, domestic and international organizations, and numerous commercial properties.



Regional forecasts prepared by the COG in the Fall of 2006 projected that population in the region (including the District and the nearby counties) will increase to 6.6 million by 2030, an increase of 33% from 2005 levels. COG employment forecasts for the region predict a 39% increase in the number of jobs from 2005 to 2030. These forecasts reflect continued growth in private sector employment and the continued diversification of the economy to complement the stable presence of government agencies and other organizations. The projected growth in the number of residents and businesses is expected to help offset some of the reduction in consumption attributable to water conservation measures and the replacement of old fixtures and appliances with more efficient units.

The following table shows the average percentage of annual water consumption by customer category for the period from Fiscal Year 2009 through Fiscal Year 2012. The results illustrate the diversification of the Authority's customer base.

**Average Annual Consumption By Customer Category**  
**Fiscal Years 2009 – 2012**  
(millions of Ccf)

	<u>Average Annual</u>	<u>Percent of Total</u>
Residential Single-Family	8.19	21.5%
Residential Multi-Family	7.85	20.6%
Commercial	13.22	34.6%
Federal Government	6.07	15.9%
D.C. Municipal Government	1.26	3.3%
D.C. Housing Authority	0.93	2.4%
Authority	0.33	0.9%
Exempt	0.36	0.9%
<b>Total Consumption</b>	<b>38.19</b>	<b>100.0%</b>

Source: Authority records.

The following table shows historical consumption for the Authority's customer categories for Fiscal Years 2009 through 2012, and projected consumption for Fiscal Years 2013 through 2018. The Authority's implementation of the AMR program, which included the replacement and repair of meters, significantly reduced estimated meter readings and improved the reporting of actual consumption.

**Historical and Projected Annual Consumption by Major Customer Category**  
Fiscal Years ended/ending September 30  
(Millions of Ccf)

	<u>Actual</u>				<u>Projected</u>					
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Residential Single-Family	8.30	8.32	8.27	7.88	7.66	7.58	7.51	7.43	7.36	7.28
Residential Multi-Family	8.01	7.99	7.83	7.57	7.32	7.25	7.17	7.10	7.03	6.96
Commercial	13.00	13.16	13.44	13.26	12.86	12.73	12.60	12.48	12.35	12.23
Federal Government	6.30	5.91	6.00	6.07	5.88	5.82	5.76	5.70	5.65	5.59
D.C. Municipal Government	1.25	1.26	1.32	1.20	1.17	1.16	1.15	1.14	1.12	1.11
D.C. Housing Authority	1.07	0.94	0.91	0.78	0.75	0.75	0.74	0.73	0.72	0.72
DC Water	0.29	0.33	0.34	0.34	0.35	0.35	0.34	0.34	0.34	0.33
Exempt	0.43	0.41	0.44	0.15	0.15	0.15	0.15	0.14	0.14	0.14
<b>Total Consumption</b>	<b>38.65</b>	<b>38.32</b>	<b>38.54</b>	<b>37.24</b>	<b>36.14</b>	<b>35.78</b>	<b>35.42</b>	<b>35.06</b>	<b>34.71</b>	<b>34.37</b>

Note: Projections for Fiscal Years 2014 through 2018 assume a 1% annual decline in water consumption for each customer category.  
Source: Authority records.

Some fluctuation in consumption can occur in a given year due to variations in weather conditions and other factors such as billing adjustments. The consumption decline in Fiscal Year 2009 was greater than has been experienced in recent years. Other major cities and jurisdictions surrounding the District also experienced greater than typical declines in water consumption in 2008 and 2009; a period of time that covers part of the recent economic recession. The rate of decline in customer usage slowed in Fiscal Year 2010 and consumption showed a slight increase in FY 2011. In FY 2012, there was a 3.4% decline in usage. For present revenue projection purposes, the Authority assumed that demand will continue to decline for the foreseeable future given the experience of DC Water and many other large water utilities in recent years.

The Authority anticipates that consumption will total 36.14 million Ccf in Fiscal Year 2013, representing a decrease of approximately 3.0% compared to Fiscal Year 2012. The Authority assumes that long-term water consumption will decline at the rate of 1% per year beginning in Fiscal Year 2014, recognizing that weather conditions and other factors may affect water demand in a given year. The expectation that future sales will decline is consistent with recent trends in the Washington, D.C. region as well as the projected sales in other large cities in the northeast United States.

Year-to-date demand through March 31, 2013 (the first six months of Fiscal Year 2013) was 5.3% lower than the comparable period in Fiscal Year 2012, excluding use by the Aqueduct. The decline is partially attributable to disputed consumption due to leakage on a large account in DC municipal government that occurred in prior years. The dispute has been resolved and DC Water has adjusted the billed consumption in FY 2013. Excluding the DC municipal government, year-to-date demand through March 31, 2013 is 2.0% lower than the comparable period in FY 2012.

It is too early in the Fiscal Year to reach any conclusions concerning the likely Fiscal Year 2013 consumption by retail customers since revenue in a given month may be affected by billing adjustments or other factors. However, there is some risk that consumption could be lower than anticipated during the Projection Period. The risk is mitigated to some extent in that lower-than-expected water demand would only affect consumption-based water and sewer revenues within the District, and not revenues from the federal government or wholesale customers. Retail revenue that is not consumption-related, such as the meter charge and the CRIAC, would also be unaffected. Consumption-based water and sewer revenues within the District are estimated to comprise about 56.7% of total revenues (excluding withdrawals from the Rate Stabilization Fund) in Fiscal Years 2013 through 2018. The Authority evaluates its water consumption projections annually in connection with its budget preparations and more frequently if the need arises.

The risk of lower-than-projected revenues in Fiscal Year 2013 and subsequent years due to lower-than-assumed consumption is expected to be mitigated, in part, by the Authority's track record of keeping its costs below budget. The Authority also anticipates that it will have a surplus of funds in Fiscal Year 2013. In addition, the Authority has the ability to adjust its rates, as necessary, to provide the required revenues in each year.

### **Rate-Setting Authority**

#### *Retail Rates and Fees*

The Board establishes the Authority's rates, fees and charges. Only the six Board members representing the District vote on setting retail water and wastewater rates and fees for the retail customers who are customers within the District. No approvals from federal or local officials are required in order to set rates.

The Authority receives annual grant funding under the Clean Water Act which requires the maintenance of wastewater charges sufficient to defray costs of operation, maintenance and replacement and surcharges for industrial discharges into the System's sewers levied in conformity with formulas set forth in the Clean Water Act and regulations thereunder. Retail revenues, including the Federal Government, are expected to constitute approximately 74.4% of the Authority's total annual revenues during Fiscal Year 2013 through Fiscal Year 2018 (excluding withdrawals from the Rate Stabilization Fund).

*Federal Government Charges*

The Authority's forecasted water and wastewater charges for the federal government are prepared and included in the federal budget 18 months in advance of the commencement of the Authority's Fiscal Year based on the prevailing consumption estimates, projected retail rate increases as included in the current 10-year financial plan and adjustments for prior year true-ups. The federal government budgets for and pays its bills quarterly, directly from the U.S. Treasury, based on the estimates provided by the Authority in advance. Under the current billing process, any differences between the projected and the actual charges are netted against a future year's billing. Federal government revenues are expected to constitute approximately 8.8% of the Authority's total annual revenues during Fiscal Year 2013 through Fiscal Year 2018 (excluding withdrawals from the Rate Stabilization Fund).

*Wholesale Customer Charges*

The Authority provides wholesale wastewater treatment services to User Jurisdictions at Blue Plains. Each wholesale customer's share of operating costs at Blue Plains is recovered in accordance with the Blue Plains Intermunicipal Agreement of 1985, the 2012 IMA, the Potomac Interceptor Agreements and the Loudoun County Sanitation Authority Agreement (as discussed in more detail in "THE SYSTEM – The Wastewater System"), and is based on actual costs of operating and maintaining the plant and the collection facilities, prorated to each User Jurisdiction based on its respective actual share of wastewater flows. A User Jurisdiction's share of capital costs is based on its share of capacity allocations in the plant. Both operating and capital payments are made on a quarterly basis. Wholesale customer revenues are expected to constitute approximately 15.1% of the Authority's total annual revenues during Fiscal Year 2013 through Fiscal Year 2018 (excluding withdrawals from the Rate Stabilization Fund).

Wholesale customers are billed based on the adopted budget for that Fiscal Year. Capital-related charges are billed quarterly with payments due on the 15th day of the second month following the end of the quarter. The operating and maintenance-related charges are billed annually by mid-October and payments are due each of November, February, May and August. Following each Fiscal Year, the Authority prepares a reconciliation that determines the actual costs and each wholesale customer's appropriate share of such costs. Adjustments are then billed or credited to the wholesale customers in the first quarter of the subsequent Fiscal Year.

**Components of Retail Rates and Charges**

*Water and Wastewater Charges*

The Authority recovers the costs of operating and maintenance and debt service through retail rates and fees, wholesale customer charges and other miscellaneous non-operating income such as interest earnings. The primary retail rates and fees are as follows:

- Water and Wastewater Consumption Rates – These rates are based on metered water usage and are stated in terms of hundred cubic feet, also known as "Ccf." All customer

groups are charged the same consumption rates. In 2009, the Authority retained Raftelis Financial Consultants, Inc. (“RFC”) to review the allocation of costs between the water and wastewater rates and prepare the Fiscal Year 2009 Cost of Service Study (“2009 COS Study”). Based on the 2009 COS Study, RFC recommended a shift in the water and wastewater volumetric rates due to higher capital costs in the water service area. As a result, the Authority adjusted the water and wastewater volumetric rates in Fiscal Year 2011, from the allocation of 41/59 percent to 45/55 percent. The Authority continues to use this allocation ratio.

- Customer Metering Fee – The Authority assesses a metering fee to recover costs associated with installing, operating and maintaining meters and the AMR system. The metering fee is charged as a separate line item on retail customer bills and varies by meter size. Based on the 2009 COS Study recommendations, the Authority increased the metering fee effective October 1, 2010, to better reflect the actual cost of installing, operating and maintaining meters and the AMR system. The metering fee in Fiscal Year 2013 remains unchanged from the prior year.

*Clean Rivers Impervious Area Charge*

The Water and Sewer Authority Equitable Ratemaking Amendment Act of 2008 (the “2008 Amendment Act”), enacted by the Council in 2008, amended the Act to authorize the Authority’s General Manager to restrict combined sewer flow into the District from Maryland and Virginia and to require the Authority to, among other things, offer financial assistance programs to mitigate the impact of any increases in retail water and sewer rates on low-income residents of the District, including a low-impact design incentive program. The 2008 Amendment Act also amended the District of Columbia Public Works Act of 1954 to broaden the bases for the determination of sanitary sewer service charges to include impervious surface area and to provide for an appeal process for the assessment of an impervious surface fee.

In Fiscal Year 2009, the Authority approved the development and implementation of the CRIAC to recover the costs of the CSO LTCP, mandated by the EPA Region III pursuant to the 2005 Consent Decree. The CSO LTCP will be implemented over a 20-year period at a total cost of \$2.2 billion. See “THE SYSTEM – Wastewater Regulation and Permits – NPDES Permit.” Prior to the implementation of the CRIAC, the CSO LTCP project cost was bundled in the wastewater rate based on the amount of water used.

The CRIAC is based on the amount of impervious area on a property, rather than on the amount of water consumption, which is a more equitable method of recovering the CSO LTCP costs. It allows the Authority to expand its customer base by charging all properties that generate stormwater, including those that do not use water (e.g., some parking lots). Impervious area is a man-made surface that cannot be easily penetrated by water, such as a rooftop, a paved driveway, a patio, a swimming pool or a parking lot that impedes the percolation of water into the subsoil and plant growth. The Authority maintains a database in which it classifies each parcel located within the District as pervious or impervious. This database and the classifications therein provide the basis for the District’s billing of the CRIAC.

All residential customers are charged Equivalent Residential Units (“ERUs”) based upon six tiers and the amount of impervious surface area on each residential lot as described in the following table.

Tiers	Size of Impervious Area (square feet)	Equivalent Residential Unit	No. of Properties
Tier 1	100 – 600	0.6	18,772
Tier 2	700 – 2,000	1.0	78,571
Tier 3	2,100 – 3,000	2.4	5,779
Tier 4	3,100 – 7,000	3.8	2,505
Tier 5	7,100 – 11,000	8.6	123
Tier 6	11,100 and more	13.5	49

Source: Authority records.

The CRIAC is applied to all lots, parcels, properties and private streets throughout the District that are greater than 100 square feet, except for District or federally owned rights-of-way. The CRIAC is added to the customer’s metered service bill and billed monthly unless the property is impervious only and has no other metered water or wastewater service. The CRIAC will be reviewed regularly and adjusted as appropriate by the Board. Effective October, 1, 2012, the Authority’s CRIAC rate was \$9.57 per ERU.

On January 23, 2009, the Mayor of the District signed the Water and Sewer Authority Equitable Ratemaking Act of 2008, which states that DC Water will establish, together with the District Department of Environment (“DDOE”), an incentive program to institute certain eligible best management practices that reduce the amount of stormwater runoff generated from a property. On April 4, 2013, the Board approved a resolution that authorized staff to advertise the CRIAC Incentive Program for public comment and the rulemaking process. The proposed program is a three year pilot credit program for CRIAC that will provide a 4% maximum incentive credit (the actual credit amount is to be calculated based upon the DDOE formula proposed on October 5, 2012), with a not-to-exceed annual budgeted allowance of \$500,000. The public hearing that was held on May 8, 2013 was the formal process for obtaining public input, and a final decision is not anticipated until July 2013. The not-to-exceed annual budgeted allowance of \$500,000 in credits is taken into consideration in the projection of revenues from the CRIAC.

*D.C. PILOT/Right of Way Occupancy Fee*

This fee recovers the cost of the PILOT and the District’s Right of Way Fee (“PILOT/ROW Fee”) which is a charge levied by the District for payment in lieu of taxes and occupancy or use of public space or public rights of way including that used by the Authority’s underground infrastructure. The Authority passes through the PILOT/ROW Fee to retail customers based on metered water consumption as a separate line item on the bills. Effective October 1, 2012, the Authority’s PILOT/ROW Fee was \$0.66 per Ccf.

*Stormwater Fee*

The Authority’s retail water and wastewater bills also include a stormwater fee levied on behalf of the District government. The stormwater fee is charged as a separate line item on retail customer bills. Although the Authority no longer administers the program, it will continue to be reimbursed by the District for any stormwater-related expenditures. The DDOE has rate-setting authority for stormwater services provided by the District and the Authority expects to work collaboratively with the DDOE to set future rates. See “THE AUTHORITY – Relationship with the District.” As of the date of this Official Statement, the stormwater fee charged to retail customers was \$2.67 per ERU.

**Historical and Projected Water and Wastewater Retail Rates**

The Board has raised retail water and wastewater rates regularly since 1996, in line with its policy of implementing rate increases in a gradual and predictable manner. In Fiscal Year 2012, the Authority's retail rates were \$3.24 per Ccf for water and \$3.96 per Ccf for wastewater. Effective October 1, 2012, water rates increased by \$0.18 per Ccf to \$3.42 per Ccf, and the wastewater rates increased by \$0.22 per Ccf to \$4.18 per Ccf. Federal government customers in Virginia pay the Arlington County retail rate, which, as of May 2013, was \$2.98 per Ccf for water or \$3.98 per 1,000 gallons. Federal government customers in Maryland pay according to the WSSC rates, which include a fixed charge and a consumption-based charge that increases with higher levels of usage. Effective October, 1, 2012, the Authority's CRIAC rate was \$9.57 per ERU.

Since 2000, the Board has adopted a series of ten-year financial plans that include annual, gradual rate increases. The latest of these was a retail rate increase for water and wastewater charges of 5.5% effective October 1, 2012, for Fiscal Year 2013. For Fiscal Years 2014 through 2018, the Authority's financial plan projects retail water and wastewater rate increases of 5.5%, 5.5%, 6.0%, 6.0% and 5.0%, respectively. Rate increases take effect at the beginning of the Fiscal Year (October 1).

The Authority's financial forecast includes an anticipated increase in the CRIAC from \$9.57 per ERU in Fiscal Year 2013 to \$12.77 per ERU in Fiscal Year 2014 and to \$16.79 per ERU in Fiscal Year 2015. Further increases in the CRIAC are expected in Fiscal Years 2016 through 2021.

The following table sets forth historical water and wastewater rates and the CRIAC of the Authority and the projected rate adjustments of the Authority for Fiscal Years 2014 through 2018. The revenue resulting from the CRIAC reduces the amount of revenue that must be raised through wastewater charges, resulting in a lower wastewater rate. The wastewater rate for Fiscal Year 2009 is shown in the following table before and after the effects of the CRIAC.

**Historical and Projected Water and Wastewater Retail Rates**  
(\$ in Ccf)

<u>Fiscal Year</u>	<u>Water Consumption Rate</u>	<u>Sewer Usage Rate</u>	<u>Combined Rate</u>	<u>Percent Increase</u>	<u>CRIAC Rate (Per ERU)</u>
<i>Historical</i>					
2004	1.74	2.63	4.37	2.5%	
2005	1.83	2.76	4.59	5.0%	
2006	1.93	2.91	4.84	5.5%	
2007	2.03	3.06	5.09	5.0%	
2008	2.14	3.23	5.37	5.5%	
2009 <sup>1</sup>	2.30	3.47	5.77	7.5%	
2009 <sup>2</sup>	2.30	3.31	5.61	4.5%	1.24
2010	2.51	3.61	6.12	9.0%	2.20
2011	3.10	3.79	6.89	12.5%	3.45
2012	3.24	3.96	7.20	4.5%	6.64
2013	3.42	4.18	7.60	5.5%	9.57
<i>Projected</i>					
2014 <sup>3</sup>	3.61	4.41	8.02	5.5%	12.77
2015 <sup>3</sup>	3.81	4.65	8.46	5.5%	16.79
2016 <sup>3</sup>	4.04	4.93	8.97	6.0%	20.68
2017 <sup>3</sup>	4.28	5.23	9.51	6.0%	23.12
2018 <sup>3</sup>	4.49	5.49	9.98	5.0%	24.52

<sup>1</sup> The wastewater rate for Fiscal Year 2009 reflects the rate in effect at the beginning of the year before the CRIAC was implemented on May 1, 2009.

<sup>2</sup> Reflects the rates in effect in the latter part of the year the CRIAC was implemented.

<sup>3</sup> Rates for Fiscal Years 2014 through 2018 are projected and subject to change. Projections were adopted on July 3, 2012.

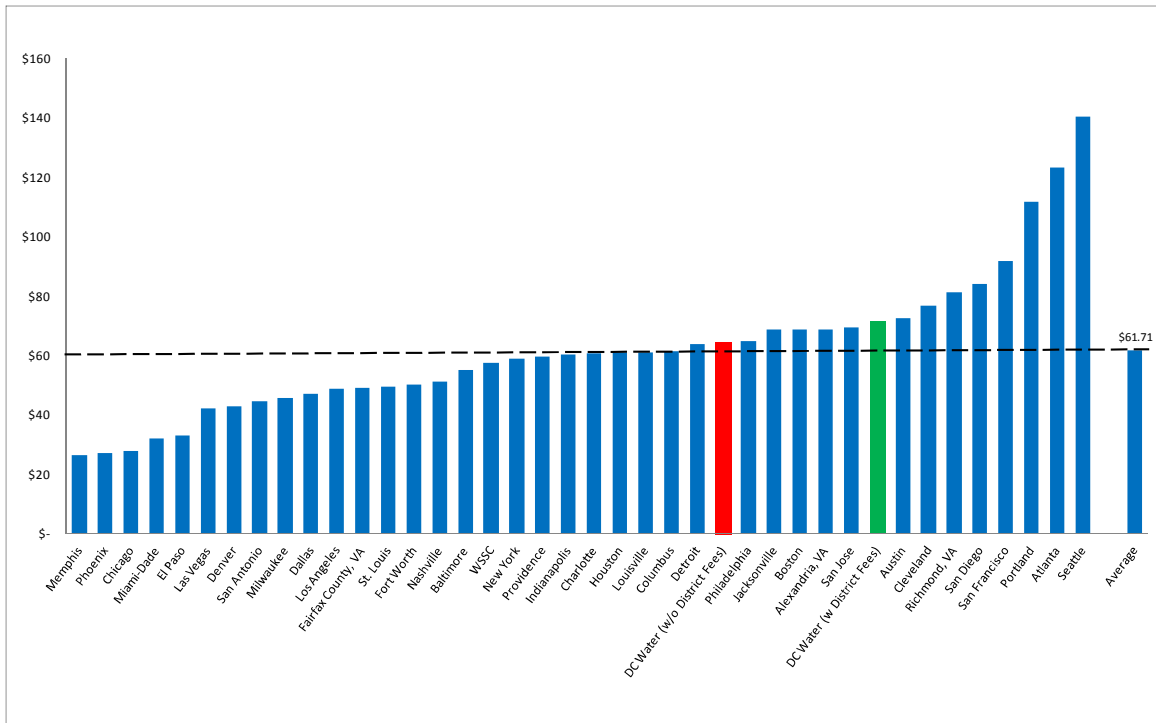
Source: Amawalk.

The projected rate increases and revenues for FY 2014 and FY 2015 are based on the financial plan of the Authority as of the date of this Official Statement. It is anticipated that the Board of the Authority will review the proposed FY 2014 budget including the proposed increase in retail rates and revenues during the period of May 2013 through July 2013 before approval of the Revised FY 2014 operating budget and final retail rates. Management of the Authority believes that the projections of the cost of providing service for FY 2014 will not change during this review period, and the cost of service is projected to decrease slightly in FY 2015 due to savings anticipated from the new digester program that will be placed in service in FY 2014. It is possible that the Board may adopt retail rate increases in FY 2014 and FY 2015 that differ from the current Financial Plan. The conclusions of Amawalk as presented in Appendix B would not change in the event that the adopted FY 2014 and FY 2015 retail rates result in projected retail revenues that are up to 1% lower than amounts presented in this Official Statement. It is recognized that any reduction in the increase in FY 2014 retail rates compared to the financial plan may result in a larger retail rate increase in FY 2015 if the variations exceeded the current revenue anticipated for the Rate Stabilization Fund. **[HOLD FOR REVISION UPON ACTION BY BOARD.]**

**Retail Rate Comparison**

The Authority’s retail rates are comparable to those of other utilities in the metropolitan Washington, D.C. region and other similar utilities in the eastern United States. The following chart compares the Authority’s combined water, wastewater and impervious area residential charges to these utilities. The table reflects the Authority’s current Fiscal Year 2013 rate and fee charges, while other utilities’ rates are as of April 2013. The Authority’s Fiscal Year 2013 rate and fee charges are shown both with and without the pass-through of the District’s PILOT/ROW Fee in the amount of \$0.66 per Ccf, and the DDOE residential stormwater rate of \$2.67 per ERU per month.

**Water and Wastewater Bills  
Average Monthly Residential Bill Comparison  
Single Family Residential Monthly Bill – Large National Utilities<sup>1,2</sup>**



<sup>1</sup> Assumes average residential consumption of 6.69 Ccf, or 5,004 gallons, per month. Ccf = hundred cubic feet, or 748 gallons.

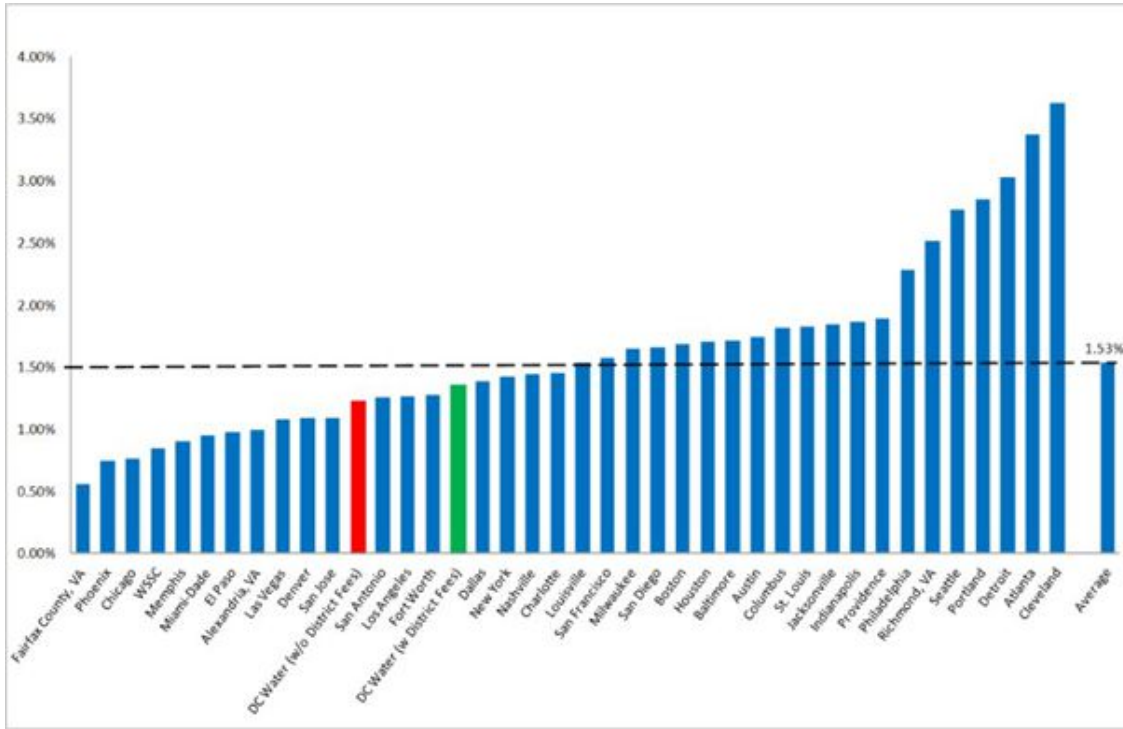
<sup>2</sup> Reflects rates and fees in place as of April, 2013. The Authority’s charge with District fees includes the PILOT/ROW fee totaling \$0.66 per Ccf (effective October 1, 2012) and the DDOE residential stormwater rate of \$2.67 per ERU per month.

Source: Amawalk

The median income in the District is competitive with the median income in many other jurisdictions. The following chart illustrates the Authority’s charges for a single family residential customer as a percentage of median income compared to similar data for other water and wastewater utilities.



**Water and Wastewater Bills**  
**Average Monthly Residential Bill Comparison**  
**Single Family Residential Monthly Bill**  
**As Percentage of Median Household Income – Large National Utilities<sup>1,2</sup>**



<sup>1</sup> Assumes average residential consumption of 6.69 Ccf, or 5,004 gallons, per month. Ccf = hundred cubic feet, or 748 gallons.

<sup>2</sup> Reflects rates and fees in place as of April, 2013. The Authority's charge with District fees includes the PILOT/ROW fee totaling \$0.66 per Ccf (effective October 1, 2012) and the DDOE residential stormwater rate of \$2.67 per ERU per month.

Source: Amawalk

**Collections**

The Authority has implemented policies and business practices intended to optimize the collection of customer billings. Measures are taken (including cross-checks with property records) to ensure that all users of the Authority's system are being billed. With the implementation of AMR and the new Customer Information System, the Authority can access customer usage data at any time and can alert customers to apparent leaks immediately. In 2009, the Authority achieved the lowest 90-day receivable balance in the Authority's history. The low level of the 90-day receivable balance generally continued in Fiscal Years 2010, 2011, and 2012. The 90-day receivable balance as a percentage of operating revenue has declined significantly since 2003. This is the result of a comprehensive strategy that integrates several consumer services functions along with an aggressive customer contact process that addresses collections issues early in the process when outstanding balances are within the range of customers' ability to pay, improves lien processing for delinquent accounts, and enhances coordination efforts with other District agencies.

The Authority’s collection program includes: (i) assessing customers a 10% late fee if their bill is not paid on day 31 after the date of billing and sending customers a friendly reminder notice; (ii) placing a call to the customer using an automatic notification call program on day 34; (iii) sending the customer notice of intent to disconnect service on day 39 (which, in accordance with District laws and regulations gives customer 15 days to pay the delinquent bill and maintain service); (iv) mailing to the owner of the property an intent to place a lien on the property on day 65 (which gives the owner 10 additional days to pay the bill before a lien is placed on their property) and imposing an additional 1% penalty per month on all delinquent balances; (v) placing a call to the customer on day 67 to inform him/her of the Authority’s intent to place a lien on the property if the delinquent bill is not paid; (vi) placing a lien on the property on day 80. The lien becomes a part of the public record and appears on the owner’s credit report and adversely affects their FICO score. The Authority will remove a lien only if the account balance is paid in full, and/or if the lien was placed in error. Once paid, the lien is removed and reflected as “satisfied” on the credit report but the customer’s FICO score is not changed. The Authority’s liens are continuous, which entitles the Authority to collect the current outstanding balance owed by a customer regardless of the balance at the time the lien was placed.

The Authority utilizes collection analysts who make calls to owners of delinquent accounts with a focus on the top 200 delinquent accounts. The Authority also places delinquent multi-family apartment building owners in receivership, which allows the Authority to be paid a percentage of the tenants rent that is collected by a court-appointed receiver before the owner can collect any rent. The account stays in receivership until paid in full.

If not successful in using any other method, the Authority will disconnect service for non-payment and not restore it until the delinquent bill is paid. The Authority’s sophisticated meter reading system allows the Authority to know if water is being used after the Authority disconnects it for non-payment. If this occurs, the Authority will remove the meter and not restore service unless the delinquent amount is paid in full.

The following table shows that the cumulative retail (including commercial) customer balances that were delinquent more than 90 days declined by 78% between Fiscal Years 2003 and 2009. There were no government delinquencies as of the date of this Official Statement.

**Retail Customer Cumulative Delinquent Balances**  
(\$ in millions)

<u>As of September 30,</u>	<u>Amount<sup>1</sup></u>	<u>Percent of Operating Revenue</u>
2003	\$21.8	8.5%
2004	16.3	6.1%
2005	10.9	3.8%
2006	7.4	2.5%
2007	7.1	2.3%
2008	6.1	1.8%
2009	4.9	1.4%
2010	5.1	1.4%
2011	5.5	1.4%
2012	5.5	1.3%

<sup>1</sup> Amounts shown are as of the end of each Fiscal Year for amounts delinquent more than 90 days and do not include previously disputed amounts for Howard University (now resolved) and the Soldier’s Home discussed below.

Source: Authority records.

## **Special Accounts**

The Authority has historically provided some U.S. Soldiers' and Airmen's Home ("Soldiers' Home") accounts with free water service in exchange for the use of certain parcels of property for the Authority's utility operations. The Authority has started to bill the Soldiers' Home for sewer services. It is anticipated there will be three active accounts from the Soldier's Home in Fiscal Year 2013 that will remain in exempt status, pending additional discussions. The Authority does not expect that any other accounts will be categorized as exempt in Fiscal Year 2013 and subsequent years.

## **Customer Assistance Programs**

The Authority sponsors two programs to assist low income customers in paying their water bills: Customer Assistance Program or the "CAP" and Serving People by Lending A Supporting Hand ("S.P.L.A.S.H."). The Authority implemented the CAP in 2000 providing a discount of 4 Ccf per month of water service for single family residential homeowners that meet income eligibility guidelines. In Fiscal Year 2004, the Authority expanded the CAP to include tenants who meet the financial eligibility requirements and whose primary residence is separately metered by the Authority. In January 2009, the Authority further expanded the CAP to provide a discount of 4 Ccf per month of sewer services to eligible customers. Effective October 1, 2010, the Board expanded the CAP discount to include the first 4 Ccf of PILOT/ROW fees. In Fiscal Year 2010, a total of 6,107 customers received a discount on their bills totaling \$916,156. In Fiscal Year 2011, 6,025 customers received a discount on their bills totaling \$1,380,207. In Fiscal Year 2012, 5,648 customers received a discount on their bills totaling \$1,330,511. In the first six months of Fiscal Year 2013, the Authority provided assistance totaling \$440,195 to 4,573 customers. The projected revenues of the Authority take into consideration the discounts provided to low-income customers under the CAP.

Through the S.P.L.A.S.H. program, the Authority offers assistance to families in need so that they can receive critical water services. S.P.L.A.S.H. is funded solely by contributions from the community, as well as from the Authority's customers. The Authority has redesigned its water and sewer bills to make it easier for its customers to make contributions to S.P.L.A.S.H. The Authority pays all administrative costs of this program, which is administered directly by the Greater Washington Urban League ("Urban League"). All contributions are deposited in a bank account from which the Urban League makes payments on behalf of eligible customers. Every dollar received by the Authority is distributed to eligible customers. In Fiscal Year 2010, the Authority provided assistance to 300 customers totaling \$94,767. In Fiscal Year 2011, the Authority provided assistance to over 300 customers totaling \$100,030. In Fiscal Year 2012, the Authority provided assistance to over 354 customers totaling \$96,665. For the first six months of Fiscal Year 2013, the Authority provided assistance to over 184 customers totaling \$63,766.

## **Customer Service Operations**

The Department of Customer Services reports to the Assistant General Manager of Consumer Service and is responsible for meter installations, meter reading, meter testing, billing and collections. The Authority continuously evaluates its customer service offerings to ensure that customers receive the best possible service.

## FINANCIAL OPERATIONS

### Historical Financial Operations

The Authority derives its revenues primarily from retail customer payments for water and wastewater treatment services, which account for 78.4% of total revenues, and wholesale customer payments for wastewater treatment services, which account for 21.4% of total revenues. The Authority's operating revenues have steadily increased since its creation, due largely to rate and fee increases approved by the Board which are discussed in more detail in the section entitled "RATES AND CHARGES – Historical and Projected Water and Wastewater Retail Rates."

The Authority is committed to optimizing the cost of service it offers and as a result places emphasis on managing its expenses. The Authority's Department of Finance and Budget closely monitors spending to ensure compliance with approved operating and capital budgets. This includes preparation of daily and monthly management reports for each operating unit and financial system controls that prevent overspending. In addition, the Authority provides detailed monthly reports on cash and investments, revenues, operating budget and capital spending to the Board's Finance and Budget Committees and quarterly updates on the CIP status to the Board's Environmental Quality and Operations Committees. The average annual rate of increase in expenses for Fiscal Years 2008 through 2012 was 6.3%; however, the actual expenses for each of these Fiscal Years were less than the budgeted amount.

The following table presents historical revenues, expenses and changes in net assets using information contained in the audited financial statements for Fiscal Years 2008 through 2012. The Authority's complete financial statements for the Fiscal Years ended September 30, 2012, and 2011, are attached hereto as APPENDIX B.

**Historical Revenues, Expenses and Change in Net Assets**  
(\$ in thousands)

	Fiscal Year ended September 30				
	2008	2009	2010	2011	2012
<b>REVENUES</b>					
Operating revenues:					
Residential, commercial and multi-family customers	\$ 183,553	\$ 191,543	\$ 209,796	\$ 241,475	\$ 256,846
Federal government	35,888	35,195	37,845	43,033	48,381
District government and DC Housing Authority	16,193	16,804	21,947	25,123	24,713
Charges for wholesale wastewater treatment	82,854	85,519	87,505	90,414	94,549
Other	3,846	3,337	6,655	8,210	16,077
<b>Total Operating Revenues</b>	<b>\$ 322,334</b>	<b>\$ 332,398</b>	<b>\$ 363,748</b>	<b>\$ 408,255</b>	<b>\$ 440,566</b>
Non-operating revenues:					
Interest income	\$ 13,573	\$ 2,285	\$ 1,561	\$ 2,008	\$ 933
<b>Total Revenues</b>	<b>\$ 335,907</b>	<b>\$ 334,683</b>	<b>\$ 365,309</b>	<b>\$ 410,263</b>	<b>\$ 441,499</b>
<b>EXPENSES</b>					
Operating expenses					
Personnel services	\$ 75,838	\$ 82,248	\$ 88,210	\$ 93,240	\$ 97,784
Contractual services	55,127	61,277	66,747	68,286	62,643
Chemicals, supplies and small equipment	28,816	29,074	29,003	28,188	28,815
Utilities and rent	37,843	32,813	29,929	29,429	26,786
Depreciation and amortization	54,418	59,291	64,425	70,209	74,342
Water Purchases	25,746	25,371	27,587	27,170	28,389
Other	3,603	3,236	2,750	2,769	2,296
<b>Total operating expenses</b>	<b>\$ 281,391</b>	<b>\$ 293,310</b>	<b>\$ 308,651</b>	<b>\$ 319,291</b>	<b>\$ 321,055</b>
Non-operating Expenses					
Interest expenses and fiscal charges	\$ 39,342	\$ 51,431	\$ 58,370	\$ 71,613	\$ 71,895
Payment in lieu of taxes and right of way fee	17,525	19,183	20,474	21,990	21,982
<b>Total non-operating expenses</b>	<b>\$ 56,867</b>	<b>\$ 70,614</b>	<b>\$ 78,844</b>	<b>\$ 93,603</b>	<b>\$ 93,877</b>
<b>Total Expenses</b>	<b>\$ 338,258</b>	<b>\$ 363,924</b>	<b>\$ 387,495</b>	<b>\$ 412,894</b>	<b>\$ 414,932</b>
	9.6%	7.1%	6.1%	6.2%	8.0%
Income before Federal grants and contributions	(\$ 2,351)	(\$ 29,241)	(\$ 22,186)	(\$ 2,631)	\$ 26,567
Federal grants and contributions	42,208	27,752	30,403	47,374	58,957
<b>Change in net assets</b>	<b>\$ 39,587</b>	<b>(\$ 1,489)</b>	<b>\$ 8,217</b>	<b>\$ 44,743</b>	<b>\$ 85,524</b>
Net Assets, beginning of year	\$ 980,890	\$1,020,747	\$1,019,258	\$1,027,475	\$1,072,218
<b>Net Assets, end of year</b>	<b>\$1,020,747</b>	<b>\$1,019,258</b>	<b>\$1,027,475</b>	<b>\$1,072,218</b>	<b>\$1,157,742</b>

Source: Authority's CAFR.

**Statements of Revenues, Expenses and Changes in Net Assets**  
**For the second quarter ended March 31, 2013 and March 31, 2012**  
(\$ in thousands)

	<b>Second Quarter</b>	
	<b>2013</b>	<b>2012</b>
Operating revenues:		
Water and wastewater user charges:		
Residential, commercial and multi-family customers	\$ 129,104	\$ 118,839
Federal government	20,393	22,829
District government and D.C. Housing Authority	8,763	11,333
Charges for wholesale wastewater treatment	47,694	46,649
Other	3,154	5,703
Total operating revenues	<u>209,108</u>	<u>205,353</u>
Operating expenses:		
Personnel Services	51,237	48,250
Contractual Services	23,909	23,426
Chemicals, supplies and small equipment	12,176	11,426
Utilities and rent	12,070	13,809
Depreciation and amortization	38,987	36,278
Water purchases	12,512	12,995
Other	202	690
Total operating expenses	<u>151,093</u>	<u>146,874</u>
Operating income	58,015	58,479
Non-operating revenues (expenses):		
Interest Income	742	567
Payment in lieu of taxes and right of way fee	(10,991)	(10,996)
Interest expense and fiscal charges	(36,708)	(34,651)
Total non-operating revenue (expenses)	<u>(46,957)</u>	<u>(45,080)</u>
Changes in net assets before Federal grants and contributions	11,058	13,399
Federal grants and contributions	20,964	25,239
Change in net assets	<u>32,022</u>	<u>38,638</u>
Net assets, beginning of year	<u>1,157,742</u>	<u>1,072,218</u>
Net assets, ending of year	<u>\$1,189,764</u>	<u>\$1,110,856</u>

Source: Unaudited Quarterly Authority "Records."

*Historical Debt Service Coverage*

The Authority has exceeded the Rate Covenant requirement of 1.20x Senior Debt service coverage set forth in the Indenture and the Authority’s policy goal of 1.40x Senior Debt service coverage in each of the last five Fiscal Years, as shown in the following table. Debt service for Fiscal Year 2012 differs from the coverage as presented in the 2012 Comprehensive Annual Financial Report due to the exclusion of transfers to District of Columbia PILOT Fund (in the table below) in calculating Net Revenues Available for Debt Service.

**Historical Debt Service Coverage<sup>1</sup>**

(\$ in thousands)

	Fiscal Year ended September 30				
	2008	2009	2010	2011	2012
Revenues:					
Retail	\$216,684	\$217,995	\$241,842	\$278,327	\$295,247
Wholesale	62,841	65,680	67,471	69,261	75,240
Other Non-Operating	41,918	32,761	36,225	46,887	47,136
(Contributions to/Transfers from Rate Stabilization Fund)	24,900	15,000	11,900	-	(11,250)
Total Revenues (A)	\$346,343	\$331,436	\$357,438	\$394,475	\$406,373
Operating Expenses (B)	231,428	235,060	243,976	249,186	248,622
Revenues Less Operating Expenses (C=A-B)	\$114,915	\$96,376	\$113,462	\$145,289	\$157,751
Debt Service:					
Senior Debt Service (D)	\$22,767	\$33,631	\$41,278	\$41,511	\$41,918
Subordinate Debt Service (E)	44,918	41,147	42,236	50,377	57,354
Total Outstanding and Projected Debt Service (F=D+E)	\$67,685	\$74,778	\$83,514	\$91,888	\$99,272
Calculation of Net Revenues Available for Senior Debt Service:					
Revenues Less Operating Expenses (C)	\$114,915	\$96,376	\$113,462	\$145,289	\$157,751
Prior Year Federal Billing Reconciliation	(5,308)	(982)	(839)	1,669	(1,000)
(Refund to)/Payment from wholesale customers	(3,157)	4,483	752	(3,861)	(5,661)
(Additions to)/Transfers from DC PILOT Fund	-	-	-	(\$10,000)	\$ (4,468)
<b>Net Revenues Available for Senior Debt Service (G)</b>	<b>\$106,450</b>	<b>\$99,877</b>	<b>\$113,375</b>	<b>\$133,097</b>	<b>\$146,622</b>
<b>Senior Debt Service Coverage (G/D)</b>	<b>4.68</b>	<b>2.97</b>	<b>2.75</b>	<b>3.21</b>	<b>3.50</b>
Calculation of Subordinate Debt Service Coverage:					
Net Revenue Available for Senior Debt Service	\$106,450	\$99,877	\$113,375	\$133,097	\$146,622
Less Senior Debt Service (D)	(22,767)	(33,631)	(41,278)	(41,511)	(41,918)
<b>Net Revenues Available for Subordinate Debt Service (G-D)</b>	<b>\$83,683</b>	<b>\$66,246</b>	<b>\$72,097</b>	<b>\$91,586</b>	<b>\$104,704</b>
<b>Subordinate Debt Service Coverage [(G-D)/E]</b>	<b>1.86</b>	<b>1.61</b>	<b>1.71</b>	<b>1.82</b>	<b>1.83</b>
<b>Combined Debt Service Coverage (G/F)</b>	<b>1.57</b>	<b>1.34</b>	<b>1.36</b>	<b>1.45</b>	<b>1.48</b>

<sup>1</sup> Prepared in accordance with the Indenture, which closely corresponds to cash basis accounting. Debt service on the Series 2010A Bonds (which is included in Subordinate Debt Service above) reflects the Direct Payments the Authority expects to receive from the United States Treasury equal to 35% of the interest payable on the Series 2010A Bonds. The Authority has agreed to deposit the Direct Payments related to the Series 2010A Bonds directly into the Series 2010A Interest Account of the Subordinate Lien Bond Fund to pay interest when due on the Series 2010A Bonds, with respect to the effect of Sequestration on the receipt by the Authority of Direct Payments on its Series 2010A Bonds, see “SECURITY FOR THE SERIES 2013A BONDS – Effect of Sequestration on Direct Payments.”

Source: Authority’s CAFR.

**Annual Budget**

*Annual Budget Process*

The Authority’s budgetary process is based on an integrated approach that links its operating and capital requirements to its ten-year financial plan. Preparation of the Authority’s budget begins with the preparation of the ten-year financial plan in the spring of each year. The Authority’s operating budgets and the CIP are developed based on the financial parameters laid out in the financial plan and in Board policy. Management presents its proposed operating budgets, the CIP and ten-year financial plan to the Board’s Environmental Quality and Operations and Finance and Budget Committees for their review, with final action by the full Board scheduled for January of each year. Upon final approval by the Board,

the Authority's budget is forwarded to the District for inclusion in its submission to the President as described below.

Under the Act and the Federal Act, the Authority is required to prepare and annually submit to the Mayor of the District for inclusion in the annual budget of the District estimates of the expenditures and appropriations necessary for the operation of the Authority for each Fiscal Year. All such estimates are required to be forwarded by the Mayor to the Council for its action without revision, but subject to the Mayor's recommendations. The Council may comment or make recommendations concerning such annual estimates but has no authority to revise such estimates. Such annual estimates constitute a part of the annual budget of the District required to be submitted by the Mayor to the President of the United States for transmission by the President to the United States Congress. In accordance with the District's Home Rule Act, except as noted below, no amount may be obligated or expended by any officer or employee of the District, including the Authority, unless such amount has been approved by act of Congress and then only according to such act. Pursuant to the Federal Act, the limitation described in the preceding sentence is not applicable to expenditures by the Authority for any of the following purposes: (i) any amount obligated or expended from the proceeds of any revenue bonds of the Authority; (ii) any amount obligated or expended for debt service on such revenue bonds; (iii) any amount obligated or expended to secure any revenue bonds of the Authority; or (iv) any amount obligated or expended for repair, maintenance, or capital improvement to the System facilities financed by any revenue bonds of the Authority. In addition, pursuant to Public Law 105-33 (D.C. Code Section 1-204.45a(b)), if the Authority has excess revenues, such excess revenues may be obligated or expended for capital projects.

*Approved and Revised Fiscal Year 2013 Budget*

The Board adopted the Revised Fiscal Year 2013 budget (the "Revised Fiscal Year 2013 Budget") on July 5, 2012.

The Revised Fiscal Year 2013 Budget for expenditures totals \$440.3 million, which is \$16.4 million or 3.7% lower than the Approved Fiscal Year 2013 Budget, primarily due to reductions in electricity costs, debt service and PILOT fees.

The Revised Fiscal Year 2013 revenues total \$447.5 million, an increase of \$12.7 million or 2.8% under the Approved Fiscal Year 2013 Budget, reflecting the actual 5.5% increase in combined water and wastewater rates, a \$2.93 per ERU increase in the CRIAC and the increase of \$0.01 per Ccf in the ROW portion of the PILOT/ROW Fee.

*Approved Fiscal Year 2014 Budget*

The Board adopted the Approved Fiscal Year 2014 budget (the "Approved Fiscal Year 2014 Budget") on January 3, 2013.

The Approved Fiscal Year 2014 Budget for expenditures totals \$479.5 million, which is \$39.2 million or 8.9% higher than the Revised Fiscal Year 2013 Budget, primarily due to increases in personnel costs, debt service and water contractual services.



The Approved Fiscal Year 2014 revenues total \$477.5 million, an increase of \$30.1 million or 6.7% over the Revised Fiscal Year 2013 Budget, reflecting the actual 5.5% increase in combined water and wastewater rates, a \$3.20 per ERU increase in the CRIAC and the increase of \$0.04 per Ccf in the ROW portion of the PILOT/ROW Fee.

### **Projected Financial Operations**

The following table was prepared by Amawalk in its capacity as the financial feasibility consultant to the Authority, and it shows (i) the actual cash flows, cash reserves and debt service coverage for Fiscal Year 2012 and (ii) projected cash flows, cash reserves and debt service coverage for Fiscal Years 2013 through 2018. The projected revenues reflect the increases in rates and charges adopted by the Authority for Fiscal Year 2013 and the anticipated increases in rates and charges for Fiscal Years 2014 through 2018.

The projected debt service coverage in the following table assumes that, following the issuance of the Series 2013A Bonds, anticipated future bonds will be issued on a senior lien basis with an assumed fixed interest rate of 5.0% in Fiscal Year 2014, 5.75% in Fiscal Year 2015, and 6.5% in Fiscal Year 2016 and subsequent years. Debt service is calculated on the basis of a 30 year level principal and interest payment schedule. Deposits to the debt service reserve fund are assumed to be made from the proceeds of anticipated future bonds in FY 2014 and subsequent years; the Authority may decide to not make additional contributions to the debt service reserve fund.

The Authority has the option to issue future bonds on either a senior lien or a subordinate lien basis. The combined debt service coverage would remain the same if the Authority were to elect to issue subordinate lien debt in the future in lieu of senior lien debt. Decisions regarding the issuance of future debt on either a senior lien or a subordinate lien basis will be made by the Authority at the time of debt issuance.

**In the analysis of the forecast of future operations summarized in this Official Statement, including the information set forth in the following table, Amawalk reviewed certain assumptions with respect to conditions, events and circumstances which may occur in the future. Amawalk is of the opinion that these assumptions are reasonable and attainable as of the date of the Financial Feasibility Opinion Letter, although actual results may differ from those forecast as influenced by the conditions, events and circumstances which actually occur.**

**Analysis of Actual and Projected Financial Results on a Cash Basis<sup>1</sup>**

Fiscal Year ended/ending September 30  
(\$ in thousands)

	Actual			Projected			
	2012	2013	2014	2015	2016	2017	2018
<b>Payment of Obligations</b>							
Revenues							
Retail Revenues <sup>2</sup>	295,247	318,168	340,787	371,447	403,418	429,373	448,113
Wholesale Revenues	75,240	75,195	80,900	75,124	75,485	77,756	80,156
Other Non-Operating Revenues	47,136	47,616	48,883	51,935	53,975	58,163	62,222
Transfer from RSF	6,500	6,500	7,000	0	0	0	0
(Contributions to RSF)	(17,750)	(4,100)	0	0	0	0	0
Total Revenues	406,373	443,379	477,570	498,506	532,878	565,292	590,490
Prior Year Federal Billing Reconciliation	(1,000)	(5,105)	(6,000)	0	0	0	0
Transfer to DC PILOT Fund	(4,468)	0	0	0	0	0	0
Customer Rebate	0	(4,200)	0	0	0	0	0
(Refund to)/Payment from IMA	(5,661)	(5,800)	(1,500)	0	0	0	0
Net Revenues (A)	395,245	428,274	470,070	498,506	532,878	565,292	590,490
Operating Expenses (B)	248,622	280,320	286,114	278,691	283,154	291,661	300,538
Net Revenues Available for Debt Service (C=A-B)	146,623	147,954	183,956	219,815	249,724	273,631	289,952
Total Senior Debt Service (D) <sup>3</sup>	41,918	41,904	44,682	67,157	82,962	103,475	118,301
Total Subordinate Debt Service (E) <sup>4,5,6</sup>	57,354	71,868	90,184	96,226	97,213	97,084	95,524
Total Outstanding & Projected Debt Service (F=D+E)	99,272	113,771	134,866	163,382	180,175	200,559	213,825
<b>Debt Service Coverage</b>							
Calculation of Net Revenues Available for Senior Debt Service							
<b>Senior Debt Service Coverage (C/D)</b>	<b>3.50x</b>	<b>3.53x</b>	<b>4.12x</b>	<b>3.27x</b>	<b>3.01x</b>	<b>2.64x</b>	<b>2.45x</b>
Calculation of Subordinate Debt Service Coverage							
Net Revenue Available for Senior Debt Service (C)	146,623	147,954	183,956	219,815	249,724	273,631	289,952
Less Senior Debt Service (D)	(41,918)	(41,904)	(44,682)	(67,157)	(82,962)	(103,475)	(118,301)
Net Revenue Available for Subordinate Debt Service (C-D)	104,705	106,050	139,274	152,659	166,762	170,156	171,651
<b>Subordinate Debt Service Coverage [(C-D)/E]</b>	<b>1.83x</b>	<b>1.48x</b>	<b>1.54x</b>	<b>1.59x</b>	<b>1.72x</b>	<b>1.75x</b>	<b>1.80x</b>
<b>Combined Debt Service Coverage (C/F)</b>	<b>1.48x</b>	<b>1.30x</b>	<b>1.36x</b>	<b>1.35x</b>	<b>1.39x</b>	<b>1.36x</b>	<b>1.36x</b>
Payment In Lieu of Taxes/Right of Way Fee (G)	17,514	21,982	25,181	26,285	27,556	28,904	30,094
Revenues Less Debt Service and Expenses (H=C-F-G)	29,837	12,200	23,909	30,148	41,992	44,168	46,033
<b>Reserve Balances</b>							
Beginning Cash Reserve Balance (I)	150,035	140,251	127,908	140,833	146,436	152,036	157,637
Cash Reserve Balance Breakdown							
Beginning Undesignated Reserve Balance	73,522	64,132	51,471	59,113	63,750	70,587	75,445
Additions to/(Transfers from) Undesignated Reserve							
Annual Balance from Operations	40,965	27,306	31,409	30,148	41,992	44,168	46,033
Prior Year Federal Billing Reconciliation	(1,000)	(5,105)	(6,000)	0	0	0	0
(Refund to)/Payment from IMA	(5,661)	(5,800)	(1,500)	0	0	0	0
Transfer to DC PILOT Fund	(4,468)	0	0	0	0	0	0
Customer Rebate	0	(4,200)	0	0	0	0	0
Pay-Go Capital Financing	(39,621)	(24,543)	(10,984)	(24,545)	(36,392)	(38,567)	(40,433)
(Transfers to)/Transfers from 60-Day Reserve	395	(318)	(5,283)	(966)	1,237	(744)	(1,418)
Ending Undesignated Reserve Balance	64,132	51,471	59,113	63,750	70,587	75,445	79,628
Beginning 60-Day Operating Reserve Balance	41,514	41,119	41,437	46,720	47,686	46,449	47,192
Additions to/(Transfers from) 60-Day Reserve	(395)	318	5,283	966	(1,237)	744	1,418
60-Day Operating Reserve Balance	41,119	41,437	46,720	47,686	46,449	47,192	48,610
Beginning Renewal & Replacement Balance	35,000	35,000	35,000	35,000	35,000	35,000	35,000
Additions to/(Transfers from) Renewal & Replacement Reserve	0	0	0	0	0	0	0
Renewal & Replacement Balance	35,000	35,000	35,000	35,000	35,000	35,000	35,000
Ending Balance Cash Reserve	<b>140,251</b>	<b>127,908</b>	<b>140,833</b>	<b>146,436</b>	<b>152,036</b>	<b>157,637</b>	<b>163,238</b>
Stormwater Receipts - DC Water Share (J)	763	1,000	1,000	1,000	1,000	1,000	1,000
Cash Reserve Requirement Per Board Policy [Maximum of (B-J)* (120/365) or \$125.5 Million] <sup>7</sup>	125,500	125,500	125,500	125,500	125,500	125,000	125,500
Beginning Rate Stabilization Fund Balance	16,700	27,950	25,550	18,550	18,550	18,550	18,550
Transfers from Operations (Additions to Rate Stabilization Fund)	17,750	4,100	0	0	0	0	0
Additions to Operations/(Transfers from) Rate Stabilization Fund	(6,500)	(6,500)	(7,000)	0	0	0	0
Rate Stabilization Fund Balance	27,950	25,550	18,550	18,550	18,550	18,550	18,550

<sup>1</sup> Debt service is shown on a cash basis, and may differ from the CAFR.

<sup>2</sup> Includes retail revenue from water and wastewater charges as well as the Clean River Impervious Area Charge.

<sup>3</sup> Anticipated future bonds in 2014 through 2018 are currently assumed to be issued on a senior lien basis. The Authority may decide in the future to issue such bonds on a subordinate basis. Debt service for anticipated future bonds in Fiscal Year 2014 and Fiscal Year 2015 is calculated based on an assumed annual interest rate of 5.0% and 5.75%, respectively, a term of 30 years and level annual debt service. Debt service for anticipated future bonds starting in Fiscal Year 2016 are calculated based on an assumed annual interest rate of 6.5%, a term of 30 years and level annual debt service.

<sup>4</sup> The Subtotal Existing Debt Service for the Subordinated Debt is net of the Build America Bonds (BABs) subsidies the Authority expects to receive from the United States Treasury equal to 35% of the interest payable on the Series 2010A Bonds. It does not reflect the potential reduction in BABs subsidy payments due to sequestration; however, the amount of the potential reduction in payments is not material to the financial forecast of the Authority.

<sup>5</sup> The projected debt service for the Series 2013A Bonds assumes a 35-year term, payments that begin in Fiscal Year 2013, deferred amortization and a net average annual interest rate of 4.75%.

<sup>6</sup> Reflects \$100 million of unamortized CP at 3.25%, as well as an additional \$55.7 million of CP that is drawn over the period of 2012-17 for Capital Equipment needs and amortized over a 4 year term at an interest rate of 3.25%.

<sup>7</sup> Board financial policy requires the maintenance of a cash equivalent to 120 days of operating costs less District stormwater revenues, but not less than a cash balance of \$125.5 million.

## System Revenues

The Authority collects revenues from retail and wholesale customers as well as other sources that include fees paid by developers and interest earnings on available funds. Authority revenues also include transfers from the Rate Stabilization Fund. The following table shows historical revenues of the Authority for Fiscal Year 2012, and the projected revenues for Fiscal Years 2013 through 2018.

### Historical and Projected Revenue on a Cash Basis

(\$ in millions) <sup>1,2</sup>

	Actual	Projected					
	2012	2013	2014	2015	2016	2017	2018
<b>Retail Revenue</b>							
Residential, Commercial, Multi-Family	\$199.80	\$205.79	\$214.70	\$224.22	\$235.27	\$246.86	\$256.58
D.C. Municipal Government	6.27	8.89	9.29	9.70	10.18	10.68	11.10
Federal Government	40.46	42.85	41.51	43.36	45.50	47.75	49.63
D.C. Housing Authority	6.66	5.72	5.98	6.24	6.55	6.87	7.15
Groundwater <sup>3</sup>	0.00	0.01	0.01	0.01	0.01	0.01	0.01
Metering Fee	11.03	10.78	10.78	10.78	10.78	10.78	10.78
CRIAC	31.03	44.13	58.53	77.14	95.14	106.43	112.87
<b>Total Retail Revenue</b>	<b>\$295.25</b>	<b>\$318.17</b>	<b>\$340.79</b>	<b>\$371.45</b>	<b>\$403.42</b>	<b>\$429.37</b>	<b>\$448.11</b>
<b>Wholesale Revenue</b>							
Loudoun County & Potomac Interceptor WSSC	\$8.45	\$7.73	\$8.03	\$7.37	\$7.39	\$7.61	\$7.84
Fairfax County	53.31	53.49	58.42	54.35	54.63	56.27	58.01
	13.48	13.98	14.44	13.41	13.47	13.88	14.31
<b>Total Wholesale Revenue</b>	<b>\$75.24</b>	<b>\$75.19</b>	<b>\$80.90</b>	<b>\$75.12</b>	<b>\$75.49</b>	<b>\$77.76</b>	<b>\$80.16</b>
<b>Other Revenues</b>							
District Stormwater Revenues	\$0.76	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Transfer from Rate Stabilization Fund	6.50	6.50	7.00	0.00	0.00	0.00	0.00
Miscellaneous Revenues	22.77	23.61	21.61	21.61	19.61	19.61	19.61
Aqueduct Debt Service Revenue from Falls Church and Arlington	0.22	0.21	0.20	0.19	0.19	0.19	0.19
Interest Income	0.71	0.66	0.89	2.85	5.62	8.46	11.32
D.C. Right of Way Occupancy Fee/PILLOT	22.68	22.14	25.18	26.29	27.56	28.90	30.09
<b>Total Other Revenue</b>	<b>\$53.64</b>	<b>\$54.12</b>	<b>\$55.88</b>	<b>\$51.94</b>	<b>\$53.98</b>	<b>\$58.16</b>	<b>\$62.22</b>
<b>Total Operating Cash Receipts</b>	<b>\$424.12</b>	<b>\$447.48</b>	<b>\$477.57</b>	<b>\$498.51</b>	<b>\$532.88</b>	<b>\$565.29</b>	<b>\$590.49</b>
<b>Less: Contributions to Rate Stabilization Fund</b>	<b>(17.75)</b>	<b>(4.10)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Total Operating Cash Receipts with Rate Stabilization Fund Transfers</b>	<b>\$406.37</b>	<b>\$443.38</b>	<b>\$477.57</b>	<b>\$498.51</b>	<b>\$532.88</b>	<b>\$565.29</b>	<b>\$590.49</b>

<sup>1</sup> All figures are presented on a cash receipt basis.

<sup>2</sup> Fiscal Year 2013 - 2018 cost projections are based on the Authority's financial plan.

<sup>3</sup> Groundwater revenue refers to receipts from customers that pump groundwater into the sewer system.

Source: Amawalk

An overview of the revenue components on a Cash Basis is provided below.

#### *Retail Water and Wastewater Revenues*

Retail revenues comprise the vast majority of all System revenues. In Fiscal Year 2009 through Fiscal Year 2012, retail revenues accounted for approximately 70.0% of total revenue (excluding the

effects of withdrawals from the Rate Stabilization Fund), wholesale customer payments represented about 19.0% of total revenues, with the remaining 11.0% coming from a variety of sources, such as interest income, penalties and fines, and fees from service installations. Retail revenues will comprise an increasing percentage of total revenues during the period of Fiscal Year 2013 through Fiscal Year 2018 primarily due to the increasing cost of the CSO LTCP, which will result in additional revenues being collected from the CRIAC. Retail revenues are derived primarily from water and wastewater service charges of the Authority that are based on water consumption as described earlier in this Official Statement. Other sources of retail revenue include the customer metering fee. See “CUSTOMER BASE, RATES AND CHARGES – Components of Retail Rates and Charges.”

The Authority has projected that revenues from retail customers will be \$318.2 million in Fiscal Year 2013, or 72.2% of the Authority’s revenues (excluding the effects of withdrawals from the Rate Stabilization Fund). This amount includes approximately \$44.1 million from the CRIAC and excludes the PILOT/ROW fees. Without the effects of the CRIAC, the Fiscal Year 2013 projected revenue represents an increase of \$9.8 million or 3.7% compared to the Fiscal Year 2012 revenues. The projected increases in retail revenue anticipate that the customer metering fee will be unchanged from the current fee schedule. Cash Receipts for the six months of Fiscal Year 2013 (to March, 2013), excluding transfers from the Rate Stabilization Fund, were about the same as the Budgeted Receipts for the period ending March 31, 2013.

Revenues from retail consumption are projected to be \$340.8 million in Fiscal Year 2014. This amount includes approximately \$58.5 million from the CRIAC. Without the effects of the CRIAC, the Fiscal Year 2014 projected revenue represents an increase of \$8.2 million or 3.0% compared to the projected Fiscal Year 2013 revenues.

Revenues from retail consumption are projected to be \$371.5 million in Fiscal Year 2015. This amount includes approximately \$77.1million from the CRIAC. Without the effects of the CRIAC, the Fiscal Year 2015 projected revenue represents an increase of \$12.0 million or 4.3% compared to the projected Fiscal Year 2014 revenues.

Retail revenues in Fiscal Years 2016 through 2018 are anticipated to increase in each year reflecting both the effects of projected rate increases as well as the expectation that water demand will decrease by 1% annually.

*Clean Rivers Impervious Area Charge Revenues*

The revenues from the CRIAC were \$31.0 million in Fiscal Year 2012. Based on increases in the CRIAC in each year, revenues are expected to increase to \$44.1 million in Fiscal Year 2013, \$58.5 million in Fiscal Year 2014 and to \$77.1 million in Fiscal Year 2015. The revenues from the CRIAC in Fiscal Year 2016 through 2018 are projected to increase reflecting the effects of projected rate increases.

The Authority is evaluating a CRIAC credit program that will provide discounts for properties that install facilities and utilize practices that retain stormwater or divert stormwater away from the wastewater system, such as rain gardens and green roofs. The potential program policies and credits have not been approved at this time. The Authority has budgeted \$500,000 per year starting in Fiscal Year 2013 for the value of the credit program. The effects of this credit were considered by the Authority in developing its projection of annual revenues.

*Stormwater Revenues*

In Fiscal Years 2013 through 2018, the Authority anticipates that it will collect \$1.0 million in stormwater fees from its retail accounts to cover its share of District stormwater expenditures. The District Council has stormwater rate-setting authority for stormwater services provided by the District. The Authority will work collaboratively with the District Council to set future rates. The projected revenue from stormwater fees that are payable to the District are based on the current stormwater rate. For more information regarding the stormwater fee, see “CUSTOMER BASE, RATES AND CHARGES – Components of Retail Rates and Charges – Stormwater Fee.”

*Wholesale Revenues*

The Authority’s wholesale revenues for wastewater operations are stable and reflect modest increases in the cost of service and changes in the volumes of wastewater flow from suburban customers. In Fiscal Year 2012, the Authority received \$75.2 million in revenue from its wholesale customers pursuant to the IMA.

Revenue from wholesale customers is projected to remain at approximately \$75.2 million in Fiscal Year 2013 and to increase to \$80.9 million in Fiscal Year 2014. Revenues are expected to decrease to \$75.1 million in Fiscal Year 2015. The reason for this anticipated decline in payments is that the Authority expects to begin operation of its new biosolids digestion facilities in Fiscal Year 2015. The Authority expects such facilities to produce a net reduction in operating expenses; the benefits of which would be shared by both retail and wholesale customers. The projected revenue needs in Fiscal Year 2015 for both retail and wholesale customers reflect the anticipated effects of such savings. Wholesale customers are paying for their share of the capital costs of the new digestion facilities upfront in the form of cash contributions towards the CIP; retail customers will pay their share of the capital costs over time through the payment of debt service on bonds issued by the Authority. The revenues from the wholesale customers in Fiscal Years 2016 through 2018 are projected to increase reflecting the effects of projected rate increases, allocated digester savings, as well as the expectation that water demand will decrease by 1% annually.

*Loan Repayment from Arlington County and Falls Church*

The Authority provided a loan to the Aqueduct to finance certain improvements at the Aqueduct. This loan is repaid to the Authority by Arlington County, Virginia and Falls Church, Virginia, as Aqueduct Customers, in the form of a credit that is issued to the Authority on the monthly water bills generated by the Aqueduct. The amount of the credit is determined by the Aqueduct in accordance with the Water Sales Agreement, and the annual amount is expected to be \$206,224 in Fiscal Year 2013 and \$200,950 in Fiscal Year 2014.

*Interest Income on Reserve Funds*

Interest income is earned on the available funds of the Authority and a portion of the interest earnings may be used to pay operating and maintenance expenses or capital costs of the Authority.

Interest earnings will fluctuate from year to year based on changes in cash flow, fund balances and market conditions affecting interest rates and other investment terms. The Authority has projected interest earnings of \$0.66 million in Fiscal Year 2013, \$0.89 million in Fiscal Year 2014, and increasing to \$11.3 million in Fiscal Year 2018, including interest earned from the bond reserves. The assumed annual interest earnings rates for the funds are 0.375% in Fiscal Year 2013, 0.450% in Fiscal Year 2014,

2.0% in Fiscal Year 2015 and increasing to 5.0% in Fiscal Year 2018. Projected fund balances and interest rate assumptions are reviewed annually as part of the Authority's budget process. The available interest earnings for secure investments are very low in today's financial markets. The Authority's assumed interest earnings reflect these conditions. Recognizing the low earnings rates, the current interest rates on borrowed funds, including commercial paper interest, are also very low compared to historical experience. This helps reduce interest costs (and resulting revenue requirements) of the Authority. The Authority assumes for forecasting purposes that interest earnings rates will increase over time while simultaneously assuming that borrowing rates for future Authority debt also will increase to 5.00% in Fiscal Year 2014, 5.75% in Fiscal Year 2015, and 6.50% in Fiscal Year 2016 and each year thereafter.

#### *Miscellaneous Revenue*

The Authority realizes revenue from several sources classified as miscellaneous, such as charges for late payments by customers, service installation charges, service line repairs, engineering reviews, the sale of manuals, the District fire protection fee, and fees charged to commercial waste haulers. Miscellaneous revenues in Fiscal Year 2012 were \$22.77 million. Revenues from these sources are expected to increase to \$23.61 million in Fiscal Year 2013. These amounts include payments for various development-related services provided by the Authority and charges to the District for fire protection services. The Authority's annual investments (operating and capital) in fire protection assets and services increased significantly following the execution of the Memorandum of Understanding between the Authority and the District of Columbia Fire and EMS Department (FEMS) on October 25, 2007. The fees charged by the Authority are intended to recover the costs incurred by Authority related to fire protection services provided by the water system including, but not limited to, the ability to deliver water for firefighting as well as maintaining and upgrading fire hydrants. The Authority's investments will continue in future years but at a pace that is much lower than the peak years of Fiscal Year 2008 and Fiscal Year 2009. The projected miscellaneous revenues assume that the District will make such payments in each year or that a combination of payments and credits against Authority payments to the District will result in the Authority receiving the full amounts expected from the District.

#### *PILOT/ROW Fee*

The total combined revenues from the PILOT/ROW Fee are expected to total \$22.1 million in Fiscal Year 2013, and increase to \$30.1 million in Fiscal Year 2018.

### **System Expenditures**

#### *Operating Expenses*

The following table presents the historical Operating and Maintenance ("O&M") expenses of the Authority for Fiscal Years 2009 through 2012, and the projected O&M expenses for Fiscal Years 2013 through 2018. The average annual rate of increase in expenses for Fiscal Years 2009 through 2012 was 1.9%, excluding PILOT payments to the District.

The projected expenses for Fiscal Year 2013 reflect the current adopted budget of the Authority which represents an 12.8% increase over the expenses for Fiscal Year 2012. The anticipated expenses for Fiscal Year 2014 reflect an annual increase of 2.1%, excluding the PILOT payments to the District. In Fiscal Year 2015, energy savings resulting from new biosolids digestion facilities are expected to more than offset potential increases in expenses, resulting in a decrease in the anticipated annual expenses of

2.6%. The Personnel Services amounts shown in operating and maintenance costs table are net of amounts charged to capital projects.

**Historical and Projected Operating and Maintenance Costs on a Cash Basis**

Fiscal Years ended/ending September 30  
(\$ in millions)<sup>1,2</sup>

	Actual	Projected					
	2012	2013	2014	2015	2016	2017	2018
Digester Project – Operating Savings	0.00	0.00	0.00	(13.44)	(15.88)	(16.34)	(16.71)
Personnel Services	96.99	99.92	102.59	105.67	108.84	112.11	115.47
Contractual Services	68.75	82.35	84.09	85.44	87.16	89.77	92.46
Water Purchases	28.29	31.51	31.51	32.02	32.66	33.64	34.65
Chemical & Supplies	28.97	31.36	32.91	33.44	34.10	35.13	36.18
Utilities & Rent	24.73	34.19	34.01	34.56	35.25	36.30	37.39
Small Equipment	0.89	0.99	0.99	1.01	1.03	1.06	1.09
Total O&M Expenses	248.62	280.32	286.11	278.69	283.15	291.66	300.54
PILOT & D.C. Occupancy ROW Fee	17.51	21.98	25.18	26.29	27.56	28.90	30.09
<b>Total Expenses</b>	<b>266.14</b>	<b>302.30</b>	<b>311.29</b>	<b>304.98</b>	<b>310.71</b>	<b>320.56</b>	<b>330.63</b>

<sup>1</sup> All figures are presented on a cash disbursement basis.

<sup>2</sup> Fiscal Year 2013 – 2018 Cost projections are based on the Authority’s Financial Plan.

Source: Amawalk

The following table provides a comparison of the budgeted versus actual costs from Fiscal Year 2010 to Fiscal Year 2012 on an accrual basis. The Authority has historically under-spent its annual budget (including O&M expenses), as illustrated in the following table.

**Budget to Actual Expense Comparison**

Fiscal Years ended September 30  
(\$ in millions)<sup>1</sup>

Category	2010			2011			2012 <sup>2</sup>		
	Approved Budget	Actual Cost	Variance	Approved Budget	Actual Cost	Variance	Approved Budget	Actual Cost	Variance
Personnel Services	\$96.20	\$98.19	\$1.99	\$105.29	\$103.15	(\$2.15)	\$111.11	\$107.33	(\$3.78)
Contractual Services	77.12	69.50	(7.62)	79.11	71.07	(8.05)	79.75	64.94	(14.81)
Water Purchases	30.30	27.59	(2.71)	33.00	27.17	(5.83)	31.52	28.39	(3.13)
Chemical & Supplies	29.48	26.72	(2.76)	29.23	26.41	(2.82)	29.95	26.74	(3.20)
Utilities & Rent	37.15	29.93	(7.22)	34.94	29.43	(5.51)	37.45	26.79	(10.66)
Small Equipment	0.90	0.86	(0.04)	1.10	0.69	(0.40)	1.00	1.14	0.14
Lead Abatement	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long Term Control Plan	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Debt Service	90.69	83.51	(7.17)	98.73	91.89	(6.84)	102.61	99.27	(3.34)
PILOT/ROW Fee	<u>20.45</u>	<u>20.47</u>	<u>0.03</u>	<u>21.98</u>	<u>21.98</u>	<u>0.00</u>	<u>21.98</u>	<u>21.98</u>	<u>0.00</u>
Total Costs	382.28	356.78	(25.50)	403.38	371.79	(31.59)	415.36	376.59	(38.78)
Personnel Services Charged to Capital Projects	(9.30)	(9.98)	(0.68)	(11.00)	(9.91)	1.09	(14.00)	(9.55)	4.45
Total Net O&M Costs	<u>\$372.98</u>	<u>\$346.79</u>	<u>(\$26.19)</u>	<u>\$392.38</u>	<u>\$361.88</u>	<u>(\$30.50)</u>	<u>\$401.36</u>	<u>\$367.04</u>	<u>(\$34.33)</u>

<sup>1</sup> All figures are presented on an accrual basis.

<sup>2</sup> Fiscal Year 2012 costs are preliminary.

Source: Amawalk

Several factors affecting future expenses are described herein. The Authority has undertaken long-term initiatives to optimize the cost of service. Management’s forecast of operations and maintenance expenses reflects continued emphasis on managing such expenses. Examples of historical and ongoing initiatives are outlined in the description of the major categories of expense. Management

continually monitors expenditures and reports the results monthly to the Board's Budget and Finance Committee. The Authority also has the option, in any given year, to defer certain expenses in order to stay within its budget and conform to Board policy requirements.

#### Labor-Related Expenses

Personnel costs are directly affected by staffing levels, salaries and wages, fringe benefits including pension contributions, overtime expenditures and other factors. As described in "THE AUTHORITY – Organizational Initiatives – Number of Personnel," the Authority has significantly reduced the number of authorized positions, reflecting initiatives to increase efficiency and control operational costs.

Certain individuals at the Authority are responsible for planning and implementing the CIP. The salaries, wages and fringe benefits of such personnel are charged to capital projects and are paid for through the sources of funds for the CIP. In Fiscal Year 2013, the costs of such personnel are budgeted at \$16.7 million.

**Salaries and Fringe Benefits.** The Authority has a Master Agreement on Compensation and five working condition agreements with unions representing approximately 69% of its workforce. Each of the collective bargaining agreements expired on September 30, 2011. The Authority is currently in the negotiation process with the unions for new collective bargaining agreements.

The Authority provides its employees with a comprehensive fringe benefit package, including coverage for health insurance, group term life insurance, dental care, vision care, disability coverage and retirement plans. The fringe benefit component of total labor costs has increased at a greater rate than salaries and wages in recent years, primarily due to the increasing cost of health care coverage. Fringe benefits are budgeted to be approximately 28.8% of salaries in Fiscal Year 2013.

While employed by the Authority, employees contribute to a retirement fund and the Authority contributes a proportional match. Once an employee retires, the Authority has no further financial obligations relating to those employees. Some retired employees may be eligible to receive a federal pension. In addition, the federal government also may assume the employer portion of the healthcare coverage for eligible employees. The Authority is and expects to continue to remain current with its benefit payments.

**Overtime Expenses.** The Authority uses overtime work by its employees to address unplanned repairs and service needs (e.g., to repair water main breaks that occur outside of normal business hours) as well as to provide resources to offset unfilled positions and to reduce the need for contractual labor. Overtime expenses in Fiscal Year 2012, including an allowance for fringe benefits, totaled \$4.95 million, or about 5.1% of total personnel services costs. Overtime spending in Fiscal Years 2007 and 2008 on a percentage basis was higher than in the prior six years due to higher than expected vacancy rates, a challenging winter which resulted in a record number of water main breaks, and increased activities related to maintenance and repair including fire hydrant inspections. Overtime spending in Fiscal Years 2009 through 2012 was more consistent with the experience of Fiscal Years 2002 through 2006.

**Total Personnel Expenses.** The Authority's personnel costs increased at an average of 5.2% per year from Fiscal Year 2009 through Fiscal Year 2012. Budgeted personnel expenses for Fiscal Year 2013 are \$99.92 million, a 3.0% increase over Fiscal Year 2012. In Fiscal Year 2014, personnel expenses are expected to increase 2.7% from the prior year. Beginning in Fiscal Year 2015, personnel expenses are projected to increase at an average annual rate of 3.0%. The projected rate of increase is supported by the Authority's demonstrated ability to reduce staffing levels and overtime costs through improvements in its



facilities and business practices, as well as the expectation that new employees in the upcoming years will have lower salaries and benefits compared to the employees who will retire during that same period.

#### Non-Labor Operating Expenses

There are four major categories of operating expenses that are not labor-related: Contractual Services (which includes the processing and disposal of biosolids), Water Purchases, Chemicals and Supplies and Utilities and Rent (which includes electricity needed to operate the Authority facilities).

A brief overview of the four major categories of non-labor expenses is provided below.

**Contractual Services.** Contractual services include the outside services necessary for the Authority to operate and maintain facilities, including the hauling of biosolids from the Blue Plains treatment facility to the disposal location, building maintenance and repair, the maintenance of certain machinery, equipment and vehicles, and other contractual or professional services.

The actual costs for contractual services in Fiscal Year 2012 were \$68.75 million. The budgeted amounts for contractual services in Fiscal Year 2013 and Fiscal Year 2014 are \$82.35 million and \$84.09 million, respectively. Contractual services expenses are assumed to increase at the average annual rate of 2.1% in Fiscal Year 2014 and then 2.3% per year for Fiscal Years 2015 through 2018.

Also included within Contractual Services is the Authority's purchase of annual insurance policies. The policies cover property, equipment, workers compensation, umbrella and excess liability, crime and fidelity, public officials' liability, and fiduciary liability.

**Water Purchases.** The Authority purchases all of its treated drinking water from the Aqueduct on the basis of a 1997 agreement between the Authority and the Corps of Engineers, the operator of the Aqueduct. Under the terms of the agreement and based on its usage in relation to the other Aqueduct Customers, the Authority pays an average of approximately 75% of the Aqueduct's operating costs. The Authority's share of Aqueduct capital costs is reflected in the Authority's CIP.

The costs for water purchases in Fiscal Year 2012 were \$28.29 million. The budgeted amount for water purchases in Fiscal Year 2013 and 2014 is \$31.51 million per year. An average annual increase in water supply costs of approximately 2.4% is assumed for Fiscal Years 2015 through 2018.

**Chemicals and Supplies.** The chemicals and supplies component of the Authority's operating and maintenance expenses includes, but is not limited to, office, laboratory, custodial and maintenance supplies, automotive supplies, uniforms, and chemicals. Chemicals are the largest portion of this component. The Authority has developed an improved polymer management program for use at Blue Plains in cooperation with the University of Delaware. A method for "fingerprinting" polymer has been developed to make sure it is effective before it is used.

Volatility in the pricing of chemicals has been experienced by most water and wastewater utilities in recent years. The Authority had previously participated in the COG Cooperative Purchasing Program but has since determined that it can secure better pricing through its own procurement of chemicals.

The expenses for chemicals and supplies in Fiscal Year 2012 were \$28.97 million. The budgeted amount for chemicals and supplies in Fiscal Year 2013 and 2014 is \$31.60 million and \$32.91 million, respectively. The average annual increase of costs for chemicals and supplies is 2.4% per year for Fiscal Year 2015 through Fiscal Year 2018.

**Utilities and Rent.** The Authority is a major user of energy, primarily for the operation of the Blue Plains Wastewater Treatment Facilities. Approximately 81% of the expenses associated with utilities and rent are attributable to the cost of power. The combined heat and power project will provide about a third of the plant's energy needs, saving approximately \$10 to \$15 million annually on energy costs. See "CAPITAL IMPROVEMENT PROGRAM – Categories of CIP Projects – *Wastewater Treatment Projects.*" The Authority has taken a proactive approach to the procurement of power and its pricing. In Fiscal Year 2005, the Authority entered into a full service electricity contract to purchase power from Amerada Hess in the deregulated environment. As part of its power purchasing strategy under deregulation, the Authority has entered into a successor five-year contract for generation that allows it to lock in blocks of power at a fixed price when futures pricing meets budget targets. To the extent that the Authority has power needs that exceed the locked in fixed price blocks, the price of the additional power would be established each day at market rates with direct pass-through of all costs. This contract includes an enhanced process for block power purchases that gives the Authority access to the wholesale market. The Authority's Department of Finance and Budget monitors the energy market on a continuous basis.

### **Reserve Funds**

The Authority maintains various reserve funds as previously described herein. See "SECURITY FOR THE SERIES 2013A BONDS – Certain Reserve Funds – *Discretionary Reserves; – Operating Reserve Fund; – Rate Stabilization Fund; and – Renewal and Replacement Reserve Fund.*"

### **Financial Policies**

The Authority has developed a ten-year financial plan to ensure compliance with certain Indenture requirements and the Board's financial policies. This plan is updated annually, taking into account revisions to the Capital Improvement Program, current and prior year financial performance and other changes. The Board adopted a series of financial policies in 1997 that the Authority utilizes to develop its ten-year financial plan, operating budgets and rate proposals. The policies summarized below reflect revisions adopted by the Board and effective May 2, 2013.

#### *Capital Financing Policy*

In order to secure the lowest practical cost of capital to finance the Authority's long-term capital program, the Authority will aim to achieve the following goals:

1. Maintain Senior Debt service coverage of 1.40x.\*
2. Maintain cash reserves equivalent to 120 days of budgeted operations and maintenance costs calculated on an average daily balance basis with the objective of maintaining at least \$125.5 million in operating reserves. The annual reserve amount will be formally approved by the Board as part of its annual approval of the operating and capital budgets. The operating reserve requirement will be evaluated every five years by the Authority's independent rate consultant in conjunction with the Indenture-required system assessment. At a minimum include in the operating reserve any reserve requirements contained in the Indenture, excluding any debt service reserve funds and the rate stabilization fund.
3. Utilize operating cash in excess of the Board's reserve requirement and any other significant one-time cash infusions for capital financing or for repayment of higher cost debt
4. Whenever possible, use the least costly type of financing for capital projects, based on a careful evaluation of the Authority's capital and operating requirements and financial position for each year.

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\* This policy goal exceeds the Rate Covenant requirement of 1.20x as provided in the Indenture.

5. Attempt to match the period of debt repayment, in total, with the lives of the assets financed by any such debt.
6. Finance its capital equipment needs (e.g., computer equipment and systems; minor utility equipment such as pumps, motors, etc.) and certain taxable costs of the Aqueduct with operating cash or short-term financing instruments with the same or shorter average lives as the related assets.

#### *Rate-Setting Policies*

The Authority's rate-setting policies are based on the following principles:

1. Rates and fees will be based on the actual cost to deliver each service.
2. Current rates must be sufficient to cover current costs and to meet all bond covenants.
3. The Authority will achieve a positive net income and cash flow each year.
4. Rates will be based on an annually updated ten-year financial plan (both operating and capital).
5. Rate increases will be implemented in a gradual and predictable manner, avoiding large one-time rate increases.
6. Contributions to and usage of the Rate Stabilization Fund as needed to avoid "rate shock." Each year, after reviewing financing improvements from cash and any other non-recurring financing uses of excess operating cash, the annual Rate Stabilization Fund deposit, if any, is determined.

#### *Debt Policy*

In December 2012, the Board adopted a comprehensive Debt Policy. This policy provides detailed guidelines that the Authority's management applies to the Authority's current and future debt portfolio. The goals of this policy are to ensure compliance with all laws, legal agreements, contracts and adopted policies related to debt issuance and management; to promote cooperation and coordination with all stakeholders in the financing and delivery of services; to promote sound financial management to maximize and best utilize future debt capacity; and to ensure that the duties and responsibilities of those charged with the implementation of the Debt Policy are clearly conveyed and understood.

#### *Cash Management and Investment Policies*

In October 2007, the Board adopted a comprehensive Statement of Investment Policy. The statement outlines broad investment policies to include delegation of certain authority to the General Manager, investment objectives, collateralization of deposits, selection of financial institutions, protection of funds, permitted investments, limits on maturities, investment of bond proceeds and investment reporting.

The Office of Treasury and Debt produces daily and monthly internal reports on all cash management and investment activities, with significant peer oversight within the Chief Financial Officer's office, monthly reports to the General Manager and quarterly reports to the Board's Finance and Budget Committee that enables them to monitor compliance with Board policies.

### **ENGINEERING FEASIBILITY REPORT**

The Authority retained Johnson, Mirmiran, and Thompson, Inc. (JMT) to prepare an Independent Consulting Engineering Assessment Report dated [REDACTED], 2013, a copy of which is available on the Authority's website at [www.dcwater.com](http://www.dcwater.com). Pursuant to the Indenture requirement for an inspection of the

System at least once every five years, an Independent Consulting Engineering Assessment Report reviews the Authority's progress in implementing capital projects and its plans to initiate additional capital improvements. The Report evaluates the adequacy of the Authority's CIP to maintain its water and wastewater infrastructure and to continue providing reliable service of a high quality to its customers.

The Engineering Feasibility Opinion Letter, which is attached hereto as APPENDIX A-2, presents findings and conclusions based upon findings and conclusions from the Independent Consulting Engineering Assessment Report. Set forth below are JMT's principal findings and conclusions. The Engineering Feasibility Opinion Letter should be read in combination with the Independent Consulting Engineering Assessment Report for a complete understanding of the assumptions, considerations, estimates and calculations upon which these conclusions are based.

- The Authority has continued implementing its vision and strategic plan, focusing on increasing the operational efficiency of the Water and Wastewater Systems and providing satisfactory service to its customers.
- The Authority staff, including both management and key operations and maintenance personnel, is well qualified, effectively organized and sufficient to meet overall staffing needs.
- The existing Water and Wastewater Systems are effectively maintained and operated.
- The Authority has developed and continues to implement thorough capital programs for ensuring the integrity of the Water and Wastewater Systems.
- Through appropriate management, operational practices, technology, staffing, tools and equipment and selective outsourcing, the Authority has developed capital, operations and maintenance programs that should ensure the continued effective operation of the systems for the foreseeable future. The systems should continue to provide high levels of service with minimal disruption.
- The Authority's wastewater and drinking water facilities are in material compliance with all applicable permits and regulations and continue to provide uninterrupted service to its wholesale and retail customers. Such compliance is anticipated to continue through the foreseeable future.
- Substantial progress has been made by the Authority in improving the operating condition of existing facilities. The CIP is structured to provide a systematic program to replace and rehabilitate aging infrastructure on a priority basis.
- Implementation of the Authority's CIP is intended to address identified system needs and priorities and is within budget.

#### **FINANCIAL FEASIBILITY OPINION LETTER**

The Authority retained Amawalk Consulting Group LLC as its financial feasibility consultant, in which capacity Amawalk prepared the Financial Feasibility Opinion Letter dated \_\_\_\_\_, 2013, which is attached hereto as APPENDIX A-1. Amawalk provides financial and management consulting services to water and wastewater utilities, local governments and other organizations. Examples of the consulting services offered by the firm include: cost of service and rate studies; financial

modeling; feasibility studies to support the issuance of debt; competitive assessments, including benchmarking and implementation of best practices; analyses supporting the consolidation of services; and the formation/start-up of public authorities including transition planning.

The conclusions set forth in the Financial Feasibility Opinion Letter reflect Amawalk's analysis of the Authority's anticipated financial results for Fiscal Years 2013 to 2018. Amawalk has assisted the Authority in preparing certain portions of this Official Statement relating to historical and projected financial performance of the Authority. The Financial Feasibility Opinion Letter has not been updated to reflect any changes occurring after the date of the Financial Feasibility Opinion Letter.

The Financial Feasibility Opinion Letter presents findings and conclusions based upon the analysis of financial statements and reports prepared by or for the Authority and other information provided by the Authority or others which is summarized or referred to therein, including conclusions, assumptions, considerations and recommendations regarding the operation of the System, the necessary improvements and betterments thereto and the steps that should be taken to assure adequate reliable bulk power supply at reasonable cost. Set forth below are Amawalk's principal conclusions. The Financial Feasibility Opinion Letter and this Official Statement should be read in its entirety for a complete understanding of the assumptions, considerations, estimates and calculations upon which these conclusions are based.

Amawalk concluded that the Authority has the ability to effectively execute its mission, operate its System to provide uninterrupted service, maintain regulatory compliance, and finance and implement its CIP within the parameters set forth in the Indenture and the applicable Board policies. In addition, Amawalk makes the following observations:

- The Authority's financial forecast is viable, consistent with industry standards, and its projections are expected to meet the Board's debt service coverage and reserve requirements and targets.
- Revenues of the Authority (including projected revenue increases resulting from anticipated future rate increases to be implemented by the Authority) in the Reporting Period will be sufficient to pay: (i) the actual Operating Expenses; (ii) Annual Debt Service on Senior Debt; (iii) any amount necessary to be deposited in any Account in the Debt Service Reserve Fund relating to a Series of Bonds to restore the amount on deposit therein to the Series Debt Service Reserve Requirement; (iv) the amount required to pay Annual Debt Service on the Subordinate Debt (including any reserves in connection therewith and the restoration thereof); (v) any amount necessary to be deposited in the Operating Reserve Fund and the Renewal and Replacement Reserve Fund to maintain the required balances therein; and (vi) any amount necessary to make any payments in lieu of taxes in such Fiscal Years. Sufficient funds are projected to be on deposit in each of the required reserve funds during the Reporting Period.
- Pursuant to Board policy, the Authority maintains a financial policy of fixing, charging, revising and collecting rates, fees and other charges for the use of and the services furnished by the System sufficient in each Fiscal Year so that Net Revenues shall be at least equal to one hundred and forty percent (140%) of the Annual Debt Service on Senior Debt in each such Fiscal Year. Revenues of the Authority (including projected revenue increases resulting from anticipated future rate increases to be implemented by the Authority) in such Fiscal Years will be sufficient

to achieve the more stringent financial policy established by the Authority. There can be no assurance that the Board will not change this additional financial policy.

- Pursuant to Board policy, the Authority maintains operating reserves that are greater than \$125.5 million or 120 days of budgeted operation and maintenance expenses. The Authority's actual cash on hand has exceeded the levels required by Board policy in recent years.

- The water and wastewater rates, fees and charges of the Authority, including projected increases for FY 2014 through 2018, are reasonable and compare favorably to the rates and charges of other major cities.

**In the analysis of the forecast of future operations summarized in this Official Statement, Amawalk has reviewed certain assumptions with respect to conditions, events and circumstances which may occur in the future. These assumptions are reasonable and attainable as of the date of the Financial Feasibility Opinion Letter, although actual results may differ from those forecast as influenced by the conditions, events and circumstances which actually occur.**

## TAX MATTERS

### General

[In the opinions of Squire Sanders (US) LLP and Leftwich & Ludaway, LLC, Co-Bond Counsel, under existing law: (i) interest on the Series 2013A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code, and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; and (ii) the Series 2013A Bonds and the interest thereon are exempt from District taxation, except estate, inheritance and gift taxes. Co-Bond Counsel expresses no opinion as to any other tax consequences regarding the Series 2013A Bonds.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Authority contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Series 2013A Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Co-Bond Counsel will not independently verify the accuracy of the Authority's certifications and representations or the continuing compliance with the Authority's covenants.

The opinions of Co-Bond Counsel are based on current legal authority and cover certain matters not directly addressed by such authority. The opinions represent Co-Bond Counsels' legal judgment as to exclusion of interest on the Series 2013A Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinions are not binding on the Internal Revenue Service ("IRS") or any court. Co-Bond Counsel expresses no opinion about (i) the effect of future changes in the Code and the applicable regulations under the Code or (ii) the interpretation and the enforcement of the Code or those regulations by the IRS.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations. Noncompliance with these requirements by the Authority may cause loss of such status and result in the interest on the Series 2013A Bonds being included in gross income for federal income tax purposes retroactively to the

date of issuance of the Series 2013A Bonds. The Authority has covenanted to take the actions required of it for the interest on the Series 2013A Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. After the date of issuance of the Series 2013A Bonds, Co-Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Co-Bond Counsels' attention, may adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2013A Bonds or the market value of the Series 2013A Bonds.

A portion of the interest on the Series 2013A Bonds earned by certain corporations may be subject to a federal corporate alternative minimum tax. In addition, interest on the Series 2013A Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations. Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Series 2013A Bonds. Co-Bond Counsel will express no opinion regarding those consequences.

Payments of interest on tax-exempt obligations, including the Series 2013A Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If a Series 2013A Bond owner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the exclusion of such interest from gross income for federal income tax purposes.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the District Council. Court proceedings may also be filed, the outcome of which could modify the tax treatment of obligations such as the Series 2013A Bonds. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Series 2013A Bonds will not have an adverse effect on the tax status of interest on the Series 2013A Bonds or the market value or marketability of the Series 2013A Bonds. These adverse effects could result, for example, from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), or repeal (or reduction in the benefit) of the exclusion of interest on the Series 2013A Bonds from gross income for federal or state income tax purposes for all or certain taxpayers.

For example, both the American Jobs Act of 2011 proposed by President Obama on September 12, 2011, and introduced into the Senate on September 13, 2011, and the federal budget for fiscal year 2013 as proposed by President Obama on February 13, 2013, contain provisions that could, among other things, result in additional federal income tax for tax years beginning after 2013 on taxpayers that own tax-exempt obligations, including the Series 2013A Bonds, if they have incomes above certain thresholds.

Prospective purchasers of the Series 2013A Bonds should consult their own tax advisers regarding pending or proposed federal and state tax legislation and court proceedings, and prospective purchasers of the Series 2013A Bonds at other than their original issuance at the respective prices indicated on the inside cover of this Official Statement should also consult their own tax advisers

regarding other tax considerations such as the consequences of market discount, as to all of which Co-Bond Counsel expresses no opinion.

Co-Bond Counsels' engagement with respect to the Series 2013A Bonds ends with the issuance of the Series 2013A Bonds, and, unless separately engaged, Co-Bond Counsel is not obligated to defend the Authority or the owners of the Series 2013A Bonds regarding the tax status of interest thereon in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Series 2013A Bonds, under current IRS procedures, the IRS will treat the Authority as the taxpayer and the beneficial owners of the Series 2013A Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including but not limited to selection of the Series 2013A Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market value of the Series 2013A Bonds.

### **The Budget Control Act of 2011 – Sequestration**

Public Law 112-25 (the "Budget Control Act of 2011"), passed by the United States Congress and signed into law by the President of the United States on August 2, 2011, includes a variety of provisions designed to reduce spending of the United States government and, thereby, reduce the federal deficit. To achieve these goals, and as relevant to the Authority, the Budget Control Act establishes federal discretionary spending caps for each fiscal year from 2012 to 2021. In the event that Congress appropriates funds to a particular budget account in excess of the statutory spending cap, a process known as sequestration, operates to cancel that amount and ensure that federal spending complies with the caps established by the Budget Control Act. The Congressional Budget Office estimates that the Fiscal Year 2013 reduction will be approximately 5.0% for each discretionary non-defense federal budget account and 7.3% for Fiscal Year 2014.

### **Original Issue Discount and Original Issue Premium**

Certain of the Series 2013A Bonds ("Discount Series 2013A Bonds") may be offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of a Discount Series 2013A Bond. The issue price of a Discount Series 2013A Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Series 2013A Bonds of the same maturity is sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Series 2013A Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Series 2013A Bond (i) is interest excluded from the owner's gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as other interest on the Series 2013A Bonds, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Series 2013A Bond. The amount of OID that accrues each year to a corporate owner of a Discount Series 2013A Bond is taken into account in computing the corporation's liability for federal alternative minimum tax. A purchaser of a Discount Series 2013A Bond in the initial public offering at the price for that Discount Series 2013A Bond stated on the cover of this Official Statement who holds that Discount Series 2013A Bond to maturity will realize no gain or loss upon the retirement of that Discount Series 2013A Bond.



Certain of the Series 2013A Bonds (“Premium Series 2013A Bonds”) may be offered and sold to the public at a price in excess of their stated redemption price at maturity (the principal amount). That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Series 2013A Bond, based on the yield to maturity of that Premium Series 2013A Bond (or, in the case of a Premium Series 2013A Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Series 2013A Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Series 2013A Bond. For purposes of determining the owner’s gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Series 2013A Bond, the owner’s tax basis in the Premium Series 2013A Bond is reduced by the amount of bond premium that is amortized during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Series 2013A Bond for an amount equal to or less than the amount paid by the owner for that Premium Series 2013A Bond. A purchaser of a Premium Series 2013A Bond in the initial public offering at the price for that Premium Series 2013A Bond stated on the cover of this Official Statement who holds that Premium Series 2013A Bond to maturity (or, in the case of a callable Premium Series 2013A Bond, to its earlier call date that results in the lowest yield on that Premium Series 2013A Bond) will realize no gain or loss upon the retirement of that Premium Bond.

**Owners of Discount and Premium Series 2013A Bonds should consult their own tax advisers as to the determination for federal income tax purposes of the amount of OID or bond premium properly accruable or amortizable in any period with respect to the Discount or Premium Series 2013A Bonds and as to other federal tax consequences and the treatment of OID and bond premium for purposes of state and local taxes on, or based on, income.**

*Circular 230.* THE FOREGOING DISCUSSION IN “TAX MATTERS” WAS NOT INTENDED OR WRITTEN BY CO-BOND COUNSEL TO BE USED, AND IT CANNOT BE USED, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON AN OWNER OF THE SERIES 2013A BONDS. THE FOREGOING DISCUSSION IN “TAX MATTERS” WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE SERIES 2013A BONDS. EACH PROSPECTIVE PURCHASER OF THE SERIES 2013A BONDS SHOULD SEEK ADVICE BASED ON THE PROSPECTIVE PURCHASER’S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

#### **COVENANT BY THE DISTRICT OF COLUMBIA**

Under the Act, the District pledges to the Authority and any holders of the bonds that, except as provided under the Act, the District will not limit or alter rights vested in the Authority to fulfill agreements made with holders of the bonds, or in any way impair the rights and remedies of the holders of the bonds until the bonds, together with interest thereon, with interest on any unpaid installments of interest and all costs and expenses in connection with any action or proceedings by or on behalf of the holders of the bonds, are fully met and discharged.

#### **LITIGATION**

There is not now pending or, to the best of the Authority’s knowledge, threatened any litigation restraining or enjoining the issuance or delivery of the Series 2013A Bonds or questioning or affecting the validity of the Series 2013A Bonds, the proceedings and authority under which they are to be issued, nor is the creation, organization, or existence of the Authority being contested. Nor is there any litigation pending or, to the best of the Authority’s knowledge, threatened which (i) in any manner questions the right of the Authority to operate the System or its right to conduct its activities in accordance with the

provisions of the Act and of the Indenture or (ii) if determined adversely to the Authority, would have a material adverse impact on the financial condition of the Authority.

The Authority is subject to a variety of suits and proceedings arising out of its ordinary course of operations, some of which may be adjudicated adversely to the Authority. Any such litigation is of a routine nature which does not affect the right of the Authority to conduct its business or the validity of its obligations.

### LEGAL MATTERS

Certain legal matters relating to the issuance of the Series 2013A Bonds are subject to the approving opinions of Squire Sanders (US) LLP and Leftwich & Ludaway, LLC, Co-Bond Counsel, which will be furnished upon delivery of the Series 2013A Bonds, substantially in the form set forth as APPENDIX F. Squire Sanders (US) LLP and Leftwich & Ludaway, LLC also serve as Co-Disclosure Counsel to the Authority in connection with the preparation of this Official Statement. Certain legal matters will be passed upon for the Authority by Randy Hayman, its General Counsel, and for the Underwriters by their co-counsel, Orrick, Herrington & Sutcliffe LLP and McKenzie & Associates.

### INDEPENDENT ACCOUNTANTS

The financial statements of the Authority included in this Official Statement have been audited by Cobb, Bazilio & Associates, PC, independent certified public accountants, to the extent and for the period indicated in their report thereon. Such financial statements have been included in reliance upon the report of Cobb, Bazilio & Associates, PC.

The accountants have not examined, compiled or otherwise applied procedures to the financial forecast presented herein and, accordingly, do not express an opinion or any other form of assurance on it.

### RATINGS

Standard & Poor's ("S&P"), a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. ("Moody's") and Fitch Ratings ("Fitch"), have assigned long-term municipal bond ratings of ["\_\_\_"] with Stable Outlook, ["\_\_\_"] with Stable Outlook and ["\_\_\_"] with Stable Outlook, respectively, to the Series 2013A Bonds. A securities rating is not a recommendation to buy, sell or hold the Series 2013A Bonds and may be subject to revision or withdrawal at any time. A rating reflects only the view of the rating agency giving such rating. An explanation of the significance of the ratings may be obtained from: S&P at 55 Water Street, New York, New York 10041; from Moody's at 7 World Trade Center, New York, New York 10007; and from Fitch at 1 State Street Plaza, New York, New York 10099. There is no assurance that a rating will apply for any given period of time, or that a rating will not be revised or withdrawn. A revision or withdrawal of a rating may have an effect on the market price of or the market for the Series 2013A Bonds.

### CONTINUING DISCLOSURE

In accordance with the requirements of the Rule promulgated by the SEC, the Authority will enter into the Continuing Disclosure Agreement dated the date of delivery of the Series 2013A Bonds, which will constitute a written undertaking for the benefit of the Owners of the Series 2013A Bonds, solely to assist the Underwriters in complying with subsection (b)(5) of the Rule. Pursuant to the Continuing Disclosure Agreement, the Authority has covenanted to provide certain financial information on an annual basis and to provide notice of certain enumerated events. See APPENDIX D – "FORM OF CONTINUING DISCLOSURE AGREEMENT" for detailed provisions of the Continuing Disclosure

Agreement. The Authority has not failed to comply in all material respects with any previous continuing disclosure agreement under the Rule.

#### FINANCIAL ADVISORS

Public Financial Management, Inc. and G~Entry Principle, PC have served as co-financial advisors to the Authority with respect to the issuance of the Series 2013A Bonds.

#### UNDERWRITING

Barclays, on behalf of itself and as representative of the underwriters for the Series 2013A Bonds, has agreed to purchase from the Authority the Series 2013A Bonds at an aggregate purchase price equal to \$\_\_\_\_\_ (which amount constitutes the aggregate principal amount of the Series 2013A Bonds of \$\_\_\_\_\_, plus net original issue premium of \$\_\_\_\_\_, less the Underwriters' discount of \$\_\_\_\_\_).

The Bond Purchase Agreement by and among the Authority and Barclays, on behalf of itself, and as representative of the Underwriters dated [\_\_\_\_\_,] 2013 (the "Series 2013A Bond Purchase Agreement") provides that the Underwriters will purchase all of the Series 2013A Bonds, if any are purchased, and the obligation to make such purchases is subject to certain terms and conditions set forth in the Series 2013A Bond Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions.

The initial public offering prices of the Series 2013A Bonds may be changed from time to time by the Underwriters.

Certain of the Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Authority for which they have received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Authority.

**LEGALITY FOR INVESTMENT**

The Act provides that the bonds of the Authority are legal instruments in which public officers and public bodies of the District, insurance companies, insurance company associations and other persons carrying on an insurance business, banks, bankers, banking institutions, including savings and loan associations, building and loan associations, trust companies, savings banks, savings associations, investment companies and other persons carrying on a banking business, administrators, guardians, executors, trustees and other fiduciaries and other persons authorized to invest in bonds or in other obligations of the District, may legally invest funds, including capital, in their control.

The bonds are also, by the Act, securities which legally may be deposited with, and received by, public officers and public bodies of the District or any agency of the District for any purpose for which the deposit of bonds or other obligations of the District is authorized by law.

**RELATIONSHIP OF PARTIES**

In addition to representing the Authority as Co-Bond Counsel and Co-Disclosure Counsel, Squire Sanders (US) LLP from time to time represents the Authority in other matters, including environmental, regulatory and personnel matters. From time to time, Squire Sanders (US) LLP also represents one or more members of the underwriting group as its or their counsel in municipal bond transactions and other matters, but not in any matters related to the Authority.

In addition to representing the Authority as Co-Bond Counsel and Co-Disclosure Counsel, Leftwich & Ludaway, LLC from time to time represents the Authority in other matters, including personal injury and personnel matters.

**MISCELLANEOUS**

All estimates, assumptions, statistical information and other statements contained herein, while taken from sources considered reliable, are not guaranteed. To the extent that any statements herein include matters of opinion, or estimates of future expenses and income, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

The agreement of the Authority with the holders of the Series 2013A Bonds is fully set forth in the Indenture. Neither any advertisement of the Series 2013A Bonds nor this Official Statement is to be construed as constituting an agreement with the purchasers of the Series 2013A Bonds.

The information contained herein should not be construed as representing all conditions affecting the Authority or the Series 2013A Bonds. The foregoing statements relating to the Act, the Federal Act, the Indenture and other documents are summaries of certain provisions thereof, and in all respects are subject to and qualified in their entirety by express reference to the provisions of such documents in their complete forms.

The attached Appendices A through F are integral parts of this Official Statement and should be read in their entirety, together with all of the foregoing statements.

**DISTRICT OF COLUMBIA  
WATER AND SEWER AUTHORITY**

By: \_\_\_\_\_  
George S. Hawkins  
General Manager

**APPENDIX A-1**

**FINANCIAL FEASIBILITY OPINION LETTER OF  
AMAWALK CONSULTING GROUP LLC  
DATED \_\_\_\_\_, 2013**

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**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY  
FOR THE YEARS ENDED SEPTEMBER 30, 2012, AND 2011**

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**APPENDIX C**

**GLOSSARY AND SUMMARY OF THE INDENTURE**

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**APPENDIX D**

**FORM OF CONTINUING DISCLOSURE AGREEMENT**

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**FORM OF CONTINUING DISCLOSURE AGREEMENT**

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by the District of Columbia Water and Sewer Authority (the “Issuer”) in connection with the issuance of its Public Utility Subordinate Lien Revenue Bonds, Series 2013A (the “Series 2013A Bonds”). The Bonds are being issued pursuant to the Master Indenture of Trust, dated as of April 1, 1998 (the “Master Indenture”), as amended and supplemented to the date of delivery of the Bonds (the “Indenture”), including by the Fourteenth Supplemental Indenture of Trust, to be dated the date of issuance and delivery of the Bonds (the “Fourteenth Supplemental Indenture”), each by and between the Authority and Wells Fargo Bank, N.A., as trustee (the “Trustee”). The Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission (“S.E.C.”) Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” shall mean the Issuer, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

“Holder” shall mean the person in whose name any Bond shall be registered.

“Listed Events” shall mean any of the events listed in Section 5(a) or (b) of this Disclosure Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Participating Underwriter” shall mean the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, not later than 240 days after the end of the Issuer’s fiscal year (which shall be June 1 of each year, so long as the Issuer’s

fiscal year ends on September 30), commencing with the report for the fiscal year ending September 30, 2013 (which is due not later than June 1, 2014), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Issuer's fiscal year changes, it shall give notice of such change in a filing with the MSRB. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 business days prior to said date, the Issuer shall provide the Annual Report to the Dissemination Agent (if other than the Issuer). If the Issuer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Issuer shall, in a timely manner, send or cause to be sent to the MSRB a notice in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the Issuer) file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided to the MSRB.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or include by reference the following:

(a) the Issuer's comprehensive annual financial report (the "CAFR"), which includes audited financial statements prepared in accordance with generally accepted accounting principles in effect from time to time. If the Issuer's audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available; and

(b) to the extent not included in the CAFR, material historical financial and operating data concerning the Issuer and the Revenues of the Issuer generally of the type found in the tables included in the Issuer's Official Statement dated [REDACTED], 2013, relating to the Bonds (the "Official Statement") under the captions "THE SYSTEM," "CAPITAL IMPROVEMENT PROGRAM," "FINANCIAL OPERATIONS" and "CUSTOMER BASE, RATES AND CHARGES."

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been made available to the public on the MSRB's website. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) The Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;

4. Substitution of credit or liquidity providers, or their failure to perform;
5. Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

1. Unless described in paragraph 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
2. Modifications to rights of Bond holders;
3. Optional, unscheduled or contingent Bond calls;
4. Release, substitution, or sale of property securing repayment of the Bonds;
5. Non-payment related defaults;
6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the Issuer shall determine if such event would be material under applicable federal securities laws.

(d) If the Issuer learns of the occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the Issuer shall within ten business days of occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections 5(a)(7) or 5(b)(3) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

SECTION 6. Format for Filings with MSRB. Any report or filing with the MSRB pursuant to this Disclosure Agreement must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in a filing with the MSRB.

SECTION 8. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Agreement. The initial Dissemination Agent shall be the Issuer.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, 5(a) or 5(b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the MSRB, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative



form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Disclosure Agreement, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

SECTION 11. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Agreement, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Agreement; provided, that any such action may be instituted only in the District of Columbia. The sole remedy under this Disclosure Agreement in the event of any failure of the Issuer to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: \_\_\_\_\_, 2013.

DISTRICT OF COLUMBIA WATER AND SEWER  
AUTHORITY

By \_\_\_\_\_  
George S. Hawkins, General Manager

**CONTINUING DISCLOSURE AGREEMENT**

**EXHIBIT A**

FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD  
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: District of Columbia Water and Sewer Authority  
Name of Bond Issue: District of Columbia Water and Sewer Authority  
Public Utility Subordinate Lien Revenue Bonds, Series 2013A  
Date of Issuance: [REDACTED], 2013

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Agreement of the Issuer, dated the Date of Issuance. The Issuer anticipates that the Annual Report will be filed by [REDACTED].

Dated:[REDACTED]

DISTRICT OF COLUMBIA WATER AND SEWER  
AUTHORITY

By \_\_\_\_\_ [to be signed only if filed]

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**APPENDIX E**

**DTC BOOK-ENTRY ONLY SYSTEM**

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## DTC BOOK-ENTRY ONLY SYSTEM

**The description that follows of the procedures and record keeping with respect to beneficial ownership interests in the Series 2013A Bonds, payments of principal, premium, if any, and interest on the Series 2013A Bonds to DTC, its nominee, Participants, or Beneficial Owners, confirmation and transfer of beneficial ownership interests in the Series 2013A Bonds and other bond-related transactions by and between DTC, Participants and Beneficial Owners is based on information furnished by DTC. The Authority and the Underwriters take no responsibility for the accuracy thereof.**

The Depository Trust Company, New York, New York (“DTC”) will act as securities depository for the Series 2013A Bonds. The Series 2013A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2013A Bond will be issued for the Series 2013A Bonds of each series and maturity in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers, and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of the Series 2013A Bonds under the DTC system must be made by or through Direct Participants, who will receive a credit for such Series 2013A Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2013A Bond (the “Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2013A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2013A Bonds, except in the event that use of the book-entry system for the Series 2013A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2013A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2013A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2013A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2013A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2013A Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE SERIES 2013A BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER OF ANY NOTICE AND OF ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE SERIES 2013A BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2013A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2013A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2013A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirement as may be in effect from time to time. Payment of principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2013A Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2013A Bond certificates are required to be printed and delivered. The Authority may decide to discontinue use of the

system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2013A Bond certificates will be printed and delivered.

So long as Cede & Co. is the registered owner of the Series 2013A Bonds, as partnership nominee for DTC, references herein to Bondholders or registered owners of the Series 2013A Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co. and shall not mean the Beneficial Owners of the Series 2013A Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, CEDE & CO., ANY DTC PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (ii) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2013A BONDS; (iii) THE SELECTION BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2013A BONDS; (iv) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE SERIES 2013A BONDS; (v) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE SERIES 2013A BONDS; OR (vi) ANY OTHER MATTER.



**APPENDIX F**

**PROPOSED FORM OF OPINION OF CO-BOND COUNSEL**

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**ATTACHMENT 5**

Squire Sanders Draft: 6/19/2013

**FOURTEENTH SUPPLEMENTAL INDENTURE OF TRUST**

**between**

**DISTRICT OF COLUMBIA  
WATER AND SEWER AUTHORITY**

**and**

**WELLS FARGO BANK, N.A.  
AS TRUSTEE**

**Dated \_\_\_\_\_, 2013**

**THIS FOURTEENTH SUPPLEMENTAL INDENTURE OF TRUST** dated the \_\_\_\_ day of \_\_\_\_\_, 2013 (as defined in more detail below, the “**Fourteenth Supplemental Indenture**”), by and between the District of Columbia Water and Sewer Authority (the “**Authority**”), an independent authority of the District of Columbia (the “**District**”), and Wells Fargo Bank, N.A., a national banking association, having a corporate trust office in Philadelphia, Pennsylvania, as trustee (in such capacity, together with any successor in such capacity, herein called the “**Trustee**”), provides:

**WHEREAS**, the Authority and the Trustee (its predecessor in that capacity having been Norwest Bank, N.A.) entered into the Master Indenture of Trust, dated as of April 1, 1998 (the “**Master Indenture**” and, as previously supplemented and amended by the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, the Fifth Supplemental Indenture, the Sixth Supplemental Indenture, the Seventh Supplemental Indenture, the Eighth Supplemental Indenture, the Ninth Supplemental Indenture, the Tenth Supplemental Indenture, the Eleventh Supplemental Indenture, the Twelfth Supplemental Indenture and the Thirteenth Supplemental Indenture, all as hereinafter defined, and as it may further be supplemented and amended in accordance with its terms, the “**Indenture**”), to provide for financing or refinancing the acquisition, construction, operation, maintenance and extension of the System (as defined in the Master Indenture) by the issuance of bonds, notes and other obligations payable solely from Net Revenues (as defined in the Master Indenture); and

**WHEREAS**, pursuant to the First Supplemental Indenture of Trust, dated as of April 1, 1998 (the “**First Supplemental Indenture**”), between the Authority and the Trustee, the Authority issued its \$266,120,000 Public Utility Revenue Bonds, Series 1998, dated as of April 1, 1998 (the “**Series 1998 Senior Lien Bonds**”), to finance Costs of the System (as defined in the Master Indenture) and to refund then outstanding debt of the Authority; and

**WHEREAS**, the Master Indenture permits the Authority, for certain purposes and subject to certain conditions, to issue Other System Indebtedness (as defined therein) secured on a parity with the Series 1998 Senior Lien Bonds and referred to collectively with the Series 1998 Senior Lien Bonds as “Senior Debt,” and also permits the Authority to issue Subordinate Debt (as defined therein), to which it has pledged to its payment Net Revenues, as a subordinate lien pledge after the pledge of Net Revenues to Senior Debt; and

**WHEREAS**, pursuant to the Second Supplemental Indenture of Trust, dated as of November 1, 2001 (the “**Second Supplemental Indenture**”), between the Authority and the Trustee, the Authority amended and supplemented the Master Indenture in accordance with its terms to clarify provisions thereof related to certain forms of Indebtedness (as defined in the Master Indenture, i.e., Senior Debt and Subordinate Debt) and thereby facilitate the issuance of such forms of Indebtedness; and

**WHEREAS**, pursuant to the Third Supplemental Indenture of Trust, dated as of November 1, 2001 (the “**Third Supplemental Indenture**”), between the Authority and the Trustee, the Authority (i) issued its Commercial Paper Notes defined therein as the Series A-B Notes, (ii) designated the Series A-B Notes as Subordinate Debt for purposes of the Indenture, and (iii) made provision for the securing of the Series A-B Notes and of the Reimbursement Obligations to the Bank that provided the Letters of Credit (all as defined therein) that secure the Series A-B Notes; and

**WHEREAS**, pursuant to the Fourth Supplemental Indenture of Trust, dated August 12, 2003 (the “**Fourth Supplemental Indenture**”), between the Authority and the Trustee, the Authority: (i) issued its Public Utility Subordinated Lien Revenue Bonds, Series 2003, dated August 12, 2003 (the “**Series 2003 Subordinated Bonds**”), in the aggregate principal amount of \$176,220,000 to finance certain Costs of the System and retire Series A-B Notes, (ii) designated the Series 2003 Subordinated Bonds as Subordinate Debt for purposes of the Indenture, and (iii) secured the Series 2003 Subordinated Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future; and

**WHEREAS**, pursuant to the Fifth Supplemental Indenture of Trust, dated August 3, 2004 (the “**Fifth Supplemental Indenture**”), between the Authority and the Trustee, the Authority: (i) issued its Public Utility Subordinated Lien Revenue Bonds, Series 2004, as Subseries 2004A-1, Subseries 2004A-2, Subseries 2004B-1 and Subseries B-2 (collectively, the “**Series 2004 Subordinated Bonds**”) in the aggregate principal amount of \$295,000,000 to finance certain Costs of the System, (ii) designated the Series 2004 Subordinated Bonds as Subordinate Debt for purposes of the Indenture, and (iii) secured the Series 2004 Subordinated Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures the Series 2003 Subordinated Bonds and other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future; and

**WHEREAS**, pursuant to the Sixth Supplemental Indenture of Trust, dated June 6, 2007 (the “**Sixth Supplemental Indenture**”), between the Authority and the Trustee, the Authority: (i) issued its Public Utility Subordinated Lien Revenue Bonds, Series 2007A, in the aggregate principal amount of \$218,715,000 to finance certain Costs of the System and retire Series A-B Notes, (ii) designated the Series 2007A Subordinated Bonds as Subordinate Debt for purposes of the Indenture, and (iii) secured the Series 2007A Subordinated Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures the Series 2003 Subordinated Bonds, Series 2004 Subordinated Bonds and other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future; and

**WHEREAS**, pursuant to the Seventh Supplemental Indenture of Trust, dated June 6, 2007 (the “**Seventh Supplemental Indenture**”), between the Authority and the Trustee, the Authority: (i) issued its Public Utility Subordinated Lien Taxable Revenue Bonds, Series 2007B, in the aggregate principal amount of \$59,000,000 to finance certain Costs of the System, (ii) designated the Series 2007B Subordinated Bonds as Subordinate Debt for purposes of the

Indenture, and (iii) secured the Series 2007A Subordinated Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures the Series 2003 Subordinated Bonds, the Series 2004 Subordinated Bonds and other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future; and

**WHEREAS**, pursuant to the Eighth Supplemental Indenture of Trust, dated April 24, 2008 (the “**Eighth Supplemental Indenture**”), between the Authority and the Trustee, the Authority: (i) issued its Public Utility Subordinated Lien Revenue Refunding Bonds, Series 2008, in the aggregate principal amount of \$290,375,000 to (a) currently refund all of the outstanding Series 2004 Subordinated Bonds and a portion of the Series 2007B Subordinated Bonds, and (b) pay issuance costs of the Series 2008 Subordinated Bonds, (ii) designated the Series 2008 Subordinated Bonds as Subordinate Debt for purposes of the Indenture, and (iii) secured the Series 2008 Subordinated Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future; and

**WHEREAS**, pursuant to the Ninth Supplemental Indenture of Trust, dated December 19, 2008 (the “**Ninth Supplemental Indenture**”), between the Authority and the Trustee, the Authority agreed to confer on the Holders of the Series 2003 Subordinated Bonds additional rights related to the Reserve Credit Facility (as defined therein) and to cure any ambiguity or omission in the Indenture regarding the obligations of the Authority as a consequence of a downgrade of the Reserve Policy related to the Series 2003 Subordinated Bonds, or in the event that the Reserve Policy were to cease to be in effect; and

**WHEREAS**, pursuant to the Tenth Supplemental Indenture of Trust, dated February 12, 2009 (the “**Tenth Supplemental Indenture**”), between the Authority and the Trustee, the Authority: (i) issued its Public Utility Senior Lien Revenue Bonds, Series 2009A, in the aggregate principal amount of \$300,000,000 to finance certain Costs of the System and retire Series A-B Notes, (ii) designated the Series 2009A Senior Lien Bonds as Senior Debt for purposes of the Indenture, and (iii) secured the Series 2009A Senior Lien Bonds by a pledge of Net Revenues on a parity with the pledge of Net Revenues that secures the 1998 Senior Lien Bonds and other Senior Debt, including, without limitation, other Senior Debt that the Authority may issue from time to time in the future; and

**WHEREAS**, pursuant to the Eleventh Supplemental Indenture of Trust, dated June 2, 2010 (the “**Eleventh Supplemental Indenture**”), between the Authority and the Trustee, the Authority: (i) issued its Commercial Paper Notes defined therein as the Series A-B-C Notes, (ii) designated the Series A-B-C Notes as Subordinate Debt for purposes of the Indenture, and (iii) made provision for the securing of the Series A-B-C Notes and of the Reimbursement Obligations to the Bank that provided the Letters of Credit (all as defined therein) that secure the Series A-B-C Notes; and

**WHEREAS**, pursuant to the Twelfth Supplemental Indenture of Trust, dated October 27, 2010 (the “**Twelfth Supplemental Indenture**”), between the Authority and the Trustee, the

Authority (i) issued its Public Utility Subordinate Lien Revenue Bonds, Series 2010A (Federally Taxable – Issuer Subsidy – Build America Bonds) in the aggregate principal amount of \$300,000,000 to finance certain Costs of the System, and fund capitalized interest on a portion of the Series 2010A Subordinate Bonds, subject to specified limitations, (ii) designated the Series 2010A Subordinate Bonds as Subordinate Debt for purposes of the Indenture, (iii) secured the Series 2010A Subordinate Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future, and (iv) included provisions in the Indenture related to potential Direct Payments (as defined therein) received or expected to be received by the Authority, including certain provisions requiring the consent of the holders of a majority of Outstanding Bonds; and

**WHEREAS**, pursuant to the Thirteenth Supplemental Indenture of Trust, dated March 22, 2012 (the “**Thirteenth Supplemental Indenture**”), between the Authority and the Trustee, the Authority: (A) (i) issued its Public Utility Subordinate Lien Revenue Bonds, Series 2012A in the aggregate principal of \$177,430,000 to finance certain Costs of the System and pay certain costs of issuance, (ii) designated the Series 2012A Subordinate Bonds as Subordinate Debt for purposes of the Indenture, and (iii) secured the Series 2012A Subordinate Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future, (B) (i) issued its Public Utility Subordinate Lien Multimodal Revenue Bonds, Series 2012B in the aggregate principal amount of \$100,000,000 to finance certain Costs of the System, fund capitalized interest on a portion of the Series 2012B Subordinate Bonds subject to specified limitations, and pay certain costs of issuance, (ii) designated the Series 2012B Subordinate Bonds as Subordinate Debt for purposes of the Indenture, and (iii) secured the Series 2012B Subordinate Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future, and (C) (i) issued its Public Utility Subordinate Lien Revenue Refunding Bonds, Series 2012C in the aggregate principal amount of \$163,215,000, and applied the proceeds thereof, together with any other funds of the Authority, to advance refund the Refunded Bonds (as defined in the Thirteenth Supplemental Indenture) and caused them to be deemed paid and no longer Outstanding for purposes of the Indenture, and paid certain costs of issuance, (ii) designated the Series 2012C Subordinate Bonds as Subordinate Debt for purposes of the Indenture, and (iii) secured the Series 2012C Subordinate Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future; and

**WHEREAS**, the Authority now intends to: (i) issue Public Utility Subordinate Lien Revenue Bonds, Series 2013A in the aggregate principal amount of \$\_\_\_\_\_ ( the “**Series 2013A Subordinate Bonds**”) to finance certain Costs of the System and pay certain costs of issuance, (ii) designate the Series 2013A Subordinate Bonds as Subordinate Debt for

purposes of the Indenture, and (iii) secure the Series 2013A Subordinate Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures the Series 2003 Subordinated Bonds, the Series 2004 Subordinated Bonds, the Series 2007A Subordinated Bonds, the Series 2008A Subordinated Bonds, the Series 2010A Subordinated Bonds, the Series 2012A Subordinated Bonds, the Series 2012B Subordinated Bonds, the Series 2012C Subordinated Bonds and other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future; and

**NOW THEREFORE**, in consideration of the premises and the mutual covenants and agreements hereinafter contained, the parties hereto agree, as follows:

**ARTICLE I  
FOURTEENTH SUPPLEMENTAL INDENTURE**

**Section 101. Authorization of Fourteenth Supplemental Indenture.**

This Fourteenth Supplemental Indenture is authorized and executed by the Authority and delivered to the Trustee pursuant to and in accordance with Articles III and X of the Master Indenture. All terms, covenants, conditions and agreements of the Indenture shall apply with full force and effect to the Series 2013A Subordinate Bonds as Subordinate Debt and to the Holders thereof as Holders of Subordinate Debt, except as otherwise provided in this Fourteenth Supplemental Indenture.

**Section 102. Definitions.**

Except as otherwise defined in this Fourteenth Supplemental Indenture, capitalized words and terms defined in the Master Indenture as amended by the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, the Fifth Supplemental Indenture, the Sixth Supplemental Indenture, the Seventh Supplemental Indenture, the Eighth Supplemental Indenture, the Ninth Supplemental Indenture, the Tenth Supplemental Indenture, the Eleventh Supplemental Indenture, the Twelfth Supplemental Indenture and the Thirteenth Supplemental Indenture are used in this Fourteenth Supplemental Indenture with the meanings assigned to them therein. In addition, the following words as used in this Fourteenth Supplemental Indenture have the following meanings unless the context or use clearly indicates another or different intent or meaning:

“Book-entry form” or “book-entry system” means a form or system under which the physical Series 2013A Subordinate Bond certificates in fully registered form are issued only to a Depository or its nominee as Holder, with the certificated Series 2013A Subordinate Bonds held by and “immobilized” in the custody of the Depository, and the book-entry system, maintained by and the responsibility of the Depository and not maintained by or the responsibility of the Authority or the Trustee, is the record that identifies, and records the transfer of the interests of, the owners of beneficial, book-entry interests in the Series 2013A Subordinate Bonds.

“Depository” means any securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a book-entry system to record



ownership of book-entry interests in Series 2013A Subordinate Bonds, and to effect transfers of book-entry interests in Series 2013A Subordinate Bonds, and includes and means initially The Depository Trust Company (a limited purpose trust company), New York, New York.

“Fourteenth Supplemental Indenture” means this Fourteenth Supplemental Indenture of Trust, dated \_\_\_\_\_, 2013, between the Authority and the Trustee, which supplements and amends the Master Indenture, as previously supplemented and amended by the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, the Fifth Supplemental Indenture, the Sixth Supplemental Indenture, the Seventh Supplemental Indenture, the Eighth Supplemental Indenture, the Ninth Supplemental Indenture, the Tenth Supplemental Indenture, the Eleventh Supplemental Indenture, the Twelfth Supplemental Indenture and the Thirteenth Supplemental Indenture.

“Interest Payment Dates” for the Series 2013A Subordinate Bonds means each April 1 and October 1 commencing [October 1, 2013] and thereafter during the time the Series 2013A Subordinate Bonds are outstanding.

“Series 2013A Construction Account” means the Series 2013A Construction Account established by this Fourteenth Supplemental Indenture in the Construction Fund.

“Series 2013A Costs of Issuance Subaccount” means the Series 2013A Costs of Issuance Subaccount established by this Fourteenth Supplemental Indenture in the Series 2013A Construction Account of the Construction Fund.

“Series 2013A Rebate Fund” means the Series 2013A Rebate Fund established by this Fourteenth Supplemental Indenture.

“Series 2013A Resolution” means Resolution No. \_\_\_\_\_, adopted by the Authority’s Board on \_\_\_\_\_, 2013, authorizing the Series 2013A Subordinate Bonds.

“Series 2013A Subordinate Bond Event of Default” means any of the events defined as such in Section 703 of this Fourteenth Supplemental Indenture.

“Series 2013A Subordinate Bondholder” or “holder of Series 2013A Subordinate Bonds” means the registered owner of a Series 2013A Subordinate Bond.

“Series 2013A Subordinate Bonds Interest Subaccount” means the Series 2013A Subordinate Bonds Interest Subaccount established by this Fourteenth Supplemental Indenture in the Subordinate Interest Account in the Subordinate Bond Fund.

“Series 2013A Subordinate Bonds Principal Subaccount” means the Series 2013A Subordinate Bonds Principal Subaccount established by this Fourteenth Supplemental Indenture in the Subordinate Principal Account in the Subordinate Bond Fund.

“Series 2013A Subordinate Debt Service Reserve Requirement” means [zero].

“Series 2013A Subordinate Debt Service Reserve Account” means the Series 2013A Subordinate Debt Service Reserve Account established by this Fourteenth Supplemental Indenture in the Subordinate Debt Service Reserve Fund.

**Section 103. Reference to Articles and Sections.**

Unless otherwise indicated, all references herein to particular articles or sections are references to articles or sections of this Fourteenth Supplemental Indenture.

**ARTICLE II  
AUTHORIZATION, DETAILS AND FORM  
OF SERIES 2013A SUBORDINATE BONDS**

**Section 201. Authorization of Series 2013A Subordinate Bonds.**

Pursuant to Article III of the Master Indenture and, specifically, Section 305 thereof, and the Series 2013A Resolution, the Authority is authorized to issue a series of public utility revenue bonds of the Authority in the aggregate principal amount of \$\_\_\_\_\_ for the purpose of: (i) financing certain Costs of the System, and (ii) paying issuance costs of the Series 2013A Subordinate Bonds. The Series 2013A Subordinate Bonds shall be issued as Subordinate Debt pursuant to the Indenture.

**Section 202. Details of Series 2013A Subordinate Bonds.**

The Series 2013A Subordinate Bonds shall be designated “Public Utility Subordinate Lien Revenue Bonds, Series 2013A,” shall be dated \_\_\_\_\_, 2013, shall be issuable only as fully registered bonds in denominations of \$5,000 and multiples thereof, shall be numbered R-1 upward and shall bear interest at rates, payable semiannually on the Interest Payment Dates, until their final payment or maturity, and shall mature on October 1 in years and amounts, as follows:

<u>October 1</u> <u>Maturity</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
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Each Series 2013A Subordinate Bond shall bear interest: (a) from its date, if such Series 2013A Subordinate Bond is authenticated prior to the first Interest Payment Date, or (b) otherwise from the Interest Payment Date that is, or immediately precedes, the date on which such Series 2013A Subordinate Bond is authenticated; provided, however, that if at the time of authentication of any Series 2013A Subordinate Bond payment of interest is in default, such Series 2013A Subordinate Bond shall bear interest from the date to which interest has been paid.

The interest payable on the Series 2013A Subordinate Bonds will be computed on the basis of a 360-day year of twelve 30-day months.

Principal of and premium, if any, on the Series 2013A Subordinate Bonds shall be payable to the registered owners upon the surrender of Series 2013A Subordinate Bonds at the designated office of the Trustee. Interest on the Series 2013A Subordinate Bonds shall be payable by check or draft mailed to the registered owners at their addresses as they appear on the fifteenth day of the month preceding the Interest Payment Date on the registration books kept by the Trustee; provided, however, if the Series 2013A Subordinate Bonds are registered in the name of a Depository or its nominee as registered owner or at the option of a registered owner of at least \$1,000,000 of Series 2013A Subordinate Bonds, payment shall be made by wire transfer pursuant to the wire instructions received by the Trustee with respect to each such payment from such registered owner. Principal, premium, if any, and interest shall be payable in lawful money of the United States of America.

**Section 203. Form of Bonds.**

The Series 2013A Subordinate Bonds shall be in substantially the form set forth in **Exhibit A**, with such appropriate variations, omissions and insertions as are permitted or required by the Indenture.

**Section 204. Depository Provisions.**

The Series 2013A Subordinate Bonds shall initially be issued to a Depository for holding in a book-entry system. Those Series 2013A Subordinate Bonds shall be registered in the name of the Depository or its nominee, as registered owner, and immobilized in the custody of the Depository or the Trustee on behalf of the Depository; and shall not be transferable or exchangeable, except for transfer to another Depository or to another nominee of a Depository, without further action by the Authority.

If any Depository determines not to continue to act as a Depository for the Series 2013A Subordinate Bonds for holding in a book-entry system or the Authority determines to remove the Series 2013A Subordinate Bonds from a Depository, the Authority may attempt to have established a securities depository/book-entry system relationship with another qualified Depository. If the Authority does not or is unable to do so, the Authority, after making provision for notification of the owners of book-entry interests by appropriate notice to the then Depository and any other arrangements it deems necessary, shall permit withdrawal of the Series 2013A Subordinate Bonds from the Depository, and shall execute and direct the Trustee to authenticate and deliver Series 2013A Subordinate Bond certificates, in fully registered form, to the assigns of the Depository or its nominee (if such Series 2013A Subordinate Bonds were held by a nominee), all at the cost and expense (including costs of printing or otherwise preparing and delivering replacement Series 2013A Subordinate Bonds), if the event is not the result of Authority action or inaction, of those persons requesting that authentication and delivery. Series 2013A Subordinate Bond certificates authenticated and delivered pursuant to this paragraph shall be in authorized denominations. In the event that Series 2013A Subordinate Bonds shall cease to be in book-entry form, then the Authority or the Depository shall provide to the Trustee the

name, address of record and taxpayer identification number of each registered holder thereof. The Trustee may rely on such information without any investigation.

If the Series 2013A Subordinate Bonds are withdrawn from a Depository and printed bond certificates in fully registered form are or are to be authenticated and delivered pursuant to this Section, and if, in the opinion of Bond Counsel addressed to the Trustee, the delivery of coupon bonds payable to bearer would not result in the interest on any of the Series 2013A Subordinate Bonds then outstanding becoming includable in gross income for federal income tax purposes, the Authority, without the consent of or notice to any of the holders of the Series 2013A Subordinate Bonds, may authorize the exchange of Series 2013A Subordinate Bond certificates in fully registered form or Series 2013A Subordinate Bonds under a book-entry system for coupon bonds payable to bearer, in an aggregate principal amount not exceeding the then unmatured and unredeemed principal amount of the Series 2013A Subordinate Bonds, bearing interest at the same rate and maturing on the same date, with coupons attached representing all unpaid interest due or to become due thereon. Such certificated Series 2013A Subordinate Bonds will be registrable, transferable and exchangeable as set forth in Section 204 and Section 205 of the Master Indenture.

So long as a Depository holds the Series 2013A Subordinate Bonds in a book-entry system (A) it or its nominee shall be the registered owner of the Series 2013A Subordinate Bonds, (B) notwithstanding anything to the contrary in this Tenth Supplemental Indenture, determinations of persons entitled to payment of principal, premium, if any, and interest, transfers of ownership and exchanges and receipt of notices shall be the responsibility of the Depository and shall be effected pursuant to rules and procedures established by such Depository, (C) the Authority and the Trustee shall not be responsible or liable for maintaining, supervising or reviewing the records maintained by the Depository, its participants or persons acting through such participants, and (D) references in this Tenth Supplemental Indenture to registered owners of the Series 2013A Subordinate Bonds shall mean such Depository or its nominee and shall not mean the beneficial owners of the Series 2013A Subordinate Bonds.

**Section 205. Delivery of Series 2013A Subordinate Bonds.**

The Trustee shall authenticate and deliver the Series 2013A Subordinate Bonds when there have been filed with or delivered to it the following items:

- (a) An original executed counterpart of this Fourteenth Supplemental Indenture;
- (b) A certified copy of applicable resolution(s) of the Board of Directors of the Authority and related Certificate of Award: (i) authorizing the execution and delivery of the Fourteenth Supplemental Indenture, and (ii) authorizing the issuance, sale, award, execution and delivery of the Series 2013A Subordinate Bonds.
- (c) A certificate signed by an Authorized Representative of the Authority and dated the date of such issuance, to the effect that:
  - (1) Either: (A) upon and immediately following such issuance, no Event of Default has occurred which has not been cured or waived, and no event or condition exists

which, with the giving of notice or lapse of time or both, would become an Event of Default, or (B) if any such event or condition is happening or existing, specifying such event or condition, stating that the Authority will act with due diligence to correct such event or condition after the issuance of the Series 2013A Subordinate Bonds, and describing in reasonable detail the actions to be taken by the Authority toward such correction; and

(2) All required approvals, limitations, conditions and provisions precedent to the issuance of the Series 2013A Subordinate Bonds have been obtained, observed, met and satisfied.

(d) An Opinion or Opinions of Counsel, subject to customary exceptions and qualifications, substantially to the effect that this Fourteenth Supplemental Indenture has been duly authorized, executed and delivered to the Trustee and is a valid, binding and enforceable obligation of the Authority.

(e) An opinion or opinions of Bond Counsel, subject to customary exceptions and qualifications, substantially to the effect that the issuance of the Series 2013A Subordinate Bonds has been duly authorized, and that the Series 2013A Subordinate Bonds are valid and binding limited obligations of the Authority.

(f) A certificate of an Authorized Representative of the Authority, stating that rates, fees and charges are in effect or scheduled to go into effect to meet the Rate Covenant immediately after the issuance of the Series 2013A Subordinate Bonds.

(g) A request and authorization of the Authority, signed by an Authorized Representative of the Authority, to the Trustee to authenticate and deliver such Bonds to the purchaser upon payment to the Trustee in immediately available funds for the account of the Authority of a specified sum plus accrued interest to the date of delivery.

### **ARTICLE III REDEMPTION OF SERIES 2013A SUBORDINATE BONDS**

#### **Section 301. Redemption Dates and Prices.**

The Series 2013A Subordinate Bonds may not be called for redemption by the Authority except as provided below:

(a) Optional Redemption. The Series 2013A Bonds maturing on and after October 1, 20\_\_ are subject to redemption prior to maturity at the option of the Authority in whole or in part on any date on or after October 1, 20\_\_ at the redemption price of 100% of the principal amount thereof together with interest accrued to the redemption date.

(b) Mandatory Redemption. The Term Series 2013A Subordinate Bonds maturing on October 1 in each of the years 20\_\_ and 20\_\_ are required to be redeemed prior to maturity on October 1 in years and amounts upon payment of 100% of the principal amount thereof plus interest accrued to the redemption date, as follows:

The Term Series 2013A Subordinate Bonds maturing October 1, 20\_\_, are subject to mandatory sinking fund redemption on each October 1 as set forth below:

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\*Final Maturity

The Term Series 2013A Subordinate Bonds maturing October 1, 20\_\_, are subject to mandatory sinking fund redemption on each October 1 as set forth below:

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\*Final Maturity

The Trustee shall provide for a mandatory redemption of the Term Series 2013A Subordinate Bonds in accordance with the schedules set forth above; provided, however, that on or before the 70th day next preceding any such mandatory redemption date, the Authority may:

(1) deliver to the Trustee for cancellation Term Series 2013A Subordinate Bonds of the maturity required to be redeemed on such mandatory redemption date in any aggregate principal amount desired; or

(2) instruct the Trustee in writing to apply a credit against the Authority's next mandatory redemption obligation for any such Term Series 2013A Subordinate Bonds that previously have been redeemed (other than through mandatory redemption) and canceled but not theretofore applied as a credit against any mandatory redemption obligation.

Upon the occurrence of any of the events described in clauses (1) or (2) of the preceding sentence, the Trustee shall credit against the Authority's mandatory redemption obligation on the next mandatory redemption date the amount of such Term Series 2013A Subordinate Bonds so delivered or previously redeemed. Any principal amount of such Term Series 2013A Subordinate Bonds in excess of the principal amount required to be redeemed on such mandatory redemption date shall be similarly credited in an amount equal to the principal of such Term Series 2013A Subordinate Bonds so purchased towards the sinking fund installments for the Term Series 2013A Subordinate Bonds of such maturity on a pro rata basis in accordance with a certificate of an Authorized Representative of the Authority, which will direct the reduction of a ratable portion of each annual mandatory sinking fund installment requirement in accordance with the procedures set forth below. Within seven days of receipt of such Term Series 2013A Subordinate Bonds or instructions to apply as a credit, any amounts remaining in the Sinking Fund Account in excess of the amount required to fulfill the remaining required mandatory redemption obligation on the next mandatory redemption date shall be used in such manner as determined at the written direction of the Authority.

The particular maturities of the Series Subordinate 2010A Bonds to be redeemed at the option of the Authority will be determined by the Authority in its sole discretion.

If less than all of the Series 2013A Subordinate Bonds are called for redemption, they shall be called in such order of maturity as the Authority may determine and direct the Trustee in writing. If less than all of the Series 2013A Subordinate Bonds of any maturity date are called for redemption, the Series 2013A Subordinate Bonds to be redeemed shall be selected by the Depository pursuant to its rules and procedures or, if the book-entry system is discontinued, shall be selected by the Trustee by lot in such manner as the Trustee in its discretion may determine. The portion of any Series 2013A Subordinate Bond to be redeemed shall be in the principal amount of \$5,000 or some integral multiple thereof. In selecting Series 2013A Subordinate Bonds for redemption, each Series 2013A Subordinate Bond shall be considered as representing that number of Bonds which is obtained by dividing the principal amount of such Series 2013A Subordinate Bond by \$5,000. If a portion of a Series 2013A Subordinate Bond shall be called for redemption, a new Series 2013A Subordinate Bond in principal amount equal to the unredeemed portion thereof shall be issued to the registered owner upon the surrender thereof.

### **Section 303. Notice of Redemption.**

Notice of redemption of Series 2013A Subordinate Bonds shall be given in the manner set forth in Section 402 of the Master Indenture, as though the Series 2013A Subordinate Bonds constituted "Bonds" for purposes of that Section, provided, however, that notices of redemption

of Series 2013A Subordinate Bonds sent pursuant to Section 402 of the Master Indenture shall either (i) explicitly state that the proposed redemption is conditioned on there being on deposit in the applicable fund or account on the redemption date sufficient money to pay the full redemption price of the Series 2013A Subordinate Bonds to be redeemed, or (ii) be sent only if sufficient money to pay the full redemption price of the Series 2013A Subordinate Bonds to be redeemed is on deposit in the applicable fund or account.

**ARTICLE IV**  
**APPLICATION OF PROCEEDS OF SERIES 2013A SUBORDINATE BONDS**

**Section 401. Application of Proceeds of Series 2013A Subordinate Bonds; Application of Related Amounts.**

(a) The net proceeds of the Series 2013A Subordinate Bonds in the amount of \$\_\_\_\_\_, which represents the par amount of the Series 2013A Subordinate Bonds (\$\_\_\_\_\_), and minus the underwriters' discount (\$\_\_\_\_\_) by the Original Purchasers, at the request and direction of the Authority shall be applied as follows:

(1) \$\_\_\_\_\_ shall be deposited in the Series 2013A Construction Account of the Construction Fund and used to pay Costs of the System, [including, without limitation, \$\_\_\_\_\_ of such amount to pay capitalized interest.]

(2) \$\_\_\_\_\_ shall be deposited in the Series 2013A Costs of Issuance Subaccount of the Series 2013A Construction Account of the Construction Fund and used to pay costs of issuance.

[(3) \$\_\_\_\_\_ shall be deposited in the Series 2013A Debt Service Reserve Account.]

**ARTICLE V**  
**FUNDS AND ACCOUNTS**

**Section 501. Series 2013A Construction Account.**

In the Construction Fund, there shall be established a Series 2013A Construction Account and, within that Account, a Series 2013A Costs of Issuance Subaccount. The portion of the proceeds of the Series 2013A Subordinate Bonds specified in Section 401(a)(4) shall be deposited in the Series 2013A Costs of Issuance Subaccount and used to pay costs of issuance related to the Series 2013A Subordinate Bonds. When all costs of issuance have been paid or moneys have been reserved to pay all remaining unpaid costs of issuance, the balance of any Series 2013A Subordinate Bond proceeds remaining in excess of the amount to be reserved for payment of unpaid costs of issuance shall, as directed by the Authority, either (i) be deposited in the Series 2013A Construction Account of the Construction Fund and used to pay Costs of the System, or (ii) be deposited in the Subordinate Bond Fund to be used solely to pay principal of and interest on the Series 2013A Subordinate Bonds, in either case to the extent approved by Bond Counsel.



**Section 502. Series 2013A Subordinate Bonds Subaccounts in the Subordinate Interest Account and Subordinate Principal Account.**

(a) Within the Subordinate Interest Account there shall be established a “Series 2013A Subordinate Bonds Interest Subaccount.” Within the Subordinate Principal Account there shall be established a “Series 2013A Subordinate Bonds Principal Subaccount.”

(b) In accordance with Section 604(e) of the Master Indenture, Net Revenues shall be deposited in the Series 2013A Subordinate Bond Interest Subaccount on or prior to the last Business Day of each of the six months prior to any month in which an Interest Payment Date occurs, in an amount equal to one-sixth (1/6) of the interest due and payable on the Series 2013A Subordinate Bonds on such Interest Payment Date.

(c) In accordance with Section 604(e) of the Master Indenture, Net Revenues shall be deposited in the Series 2013A Subordinate Bonds Principal Subaccount on or prior to the last Business Day of each of the twelve months prior to any month in which principal of Series 2013A Subordinate Bonds is payable on their stated maturity date or pursuant to mandatory redemption requirements, in an amount equal to one-twelfth (1/12) of the principal amount scheduled to be due and payable on the Series 2013A Subordinate Bonds in such month.

**ARTICLE VI  
SECURITY FOR SERIES 2013A SUBORDINATE BONDS**

**Section 601. Security for Series 2013A Subordinate Bonds.**

The Series 2013A Subordinate Bonds shall be secured as Subordinate Debt under the Indenture, including, without limitation, by a pledge of: (i) Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures Subordinate Debt, including, without limitation, any other Subordinate Debt that the Authority may issue in the future, without preference, priority or distinction of any Series 2013A Subordinate Bond over any other Series 2013A Subordinate Bond or of any Subordinate Debt over any other Subordinate Debt, as provided in the Indenture; and (ii) the moneys and Permitted Investments in the Subordinate Bond Fund on a parity with the pledge of Net Revenues that secures other Subordinate Debt, including, without limitation, any other Subordinate Debt that the Authority may issue in the future, without preference, priority or distinction of any Series 2013A Subordinate Bond over any other Series 2013A Subordinate Bond or of any Subordinate Debt over any other Subordinate Debt, as provided in the Indenture.

**ARTICLE VII  
DEFAULTS AND REMEDIES**

**Section 701. Application of Article IX and Other Remedies Provisions of the Master Indenture.**

The Series 2013A Subordinate Bonds do not constitute “Bonds” under the Master Indenture. Accordingly, the provision of Article IX of the Master Indenture that confer certain

rights upon the Holders of Bonds or a specified percentage thereof do not apply to the Series 2013A Subordinate Bonds or to the Series 2013A Subordinate Bondholders. Pursuant to Section 305 of the Master Indenture, the Series 2013A Subordinate Bonds, as Subordinate Debt, may not be accelerated if any Senior Debt is outstanding.

**Section 702. Rights of Series 2013A Subordinate Bondholders Upon Occurrence of Events of Default.**

In addition to and in furtherance and implementation of the rights that Series 2013A Subordinate Bondholders have under the penultimate paragraph of Section 906 of the Master Indenture, Sections 703 through 711, inclusive, of this Fourteenth Supplemental Indenture shall apply to the Series 2013A Subordinate Bonds.

**Section 703. Events of Default.**

Each of the following events shall be a Series 2013A Subordinate Bond Event of Default:

- (a) Default in the due and punctual payment of the principal of or premium, if any, on any Series 2013A Subordinate Bond (whether at maturity or call for redemption);
- (b) Default in the due and punctual payment of the interest on any Series 2013A Subordinate Bond;
- (c) Failure of the Authority to make the deposits required by subsection (e) or subsection (f) of Section 604 of the Master Indenture at the time and in the amount required from Net Revenues available for such deposit under the Indenture; or
- (d) Failure of the Trustee to apply moneys in accordance with the penultimate paragraph of Section 906 of the Master Indenture.

**Section 704. Remedies of Series 2013A Subordinate Bondholders.**

Upon the occurrence and continuation of a Series 2013A Subordinate Bond Event of Default, the Trustee may, and if requested by the holders of not less than 25% in aggregate principal amount of outstanding Series 2013A Subordinate Bonds and if indemnified to its reasonable satisfaction, shall proceed to protect and enforce their rights by mandamus or other suit, action or proceeding at law or in equity, including an action for specific performance.

No remedy conferred by this Indenture upon or reserved to the Trustee and Series 2013A Subordinate Bondholders is intended to be exclusive of any other remedy, but each such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee and Series 2013A Subordinate Bondholders hereunder or now or hereafter existing at law, in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or Series 2013A Subordinate Bond Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Series 2013A Subordinate Bond Event of Default

or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or Series 2013A Subordinate Bond Event of Default hereunder by the Trustee or Series 2013A Subordinate Bondholders shall extend to or shall affect any subsequent Series 2013A Subordinate Bond Event of Default or shall impair any rights or remedies consequent thereon.

**Section 705. Right of Series 2013A Subordinate Bondholders to Direct Proceedings.**

The holders of a majority in aggregate principal amount of Series 2013A Subordinate Bonds then outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of this Fourteenth Supplemental Indenture or any other proceedings hereunder, provided, however, that such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture.

**Section 706. Application of Moneys.**

All moneys received by the Trustee pursuant to any right given or action taken under the provisions of this Article shall, after payment of the cost and expenses of the proceedings resulting in the collection of such moneys, the expenses, liabilities and advances incurred or reasonably anticipated to be made by the Trustee, and its fees and the expenses of the Authority in carrying out this Fourteenth Supplemental Indenture, be deposited in the Series 2013A Subordinate Bonds Interest Subaccount or the Series 2013A Subordinate Bonds Principal Subaccount, as the case may be, and applied as follows and for no other purpose:

(a) All such moneys shall be applied:

First - To the payment to the persons entitled thereto of all installments of interest then due on the Series 2013A Subordinate Bonds, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Series 2013A Subordinate Bonds; and

Second - To the payment to the persons entitled thereto of the unpaid principal of and premium, if any, on any of the Series 2013A Subordinate Bonds which shall have become due (other than Series 2013A Subordinate Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates, and, if the amount available shall not be sufficient to pay in full Series 2013A Subordinate Bonds due on any particular date, then to the payment of such principal and premium, if any, ratably, according to the amount of such principal due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) Whenever moneys are to be applied pursuant to the provisions of this Section, such moneys shall be applied at such times and from time to time as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such moneys, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable) on which such application is to be made and on such date interest shall cease to accrue on the amounts of principal to be paid. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date.

**Section 707. Remedies Vested in Trustee.**

All rights of action (including the right to file proof of claims) under this Fourteenth Supplemental Indenture or under any of the Series 2013A Subordinate Bonds may be enforced by the Trustee without the possession of any of the Series 2013A Subordinate Bonds or the production thereof in any trial or other proceeding relating thereto and any such suit or proceeding instituted by the Trustee may be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any Series 2013A Subordinate Bondholders, and any recovery of judgment shall be for the equal benefit of the Series 2013A Subordinate Bondholders.

**Section 708. Limitation on Suits.**

Except to enforce the rights given under Sections 704 and 705 of this Fourteenth Supplemental Indenture, no Series 2013A Subordinate Bondholder shall have any right to institute any action, suit or proceeding at law or in equity for the enforcement of the Indenture or for the execution of any trust thereof or any other remedy hereunder, unless: (a) a Series 2013A Subordinate Bond Event of Default has occurred and is continuing and the Holders of 25% in aggregate principal amount of Series 2013A Subordinate Bonds then outstanding have made written request to the Trustee and offered it reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name, (b) such requesting Series 2013A Subordinate Bondholders have offered to the Trustee indemnity as provided in Section 1101(1) of the Master Indenture, (c) the Trustee has thereafter failed or refused to exercise the powers hereinbefore granted, or to institute such action, suit or proceeding in its own name, (d) no direction inconsistent with such written request has been given to the Trustee by the holders of a majority in aggregate principal amount of Series 2013A Subordinate Bonds then outstanding, and (e) notice of such action, suit or proceeding is given to the Trustee; it being understood and intended that no one or more Series 2013A Subordinate Bondholders shall have any right in any manner whatsoever to affect, disturb or prejudice the Indenture by its or their action or to enforce any rights hereunder except in the manner herein provided, and that all proceedings at law or in equity shall be instituted and maintained in the manner herein provided and for the equal benefit of all Series 2013A Subordinate Bondholders then outstanding. The notification, request and offer of indemnity set forth above, at the option of the Trustee, shall be conditions precedent to the execution of the powers and trusts of this Fourteenth Supplemental Indenture and to any action or cause of action for the enforcement of this Fourteenth Supplemental Indenture or for any other remedy hereunder.

**Section 709. Termination of Proceedings.**

In case the Trustee shall have proceeded to enforce any right under this Fourteenth Supplemental Indenture and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee, then and in every such case the Authority and the Trustee shall be restored to their former positions and rights hereunder, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

**Section 710. Waivers of Events of Default.**

Subject to the Indenture (including, without limitation, Section 1101 of the Master Indenture), the Trustee may in its discretion waive any Series 2013A Subordinate Bond Event of Default hereunder or any action taken pursuant to any Series 2013A Subordinate Bond Event of Default, and shall do so at the written request of the holders of: (a) a majority in aggregate principal amount of Series 2013A Subordinate Bonds then outstanding in respect of which default in the payment of principal and/or premium, if any, and/or interest exists, or (b) a majority in aggregate principal amount of Series 2013A Subordinate Bonds then outstanding in the case of any other Series 2013A Subordinate Bond Event of Default; provided, however, that there shall not be waived without the written consent of all then Outstanding Series 2013A Subordinate Bondholders (A) any Series 2013A Subordinate Bond Event of Default in the payment of the principal of any Outstanding Series 2013A Subordinate Bonds (whether at maturity or by mandatory redemption), or (B) any default in the payment when due of the interest on any such Series 2013A Subordinate Bonds unless, prior to such waiver or rescission,

- (i) there shall have been paid or provided for all arrears of interest with interest, to the extent permitted by law, at the rate borne by the Series 2013A Subordinate Bonds on overdue installments of interest, all arrears of principal and premium, if any, and all expenses of the Trustee in connection with such default, and
- (ii) in case of any such waiver or rescission or in the case of any discontinuance, abandonment or adverse determination of any proceeding taken by the Trustee on account of any such default, the Authority, the Trustee, and the Series 2013A Subordinate Bondholders shall be restored to their former positions and rights hereunder respectively.

No such waiver or rescission relating to the Series 2013A Subordinate Bonds shall extend to any subsequent or other default or impair any right consequent thereon.

**Section 711. Non-Impairment of Authority's Obligation to Pay Principal, Premium and Interest.**

Nothing in this Fourteenth Supplemental Indenture shall, however, affect or impair the obligation of the Authority to pay the principal of, premium, if any, and interest on each of the Series 2013A Subordinate Bonds to the respective Holders thereof at the time and place, from the source and in the manner specified in the Indenture.

**ARTICLE VIII  
MISCELLANEOUS**

**Section 801. Limitation of Rights.**

With the exception of rights herein expressly conferred, nothing expressed or mentioned in or to be implied from this Fourteenth Supplemental Indenture or the Series 2013A Subordinate Bonds is intended or shall be construed to give to any person other than the parties hereto, the Series 2013A Subordinate Bondholders any legal or equitable right, remedy or claim under or in respect to this Fourteenth Supplemental Indenture or any covenants, conditions and agreements herein contained since this Fourteenth Supplemental Indenture and all of the covenants, conditions and agreements hereof are intended to be and are for the sole and exclusive benefit of the parties hereto, the Series 2013A Subordinate Bondholders as herein provided.

**Section 802. Severability.**

If any provision of this Fourteenth Supplemental Indenture shall be held invalid by any court of competent jurisdiction, such holding shall not invalidate any other provision hereof, and this Fourteenth Supplemental Indenture shall be construed and enforced as if such illegal provision had not been contained herein.

**Section 803. Successors and Assigns.**

This Fourteenth Supplemental Indenture shall be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

**Section 804. Limitations on Liability.**

No covenant, agreement or obligation contained herein shall be deemed to be a covenant, agreement or obligation of any present or future member of the Board of Directors of the Authority or officer, employee or agent of the Authority in his or her individual capacity, and neither the members of the Board of Directors of the Authority nor any officer of the Authority executing the Series 2013A Subordinate Bonds shall be liable personally on the Series 2013A Subordinate Bonds or be subject to any personal liability or accountability by reason of the issuance thereof. No member of the Board of Directors of the Authority or officer, employee, agent or advisor of the Authority shall incur any personal liability with respect to any other action taken by him or her pursuant to this Fourteenth Supplemental Indenture or the Indenture or any other document authorized by the Indenture, provided such member, officer, employee, agent or advisor acts in good faith.

**Section 805. Applicable Law.**

This Fourteenth Supplemental Indenture shall be governed by the applicable laws of the District of Columbia.

**Section 806. Counterparts.**

This Fourteenth Supplemental Indenture may be executed in several counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

[Balance of page intentionally left blank]

**IN WITNESS WHEREOF**, the Authority and the Trustee have caused this Fourteenth Supplemental Indenture to be executed in their respective corporate names as of the date first above written.

**DISTRICT OF COLUMBIA WATER  
AND SEWER AUTHORITY**

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

**WELLS FARGO BANK, N.A.,  
AS TRUSTEE**

By \_\_\_\_\_  
Its \_\_\_\_\_



**EXHIBIT A**

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation (“DTC”), to the Authority or its agent for registration of transfer, exchange, or payment, and any certificate is registered in the name of Cede & Co., or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

**REGISTERED**  
R-\_\_

**REGISTERED**  
\$ \_\_\_\_\_

**UNITED STATES OF AMERICA**

**DISTRICT OF COLUMBIA**

**WATER AND SEWER AUTHORITY**

**PUBLIC UTILITY SUBORDINATE LIEN REVENUE BOND, SERIES 2013A**

<b>INTEREST RATE</b>	<b>MATURITY DATE</b>	<b>DATED DATE</b>	<b>CUSIP</b>
_____%	October 1, 20__	_____, 2013	254845 ____

**REGISTERED OWNER: CEDE & CO.**

**PRINCIPAL AMOUNT:**

The District of Columbia Water and Sewer Authority (the “Authority”), for value received, hereby promises to pay upon surrender hereof at the principal corporate trust office of Wells Fargo Bank, N.A., as trustee, or its successor in trust (the “Trustee”), under the Indenture, as hereinafter defined, solely from the sources and as hereinafter provided, to the registered owner hereof, or registered assigns or legal representative, the principal sum stated above on the maturity date stated above, subject to prior redemption as hereinafter provided, and to pay, solely from such sources, interest hereon semiannually on each April 1 and October 1, beginning [October 1, 2013] at the annual rate stated above, calculated on the basis of a 360-day year of twelve 30-day months. Interest is payable (a) from \_\_\_\_\_, 2013, if this Series 2013A Subordinate Bond is authenticated prior to October 1, 2013, or (b) otherwise from the interest payment date that is, or immediately precedes, the date on which this Series 2013A Subordinate Bond is authenticated (unless payment of interest hereon is in default, in which case this Series 2013A Subordinate Bond shall bear interest from the date to which interest has been paid). Interest is payable by check or draft mailed to the registered owner hereof at its address as it appears on the fifteenth day of the month preceding each interest payment date on registration

books kept by the Trustee; provided, however, that if the Series 2013A Subordinate Bonds, as hereinafter defined, are registered in the name of a securities depository or its nominee as registered owner or at the option of a registered owner of at least \$1,000,000 of Series 2013A Subordinate Bonds, payment will be made by wire transfer pursuant to the most recent wire instructions received by the Trustee from such registered owner. Principal, premium, if any, and interest are payable in lawful money of the United States of America. Capitalized terms which are not defined herein shall have the meanings set forth in the Indenture.

Notwithstanding any other provision hereof, this Series 2013A Subordinate Bond is subject to book-entry form maintained by The Depository Trust Company (“DTC”), and the payment of principal, premium, if any, and interest, the providing of notices and other matters shall be made as described in the Authority’s Blanket Letter of Representations to DTC.

This Series 2013A Subordinate Bond is one of an issue of \$\_\_\_\_\_ Public Utility Subordinated Lien Revenue Bonds, Series 2013A (the “Series 2013A Subordinate Bonds”), of like date and tenor, except as to number, denomination, rate of interest, privilege of redemption and maturity. The Series 2013A Subordinate Bonds are issued under a Master Indenture of Trust, dated as of April 1, 1998, between the Authority and the Trustee (f.k.a. Norwest Bank, N.A.) (the “Master Indenture”), as amended and supplemented by the First Supplemental Indenture of Trust, dated as of April 1, 1998, the Second Supplemental Indenture of Trust, dated as of November 1, 2001, the Third Supplemental Indenture of Trust, dated as of November 1, 2001, the Fourth Supplemental Indenture of Trust, dated August 12, 2003, the Fifth Supplemental Indenture of Trust, dated as of August 3, 2004, the Sixth Supplemental Indenture of Trust, dated June 6, 2007, the Seventh Supplemental Indenture of Trust, dated June 6, 2007, the Eighth Supplemental Indenture of Trust, dated April 24, 2008, the Ninth Supplemental Indenture of Trust, dated December 19, 2008, the Tenth Supplemental Indenture of Trust, dated February 12, 2009, the Eleventh Supplemental Indenture of Trust, dated June 2, 2010, the Twelfth Supplemental Indenture of Trust, dated October 27, 2010, the Thirteenth Supplemental Indenture of Trust, dated March 22, 2012, and the Fourteenth Supplemental Indenture of Trust, dated \_\_\_\_\_, 2013, all between the Authority and the Trustee (the “Indenture”). The Series 2013A Subordinate Bonds are secured under the Indenture as Subordinate Debt by a pledge of Net Revenues subordinate to the pledge that secures Senior Debt and on a parity with the pledge that secures other Subordinate Debt. Reference is hereby made to the Indenture for a description of the provisions, among others, with respect to the nature and extent of the security, the rights, duties and obligations of the Authority and the Trustee, the rights of the holders of the Series 2013A Subordinate Bonds and the terms upon which the Series 2013A Subordinate Bonds are issued and secured. Additional Senior Debt secured by a pledge of Net Revenues senior to the pledge that secures the Series 2013A Subordinate Bonds and other Subordinate Debt, and additional Subordinate Debt secured on a parity with the Series 2003 Subordinated Bonds, the Series 2007A Subordinated Bonds, the Series 2008A Subordinated Bonds, the Series 2010A Subordinated Bonds, the Series 2012A Subordinate Bonds, the Series 2012B Subordinated Bonds, and the Series 2012C Subordinated Bonds may be issued under the terms and conditions set forth in the Indenture.

The Series 2013A Subordinate Bonds and the premium, if any, and the interest thereon are limited obligations of the Authority payable from Net Revenues of the System, subject to the prior payment therefrom of the principal of and interest due and payable on all Senior Debt

heretofore and hereafter issued or incurred by the Authority, and from certain other funds and accounts pledged thereto by, and on the terms set forth in, the Indenture. The Series 2013A Subordinate Bonds shall be without recourse to the District of Columbia (the "District"). The Series 2013A Subordinate Bonds shall not be general obligations of the District, shall not be a pledge of or involve the faith and credit or the taxing power of the District, shall not constitute a debt of the District, and shall not constitute lending of the public credit for private undertakings.

The Series 2013A Bonds maturing on and after October 1, 20\_\_ are subject to redemption prior to maturity, in whole or in part on any date, in such order of maturities as shall be determined by the Authority (and by lot within a maturity), on and after October 1, 20\_\_ at a redemption price equal to par, together with accrued interest to the redemption date.

The Term Series 2013A Subordinate Bonds maturing on October 1 in each of the years 20\_\_ and 20\_\_ are required to be redeemed prior to maturity on October 1 in years and amounts upon payment of 100% of the principal amount thereof plus interest accrued to the redemption date, as follows:

The Term Series 2013A Subordinate Bonds maturing October 1, 20\_\_, are subject to mandatory sinking fund redemption on each October 1 as set forth below:

\_\_\_\_\_ - - - -

\*Final Maturity

The Term Series 2013A Subordinate Bonds maturing October 1, 20\_\_, are subject to mandatory sinking fund redemption on each October 1 as set forth below:

\_\_\_\_\_ - - - -

\*Final Maturity

If less than all the Series 2013A Subordinate Bonds are called for redemption, they shall be redeemed from maturities in such order as determined by the Authority. If less than all of the Series 2013A Subordinate Bonds of a maturity are called for prior redemption, the particular Series 2013A Subordinate Bonds or portions thereof to be redeemed shall be selected on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, provided that, so long as the Series 2013A Subordinate Bonds are held in book-entry form, the selection for redemption of such Series 2013A Subordinate Bonds shall be made in accordance with the operational arrangements of DTC then in effect, and, if DTC operational arrangements do not allow for redemption on a pro rata pass-through distribution of principal basis, the Series 2013A Subordinate Bonds will be selected for redemption, in accordance with DTC procedures, by lot. In either case, (a) the portion of any of the Series 2013A Subordinate Bonds to be redeemed shall be in the principal amount of \$5,000 or some multiple thereof and (b) in selecting Series 2013A Subordinate Bonds for redemption each Series 2013A Subordinate Bond shall be considered as representing that number of Series 2013A Subordinate Bonds which is obtained by dividing the principal amount of such Series 2013A Subordinate Bond by \$5,000.

If any of the Series 2013A Subordinate Bonds or portions thereof are called for redemption, the Trustee shall send notice of the call for redemption, identifying the Series 2013A Subordinate Bonds or portions thereof to be redeemed, not less than 30 nor more than 60 days prior to the redemption date, by facsimile, registered or certified mail or overnight express delivery, to the registered owner of each the Series 2013A Subordinate Bond. Provided funds for their redemption are on deposit at the place of payment on the redemption date, all Series 2013A Subordinate Bonds or portions thereof so called for redemption shall cease to bear interest on such date, shall no longer be secured by the Indenture and shall not be deemed to be Outstanding under the provisions of the Indenture. If a portion of the Series 2013A Subordinate Bonds shall be called for redemption, a new Series 2013A Subordinate Bond in principal amount equal to the unredeemed portion hereof will be issued to DTC or its nominee upon the surrender hereof, or if the book-entry system is discontinued, to the registered owners of the Series 2013A Subordinate Bonds.

The registered owner of this Series 2013A Subordinate Bond shall have no right to enforce the provisions of the Indenture or to institute action to enforce the covenants therein or to take any action with respect to any Event of Default or Series 2013A Subordinate Bond Event of Default under the Indenture or to institute, appear in or defend any suit or other proceedings with

respect thereto, except as provided in the Indenture. Specifically, and without limiting the generality of the foregoing, the Series 2013A Subordinate Bonds, as Subordinate Debt, may not be accelerated if any Senior Debt is outstanding. Modifications or alterations of the Indenture, or of any supplement thereto, may be made only to the extent and in the circumstances permitted by the Indenture.

No covenant, agreement or obligation contained herein shall be deemed to be a covenant, agreement or obligation of any present or future member of the Board of Directors of the Authority or officer, employee or agent of the Authority in his or her individual capacity, and neither the members of the Board of Directors of the Authority nor any officer of the Authority executing the Series 2013A Subordinate Bonds shall be liable personally on the Series 2013A Subordinate Bonds or be subject to any personal liability or accountability by reason of the issuance thereof. No member of the Board of Directors of the Authority or officer, employee, agent or advisor of the Authority shall incur any personal liability with respect to any other action taken by him or her pursuant to this Series 2013A Subordinate Bond, the Fourteenth Supplemental Indenture or the Indenture or any other document authorized by the Indenture, provided such member, officer, employee, agent or advisor acts in good faith.

The Series 2013A Subordinate Bonds are issuable as registered bonds in denominations of \$5,000 and integral multiples thereof. Upon surrender for transfer or exchange of this Series 2013A Subordinate Bond at the principal corporate trust office of the Trustee, together with an assignment duly executed by the registered owner or its duly authorized attorney or legal representative in such form as shall be satisfactory to the Trustee, the Authority shall execute, and the Trustee shall authenticate and deliver in exchange, a new Series 2013A Subordinate Bond or Series 2013A Subordinate Bonds in the manner and subject to the limitations and conditions provided in the Indenture, having an equal aggregate principal amount, in authorized denominations, of the same series, form and maturity, bearing interest at the same rate and registered in the name or names as requested by the then registered owner hereof or its duly authorized attorney or legal representative. Any such exchange shall be at the expense of the Authority, except that the Trustee may charge the person requesting such exchange the amount of any tax or other governmental charge required to be paid with respect thereto.

The Trustee shall treat the registered owner as the person exclusively entitled to payment of principal, premium, if any, and interest and the exercise of all other rights and powers of the owner, except that interest payments shall be made to the person shown as owner on the fifteenth day of the month preceding each interest payment date.

All acts, conditions and things required to happen, exist or be performed precedent to and in the issuance of this Series 2013A Subordinate Bond have happened, exist and have been performed.

This Series 2013A Subordinate Bond shall not become obligatory for any purpose or be entitled to any security or benefit under the Indenture or be valid until the Trustee shall have executed the Certificate of Authentication appearing hereon and inserted the date of authentication hereon.

IN WITNESS WHEREOF, the DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY has caused this Series 2013A Subordinate Bond to be executed by the manual or facsimile signatures of the Chairman of the Board of Directors, its seal to be affixed hereto or a facsimile to be printed hereon and attested by the manual or facsimile signature of the Secretary to the Authority, and this Series 2013A Subordinate Bond to be dated \_\_\_\_\_, 2013.

ATTEST:

Secretary to the Authority

Chairman

[SEAL]

**CERTIFICATE OF AUTHENTICATION**

Date Authenticated: \_\_\_\_\_

This Series 2013A Subordinate Bond is one of the Series 2013A Subordinate Bonds described in the within mentioned Indenture.

**Wells Fargo Bank, N.A.,**  
Trustee

By \_\_\_\_\_  
Authorized Officer

**ASSIGNMENT**

FOR VALUE RECEIVED the undersigned hereby sell(s), assign(s) and transfer(s) unto

\_\_\_\_\_  
\_\_\_\_\_

(please print or typewrite name and address, including zip code, of Transferee)

PLEASE INSERT SOCIAL SECURITY OR OTHER  
IDENTIFYING NUMBER OF TRANSFEREE

\_\_\_\_\_  
: :  
: :  
: :  
\_\_\_\_\_

the within Series 2013A Subordinate Bond and all rights thereunder, hereby irrevocably  
constituting \_\_\_\_\_ and \_\_\_\_\_ appointing

\_\_\_\_\_, Attorney, to transfer said Series  
2013A Subordinate Bond on the books kept for the registration thereof, with full power of  
substitution in the premises.

Dated: \_\_\_\_\_

Signature Guaranteed

\_\_\_\_\_  
NOTICE: Signature(s) must be guaranteed  
by an Eligible Guarantor Institution such  
as a Commercial Institution such as a  
Commercial Bank, Trust Company,  
Securities Broker/Dealer, Credit Union, or  
Savings Association who is a member of a  
medallion program approved by The  
Securities Transfer Association, Inc.

\_\_\_\_\_  
NOTICE: The signature above must  
correspond with the name of the registered  
owner as it appears on the front of this Series  
2013A Subordinate Bond in every particular,  
without alteration or enlargement or any  
change whatsoever.



M&A draft 5/28/13

BOND PURCHASE AGREEMENT

\$000,000,000

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY  
Public Utility Subordinate Lien Revenue Bonds, Series 2013A**

July , 2013

District of Columbia Water and Sewer Authority  
5000 Overlook Avenue, S.W.  
Washington, D.C. 20032

Ladies and Gentlemen:

Barclays Capital Inc. as representative (the “Representative”) and Loop Capital Markets LLC, as joint book-running managers of the underwriters on behalf of themselves and on behalf of Goldman, Sachs & Co., Jefferies & Company, Inc., Lebenthal & Co., LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Raymond James & Associates and Samuel A. Ramirez & Co. (collectively, the “Underwriters”) offers to enter into this bond purchase agreement (this “Agreement”) with the District of Columbia Water and Sewer Authority (the “Authority”). The offer made hereby is subject to acceptance thereof by execution of this Agreement and its delivery to the Representative, on behalf of the Underwriters, at or prior to 5:00 p.m., New York, New York Time, on the date hereof, or on such other date as may be agreed upon by the Underwriters. Upon such acceptance, this Agreement shall be in full force and effect in accordance with its terms and shall be binding upon the Authority and the Underwriters. If this offer is not so accepted, it is subject to withdrawal by the Representative on behalf of the Underwriters upon written notice delivered to the Authority at any time prior to acceptance. Terms used but not defined herein are defined in the Indenture identified below.

1. **Purchase and Sale of Bonds.** On the terms and conditions and on the basis of the representations, warranties, covenants and agreements set forth herein, the Representative, on behalf of the Underwriters, hereby agrees to purchase from the Authority for offering to the public, and the Authority hereby agrees to sell and deliver to the Underwriters for such purpose, all (but not less than all) of \$000,000,000 aggregate principal amount of the District of Columbia Water and Sewer Authority Public Utility Subordinate Lien Revenue Bonds, Series 2013A (the “Bonds”). The proceeds of the Bonds will be used to (i) pay a portion of the costs of certain capital improvements to the System (as defined herein) and (ii) pay costs of issuing the Bonds. The purchase price of the Bonds will be \$\_\_\_\_\_ (the par amount of the Bonds, plus net original issue premium of \$\_\_\_\_\_, less the Underwriters’ discount of \$\_\_\_\_\_). The Bonds will mature on the dates and in the amounts and will bear interest and will be subject to redemption prior to maturity as set forth on Exhibit A hereto.

2. **Bond Authorization.** The Bonds shall be issued under and pursuant to provisions of the laws of the United States of America and the District of Columbia (the “District”), including particularly, an act of the Council of the District entitled the “Water and Sewer Authority Establishment and Department of Public Works Reorganization Act of 1996,” as amended, codified at District of Columbia Official Code Ann. Sections 34-2201.01 *et seq.*, and the acts amendatory thereof and supplemental thereto (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), as amended (the “Federal Act”), and all proceedings necessary to authorize and provide for the issuance of the Bonds, including a resolution adopted by the Board of Directors of the Authority, dated July 3, 2013 (the “Resolution”), and the Master Indenture of Trust, dated as of April 1, 1998 (the “Master Indenture”), between the Authority and Wells Fargo Bank, N.A., as trustee (the “Trustee”), as amended and supplemented, including by the Fourteenth Supplemental Indenture of Trust, dated as of the Closing Date (as defined below) (the “Fourteenth Supplemental Indenture,” and together with the Master Indenture as previously amended and supplemented, the “Indenture”), between the Authority and the Trustee, substantially in the forms previously delivered to us.

3. **Closing.** At 10:00 a.m. New York City Time on August , 2013, or at such other time and date as may be mutually agreed upon by the Authority and the Underwriters (the “Closing Date”), the Authority will, subject to the terms and conditions hereof, deliver the Bonds to the Underwriters in definitive form, duly executed and authenticated, together with the other documents hereinafter required, and, subject to the terms and conditions hereof, the Underwriters will accept such delivery and pay the purchase price of the Bonds as set forth in Section 1 hereof in federal funds to the order of the Authority (the “Closing”). Delivery of the Bonds will be made through the facilities of The Depository Trust Company, New York, New York. The Closing will occur at the offices of Squire Sanders (US) LLP, Washington, D.C., or such other place as may be mutually agreed on by the Authority and the Underwriters.

4. **Good Faith Deposit.** The Representative, on behalf of the Underwriters, will send a wire transfer to the Authority in the amount of \$0,000,000 (the “Good Faith Deposit”) as security for the performance by the Underwriters of their obligations to accept and pay for the Bonds at the Closing in accordance with the provisions of this Agreement. The Good Faith Deposit plus accrued interest, if any, will be applied as a credit towards the purchase price of the Bonds at the Closing if this offer is accepted by the Authority. In the event the Authority does not accept this offer, in the event the Authority fails to deliver the Bonds at the Closing, or if the Authority shall be unable to satisfy the conditions to the obligations of the Underwriters set forth in this Agreement (unless waived by the Representative, on behalf of the Underwriters), or if the obligations of the Underwriters shall be terminated for any reason permitted by this Agreement, the Good Faith Deposit shall be immediately returned to the Representative. In the event that the Underwriters fail (other than for a reason permitted hereunder) to accept delivery of and pay for the Bonds at the Closing as herein provided, the Good Faith Deposit plus accrued interest, if any, shall be retained by the Authority as and for full liquidated damages for such failure and for any and all defaults hereunder on the part of the Underwriters and, except as set forth in Section 15 hereof, the retention of such proceeds shall constitute a full release and discharge of all claims and rights hereunder against the Underwriters, and the Authority shall have no further action for damages, specific performance or any other legal or equitable relief against the Underwriters.

5. **Public Offering of the Bonds.** It is a condition of the Authority's obligation to sell and deliver the Bonds to the Underwriters, and of the obligation of the Underwriters to purchase and accept delivery of the Bonds, that the entire principal amount of the Bonds is sold and delivered by the Authority and accepted and paid for by the Underwriters at the Closing. The Underwriters intend to make an initial public offering of all of the Bonds at the initial public offering prices set forth on the inside cover page of the Official Statement. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the initial public offering prices.

6. **Preliminary and Final Official Statements.** The Authority ratifies and consents to the legally permissible use by the Underwriters, prior to the date hereof, of the Preliminary Official Statement, dated \_\_\_\_\_, 2013, relating to the Bonds (the "Preliminary Official Statement") in connection with the public offering of the Bonds. The form of the final Official Statement of the Authority relating to the Bonds, dated \_\_\_\_\_, 2013, including the cover page and Appendices thereto, and any revisions, amendments or supplements thereto (the "Official Statement") is attached hereto as Exhibit B. The Authority authorizes, approves, ratifies and confirms the distribution of the Official Statement in paper and electronic format by the Underwriters in connection with the public offering and sale of the Bonds.

The Authority agrees to provide to the Underwriters, at such addresses as the Underwriters specify, as many copies of the Official Statement as the Underwriters reasonably request as necessary to comply with Rule G-32 and all other applicable rules of the Municipal Securities Rulemaking Board (the "MSRB"). The Authority agrees to deliver the Official Statement within seven (7) business days after the date hereof and in sufficient time to accompany any confirmation that requests payment from any customer and to permit the Underwriters to comply with the requirements of Rule 15c2-12 (defined below), and in any event, no later than August 1, 2013. The Official Statement may be revised, amended, changed or supplemented by the Authority after the execution of this Agreement only with the permission of the Underwriters.

If, during the period from the date hereof to and including the date which is 25 days after the "end of the underwriting period" (as hereinafter defined), there shall exist any event, including, but not limited to, any material adverse change in the financial condition, results of operation or condition, financial or otherwise, of the Authority, and of which the Authority has knowledge, which, in the opinion of the Underwriters and counsel to the Underwriters or in the opinion of the Authority, requires a supplement or amendment to the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, when it is delivered to a potential investor, the Authority will supplement or amend or cause to be supplemented or amended the Official Statement in a form and in a manner approved by the Underwriters and the Authority and will furnish to the Underwriters such supplement or amendment in sufficient quantity to permit the Underwriters to comply with the requirements of Rule 15c2-12 ("Rule 15c2-12") promulgated by the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended.

For the purpose of the preceding paragraph, the Authority may assume that the "end of the underwriting period" (in accordance with and as defined in Rule 15c2-12) means the Closing

Date unless the Representative advises the Authority in writing on the Closing Date that there remains an unsold balance of the Bonds, in which case the “end of the underwriting period” means the date as of which the Representative notifies the Authority that the Underwriters, directly or as a syndicate, no longer retain an unsold balance of the Bonds for sale to the public. The deemed end of the underwriting period, in order to allow the Underwriters to comply with Rule 15c2-12, shall be extended for additional periods of 30 days each upon receipt of written notification from the Underwriters that any Bonds remain unsold however, in no event shall the “end of the underwriting period” extend beyond the date sixty (60) days from the Closing Date. The Representative agrees to provide to the Authority written notification that none of the Bonds remain unsold which will be deemed the end of the underwriting period.

The Representative hereby agrees to deliver a copy of the printed paper form of the Official Statement to the MSRB in an electronic format prescribed by the MSRB for its Electronic Municipal Market Access (“EMMA”) website at [www.emma.msrb.org](http://www.emma.msrb.org) within one (1) business day of receipt of the executed final Official Statement by the Underwriters.

7. **Representations, Warranties and Covenants of the Authority.** The Authority hereby represents, warrants, covenants and agrees as follows:

a. The Authority is, and at the Closing Date will be, a duly organized and validly existing corporate body and independent authority of the District established under the laws of the United States and the District, including the Act and the Federal Act, with the full legal right, power and authority to (i) adopt the Resolution, (ii) execute, deliver and perform its obligations under this Agreement, the Indenture, the Certificate of Award of the Authority establishing the purchase price, maturities, interest rates, redemption provisions and other terms of the Bonds, dated the date hereof (the “Certificate of Award”), and the Continuing Disclosure Agreement of the Authority dated as of the Closing Date (the “Continuing Disclosure Agreement,” and together with this Agreement and the Indenture, the “Bond Documents”); (iii) perform its obligations under the Water Sales Agreement, dated as of July 31, 1997, between the Authority and the United States of America, acting through the Secretary of the Army (the “Water Sales Agreement”) and the Blue Plains Intermunicipal Agreement of 1985 between the District, Fairfax County, Virginia, Montgomery County, Maryland, Prince George’s County, Maryland and the Washington Suburban Sanitary Commission (the “IMA,” and together with the Water Sales Agreement, the “System Agreements”), (iv) sell, issue and deliver the Bonds to the Underwriters as provided herein, and (v) carry out and consummate the transactions contemplated by the Resolution, the Bond Documents, the Preliminary Official Statement, the Official Statement and the System Agreements; and the Authority has complied, and at the Closing Date will be in compliance, in all respects, with the Act and the Federal Act and with the obligations on its part in connection with the issuance of the Bonds contained in the Bonds, the Resolution, the Indenture, the Preliminary Official Statement, the Official Statement and this Agreement.

b. The Authority (i) has duly and validly adopted the Resolution, (ii) has authorized the execution and delivery of the Bond Documents, (iii) is authorized to execute, issue, sell and deliver the Bonds in book-entry form, (iv) is authorized to appoint, and has appointed, Wells Fargo Bank, N.A., as Trustee (the “Trustee”), (v) is authorized to apply and will apply the proceeds of the Bonds as provided in and subject to all of the terms and provisions

of the Resolution, including the payment or reimbursement of the Authority expenses incurred in connection with the negotiation, marketing, issuance and delivery of the Bonds to the extent required by Section 15 an will not take or omit to take any action which action or omission will adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Bonds and (vi) has taken or will take on or before the Closing Date, all action necessary or appropriate for (a) execution, issuance, sale and delivery of the Bonds in book-entry form to the Underwriters, (b) approval, execution and delivery of and the performance by the Authority of its obligations contained in the Bonds and the Bond Documents, (c) the approval, distribution and use of the Preliminary Official Statement and the approval, execution, distribution and use of the Official Statement for use by the Underwriters in connection with the public offering of the Bonds and (d) the consummation by it of all other transactions described in the Official Statement, the Bond Documents and any and all such other agreements and documents as may be required to be executed, delivered and/or received by the Authority in order to carry out, give effect to, and consummate the transactions described herein and in the Official Statement.

c. The adoption of the Resolution, the execution and delivery of the Bond Documents, the execution, issuance, sale and delivery of the Bonds in book-entry form and the performance by the Authority of its obligations hereunder and thereunder, and the performance by the Authority of its obligations under the System Agreements (collectively, the “Authority Undertakings”) are within the corporate powers of the Authority and are not in conflict with and will not constitute a breach, default or result in a violation of (i) the Act, (ii) any federal constitutional or federal or District statutory provision, including the Federal Act, (iii) any agreement or other instrument to which the Authority is a party, or (iv) any order, rule, regulation, decree or ordinance of any court of competent jurisdiction, government or governmental authority having jurisdiction over the Authority or its property.

d. The District has authorized the Authority to use all of the property and assets of the water distribution and wastewater collection, treatment and disposal systems of the Authority (the “System”), uninterrupted by the District, for as long as any revenue bonds of the Authority, including the Bonds, remain outstanding. The Authority has the full legal right, power and authority to operate the System and to collect and pledge the Revenues therefrom in accordance with the Indenture.

e. The Resolution or other appropriate actions adopted or taken by the Authority establishing the rates and charges for services of the System described in the Preliminary Official Statement and the Official Statement have been duly adopted or taken and are in full force and effect.

f. The System Agreements and all other agreements, permits, licenses, consents, approvals, actions, consent decrees and settlement orders material to the operation and management of the System, including the collection of the Revenues therefrom as described in the Preliminary Official Statement and the Official Statement, are in full force and effect as of the date hereof and will be on the Closing Date, and the Authority is not and will not be in default thereunder or in breach thereof. The System Agreements have been duly authorized, executed and delivered by the Authority and constitute valid and binding obligations of the Authority enforceable in accordance with their respective terms, subject to applicable

bankruptcy, insolvency and similar laws affecting creditors' rights generally and subject, as to enforceability, to general principles of equity.

g. The Bonds, when issued, delivered to the Underwriters and paid for, in accordance with the Act, the Resolution, the Indenture and this Agreement, will have been duly authorized, executed, issued and delivered by the Authority and will constitute valid and binding obligations of the Authority, enforceable against the Authority in accordance with their terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights generally and subject, as to enforceability, to general principles of equity. The Bonds are not a pledge of and do not involve the faith and credit or the taxing power of the District and the District shall not be liable thereon. The Bonds and the Resolution conform to the descriptions thereof contained in the Preliminary Official Statement and the Official Statement and the proceeds of the sale of the Bonds will be applied as described in the Preliminary Official Statement and the Official Statement.

h. The Authority is not currently failing to comply and has not failed to comply during the past five years with any continuing disclosure obligation pursuant to Rule 15c2-12. The Authority has voluntarily agreed to deliver to the Underwriters a Continuing Disclosure Agreement with respect to the Bonds that complies with the requirements of Rule 15c2-12.

i. This Agreement constitutes, and, upon execution and delivery by the Authority and the other parties thereto, each of the other Bond Documents will constitute, the valid, binding and enforceable obligation of the Authority in accordance with their respective terms, subject to applicable bankruptcy, insolvency, and similar laws affecting creditors' rights generally and subject, as to enforceability, to general principles of equity.

j. The Authority is not in breach of or default under any applicable constitutional provision or law of the United States, the District or any applicable judgment or decree, or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which it is a party or to which it or any of its property or assets is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or event of default under any such instrument; and the execution and delivery of the Bonds, this Agreement and the other Bond Documents and the adoption of the Resolution, and compliance with the provisions contained therein and herein, and in the System Agreements, do not conflict with or constitute a breach of or default under any constitutional provision, law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement, or other instrument to which it is a party or any of its property or assets are otherwise subject, nor will any such execution, delivery, adoption, or compliance result in the creation or imposition of any lien, charge, or other security interest or encumbrance of any nature whatsoever upon any of its property or assets or under the terms of any such law, regulation or instrument, except as provided by the Bonds.

k. All authorizations, approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board, agency or commission having jurisdiction of the matter have been duly obtained or, with respect to the issuance of the Bonds, will be obtained prior to the issuance of the Bonds, which are required for the due authorization by or which

would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the Authority of its obligations in connection with the issuance of the Bonds and under this Agreement, except for such approvals, consents and orders as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Bonds.

l. Except as otherwise described in the Preliminary Official Statement and the Official Statement, there is no litigation, action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, pending or, to the best knowledge of the Authority, threatened against the Authority (i) affecting or seeking to prohibit, restrain or enjoin the issuance, sale or delivery of the Bonds, the use of the Preliminary Official Statement or the Official Statement or the collection of the Revenues pledged to the payment of the principal of and interest on the Bonds, (ii) in any way contesting or affecting any authority for the issuance of the Bonds or the validity, enforceability, due authorization, execution or delivery of the Bonds, including this Agreement or the other Bond Documents, or the validity or enforceability of the System Agreements, nor, to the best knowledge of the Authority, is there any basis therefor, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Bonds or the Bond Documents, (iii) questioning the tax-exempt status of the Bonds under the laws of the District or the United States, (iv) affecting or in any way contesting the corporate existence or powers of the Authority or the titles of the officers of the Authority to their respective offices, (v) which may result in any material adverse change in the business or the financial condition or the financial prospects of the Authority or (vi) asserting that the Preliminary Official Statement or the Official Statement or any supplement thereto contains any untrue statement of a material fact or omits any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

m. The Authority will furnish such information, execute such instruments and take such other action in cooperation with the Underwriters as the Underwriters may reasonably request in order to (i) qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriters may designate, (ii) determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions, and (iii) continue such qualifications in effect so long as required for the distribution of the Bonds and will advise the Representative immediately of receipt by the Authority of any written notification with respect to the suspension of the qualification of the Bonds for sale in any jurisdiction or the initiation or threat of any proceeding for that purpose; provided, however, that the Authority will not be required to execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction.

n. The audited balance sheets of the Authority for the years ended September 30, 2012 and September 30, 2011, and the related statements of revenues, expenditures and changes in net assets and cash flows for the fiscal year ended on such date, as set forth in the Preliminary Official Statement and the Official Statement, are true, complete and correct and fairly present the financial condition of the Authority as of such date and the results of its operations for such fiscal year. There has been no material adverse change in the financial condition of the Authority since September 30, 2012, except as described in the Preliminary

Official Statement and the Official Statement. The financial statements of, and other financial information of the Authority regarding the Authority in the Preliminary Official Statement and in the Official Statement fairly present the financial position and results of the Authority as of the dates and for the periods therein set forth, and have been prepared in accordance with generally accepted accounting principles consistently applied, and except as noted in the Preliminary Official Statement and in the Official Statement, the other historical financial information set forth in the Preliminary Official Statement and in the Official Statement has been presented on a basis consistent with that of the Authority's audited financial statements included in the Preliminary Official Statement and in the Official Statement.

o. The Authority has duly authorized, approved and delivered the Preliminary Official Statement and the Official Statement to the Underwriters.

p. The Preliminary Official Statement, as of its date and as of the date of this Agreement, did not and does not, and the Official Statement, at the time of the Authority's acceptance hereof and (unless the Official Statement is amended or supplemented pursuant to this Agreement) at all times subsequent thereto during the period up to and including the Closing Date did not and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. If between the date of the Official Statement and the Closing Date any event shall occur or any pre-existing fact or condition shall become known to the Authority that might or would cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the Authority shall promptly notify the Underwriters thereof, and if in the reasonable opinion of the Underwriters, such event, fact or condition requires the preparation and publication of a supplement or amendment to the Official Statement, the Authority will at its expense supplement or amend the Official Statement in a form and in a manner approved by the Underwriters, which approval shall not be unreasonably withheld. If the Official Statement is supplemented or amended as aforesaid, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such paragraph) at all times subsequent thereto during the underwriting period, as defined in Section 6, the Official Statement as so supplemented or amended will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which made, not misleading.

q. The obligation of the Authority to know or provide information within the knowledge of the Authority is limited to providing information that is in the actual knowledge of, or reasonably should have been in the actual knowledge of, the key staff members of the Authority listed in the Official Statement under the caption "Officers and Employees" or their respective successors.

r. The Authority undertakes that, for a period beginning with the day on which the Bonds are delivered to the Underwriters and ending on the 25th day following the end of the underwriting period, as defined in Section 6, it will apprise the Underwriters of all material developments, if any, occurring with respect to the Authority, and if requested by the



Underwriters, at the Authority's expense, prepare a supplement to the Official Statement in respect of any such material event.

s. The Authority has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that the Authority is a bond issuer whose arbitrage certificates may not be relied upon.

t. Any certificate signed by an authorized delegate of the Authority in connection with the transactions described in this Agreement will be deemed a representation, warranty, covenant and agreement by the Authority to the Underwriters as to the statements made therein.

u. Prior to the Closing, the Authority will not take any action within or under its control that will cause any adverse change of a material nature in such financial position, results of operations or condition, financial or otherwise, of the Authority.

v. The Authority will not, prior to the Closing, offer or issue any bonds, notes or other obligations for borrowed money or incur any material liabilities, direct or contingent, except in the ordinary course of business, without the prior approval of the Representative.

w. The Bonds and the Fourteenth Supplemental Indenture conform to the descriptions thereof contained in the Preliminary Official Statement and the Official Statement under the caption "THE SERIES 2013A BONDS" and in Appendix C "GLOSSARY AND SUMMARY OF THE INDENTURE"

8. **Representations of Underwriters.** (a) The Underwriters represent and warrant that they will offer the Bonds only pursuant to the Official Statement and the Underwriters agree to make a public offering of the Bonds at the initial offering prices or yields set forth in the Official Statement as the Underwriters may deem necessary or desirable in connection with the offering and sale of the Bonds and to sell the Bonds to dealers (including dealer banks and dealers depositing Bonds into investment trusts) and others at prices lower than the public offering prices. The Underwriters agree to deliver final Official Statements to all purchasers of the Bonds in accordance with all applicable legal requirements.

(b) The Underwriters hereby certify that at the time of the execution of this Agreement (the "Sale Date"), based upon prevailing market conditions, they do not have any reason to believe that the Bonds will be first sold to the public (excluding such bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at prices greater than or yields lower than the prices or yields set forth in an exhibit to this Agreement. At the Closing, the Representative shall deliver to the Authority the publicly available trading activity with respect to the Bonds up to the Closing Date and a certificate to the effect that (a) the Bonds have been the subject of a bona fide initial offering to the public as herein provided on the Sale Date and (b) either (i) the Underwriters first sold not less than 10% of each maturity of the Bonds to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at yields not lower than the yields provided in the Official Statement on the Sale Date, or (ii) the Underwriters first sold not less than 10% of each

maturity of the Bonds to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at yields not lower than the yields provided in the Official Statement on the Sale Date.

9. **Rights to Cancellation by Underwriters.** The Underwriters will have the right to cancel their obligation to purchase, accept delivery of and to pay for the Bonds if between the date hereof and the Closing Date, the market price or marketability of the Bonds or the ability of the Underwriters to enforce contracts for the sale of the Bonds shall be materially adversely affected in the reasonable judgment of the Representative, on behalf of the Underwriters, by the occurrence of any of the following: (a) legislation has been enacted by or introduced in Congress or a decision by a federal court of the United States or the United States Tax Court has been rendered, or a ruling, regulation or official statement by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency has been made or proposed to be made with respect to federal taxation on revenues or other income to be derived from the operation of the Authority, or on interest on the Bonds, or other actions or events have occurred which have the purpose or effect, directly or indirectly, of materially adversely affecting the federal income tax consequences of any of the transactions contemplated in connection herewith, including the tax-exempt status of bonds issued by the Authority under the Internal Revenue Code of 1986, as amended, or (b) legislation has been enacted, or actively considered for enactment with an effective date being prior to the date of the issuance of the Bonds, or a decision by a court of the United States has been rendered, or a ruling or regulation by the SEC or another governmental agency having jurisdiction of the subject matter has been made, the effect of which is that the Bonds are not exempt from the registration or other requirements of the Securities Act of 1933, as amended and as then in effect (the "1933 Securities Act"), or that the Indenture is not exempt from the qualification or other requirements of the Trust Indenture Act of 1939, as amended and as then in effect (the "Trust Indenture Act"), or (c) a stop order, ruling or regulation by the SEC has been issued or made, the effect of which is that the issuance, offering or sale of the Bonds as contemplated hereby or by the Official Statement is or would be in violation of any provision of the 1933 Securities Act, or of the Securities Exchange Act of 1934, as amended and as then in effect, or of the Trust Indenture Act, or (d) there exists any event which in the reasonable judgment of the Underwriters either (i) makes untrue or incorrect any statement or information of a material fact contained in the Official Statement or (ii) is not reflected in the Official Statement but should be reflected therein in order to make the statements and information contained therein, in light of the circumstances under which they were made, not misleading, and, in either such event the Authority refuses to permit the Official Statement to be supplemented to correct or supply such statement or information, or the statement or information as supplemented is such as in the reasonable judgment of the Underwriters would materially adversely affect the market for the Bonds or the sale, at the contemplated offering price, by the Underwriters of the Bonds, or (e) there has occurred any new outbreak of hostilities (including, without limitation, an act of terrorism) or escalation of hostilities existing prior to the date hereof or any other extraordinary event, material national or international calamity or crisis, including a financial crisis, not existing on the date hereof, or (f) any new restriction on transactions in securities materially affecting the market for securities (including the imposition of any limitation on interest rates or the establishment of minimum or maximum prices) or any material increase of restrictions now in force (including the extension of credit by, or a charge to the net capital requirements of, Underwriters) shall have

been established by the New York Stock Exchange, the SEC, any other federal agency of the Congress of the United States, or by Executive Order, or (g) there is in force a general suspension of trading in securities on the New York Stock Exchange or any other national securities exchange or (h) a general banking moratorium has been declared by Federal, District or New York authorities, or (i) there has occurred since the date hereof any material adverse change in the affairs of the Authority from that reflected in the financial information and data of the Authority included in or as an appendix to the Official Statement, other than as previously disclosed to the Underwriters, or (j) a material disruption in securities settlement, payment or clearance services shall have occurred, or (k) there shall have occurred any downgrading or published negative credit watch or similar published information from a rating agency that on the date hereof has published a rating (or has been asked to furnish a rating on the Bonds) on any of the Authority's debt obligations, which action reflects a change or possible change in the ratings accorded any such obligations of the Authority (including any rating to be accorded to the Bonds) or (l) there shall have occurred any downgrading or published negative credit watch or similar published information from a rating agency that at the date of this Agreement has published a rating (or has been asked to furnish a rating on the Bonds) on any of the Authority's debt obligations, which action reflects a change or possible change, in the ratings accorded any such obligations of the Authority (including any rating to be accorded the Bonds).

10. **Conditions to Obligations of Underwriters at Closing.** The Underwriters have entered into this Agreement in reliance on the representations, warranties, covenants and agreements of the Authority contained herein, and in reliance on the representations, warranties, covenants and agreements to be contained in the documents and instruments to be delivered at the Closing and on the performance by the Authority of its obligations hereunder, as of the Closing Date. Accordingly, the Underwriters' obligations under this Agreement to purchase, to accept delivery of and to pay for the Bonds are conditioned on the performance by the Authority of its obligations to be performed hereunder and the delivery of such documents and instruments enumerated herein in form and substance reasonably satisfactory to the Underwriters and Orrick, Herrington & Sutcliffe LLP, Washington, D.C., and McKenzie & Associates, Washington, D.C., co-counsel to the Underwriters, at or before the Closing, and are also subject to the following additional conditions:

a. The representations, warranties, covenants and agreements of the Authority contained herein are true, complete and correct on the date hereof and on and as of the Closing Date, as if made on the Closing Date;

b. The provisions of the Act and the Federal Act, as in effect on the date of this Agreement, shall be in full force and effect and shall not have been amended, except as to amendments which, in the reasonable opinion of the Underwriters, are not adverse to the interest of the Underwriters or the Bondholders;

c. At the time of the Closing, the Resolution is in full force and effect in accordance with its terms and has not been amended, modified or supplemented, and the Official Statement has not been supplemented or amended, except in any such case as may have been agreed to by the Underwriters;

d. At the time of the Closing, all official action of the Authority relating to the Bonds, the Bond Documents and the System Documents are in full force and effect in accordance with their respective terms and have not been amended, modified or supplemented, except in each case as may have been agreed to by the Underwriters;

e. At the time of the Closing the Authority will perform or will have performed all of its obligations required under or specified in this Agreement, the Resolution and the Indenture, or contemplated by the Resolution, the Indenture or the Official Statement, to be performed prior to the Closing; and

f. At or before the Closing, the Underwriters will have received true and correct copies of each of the following documents:

i. A certified copy of the Resolution;

ii. The Official Statement and each supplement or amendment, if any, thereto, executed by the Authority;

iii. Counterparts of each of the fully executed Bond Documents and the System Agreements;

iv. The approving opinion of Co-Bond Counsel in substantially the form attached to Preliminary Official Statement and the Official Statement as Appendix F and a supplemental opinion, dated the Closing Date, substantially in the form of Exhibit C hereto, and reliance letters with respect to such opinions addressed to Wells Fargo Bank, N.A., as Trustee;

v. An opinion, dated the Closing Date, of General Counsel to the Authority, substantially in the form of Exhibit D hereto;

vi. An opinion, dated the Closing Date, of Orrick, Herrington & Sutcliffe LLP and McKenzie & Associates, co-counsel to the Underwriters, substantially in the form of Exhibit E hereto;

vii. An opinion, dated the Closing Date, of Squire Sanders (US) LLP, in its capacity as disclosure counsel to the Authority, substantially in the form of Exhibit F hereto;

viii. An opinion, dated the Closing Date, of counsel to the Trustee, in a form approved by the Underwriters and their counsel;

ix. A manually signed Financial Feasibility Opinion Letter dated \_\_\_\_\_, 2013 of Amawalk Consulting Group LLC (the "Financial Feasibility Consultant"), regarding the financial feasibility of the issuance of the Bonds in substantially the form attached to the Preliminary Official Statement and the final Official Statement as Appendix A and a certificate of the Financial Feasibility Consultant with respect to the issuance and sale of the Bonds, permitting the use of such letter and

references to said firm in the Preliminary Official Statement and the Official Statement substantially in the form attached hereto as Exhibit G;

x. A manually signed Engineering Feasibility Report of Johnson, Mirmiran, and Thompson, Inc. (“JMT”) dated \_\_\_\_\_, 2013 in substantially the form attached to the Preliminary Official Statement and the final Official Statement as Appendix \_\_ and a certificate of JMT, permitting the use of such letter and references thereto in the Preliminary Official Statement and the Official Statement;

xi. Evidence of the completion of Internal Revenue Service Form 8038-G with respect to the issuance of the Bonds;

xii. One or more certificates of the Authority, dated the Closing Date, (A) to the effect that the representations, warranties, covenants and agreements of the Authority herein are true and correct on and as of the Closing Date as if made on the Closing Date, and that the Authority has performed all obligations to be performed hereunder as of the Closing Date; (B) to the effect that the Bond Documents, the Bonds and the System Agreements have not been modified, amended or repealed after the date hereof without the written consent of the Underwriters; (C) to the effect that no material change has occurred with respect to the System from the period from the date of this Agreement through the Closing Date; (D) approved by Bond Counsel, (aa) setting forth the facts, estimates and circumstances in existence on the Closing Date which establish that it is not expected that the proceeds of the Bonds will be used in a manner that would cause the Bonds to be “arbitrage bonds” within the meaning of the Code and any Regulations, Temporary Treasury Regulations and Proposed Treasury Regulations issued pursuant to the Code, and (bb) certifying that to the best of the knowledge and belief of the signing officer, there are no other facts, estimates or circumstances that would materially change the conclusions, representations and expectations contained in such certificate;

xiii. Evidence that Moody’s Investors Service, Inc. (“Moody’s”), Standard & Poor’s Ratings Services (“S&P”) and Fitch Ratings (“Fitch”) have issued ratings on the Bonds of “\_\_”, “\_\_” and “\_\_” respectively; and

xiv. Such additional legal opinions, certificates, instruments and other documents as the Underwriters may reasonably request to evidence the truth and accuracy, as of the Closing Date, of the Authority’s representations, warranties, covenants and agreements contained herein and of the statements and information contained in the Official Statement and the due performance or satisfaction by the Authority on or prior to the Closing Date of all the agreements then to be performed and conditions then to be satisfied by it.

All the opinions, letters, certificates, instruments and other documents mentioned above or elsewhere in this Agreement will be deemed to be in compliance with the provisions hereof if, but only if, they are in form and substance satisfactory to the Underwriters.

11. **Obligations Upon Cancellation.** If the Authority is unable to satisfy the conditions to the obligations of the Underwriters to purchase, to accept the delivery of and to pay for the Bonds contained in this Agreement, or if the obligations of the Underwriters to purchase, to accept delivery of and to pay for the Bonds is terminated for any reason permitted by this Agreement, this Agreement will terminate and neither the Underwriters nor the Authority will be under any further obligation hereunder.

12. **Certain Information Provided by Underwriters.** The Underwriters confirm and the Authority acknowledges that the statements with respect to the public offering of the Bonds by the Underwriters set forth on the inside cover page of the Official Statement, the legend concerning over-allotments in the Official Statement and the text under the caption “UNDERWRITING” in the Official Statement constitute the only information concerning the Underwriters furnished in writing to the Authority by or on behalf of the Underwriters for inclusion in the Official Statement.

13. **No Advisory or Fiduciary Role.** The Authority acknowledges and agrees that: (i) the transactions contemplated by this Agreement are arm’s length, commercial transactions between the Authority and the Underwriters in which the Underwriters are acting solely as principals, and are not acting as an agent, a municipal advisor, financial advisor or fiduciary to the Authority; (ii) the Underwriters have not assumed any advisory or fiduciary responsibility to the Authority with respect to the transactions contemplated hereby and the discussions, conferences, negotiations, undertakings and procedures leading thereto (irrespective of whether the Underwriters or their affiliates have provided other services or are currently providing other services to the Authority on other matters); (iii) the only obligations the Underwriters have to the Authority with respect to the transaction contemplated hereby expressly are set forth in this Agreement; (iv) the Authority has consulted its own financial and/or municipal, legal, accounting, tax, and other advisors, as applicable, to the extent it has deemed appropriate; and (v) this Agreement expresses the entire relationship between the parties hereto.

14. **Indemnification.** The Authority agrees, to the extent permitted by law (including without limitation the Anti-Deficiency Act codified at 31 U.S.C. Sec. 1341), to indemnify and hold harmless the Underwriters, any officer or employee thereof, each and any purchaser of Bonds whose name is set forth in a contract of purchase between any such purchaser or purchasers and the Authority providing for the sale of Bonds by the Authority and each person, if any who controls any such purchaser within the meaning of Section 15 of the Securities Act of 1933, as amended (all such parties being herein collectively called the “Indemnified Parties”) against any and all losses, claims, damages, liabilities or expenses whatsoever, joint or several, insofar as such losses, claims, damages, liabilities or expenses (or actions in respect thereof) are caused by, arise out of or are based upon any untrue statement or misleading statement or alleged untrue statement or alleged misleading statement of a material fact relating to the Authority, provided or certified by the Authority or any agent thereof and contained in an official statement or other offering document, or any amendment thereof or supplement thereto, of the Authority approved by an authorized officer of the Authority relating to the Bonds offered for sale thereby, under the captions INTRODUCTION, THE SERIES 2013A BONDS (other than under the sub-heading “Book-Entry Only System), SOURCES AND USES OF FUNDS, SECURITY FOR THE SERIES 2013A BONDS, OUTSTANDING INDEBTEDNESS, THE AUTHORITY, THE SYSTEM, CAPITAL IMPROVEMENT

PROGRAM, CUSTOMER BASE, RATES AND CHARGES, FINANCIAL OPERATIONS and LITIGATION (as it relates to the Authority) or caused by, arising out of or based upon any omission or alleged omission from such an official statement or other offering document, or any amendment thereof or supplement thereto, of any material fact relating to the Authority or the Project necessary in order to make the statements made therein in the light of the circumstances under which they were made not misleading.

15. **Expenses.** The Authority will pay all costs of issuance of the Bonds including, but not limited to (a) the cost of preparation and posting of the Preliminary Official Statement and the cost of preparation, posting, printing and delivery of the Official Statement, including the number of copies the Underwriters deem reasonable; (b) any cost of preparation of the Bonds; (c) the fees and disbursements of Co-Bond Counsel; (d) the fees and disbursements of any accountants, consultants, financial advisors or additional legal counsel retained in connection with the issuance of the Bonds, including JMT and the Financial Feasibility Consultant; (e) fees for Bond ratings and CUSIP numbers; (f) the expenses of travel and lodging for Authority representatives to attend conferences with the rating agencies and investor meetings; (g) all advertising expenses in connection with the public offering of the Bonds; (h) the costs of filing fees required by any of the Blue Sky laws; and (i) all out-of-pocket and computer costs associated with the issuance of the Bonds. The Authority shall reimburse the Underwriters for the fees and expenses of Underwriters' counsel and other expenses incurred in connection with the performance of Underwriters' obligations hereunder (which expenses may be included in the expense component of the Underwriters' discount).

16. **Notices.** Any notice or other communication to be given to the Authority under this Agreement may be given by delivering the same in writing to the address shown on the first page of this Agreement to the attention of the Chief Financial Officer, and any notice or other communication to be given to the Representative under this Agreement may be given by delivering the same in writing to Barclays Capital Inc. \_\_\_\_\_, New York, NY , Attention: \_\_\_\_\_.

17. **Parties in Interest; Survival of Representations and Warranties.** This Agreement, when accepted in accordance with the provisions hereof, shall constitute the entire agreement between the Authority and the Underwriters and is made solely for the benefit of the Authority and the Underwriters (including the successors or assigns of the Authority or the Underwriters) and no other person will acquire or have any right hereunder or by virtue hereof. All of the Authority's and Underwriters' representations, warranties, covenants and agreements contained in this Agreement will remain operative and full force and effect regardless of (a) any investigations made by or on behalf of the Underwriters; or (b) delivery of and payment for the Bonds pursuant to this Agreement.

18. **Effective Date.** This Agreement will become effective upon its acceptance by the Authority, as evidenced by the execution hereof by the appropriate official of the Authority, and will be valid and enforceable at the time of such acceptance.

19. **Execution in Counterparts.** This Agreement may be executed in counterparts each of which shall be regarded as an original and all of which shall constitute one and the same document.

20. **Finder**. The Authority represents and warrants that no finder or other agent of a finder has been employed or consulted by it in connection with this transaction.



21. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the District of Columbia.

BARCLAYS CAPITAL INC.  
LOOP CAPITAL MARKETS LLC  
GOLDMAN, SACHS & CO.  
MERRILL LYNCH, PIERCE, FENNER & SMITH INC.  
JEFFERIES & COMPANY, INC.  
LEBENTHAL & CO., LLC  
RAYMOND JAMES & ASSOCIATES  
SAMUEL A. RAMIREZ & CO., INC.

By: BARCLAYS CAPITAL INC., as Representative

By: \_\_\_\_\_

Managing Director

[SIGNATURE PAGE TO SERIES 2013A BOND PURCHASE AGREEMENT]

Accepted: \_\_\_\_\_, 2013

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

By \_\_\_\_\_

Name: Mark Kim

Title: Chief Financial Officer

[SIGNATURE PAGE TO SERIES 2013A BOND PURCHASE AGREEMENT]

EXHIBIT A-1

**\$000,000,000**

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY  
Public Utility Subordinate Lien Revenue Bonds, Series 2013A**

**Serial Bonds**

<b>Maturity Date <u>(October 1)</u></b>	<b>Principal <u>Amount</u></b>	<b>Interest <u>Rate</u></b>	<b><u>Yield</u></b>
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**Term Bonds**

**\$\_\_\_ % Term Bonds due October 1, 20 Priced to Yield %**

**\$\_\_\_ % Term Bonds due October 1, 20 Priced to Yield %**

TERMS OF REDEMPTION

MANDATORY SINKING FUND REDEMPTION

The \$ Term Bonds maturing on October 1, 20 shall be subject to mandatory sinking fund redemption as follows:

<u>Year</u>	<u>Principal Amount</u>
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\* Final maturity

The \$ Term Bonds maturing on October 1, 20 shall be subject to mandatory sinking fund redemption as follows:

<u>Year</u>	<u>Principal Amount</u>
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\* Final maturity

EXHIBIT B  
OFFICIAL STATEMENT

EXHIBIT C

FORM OF SUPPLEMENTAL OPINION OF BOND COUNSEL

EXHIBIT D

FORM OF AUTHORITY'S GENERAL COUNSEL OPINION

\_\_\_, 2013

District of Columbia Water and Sewer Authority  
5000 Overlook Avenue, S.W.  
Washington, DC 20032

**\$000,000,000**  
**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**  
**Public Utility Subordinate Lien Revenue Bonds, Series 2013A**

Ladies and Gentlemen:

I am General Counsel to the District of Columbia Water and Sewer Authority (the "Authority") and in connection with the issuance by the Authority of its District of Columbia Water and Sewer Authority \$000,000,000 Public Utility Subordinate Lien Revenue Bonds, Series 2013A (the "Series 2013A Bonds"). I have reviewed an executed copy of the Bond Purchase Agreement, dated July , 2013, between the Authority and Barclays Capital Inc., as Representative on behalf of the Underwriters, with respect to the Series 2013A Bonds (the "Bond Purchase Agreement") and the Preliminary Official Statement, dated July , 2013 (the "Preliminary Official Statement") and the Official Statement, dated July , 2013, being distributed in connection with the issuance of the Series 2013A Bonds (the "Official Statement"). Capitalized terms used and not defined herein shall have the respective meanings given to such terms in the Bond Purchase Agreement.

I have also examined an act of the Council of the District of Columbia entitled the "Water and Sewer Authority Establishment and Department of Public Works Reorganization Act of 1996," codified, as amended, at District of Columbia Official Code Ann. Sections 34-2201.01 *et seq.*, and the acts amendatory thereof and supplemental thereto (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), as amended (the "Federal Act"), certified copies of proceedings of the Authority authorizing the issuance of the Series 2013A Bonds, including the Resolution and such other proceedings as I have considered necessary or advisable to render the following opinions.

In rendering the following opinions, I have relied on representations of the Authority as to matters of fact without independent investigation or verification and, as to matters of law, the

representations of Co-Bond Counsel without independent research or verification and have assumed the genuineness of all signatures, the authenticity of all documents tendered to me as originals and the conformity to original documents of all documents submitted to me as certified or photostatic copies.

Based upon review of the materials described above and subject to the recitals and qualifications herein contained, to the best of my knowledge, information and belief, it is my opinion that:

1. The Authority is a body corporate duly created, organized and validly existing as an independent authority of the District under the Act and under the Federal Act (the Act and the Federal Act being sometimes hereinafter referred to as, the "Acts"). The Authority has the full legal right, power and authority to (i) adopt the Resolution, (ii) issue the Series 2013A Bonds, (iii) execute, deliver and perform its obligations under the Bond Documents, and (iv) perform its obligations under the System Agreements.

2. The Federal Act was duly enacted by Congress and the Act was duly enacted by the Council of the District of Columbia. The Acts remain in full force and effect. The Act transferred all assets and liabilities of the Water and Sewer Utility Administration ("WASUA") as indicated on the balance sheet prepared by WASUA, effective April 17, 1996, on an interim basis for the exclusive use and possession of the Authority for so long as any revenue bonds of the Authority, including the Bonds, remain outstanding.

3. The Resolution was adopted by the Authority and has not been amended since the date of the adoption thereof and remains in full force and effect as the date hereof.

4. (i) The adoption of the Resolution, the issuance of the Series 2013A Bonds, the execution and delivery of the Bond Documents and the performance of the Authority's obligations thereunder, and (ii) the performance of the Authority's obligations under the System Agreements, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the Authority, a breach of or default under any agreement or other instrument to which the Authority is a party, or any existing law, administrative regulation, court order, settlement order or consent decree to which the Authority is subject.

5. Except as otherwise described in the Preliminary Official Statement and the Official Statement, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, pending or, to the best of my knowledge, threatened against the Authority (i) seeking to prohibit, restrain or enjoin the issuance, sale or delivery of the Series 2013A Bonds, the use of the Official Statement or the collection of the revenues pledged to the payment of the principal of and interest on the Series 2013A Bonds, (ii) in any way contesting or affecting any authority for the issuance of the Series 2013A Bonds or the validity, enforceability, due authorization, execution or delivery of the Series 2013A Bonds, including the Bond Purchase Agreement or the other Bond Documents, or the validity or enforceability of the System Agreements, (iii) questioning the tax-exempt status of the Series 2013A Bonds under the laws of the District or the United States, (iv) in any way



contesting the corporate existence or powers of the Authority or the titles of the officers of the Authority to their respective offices, (v) which may result in any material adverse change in the business or the financial condition or the financial prospects of the Authority or (vi) asserting that the Preliminary Official Statement or the Official Statement contains any untrue statement of a material fact or omits any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

6. The statements and information contained in the Preliminary Official Statement and the Official Statement under the caption entitled "LITIGATION," are true, correct and complete in all material respects, and the information under such caption does not contain any untrue statement of a material fact and does not omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading in any material respect.

7. Pursuant to the Acts, the Authority has the full legal right, power and authority to operate the System and to collect and pledge the Revenues therefrom in accordance with the Indenture.

8. The Authority has approved the form of the Preliminary Official Statement and the Official Statement, the execution of the Official Statement and the delivery of the Official Statement to the purchasers of the Series 2013A Bonds.

9. The Authority has obtained the consents, approvals, authorizations or other orders required for the consummation of the transactions contemplated by the Bond Purchase Agreement, including the issuance of the Series 2013A Bonds.

This opinion and all documents which relate to this opinion are to be construed in accordance with the laws of the District and the United States of America. This opinion is rendered solely for the use of the Authority and may not be relied on by any other person.

Very truly yours,

General Counsel

EXHIBIT E

FORM OF OPINION OF UNDERWRITERS' COUNSEL

August 1, 2013

**\$000,000,000**

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY  
Public Utility Subordinate Lien Revenue Bonds, Series 2013A**

Barclays Capital Inc., as Representative  
New York, NY

Ladies and Gentlemen:

We have acted as counsel for you as the representative (the "Representative") acting on behalf of yourself and other underwriters (the "Underwriters") in connection with your purchase from the District of Columbia Water and Sewer Authority (the "Authority") of its \$000,000,000 aggregate principal amount of the District of Columbia Water and Sewer Authority Public Utility Subordinate Lien Revenue Bonds, Series 2013A (the "Bonds"), pursuant to the Bond Purchase Agreement, dated July , 2013 (the "Purchase Agreement"), between you and the Authority. The Bonds are to be issued pursuant to the Master Indenture of Trust, dated as of April 1, 1998 (the "Master Indenture"), as amended and supplemented to the date of delivery of the Bonds (the "Indenture"), including by the Fourteenth Supplemental Indenture of Trust, to be dated the date of issuance and delivery of the Bonds (the "Fourteenth Supplemental Indenture"), each by and between the Authority and Wells Fargo Bank, N.A., as trustee (the "Trustee"). The proceeds of the Bonds will be used to finance certain Costs of the System and (ii) pay costs of issuing the Bonds. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Purchase Agreement.

In that connection, we have reviewed the Indenture, the preliminary official statement of the Authority dated July , 2013 (the "Preliminary Official Statement") and the official statement of the Authority, dated July , 2013, with respect to the Bonds (the "Official Statement"), the Continuing Disclosure Agreement, dated August 1 , 2013 (the "Continuing Disclosure Agreement"), the Purchase Agreement, certificates of the Authority, the Trustee and others, the opinions referred to in paragraph 10(f) of the Purchase Agreement, and such records and documents, and we have made such investigations of law, as we have deemed appropriate as a basis for the opinions and conclusions hereinafter expressed. We do not assume any responsibility for any electronic version of the Official Statement and assume that any such version is identical in all respects to the printed version.

In arriving at the opinions and conclusions hereinafter expressed, we are not expressing any opinion or view on, and with your permission are assuming and relying on, the validity, accuracy and sufficiency of the records, documents, certificates and opinions referred to above,

including the accuracy of all factual matters represented and legal conclusions contained therein, including (without limitation) any representations and legal conclusions regarding the due authorization, issuance, delivery, validity and enforceability of the Bonds and the exclusion of interest thereon from gross income for federal income tax purposes, and any laws, documents and instruments that may be related to the issuance, payment or security of the Bonds. We have assumed that all records, documents, certificates and opinions that we have reviewed, and the signatures thereto, are genuine.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions or conclusions:

1. The Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

2. We are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of any of the statements contained in the Preliminary Official Statement and the Official Statement and make no representation that we have independently verified the accuracy, completeness or fairness of any such statements. In our capacity as your counsel, to assist you with your responsibility with respect to the Preliminary Official Statement and the Official Statement, we participated in conferences with your representatives and representatives of the Authority, Squire Sanders (US) LLP as disclosure counsel, Squire Sanders (US) LLP and Leftwich & Ludaway, LLC, as co-bond counsel, accountants, feasibility consultants and others, during which the contents of the Official Statement and related matters were discussed. Based on our participation in the above-mentioned conferences (which did not extend beyond the date of the Official Statement), and in reliance thereon, on oral and written statements and representations of the Authority and others and on the records, documents, certificates, opinions and matters herein mentioned (as set forth above), we advise you as a matter of fact and not opinion that, during the course of our representation of you on this matter, no facts came to the attention of the attorneys in our firm rendering legal services to you in connection with the Preliminary Official Statement and the Official Statement which caused us to believe that the Preliminary Official Statement and the Official Statement as of its date and as of the date hereof (except for any CUSIP numbers, financial, accounting, statistical or economic, engineering or demographic data or forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, any information about litigation to which the Authority is a party, any management discussion and analysis, Appendices to the Preliminary Official Statement and the Official Statement, or any information about book-entry, DTC, ratings, rating agencies, and tax exemption of the Bonds, which we expressly exclude from the scope of this paragraph and as to which we express no opinion or view) contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. No responsibility is undertaken or view expressed with respect to any other disclosure document, materials or activity, or as to any information from another document or source referred to by or incorporated by reference in the Preliminary Official Statement and the Official Statement.

We are furnishing this letter to you pursuant to paragraph 10(f) of the Purchase Agreement solely for your benefit as the Representative. Our engagement with respect to this matter has terminated as of the date hereof, and we disclaim any obligation to update this letter. This letter is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person. This letter is not intended to, and may not, be relied upon by owners of Bonds or by any other party to whom it is not specifically addressed.

Very truly yours,

EXHIBIT F

FORM OF OPINION OF DISCLOSURE COUNSEL

EXHIBIT G

FORMS OF FINANCIAL FEASIBILITY CONSULTANT'S AND ENGINEERING  
FEASIBILITY CONSULTANT'S CERTIFICATES AS TO THEIR OPINION LETTERS  
INCLUDED IN THE OFFICIAL STATEMENT AS APPENDICES A AND B



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

Thursday, July 25, 2013; 11:00 a.m.  
Blue Plains Wastewater Treatment Plant  
5000 Overlook Avenue, SW, DC  
AGENDA

<b>Call to Order</b>	Chairman
<b>June 2013 Financial Report</b>	Director of Finance & Budget
<b>Action Items</b>	Chairman
<b>Agenda for September 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)

**Reconciliation of Revenues  
St. Elizebeth's Account  
FY 2013**

Month	Acct No.	Read Date	Read	Usage	Quarterly Total Usage Amt.	Rate Charge	Pilot Fee	Row Fee	Metering Fee	Storm Water Fee	IAB Fee	IAB Storm Water	Others	Total	Quarterly Total Amt.
Oct-2012	102593	10/08/12	E	8,065		58,790.80	3,969.92	1,227.82	329.66		19,511.32	5,443.60		89,273.12	
Nov-2012	102593	10/08/12	E	(294,772)		(2,078,458.57)	(144,438.33)	(42,799.67)	0.00		0.00	0.00		(2,265,696.57)	
Dec-2012	102593			0	(286,707)	0.00	0.00	0.00	0.00		0.00	0.00		0.00	(2,176,423.45)
Jan-2013	102593	10/08/12	S	0		(439,561.26)	(31,136.30)	(9,302.44)	0.00		0.00	0.00		(480,000.00)	
Feb-2013	102593														
Mar-2013	102593														
Apr-2013	102593														
May-2013	102593														
Jun-2013	102593														
Jul-2013	102593														
Aug-2013	102593														
Sep-2013	102593														