



WASA'S VISION

WASA is the industry leader and environmental steward in providing excellent water service and wastewater collection and treatment services for all our customers.

WASA's MISSION

The mission of WASA is to serve all its regional customers with superior service by operating reliable and cost-effective water and wastewater services in accordance with best practices.

WASA's VALUES

- Respectful, responsive, and sensitive to the needs of our customers and employees
- Ethical in professional and personal conduct
- Vigilant to ensure optimal health, safety, and environmental outcomes
- Dedicated to teamwork, mutual cooperation, and appreciation
- Committed to equity, trust, and integrity in all we do

(Adopted by the WASA Board of Directors on November 5, 2003)



BOARD OF DIRECTORS' STRATEGIC PLAN GOALS

- **Customer and Community Service**
WASA is committed to understanding, serving, and responding to the needs of its diverse customers and stakeholders. WASA will utilize state-of-the-art technology to monitor, measure and manage customer expectations, and reach out to improve relationships with stakeholders and the public
- **Organizational Effectiveness**
WASA will ensure the effectiveness of the organization by creating and maintaining a safe, productive, highly competent, diverse workforce. WASA will through partnerships with stakeholders maintain a professional, high-functioning, ethical work environment and culture
- **Environmental Quality and Operations**
WASA will provide excellent environmental stewardship, meet and surpass regulatory standards and manage the Authority's infrastructure effectively
- **Finance and Budget**
WASA will maintain a sound financial position by optimizing operational and capital programs and exploring additional revenue sources, while maintaining fair and equitable rates

(Adopted by the WASA Board of Directors on November 5, 2003)



BOARD OF DIRECTORS

(As of October 20, 2005)

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ACKNOWLEDGEMENTS

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Michelle Cowan, Acting Chief Financial Officer
Olu Adebo, Controller
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R. Wayne Raither, Maintenance Services
Charles Kiely, Water Services
Charles Kiely, Customer Service
Cuthbert Braveboy, Sewer Services

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Director Human Resources
O.Z. Fuller, Fleet Management
Michael Carter, Procurement
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ACKNOWLEDGEMENTS

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The Office of Budget and Finance would like to extend its appreciation to all the departmental staff members whose hard work and dedication helped make this document possible.



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

District of Columbia Water & Sewer Authority

District of Columbia

For the Fiscal Year Beginning

October 1, 2005

President

Executive Director

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DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

5000 OVERLOOK AVENUE, S.W., WASHINGTON, D.C. 20032

Mr. Glenn S. Gerstell
Chairman
Board of Directors
District of Columbia Water and Sewer Authority
5000 Overlook Avenue, S.W.
Washington, D.C. 20032

October 20, 2005

Dear Chairman Gerstell and WASA Board Members:

I am pleased to present the District of Columbia Water and Sewer Authority's (WASA) revised FY 2006 and proposed FY 2007 budgets for your consideration. These budgets are intended to meet the mandate provided for in District of Columbia Law 11-111, which specifies that *"...WASA shall prepare and submit to the Mayor, for inclusion in the annual budget, annual estimates of the expenditures and appropriations necessary for the operation of the Authority for the year..."*

The publication of this year's budget document is particularly timely, in light of the Board's recent strategic planning session where it reaffirmed its four core strategic goals. The budgets presented to you today contain the resources needed to fulfill the Board's updated strategic plan and have been developed using the four strategic goals as a framework.

The next two years will be milestone years for WASA as we embark on major new initiatives and continue implementing long-standing plans that will dramatically improve our service to our District and regional customers and our commitment to the environment:

- Initial phases of the Combined Sewer Overflow Long-Term Control Plan (CSO LTCP)
- Enhanced water quality efforts, including the lead service line replacement program, among others
- Support of the District's Anacostia river development efforts, through the CSO LTCP, operational relocations and other facilities changes
- Implementation of the \$2.2 billion capital improvement program

Each of these activities are discussed in extensive detail in this document.

OPERATING BUDGET SUMMARY

As discussed in more detail below under “Strategic Goal – Financial Stability,” our revised FY 2006 operating budget totals \$290.9 million, \$4.8 million less than the approved FY 2006 budget. The proposed FY 2007 budget totals \$311.6 million, a \$20.8 million increase over the revised FY 2006 budget. The majority of this increase is due to additional debt service as the capital program progresses. Additional details on the major initiatives and changes in these budgets are discussed below.

STRATEGIC GOAL AREA – CUSTOMER & COMMUNITY SERVICES

This strategic area focuses on service delivery to our retail and wholesale customers, as well as our obligations to other stakeholders in the District and the greater Washington area.

CUSTOMER SERVICE INITIATIVES

In FY 2005, WASA continued to make improvement in people, process and technology to improve our service delivery to customers. These improvements include the following:

New Interactive Voice Response (IVR) Technology – Customer Services and Information Technology implemented the IVR system on time and within budget. IVR takes advantage of newer voice technologies that allow customers to perform many self service applications through voice communications, including bill payment, water usage information, credit extensions and other services. The new features are available 24-hours a day, making WASA services available to customers when they want to use them.

New functionality on the Customer Information & Billing System (ECIS) to track lead services – A working group led by Customer Service designed new ECIS screens that track lead line replacement in both public and private space. These new screens enable us better track the lead replacement efforts and provide more accurate reporting to meet EPA filing requirements. In addition, new billing functionality was implemented on ECIS that enabled WASA to bill customers in installments for their private property lead line replacements.

Improved meter reading and customer service through Automated Meter Reading Technology (AMR) – The AMR project is almost 96 percent completed with approximately 117,000 meters installed throughout the District. AMR has enabled WASA to bill most customers based on actual usage, virtually eliminating estimated billing for many customers. Prior to AMR, most customer contacts were high bill complaints due to bad meter readings and estimates. We have seen a dramatic shift in customer behavior as a result of AMR. Representatives can discuss customer accounts intelligently and help the customer pinpoint why consumption increased or decreased, avoiding costly field investigations. Over 74 percent of FY 2005 billings were billed via AMR meters. We are currently working to retain another contractor to finish installing the remaining meters, the majority of which are either indoors or are very difficult to access, such as those on federal properties.

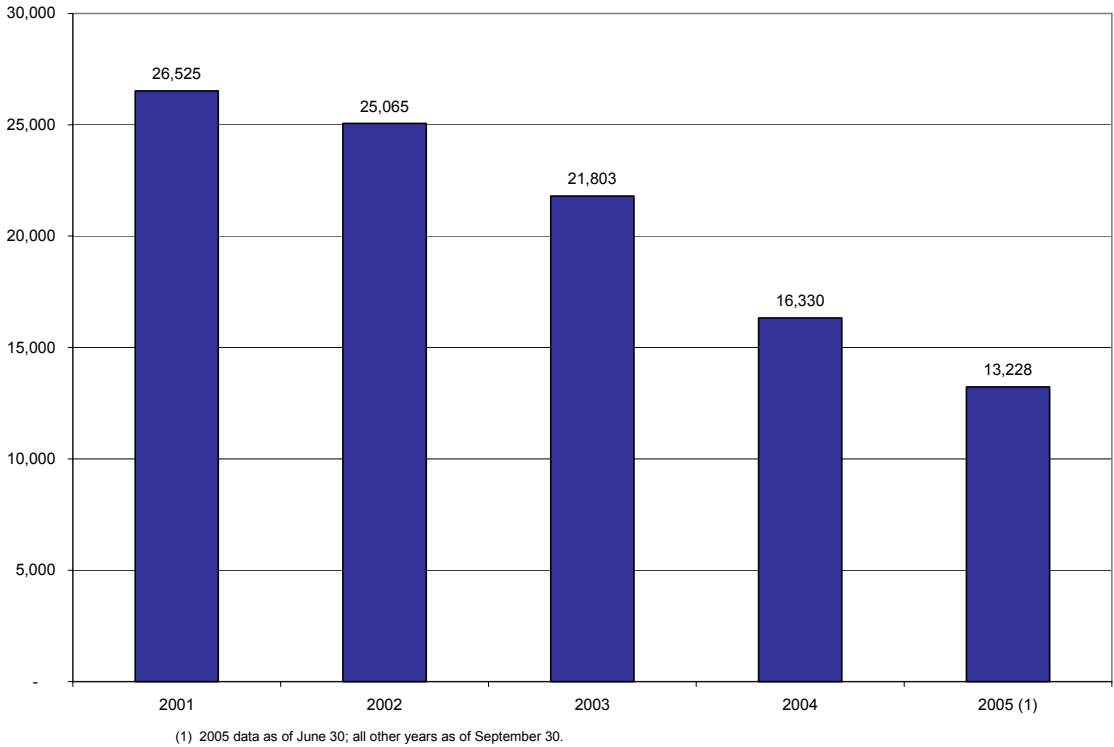
Automatic notification of high usage patterns – In FY 2004, we moved beyond “best in class” by implementing a “first-in-the-nation” consumption analysis tool that allows customers to access their daily, monthly and annual meter reading data. This new feature capitalizes on the automated meter reading (AMR) technology that we have been installing throughout the District. Customers can access this data through the web at www.dcwasa.com. In addition, we provide graphical illustrations of the AMR data that allows customers to pinpoint high usage on the exact day it occurred. We piloted a new tool in FY 2005 that sends an email alert to customers if their usage spikes beyond a normal level. This helps customers manage their water consumption through conservation measures and leak detection before a bill is rendered. This initiative places WASA at the forefront of leak detection in the water industry.

New AMR Upgrade – We completed an AMR upgrade in FY 2005 consistent with our technology plan to upgrade system hardware and software on a regular basis. This upgrade provided new functionality that enables us to better identify potential metering problems to ensure faster resolution.

Customer Assistance Program – Following the Board's expansion of the customer assistance program to include single-family home renters as well as homeowners, over 3,500 customers were participating in this program in late FY 2005, up from the range of 1,600 to 1,900 customers that had participated in prior years. In addition, participation in the S.P.L.A.S.H (Serving People by Lending a Supporting Hand) program has increased dramatically, with contributions through August 2005 totaling over \$48,000, almost double the Board's goal. Over 3,700 customers are currently using the bill “round up” feature.

Improved arrears management program – In FY 2005, accounts receivable over 90 days was \$13.3 million, the lowest in WASA's brief history, down from a high of approximately \$34 million when WASA was formed in 1996. Much of this reduction was attributable to the development and implementation of a comprehensive Arrears Management Plan that emphasizes improved performance in the daily administration of accounts receivable management. Because effective arrears management is not the sole responsibility of the Customer Services Collections work unit, the plan reinforces the need to integrate different areas of WASA within the collection cycle.

**ACCOUNTS RECEIVABLE OVER 90 DAYS
(In \$000's)**



The plan focuses on data integrity controls, training and cross training initiatives, a strong focus on the receivership program, “dialing for dollars campaign”, service level agreements, the extension of service hours from 8 am to 7 pm for outbound calling, and participation in the District’s tax sale. Going forward, with regular review and revisions to this plan, we expect continuing improvement in lowering accounts receivable in FY 2006.

New FY 2006 & FY 2007 Initiatives - Our continuous customer service improvement efforts continue over the next two years with the following initiatives:

Customer Survey – As discuss in more detail under “Internal and External Communications”, we will conduct our first comprehensive customer survey in late 2005. We will take the results of this survey into account as we develop the budget and workplans.

Data integrity and controls - We will be undertaking a major initiative in FY 2006 to consolidate and clean much of the data that supports customer operations. Much of the system information was collected from paper records that were compiled over several decades. This initiative will enable WASA to consolidate data from different sources and better prepare us to make moves as technology changes providing us flexibility to migrate to any of the newer technologies as they are developed.

New telephone system – We will be installing a new telephone system in 2006 to improve our voice communications throughout WASA. Voice communications are rapidly changing the way business is conducted. This initiative will position WASA to expand the value added services it provides to customers.

Language Line Services - We will enhance language line services to further enable all residents of the District to communicate with WASA. Currently, we can only communicate with our English speaking and Spanish-speaking population and require all others to seek out a translator if they require services or do not understand information distributed by WASA

Asset Management System – In FY 2006, we will continue the implementation of our new asset management system (AMS), which will include geographic information system functionality. This system, which will integrate our existing customer information, maintenance management, process computer control system (PCCS) / supervisory control and data acquisition system (SCADA), and other systems, will assist WASA in better managing our water and sewer infrastructure. It will allow us to better track specific asset performance and related repairs, and perform more preventive maintenance. For our customers, it will mean better work order scheduling, which will improve service call response times, and ultimately fewer service calls as preventive maintenance activities reduce the number of service issues. This project is projected to cost \$9.5 million over four years.

Initiatives in Water & Sewer Services to Customers

We have also begun significant initiatives to improve customer service on water and sewer service issues, including the following in the water system:

- **Fire hydrant assessment program** – this program focuses on preventative maintenance and minor repairs of the approximately 9,000 fire hydrants over the next two years. This program will establish good baseline data of current hydrant conditions, which will be used to implement an ongoing preventative maintenance and replacement program.

- **Valve exercise program** - We will be actively exercising the distribution system valves with the expected benefit of extending the useful life of this important distribution system asset as well as enabling us to complete system repairs more efficiently. The principal goal will be to exercise the estimated 5,000 critical vales within the year and all system valves on a two-year cycle.
- **Distribution branch reorganization** – In FY 2006, we plan to reorganize our distribution branch to ensure maximum flexibility in managing crew assignments. The distribution branch will be split with one-side handling emergency repair work and the other focusing on preventative maintenance

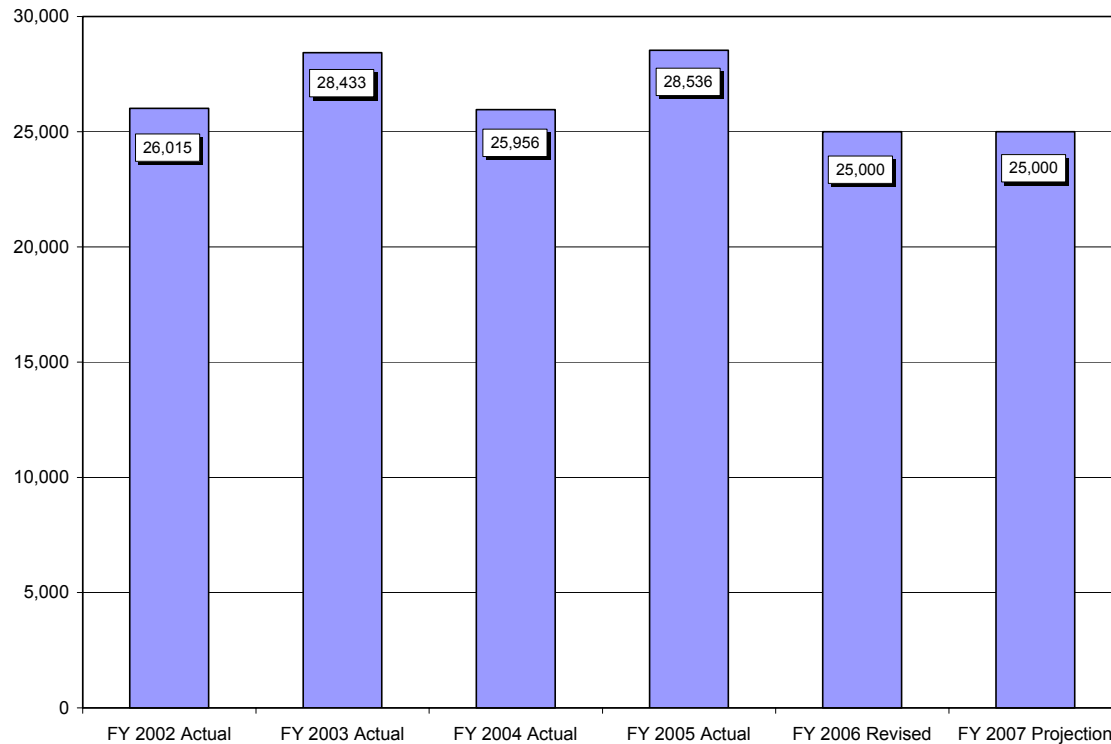
While we implement these programs, we continue performing day-to-day activities that ensure reliable water supply to our customers:

- Repaired 370 water mains and 378 service leaks
- Repaired or replaced 490 fire hydrants, returning them to full service
- Flushed 1,189 miles of mains
- Inspected and serviced 2,276 fire hydrants, repaired 279 and replaced 211

In the sewer system, we are over halfway complete with our comprehensive sewer system assessment which will allow us to better plan and prioritize our capital projects in the sewer area. While this study and related capital projects continue, we remain focused on system operation and maintenance tasks, including the following accomplishments in FY 2006:

- Cleaned over 28,500 catch basins in FY 2005, exceeding our target of 25,000
- Cleaned approximately 97 miles of sewer lines
- Repaired or replaced approximately 300 sewer laterals
- Collected close to 400 tons of floatable debris from the Anacostia and Potomac Rivers

Actual and Projected Catch Basins Cleaned FY 2002 – FY 2007



INTERNAL & EXTERNAL COMMUNICATIONS

Our web site, www.dcwasa.com, and our monthly (formerly quarterly) customer newsletter, *What's on Tap*, have greatly improved our communications with our customers and other external WASA stakeholders. We have also provided extensive specialized customer and stakeholder communications for the high profile projects underway, including the CSO Long-Term Control Plan (LTCP), the lead service line replacement program, and numerous water and sewer system improvements throughout the District. Individual customer mailings were provided for these programs and public meetings were held for the CSO LTCP, lead service line replacement program, the Northeast Boundary Sewer upgrade project and water system infrastructure improvements in Anacostia. We plan to use similar approaches for other

major projects in the future. WASA also has gained national and international recognition for its capital projects through articles in industry publications, broadcast documentaries and newscasts. WASA published its annual *Consumer Confidence Report* on water quality, and an Update on Lead in District Drinking Water and an expanded information guide on Combined Sewer Overflow control.

In FY 2005, we held a record number (approximately 35) of meetings directly with customers on a variety of issues, including the lead service line replacement program and WASA's proposed rate and fee increases. Instead of holding stand-alone meetings that focused on WASA-only issues, we began attending meetings scheduled by other community organizations such as Advisory Neighborhood Commissions and civic organizations. This change in strategy was very successful, allowing us to reach a far larger number of customers than in prior years.

A significant area of focus in FY 2006 will be WASA's first comprehensive customer survey. This survey, conducted by the Gallup organization, will measure satisfaction and awareness levels of WASA operations and programs among residential and commercial customers.

Internally, we have enhanced the look and editorial content of *Focus*, the newsletter for and about employees. We strive to keep employees informed and engaged through other forms of communication including meetings, surveys, recognition events and individual mailings to employees' homes on health and safety, security, maintenance, special issues of interest to the public and employee relations.

GOVERNMENT RELATIONS

Over the last three years, we have greatly improved our inter-governmental relationships, with the addition of a full-time staff person focused on this area. We have built and solidified strategic alliances with a variety of stakeholders in WASA, including customers, businesses, associations, key environmental groups, and political and legislative leaders at the local, regional and federal levels. This success has been marked by the receipt of over \$80 million in federal funding for the CSO LTCP in FY 2003, FY 2004 and FY 2005. We also successfully secured additional grant funding from federal agencies, including the Federal Emergency Management Agency and the Environmental Protection Agency. Our efforts over the next two years will focus on securing continued federal financial support for the CSO Long-Term Control Plan, security preparedness, increased financial flexibility for our contributions to the Washington Aqueduct (see discussion under "Financial Stability" below), and enhanced working relationships with local and regional governmental entities in order to advance specific organizational objectives. To that end, we have been recruiting for an additional staff person to focus on government relations in FY 2006 and we will also execute the government relations plan presented to the Board's Customer and Community Services Committee.

COMMUNITY & PUBLIC SERVICE EFFORTS

As part of our strong emphasis on serving our customers, we strive to extend a helping hand to our community. Among the community service activities that WASA participates in are:

Christmas in April – For the sixth year, WASA participated in the Christmas in April program to help residents maintain their properties when they do not have the resources to do work on their own.

Bread for the Soul – WASA employees participated in the 6th Annual Bread for the Soul campaign by donating more than 350 toys and books, and assembled and distributed food baskets to 62 families and children living with HIV/AIDS in the District of Columbia. In addition, WASA employees donated over \$2,500 in cash, including \$500 that the Labor-Management Partnership in Facilities donated, money it won from a special District award program.

Neighborhood Clean up and Beautification - This year, WASA donated paint and brushes to paint fire hydrants in support of neighborhood projects in Adams Morgan, Fort Dupont and Brookland.

Joint Utility Discount Day - In September 2005, 86 WASA employees participated in the annual Joint Utility Discount Day (JUDD) at the Washington Convention Center. Approximately 5,000 District residents attended the event to apply for discounts on water, electric, gas and telephone bills. WASA's program offers a monthly discount on water bills for the first four Ccfs of consumption to customers who qualify (based on federal income guidelines) which amounts to approximately \$84 annually. Our staff helped customers attending JUDD complete applications for the discount and provided information and demonstrations about water use and conservation in the home.

Anacostia River-Clean-Up Day – In April, WASA employees assisted in this massive cleanup effort, and WASA also contributed the use of dumpsters and its skimmer boat to remove debris from the river.

Ward Five Clean-Up Day – As part of the District's Hot Spot Initiative to combat crime and rebuild neighborhoods, WASA crews checked for illegal water hookups and missing meter covers and cleaned catch basins and storm drains to prevent flooding.

Charitable Giving – WASA raised \$29,221 for One Fund, the District's only official charitable fundraiser that supports a range of non-profit organizations in the Washington area. WASA also collected \$4,079 for Water for People, whose mission is to provide long-term, sustainable water supply in developing countries.

Race For the Cure – 124 employees participated in the 16th annual national fundraiser for breast cancer research raising close to \$5,400.

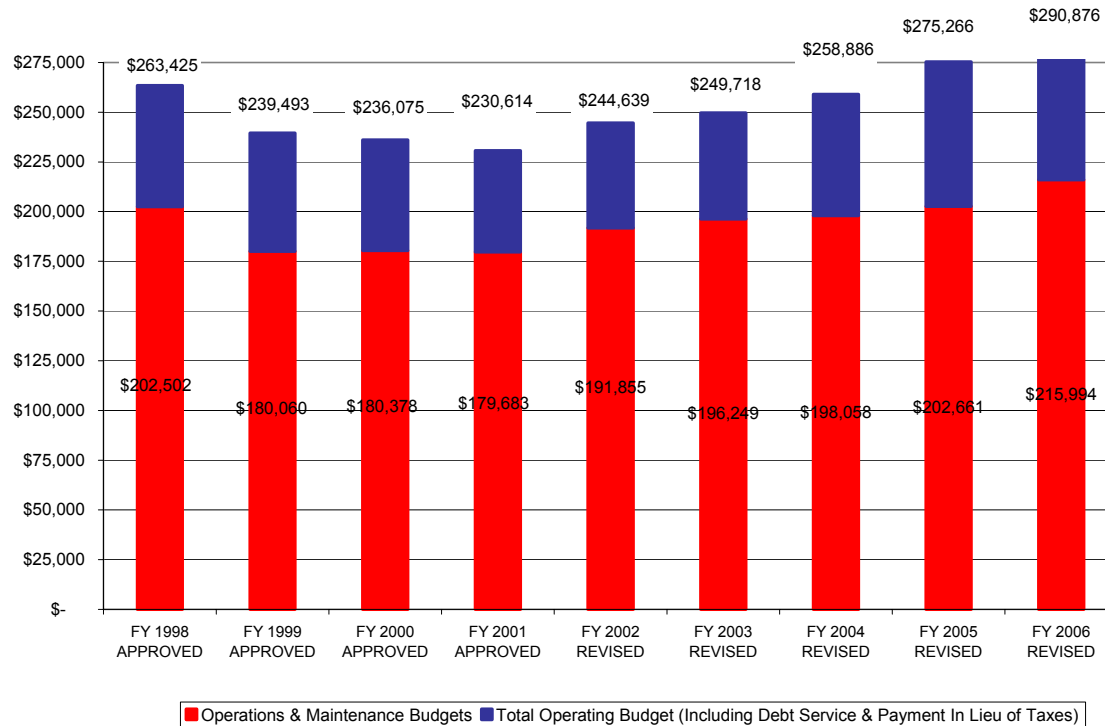
Hurricane Katrina Leave Contribution – WASA employees donated over \$31,000 in annual leave to Hurricane Katrina victims.

STRATEGIC GOAL AREA – FINANCIAL STABILITY

Operating Budget

Our revised FY 2006 operating budget totals \$290.9 million, a \$4.8 million decrease from the Board-approved FY 2006 budget. Our operation and maintenance budget (i.e., our total operating budget minus debt service, the payment in lieu of taxes (PILOT), and the District’s right of way fee) totals \$216.0 million. As shown in the chart below, WASA maintained its operation and maintenance budget for seven consecutive years at levels equivalent to or less than WASA’s first budget for FY 1998; the FY 2006 budget represents the first time in its history that WASA has exceeded the original 1998 levels, a significant accomplishment in light of the customer service and operational improvements we have made.

**OPERATING BUDGET HISTORY
FY 1998 – FY 2006
(In 000’s)**



The decrease in the revised FY 2006 budget is due primarily to lower debt service costs resulting from lower capital spending in FY 2005. While the FY 2006 operations and maintenance budget (excluding debt service and the PILOT / ROW fee) remain within the original amounts approved by the Board, the budget includes significant increases for electricity and chemicals costs, due primarily to rising fuel prices and Hurricane Katrina. (See “Energy Management” later in this document.) This increase has been offset by savings in other areas, including lower lead abatement operating costs because of positive testing results as well as lower personnel service costs resulting from more realistic vacancy rates.

FY 2006 & FY 2007 Operating Budgets
(In 000's)

	FY 2006 Approved	FY 2006 Revised	Increase / (Decrease)	Percentage Change	FY 2007 Proposed	Increase / (Decrease)	Percentage Change
Operations & Maintenance Expenditures	\$ 216,152	\$ 215,994	\$ (158)	-0.1%	\$ 220,802	\$ 4,808	2.2%
Payment in Lieu of Taxes / Right of Way Fee	16,979	16,923	(56)	-0.3%	17,751	828	4.9%
Debt Service	62,579	57,959	(4,620)	-7.4%	73,090	15,131	26.1%
Total Operating Budget	\$ 295,710	\$ 290,876	\$ (4,834)	-1.6%	\$ 311,643	\$ 20,766	7.1%

The proposed FY 2007 budget totals \$311.6 million, a \$20.8 million increase over the revised FY 2006 budget. As shown in the chart above, the majority of this increase is additional debt service as the capital program progresses. Our operations and maintenance budget (i.e., total operating budget less debt service, the payment in lieu of taxes, and the District’s right of way fee) totals \$220.8 million, a \$4.8 million, or 2.2 percent, increase over the revised FY 2006 budget. This increase is due primarily to projected compensation increases for WASA’s employees.

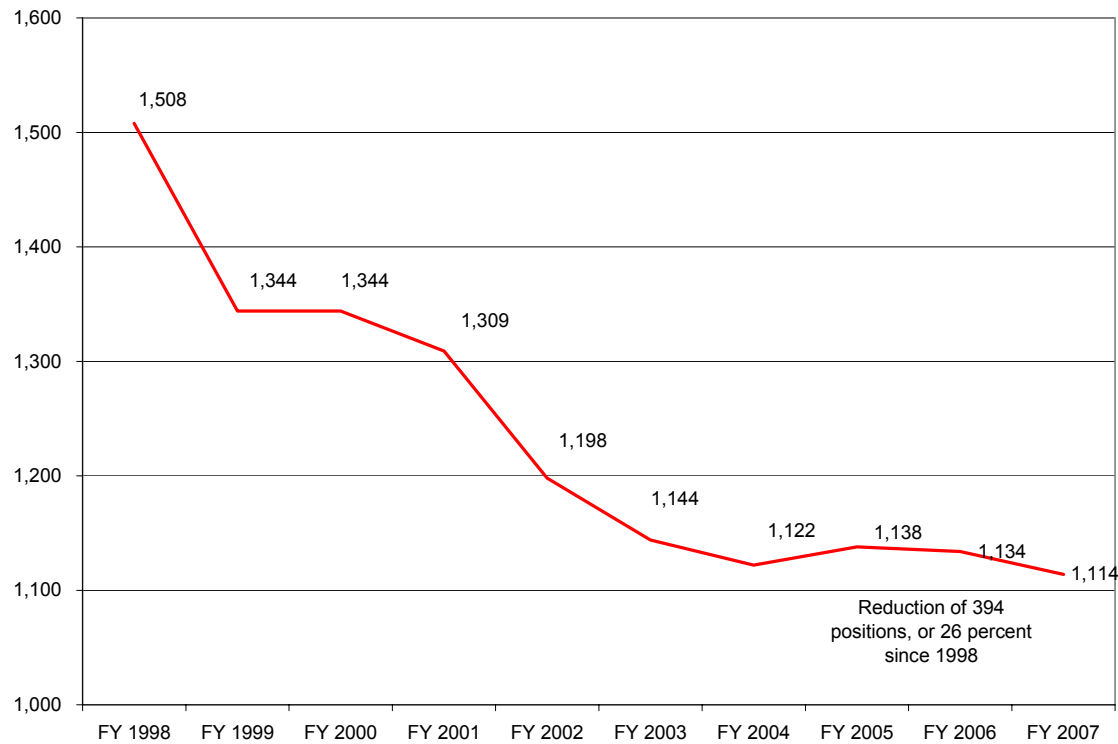
Staffing

Reflecting the commitments we have made through our various Internal Improvement Plans across WASA designed to make the utility more competitive and efficient in all areas, we have steadily reduced position levels. As shown in the chart below, in FY 1998, our approved position level totaled 1,508 positions; in FY 2007, our approved position level will total 1,114 positions, a 26 percent reduction since WASA was created.

As part of last year’s budget, we added a variety of new positions across the organization, including 12 new positions to manage the Board-approved lead replacement program. In addition, we added positions to the Office of the General Counsel, of which one position will focus

exclusively on regulatory compliance across WASA, while the remaining new positions will more than pay for themselves by providing more internal, rather than outsourced, legal support for the Board and user departments. We also added positions for energy management, employment management, and public affairs and government relations. In FY 2006, seventeen vacant positions were reduced from Wastewater Treatment and Maintenance Services as part of the IIP; we have added eight positions to Water Services for preventive maintenance activities. We have added a new position to the General Manager's Office – Assistant General Manager for Retail Services – which will have responsibility for all retail customer functions, including water, sewer, and customer service functions. An additional twenty positions are scheduled to be reduced in FY 2007 in Wastewater Treatment.

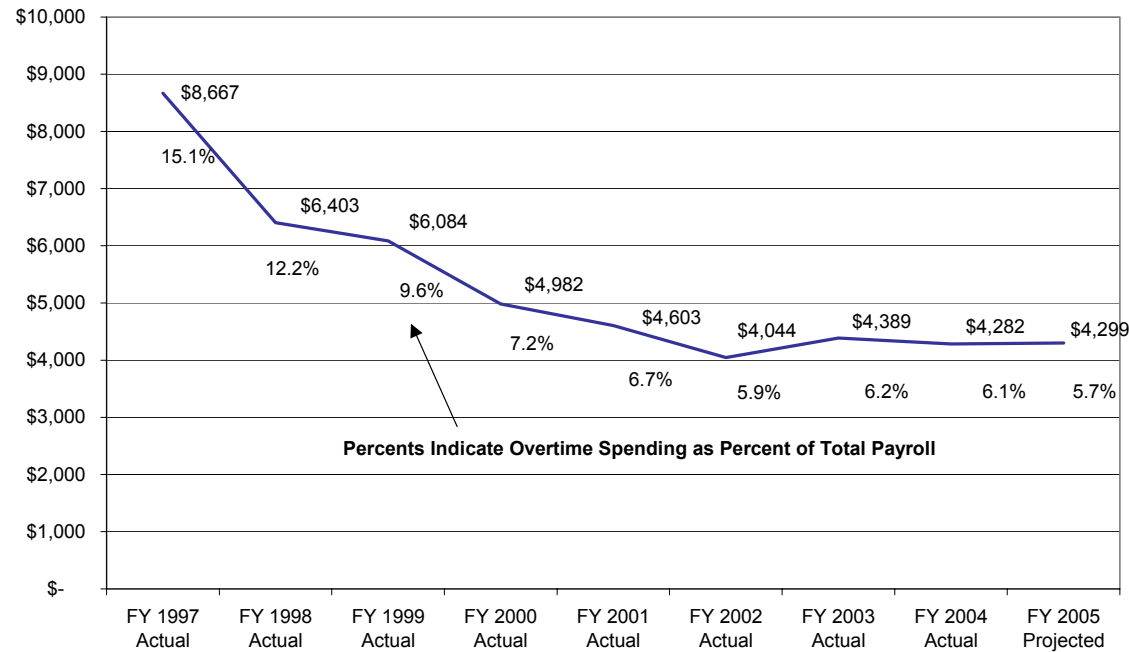
**Full Time Positions
FY 1998 – FY 2007**



Overtime

WASA has significantly reduced its usage of overtime primarily through better management. In WASA's first year of operation (FY 1997), overtime spending totaled \$8.7 million; in FY 2005, overtime spending is projected to total \$4.3 million, a reduction of 50 percent. Similarly, overtime as percent of total payroll has been reduced from 15 percent in FY 1997 to a projected 5.7 percent in FY 2005. WASA projects budgeting at this level in the future to allow managerial flexibility for addressing emergency system issues and peak staffing requirements in the most cost-effective manner.

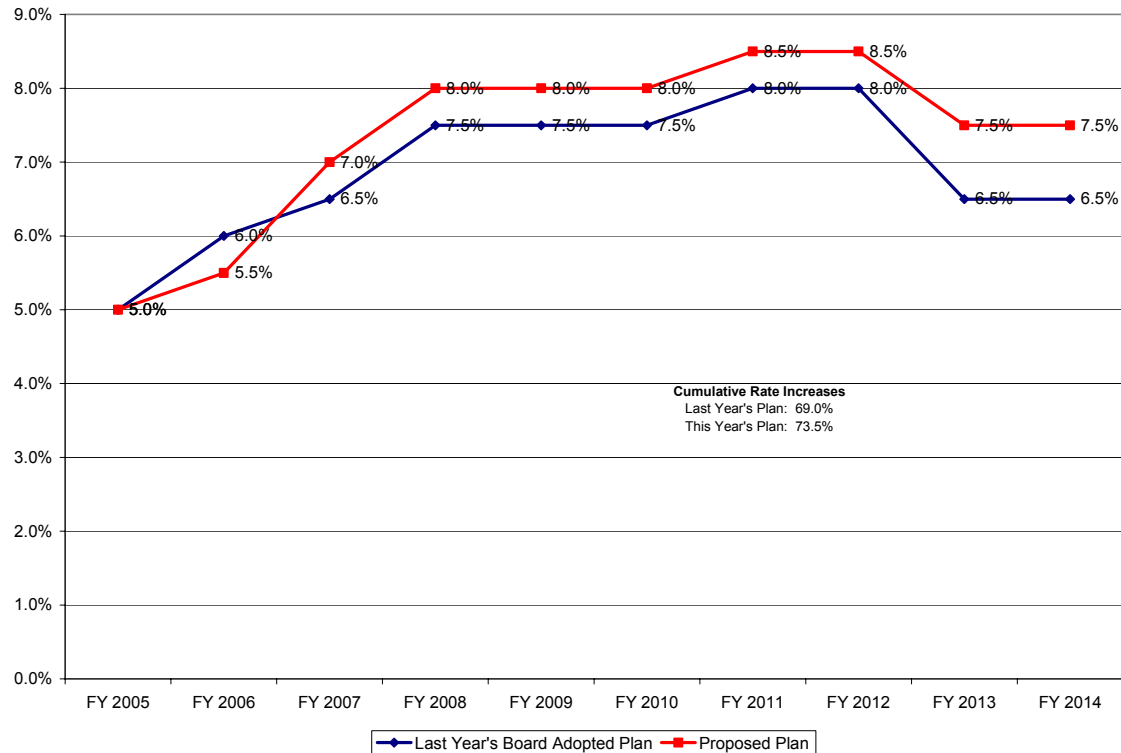
**Overtime Spending
FY 1997 – FY 2005
(In 000's)**



Retail Rates and Fees

We have carefully reviewed our ten-year financial plan and near-term rate increases in light of proposed changes to the Board’s lead service line replacement program and other CIP changes. As discussed in more detail under “Environmental Quality” below, this year’s proposed CIP reflects an extension of the lead program through 2014 to accommodate the potential replacement of up to additional 12,000 lines beyond the original 2001 inventory of 23,000 lines. The resulting impact on retail rates will be experienced in the latter years of the plan, as shown in the chart below, with retail rates in 2011 and beyond increasing by 0.5 to 1.0 percent annually over last year’s plan. In addition to the lead program change, other capital project increases in the early years of the plan are projected to result in slightly higher rate increases. These project changes include the digester project, the Washington Aqueduct residuals project, and additional water quality projects.

PROPOSED RATE INCREASES
Comparison of Last Year’s Board-Adopted Plan vs. Proposed Plan
FY 2005 – FY 2014



In the near-term, I am proposing a seven percent increase in retail water and sewer rates in FY 2007. At the direction of the Retail Rates Committee, we are evaluating several retail rate structures and changes including the following:

- Land or impervious surface-based structures for CSO cost recovery
- Groundwater cost recovery options
- Fixed capacity (e.g., fire protection) and inverted block rate structures for water and sewer cost recovery

Later this year, we will provide the Retail Rates Committee with a projected timeline on these options. This timeline will include schedules for completion of data analysis, public outreach, and implementation activities such as fieldwork (if necessary) and customer information system changes. The results of this timeline and related analysis will assist the Committee in making its final decision on the proposed FY 2007 rate action.

In addition to the proposed retail rate increase and potential structural changes discussed above, we are proposing an approximate 4.8 percent increase in the right of way / PILOT fee to ensure that we fully recover the costs of this District of Columbia fee. We will also be reviewing the private lead service line replacement fee, analyzing whether we are recovering costs.

Our rates remain very competitive with other regional and national providers. WASA's current monthly residential bill (including the District's stormwater rate and the PILOT / right of way fee) is \$2.77, or approximately 6 percent, less than the average of other utilities in WASA's benchmark group. Without the stormwater and the PILOT / right of way fees, WASA's average monthly residential bill is \$6.85, or 14 percent less. Additionally, a recent survey by Global Water Intel indicated that water rates in the District of Columbia were about in the middle of 150 cities surveyed world-wide.

Revenues

We continue to build on the progress we have made over the last few years in revenue forecasting and monitoring. Investments in the customer information and billing system and the AMR program have yielded great improvements, ensuring more accurate meter reads and consumption data and enhanced reporting and tracking functionality to better identify and address potential customer and business issues. In addition, the reorganization of our customer service department has also improved our collections and billing performance, specifically through the establishment of a large accounts group and enhanced collections efforts, including our "dialing for dollars" program for delinquent accounts, improved lien processing, and enhanced coordination efforts with other District agencies.

Our revised FY 2006 revenue budget totals \$289.8 million and is projected to grow to \$307.7 million in FY 2007. These projections reflect the Board-approved 5.5 percent water and sewer rate increase and increase in the right of way / PILOT fee in FY 2006, and a proposed 7.0 percent rate increase in FY 2007. In addition, these projections include a five percent increase in recorded consumption for the remaining large federal and commercial meters that will be installed as the meter replacement / AMR program is completed.

Consistent with the Board's policy of ensuring that all customers pay for the service they receive and that our rates and fees keep up with the actual cost of providing service, we are addressing a number of revenue-related issues:

- **Howard University & Soldiers' Home** – The District of Columbia entered into agreements with Howard University around 1900, and the Soldiers' Home in 1929 to provide free water service to these institutions in exchange for use of their property. Prior to WASA's formation in 1996, the District government also provided sewer service to both Howard University and the Soldiers' Home, although sewer service was not a part of either agreement. The Board of Directors reviewed the agreements in 1996, and determined that sewer exemptions should be eliminated. As planned, bills for sewer, metering, and right-of-way fees were sent to both Howard University and the Soldiers' Home. In 2004, Howard University responded that they do not intend to pay their bill. Over the last year, we have attempted to start discussions with Howard, but have received very limited response to our inquiries. We will continue to brief the Board on this issue.
- **Potomac Interceptor** – WASA has separate agreements with each of the Potomac Interceptor users (the Town of Vienna, Metropolitan Washington Airports Authority (MWAA), National Park Service, and the Department of the Navy) which were initially executed by WASA's predecessor agency in 1963 – 1964. These agreements provide for a consumption-based rate to recover the actual cost of providing service and periodic rate adjustments to both recover underbillings, if any, and to set new rates based on current costs. In FY 2004, we completed a review of these rates, the first to be done since 1979, resulting in an overall rate increase of 90 percent going forward, and an estimated \$1.8 million in historical underbillings. We have reached agreement with all four entities on implementation of the new rates effective October 1, 2004. Two entities, MWAA and the Town of Vienna, recently notified us that they disagree with WASA's request for backbilling. We have contacted each entity and will begin discussions on their positions shortly. (It should be noted that National Park Service has made payment in full on the backbilling, and that MWAA has made a \$250,000 initial payment on the backbilling, although they indicate their belief that they should not be required to make additional payments.)

Cash Reserves

WASA Board policy calls for cash reserves equivalent to approximately six months' operating costs, or \$102.4 million in FY 2006. The ten-year plan reflects continued maintenance of this reserve levels, and as our operations and maintenance budgets grow, our required operating and maintenance reserve levels will grow as well, increasing at approximately 2.4 percent on average after FY 2006. These reserves are a key reason for our strong bond ratings, which helps keep our customers' bills low by reducing the interest rates we pay on our borrowings.

Rate Stabilization Fund

Consistent with Board policy, in years where our financial performance is better than projected, we set aside additional funds that we use in future years where capital spending and debt service peak, helping to avoid "spike" rate increases for our customers. At the end of FY 2005,

the rate stabilization fund amounted to \$31.5 million, including a contribution of \$4.0 million in FY 2005. This fund is in addition to the Board-adopted six month operating and maintenance reserve, and additional contributions will be determined each year based on actual financial performance and only if all other Board policy and indenture requirements are met. We currently project that the fund would be fully utilized in FY 2007 through FY 2012 under the proposed ten-year financial plan.

Bond Ratings

WASA’s bond ratings remain at the “AA” level, the second highest rating category available to state and local issuers, helping reduce the interest rates we pay on our debt borrowings, resulting in lower customers’ bills.

Rating Agency	Senior Rating
Moody’s Investors Service	Aa3 Stable Outlook
Standard & Poor’s	AA- Stable Outlook
Fitch Ratings	AA - Stable Outlook

Capital Financing Plans and Debt Issuance

Implementation of our capital financing plan continues as planned and meets the dual objectives of providing maximum flexibility while resulting in as low a cost of capital as possible. Specifically, this plan includes three primary components:

- *Utilize available pay-as-you-go financing to pay down higher cost debt or reduce future debt issuances*
- *Establish an interim financing program to finance construction* – In early FY 2002, we developed a \$100 million commercial paper program for this purpose which has been extremely successful. We expect that remaining Series 2004 proceeds (see below) will not be fully spent until the fourth quarter of FY 2006, when we will begin again utilizing our commercial paper program.
- *Issue permanent financing every twelve to 24 months to take out interim financing proceeds* – We successfully issued \$295 million of subordinate lien revenue bonds in August 2004. These bonds were issued as auction rate securities which carry short-term variable rates. Through the end of September, the simple average interest rate was 1.31 percent, significantly less than fixed rate debt. As noted above, based on current capital spending projections, we believe that Series 2004 proceeds will last through the third quarter

of FY 2006, after which we will utilize our commercial paper program. We expect that our next permanent financing, which we anticipate issuing as senior lien, fixed rate revenue bonds, will be issued in early calendar year 2007.

We are constantly evaluating our outstanding debt portfolio to see if any refinancing opportunities exist that could result in interest rate savings. In FY 2002, at the Board's direction, we completed an evaluation of our share of the District's general obligation debt and determined that no significant savings could be achieved. In addition, we have evaluated our other debt issuance and because of restrictive call provisions or previous financings, additional refinancings are not feasible.

Other Financial Accomplishments & Issues

Washington Aqueduct Financing – As previously discussed with the Board, the U.S. Army Corps of Engineers requires WASA to remit cash in an amount equal to the total project cost in advance of advertising contracts, and these funds are transferred immediately to a Corps / U.S. Treasury account to be held until project completion with no interest to WASA. In the past, this has not been a significant issue to WASA as the level of projects to be undertaken was relatively small. However, because the Aqueduct's residual project is scheduled to begin construction in FY 2007, this issue is becoming much more urgent. In early 2005, we had extensive discussions with the U.S. Office of Management and Budget and the Corps, which resulted in a proposal in the President's FY 2006 budget that would allow Aqueduct customers to deposit funds for any projects required by their NPDES permit (including the residuals project) to a separate escrow account, allowing us to retain interest on these funds. While this is a significant improvement over current Corps practice, we continue to pursue other options that would be more favorable to WASA, including transferring dollars on a phased basis, utilizing U.S. Treasury notes, or providing the Corps with a bank line of credit. In the past, some of these options have not been viewed favorably by the U.S. Treasury, but we will continue to educate and work with Congressional staff, federal agencies and the Corps on this critical issue for our ratepayers.

Insurance Review – In FY 2005, we successfully renewed all of our insurance policies at approximately the same cost as FY 2004. We also changed policy expiration dates to June, allowing us to renew policies prior to the hurricane season. As in last year's policies, only two significant exceptions were included in our renewals:

- *Liability coverage for lead-related issues* – As a result of the lead class action lawsuit that was filed in FY 2004, coverage of lead issues was removed for all claims alleging damages incurred after April 2004 under our two general liability policies and our public officials liability policy.
- *Flood coverage* – In FY 2004, our property insurance carrier performed a comprehensive facilities review, including our flood exposures. Because several major WASA facilities, including Blue Plains, O Street, 12th and Maine, the 14th St. Bridge, and the Potomac and Upper Anacostia pumping stations, are not protected to the 500 year flood level, the insurer reduced flood protection to only provide a total of \$10 million per year of coverage for all six facilities combined. (Locations not in high hazard areas will continue to be insured to the \$100 million limit.)

Rolling Owner-Controlled Insurance Program (ROCIP) – In FY 2004 and FY 2005, we implemented another “industry-best practice” with our ROCIP program, under which WASA procures most insurance coverage for most construction contractors. The result is substantially higher insurance coverage levels for all contracts; the ability to qualify more small, LSDBE contractors who may have trouble obtaining insurance at levels required by WASA; and significant cost savings. At the end of FY 2005, 19 construction contracts had been enrolled in the ROCIP program (including most of the lead service line replacement contracts), and preliminary savings estimates exceed \$600,000. Over the life of the five year program, we anticipate enrolling 120 projects, and producing savings in the \$4 to \$5 million range. A major reason for the cost savings is the implementation of a uniformly strong safety program for all contractors. This has been a goal of WASA, and an effort that has been in progress with our existing safety program. These efforts are now being accelerated as part of ROCIP.

Grants – We continue to make progress in grants management. Approximately \$270 million, or 12 percent of the ten year plan, is financed by EPA grants through the *Clean Water* and *Safe Drinking Water Acts*, plus close to \$85 million of funding already received for the CSO LTCP as well as anticipated funding in FY 2006. A portion of these grants include a twenty percent local match – due to the efforts of Delegate Eleanor Holmes Norton, this match ratio was successfully extended through FY 2002. We have also been successful in securing grant financing from non-EPA sources, due to the successful efforts of our Board and government relations staff, including \$500,000 in 2005 from Homeland Security sources for training, pumping station monitoring, and related security analysis.

Federal Customer Issues – As reported in prior years, we have made great progress in addressing longstanding billing and service issues for the federally-owned water system in Northern Virginia. A new federal law passed in December 2001 required that federal agencies in Northern Virginia install individual meters at all points of service and that future water billings be based on actual meter readings. WASA has worked very successfully with the Pentagon, Arlington Cemetery and the National Park Service to ensure this was completed. Three years ago, the Pentagon had indicated that it was interested in receiving water service from Arlington County, although no serious discussions have held with Arlington or the Pentagon since then. Based on recent informal discussions with Pentagon staff, we believe that this issue has been dropped by the Pentagon.

External Audit – FY 2004 marked our eighth consecutive unqualified audit opinion on our audited financial statements, and the eighth consecutive year that the Comprehensive Annual Financial Report received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association.

STRATEGIC GOAL AREA – ENVIRONMENTAL QUALITY

The FY 2006 and FY 2007 operating budgets and ten-year capital program reflect our renewed commitment to meeting this goal, with significant initiatives in water quality, combined sewer overflow reduction, and other wastewater-related projects. These initiatives are described in more detail below.

REGULATORY COMPLIANCE & PUBLIC HEALTH

WASA operates in an extremely complex regulatory environment in both the water and wastewater sides of our operation. While our near-term focus remains on compliance with existing requirements of the lead administrative order, the consent decree for the CSO LTCP, and the Nine Minimum Controls consent decree, among others, we are also looking ahead to future regulatory changes that could dramatically change our operations and capital improvement program. To that end, we added a position in the General Counsel's office in FY 2005 whose primary responsibility is to coordinate compliance activities across WASA and monitor future regulatory changes. (Detailed discussion of potential future regulatory issues is found under "Emerging Issues" later in this document.) We have also formed cross-departmental working groups who formally meet on a monthly basis (and more frequently on an informal basis) to ensure compliance with these requirements.

Compliance in the water system is made especially challenging due to the dynamic nature of our water system, the Aqueduct's treatment regimen, and the necessity of ensuring that we simultaneously comply with many drinking water standards that create known technical challenges. We have found that where the Aqueduct or we proactively take action to comply with one regulation, it often results in unanticipated results in other regulatory areas. An example is the Aqueduct's conversion from free chlorine to chloramines to comply with the Disinfection By-Product Rule. Subsequently, this change resulted in the violation of the Lead and Copper Rule. Because of this experience, a primary area of concentration over the last year (and in coming years) has been on "simultaneous compliance", where we analyze the impacts that certain water chemistry or operations changes made for regulatory reasons have on other aspects of the system. These efforts include the development of a special working group made up of experts in water quality and regulatory compliance and continued participation in the EPA-led working group that focuses on lead. We will continue to urge the federal government and other national industry groups to undertake more research on water quality and "simultaneous compliance issues." Finally, as part of the Board's governance study, we are looking at ways to better integrate water production and distribution in the District of Columbia, which could help address some of these issues.

While WASA's primary role in governmental services in the District is to provide essential water and wastewater services to District citizens, we recognize that water quality, public outreach, and risk management are integral parts of a sound public health program. We have retained expert public health consulting services through George Washington University School of Public Health to advise us in such matters. We are pleased to continue our partnership with the Department of Health on not only lead but also on all water quality and health-related issues.

WATER SYSTEM INITIATIVES

Water Quality Efforts – While recent focus has been on lead, WASA has long been focused on water quality, and has budgeted over \$698 million (cash disbursements basis) for water distribution system improvements (including lead) over the ten year plan, a substantial portion of which are for water quality-related initiatives. Since our creation in 1996, we have completed the following projects:

- *Water Storage Facility Rehabilitation* – All WASA storage facilities were drained, cleaned, and inspected in the late 1990's, and because of this process, five underground reservoirs and three elevated tanks were rehabilitated for a total cost of \$12 million. We will complete a similar process for all storage facilities in 2006 & 2007, and thereafter will drain, inspect, and disinfect each storage facility on a 5-year basis, consistent with AWWA standards.
- *Elimination of Dead Ends & Cross Connections* – We successfully eliminated close to 4,300 cross connections for a total cost of approximately \$19.5 million, and no known cross connections remain in our system. In 2005, we accelerated our efforts to eliminate dead ends, and expect to complete this work by 2007 at a total cost of \$17 million since we began this work in 1998.
- *Cleaning & Lining & Replacement of Water Mains* – We have completed cleaning and lining of 13 miles of water mains for a total cost of approximately \$9 million. As many of the unlined cast iron mains may be reaching the end of their useful lives, it will be determined if replacement is more economical than cleaning and lining. Over the next ten years, we have budgeted over \$190 million for replacement and rehabilitation of water mains. As part of our new asset management system and other programs (e.g. fire hydrant and valve assessments) that are currently underway, we will be able to better prioritize our work in this area.
- *Flushing* – In fall 2005 we will have completed unidirectional flushing of our entire water distribution system. Consistent with AWWA standards, we flush at high velocities to rid the system of sediment and debris. We are presently developing a long-term flushing plan that will incorporate additional water quality considerations into the design of the 2006 flushing program.
- *Valve Replacement & Exercising* – Broken valves can create unknown dead ends as well as delay critical capital and repair projects that improve water quality. Since 2001, almost \$34 million has been programmed for large valve replacement. During the same period, approximately \$8 million has been allocated for small valve replacements. We are also developing an integrated valve exercise program and database that will incorporate data with respect to valves operated under other WASA program, such as the flushing program, to minimize costs while ensuring that our investment in new valves lasts for many years. Our refined plan calls for all critical valves to be exercised at least annually, and non-critical valves every two years.
- *Water Quality Operations* – Over the last year, we have enhanced our water quality unit, filling eight positions and adding new technical capabilities. These new resources will significantly improve our water quality efforts as well as our emergency response effectiveness.

Lead Service Line Replacement Program – We made significant progress in FY 2005 on the Board's lead service line replacement program. In FY 2005 alone, we replaced over 3,900 lead service lines in public space, bringing the total number of replacements from 2003 to date to approximately 6,000. We are also encouraged by recent water test results which showed that levels of lead continue to fall since December 2004. During the first sampling semester of 2005 (January through June), we were below the EPA action level for lead. With over fifty percent of second semester samples complete, we are on track to finish this semester below the action level as well, which would bring WASA out from the provisions of the administrative order. Based on these results and other routine tests conducted by our water

quality division, it is clear that the addition of orthophosphate to the treatment process has been effective in reducing the corrosion rate of lead service lines.

Other key successes of this past year's lead program have been in public outreach and public health efforts. We have participated in over twenty community meetings on the lead issue and have distributed numerous mailings to customers. As discussed earlier in this document, we have built on our relationship with the District's Department of Health, and have retained expert public health advisors from the George Washington University School of Public Health. Finally, approximately 2,200 customers have signed up to replace their portion of the service line, and we will continue our partnerships with Wachovia Bank and the District's Department of Housing and Community Development in their programs to assist low income property owners. We will also evaluate the private lead service line replacement fee using actual cost data and present the results of this analysis to the Retail Rates Committee later this year.

This year's budget and capital improvement program provide the resources necessary to meet all provisions of the lead administrative order and the requirements of the Board. As in 2005, this year's operating budget includes 12 positions to manage and support the lead program, with positions in Engineering for design and construction management and in Customer Service for command center and other customer support. As mentioned earlier in this document, we have staffed up our Water Quality unit and added technical resources. We have budgeted the continued distribution of replacement cartridges for water filters into FY 2006, consistent with the terms of the administrative order.

A significant component of the lead program includes replacement of approximately 400 known lead service lines on multi-family buildings. This number was slightly more than anticipated, and we have prioritized our efforts to get these lines replaced in the next few months as each replacement directly impacts more people than non-multi-family replacements. An additional benefit of our lead program is that it will allow to more rapidly evaluate and repair / replace mains, hydrants, valves and other water system infrastructure while we are making lead replacements without having to return and reopen the street.

The administrative order requires that WASA provide an updated inventory of lead service lines on annual basis. To that end, WASA conducted over 1,200 test pits of service lines made of unknown materials. As presented to the Board this past summer, an extrapolation of the results preliminarily indicate that the number of lead service lines could be significantly higher than what the records in our database originally indicated. As reported to EPA in September, the revised 2001 inventory is presently over 29,000 lines, and future determination of "unknown" lines has the potential to raise this number to approximately 35,000 lead service lines. As we complete more service line replacements over the next year, we will collect more data on the composition of the "unknown" service lines, and how many of them are lead. This year's CIP reflects continuation of the Board's 2004 goal of replacing the original inventory of 23,000 lines by 2010. While we are not yet certain about the exact number of lead lines in the system, given the 2005 test pit results, we have conservatively budgeted for the replacement of up to an additional 12,000 lines to the last five years of the CIP, beginning in FY 2011. We do not believe it is logistically or operationally feasible to replace the potential 12,000 "unknown" lines prior to FY 2011, and we expect that better data on the lead inventory will be forthcoming as the program progresses over the next few years. The financial impact of this change is significant in the out-years of the CIP, with projected additional costs totaling over \$180 million (cash disbursements basis). I would note that the strong support we have

received from DDOT has been critical to our success to date, and has resulted in significant savings in the early years of the program. By coordinating our construction schedule with DDOT, we are able to avoid a significant portion of paving costs, and we have reflected these savings in the early years of the CIP. It should be noted that in the latter years of the program, this cost will likely increase as we move to areas where the “block by block” construction approach is not practical.

“Sold vs. Pumped” Ratio & Water Audit Results – Our sold vs. pumped ratio has remained steady over the last five years, ranging from 66 to 69 percent. Unlike many other utilities, this ratio is calculated on a “raw” basis – it is not modified to reflect normal uses of water for activities such as firefighting, street cleaning, and system maintenance activities (including flushing and cleaning and lining). Over the next year, we will calculate or estimate the amount of water used for these purposes, taking into account the results of the various water programs we have underway, including the flushing program, among others, as well as the water audit we completed in 2002. Our AMR program is reaching conclusion; at the end of FY 2005, approximately 117,000 meters were installed, and we had billed approximately 73 percent of FY 2005 revenues through new AMR meters. The remaining meters are generally difficult to install as they are indoors or on properties where access is difficult (particularly federal properties), and we are in the process of retaining another contractor to complete these installations. We experienced an increase in billed commercial consumption in FY 2005, a portion of which we believe is attributable to new meters, and we are projecting a five percent increase in billed consumption for the remaining large commercial and federal meters to be installed over then next one to two years. As part of the second phase of our customer service reorganization and IIP, we will be adding an inspections function, staffed with two employees, whose sole job will be to continually canvass the District, ensuring that all new construction and redevelopment activities are metered and billed and to investigate aberrations in consumption by large customers. In addition, we are in the process of strengthening our theft of service program, with a particular focus on illegal hydrant usage as well as unauthorized connections. This program is also a significant issue for safety and security purposes, as well as financial, as illegal usage can affect system water quality and fireflows.

Georgetown Project – Over the past four years, we have participated in the cooperative efforts among the District of Columbia, Pepco, Verizon and Washington Gas in upgrading the underground infrastructure as part of the Georgetown Project. This award-winning project was completed in 2005 at a total cost of over \$4 million, within budget. Our role in this project included replacement of certain sections of older water mains, replacement of large internal joint seals and valves, elimination of over twenty cross connections, and replacement of several defective sewer laterals.

Water Services Organization – Distribution System – We continue to fine-tune the organization structure of our distribution branch, and are splitting it into two separate divisions: 1) a distribution branch which will focus on preventive system maintenance; and 2) an investigations & operations branch which will focus on responding to customer service calls and emergency work. We are also adding eight positions to this area to improve preventive maintenance system-wide. Flushing functions will be merged with other distribution functions, with more cross-training so that we can more quickly and efficiently respond to customer calls and perform scheduled maintenance.

Improvements to Anacostia Water Service – We developed a detailed facilities plan to improve water pressure and service reliability east of the Anacostia River. The first phase included rehabilitation of the Anacostia water tanks No. 1 and No. 2 and the Ft. Stanton underground

reservoirs No. 1 and 2. The next water storage project to benefit the area east of the Anacostia River is construction of an elevated tank at St. Elizabeth's Hospital, which will improve water pressure in the southern portion of the service area. Construction is scheduled to be complete in 2008, assuming zoning approvals are obtained. The new elevated storage tank is dependent on several other projects before it can be put in service. We are close to completing a \$2.8 million replacement of a twenty-inch water main along Martin Luther King Boulevard and a \$1.6 million 12-inch main along Livingston Road. In addition, nearly 15,000 feet of additional 20, 24 and 30-inch mains are under design and scheduled to start construction in 2006 at a budgeted cost of \$14.6 million. Finally, we will also be evaluating rehabilitation of small water mains in this area.

Another major element designed to improve the water pressure in the Anacostia area is the replacement of the 1913 vintage Anacostia Pumping Station at its current site. Construction is scheduled to be complete in 2008 at a budgeted cost of \$24 million. As part of this project, we are making special outreach efforts to customers to keep them informed of project progress and the impact the project has on their daily water service. While we are making these improvements in Anacostia, we will also complete lead service line replacements so that neighborhood disruption is minimized.

As part of these projects, we held numerous community meetings to keep customers advised of our activities and impact on their service.

Wise Water Use –“Wise Water Use” will be an area of renewed focus in FY 2006 with our goal to provide a customer-oriented program, focusing on daily activities customers can undertake to conserve water. Over the last year, we continued to provide water audits for both large and small customers, and have participated in various community events where we have given talks on conservation and distributed conservation materials. Our largest outreach effort was the recent Joint Utility Discount Day at the Washington Convention Center. WASA staff presented daylong demonstrations of household conservation practices and distribute conservation materials and water saving devices to approximately 7,000 District of Columbia residents who attended this event. In addition, we began sponsorship and participation in a regional water conservation campaign, *Water – Use It Wisely*.

Fire Hydrants -- Maintenance of the approximate 9,000 fire hydrants in the District is one of our most critical water distribution system functions. Since 1997, we have succeeded in improving the number of hydrants in operation. We have begun an assessment of the condition of all fire hydrants in the system, which will provide good baseline data so that we can improve our preventive maintenance program and better define replacement needs. This effort is scheduled to be complete over the next two years.

SEWER SYSTEM INITIATIVES

Combined Sewer Overflow Long-Term Control Plan (CSO LTCP) – In December 2004, we reached agreement with the environmental plaintiffs, the U.S. Environmental Protection Agency, and the U.S. Department of Justice on the CSO Long-Term Control Plan, a major milestone in WASA and the District's history. This agreement has been formalized in a judicial consent decree entered by the U.S. District Court in March 2005. The agreement calls for WASA to complete the LTCP over a twenty-year period.

The benefits of our twenty-year plan are significant -- when fully implemented, combined sewer overflows will be reduced by a projected 96 percent (98 percent on the Anacostia River), resulting in improved water quality and a significant reduction in debris on our national capital's waterways. In addition, our clean-up efforts on the Anacostia River are a key cornerstone of the District's plan to redevelop both sides of the river, including the new baseball stadium, retail development and affordable housing among other projects.

The \$1.9 billion plan includes a variety of improvements throughout the District:

- Three large storage tunnels, which will allow the storage of flows from storm events until they can be conveyed to Blue Plains for treatment
- Pumping station improvements
- Targeted separation of combined sewers in several sections of the District that include areas in Anacostia
- Consolidation and elimination of 14 of 59 outfalls, including 4 outfalls on the Anacostia River
- Funds for low impact development (LID) at WASA facilities and to encourage LID across the District

We made great progress on our plan over the last two years. We are well underway with completion of approximately \$140 million of projects that were included in the settlement of a lawsuit against WASA regarding implementation of the federal CSO Nine Minimum Controls program. These projects, which were previously budgeted and planned by WASA prior to the lawsuit, are projected to reduce combined sewer overflows by 40 percent. The completion in 2004 of twelve inflatable dams resulted in a 24 percent reduction in overflows. We are in design or construction on the rehabilitation of our major pumping stations to increase their capacity, with work scheduled to be complete in 2008. We are also underway with engineering to separate additional combined sewer areas in Anacostia and Rock Creek. Additionally, we are completing studies to add LID at several WASA facilities.

We recently began our Anacostia facilities planning efforts, including the retention of an engineering firm that will begin looking at tunnel alignment, and will begin geotechnical investigations and making borings to obtain information on underground soil conditions. This effort is projected to take three years. Successful implementation of this plan will require coordination with District and federal agencies, as well as community groups in the affected neighborhoods. Our three-year facilities plan includes a strategy to coordinate with the appropriate parties on right of way and permitting requirements, waterfront development efforts, and neighborhood issues.

The potential impact of the CSO LTCP on rates is great – if no additional federal assistance is provided, the typical residential customer's monthly wastewater bill will increase from \$26 to almost \$110 at the end of the twenty year plan, an increase of over 300 percent. Due to the efforts of a wide variety of WASA stakeholders, we have received over \$80 million in special CSO appropriations and we will continue to urge the federal government to provide additional financing for this vital project in the District.

At the direction of the Retail Rates Committee, we have been evaluating various rate structure options for recovery of CSO LTCP costs, including land-based and impervious surface-based fees, as well as varying rates for different parts of the District and by customer class. Later this fall, we will be providing the Retail Rates Committee with a projected timeline on the options that the Committee has expressed

interest in pursuing. This timeline will include schedules for completion of data analysis, public outreach, and implementation activities such as field work (if necessary) and customer information system changes.

Stormwater System and Management – We have been engaged in extensive discussions with the District over the last two years regarding how responsibilities for a variety of stormwater-related functions are divided among District agencies. Our most significant role in stormwater management is serving as administrator of the District's Stormwater Compliance Enterprise Fund, which includes coordination of work among the District's Departments of Health, Transportation and Public Works to ensure compliance with the District's stormwater permit. The Board's special committee on governance issues is evaluating whether WASA should seek to transfer this responsibility back to the District. A key concern is that WASA lacks the legal authority to require other District agencies to comply with the District's NPDES permit, including assuring that agencies appropriately budget, staff and perform permit-required activities. The District is considering establishing a cabinet-level Department of the Environment, and it has been WASA's position that stormwater functions, including regulatory compliance efforts, should be transferred to this new organization.

While these discussions continue, the stormwater taskforce is moving ahead with implementation of the District's five-year stormwater permit, issued by the EPA in August 2004 but is being challenged by environmental groups. In 2005, implementation plans for the Anacostia and Rock Creek watersheds were completed. These implementation plans include a variety of new tasks that are intended to directly reduce pollution, including additional stormwater facilities, deployment of a new generation of street sweepers, construction of a salt-truck washing facility and a pilot project for intensive catch basin cleaning. The addition of these new tasks has a direct result on the stormwater enterprise fund budget, which increases from \$3.7 million in FY 2005 to \$6.7 million in FY 2006 and \$7.0 million in FY 2007.

The increased implementation costs will require a corresponding increase in the District's stormwater rate, which is set by Council but appears on WASA's water and sewer bill as a separate line item. This rate will need to approximately double by FY 2007 to cover these cuts; because District agencies have underspent their budgets in prior years, the fund has sufficient balances to fund increased permit compliance costs through FY 2006. Over the next year, we will work closely with Council and participating District agencies in their efforts to increase this fee, building upon our work over the past three years. In July 2003, as required by the District's stormwater legislation, we completed an initial evaluation of potential impervious-surface based rate structures for stormwater cost recovery and forwarded this to City Council in July 2003. As part of our work on the CSO LTCP rate structure, we have been evaluating a number of options that are relevant to the District's stormwater rate and will use this analysis to develop rate increase proposals for the District's consideration. In the interim, it is anticipated that any incremental requirements of WASA due to the new permit will be fully paid from proceeds of the stormwater fee or other outside sources, in line with the provisions of the MOU with the District.

WASA already performs a number of stormwater management activities that are not funded by the stormwater fee, including catch basin cleaning in areas served by separate sewers, cleaning lateral drainage channels, and maintaining stormwater pumping stations, amounting to approximately \$3 to \$4 million annually. Over the last year, we have been discussing two specific issues with the District: 1) transferring the maintenance of stormwater pumping stations back to the District and 2) responsibility for catch basin maintenance along federal thoroughfares, which previously had been performed by a District / federal contractor. While no change in existing responsibilities will occur

in FY 2006, we will continue discussions with the District for changes in FY 2007 or FY 2008. We project that the incremental cost of taking on catch basin maintenance on federal roads ranges from \$0.1 million to \$0.2 million annually, plus \$0.4 million in one-time new equipment costs.

Our capital improvement program includes \$17 million (disbursements basis) for improvements to the separate stormwater collection system. Our CIP does not include stormwater pumping station rehabilitation costs, assuming that these are taken over by the District or ultimately funded from the Stormwater Enterprise Fund.

Other Sewer System Initiatives - Our focus continues on day-to-day preventive maintenance on our wastewater collection system, including completion of the following critical tasks:

- Cleaned over 28,500 catch basins in FY 2005, exceeding our target of 25,000
- Cleaned approximately 97 miles of sewer lines
- Repaired or replaced approximately 300 sewer laterals
- Collected close to 400 tons of floatable debris from the Anacostia and Potomac Rivers

Fiscal year 2005 included a number of accomplishments in the wastewater collection system:

- **Eastside Pumping Station** – In September 2004, we broke ground on the construction of this new 45 MGD sewer pumping station. This new pumping station is part of the EarthJustice consent decree.
- **New tide gates** – In FY 2004, we installed four new tide gates which are projected to reduce extraneous flows into the system. In FY 2005, we plan to begin design on an additional five gates, with construction currently anticipated to be complete in 2008.
- **Inspection of outfall sewers** -- In FY 2005, we will complete inspection of the four large diameters sewers that convey almost all of the District's sanitary and combined wastewater flow to Blue Plains. This effort involves specialty sonar and CCTV camera equipment.
- **Potomac Interceptor improvements** -- We completed improvements to the Potomac Interceptor to address odor complaints on an interim basis, and completion of final design of permanent odor control improvements is scheduled for FY 2006, with construction scheduled to begin thereafter. The costs of this project have increased substantially due to larger equipment needed to control odors, high architectural costs related to historical preservation requirements of the National Park Service, and difficult construction locations. In addition to the odor control improvements, we are in the process of designing significant structural improvements to two large pipe segments of the Potomac Interceptor in Fairfax and Loudoun Counties. The project will be bid in FY 2006, with completion of construction currently anticipated in late 2008.
- **Anacostia sewer improvements** – Over the next eighteen months, we will complete a \$4 million project to inspect and clean the Anacostia Main Interceptor which will substantially reduce localized flooding near Nannie Helen Burroughs and Minnesota Avenues.

In addition to these daily activities, we began our comprehensive assessment of the sewer system in FY 2003 and expect that it will be completed in FY 2007. The CIP contains funding for various priority sewer rehabilitation projects across the District that may be discovered during inspections in the sewer system assessment program, as well as a continued base level of funding pending the results of this assessment.

BLUE PLAINS INITIATIVES

Blue Plains Permit Renewal -- In January 2003, we received a new NPDES permit for Blue Plains from the EPA. WASA has appealed certain portions of the permit related to the CSO LTCP, but further action was put on hold by EPA until early 2006 as WASA responds to certain technical and legal issues raised by EPA and as both parties evaluate the impact of Chesapeake Bay Program changes regarding enhanced biological nutrient removal and the potential impact on Blue Plains. (See discussion under "Emerging Issues" below.) We remain in compliance with all portions of the permit that have not been appealed.

NACWA Awards -- For the last five years, we have received either the silver or gold award from the National Association of Clean Water Agencies (formerly the Association of Metropolitan Sewerage Agencies) for complete and consistent compliance with our permit.

New Digesters & Biosolids Management -- We are continuing implementation of our Biosolids Management Program, originally adopted by the Board in 1999. This plan, which included input from our neighbors, environmental groups, and other stakeholders, evaluated a number of options for long-term biosolids processing and disposal, and identified full biosolids digestion as a common element of all long-term approaches and continuing land application as long as financially advantageous. The total cost of this plan is close to \$540 million, including the new egg-shaped digesters as well as a variety of ancillary projects, including portions of the process computer control system, additional dewatering facilities, etc.

The digester project is the single largest plant project ever undertaken by WASA. Over the last two years, we have been engaged in final design, construction management review, and site visits to other Class A digestion projects. As a result of these efforts, we found that the program manager had underestimated the construction schedule by approximately eighteen months. Coupled with design and other delays, the overall project schedule has been extended by approximately 34 months. In addition, steel and concrete prices have risen significantly over the last two years. As previously discussed with the Environmental Quality & Operations Committee, the result of these schedule and inflation assumption changes is that the proposed project budget has increased by \$46 million to \$354 million. However, due to the increasing costs of energy the project continues to be financially attractive as well as providing a significant hedge against increased regulation of biosolids disposal.

The contract for the construction of foundations, digester vessels and silos is currently on the street, with bids expected in late November. This contract contains an extensive amount of steel and / or concrete, and because of the price volatility of these materials, is the highest risk portion of the project budget. The proposed budget includes an approximate \$25 million increase due to steel and concrete inflation; if

bids come in lower than budget, we will brief the Board and potentially revise the project budget request. The second construction for mechanical, electrical and process facilities will be bid in summer 2006.

We are evaluating other ways to save costs, including a “shared savings” or partnering approach with the contractor, whereby any savings due to favorable design, construction or schedule changes that are developed by the contractor are shared with the contractor. We have undertaken a major outreach effort to encourage LDSBE participation in the project.

We also continue our outreach efforts to the end user communities of our biosolids product, primarily farms, forest land, and mine reclamation projects in Virginia. We have undertaken an innovative project at the Stafford County Airport for utilization of biosolids in generating ground cover in a previously non-productive area, and are applying biosolids to titanium mine sites in Dinwiddie County. We are also working to encourage the District government to utilize biosolids for fertilization of trees. We received a general permit for land application of biosolids from the Pennsylvania Department of Environmental Protection and are working with the State of West Virginia at a mine site, providing additional opportunities for cost-effective reuse of biosolids. We have also participated in a number of research projects related to biosolids utilization and odor control, which are described in more detail later in this document. We are closely monitoring the status of legislation in Virginia relating to land application for biosolids, as well as actively participating in the work of national organizations addressing technical issues related to beneficial reuse of biosolids. For example, through our research, we are helping provide information to Virginia, which is considering regulations that may limit nitrogen applications during winter months. Additionally, DCWASA has gained certification from the National Biosolids Partnership (WEF, EPA, AMSA) recognizing a program that goes beyond mere regulatory compliance. DCWASA was the third organization certified nationally, and the first on the east coast. In addition, WASA will receive an EPA award for large operating systems operations excellence (first place) later this month for its biosolids reuse program. The award recognizes excellence in operations, diversity, research, and outreach.

Energy Management – Electricity costs represent a significant portion of WASA’s operating budget, budgeted at \$24 million in FY 2006 out of our \$290 million operating budget. Prices have risen significantly over the last year, due to a combination of factors including deregulation in the District, record high oil prices, Hurricane Katrina, record global demand for power and oil, and regional transmission and grid changes.

In 2005, we entered into our first electricity contract for generation services in the deregulated environment. Under this contract, which expires in January 2006, we locked in pricing for approximately 23 percent of total generation charges and variable pricing based on market rates for the remaining 77 percent.

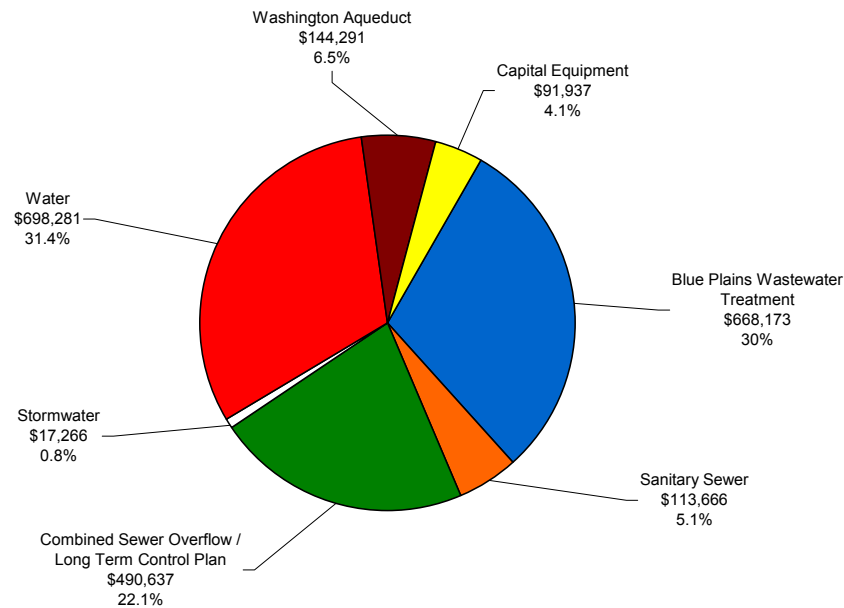
Subsequently, in summer 2005, WASA entered into a successor five-year contract for generation that allows WASA to lock in blocks of power at a fixed price when futures pricing meets budget targets. To the degree that WASA does not lock in blocks, pricing will be established each day at market rates with direct pass-through of all costs. The contract includes an enhanced process for block power purchases that gives WASA access to the wholesale market and provides more transparency in reviewing the bids from wholesalers.

Because of the significant financial impact and the operational importance of this issue, we added a new position last year to focus exclusively on energy management, including ongoing electricity procurements.

CAPITAL IMPROVEMENT PROGRAM

This year's ten-year capital improvement program (CIP) totals \$2.2 billion (cash disbursements basis), approximately \$100 million more than last year's plan, due primarily to the extension of the lead service line replacement program through 2014. The following chart shows the breakdown of CIP projects by type. Additional details on the major projects in the CIP are included in Section 5 of this document as well as in the separate CIP budget document.

FY 2005 – 2014 CAPITAL IMPROVEMENT PROGRAM
(In 000's)



EMERGING ISSUES

We closely monitor emerging issues, including regulatory and development-related issues, to gauge their impact on our operations, the capital improvement program and the impact on our ratepayers. We also look beyond our current ten-year plan for projects or operational changes that may be necessary to ensure reliable service to our customers.

Anacostia Waterfront Development & New Baseball Stadium – We are actively engaged with the District and the Anacostia Waterfront Development Corporation in their efforts to build the new Major League Baseball stadium and redevelopment of the Anacostia waterfront. WASA's sewer service and fleet operations, with over 150 employees and contractors and a significant portion of our 570-piece vehicle fleet, are headquartered at Main and O Streets, directly across from the location of the new stadium. Over the next few months, we will be evaluating the potential relocation of these facilities to other WASA facilities across the District. We have included planning funds in this year's CIP to begin these efforts, and additional funding requests will be included in next year's budget when plans are finalized. As we evaluate these options, we will work to ensure that this property is put to its highest and best use and our ratepayers appropriately share in the revenue benefits. I would note that we have already taken action to locate screening facilities inside the pumping station and are working on façade improvements, in support of the development effort.

Chesapeake Bay Agreement changes – The 1987 Chesapeake Bay Agreement called for a 40 percent voluntary nitrogen reduction by its signatories by 2000. The District of Columbia was the first signatory in the region to meet this voluntary commitment due to significant improvements by WASA at Blue Plains. The EPA Chesapeake Bay Program is currently in the process of setting new nutrient limits for all jurisdictions, and making these limits mandatory instead of voluntary by including these requirements in NPDES permits. If these new targets are implemented, WASA could be required to invest an estimated \$500 to \$820 million in capital improvements at Blue Plains. While there are indications of how EPA plans to set and permit nitrogen discharges, the final method of permitting is still under discussion. Staff is currently working with EPA and other stakeholders to investigate methods to minimize the potential costs associated with various levels of treatment that may be required.

Egg-Shaped Digester Permitting – WASA has obtained all permits required to begin construction of the new digester facility with the exception of the air quality permit. A draft permit was recently published in the D.C. Register for a thirty-day period. Based on the nature and volume of comments received during this period, a public hearing or additional review may be required. Approval of this permit will move Blue Plains to a major source category under existing District regulations that set a twenty-five tons per year threshold for nitrogen oxide emissions, conforming to outdated EPA requirements. In 2005, EPA moved this threshold to 100 tons per year in order. However, in order for Blue Plains to qualify under the 100 ton threshold, the District's Department of Health will have to revise their State Implementation Plan to incorporate the higher limit. WASA is pursuing this with the District so that WASA can apply for an operating permit as a minor source in the future. Because of the positive environmental benefits associated with the digesters, it is anticipated that the air quality permit for construction will be issued prior to award of the first digester construction contract.

Washington Aqueduct – Currently, solids that settle out from water at the Dalecarlia Treatment Plant and Georgetown Reservoir are periodically discharged to the Potomac River during high river flow conditions. Under the Aqueduct's NPDES permit and a related Federal Facilities Compliance Agreement, the Aqueduct is required to remove 85 percent of incoming sediments and not return them to the Potomac River. The Aqueduct has developed a proposed plan to build new dewatering facilities on site at its Dalecarlia treatment plant, and truck the dewatered sediments to land application sites. This proposed plan is currently going through the environmental impact statement process, which is scheduled to be finished later this fall. Construction is scheduled to start in late FY 2007, with completion in 2009.

The projected cost of these facilities is significant, with current estimates ranging from \$90 million to \$117 million (all customers' share), a significant increase from last year to rising steel and concrete prices, revised Aqueduct engineering estimates, and higher contingencies. We have included in our CIP a "mid-range" estimate of these costs, totaling WASA's share of \$95 million, a significant increase over the Aqueduct's prior year estimate of \$66.5 million and what we had previously budgeted. WASA and its partners in Northern Virginia have been actively involved in reviewing this budget increase and will be participating in the review of design and construction bid documents and contractor selection. As discussed earlier in this document, we are working with the Corps and other federal agencies on financing alternatives for this project, particularly in light of its size.

Land Application of Biosolids – Currently, the majority of biosolids generated at Blue Plains are land applied at farms in Virginia. In late FY 2003, the Commonwealth of Virginia adopted legislation allowing Virginia counties to impose a fee for biosolids land applied in the state. This annual cost of this fee, if fully implemented by all eligible Virginia counties, is projected at \$300,000. In addition, we continue to monitor other pending regulatory changes in Virginia that could limit our ability to land apply this product. In line with the Board's strategic goal of developing a state-of-the-art biosolids management program, we are pursuing a number of other alternative recycling solutions including geographical diversification to West Virginia and Pennsylvania, use of biosolids in silviculture, mine reclamation and site restoration and are also supporting research efforts that could help spur the use of biosolids as a product.

Sanitary Sewer Overflows & CMOM – The EPA is developing a sanitary sewer overflow (SSO) policy to regulate overflows of the sanitary sewer system, including dry weather overflows. A component of this policy is the development of minimum capacity, management, operation, and maintenance standards (CMOM) that potentially could be incorporated into NPDES permits. We are currently evaluating the proposed policy and potential impacts on WASA as part of our overall sewer system assessment.

Sewer System Assessment – In FY 2003, we initiated our first comprehensive assessment of the sewer system. While we have included limited funding in the CIP (approximately \$3-5 million annually), the results of this study, projected to be complete in FY 2007, will allow us to identify specific projects and a spending plan for improvements to the sewer system. It is anticipated that sewer system rehabilitation will require an increasing level of future investment.

Applied Research

WASA continues its industry-leading role on wastewater and biosolids management research projects. The FY 2006 & FY 2007 operating and capital budgets include funding for the following significant research efforts:

- Through our sponsorship of the Water Environment Research Foundation, WASA is participating in thirteen projects, including disinfection, solids processing technologies, biosolids management, plant automation and plant security. WASA's General Manager serves on WERF's Board of Directors, and WASA staff serves on project advisory committees addressing health and safety and management issues.
- In cooperation with other utilities in Maryland and Virginia, WASA is funding follow-up work for a major project involving the mobility of phosphorus from biosolids to the aquatic environment. This research is being conducted by the University of Delaware, Virginia Tech, the University of Maryland, and Penn State University.
- WASA is sponsoring research with Virginia Tech and Bucknell University to quantify the effects of biosolids addition on crop production and drought resistance. Researchers believe that the microbes in the biosolids breakdown the organic matter and release essential plant hormones that help plants get through stressful conditions (such as drought). This work began with greenhouse trials, and will continue with trials using customized biosolids with known quantities of certain essential plant hormones.
- Blue Plains is sponsoring research to determine the optimum application rate for forest application sites. This work is being done in conjunction with the Virginia Department of Forestry.
- Work continues at the ERCO tree farm to research the movement (or lack thereof) of nitrogen below the trenched biosolids. Thus far, no nutrients have been seen moving out of the trenches, and it appears as if all the nutrients are being used by the trees. In addition, staff is working with researchers at Virginia Tech to establish a plot of trees in trenches on a titanium mine in Dinwiddie County.
- WASA is supporting joint research by the University of Maryland and the United States Department of Agriculture to assess odors associated with land application of lime-stabilized biosolids and to produce a mathematical model for predicting and preventing odorous biosolids based on plant process data.
- In cooperation with Virginia Tech, WASA is sponsoring research on soil reclamation through the application of biosolids, with demonstration of alternative techniques in Stafford County, Virginia, as well as studies to look at why biosolids help farmers through stressful environmental conditions, and how proposed nutrient regulations will affect our ability to land apply in the winter.
- Through our participation with the Mid-Atlantic Biosolids Association, we are supporting funding to look at optimizing digester design in order to minimize odor.



- WASA is continuing a partnership with Howard University, College of Engineering, Architecture and Computer Sciences to develop a wastewater technologies center, initially focusing on the application of membrane and filtration processes to improve wastewater treatment efficiency.
- Through the Washington Aqueduct, WASA provides support to the American Water Works Association Research Foundation, a national collaborative research effort involving over 1,000 utilities and other supporters around the world. Research projects address drinking water quality, operation and maintenance methods, health effects, and management issues. WASA is actively participating as a sponsoring utility on projects relating to condition assessment of valves and other assets, continuity of system operations and environmental impacts of discharges of treated water during maintenance activities.

INTERNAL IMPROVEMENT PLANS

We continue our organization-wide focus on improving service and reducing costs, where possible, to our customers through the implementation of Internal Improvement Plans (IIP). Specific plans have been developed and are in the process of being implemented for our largest departments with details for each department discussed in more detail below.

The impact of our efforts to date can be demonstrated by bottom-line results. Total staffing through FY 2007 has been reduced by 394 positions since the Congressionally-approved FY 1998 budget was adopted, a reduction of 26 percent. Even with these position reductions, WASA's service performance has improved across the organization.

It has been almost six years since we evaluated our progress on the largest of these plans, the Blue Plains IIP. In FY 2006, we will complete a review of the original IIP, evaluating progress on capital projects that were critical to achieving cost savings, and success in our training and other work rule changes.

Blue Plains – Wastewater Treatment & Maintenance Services

The Blue Plains IIP, which was presented to the Board in March 2000, projected total position reductions of 228 at Blue Plains and annual cost savings of \$23 to \$24 million when fully implemented, with approximately half of the savings to be achieved due to new capital projects. In addition to WASA personnel reductions, the plan called for reducing the number of contractor full time equivalents at the plant from 166 to 36. The results to date have been significant – by the end of FY 2007 we will have reduced a total of 160 positions since FY 2000, and at the same time, plant performance has improved and our regulatory requirements have been surpassed. We have also experienced some reductions in contractual services in Maintenance Services, with the phasing out of small and medium process equipment maintenance, certain electrical maintenance functions, and chlorination / dechlorination maintenance as the new alternate disinfection facilities were brought on line. Similarly, in FY 2005, Wastewater Treatment phased out contract dewatering services as the new additional dewatering facilities and centrifuges were completed. Future reductions are in part contingent on the completion of a variety of capital projects, a number of which are underway including:

- grit and screens rehabilitation – underway with completion projected for FY 2006. We are evaluating the impact that the recent fire had on these facilities and on the current construction schedule.
- process computer control system – underway with construction completed in phases beginning in FY 2004 and continuing through FY 2010
- new digesters – initial construction contract to be awarded in FY 2006

It is important to note that some of these projects will result in increased operating costs (e.g., chemical costs for alternate disinfection).

We have also undertaken a number of management initiatives to help us meet our IIP goals at Blue Plains, including a focus on cross-training for various positions and operator certification programs. We have also incorporated new work rules changes into our collective bargaining agreement and will continue to make progress in this area as part of the ongoing negotiation and mediation. Finally, the introduction of new technology (including the maintenance management system and the process computer control system) will result in significant streamlining of our operations.

Customer Service

We successfully completed the first phase of the Customer Service IIP, which included a major reorganization of our call center, billing and collections operations and a substantial investment in training for existing and new employees. The reorganization and related training resulted in a reduction of 15 positions in FY 2002. The second and final phase of our Customer Service IIP began in FY 2003 in conjunction with implementation of our new AMR technology, which eliminates the need for manual meter reading. In FY 2003, we designed and in FY 2004 we completed the reorganization of our customer service meter operations. We restructured our entire meter operation, including revisions of job descriptions, to reflect new work processes required to fully capitalize on the new technology's capabilities. While we know a number of existing positions will no longer be needed, we added several new roles to better address unauthorized use of water, focusing on fire hydrant hook-ups and ensuring that all new construction and renovations are properly metered. In FY 2004, we began operation of our consolidated command center, which provides customers a single point of contact for all of their questions. The development of the command center was done at no additional operating cost; thirteen existing positions were transferred from Water and Sewer Services to Customer Service to staff this effort.

Water & Sewer Services

In FY 2002, we completed an initial evaluation of our Water Services and Sewer Services operations. This analysis identified "benchmark" staffing levels approximately equal to the number of currently filled positions. It also outlined opportunities for cross-functional sharing of resources during peak service demand periods (specifically during winter months to deal with water main breaks and support needed for the capital improvement program), and appropriate levels of equipment and parts to be provided to field crews. Since FY 2001, we have

reduced 48 positions from these areas, based on implementation of improved work methods suggested by the plan. We completed the first phase of an enhanced training program for employees in these departments in FY 2003, with ongoing training continuing since then.

Within these revised position levels, the Water Services function has created a new technical services support branch which includes staffing dedicated to CIP management and coordination (including valve operation and testing) and other project management services for new projects such as the asset management system and management of WASA's water conservation program. Finally, in FY 2006, we will complete a reorganization of our distribution branch, splitting it into two units, one focused on scheduled maintenance, and another primarily on customer service calls.

INFORMATION TECHNOLOGY

Our efforts in Information Technology over the past few years have been focused on implementing the Board-approved Information Technology Strategic Plan, developed in FY 2002. This plan lays out a vision for the delivery of IT services at WASA, including a recommended methodology for prioritization of projects (which includes an assessment of cost savings and productivity growth), suggested security and infrastructure improvements, and other organizational enhancements. We will complete an update of this plan in FY 2006.

All of our IT projects are focused on improving service to our customers, whether directly or indirectly. A major success has been our website, www.dcwasa.com. In FY 2005, we launched a redesign of the site, which, in addition to a new user interface that allows customers to more easily and quickly find information, included two new sections: 1) DCWASA.com For Kids, which provides information to school-aged children regarding water usage and conservation; and 2) a Work Zones section that will provide customers with updated information on work in their neighborhood. We recently went live with an enhanced interactive voice response system (IVR), enabling customers to access many services outside of normal business hours, and provides speech recognition capabilities and multi-lingual support.

One of the key IT strategic plan priorities is to better integrate information technology into our operations, including ensuring that operations-related projects are consistent with the IT strategic plan's goals, are developed in accordance with our existing IT infrastructure and functionality, and are collaboratively managed by Information Technology, Engineering and user departments. A few key examples of this effort that are already underway or will begin in the next few years are:

- *Process computer control system* – this project is critical to accomplishing the goals of the Blue Plains IIP.
- *Asset management for WASA's water and sewer systems* – as discussed earlier, this system, which will integrate our existing customer information, maintenance management, PCCS / SCADA, and other systems, will help us better manage our infrastructure, particularly in the water and sewer systems. It will allow us to better track specific asset performance and related repairs, and perform more preventative maintenance. The first phase will go live for Water Services and Customer Service in early FY 2006, with the second phase scheduled for later in the fiscal year.

Other challenges that we have addressed in these budgets over the next few years include the transition of a number of projects from the project development stage to mature, in-house supported projects. Since FY 2000, we have implemented four major systems, including a new payroll / human resources information system, a new financial system, a new maintenance management system, and a new customer information and billing system. All of these systems require both ongoing upgrades and support. We are also focused on ensuring the safety of our information technology infrastructure and systems, and are making improvements to our firewalls and other security systems and other “cyber-security” improvements. We have developed a business continuity / data redundancy plan for all of our systems which we will be implementing over the next 2-3 years, and through the innovative application service provider (ASP) solution employed for the new customer information system, have already met this objective for this mission-critical system.

Other major priorities over the next two years include the development of a new document management system and an upgrade to our existing telephone system, which was initially installed just after WASA was formed. As part of the strategic planning process, we will also be developing a wireless strategy for WASA.

Fleet Management

The combination of significant capital investment and a solid preventive maintenance program have yielded strong results in the key performance measure for our fleet operation – the vehicles in our fleet are in service over 99.5 percent of the time. This has also resulted in operating costs that have increased at a rate less than inflation. We plan to continue this capital investment in our fleet, with over \$10 million budgeted over the next ten years, keeping us on a roughly five year replacement schedule for approximately 75 percent of our fleet, with the remaining 25 percent to be replaced as needed, depending on age, mileage, condition, and type of vehicle. Our replacement plans are reevaluated in light of the organizational changes laid out by the IIP as well as the cost-benefit of each individual vehicle replacement.

Major activities over the next two years include the resolicitation of our existing vehicle maintenance and parts contracts, which expire in mid-2006. In addition, we will be evaluating our fleet facilities’ needs in light of the new baseball stadium and District redevelopment efforts along the Anacostia, where our fleet operations are currently headquartered.

Facilities

Over the next two years, our Facilities’ efforts will focus on continued renovations of the Central Operations Facility (COF) and other Blue Plains buildings. At COF, we will complete the restroom renovations, begin renovations of the second and fifth floors, and begin an overhaul of the HVAC system. We will also be designing a new entrance to the COF and beginning construction of a permanent entrance to Blue Plains.

Facilities will be actively involved with the planning efforts for the potential relocation of our fleet and sewer services operations from Main & O Streets due to the new baseball stadium and riverfront development efforts. This will include an assessment of Authority-wide needs based on current and projected staffing, work processes, and other components.

Procurement

A major emphasis in our procurement operations over the next two years will be a review of our existing procurement regulations, which were initially adopted in 1999. A cross-departmental working group will lead this effort, looking at our Business Development Plan as well as policies and procedures. In support of our Business Development Plan, we currently project that we will end the year in the range of 48 to 52 percent of all operating discretionary spending with local, small and disadvantaged businesses (LDSBE) firms. In addition, we project that over 80 percent of discretionary capital spending under EPA rules will go to minority business-owned or women-owned business enterprises, with the majority of lead service line replacement contracts awarded to local firms. We have undertaken a major outreach effort to encourage LDSBE participation in our \$354 million digester project.

STRATEGIC GOAL AREA – ORGANIZATIONAL EFFECTIVENESS

GOVERNANCE STUDY

In 2005, the Board created a special ad hoc committee to reexamine the issue of WASA's governance. This study is a follow-up to an initial study that was completed in December 2000; the Authority's enabling legislation required that it conduct a regionalization study to "determine the feasibility of establishing the Authority as an independent regional authority and to make recommendations for the ongoing relationship of user jurisdictions to the Authority." The conclusion of the 2000 study was that the Authority's then-current structure should be retained, but that the Board should revisit this issue no later than 2005.

The Governance Committee has engaged a multi-disciplinary consulting team to examine a variety of issues, including effectiveness of the Board and its current structure and better integration of water treatment and distribution functions in the District of Columbia. The consulting team has interviewed a wide variety of stakeholders in the District and across the region, and is scheduled to present its conclusions to the Board later this year.

EMPLOYEES & HUMAN RESOURCES

Our employees are our most valuable asset and are key to accomplishing our mission and the Board's strategic goals. Over the last six years, we have developed a focused human resources department and comprehensive program to support all of our employees, and provide organization-wide leadership in training, labor relations, and performance management. We have also given our managers the training and tools to lead their departments and employees.

Labor Relations & Collective Bargaining Agreement – After conducting periodic negotiations over the last two years for a successor Master Collective Bargaining Agreement (the Master Collective Bargaining Agreement expired on September 30, 2003), WASA and its unions were unable to reach agreement and are at an impasse. The negotiating process has been lengthened by a number of events, including a PERB ruling that provides for individual agreements with each of the five unions on working conditions (compensation and benefits are negotiated as one unit). In addition, negotiations were terminated for several months due to a dispute among union officials over who would be the unions' chief negotiator. We are optimistic that either through mediation or arbitration we will successfully reach an agreement that provides fair compensation to our employees and that helps WASA meet the organizational challenges it faces over the next few years.

Personnel Policies & Procedures – In FY 2006, we will undertake a review of our existing policies, initially implemented in WASA's first years as a separate organization from the District.

Labor-Management Partnerships – WASA is an active participant in the Mayor's Labor-Management Partnership initiatives, and we have initiated our own labor-management partnership that holds monthly meetings on a variety of issues. Currently, there are departmental labor-management partnerships in Maintenance Services, Sewer Services and Facilities and Security.

Performance Management - During FY 2005, a web-based performance management system implemented the union and non-union performance management programs. All supervisors, managers and directors received training on the new system and all of its features. The new system streamlines the performance management process and will enhance the quality of the performance evaluations with the writing assistant and legal scan supervisory tools.

Employee Benefits – Over the last two years, WASA has introduced several new employee benefits:

- *Total Rewards Statements* – during FY 2005, WASA began issuing statements capturing total compensation (including pay and all categories of benefits) provided to each employee by WASA. This statement, which is based on the calendar year, will be issued annually.
- *Wellness program* – this program includes seminars and workshops on a variety of health topics, various workplace health screenings and fitness tests, and opportunities to participate in exercise activities and programs.
- *Retirement counseling* – this program provides counseling on retirement planning for employees who are participants in the Civil Service Retirement System (CSRS).
- *Investment counseling* - this program provides counseling on investing retirement funds for employees in the WASA 401(a) plan.
- *Health benefits renewal* – we renewed our health benefits policies for 2006 at levels below what our insurers requested, but still higher than prior years, in line with the health care market. We will be rebidding all of our health insurance contracts next year.

WASA will continue to evaluate new and enhancement to current benefits that will keep WASA competitive with other employers in the region.

In addition, during FY 2005, testing began on increasing utilization of the Ceridian Self Service system. Testing of online employee personal information changes was successful. Beginning in FY 2006, employee will be able to make address changes and emergency contact changes online. Human Resources will also implement online benefit enrollment for new hires using Ceridian Self Service.

Training – We continue to invest in our employees by funding training and development efforts that provide skills training in the areas of safety, technology, government regulations, and professional and career development. In FY 2005, we budgeted \$1.6 million dollars for skill training needs. We will provide approximately the same level of resources for FY 2006 and FY 2007 to ensure a skilled, safe and competent workforce that is fully capable of supporting our customers needs.

In support of various internal improvement program efforts, we continued certification training in the Departments of Maintenance Services, Engineering and Technical Services, Facilities and Security, and Procurement Services.

For FY 2005, we implemented a leadership development program for senior staff and mid-level managers, an Authority-wide Customer Service Training program for call-center and front-line employees and completed the design for the Authority's self-managed Career Development program for employees interested in enhancing or changing careers. We also completed the design of a Succession Planning program that will review key processes and identify competences that managers will be required to possess to fill key vacancies for the processes.

In FY 2006, we will continue to pursue certifications to ensure that employees have the expertise to meet the need our customers. We will continue with training on Leadership Competences for all leadership levels, implement basic skills training classes as an addition to the WASA Reads program, and provide on-line skills improvement training to complement new skills development and refresher training. In addition, an engineering management development program will be implemented during FY 2006 in an effort to ensure that there is a pool of competent internal candidates for management positions in technical areas.

Other accomplishments are as follows:

Employee Recognition -- In FY 2005, WASA implemented an Employee Recognition Program to reward employees for exceptional performance that resulted in a significant benefit or cost savings. Three employees received awards totaling \$2,250 for assisting WASA with recovering approximately \$1 million in refunds from PEPCO for overcharges on utilities and approximately \$4 million in additional revenue from new condominium construction and accounts receivables.

Employee Climate Survey - In FY 2005, WASA conducted an Employee Climate Survey to gauge the impact of organizational changes on operations and the workforce and to facilitate two-way communication between management and employees. An independent consultant collected data on individual values, commitment to the job, and satisfaction with various WASA program conducted the two-phased survey. We are compiling survey results now, and the data from the survey will help management better understand and be responsive to the concerns of the workforce as it continues to move toward a "World Class" operation.

Internship Program – WASA is firmly committed to supporting and encouraging the educational goals of college students by exposing them to careers in wastewater treatment and water distribution through its internship programs. Participants in the program receive opportunities to work closely with diverse groups of professionals performing critical tasks that are required to operate a large utility. Exposure to careers and opportunities at the Authority help the interns make a conscious decision about their academic and career choices. We had 31 interns participating in our FY 2005 program, including students from Thailand, Ghana, Kenya, Serbia and China. The intern program is paid for with savings from vacancies, and is offered at no additional cost to our ratepayers. This program has also proven to be a successful recruitment tool for WASA.

Organizational Issues – As noted earlier, we have added a new position – Assistant General Manager for Retail Services - which will have responsibility for all retail customer functions, including water, sewer, and customer service functions. In addition, due to the departure of our Chief Financial Officer, we have put in place interim organization changes, and as the recruitment continues, other potential realignments may occur.

INTERNAL AUDIT

WASA's Internal Audit Office continues to focus on implementation of its Annual Audit Plan, approved by the Board's Audit Committee. During FY 2005, thirteen audits were initiated and completed, centered on contractor billings, information technology projects, environmental compliance reviews, and contract compliance reviews. In addition, two audits will carryover into FY 2006. In FY 2005, we began a comprehensive recommendation follow-up program to track the disposition of all internal and external audit reports and recommendations. The Internal Audit Office will also continue to work with WASA's external auditors on the annual financial and grants audit.

SECURITY

Ensuring security has always been a critical matter for WASA, particularly in light of our location in the nation's capital. We completed a significant upgrade of the security system at our water storage facilities and pumping stations. This project included extensive electronic surveillance and remote monitoring devices, including cameras, automated gates, and intrusion detection devices, among other improvements. At Blue Plains, we constructed interim improvements to the entrance in summer 2002, greatly improving access, security, and aesthetics, and will begin construction on permanent improvements over the next year.

With the support of EPA and in cooperation with the Washington Aqueduct, an initial review of water system vulnerability has been conducted by Sandia National Laboratories. In FY 2003, we completed a substantial update of our Emergency Response Plan. Efforts in this area will continue in FY 2006 and FY 2007, with tabletop exercises and drills to assess the effectiveness of our plan. In FY 2005, we received \$550,000 of Homeland Security grant funding for pumping station monitoring, a sewer system security assessment, and security training for our employees. Projects funded by these grants will occur over the next two years. As in the past, all of our security activities will be closely coordinated with the District of Columbia, including the Emergency Management Agency, Police and Fire Departments, and

other key District agencies as well as federal agencies such as Homeland Security, the Federal Bureau of Investigation and the Bureau of Alcohol, Tobacco and Firearms.

SAFETY

WASA continues our commitment to the safety of our employees, contractors and neighbors. This commitment is evidenced by both the dollars we have budgeted for safety activities, totaling \$1.6 million annually in operating funds in FY 2007.

The priority of this Board subcommittee and management over the last year has been monitoring the initial phases of implementation of our Comprehensive Safety Plan, which was originally developed in July 2001. This plan includes a comprehensive list of proactive items, including training, inspections, investigations, and other related tools. A major component of the plan is emergency response planning. Our emergency response plan was already in place prior to those events, and over the last year we have worked especially closely with the District's Fire Department, the D.C. Emergency Management Agency, the federal Department of Homeland Security and various federal agencies and regional to ensure proper coordination with their plans. These plans were put into action over the last few years as we prepared for various hurricanes, the presidential inauguration and various IMF-World Bank meetings.

Given the magnitude of our capital program, we place particular emphasis on contractor and construction site safety. Safety staff hold quarterly review meetings with Engineering and other WASA departments to review construction contracts for safety issues upfront prior to the construction phase, and Safety has dedicated one staff person to focus exclusively on day-to-day contractor safety. A major activity in FY 2005 is implementation WASA's OCIP program (described under "Financial Stability" earlier in this document.) Safety is a critical part of this program, and we have developed a detailed safety manual for all construction contractors that is distributed to potential contractors prior to a project going out to bid. In addition, the program manager will provide a dedicated safety expert to help monitor contractor safety.

We have also undertaken significant efforts to ensure that our employees are actively involved and committed to workplace safety. We created a union – management safety committees to focus on safety issues, and in FY 2005 provided specialized training in asbestos exposure and confined space, among others. A particular area of focus was excavation safety – we conducted specialized training through the union – management safety committee for the Departments of Water and Sewer Services, and also implemented a special excavation safety trailer to provide portable access to shoring devices. We also continued -up efforts to track the results of these efforts – we developed a benchmarking system to track the improvement we make in vehicle accidents, lost work day injuries, and other key performance measures.

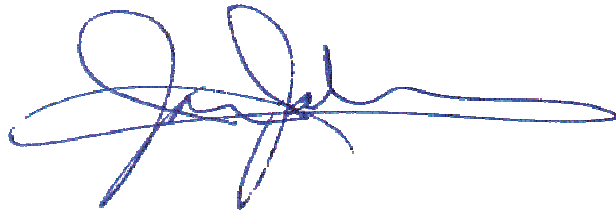
ACKNOWLEDGEMENTS

The past year has been one of great achievement for our organization which would not have been possible without the support and guidance of our Board of Directors, under the leadership of Chairman Gerstell. I would also like to extend a special thanks to Finance and

Budget staff who worked extensive hours to produce this document as well as the CIP document, and to all of WASA department heads and their support staff whose efforts in developing these budgets were critical.

I believe this plan meets our customer service and environmental commitments on a cost-effective basis. I welcome the opportunity to work with the Board in the coming weeks as we review this budget, a concrete demonstration of our commitment to our customers and our commitment to the environment. The bottom line and goal of this entire budget submission is to *provide excellent service delivery to our customers*.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jerry N. Johnson", with a long horizontal flourish extending to the right.

Jerry N. Johnson
General Manager



KEY FACTS

Service Area and Operations:

Date Established: October 1, 1996

Service Area: Approximately 725 square miles

Retail water and wastewater service provided to the District of Columbia

Wholesale wastewater treatment service provided to Montgomery County and Prince George's County in Maryland (through Washington Suburban Sanitary Commission), and Fairfax and Loudoun Counties in Virginia

Blue Plains: The largest advanced wastewater treatment facility in the world

Population Served: 0.57 million in the District of Columbia (2003)
Over 1.6 million in Maryland and Virginia

Operation and Facilities:

No. of Positions: 1,134 (FY 2006)

1,114 (FY 2007)

Water Pumped: 123.6 million gallons per day average (FY 2005)

Treated Water Storage: 52 million gallons / 8 tanks

Miles of Water Lines: 1,300 miles

Wastewater Treated: 303 million gallons per day average (FY 2005)

Wastewater Capacity: 370 million gallons per day (permitted)

Miles of Sewer Lines: 1,800 miles

Financial Information:

Bond Ratings: Aa3/AA-/AA-

FY 2006 Revenue: \$290 million

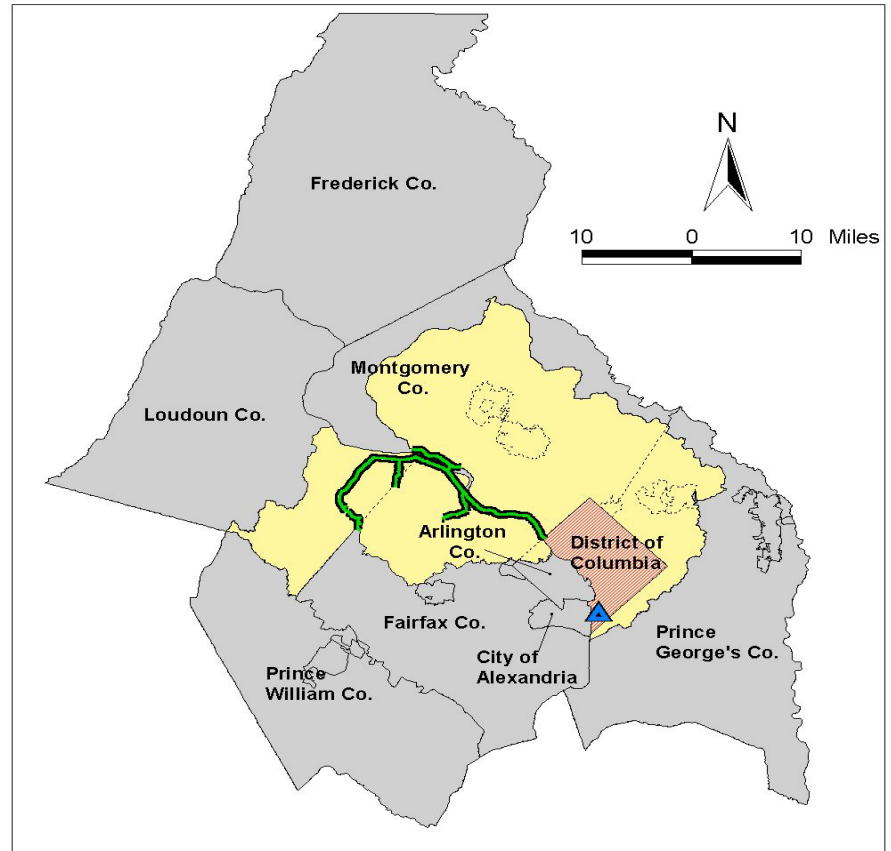
FY 2006 Operating Budget: \$290 million

FY 2006 Capital Budget: \$240 million



Service Area

District of Columbia-Water and Sewer Authority (DCWASA)



Legend Facilities managed by & Service Areas served by DCWASA

-  Blue Plains Wastewater Treatment Plant
-  Potomac Interceptor
-  Jurisdictional Boundaries
-  DC Water Distribution & Sewage Collection Systems
-  Blue Plains Service Area (suburban portion)
-  Blue Plains Service Area (DC portion)

Prepared for DCWASA by Department of Environmental Programs
Metropolitan Washington Council of Governments
Created on: February, 2001

Note: WASA's service area covers the District of Columbia and portions of Montgomery and Prince George's Counties in Maryland, and Fairfax and Loudoun Counties in Virginia.



BOARD OF DIRECTORS

POSITIONS			
CURRENT		FY 2006	FY 2007
Budget	Filled		
1,122	930	1,134	1,114

Office of the Secretary

GENERAL MANAGER

**FY 2007
Operating Budget
\$311,642,000**

Public Affairs

Internal Audit

Interim Chief Financial Officer*

**Chief Engineer/
Deputy General Manager**

Finance and Budget

Risk Management

Information Technology

Assistant General Manager

General Counsel

Human Resources

Fleet Management

Occupational Health and Safety

Procurement and Materiel Management

Assistant General Manager Retail Services

Water Services

Sewer Services

Customer Service

Engineering and Technical Services

Wastewater Treatment

Maintenance Services

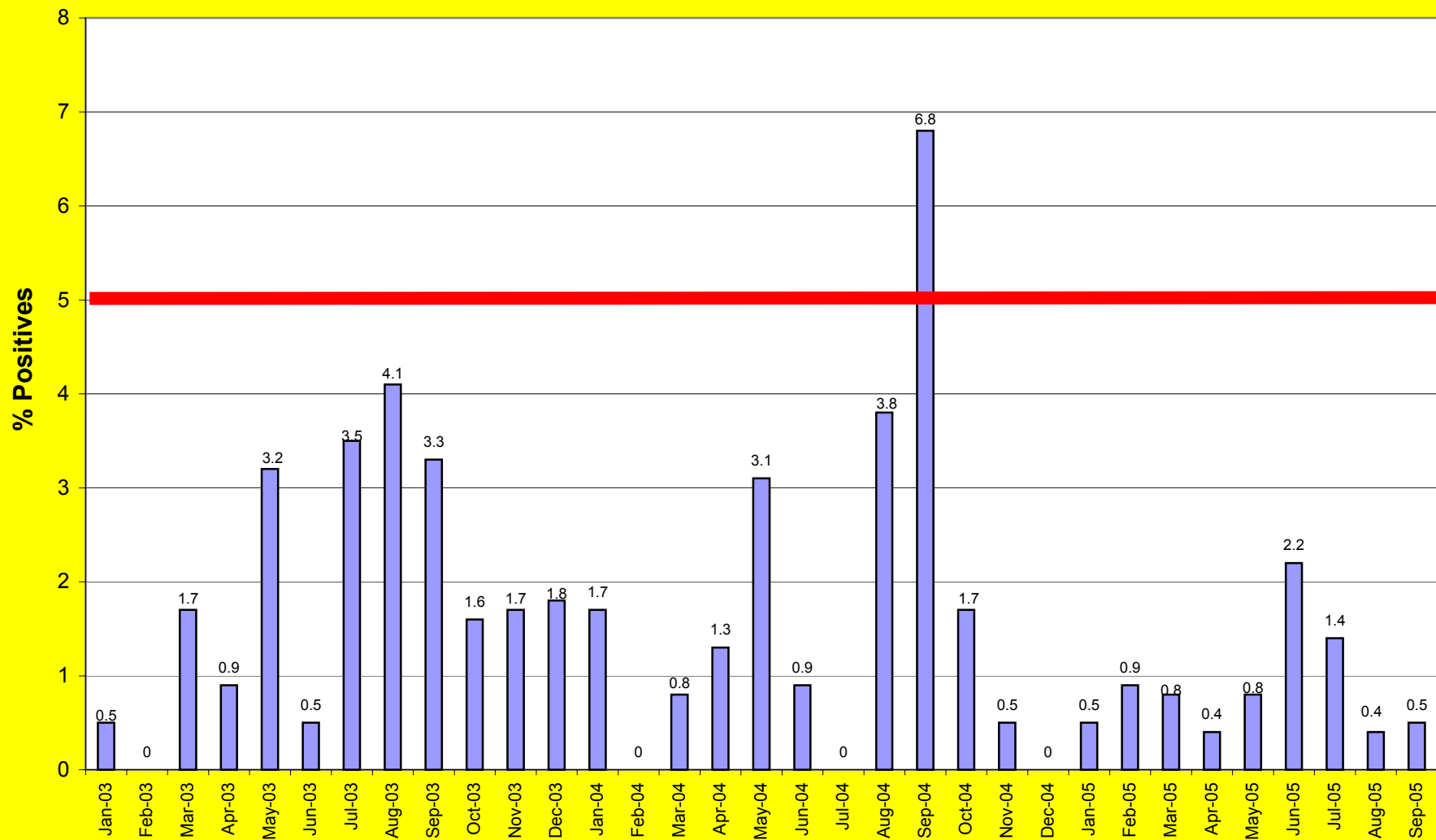
*Interim due to resignation of CFO

PRIMARY WASA PERFORMANCE MEASURES & TARGETS

Description	Performance Target	FY 2005 Actual Performance	FY 2006 Target
Customer Service <ul style="list-style-type: none"> • Meter Reading Accuracy Rate • Calls Answered on Non-Peak Days 	<ul style="list-style-type: none"> • 99.9% • 97% serviced in 2 minutes • 85% serviced in 40 seconds 	<ul style="list-style-type: none"> • 99.9% for AMR meters • 88% serviced in 2 minutes¹ • 80% serviced in 40 seconds 	<ul style="list-style-type: none"> • 99.9% • 97% • 85%
Water System <ul style="list-style-type: none"> • Drinking Water Quality • Response Time for Water Main Breaks • Percent of Fire Hydrants in Service 	<ul style="list-style-type: none"> • Meet or surpass EPA requirements • Respond to 95% in less than 45 minutes and repair 90% in ten days • 99% 	<ul style="list-style-type: none"> • Below action level on Lead and Copper Rule in January through June period; with 50% of results in for July through December, on track to also be below action level in that period • Responded to 66% within 45 minutes • Repaired 84% of mains within ten days • 99% 	<ul style="list-style-type: none"> • Continue compliance with all EPA drinking water requirements • Respond to 95% in less than 45 minutes and Repair 90% in ten days • 99%
Wastewater System <ul style="list-style-type: none"> • EPA Wastewater Quality Standards • Catch Basin Cleaning 	<ul style="list-style-type: none"> • 100% compliance with EPA wastewater quality standards • 25,000 per year 	<ul style="list-style-type: none"> • 100 % compliance with EPA wastewater quality standards • 28,536 	<ul style="list-style-type: none"> • 100% compliance with EPA wastewater quality standards • 25,000 per year
Financial <ul style="list-style-type: none"> • Senior Debt Service Coverage • Operating Cash Reserves • Net Operating Results (Cash Basis) 	<ul style="list-style-type: none"> • 140% Board policy <ul style="list-style-type: none"> – 443% - 2005 projection • 6 months O&M expenses – Board policy <ul style="list-style-type: none"> – \$97.7 million - 2005 projection • Surpass budget <ul style="list-style-type: none"> – \$8.7 million target – 2005 projection 	<ul style="list-style-type: none"> • 562% (after transfer to rate stabilization fund) • \$116.3 million • \$31.5 million (budget \$8.6 million) 	<ul style="list-style-type: none"> • 476% • \$102.4 million • \$19.1 million target

(1) The Call Center experienced a high vacancy rate during the beginning of the fiscal year due to attrition; at that time, recruitment efforts were underway for approximately 25 percent of the Call Center staff. Excluding October and November statistics, the response rate is 95 percent for the remaining months.

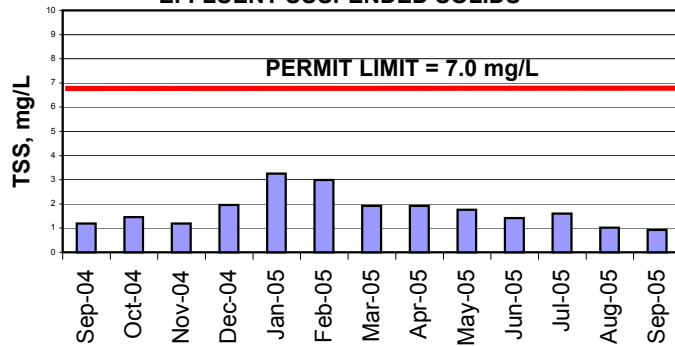
**DC DRINKING WATER TOTAL COLIFORM RESULTS
2003 - 2005**
EPA Maximum Contaminant Levels = 5% positives per month



NOTE: The September 2004 exceedance appears to be related to the Aqueduct's addition of orthophosphate to address lead in drinking water issues.

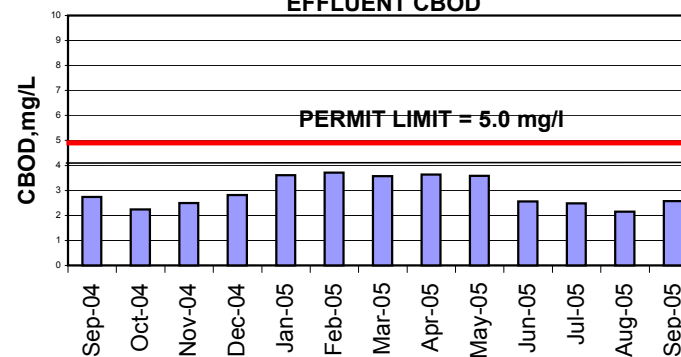
**BLUE PLAINS WASTEWATER TREATMENT PLANT
PLANT EFFLUENT QUALITY
SEPTEMBER 2004 - SEPTEMBER 2005**

**MONTHLY AVERAGE
EFFLUENT SUSPENDED SOLIDS**



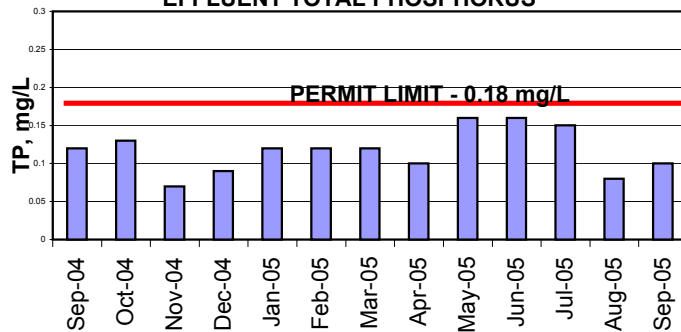
Effluent Total Suspended Solids (TSS) is a measure of the amount of solid materials that remains suspended after treatment.

**MONTHLY AVERAGE
EFFLUENT CBOD**



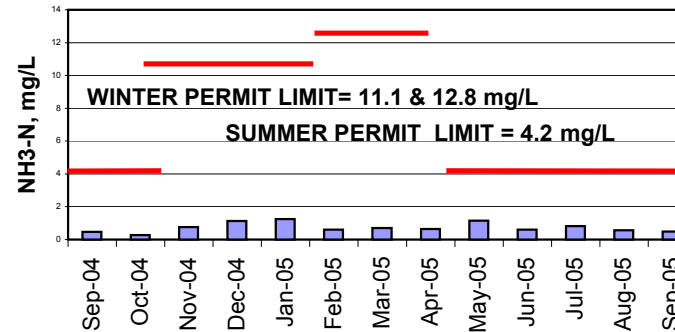
Carbonaceous Biochemical Oxygen Demand (CBOD) is a measure of the amount of dissolved oxygen required for the decomposition of organic materials.

**ANNUAL AVERAGE
EFFLUENT TOTAL PHOSPHORUS**



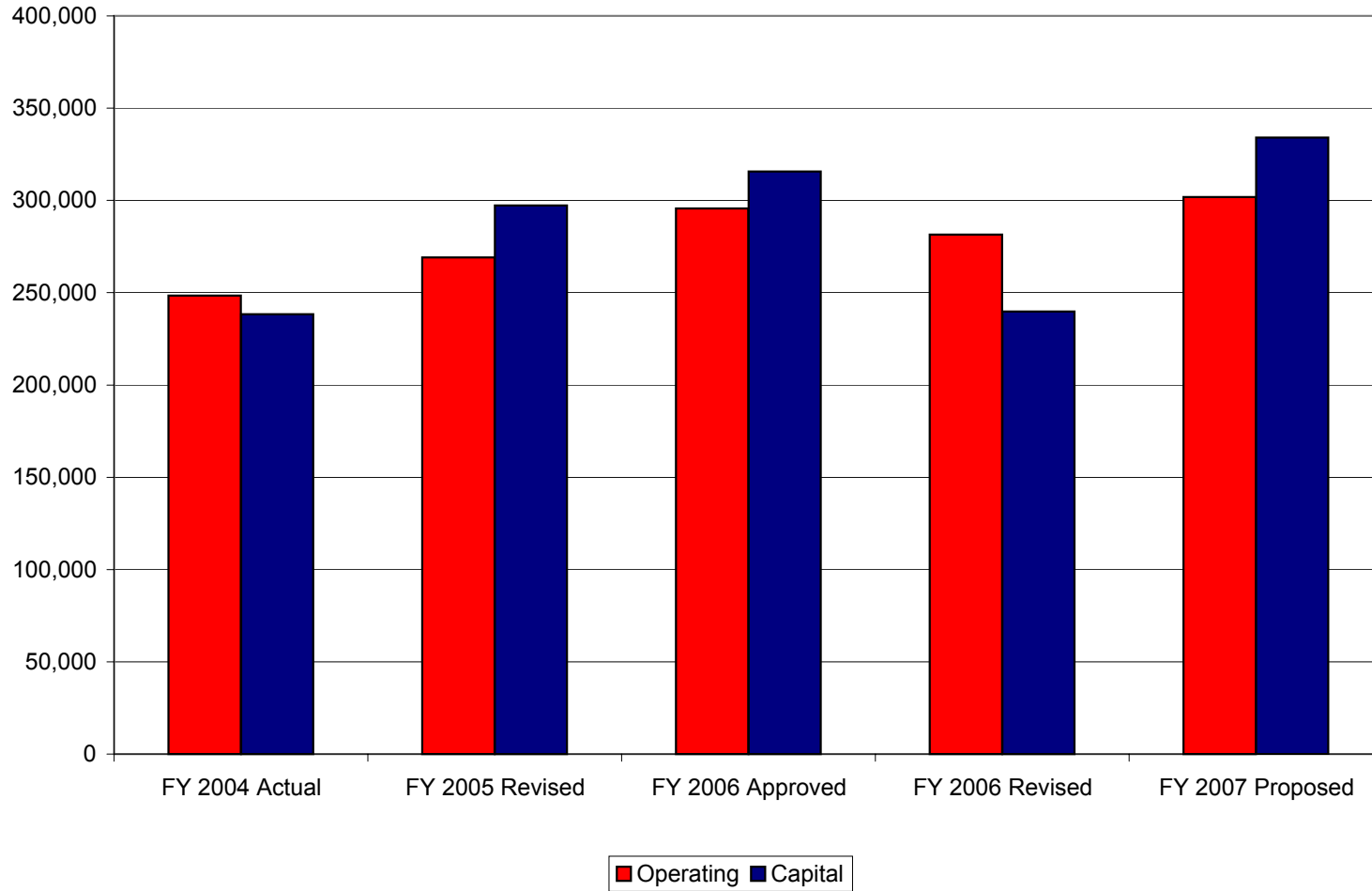
The total Phosphorus (TP) is a measure of the particulate and dissolved phosphorus in the effluent.

**MONTHLY AVERAGE
EFFLUENT AMMONIA NITROGEN**

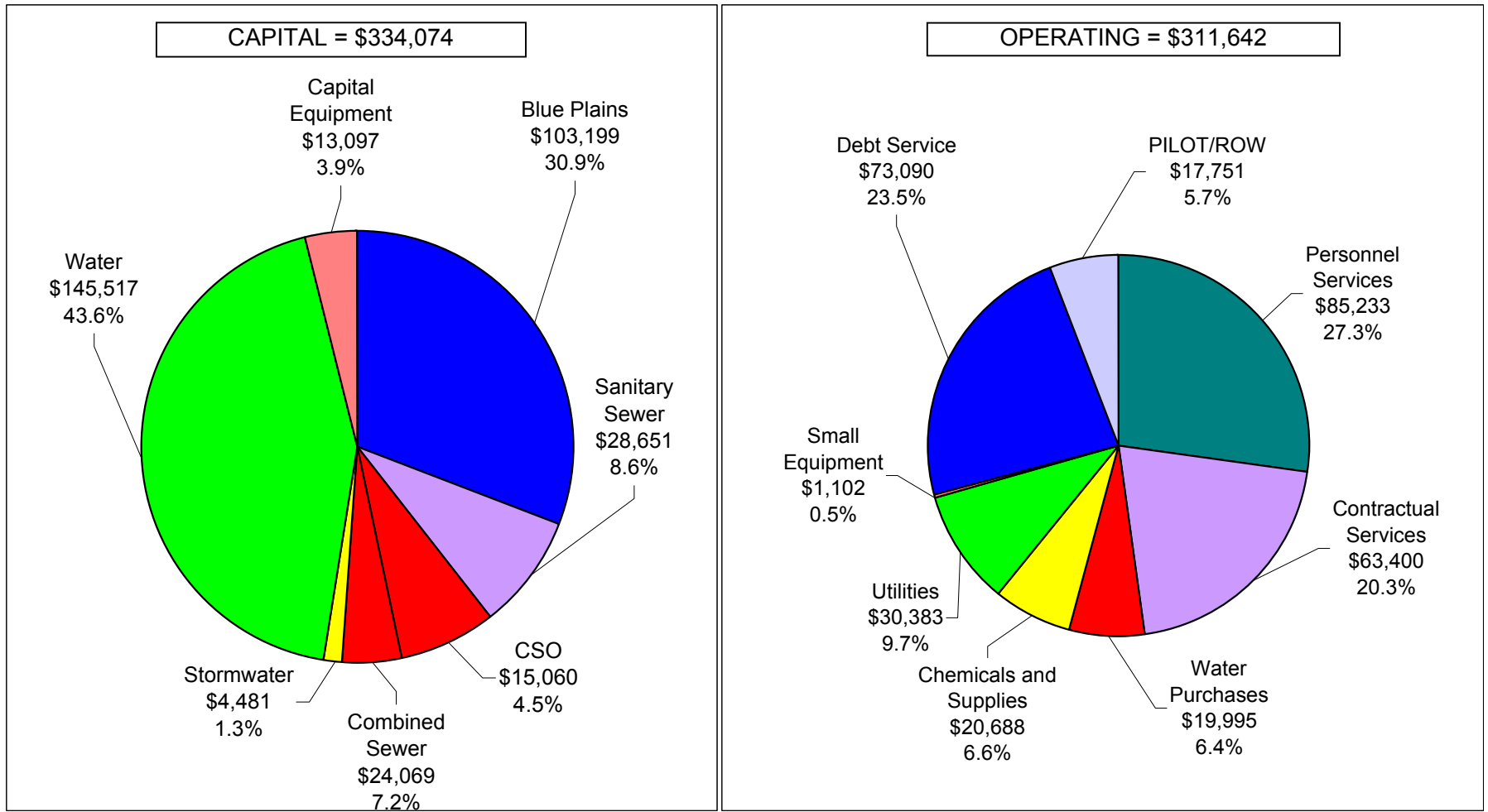


The Ammonia Nitrogen (NH₃-N) is a measure of the nitrogen found in ammonia.

Operating and Capital Expenditures FY 2004 - FY 2007 (\$000's)



FY 2007 Proposed Budget (\$000's)



Comparative Operating Expenditure Budgets
(\$000's)

	<u>FY 2004 ACTUAL</u>	<u>FY 2005 REVISED</u>	<u>FY 2006 APPROVED</u>	<u>FY 2006 REVISED</u>	<u>FY 2007 PROPOSED</u>
<u>OPERATING</u>					
Personnel Services	69,963	77,113	81,751	80,955	85,233
Contractual Services	57,498	61,836	62,306	62,177	63,400
Water Purchases	20,692	18,365	18,916	19,413	19,995
Chemicals and Supplies	14,786	18,175	18,592	20,606	20,688
Utilities	22,188	26,228	28,316	30,161	30,383
Small Equipment	749	946	970	982	1,102
Lead Abatement	9,659	2,830	5,301	1,700	
Subtotal O & M Expenditures	195,535	205,493	216,152	215,994	220,802
Debt Service	44,958	56,298	62,579	57,959	73,090
Payment in Lieu of Taxes/ Right of Way	15,773	16,307	16,979	16,923	17,751
Total O & M Expenditures	256,265	278,098	295,710	290,876	311,642
Personnel Services charged to Capital Projects	(7,783)	(9,005)	(9,349)	(9,349)	(9,816)
Total Net Operating Expenditures	248,483	269,093	286,361	281,527	301,826

CASH FLOW SUMMARY

(\$000's)

	FY 2005 Actual	FY 2006 Approved Budget	FY 2006 Revised Budget	FY 2007 Proposed Budget
OPERATING BUDGET				
Operating Receipts:				
Residential, Commercial & Multi-Family	\$ 157,740	\$ 157,521	\$ 154,027	\$ 163,167
Federal	27,783	29,094	29,093	29,246
Municipal	6,367	7,745	6,713	7,111
D.C. Housing Authority	5,869	6,257	6,167	6,532
Metering Fee	5,220	5,300	5,300	5,300
<i>Subtotal Retail</i>	\$ 202,979	\$ 205,917	\$ 201,300	\$ 211,356
<i>Wholesale</i>	50,878	51,284	53,338	54,323
<i>Other Operating Receipts</i>	31,218	33,705	35,142	40,994
Total Operating Receipts	\$ 285,075	\$ 290,906	\$ 289,780	\$ 306,673
Operating Disbursements				
Personnel Services	\$ 63,620	\$ 72,402	\$ 71,606	\$ 75,884
Contractual Services	57,665	64,797	62,876	63,399
Chemicals & Supplies	21,368	18,592	21,606	20,688
Utilities & Rent	26,188	28,316	30,161	30,383
Water Purchases	18,460	18,916	19,413	19,995
Small Equipment	941	970	982	1,102
Lead	1,503			
<i>Subtotal Operations & Maintenance</i>	\$ 189,745	\$ 203,993	\$ 206,644	\$ 211,451
Payment in Lieu of Taxes / Right of Way Fee	16,307	16,979	16,923	17,751
Debt Service	47,511	53,152	47,098	61,977
Total Operating Disbursements	\$ 253,563	\$ 274,124	\$ 270,665	\$ 291,179
Operating Surplus	\$ 31,512	\$ 16,782	\$ 19,115	\$ 15,494
CAPITAL BUDGET (See Section 6 for more details)				
Sources of Capital Funds	\$ 192,721	\$ 309,670	\$ 218,658	\$ 322,440
Uses of Capital Funds	202,722	315,683	239,814	334,073
Pay-As-You-Go Financing	\$ (10,001)	\$ (6,013)	\$ (21,156)	\$ (11,633)
CASH RESERVES:				
Beginning O&M Reserve Balance (Net of Rate Stabilization Fund)	\$ 106,407	\$ 97,681	\$ 116,272	\$ 103,734
Operating Surplus	31,512	16,782	19,115	15,494
Wholesale Customer Refunds/Payments for Prior Years	250		(3,483)	-
Transfer to Rate Stabilization Fund	(4,000)	-	-	-
Prior Year Right of Way Payment	-	-	-	-
Prior Year Federal Billing Reconciliation	(7,896)	(7,015)	(7,014)	(1,918)
Prepayment of Aqueduct Treasury Loans	0	-	-	-
Pay-As-You-Go Capital Financing	(10,001)	(6,013)	(21,156)	(11,633)
Ending O&M Reserve Balance (Net of Rate Stabilization Fund)	\$ 116,272	\$ 101,435	\$ 103,734	\$ 105,677
Rate Stabilization Fund	\$ 31,500	\$ 27,500	\$ 31,500	\$ 31,500

ACCOUNTING AND BUDGET PROCESSES

Basis of Accounting

The Authority is a single enterprise fund and maintains accounting records using the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP). Under this basis of accounting, revenues are recorded when earned, and expenses are recorded when goods and services are received. The Authority's expenditure budget is prepared on a comparable basis to GAAP, with the exception of debt service that is budgeted in full when due, including principal and interest (depreciation is not budgeted.) Depreciation and interest expense are recorded as expenses for financial statement purposes.

Annual Budget Process

The general framework for the operating and capital budget development along with specific dates for the presentation of several phases of the budget are illustrated in the following budget calendar. The budgetary process is an integrated approach that links the operating and capital budgets with the ten-year financial plan. Preparation of the Authority's budget begins in spring with development of the ten-year financial plan. Based on the financial framework laid out in the ten-year plan, departments develop individual operating budgets, and management reviews these submissions over the summer. These budgets cover a two-year period, including a revised budget for the immediate ensuing fiscal year (e.g., beginning October 1, 2005) and a proposed budget for the next fiscal year (e.g., beginning October 1, 2006). Concurrent with the operating budget process, the Authority's ten-year capital program is developed and reviewed by management. In October, management presents the operating budgets, ten-year plan, and capital improvement program to the Board's Operations and Finance & Budget Committees for their review. The Committees complete their review from October through December. The operating budgets, capital improvement program, and ten-year plan are then forwarded to the full Board for its consideration in January.

After adoption by the Board of Directors, the Authority is required to submit its annual operating and capital budgets to the Mayor and Council of the District of Columbia for its review and comment; however, neither has power to change the annual budgets of the Authority. The District then includes the Authority's budgets as an enterprise fund in the fiscal year budget it sends to the U.S. Congress for approval. Any increases to the Authority's approved budget must receive approval from the U.S. Congress.

Budgetary Control

After the U.S. Congress approves the budget, the operating and capital budgets are loaded into the Authority's financial management system, which prevents overspending without appropriate approvals. The Department of Finance and Budget prepares daily and monthly management reports for each operating unit, management staff, the Board of Directors and its various committees. The reports are consistently reviewed each month to ensure the Authority complies with its authorized budget levels.



WASA KEY FINANCIAL POLICIES

- **DEBT SERVICE COVERAGE** -- WASA will set rates and develop operating and capital budgets that ensure **senior debt service coverage of 140 percent**
 - This coverage level exceeds WASA’s bond indenture requirement of 120 percent senior debt service coverage
- **CASH RESERVES** -- WASA will maintain **cash reserves approximately equivalent to six months’ operating and maintenance expenses**, approximately \$102.4 million in FY 2006.
- **PAY-GO FINANCING OF CAPITAL** -- WASA will finance a portion of its capital program on a **pay-go basis from cash reserves that exceed the operating & maintenance reserve level**.
- **RATE-SETTING PRINCIPLES**
 - WASA’s rates and fees will be based on the **actual cost to deliver each service**.
 - Rate increases will be implemented in a **gradual and predictable** manner, avoiding large one-time rate increases.
- **RATE STABILIZATION FUND** -- Once WASA achieves its required level of cash reserves, a **rate stabilization fund** will be established **to avoid “rate shock.”** At the end of FY 2005, WASA’s rate stabilization fund totaled \$31.5 million.

FY 2005 - 2014 FINANCIAL PLAN

Overview

WASA's strong financial performance and its success in achieving and maintaining strong "Aa / AA" category bond ratings has been in large part due to the annual development of and adherence to a ten-year strategic financial plan. This plan serves as one of management's key tools to monitor progress in meeting financial goals and to proactively address future financial and operational issues. During FY 2005, WASA met or exceeded the goals set by Board policy and the FY 2004 - 2013 ten-year plan. This budget includes WASA's ninth comprehensive ten-year financial plan, covering FY 2005 – 2014.

The necessity of a ten-year financial plan is clear:

1. WASA operates under a regulatory and capital project-driven environment that requires a minimum ten-year planning horizon. In order to provide our customers with the best service possible and with gradual and predictable rate increases, WASA must plan for all projects on a long-term and integrated basis, including both capital and operating requirements. A five year, capital-only financial plan would insufficiently prepare WASA to address the major regulatory and capital project issues that will impact service, operations, and rates over the next five to ten years.
2. In accordance with Board policy, WASA will set rates so that each customer will be charged for the actual cost to provide each service, and rate increases will be gradual and predictable. Because proposed future rate increases are due primarily to WASA's capital program and the Combined Sewer Overflow Long-Term Control Plan, the development of a ten-year financial plan allows WASA to meet these key goals of full cost recovery and predictability.
3. The Board has directed WASA management to undertake internal improvements that will significantly lower operating costs over a ten-year period. A ten-year plan is required to bridge current operations and related capital and operating budgets with these longer term cost reduction goals.

Board policies and guidance in several key financial areas drive the development of the FY 2005 - 2014 financial plan. Given WASA's substantial borrowing needs over the next ten years, adherence to these Board policies is crucial in order to cost-effectively access the capital markets and retain our credibility with customers and regulators. Key Board policies are summarized below.

Financing and Reserve Policies

In FY 2004, the Board completed a review of its existing financing policies, reaffirming the core policies. Two modifications were made to the reserves policy, both in accordance with WASA's master trust indenture: 1) Changing the timing of when WASA is required to meet its overall operations and maintenance reserve requirement from September 1 to an average daily balance basis, resulting in a more conservative calculation that also more realistically reflects WASA's annual reserve levels; and 2) revising the indenture-required renewal and replacement reserve requirement from two percent of original plant in service to \$35 million, with a requirement to revisit this reserve level every five years in conjunction with the indenture-required system assessment prepared by WASA's independent rate consultants. These changes were reviewed and endorsed by WASA's bond counsel, financial advisors, and rate consultants.

WASA's financing policies are as follows:

1. WASA will maintain financial practices and policies that result in high quality investment grade bond ratings so as to ensure the lowest practical cost of debt necessary to finance WASA's long-term capital program.
2. WASA will maintain strong levels of operating cash reserves, equivalent to approximately six months of budgeted operations and maintenance costs, calculated on an average daily balance basis. The annual reserve amount will be formally approved by the Board as part of its annual approval of the operating and capital budgets and ten-year plan. The operating reserve will, at a minimum, include any reserve requirements contained in WASA's master trust indenture as follows, excluding any debt service reserve funds and the rate stabilization fund:
 - *Operating Reserve* – equivalent to sixty days' operating costs
 - *Renewal & Replacement Reserve* - \$35 million. This reserve requirement will be evaluated every five years by WASA's independent rate consultant in conjunction with the indenture-required system assessment.
 - *District of Columbia General Obligation Debt Reserve* – equivalent to ten percent of WASA's share of subsequent year's District general obligation bond debt service
3. WASA will maintain senior debt service coverage of 140 percent, in excess of WASA's indenture requirement of 120 percent. Senior debt service coverage will be calculated in accordance with WASA's indenture.
4. In general, WASA will 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.
5. WASA will whenever possible use the least costly type of financing for capital projects, based on a careful evaluation of WASA's capital and operating requirements and financial position for each year.
6. WASA will attempt to match the period of debt repayment, in total, with the lives of the assets financed by any such debt.

Rate Setting and Budgetary Policies

WASA'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. Rates will be based on an annually updated ten-year financial plan (both operating and capital).
4. Rate increases will be implemented in a gradual and predictable manner, avoiding large one-time rate increases.
5. Contributions to and usage of a rate stabilization fund as needed to avoid "rate shock." Each year, after reviewing pay-go financing and any other non-recurring financing uses of excess operating cash, the annual rate stabilization fund deposit, if any, is determined. This fund was established in FY 2000 and its balance at the end of FY 2005 was \$31.5 million.

Cash Management and Investment Policies

In December 1997, the Board adopted comprehensive cash management and investment policies. These policies specified the amount of the portfolio allowed in each type of investment and also specified the following investment objectives, in priority order:

1. Safety
2. Liquidity
3. Return on investment
4. Diversity

Major Accomplishments

The FY 2004 - 2013 financial plan and Board policy set out several financial and organizational goals to be accomplished in FY 2005. *During FY 2005, WASA met or exceeded the financial goals set out by the Board and the FY 2004 - 2013 financial plan, as summarized below. As described in more detail below, WASA's financial performance remained strong in FY 2005, with senior debt service coverage, reserve levels, and budget performance all meeting or surpassing Board policies.*

- ★ In December 2004, WASA reached agreement with the environmental plaintiffs, the U.S. Environmental Protection Agency, and the U.S. Department of Justice on the CSO Long-Term Control Plan (CSO LTCP), a major milestone in WASA and the District's history. Specifically, the Board entered into a consent decree that outlines a twenty-year, \$1.9 billion implementation plan and schedule. See "Combined Sewer Overflow Long-Term Control Plan" for additional details on the projected rate impact of the plan.

- ★ WASA Board policy requires senior debt service coverage of at least 140 percent, greater than the indenture requirement of 120 percent. **WASA's senior debt service coverage in FY 2005 is projected at 562 percent**, reflecting implementation of the Board's policy of gradual and predictable rate increases and lower than projected operating and capital spending. Senior debt service coverage will decline to the Board's 140 percent policy level as capital spending and related debt issuance increase. Subordinate debt service coverage (subordinate debt service includes WASA's subordinated lien revenue bonds, WASA's share of District of Columbia general obligation debt, Little Seneca Reservoir debt, and Jennings Randolph Reservoir debt) in FY 2005 is projected at 211 percent. WASA is required to have 100 percent coverage of subordinate debt service.
- ★ **WASA contributed an additional \$4.0 million to the rate stabilization fund in FY 2005**, raising the balance in this fund to \$31.5 million.
- ★ WASA Board policy calls for cash reserves equivalent to 180 days' operating and maintenance expenses, or approximately \$97.7 million in FY 2005. **WASA consistently met this goal during FY 2005, with an average daily balance during the year of \$114.3 million, \$16.6 million greater than the Board's policy.** This year's plan provides for an increase in this reserve to \$102.4 million in FY 2006, in line with the revised FY 2006 operations and maintenance budget.
- ★ **WASA continued its strong operating budget performance in FY 2005.** Operating cash receipts surpassed budget by \$10.9 million, or 3.8 percent; operating expenditures are currently projected to be \$9.6 million, or three percent, less than the Board-revised budget.
- ★ Overtime spending was reduced from a high of \$8.7 million in FY 1997 to \$4.3 million in FY 2005, or 5.3 percent of payroll. This reduction continues a trend of significant reductions in overtime costs, from a rate of 23 percent of payroll in the months before WASA was formed.
- ★ WASA implemented a water and sewer rate increase of 5.0 percent in FY 2005. In addition, the Board approved a retail rate increase of 5.5 percent effective October 1, 2005 as well as an increase in the right of way / PILOT fee to recover the full costs of this fee charged to WASA by the District of Columbia government.
- ★ For the fourth consecutive year, WASA received the Government Finance Officers' Award for Distinguished Budget Presentation for its FY 2006 budget submission. WASA also received its eighth unqualified audit opinion for the fiscal year ended September 30, 2004 as well as GFOA's Certificate of Achievement for Excellence in Financial Reporting.
- ★ In 2005, WASA entered into a unique contract for electricity generation services, following the deregulation of the electricity market in early 2005. This five year contract allows WASA to lock in blocks of power at a fixed price when futures pricing meets budget targets. To the degree that WASA does not lock in blocks, pricing will be established each day at market rates with direct

pass-through of all costs. The contract includes an enhanced process for block power purchases that gives WASA access to the wholesale market and provides more transparency in reviewing the bids from wholesalers.

- ★ In FY 2005, we successfully renewed all of our insurance policies at approximately the same cost as FY 2004. We also changed policy expiration dates to June, allowing us to renew policies prior to the hurricane season. As in last year's policies, only two significant exceptions were included in our renewals: 1) liability coverage for lead-related issues – As a result of the lead class action lawsuit that was filed in FY 2004, coverage of lead issues was removed for all claims alleging damages incurred after April 2004 under our two general liability policies and our public officials liability policy; and 2) flood coverage – In FY 2004, WASA's property insurance carrier performed a comprehensive facilities review, including flood exposures. Because several major WASA facilities, including Blue Plains, O Street, 12th and Maine, the 14th St. Bridge, and the Potomac and Upper Anacostia pumping stations, are not protected to the 500 year flood level, the insurer reduced flood protection to only provide a total of \$10 million per year of coverage for all six facilities combined. (Locations not in high hazard areas will continue to be insured to the \$100 million limit.)
- ★ In early FY 2005, WASA implemented a rolling owner-controlled insurance program (ROCIP), under which WASA procures most insurance coverage for most construction contractors. The result is substantially higher insurance coverage levels for all contracts and significant cost savings. At the end of FY 2005, 19 construction contracts had been enrolled in the ROCIP program (including most of the lead service line replacement contracts), and preliminary savings estimates exceed \$600,000. Over the five year program, WASA anticipates enrolling 120 projects, with estimated savings in the \$4 to \$5 million range. A major reason for the cost savings is the implementation of a uniformly strong safety program for all contractors.
- ★ WASA implemented the initial phases of the multi-year internal improvement plan for the Blue Plains Advanced Wastewater Treatment Plant operations (specifically the Departments of Wastewater Treatment and Maintenance Services.) By the end of FY 2007, we will have eliminated 160 positions in these areas as well as several outside maintenance contracts that have been taken over by in-house staff, including mechanical and small process electrical maintenance. In addition, several capital projects are underway that are critical to achieving these cost savings goals, including a new process computer control system and construction of the new digestion facilities. WASA recently completed new additional dewatering facilities, which resulted in \$0.6 million in savings in FY 2006. In FY 2006, WASA will complete an update of the Blue Plains IIP, taking into account progress under the CIP and management changes to date, and the results of this analysis will be factored into next year's ten-year plan.
- ★ WASA continued to build on the significant improvements made in the Department of Customer Service over the last few years, which have resulted in greatly improved service to WASA customers. Major accomplishments over the last year include:
 - Improved collections efforts, which have resulted in a reduction of delinquent accounts receivable over 90 days from \$25.1 million in September 2002 to \$10.9 million in September 2005.

- Implementation of the meter replacement / automated meter reading (AMR) program. WASA is nearing completion of this project, with approximately 117,000 new meters, or 95 percent of all meters, installed as of September 2005. The remaining meters to be installed are largely indoor residential meters and approximately 450 large federal and commercial meters, which WASA currently expects will be largely complete in 2006. In FY 2005, WASA billed 74 percent of revenue through AMR. As described later in this document, this program has resulted in consumption and revenue increases.
- Improved billing and payment options. In conjunction with AMR implementation, WASA has converted all accounts to monthly billing in FY 2004, a significant accomplishment. WASA introduced enhancements to its electronic payment options of on-line, telephone, and credit / debit card payments, resulting in approximately 13 percent of total payments being made via one of these options. WASA also introduced other billing options that are industry-leading in the water industry, including budget billing; a bill "round-up" option so that customers can donate to WASA's customer assistance program; and a pilot project to automatically notify customers by e-mail if their usage spikes beyond a normal level. In 2005, WASA implemented an enhanced interactive voice response system that allows customers to perform many functions via self-service in off-business hours.
- Implemented the first phase of the new WASA-wide asset management system, which integrates our customer information, maintenance management and process computer control systems to better manage infrastructure and schedule preventive maintenance. The first operational phase will go live in October in Customer Service and Water Services.

Future Goals

The proposed FY 2005 - 2014 financial plan includes the resources necessary to accomplish critical financial and operational goals over the coming years, as summarized below.

- ★ Continue adherence to the Board's financial, investment, rate-setting and long-term planning policies.
- ★ Continue implementation of the Board-approved lead service line replacement program, including an extension through 2014 to cover a projected increase in the number of service line replacements (see Section 1 for more details.)
- ★ Continue implementation of the ten-year \$2.2 billion capital improvement program.
- ★ Begin implementation of the twenty-year, \$1.9 billion CSO Long-Term Control Plan.
- ★ Continue implementation of internal improvement plan across WASA

- ★ Continue implementation of major improvements in customer service, including:
 - Complete AMR / meter replacement program.
 - Implement other industry-leading billing and customer service options.
- ★ Successfully implement key information technology initiatives, including:
 - Implementation of the *process computer control system* (PCCS) which will automate a substantial number of plant processes and is critical to achieving Blue Plains internal improvement goals. Initial planning and design for this system began in FY 2002.
 - Implementation of a new *asset management system*. By integrating WASA's existing customer information, maintenance management, PCCS / SCADA and other systems, it will help us better track specific asset performance and perform more preventive maintenance, particularly in the water and sewer systems.
 - Successive phases and upgrades of the *financial, payroll and human resources information, and customer information and billing systems*
 - Evaluation and development of *data redundancy* and related systems to ensure that WASA's mission-critical systems can operate on an uninterrupted basis in the event of an emergency
- ★ Negotiate new collective bargaining agreement.

Rates

The proposed rate increases included in the FY 2005 – 2014 financial plan are driven by the following initiatives:

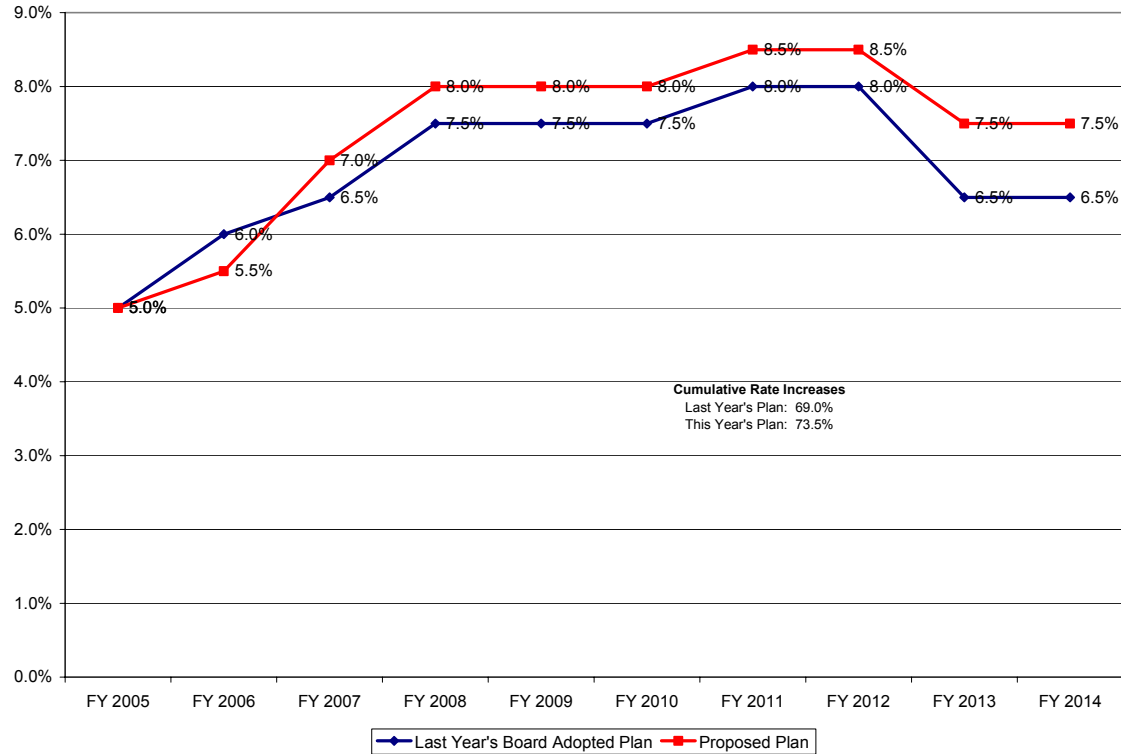
- *WASA's \$2.2 billion capital improvement program*, which reflects an increase of approximately \$106 million over last year's ten-year plan. This is due primarily to the extension of the lead program through 2014 to accommodate the potential replacement of an additional 12,000 lines beyond the original 2001 inventory of 23,000 lines. In addition to the lead program change, other capital project increases include the digester project, the Washington Aqueduct residuals project, and additional water quality projects.
- *Internal improvement programs* – These plans, currently being implemented at Blue Plains and the Departments of Water and Sewer Services, are projected to result in operating savings, in part due to capital improvements and in part due to management and operational changes. The largest of these plans is at Blue Plains and was originally adopted in 2000. In

FY 2006, WASA will complete an update of the Blue Plains IIP, taking into account progress under the CIP and management changes to date, and the results of this analysis will be factored into next year's ten-year plan.

- The first ten years of WASA's twenty-year *CSO Long-Term Control Plan*, totaling \$491 million.
- *Meter replacement / AMR program* – The ten year plan reflects a five percent increase in FY 2006 in the billed consumption attributable to the remaining large federal and commercial meters to be installed over the next one to two years.
- *Continued compliance with Board policies on debt service coverage and reserve levels* -- Projected senior debt service coverage ranges from 154 percent (FY 2014) to 562 percent (FY 2005), above the policy requirement of 140 percent. In addition, cash reserves are maintained at six months' operations and maintenance expenses, growing from \$97.7 million in FY 2005 to \$123.9 million in FY 2014.

Due to these ongoing and new initiatives, from FY 2006 – FY 2014, WASA's water and sewer rates are projected to increase by 5.5 percent to 8.5 percent annually, with cumulative rate increases of 73.5 percent, as shown in the chart below. Projected retail rate increases are higher by 0.5 to 1.0 percent annually over last year's plan due to the extension of the lead program and other capital project increases. Because of the capital improvement program, debt service is projected to increase on average by 14.7 percent per year, while operations and maintenance expenditures are only projected to increase by 2.7 percent.

Projected Retail Rate Increases FY 2005 – FY 2014



Proposed FY 2007 Rate & Fee Increase & Structure Changes

The proposed retail water and sewer rate increase in 2007 is seven percent, allowing for future gradual and predictable rate increases. The Board will also be asked to consider an approximate 4.8 percent increase in the existing right of way / PILOT fee to recover the full amount charged to WASA by the District.

As part of the 2007 rates process, WASA will be evaluating several retail rate structures and changes, including the following:

- Land or impervious surface-based structures for CSO cost recovery
- Groundwater cost recovery options
- Fixed capacity (e.g., fire protection) and inverted block rate structures for water and sewer cost recovery

WASA's current retail rate structure is a commodity or usage-based structure, with the exception of the metering fee which is a flat monthly fee set to recover costs associated with metering.

Rate Comparisons to Other Utilities

WASA's current and proposed rates fees remain very competitive with other water and wastewater providers in the mid-Atlantic and the eastern United States. As shown in the charts in Section IV, WASA's current monthly residential bill (including the District's stormwater rate and the PILOT / right of way fee) is \$2.77, or approximately 6 percent, less than the average of other utilities in WASA's benchmark group. Without the stormwater and the PILOT / right of way fees, WASA's average monthly residential bill is \$6.85, or 14 percent less. The proposed future rate increases over the ten-year planning period are also consistent with those being contemplated by regional and national providers.

Customer Assistance Programs

In June 2000, the Board adopted a customer assistance program that assists low-income customers in paying their water bills. The program is comprised of two components: a component funded by voluntary contributions from ratepayers (the S.P.L.A.S.H. program); and a component funded by WASA and based on a bill credit for 400 cubic feet of water consumption per month (the Customer Assistance Program, or "CAP"). In 2004, the Board approved expanding the CAP program to single family tenants that meet certain federal income guidelines; previously, the program was limited to homeowners. The ten-year plan assumes a total impact of \$500,000 annually for the expanded program, or 0.2 percent of projected FY 2005 revenues.

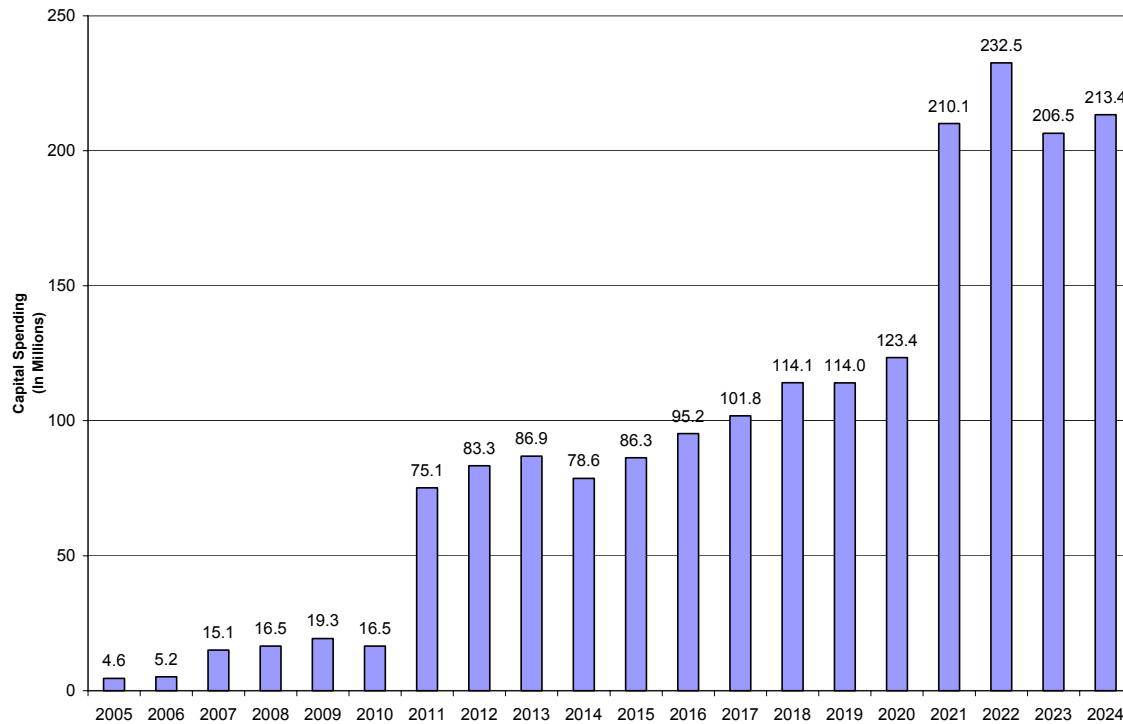
Rate Stabilization Fund

This year's plan reflects continued funding of the rate stabilization fund, including a contribution of \$4.0 million in FY 2005 as a result of stronger than budgeted financial performance. The total balance in the fund is currently \$31.5 million. The fund is projected to be fully utilized in FY 2007 through FY 2012 to help level out proposed rate increases in those years. Additional contributions to the rate stabilization fund will be determined each year based on actual financial performance and the latest ten-year plan. No deposits to the rate stabilization fund will be made unless the Board's six month operating and maintenance reserve policy and all other bond indenture requirements are met.

Combined Sewer Overflow Long-Term Control Plan

In December 2004, the Board reached agreement with the federal government on the proposed CSO LTCP and entered into a related consent decree. Capital costs for this twenty-year plan total approximately \$1.9 billion with inflation. Spending in the early years of the plan is significantly less than the latter years, allowing for a gradual rate increase implementation schedule. Projected spending by fiscal year is shown in the chart below.

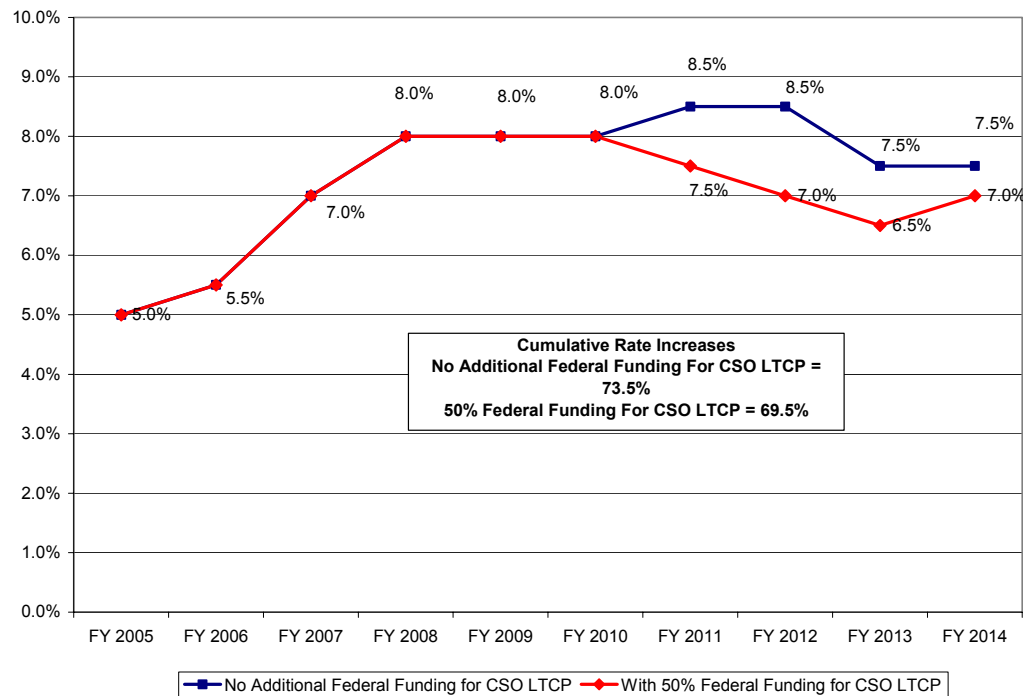
CSO LTCP Capital Spending by Year



Because projected spending under the CSO LTCP is somewhat back-loaded, the near-term impact on rates is mitigated. Additionally, if significant federal assistance is provided, rate increases would be lower, as shown in the chart below; the ten-year plan assumes no external funding beyond the special Congressional appropriations WASA has already received, totaling \$84 million.

Assuming no additional federal assistance, at the end of the twenty-year implementation period, the typical residential customer's monthly wastewater bill is projected to be \$110, an increase of 325 percent over the current monthly wastewater bill of \$26.

Impact of Federal Assistance for CSO LTCP On Projected Rate Increases through FY 2014



Revenues

Revised FY 2006 receipts projections total \$289.8 million, an increase of \$4.7 million over FY 2005 receipts:

- *Residential, commercial and multi-family receipts* are projected to decline by approximately \$3.7 million due to one-time issues in FY 2005 that resulted in higher than projected receipts that will not be repeated in FY 2006, as described in more detail below.
- *Federal revenues* are projected to increase by \$1.3 million, as described below.
- *Wholesale receipts* are projected to increase by \$2.5 million reflecting higher budgeted costs at Blue Plains due to electricity and chemicals price increases.
- *Other revenues* are projected to increase by \$3.9 million due primarily to the Board-approved increase in the right of way / PILOT fee and increased interest earnings because of higher cash balances and higher interest rates than experienced in FY 2005.

Proposed FY 2007 revenues total \$306.7 million, approximately \$16.9 million higher than revised FY 2006 projections. This increase is due primarily to:

- *Proposed water and sewer rate increase of 7.0 percent*
- *Proposed utilization of \$5 million in rate stabilization fund balances*
- *Proposed increase in the right of way / PILOT fee for full recovery of this cost*
- *Projected increase in interest earnings, assuming interest rates increase to closer to historical levels*
- *Projected consumption decline, conservatively estimated at one percent annually*

Additional details on revenue projections for each class of customers are described below.

Residential, Commercial & Multi-Family - FY 2006 projections reflect a decrease of \$3.7 million, or 2.3 percent from FY 2005, due primarily to the following reasons.

- In FY 2005, WASA completed the conversion from quarterly to monthly billing on commercial and multi-family accounts, which resulted in a one-time increase in receipts that year.
- In FY 2005, WASA's collections on its retail receivables was very strong, with accounts receivable over 90 days declining from \$16.3 million on October 1, 2004 to approximately \$10.9 million as of September 30, 2005. While WASA will continue its aggressive collection efforts, we have conservatively assumed no additional increase in cash receipts due to improved collections performance in 2006.
- Board approved retail rate increase of 5.5 percent effective October 1, 2005.
- Continued increase in metered consumption reflecting of the meter replacement / AMR program, with a projected five percent increase in the remaining large commercial meters to be installed in 2006.
- Continued implementation of the customer assistance program, which reduces projected revenues by approximately \$0.5 million.

Proposed FY 2007 receipt projections (including rate stabilization fund contributions) reflect an increase of \$14.1 million due to the following reasons:

- Proposed rate increase of 7.0 percent
- Proposed utilization of \$5 million in existing rate stabilization fund balances to smooth out future rate increases
- One percent decrease in consumption due to projected conservation.
- Continued implementation of the customer assistance program, which reduces projected revenues by approximately \$0.5 million.

Federal - Revised FY 2006 federal revenues are projected to total \$29.1 million, or \$1.3 million more than FY 2005. Under existing federal billing legislation, federal billings are prepared on an estimated basis eighteen months in advance of the start of the fiscal year (e.g., the FY 2006 billing was prepared in April 2004), and are based on then-current consumption estimates and projected rate increases as included in the then-current ten year plan. These estimates are then reconciled with actual consumption and rate increases, and an adjustment is made in the subsequent year's billing (e.g., the reconciliation of FY 2006 estimated vs. actual consumption and rate increases will be included in the FY 2009 billing, prepared in April 2007.) Federal revenues in the ten year plan are presented on a revenue basis, net of any adjustments for prior year reconciliations which are accounted for as reserve items. Consistent with this methodology, revised FY 2006 federal revenues reflect the final billing sent to the federal government in April 2004, net of the adjustment for the prior year (FY 2003) reconciliation.

Long-term federal revenue projections reflect an assumed five percent increase in recorded consumption due to the meter replacement / AMR program. The majority of federal meters are three inches or greater in size.

Municipal & D.C. Housing Authority - Representing 6.4 percent of FY 2006 retail receipts (excluding their share of the metering and right of way / PILOT fees), receipts from the District of Columbia government and the District of Columbia Housing Authority are projected at \$12.9 million, an increase of \$0.6 million, or 5.0 percent, reflecting the approved rate increase of 5.5 percent and a projected consumption decline of one percent annually. In FY 2007, receipts from these organizations are projected to total \$13.6 million, an increase of \$0.7 million, or 5.4 percent, due to the proposed retail rate increase of 7.0 percent and continued conservation. These projections reflect the reduction in consumption of approximately 175,000 Ccf, or \$0.8 million, experienced in FY 2004 at St. Elizabeth's due to repairs made to their water tank and other facilities' improvements.

Metering Fee – This fee is projected at \$5.1 million in FY 2005, and recovers the costs associated with installing, operating, and maintaining meters, and is charged to all retail customers (including federal and municipal customers.) The fee varies based on meter size, with monthly fees ranging from \$2.01 for a 5/8 inch meter (typical size of a residential customer meter) to \$160 to \$210 for larger meters (typically used for large commercial customers.)

Right of Way / Payment In Lieu of Taxes Pass-Through Fee –Similar to other Washington area utilities, WASA has implemented a fee that passes through the costs of the District's right of way fee / payment in lieu of taxes as a separate line item on its bill. In FY 2006, this fee increases by \$2.0 million to \$16.4 million due to the Board's approval of an increase to recover the full cost of the payments WASA makes to the District. In FY 2007, we are proposing a 4.8 percent increase in this fee, in line with the increase in the PILOT portion of WASA's payment to the District.

Wholesale - WASA's wholesale customers are responsible for a proportionate share of operating and maintenance expenses (associated only with shared facilities primarily at Blue Plains) based on their respective share of wastewater volume discharged. In addition, each user is responsible for a proportionate share of related indirect costs, or overhead. FY 2006 wholesale revenues are projected at \$53.3 million. Wholesale revenues are projected to increase by approximately one to three percent annually after FY 2007, consistent with WASA's operating and maintenance expense increase assumption over the ten year period. As noted earlier, in FY 2006, WASA will complete an update of the Blue Plains IIP, taking into account progress under the CIP and management changes to date, and the results of this analysis will be factored into next year's ten-year plan. WASA's wholesale customers will receive approximately 50 percent of any savings due to the internal improvement program, based on their usage of Blue Plains.

WASA has separate agreements with each of the Potomac Interceptor users (the Town of Vienna, Metropolitan Washington Airports Authority (MWAA), National Park Service, and the Department of the Navy) which were initially executed by WASA's predecessor agency in 1963 – 1964. These agreements provide for a consumption-based rate to recover the actual cost of providing service and periodic rate adjustments to both recover underbillings, if any, and to set new rates based on current costs. In FY 2004, we completed a review of these rates, the first to be done since 1979, resulting in an overall rate increase of 90 percent going forward, and an estimated \$1.8 million in historical underbillings. We have reached agreement with all four entities on implementation of the new rates effective October 1, 2004. Two entities, MWAA and the Town of Vienna, recently notified us that they disagree with WASA's request for backbilling, and we will be working with them over the next year to rectify this situation.

Stormwater – WASA's FY 2006 and FY 2007 revenues include \$1.8 million from the District's stormwater rate that will be used to fund WASA's share of District stormwater permit compliance activities. The stormwater rate was implemented in July 2001, and appears as a separate line item on WASA's retail customers' bills. In FY 2004, the District received a new stormwater permit that will significantly increase compliance costs for all participating agencies, and accordingly, WASA's FY 2006 share of stormwater revenues reflect a corresponding increase. The FY 2005 - 2014 financial plan assumes that all incremental costs borne by WASA for stormwater permit compliance activities will be covered by the stormwater rate approved by City Council, and that no WASA funds will be advanced to pay for these activities.

Howard University & Soldiers' Home – The District of Columbia entered into agreements with Howard University around 1900, and the Soldiers' Home in 1929 to provide free water service to these institutions in exchange for use of their property. Prior to WASA's formation in 1996, the District government also provided sewer service to both Howard University and the Soldiers' Home, although sewer service was not a part of either agreement. The Board of Directors reviewed the agreements in 1996, and determined that sewer exemptions should be eliminated. As planned, bills for sewer, metering, and right-of-way fees were sent to both Howard University and the Soldiers' Home. WASA will continue to work with both Howard and the Soldiers' Home to resolve this billing issue.

Other major assumptions underlying the revenue projections contained in the FY 2005 - 2014 financial plan include:

- Five percent increase in recorded consumption in 2006 for the remaining large federal and commercial meters to be installed as part of the AMR program. From FY 2007 – FY 2013, a one percent reduction in water sales is assumed for all customer categories, based on historical trends in consumption levels.
- One to three percent annual increase in revenues from wholesale customers between FY 2008 and 2014, consistent with operating and maintenance expense increase assumptions and the goals of the Blue Plains internal improvement plan.
- Based on the current interest rate environment, interest projections assume a 3.5 percent earnings rate in FY 2006 and 4.0 percent in FY 2007 on operating funds. On debt service reserve funds associated with the Series 1998 and Series 2004 bond issues, we have assumed slightly higher interest rates as these generally are invested in investments with longer maturities, although projected earnings are not in excess of the projected arbitrage yield on the bonds. Beyond FY 2007, interest rates are assumed to return to the 5.0 percent range.
- The majority of other non-operating revenues, totaling \$12.3 million in FY 2006, are projected to remain relatively stable over the ten year plan, and include such items as:
 - Reimbursement from Arlington County and Falls Church for debt service issued for pre-1997 Washington Aqueduct capital improvements - \$1.6 million
 - WASA's share of the District's stormwater fee - \$1.8 million
 - Fire protection fee that was adopted by the Board in January 2000 and is charged to the District of Columbia government - \$1.9 million
 - Recovery of indirect costs from WASA's IMA partners – \$3.0 million - this reflects recovery of indirect costs on capital projects (e.g., costs for Finance and Budget, General Counsel, and Human Resources functions)
 - Other miscellaneous fees and charges, including service line replacements, developer-related fees, etc. - \$4.0 million

Operating Expenditures

Due to WASA's \$2.2 billion capital improvement program, debt service is the fastest growing area of expenditure in the ten-year plan, growing at an average annual rate of 14.7 percent, and from 17 percent of expenditures in FY 2006 to 36 percent in FY 2014. All other operations and maintenance expenses are projected to grow at an average annual rate of 2.7 percent, due to implementation of internal improvement plans that are projected to result in operating savings. In FY 2006, WASA will complete an update of the Blue Plains IIP, taking into account progress under the CIP and management changes to date, and the results of this analysis will be factored into next year's ten-year plan.

The following chart provides detail for the FY 2006 and FY 2007 operating budgets.

COMPARISON OF FY 2006 & FY 2007 OPERATING BUDGETS
(In \$000's)

	FY 2006 APPROVED	FY 2006 REVISED	Percent Change	FY 2007 PROPOSED	Percent Change
Personnel Services	81,751	80,955	-1.0%	85,233	5.3%
Contractual Services	62,306	62,177	-0.2%	63,400	2.0%
Water Purchases	18,916	19,413	2.6%	19,995	3.0%
Chemicals & Supplies	18,592	20,606	10.8%	20,688	0.4%
Utilities	28,316	30,161	6.5%	30,383	0.7%
Small Equipment	970	982	1.2%	1,102	12.2%
Lead Abatement	5,301	1,700	-67.9%	-	-100.0%
Subtotal Operations & Maintenance	216,152	215,994	-0.1%	220,801	2.2%
Debt Service	62,579	57,959	-7.4%	73,090	26.1%
PILOT / Right of Way Fee	16,979	16,923	-0.3%	17,751	4.9%
Subtotal Debt Service & PILOT / ROW	79,558	74,882	-5.9%	90,841	21.3%
TOTAL OPERATING	295,710	290,876	-1.6%	311,642	7.1%
Less Personnel Services Charged to Capital Projects	(9,349)	(9,349)	0.0%	(9,816)	5.0%
TOTAL NET OPERATING	286,361	281,527	-1.7%	301,826	7.2%

The revised FY 2006 budget totals \$290.9 million, 1.6 percent lower than the Board-approved FY 2006 budget, due primarily to lower debt service costs because of lower than projected capital spending in FY 2005. A description of the assumptions and major issues in each major expenditure category follows.

- **Personnel service expenditures** are \$0.8 million, or 1.0 percent less than the approved FY 2006 budget. This decrease is primarily due to more realistic vacancy rates based on historical filled position levels that have declined significantly over the last five years. These budgeted savings are slightly offset by projected compensation increases of five percent Authority-wide, which covers all projected increases in personnel services, including projected increases in health insurance premiums, pay for performance and other compensation increases for union and non-union employees, and other components such as step increases. WASA is currently negotiating a new collective bargaining agreement with its unions; the existing four-year agreement expired on September 30, 2003.
- **Contractual service expenditures** remain relatively flat, reflecting the following:
 - Reduction of \$0.8 million in electrical maintenance and biosolids dewatering costs at Blue Plains as part of IIP implementation

- Increases in certain departmental contractual service budgets, including \$0.4 million for outside legal services; \$0.2 million for support of new information technology projects that are becoming operational; and \$0.2 million for human resources consulting.
- **Chemicals and supplies expenditures** increase by \$2.0 million, or 11 percent, in FY 2006 due to higher unit prices for the majority of chemicals used at Blue Plains, in large part due to rising oil and energy prices.
- **Utilities expenditures** increase by \$1.8 million, or 6.5 percent. In February 2005, Pepco's cap on electricity generation charges expired, exposing WASA to significant rate increases. In December 2004, we executed two one-year contracts for power: one with Pepco for approximately one percent of total generation costs at a fixed price, and a second contract with Amerada Hess for the remaining 99 percent of generation costs, including Blue Plains. The Amerada Hess contract provides for fixed pricing on approximately 23 percent of total generation charges and variable pricing based on market rates for the remaining 77 percent. Prices have been extremely high this past year due to rising oil prices, heavy global demand for power and oil, and Hurricane Katrina. Subsequently, in summer 2005, WASA entered into a successor five-year contract for generation that allows WASA to lock in blocks of power at a fixed price when futures pricing meets budget targets. To the degree that WASA does not lock in blocks, pricing will be established each day at market rates with direct pass-through of all costs. The contract includes an enhanced process for block power purchases that gives WASA access to the wholesale market and provides more transparency in reviewing the bids from wholesalers.
- **Lead abatement expenditures** -- In FY 2005, WASA included \$2.8 million in its revised operating budget to cover unanticipated operating costs associated with the lead abatement program, including water filters, public affairs, and public health consulting services. This caused WASA to exceed its Board-approved budget, requiring either a supplemental appropriation from Congress or, as was done in FY 2004, a memorandum of understanding with the District to temporarily fund these costs. Because WASA was uncertain whether a supplemental appropriation would be approved, we conservatively included an additional \$2.8 million in the proposed FY 2006 budget so that if we had to pursue the District MOU option, we would have sufficient appropriations authority to repay in FY 2006. We were successful in our efforts to secure a supplemental appropriation and do not need MOU repayment authority, which accounts for the majority of the reduction in this expenditure category. In addition, because the addition of orthophosphate to the treatment process has been very successful (see Section 1) and lead testing results have been positive in FY 2005, we have reduced our budget for filters in FY 2006, and have included no funding for filters in FY 2007.

The proposed FY 2007 budget totals \$311.6 million, a 7.1 percent increase over the revised FY 2006 budget, primarily due to increased debt service for the capital program. The FY 2006 operations and maintenance budget (net of debt service, the payment in lieu of taxes, and the right of way fee) increases by 2.2 percent, with the increase due primarily to projected compensation increases and projected inflationary increases in contractual services and water purchases costs, offset by a significant reduction in lead abatement costs. Specific information regarding each department is included in Section 7.

Beginning in FY 2007, the ten year financial plan reflects the following major assumptions:

- One to two percent increase over proposed FY 2007 levels in most expense categories, reflecting implementation of the Blue Plains and other departmental internal improvement programs.
 - Beginning in FY 2012, operating expenses are projected to increase by three percent, reflecting completion of the internal improvement programs.
- Three percent increase in water purchase costs, based on projected Washington Aqueduct budget trends.
- Payment in lieu of taxes (PILOT) to the District of Columbia increases at the same rate as WASA retail rate increases, in accordance with the memorandum of understanding with the District.
- The net right of way payment to the District of Columbia stays level at \$5.1 million through FY 2014 consistent with the memorandum of understanding with the District.

Capital Financing Program, Cash Position, & Long-Term Debt

The FY 2005 - 2014 financial plan funds total capital disbursements of \$2.2 billion, a \$106 million increase above last year's plan due to the extension of the lead service line replacement program to 2014 and other capital project increases. The permanent financing of WASA's capital program comes from four primary sources, as more fully described below. The amount of EPA grant funding is defined by annual federal appropriations, while jurisdictional capital contributions are based on a fixed percentage of Blue Plains and other shared facilities. The remainder of the program is funded with WASA debt and pay-go financing from operations. The amount of pay-go financing is equal to the amount available after fully funding the six months' operating reserve and meeting Board policies on the level and timing of rate increases and debt service coverage.

During FY 1999, WASA developed a comprehensive financing plan with the dual goals of 1) securing the lowest cost of capital possible, and 2) maximizing administrative and operating flexibility. The plan includes the following components:

- *Utilize available pay-as-you-go financing to pay down higher cost, taxable U.S. Treasury notes for the Washington Aqueduct* Rather than permanently funding WASA's share of Aqueduct improvements with higher cost, taxable U.S. Treasury notes, WASA uses available pay-go funds, prepaying all outstanding Treasury notes, totaling \$59 million at the end of FY 2004.
- *Establish an interim financing program to finance construction* – In early FY 2002, WASA developed a \$100 million commercial paper program for this purpose which has been extremely successful. We expect that remaining Series 2004 proceeds will not be fully spent until the fourth quarter of FY 2006, when we will begin utilizing our commercial paper program again.
- *Issue permanent financing every twelve to 24 months to take out interim financing proceeds.*

Additional details on each financing source are described below.

	FY2005 - 2014 PLAN	Percent
	TOTAL	of Total
EPA Grants / CSO Appropriations	\$ 270,463,338	12.1%
Wholesale Capital Payments	421,508,221	18.9%
Revenue Bonds / Commercial Paper	1,412,840,872	63.4%
Pay-Go Financing	105,148,506	4.7%
Interest Income on Bond Proceeds	19,476,210	0.9%
TOTAL SOURCES	\$ 2,229,437,147	100.0%

1. **EPA Grants** - WASA currently receives 55 - 80 percent EPA grant funding for certain eligible projects under the Clean Water and Safe Drinking Water Acts. In general, the District of Columbia projects carried out by WASA are supported by approximately one percent of the available annual funding through revolving fund programs associated with the Clean Water and Safe Drinking Water Acts. In addition, WASA has received \$84 million in Congressional appropriations for the CSO LTCP.

2. **Wholesale Capital Payments** - Nearly 60 percent of the capacity of WASA's wastewater treatment facilities are contractually committed to provide wholesale service to suburban jurisdictions under various contracts. Montgomery and Prince George's Counties (through the Washington Suburban Sanitary Commission (WSSC)), Fairfax County, and the Loudoun County Sanitation Authority pay a proportionate share of capital-related costs equal to their share of contracted capacity at Blue Plains.
3. **Revenue Bonds/ Commercial Paper** – Debt issuance represents 63 percent of funding for the ten year capital program. A common ratio used by the rating agencies to measure leverage and debt burden is the ratio of debt to net fixed assets (plant). In FY 1998, WASA's debt to plant ratio was 39 percent, and, based on the current capital improvement program, is projected to increase to 57 percent through FY 2014, a low level given the size of WASA's capital program and when compared to other comparable utilities. In addition, debt service as a percentage of total operating expenditures remains at or below 36 percent or less through the ten-year planning period, even with substantial new debt issuance projected during this period.
4. **Pay-Go (Internal) Financing** - The amount transferred from operations to the capital program each year is equal to the amount remaining in cash reserves after the six month operating and maintenance reserve and rate stabilization fund goals have been satisfied. Approximately five percent of total funding for the FY 2005 - 2014 plan is projected to come from pay-go financing, which strikes an appropriate balance between maintaining moderate debt levels and financing provided by current ratepayers. Pay-go funds will be used in a manner consistent with our financial policies: 1) to fund items with shorter useful lives where bond financing is less appropriate, such as capital equipment; and 2) to achieve the lowest cost of capital possible, including using pay-go funds to reduce higher cost debt.

FY 2006 & 2007 Debt Issuance Plans & Debt Service Assumptions

WASA successfully issued \$295 million of subordinate lien revenue bonds in August 2004. These bonds were issued as auction rate securities which carry short-term variable rates. Through September 2005, the simple average interest rate was 1.97 percent, significantly less than fixed rate debt. As noted above, based on current capital spending projections, WASA projects that Series 2004 proceeds will last through the fourth quarter of FY 2006, after which the commercial paper program will be utilized. We expect that the next permanent financing, which we anticipate issuing as senior lien, fixed rate revenue bonds, will be issued in early calendar year 2007.

Our interest rate assumption on new bond issues in FY 2007 and beyond is 6.5 percent, in line with historical interest rate trends although substantially higher than current market conditions. On variable rate debt (i.e., the Series 2004 auction rate securities and commercial paper), the ten year plan assumes interest rates of four percent through the life of the plan, plus ongoing fiscal charges for broker-dealers, ratings, etc. This assumption is based on average short-term rates since 1981. For appropriations purposes, we have assumed higher interest rates on variable rate debt than in the ten-year plan in order to provide us with sufficient flexibility to address short-term peaks in interest rates, if required, without going through the Congressional approval process, which can be lengthy.

Cash Position & Reserves

Cash balances totaled \$221.6 million at the end of FY 2005. As described below, this includes \$31.5 million for rate stabilization and \$73.8 million for the special Congressional appropriation WASA received in FY 2003 through FY 2005 for the CSO LTCP, net of reimbursements to date. Over the next ten years, cash balances are projected to remain close to the Board-required reserve levels, with the operating and maintenance reserve totaling \$97.7 million in FY 2005 and growing to approximately \$123.9 million in FY 2014, based on projected growth in operations and maintenance expenses.

In FY 2004, the Board completed a review of its existing financing policies, reaffirming the core policies. Two modifications were made to the reserves policy: 1) Changing the timing of when WASA is required to meet its overall operations and maintenance reserve requirement from September 1 to an average daily balance basis, resulting in a more conservative calculation; and 2) revising the indenture-required renewal and replacement reserve requirement from two percent of original plant in service to \$35 million, with a requirement to revisit this reserve level every five years in conjunction with the indenture-required system assessment prepared by WASA's independent rate consultants.

WASA's base six month operating reserve includes the following components:

PROJECTED FY 2006 YEAR-END CASH RESERVES (1)
(In 000's)

BOARD-ADOPTED OPERATING RESERVE (180 Days O&M)	
60 Day Operating Reserve (Indenture-Required)	\$ 34,141
Renewal & Replacement Reserve (Indenture-Required)	35,000
District of Columbia General Obligation Reserve	601
Undesignated Reserve	<u>32,680</u>
TOTAL OPERATING RESERVE	\$ 102,422
Reserve for Rate Stabilization Fund	<u>31,500</u>
TOTAL OTHER RESERVES	\$ 31,500
TOTAL CASH RESERVES	<u>\$ 133,922</u>

(1) Excludes special CSO LTCP funding

- *Indenture-Required Operating Reserve* - This reserve is required by WASA's bond indenture and is equivalent to two months' operations and maintenance expenses, or approximately \$34.1 million in FY 2006.
- *Renewal & Replacement Reserve* - This reserve is funded at \$35.0 million based on the revisions approved by the Board to the financing policies in 2004. As noted above, the level of this reserve will be reviewed every five years by WASA's independent rate consultants in conjunction with the indenture-required assessment of the physical condition of the system.
- *District of Columbia General Obligation Bond Reserve* - This reserve is required under WASA's memorandum of understanding with the District of Columbia regarding payment of District general obligation bonds that WASA is responsible for. This reserve is equal to ten percent of the subsequent fiscal year's debt service, or \$0.6 million in September 2006.
- *Undesignated Reserve* - After allocating portions of the 180 day operating and maintenance reserve to the reserves listed above, the amount that remains (approximately \$32.7 million projected for FY 2006) is WASA's undesignated reserve, and is available for other contingencies.

WASA has other reserves that are available to it in very specific circumstances:

- *Rate Stabilization Fund* - Consistent with the Board's financial policies and as envisioned in the bond indenture, this fund is to be established to mitigate large annual rate increases. At the end of FY 2005, the balance in this fund totaled \$31.5 million. Future deposits to the rate stabilization fund will be determined annually based on financial performance in that fiscal year and updated ten-year capital and operating forecasts.
- *Debt Service Reserve Funds* - The supplemental bond indenture associated with each bond issue require WASA to maintain a debt service reserve fund for its Series 1998 senior lien bonds and its Series 2003 and Series 2003 and 2004 subordinated lien revenue bonds. The Series 1998 and Series 2004 reserves were funded with bond proceeds; the Series 2003 reserve was funded through the purchase of a surety bond. This reserve is in addition to the 180 day operating and maintenance reserve, is held by WASA's trustee and can only be used in the event that net revenues are insufficient to meet the next debt service payment. WASA earns interest on this reserve that is included in other operating revenue and is used to offset annual debt service payments. (The amount of interest earnings that WASA can retain on the debt service reserve fund is limited by federal arbitrage restrictions.)

Long-Term Operational & Financial Issues

Over the next ten years, WASA faces a number of significant operational and related financial issues that will impact future financial plans:

Combined Sewer Overflow Long-Term Control Plan –As described earlier in this document, the approval of this twenty-year, \$1.9 billion plan marks a significant milestone for WASA and the District. While the retail rate impact in the early years of the plan is mitigated by a somewhat back-loaded schedule, if no additional federal assistance is secured, the long-term impact on retail rates will be substantial.

Stormwater – WASA has completed its fourth year as administrator of the District's Stormwater Compliance Enterprise Fund, which includes coordination of work among the District's Departments of Health, Transportation and Public Works to ensure compliance with the District's stormwater permit. To fund these efforts, in FY 2001, WASA implemented the District's stormwater fee, which was passed by City Council but appears on WASA's water and sewer bill as a separate line item. The District recently received a new

permit, and the stormwater task force is currently analyzing it to determine financial and operating impacts. The FY 2005 - 2014 financial plan assumes that all incremental costs borne by WASA for stormwater will be covered by the District's stormwater fee, including any additional requirements of the new permit.

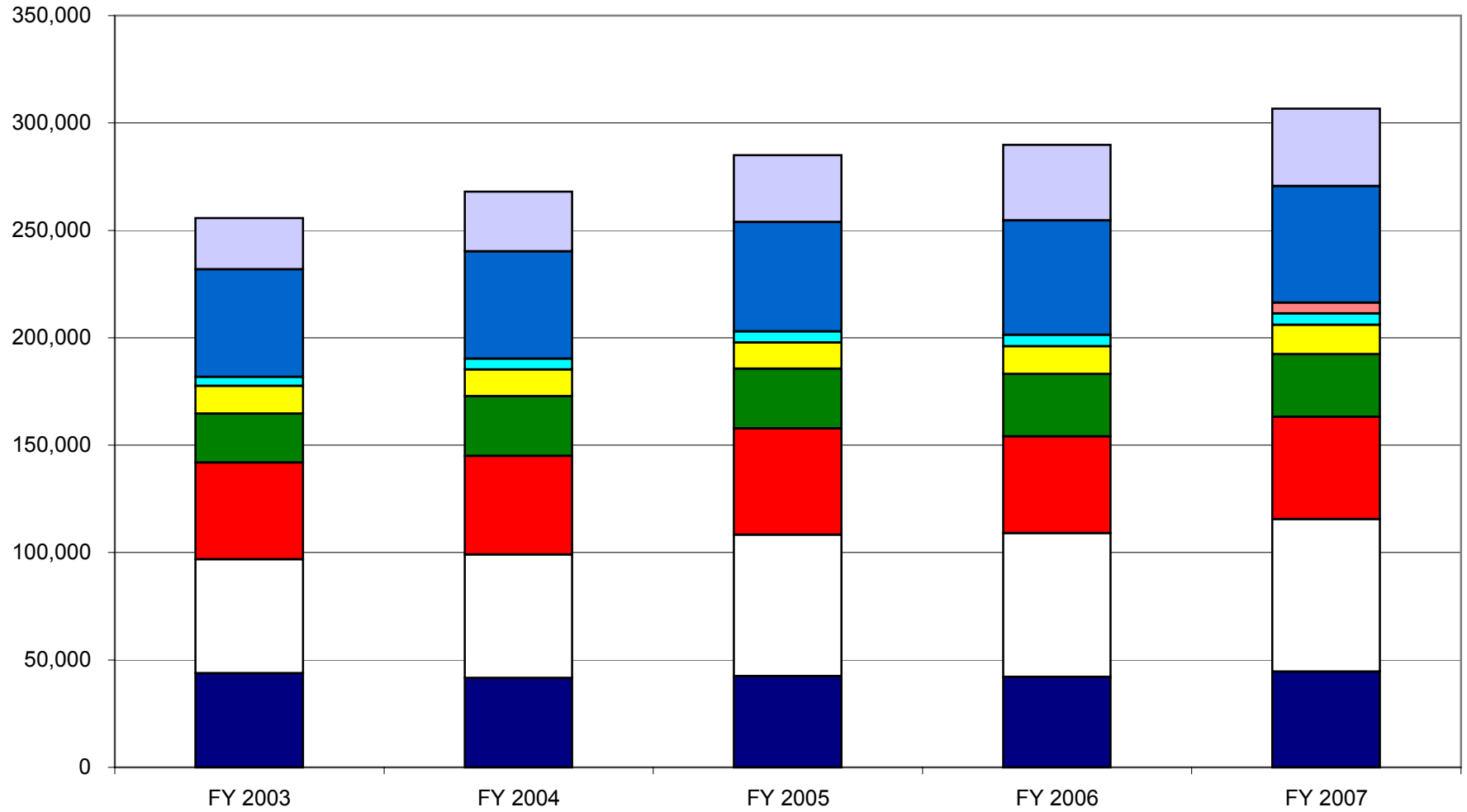
Other Issues – WASA faces a number of other regulatory issues that could result in significant new capital and operating costs, such as additional nutrient removal requirements as part of the Chesapeake Bay Program. These issues, which are described in more detail in Section 1 of this document, will be closely monitored by WASA over the next year and included in future years' plans, as appropriate.

Results

WASA's adherence to the Board's financial and rate-setting policies by implementing prior ten year plans has been one of the key reasons for WASA's financial success. The consistent support for and implementation of the plan has been commended and acknowledged by the capital markets and broader financial community, as evidenced by WASA's bond ratings of Aa3 / AA- / AA-.

Continued adherence to Board policies and the proposed ten year plan will provide the financial resources to meet our ongoing commitment to 1) provide world-class service to our customers and 2) meet our regulatory and environmental obligations. An essential component of meeting these goals is fully funding the capital program, which the ten year plan accomplishes. Continuing implementation of the plan and its underlying policies will result in maintenance of WASA's already strong bond ratings, producing continuing reductions in WASA's cost of capital which will be passed on to WASA's customers.

Historical & Projected Cash Receipts (\$000's)



■ Residential
 □ Commercial
 ■ Multi-family
 ■ Federal Government
 ■ Municipal & Housing
 ■ Metering Fee
 ■ RSF
 ■ Wholesale
 ■ Other Revenues

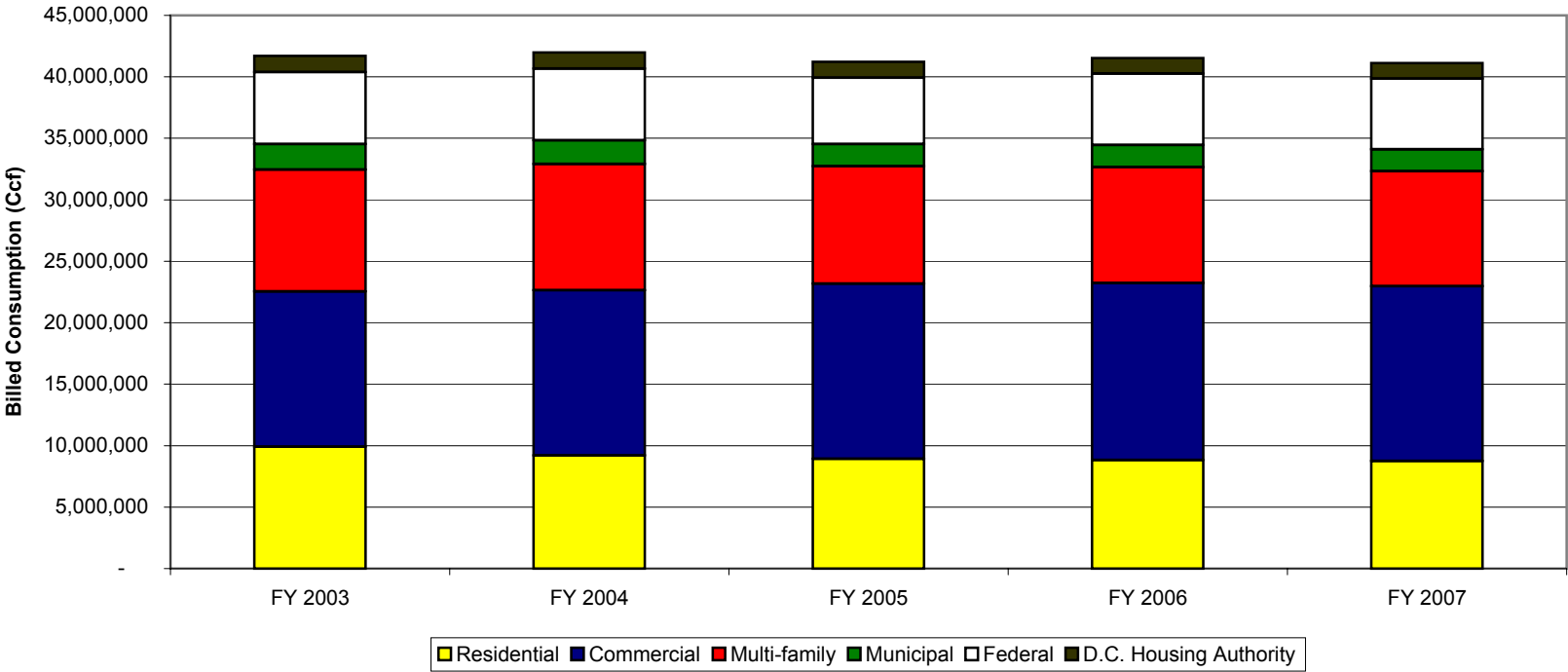
Historical and Projected Operating Cash Receipts

(\$ 000's)

	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Proposed	FY 2007 Proposed
Residential	43,842	41,633	42,424	42,096	44,604
Commercial	53,065	57,429	65,822	66,922	70,909
Multi-family	44,978	45,940	49,494	45,020	47,654
Federal Government (1)	22,777	27,770	27,782	29,094	29,246
District Government	7,208	6,770	6,367	6,713	7,111
D.C. Housing Authority	5,705	5,691	5,869	6,166	6,532
Transfer from Rate Stabilization Fund					5,000
Metering Fee	4,240	5,074	5,220	5,300	5,300
Total Retail	<u>181,815</u>	<u>190,307</u>	<u>202,979</u>	<u>201,311</u>	<u>216,356</u>
IMA Wastewater Charges	46,289	45,512	46,695	48,663	49,564
Potomac Interceptor Wastewater Charges	3,761	4,438	4,182	4,675	4,759
Total Wholesale	<u>50,050</u>	<u>49,950</u>	<u>50,878</u>	<u>53,338</u>	<u>54,323</u>
District Stormwater Revenue (2)	840	633	1,338	1,800	1,800
Misc. Rev. (e.g. water tap installation, fire hydrant usage, etc.)	8,508	9,330	8,983	8,924	8,925
Washington Aqueduct Debt Service Revenue for Falls Church & Arlington	1,908	1,831	1,795	1,563	787
Interest Income (including interest on Bond Debt Service Reserve Fund)	2,776	1,930	4,615	6,486	6,732
Right of Way / PILOT Fee	9,866	14,082	14,487	16,369	17,751
Total Other	<u>23,898</u>	<u>27,807</u>	<u>31,218</u>	<u>35,142</u>	<u>35,995</u>
Total Operating Cash Receipts	<u><u>255,763</u></u>	<u><u>268,064</u></u>	<u><u>285,075</u></u>	<u><u>289,792</u></u>	<u><u>306,674</u></u>

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

Historical and Projected Billed Consumption (Ccf)



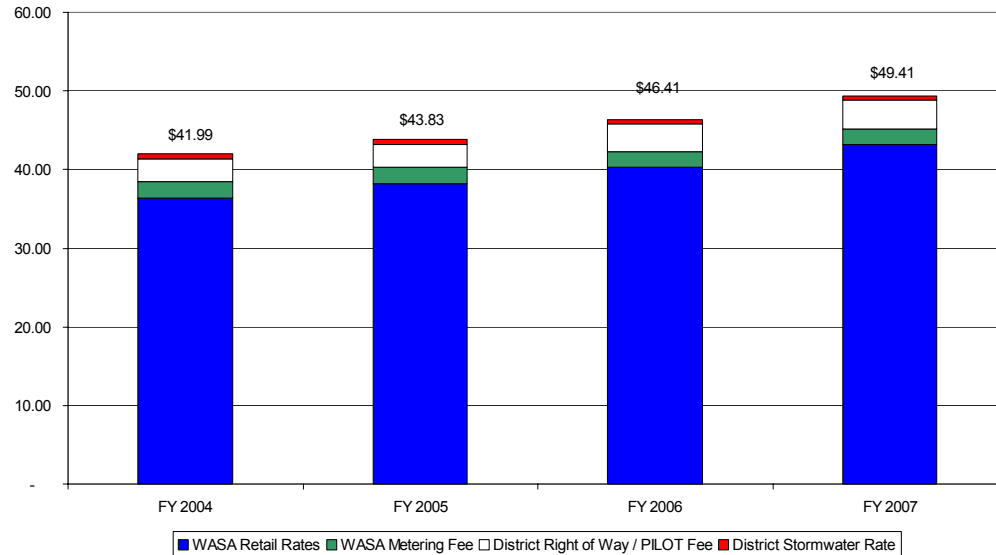
Historical and Projected Billed Consumption (Ccf)

	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Projected	FY 2007 Projected
Residential	9,923,906	9,209,899	8,918,802	8,830,000	8,742,000
Commercial (1)	12,617,502	13,431,527	14,258,259	14,380,000	14,237,000
Multi-family	9,902,788	10,262,286	9,546,442	9,451,000	9,356,000
Municipal (2)	2,079,107	1,928,743	1,797,421	1,780,000	1,762,000
Federal	5,861,776	5,834,218	5,403,769	5,821,000	5,763,000
D.C. Housing Authority	<u>1,328,779</u>	<u>1,311,775</u>	<u>1,286,444</u>	<u>1,274,000</u>	<u>1,261,000</u>
	41,713,858	41,978,448	41,211,137	41,536,000	41,121,000

- (1) Reflects consumption at Commercial facilities and selected facilities at Howard University and Soldiers' Home.
- (2) Reflects consumption at District of Columbia Government facilities and WASA facilities
- (3) Ccf - hundred cubic feet or 748 gallons

RECENT & PROPOSED RATE & FEE CHANGES

AVERAGE RESIDENTIAL MONTHLY BILL FY 2004 – FY 2007



	FY 2004	FY 2005	FY 2006	FY 2007
WASA Retail Rates (1)	36.40	38.23	40.32	43.15
WASA Metering Fee	2.01	2.01	2.01	2.01
Subtotal WASA Rates & Charges	\$ 38.41	\$ 40.24	\$ 42.33	\$ 45.16
Increase / Decrease	\$ 0.92	\$ 1.83	\$ 2.08	\$ 2.83
District of Columbia Right of Way / PILOT Fee (1)	\$ 3.00	\$ 3.00	\$ 3.50	\$ 3.67
District of Columbia Stormwater Fee	0.58	0.58	0.58	0.58
Subtotal District of Columbia Charges	\$ 3.58	\$ 3.58	\$ 4.08	\$ 4.25
Total Amount Appearing on WASA Bill	\$ 41.99	\$ 43.83	\$ 46.41	\$ 49.41
Increase / Decrease Over Prior Year	\$ 0.92	\$ 1.83	\$ 2.58	\$ 3.00
Percent Increase in Total Bill	2.2%	4.4%	5.9%	6.5%

(1) Assumes average monthly consumption of 8.33 Ccf, or 6,231 gallons.

FY 2006 RATE & FEE CHANGES

Effective October 1, 2005, the Board increased rates and fees as follows:

- *Water & sewer usage rate increase of 5.5 percent*
- *Right of way / PILOT fee* – This fee increased to recover the full cost of the combined right of way / PILOT fee charged to WASA by the District of Columbia.

These changes increased the typical residential customer's monthly bill by \$2.58, or 5.9 percent. Projected additional revenue totals approximately \$12 million.

PROPOSED FY 2007 RATE & FEE CHANGES

The FY 2007 budget and ten-year plan include the following proposed changes:

- *Water & sewer usage increase of 7.0 percent*
- *Right of way / PILOT fee increase of 4.8 percent* to recover the full cost of this District fee

If approved, these changes will increase the typical residential customer's monthly bill by \$3.00, or 6.5 percent.

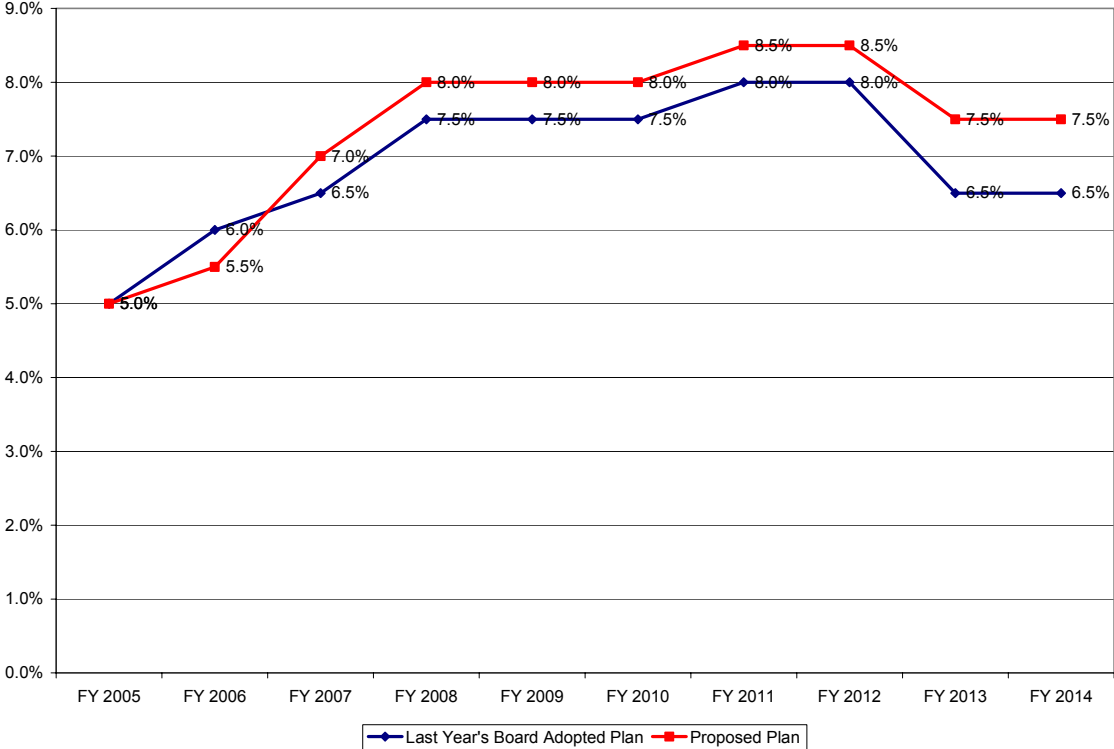
At the direction of the Retail Rates Committee, management is evaluating several retail rate structures and changes including the following:

- Land or impervious surface-based structures for CSO cost recovery
- Groundwater
- Fixed capacity and inverted block rate structures for water and sewer cost recovery

Analysis of these changes will be presented to the Committee later this fall.

FY 2005 – 2014 FINANCIAL PLAN PROJECTED RETAIL RATE & FEE CHANGES

FY 2005 – 2014 Projected Rate Increases



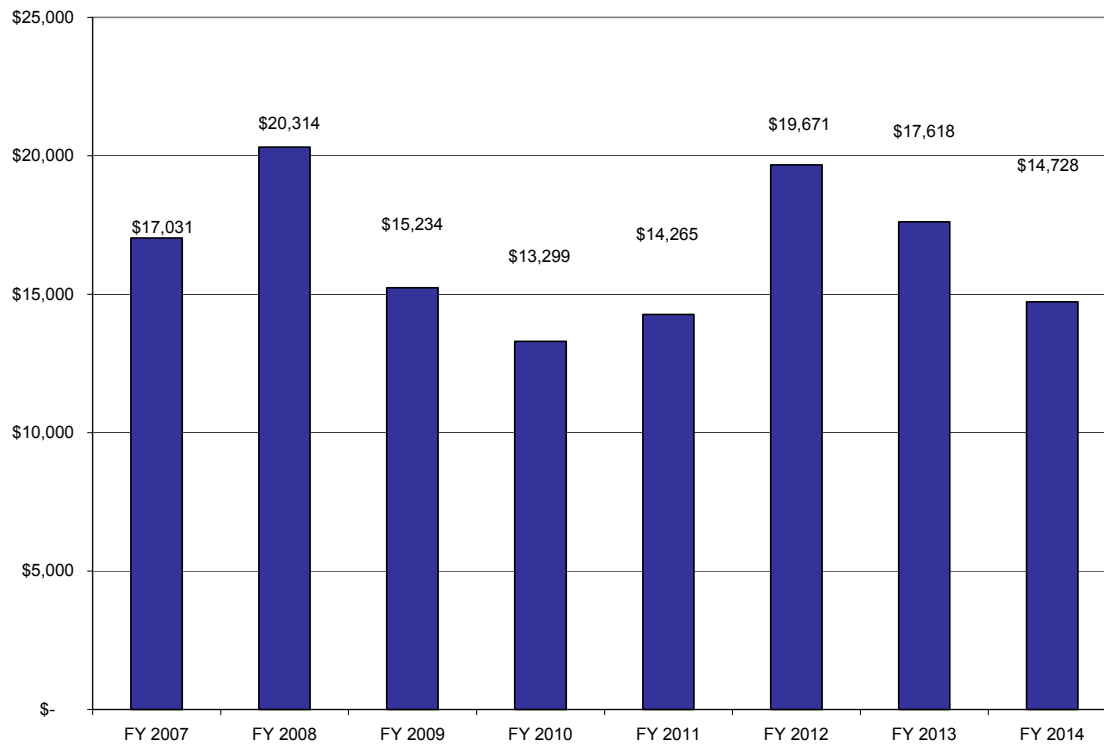
- Projected rate increases under this year's plan total 73.5 percent, an increase over last year. This is due primarily to the extension of the lead program through 2014 and other capital project increases, including the digesters, the Washington Aqueduct residuals project, and water quality projects.
 - If all projected rate increases are implemented as planned, the average residential customer's bill will increase from \$46.41 in FY 2006 to \$80.25 in FY 2014

- Projected rate increases are driven almost entirely by WASA's \$2.2 billion capital improvement program.

- The CIP includes the first ten years of the Board approved, twenty-year CSO Long-Term Control Plan (see the following pages and Sections I and III for more details). If additional outside funding is secured, rate increases could be lower in the later years of the ten-year plan.

FY 2007 – 2014 FINANCIAL PLAN PROJECTED RETAIL RATE & FEE CHANGES, cont.

**Incremental Increase In Revenues ⁽¹⁾
FY 2007 – FY 2014
(In \$000's)**

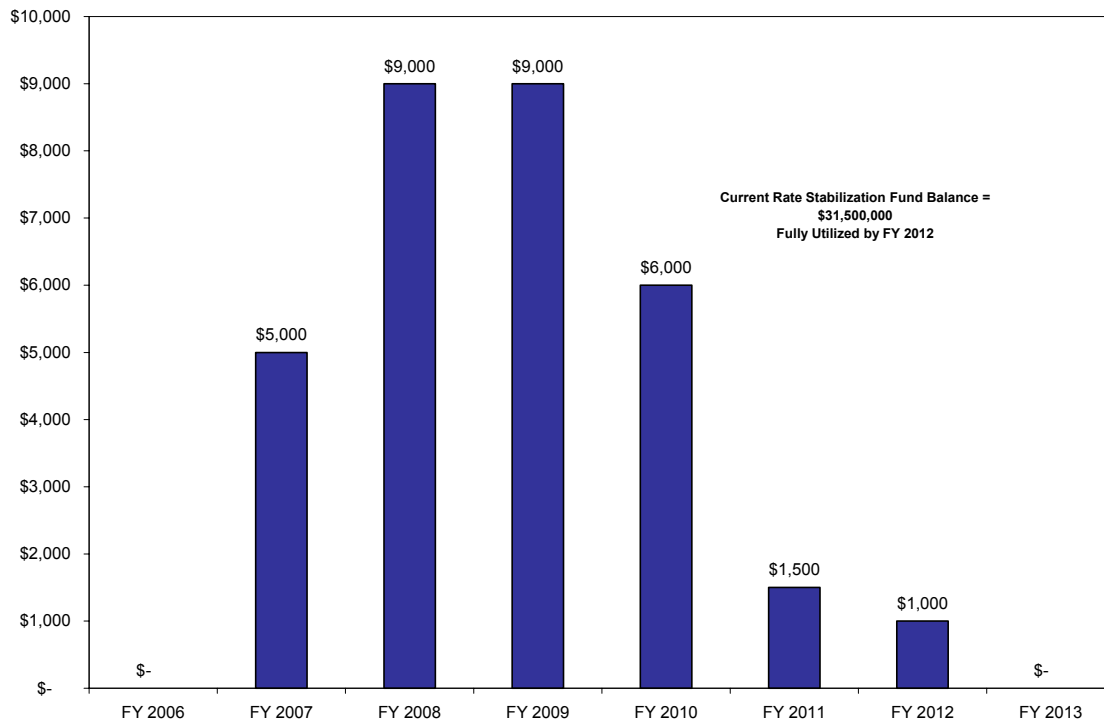


- As shown in the chart at left, incremental increases in revenues are projected to range from \$13 million to \$20 million in FY 2007 – FY 2014, due to:
 - Proposed rate increases ranging from 5.5 percent to 8.5 percent.
 - Projected increases in billed consumption due to the meter replacement / AMR program, including five percent on the remaining large (three inches or greater) federal and commercial meters to be installed in 2006 and 2007.

(1) Includes transfers in from the Rate Stabilization Fund.

FY 2005 – 2014 FINANCIAL PLAN PROJECTED RETAIL RATE & FEE CHANGES, cont.

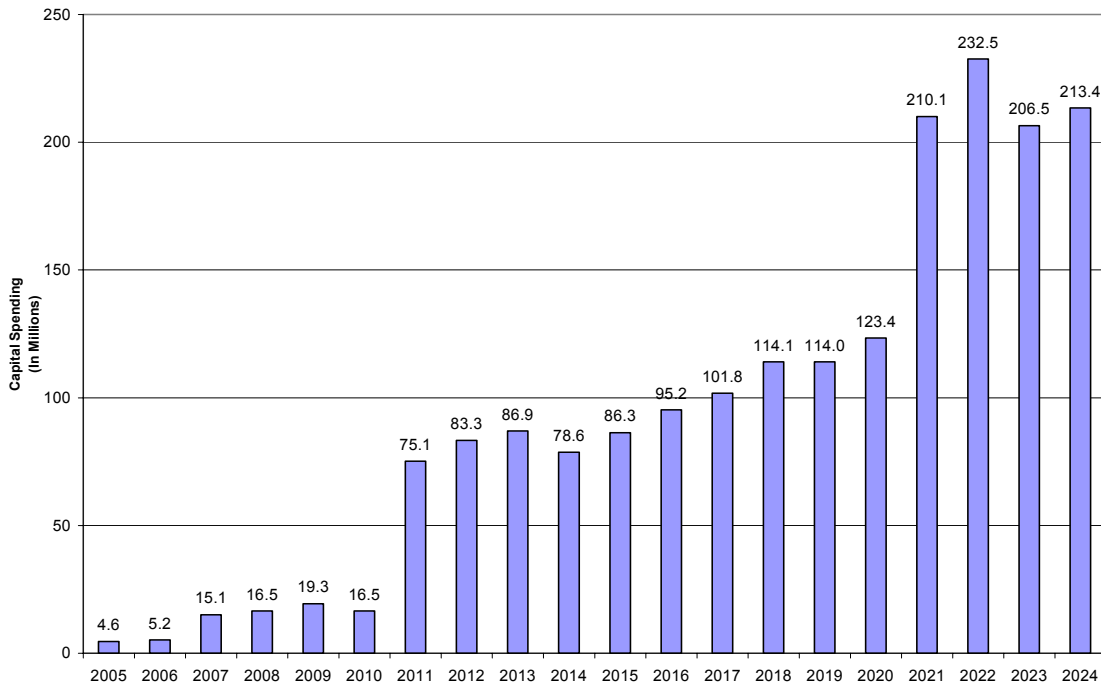
**Rate Stabilization Usage
FY 2006 – FY 2014
(In \$000's)**



- At the end of FY 2005, WASA's rate stabilization fund balance was \$31.5 million. It will be fully utilized by FY 2012, as shown in the chart at left.

POTENTIAL IMPACT OF CSO LONG-TERM CONTROL PLAN ON RATES

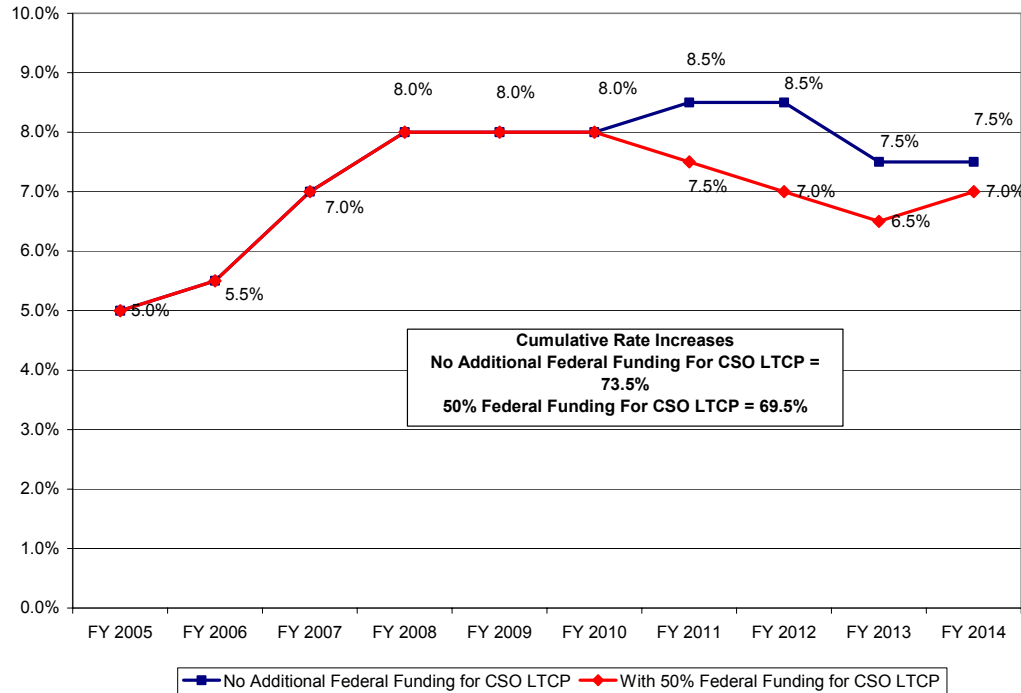
CSO LTCP Capital Spending By Fiscal Year



In December 2004, the Board reached agreement with the federal government on the CSO Long-Term Control Plan (LTCP) and entered into a related consent decree. Capital costs for this twenty-year plan total approximately \$1.9 billion with inflation. Spending in the early years of the plan is significantly less than the latter years, allowing for a gradual rate increase implementation schedule. Projected spending by fiscal year is shown in the chart at left.

POTENTIAL IMPACT OF CSO LONG-TERM CONTROL PLAN ON LONG-TERM RATES, cont.

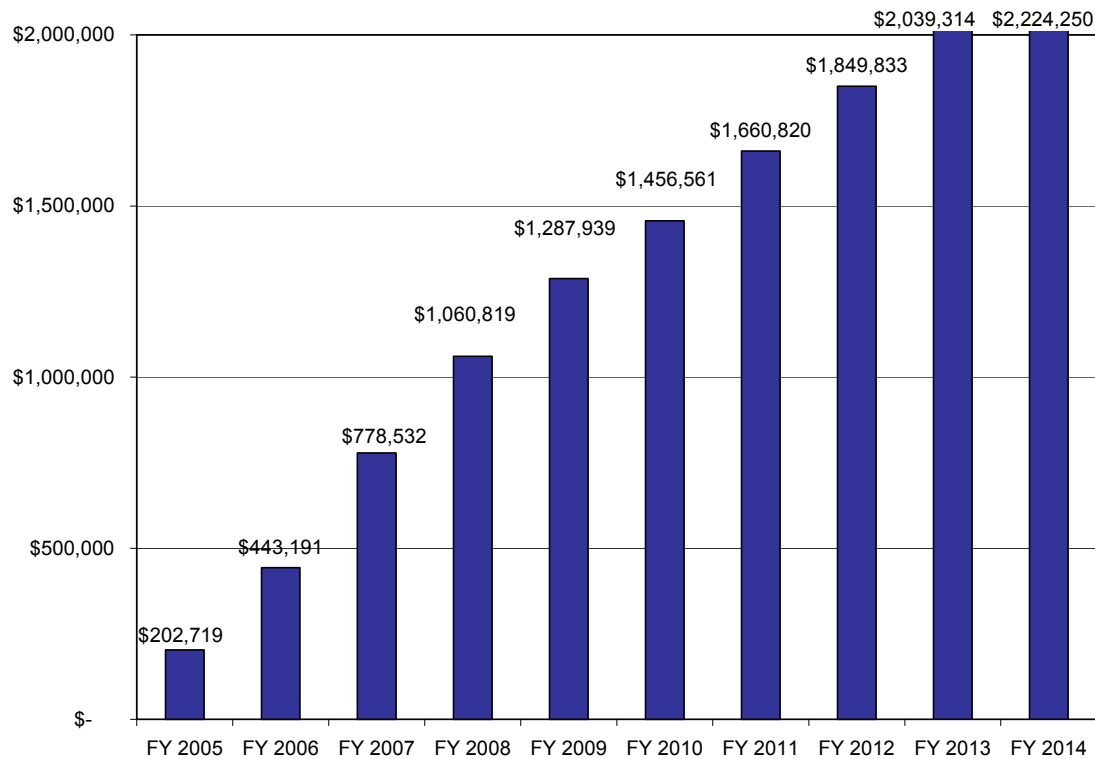
**Retail Rate Projections
With and Without Additional Federal Funding for the CSO LTCP**



- Because projected spending under the CSO LTCP is somewhat backloaded, the near-term impact on rates is mitigated.
- Additionally, if significant federal assistance is provided, rate increases would be lower, as shown in the chart at left.
- Assuming no additional federal assistance, at the end of the twenty-year implementation period, the typical residential customer's monthly wastewater bill is projected to be \$110, an increase of 325 percent over the current monthly wastewater bill of \$26.
- WASA is currently evaluating alternative CSO and stormwater rate structures.

WHY RATE INCREASES ARE NEEDED

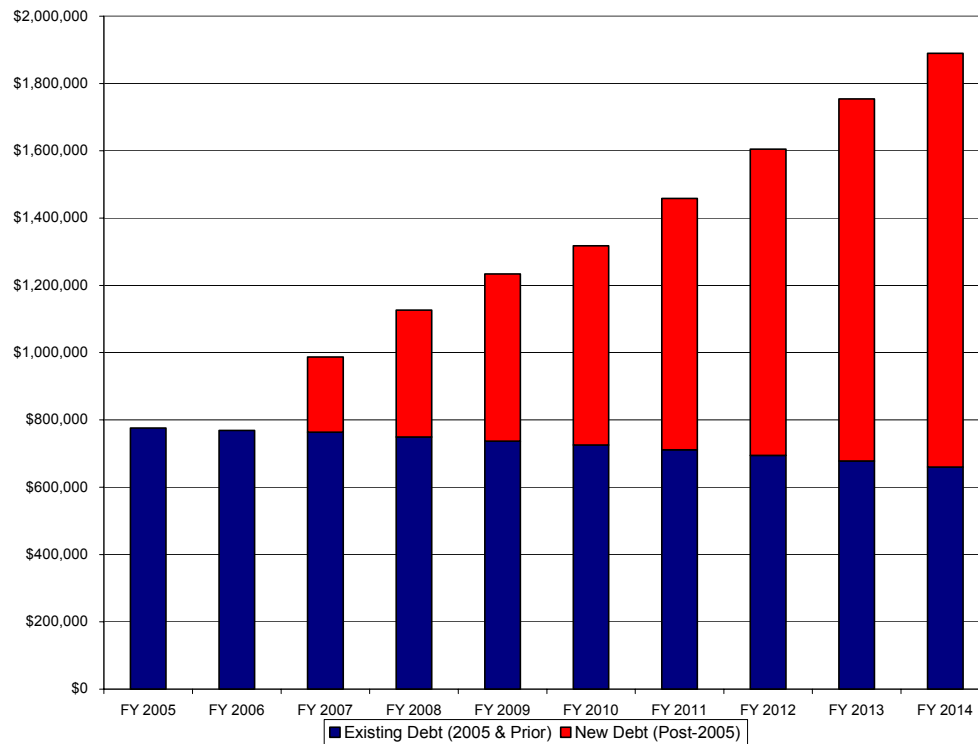
CUMULATIVE CAPITAL SPENDING
FY 2005 – 2014
(In \$000's)



- WASA's ten-year capital improvement program totals \$2.2 billion, with annual spending ranging from \$185 million to \$335 million.
- Once completed, the ten-year capital improvement program will double the book value of WASA's infrastructure.
- The ten-year plan includes the first ten years of the Board-approved twenty-year CSO LTCP, totaling \$490 million. The balance of the CSO LTCP, totaling \$1.4 billion including inflation, falls in the years beyond the current ten-year planning period.

WHY RATE INCREASES ARE NEEDED, cont.

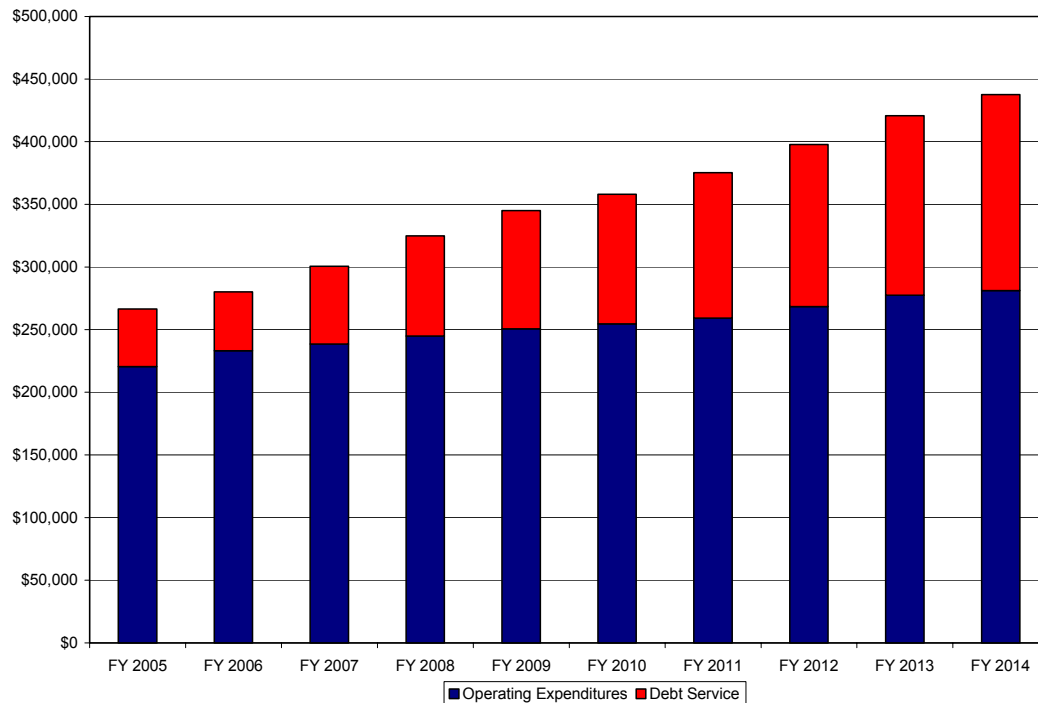
NEW & EXISTING DEBT OUTSTANDING
FY 2005 – 2014
(In \$000's)



- The largest source of funding for WASA's capital program is debt.
- Over the next ten years, WASA will issue approximately \$1.3 billion in new debt (which includes the funding of reserves and costs of issuance), increasing total debt outstanding from \$776 million at the end of FY 2005 to almost \$1.9 billion at the end of FY 2014.

WHY RATE INCREASES ARE NEEDED, cont.

OPERATING & DEBT SERVICE EXPENDITURES
FY 2005 – 2014
(In \$10's)



Over the ten-year period, total expenditures increase on average by 5.7 percent annually.

WASA'S proposed rate increases are primarily required to fund increasing debt service costs.

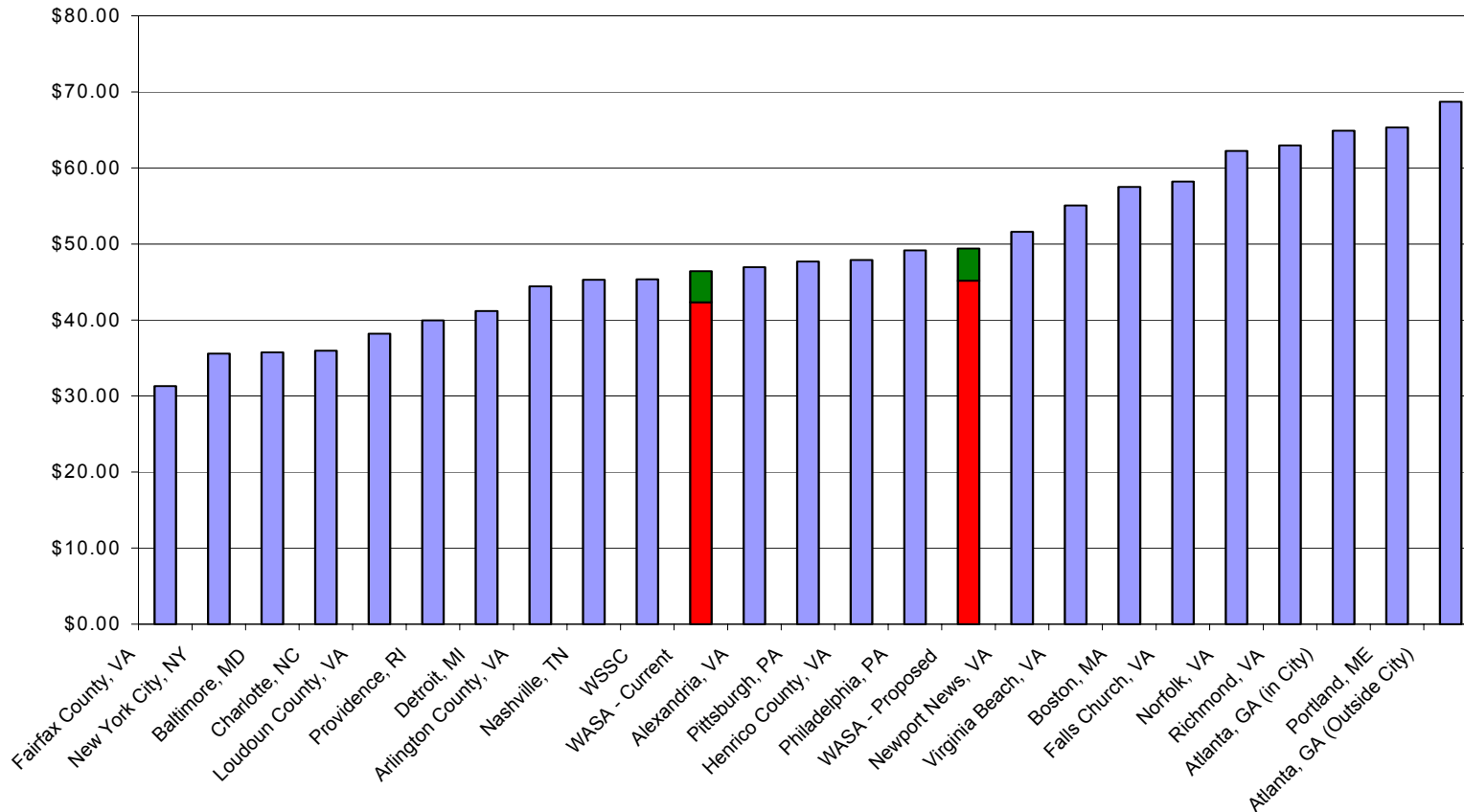
- Operations and maintenance expenditures (excluding the payment in lieu of taxes and right of way fee) increase on average by only 2.7 percent annually.
- Debt service expenditures grow at an annual average rate of 14.9 percent.

This year's ten-year financial plan reflects WASA's revenue enhancement and cost-saving initiatives that are already underway:

- Increased revenues as the AMR program is completed
- Internal Improvement Program savings

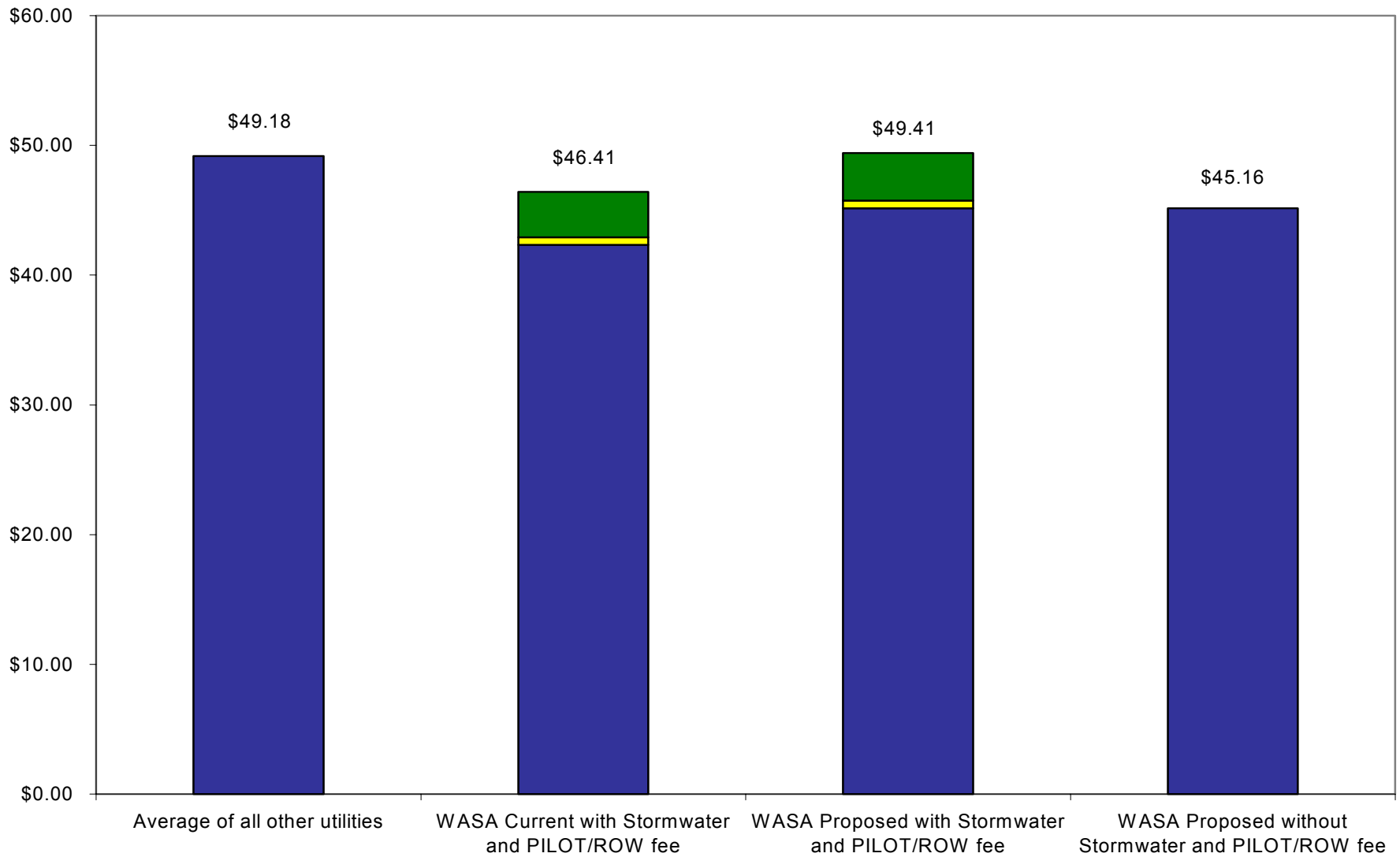
WASA'S RETAIL RATES ARE COMPARABLE TO OTHER UTILITIES

Average Monthly Residential Bill Comparison
(Based on Fall 2005 rates)

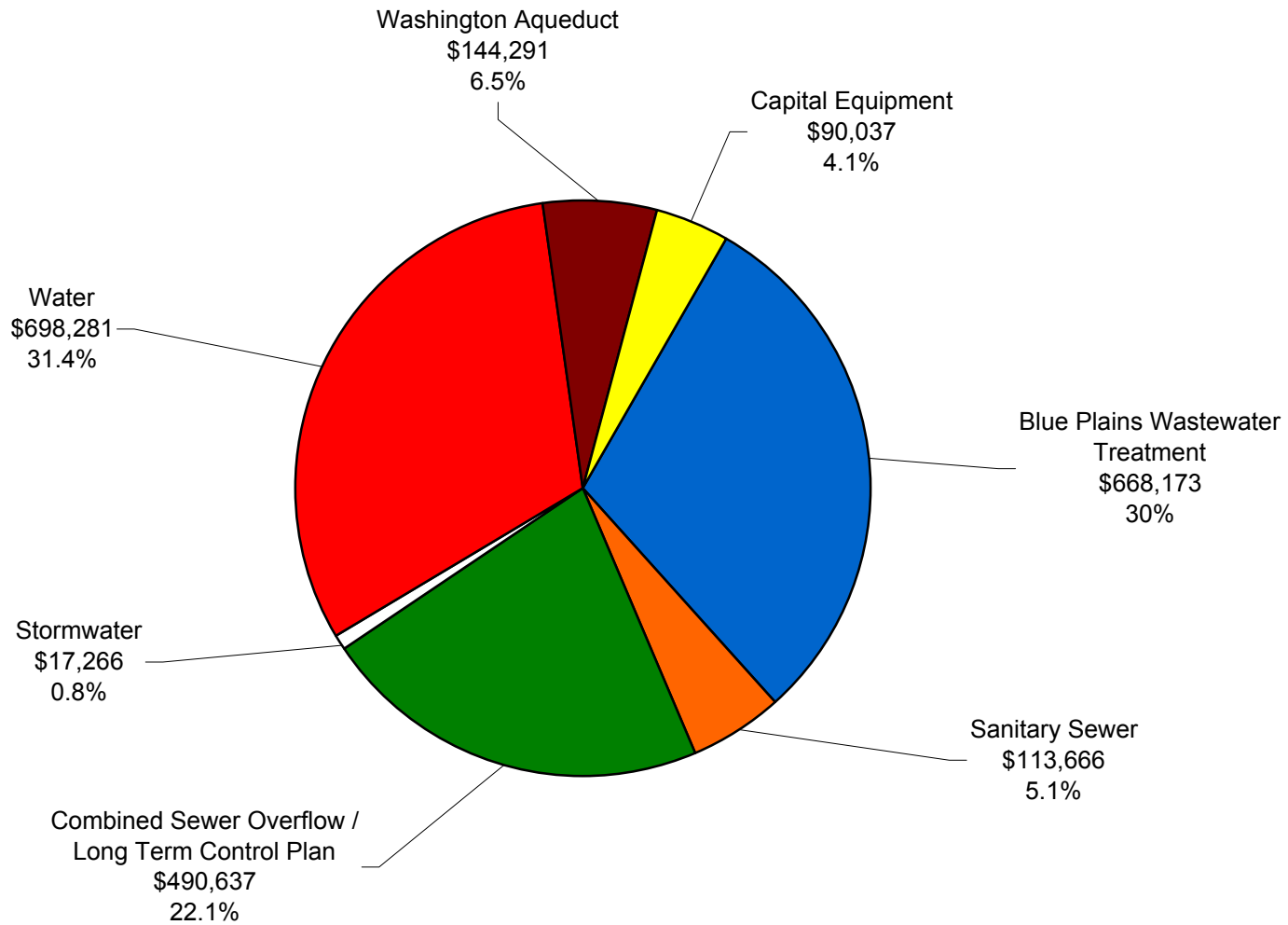


- (1) Assumes average residential consumption of 8.33 Ccf, or 6,231 gallons, per month. Ccf = hundred cubic feet, or 748 gallons.
- (2) Reflects WASA's proposed rate and fee changes in FY 2007 while other utilities' rates are as of summer / fall 2005. However, during this period, it is anticipated that many utilities will take rate actions. The green area indicates the pass-through of the District's right of way / PILOT fee, totaling \$3.50 per month and the residential stormwater rate of \$0.58 per month.

WASA'S RETAIL RATES ARE COMPARABLE TO OTHER UTILITIES, cont.
*WASA's Current & Proposed Monthly Residential Bill vs.
Average Monthly Bill of Other Utilities*



FY 2005 - FY 2014 Capital Improvement Program (\$ in 000's)



Total \$2.2 billion (cash disbursements)

FY 2005 – 2014 CAPITAL IMPROVEMENT PROGRAM OVERVIEW

WASA's ten-year capital improvement program (CIP) totals \$2.2 billion (cash disbursements basis), approximately \$106 million more than last year's plan. As discussed in Section I and in more detail throughout this document, the increase is due primarily to the extension of the lead service line replacement program through 2014. Other major projects and initiatives include:

- Continuation of the twenty-year CSO Long-Term Control Plan
- Initial phase of construction on the new digesters, and a related budget increase of \$44 million
- Water quality initiatives, including dead end elimination, small water main repair, and others
- Comprehensive sewer system assessment

The following sections summarize major projects and changes in each service area, with additional details for each project included in each service area section of the separate CIP document. Please note that all dollar amounts are presented on a project lifetime basis, except where noted otherwise.

WASTEWATER TREATMENT

The lifetime budget for the Wastewater Treatment Service Area is \$1.4 billion dollars, reflecting a \$50 million net increase over the last year's budget, due primarily to increased costs for the new digestion facilities, the single largest plant project ever undertaken by WASA. Over the last two years, we have been engaged in final design, construction management review, and site visits to other Class A digestion projects. As a result of these efforts, we found that the program manager had underestimated the construction schedule by approximately eighteen months. Coupled with other design and procurement-related delays, the overall project schedule has been extended by approximately 34 months. In addition, steel and concrete prices have risen significantly over the last two years. The result of these schedule and inflation assumption changes is that the proposed project budget for the new digestion facilities has increased by \$44 million to \$354 million. However, due to the increasing costs of energy, the project continues to be financially attractive as well as providing a significant hedge against increased regulation of biosolids disposal.

The contract for the construction of foundations, digester vessels and silos is currently on the street, with bids expected in late November. This contract contains an extensive amount of steel and / or concrete, and because of the price volatility of these materials, is the highest risk portion of the project budget. The proposed budget includes an approximate \$25 million increase due to steel and concrete inflation; if bids come in lower than budget, we will brief the Board and potentially revise the project budget request. The second construction contract for mechanical, electrical and process facilities will be bid in summer 2006.

We have made great progress on a number of other major projects at Blue Plains over the last year. The primary treatment facilities upgrade was completed, and in early 2006, we will complete the new additional dewatering facilities, resulting in a direct reduction in contract dewatering costs. We are also scheduled to complete a significant portion of grit and screen facility upgrades over the next year. We are well underway with secondary treatment upgrades and implementation of the process computer control system, which will also yield operating savings when completed. We also are beginning a number of projects to enhance our nitrification / denitrification processes.

COMBINED SEWER

The lifetime budget for the Combined Sewer Service Area is \$2.1 billion, which includes the twenty-year CSO LTCP. The benefit of this plan are significant – when fully implemented, combined sewer overflows will be reduced by a projected 96 percent (98 percent on the Anacostia River), resulting in improved water quality.

We have made great progress on our plan over the last two years. We are well underway with completion of approximately \$140 million of projects that were included in the settlement of a lawsuit against WASA regarding implementation of the federal CSO Nine Minimum Controls program. These projects, which were previously budgeted and planned by WASA prior to the lawsuit, are projected to reduce combined sewer overflows by 40 percent. The completion in 2004 of twelve inflatable dams resulted in a 24 percent reduction in overflows. We are in construction on three pumping stations (Main & O; Potomac, and Eastside), which would significantly increase our pumping capacity. Finally, we have begun engineering to separate additional combined sewer areas in Rock Creek and Anacostia, and are completing studies to add low impact development options to WASA facilities.

We recently began our Anacostia facilities planning efforts for the large tunnels, including the retention of an engineering firm that will begin look at alignment and siting. This effort is projected to take three years.

STORMWATER

The lifetime budget for the Stormwater Service Area is \$43 million, a slight decrease from last year. As in last year's budget, we have not included funding for stormwater pumping rehabilitation projects. We have been engaged in extensive discussions with the District over the last two years regarding how responsibilities for a variety of stormwater-related functions are divided among District agencies, including responsibility for stormwater pumping stations, and all work had been deferred pending resolution of this issue.

This year's budget includes increased funding for a variety of projects to replace undersized, aged or deteriorated sewers. This increase is offset by reductions in DDOT stormwater projects done on behalf of WASA, based on an analysis of actual spending and work completed over the last three to five years, which has been significantly less than budgeted.

SANITARY SEWER

Lifetime budgets in the Sanitary Sewer Service Area total \$196 million, slightly higher than last year's CIP. Increases in the Potomac Interceptor project have been offset by reductions in other sewer rehabilitation projects, pending completion of the comprehensive sewer system evaluation in FY 2007.

WASA has completed improvements to the Potomac Interceptor to address odor complaints on an interim basis, and completion of final design of permanent odor control improvements is scheduled for FY 2006, with construction scheduled to begin thereafter. The costs of this project have increased substantially due to larger equipment needed to control odors, high architectural related costs due in part to historical preservation requirements of the National Park Service and other various permitting agencies, and difficult construction locations. In addition to the odor control improvements, we are in the process of designing significant structural improvements to two large pipe segments of the Potomac Interceptor in Fairfax and Loudoun Counties. The project is scheduled to be bid in FY 2006, with completion of construction currently anticipated in late 2007. The total lifetime budget for Potomac Interceptor projects are \$44 million.

The comprehensive sewer system assessment, begun in 2003, will continue through 2007. This assessment will determine the condition of the system, verify that there is adequate capacity, analyze potential new regulations and their impact on infrastructure needs and CIP, and develop new capital projects as appropriate. The CIP includes limited funding (approximately \$3-5 million annually) in the out-years to help address any new capital projects identified as a result of this assessment.

WATER

The lifetime budget for the Water Service Area is \$1 billion, an increase of \$255 million from last year's CIP. This year's CIP reflects continuation of the Board's 2004 goal of replacing the original inventory of 23,000 lines by 2010. While we are not yet certain about the exact number of lead lines in the system, given results of test pitting conducted in 2005, we have conservatively budgeted for the replacement of an additional 12,000 lines to the last five years of the CIP, beginning in FY 2011. We do not believe it is logistically or operationally feasible to replace the potential 12,000 "unknown" lines prior to FY 2011, and we expect that better data on the lead inventory will be forthcoming as the program progresses over the next few years.

Other major projects include the ongoing rehabilitation of the Bryant Street pumping station, with a lifetime budget of \$61 million, and the Anacostia pumping station, with a lifetime budget of \$24 million. The automated meter reading project, which began in FY 2002, is scheduled to be substantially complete in 2006, with the replacement of the largest commercial and federal meters.

WASHINGTON AQUEDUCT

The lifetime budget for Washington Aqueduct projects totals \$181 million, a \$26 million increase over last year's plan due to increased costs for the Aqueduct's residuals disposal project, described in more detail in Sections I & VIII of the separate CIP document.

CAPITAL EQUIPMENT

The FY 2006 proposed lifetime budget for Capital Equipment is \$90 million, compared to \$91 million in last year's plan. The lifetime capital equipment budget (disbursements and commitments basis) totals approximately \$90 million for FY 2005 – FY 2014 plan, approximately the same as last year's \$91 million plan. Over fifty percent of spending in the capital equipment area continues to be on major information technology projects, including the new document management system (lifetime budget of \$4 million) and the asset management system (lifetime budget of \$9 million). WASA continues its commitment to vehicle fleet replacements, with a lifetime budget of \$10.7 million, representing twelve percent of the ten-year plan. Finally, maintenance of large equipment at Blue Plains and in the major water and sewer pumping stations totals \$13 million, or fifteen percent of the ten-year plan.

CIP DEVELOPMENT AND APPROVAL PROCESS

WASA's capital budget review process begins each year in the spring, as part of both our capital and operating budget review process. This process includes a review of major accomplishments, priorities, status of major projects and emerging regulatory and related issues impacting the capital program. Projections of changes in project lifetime budgets are also included. The review process involves the WASA departments with responsibility for managing the capital projects as well as finance and budget staff and executive management. The CIP is integrated into WASA's ten-year financial plan; because of its size, it is the primary driver of WASA's projected rate increases over the next ten years.

This review process lasts over several months and culminates with the presentation of the updated CIP to WASA's Board of Directors' Environmental Quality & Operations and Finance & Budget Committees in October. The Committees complete their review from October through December. The operating budgets, capital improvement program, and ten-year financial plan are then forwarded to the full Board for its consideration in January.

After adoption by the Board of Directors, WASA is required to submit its annual operating and capital budgets to the Mayor and the District of Columbia Council for its review and comment; however, neither has authority to change WASA's annual budgets. Final operating and capital budget numbers, along with the capital authority request will be forwarded to the District for inclusion in the District's budget submission to Congress. WASA's request for capital authority is ultimately made to and approved by the U.S. Congress.

FACILITIES MASTER PLAN AND OTHER FACILITIES PLANNING TOOLS

The Water and Sewer Facilities Master Plan provides a twenty-year framework for developing, analyzing and evaluating changes to the CIP and includes projects currently in the ten-year CIP as well as proposed projects projected to begin after completion of the current ten-year planning period. It describes current conditions and presents a vision of the needs for the water and sewer systems and the actions planned to meet those needs.

WASA has also developed more detailed facilities plans for specific areas including; a Biosolids Management Plan for dealing specifically with biosolids issues, and Water Systems and Liquid Processing Facilities Plans for use as project planning tools in those areas.

DISBURSEMENTS AND PROJECT LIFETIME BUDGETS

As in the past, we have presented the CIP on both a project lifetime basis and cash disbursement basis. During the CIP review process, we perform an extensive review of the total project, or "lifetime" budgets, which also reflect historical spending prior to the current ten-year period, projected spending beyond the current ten-year period and project contingencies. Project lifetime budgets are our primary area of focus in budget development and day-to-day monitoring. In addition to lifetime budgets, we also develop a cash disbursements forecast. Actual cash disbursements are critical to forecasting the anticipated level of rate increases and the amount and timing of capital financings. While cash disbursements are a function of project lifetime budgets, they reflect a more realistic projection of actual "cash out the door" excluding contingencies and taking into account historical and projected completion rates.

As in prior years, the budget document includes a comparison of this year's vs. last year's lifetime project budgets by program area for the Board's review. Changes have been made to some of the project lifetime budgets approved from last year due to a change in project scope, engineering cost estimates, site changes and other related issues. In addition, some projects are either closed or dropped from the CIP. In general, projects are closed or dropped from the CIP in the fiscal year following the end of project activity.

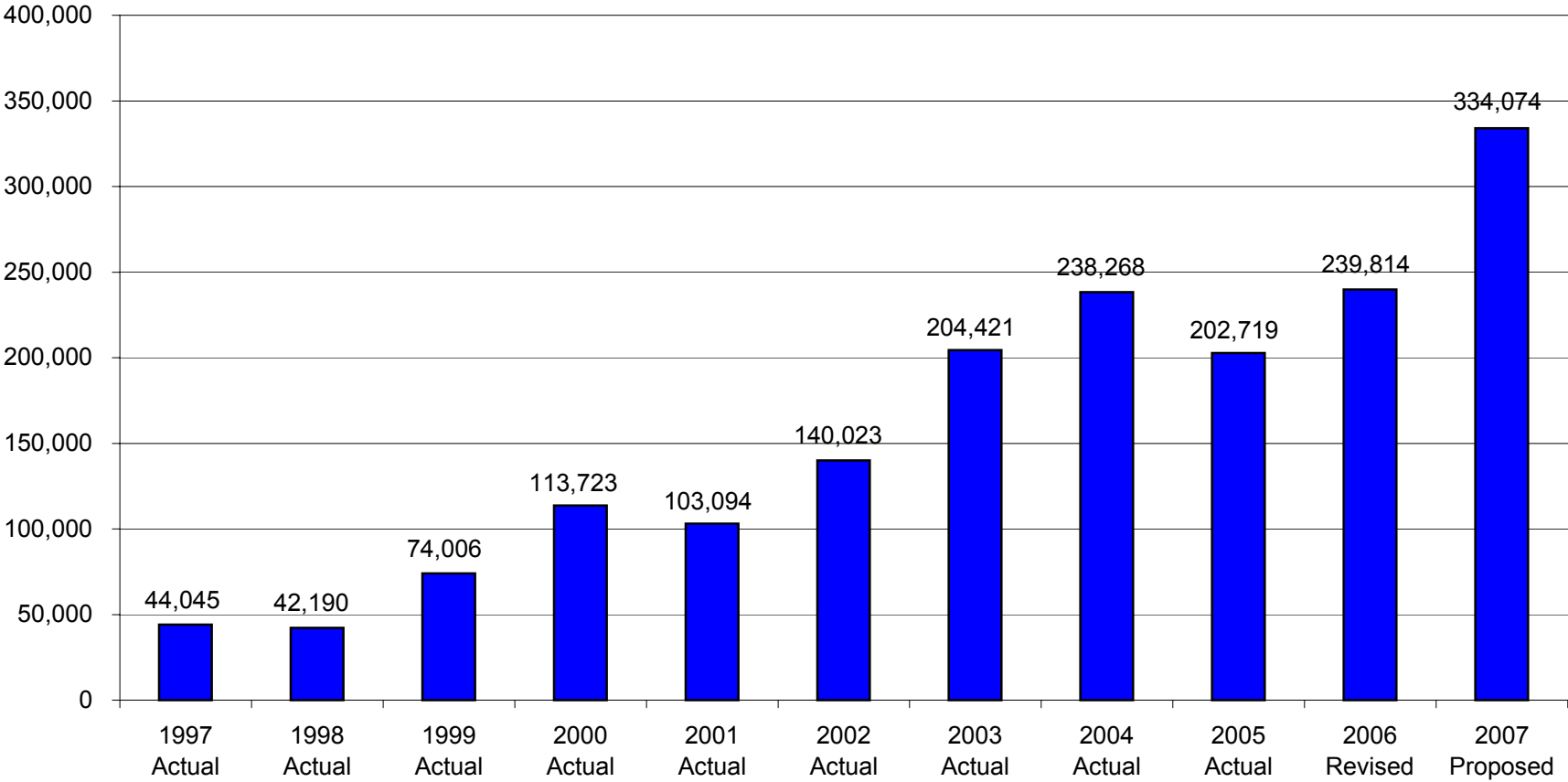
CAPITAL AUTHORITY

As part of WASA's enabling legislation, Congressional appropriations authority is required before any capital design or construction contract can be entered into. The FY 2007 request totals \$286 million, and reflects the following:

- Remaining authority from prior years' appropriations;
- Projected commitments in FY 2006 and 2007;
- Planned FY 2008 commitments to ensure adequate authority exists, in the event that any projects are accelerated

Due to the timing of the Congressional appropriations process, authority requests must be made well in advance of commitment execution. Including projected FY 2007 and FY 2008 commitments allows us adequate flexibility to continue with contract commitments in the event that the U.S Congress delays budget approval and allows us to quickly accelerate or reprioritize projects into earlier years as approved by the Board, as we did with lead this past year. While this gives us flexibility to reprioritize projects, it should be noted that such changes and execution of any contract still require the General Manager's approval, with major projects and contracts requiring Board approval. We have also included \$50 million of additional commitments for CSO LTCP projects to address any unforeseen needs as facilities planning continues.

Historical and Projected Capital Spending
FY 1997 - FY 2007
(\$ in 000's)

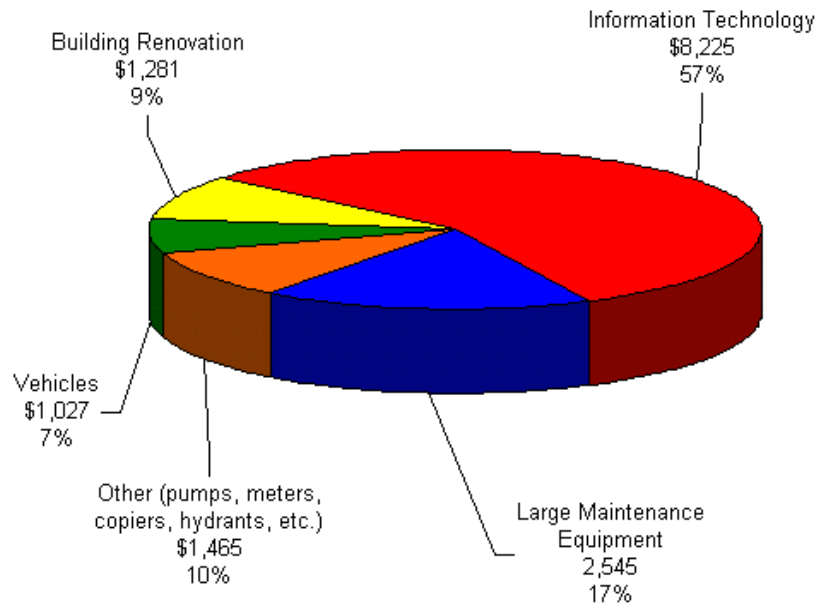


FY 2005 - FY 2014 PROJECTED CAPITAL IMPROVEMENT PLAN - DISBURSEMENTS BASIS (\$ in 000's)

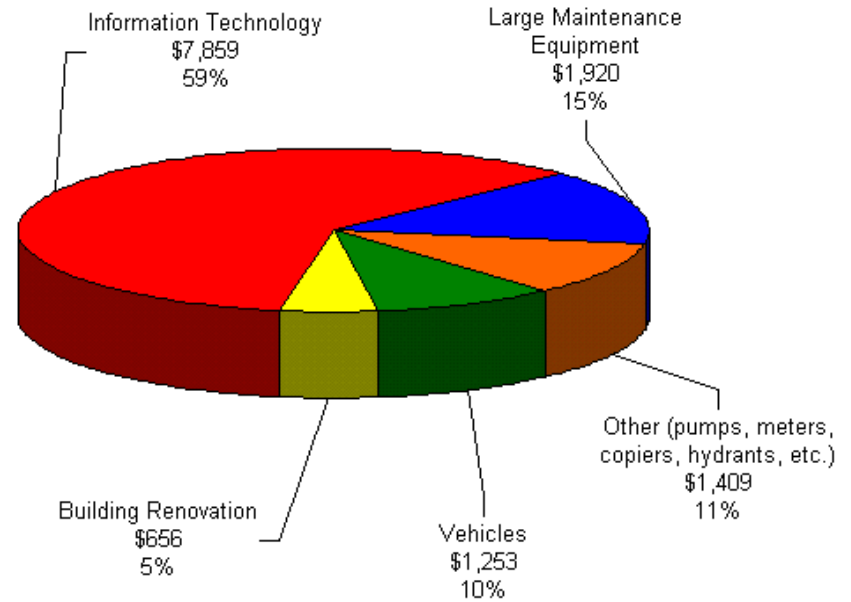
	FY 2005 Actual	FY 2006 Revised	FY 2007 Proposed	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Total FY '05-'14
Wastewater Treatment											
Liquid Processing Projects	57,597	44,747	47,943	45,828	16,288	3,238	902	1,785	2,229	3,416	223,974
Plantwide Projects	16,688	16,885	17,376	13,066	16,288	10,606	4,341	956	796	2,185	99,186
Solids Processing Projects	18,405	24,706	37,880	66,733	87,777	58,325	41,074	8,420	638	1,055	345,013
Sub-total	92,690	86,338	103,199	125,627	120,353	72,168	46,318	11,161	3,664	6,655	668,173
Sanitary Sewer											
Sanitary Collection Sewers	1,744	1,291	1,007	95	-	-	-	-	-	-	4,137
Sanitary On-Going Projects	1,787	6,800	4,364	3,499	2,535	3,829	4,128	4,052	4,551	4,924	40,469
Sanitary Pumping Facilities	551	3,577	8,329	3,093	246	2	2	2	2	3	15,808
Sanitary Sewer Projects Program Management	2,346	3,893	2,463	592	357	445	367	307	-	-	10,770
Sanitary Interceptor/Trunk Force Sewers	2,339	2,414	12,488	12,753	4,036	1,865	1,526	1,651	1,698	1,712	42,482
Sub-total	8,767	17,974	28,651	20,032	7,173	6,142	6,024	6,012	6,252	6,638	113,666
Combined Sewer Overflow / Long Term Control Plan											
CSO Program Management	1,434	524	51	57	-	-	-	-	-	-	2,066
Combined Sewer Projects	12,187	20,689	24,018	27,047	3,374	70	36	-	-	-	87,421
Long-Term Control Plan-											-
Blue Plains		850	300	300	800	1,000	1,500	1,500	2,068	7,030	15,348
Anacostia Tunnel		8,900	14,760	16,240	18,490	15,520	73,620	81,820	84,842	71,610	385,802
Potomac Tunnel		-	-	-	-	-	-	-	-	-	-
Rock Creek Tunnel		-	-	-	-	-	-	-	-	-	-
	13,621	30,963	39,129	43,644	22,664	16,590	75,156	83,320	86,910	78,640	490,637
Stormwater											
Stormwater Extensions/Local Drainage	201	209	247	-	-	-	-	-	-	-	656
Stormwater On-Going Program	170	400	380	225	226	256	299	332	350	367	3,004
Stormwater Pumping Facilities	6	46	-	-	-	-	-	-	-	-	52
DDOT Stormwater Program	388	51	52	81	84	90	95	107	112	117	1,178
Stormwater Projects Program Management	964	688	590	246	155	102	48	36	10	-	2,840
Stormwater Trunk/Force Sewers	330	406	3,212	2,176	-	-	-	1,253	1,090	1,068	9,536
Sub-total	2,059	1,800	4,481	2,728	465	449	442	1,728	1,562	1,552	17,266
Water											
Water Distribution Systems	10,833	14,324	21,795	17,118	9,288	7,128	10,061	17,704	13,776	14,549	136,576
Water On-Going Projects	5,260	3,590	5,379	3,757	3,357	3,486	3,597	3,824	4,091	4,377	40,718
Water Pumping Facilities	16,714	9,548	8,937	10,015	1,657	-	-	-	-	-	46,870
DDOT Water Projects	2,044	1,892	552	1,200	1,000	960	1,279	1,421	1,463	1,537	13,350
Water Storage Facilities	88	189	781	2,581	492	203	676	1,088	7,869	3,055	17,022
Water Projects Program Management	3,761	2,486	2,262	2,364	2,355	2,359	3,249	2,917	2,995	3,023	27,771
Water Lead Program	31,260	38,310	31,706	33,214	39,838	41,912	43,451	45,253	46,974	48,749	400,668
Meter Replacement /AMR Installation	4,270	4,466	2,756	251	275	275	291	491	865	1,366	15,306
Sub-total	74,230	74,805	74,168	70,500	58,263	56,323	62,604	72,699	78,033	76,656	698,281
Washington Aqueduct	1,992	13,391	71,348	8,529	10,125	10,316	7,045	7,661	7,112	6,772	144,291
Capital Equipment	9,360	14,543	13,097	11,942	8,353	6,508	6,398	6,305	5,853	7,678	90,037
Total FY 2007 WASA Capital Improvement Program	202,719	239,814	334,074	283,002	227,396	168,496	203,986	188,886	189,385	184,592	2,222,351

CAPITAL EQUIPMENT DISBURSEMENTS BY MAJOR EXPENDITURE CATEGORIES
FY 2006 Revised vs. FY 2007 Proposed
 (\$ in 000's)

FY 2006 Revised



FY 2007 Proposed



FY 2006 Revised = \$14,543 FY 2007 Proposed = \$13,097

FY 2005 - FY 2014 Capital Equipment Disbursements
(\$ in 000's)

Department	Equipment Type	FY 2005 Actuals	FY 2006 Revised	FY 2007 Proposed	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY2014	FY '05 - FY '14 Total
Information Technology												
	Software Applications/Licenses	230	225	150	150	150	150	150	150	150	150	1,655
	Redundant Data Center	409	400	250	60	210	60	60	60	60	60	1,629
	Enterprise Backup Solution	0	130	0	0	0	130	0	0	0	130	390
	Video Conferencing	0	200	10	10	10	200	10	10	10	200	660
	Engineering MIS Modifications	0	40	0	0	0	0	0	0	0	0	40
	Primavera Migration	0	85	0	0	0	0	0	0	0	0	85
	Re-engineer HR on-line forms	0	60	10	0	0	0	0	0	0	0	70
	Web Development	244	75	150	75	75	75	200	75	75	75	1,119
	Network System Renewal	486	525	525	775	650	650	865	565	565	565	6,171
	Desktop Replacements	533	500	500	672	515	500	500	672	515	500	5,407
	Cable Renewal	178	200	200	200	200	200	200	200	200	200	1,978
	Telephone System Renewal/Replacement	86	740	565	200	100	100	100	100	100	100	2,191
	Messaging Services	7	195	145	10	10	70	10	10	70	10	537
	Windows 2003 Migration	29	150	30	30	30	30	30	30	30	30	419
Total		\$4,777	\$8,225	\$7,859	\$7,668	\$3,260	\$2,840	\$2,930	\$2,837	\$2,455	\$2,780	\$45,631
Maintenance Services												
	Shop Equipment and Plant Lighting	\$19	\$145	\$120	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$284
	Centrifuge Repair/Replace	103	200	300	300	300	300	300	300	300	300	2,703
	Pump Repair/Replacement	819	1,000	700	500	300	300	200	200	200	200	4,419
	Large Electric Motors	376	700	500	400	300	300	200	200	200	200	3,376
	High Priority Rehab Program	821	500	300	300	200	100	100	100	0	0	2,421
Total		\$2,137	\$2,545	\$1,920	\$1,500	\$1,100	\$1,000	\$800	\$800	\$700	\$700	\$13,202
Total Capital Equipment		\$9,360	\$14,543	\$13,097	\$11,942	\$8,353	\$6,508	\$6,398	\$6,305	\$5,853	\$7,678	\$90,037

FY 2005 - FY 2014 Capital Improvement Plan

Project Lifetime Budgets by Program Area (\$ 000's)

	FY 2006 Revised	FY 2007 Proposed	Variance
<u>Wastewater Treatment</u>			
Liquid Processing Projects	521,907	507,289	(14,618)
Plantwide Projects	275,634	293,617	17,983
Solids Processing Projects	515,197	562,414	47,217
Sub-total	1,312,738	1,363,320	50,582
<u>Sanitary Sewer</u>			
Sanitary Collection Sewers	12,024	12,824	800
Sanitary On-Going Projects	65,361	63,540	(1,821)
Sanitary Pumping Facilities	21,977	22,577	600
Sanitary Sewer Projects Program Management	14,930	14,930	-
Sanitary Interceptor/Trunk Force Sewers	79,754	82,225	2,471
Sub-total	194,046	196,096	2,050
<u>Combined Sewer Overflow</u>			
CSO Program Management	17,254	17,254	-
Combined Sewer Projects	149,034	159,034	10,000
Long-Term Control Plan- Total			
Blue Plains	36,846	36,846	-
Anacostia Tunnel	1,372,545	1,372,545	-
Potomac Tunnel	418,700	418,700	-
Rock Creek Tunnel	70,342	70,342	-
Sub-total	2,064,721	2,074,721	10,000
<u>Stormwater</u>			
Stormwater Extensions/Local Drainage	2,270	2,488	218
Stormwater On-Going Program	6,241	6,840	599
Stormwater Pumping Facilities	3,108	1,173	(1,935)
DDOT Stormwater Program	14,648	4,739	(9,909)
Stormwater Projects Program Management	5,830	5,830	-
Stormwater Trunk/Force Sewers	13,580	22,048	8,468
Sub-total	45,677	43,118	(2,559)

FY 2005 - FY 2014 Capital Improvement Plan

Project Lifetime Budgets by Program Area (\$ 000's)

	FY 2006 Revised	FY 2007 Proposed	Variance
<u>Water</u>			
Water Distribution Systems	181,613	257,955	76,342
Water Lead Program	300,750	438,486	137,736
Water On-Going Projects	59,985	63,776	3,791
Water Pumping Facilities	85,488	90,003	4,515
DDOT Water Projects	31,772	33,360	1,588
Water Storage Facilities	14,140	36,970	22,830
Water Projects Program Management	24,480	31,603	7,123
Meter Replacement /AMR Installation	46,500	47,336	836
Sub-total	744,728	999,489	254,761
Washington Aqueduct	154,498	180,693	26,195
Capital Equipment	90,589	90,037	(552)
Total WASA CIP Lifetime (see notes)	4,606,997	4,947,474	340,477

Notes:

1 Lifetime budgets shown here represent total budgets for projects that are active during the current 10-year CIP. Lifetime budgets include historical spending prior to the beginning of the current 10-year plan, spending during the 10-year plan, and projected spending beyond the current 10-year plan. Projects completed in FY 2005 will be dropped from the CIP next year.

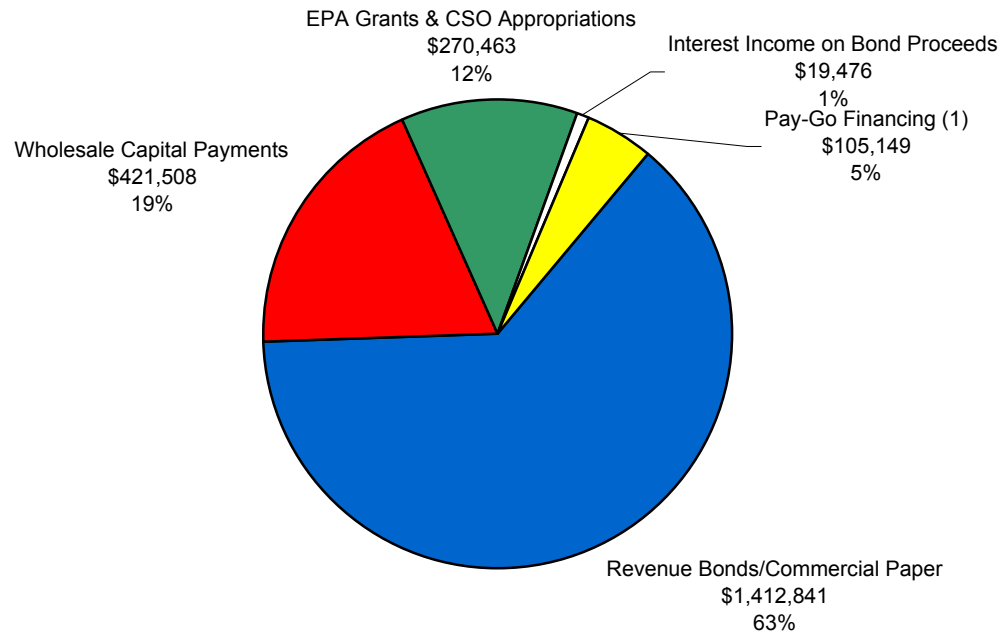
2 These budgets do not include inhouse labor costs, which historically have averaged \$7 to \$8 million annually and are applicable primarily to time charged to capital projects by employees in the Departments of Engineering, Sewer Services, and Water Services.

**Fiscal Year 2007 Capital Authority Request
(\$000's)**

<u>Program Areas</u>	<u>Fiscal Year 2007 Capital Authority Request</u>
Blue Plains Wastewater Treatment	136,424
Sanitary Sewer System	18,834
Combined Sewer Projects	50,000
Stormwater ¹	0
Water System	37,524
Washington Aqueduct (WASA share)	41,252
Capital Equipment	<u>1,757</u>
Total	<u>285,791</u>

¹ The Stormwater projects' authority request is zero, as, existing (currently available) capital authority in this service area is in excess of projected commitments in FY 2006, FY 2007, FY 2008 and FY2009.

FY 2005 - 2014 CAPITAL IMPROVEMENT PROGRAM
Sources of Funds
(In \$000's)



(1) Pay-go financing is any funds available after funding the 180 day operating and maintenance reserve, approximately \$102.4 million in FY 2006. These transfers reduce the amount of new debt issuance.

CAPITAL IMPROVEMENT PROGRAM
FY 2005 - FY 2007
SOURCES & USES
(In \$000's)

	FY 2005	FY 2006	FY 2007
SOURCES			
Commercial Paper / New Debt Proceeds (1)	\$ 91,911	\$ 124,190	\$ 211,833
Pay-Go Financing (2)	10,001	22,478	11,901
EPA Grants	25,762	27,872	21,745
CSO Appropriations (3)	4,511	12,004	16,666
Wholesale Customer Capital Payments	67,284	51,937	69,265
Interest Income	3,250	1,333	2,663
TOTAL SOURCES	\$ 202,719	\$ 239,814	\$ 334,073
USES			
Blue Plains Projects	\$ 92,690	\$ 86,338	\$ 103,198
Combined Sewer & LTCP Projects	13,621	30,963	39,129
Sanitary Sewer Projects	8,767	17,974	28,652
Stormwater Projects	2,059	1,800	4,481
Water Projects	74,230	74,805	74,168
Washington Aqueduct	1,992	13,391	71,348
Capital Equipment	9,360	14,543	13,097
TOTAL USES	\$ 202,719	\$ 239,814	\$ 334,073

(1) Remaining Series 2004 bond proceeds will fund non-grant or IMA-funded capital spending requirements into the first quarter of FY 2006, based on current capital spending projections. WASA will then use its \$100 million commercial paper program, with the next take-out financing projected to occur in spring 2007.

(2) Pay-go financing is cash available after meeting the six month operating reserve requirement, which totals \$102.4 million in FY 2006.

(3) Reflects spenddown of a portion of already-received FY 2003 - FY 2005 Congressional appropriations for the CSO LTCP.

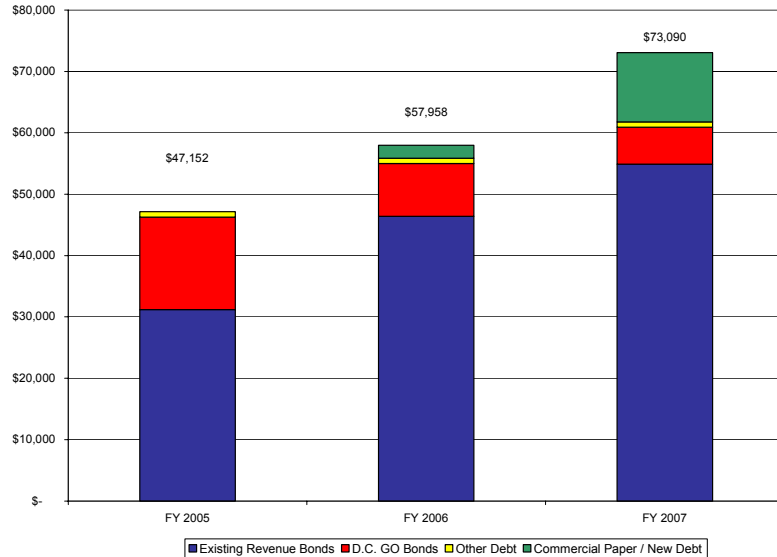
CASH RESERVES SUMMARY

(In \$000's)

	FY 2005 Actual	FY 2006 Approved Budget	FY 2006 Revised Budget	FY 2007 Proposed Budget
Beginning O&M Reserve Balance (Net of Rate Stabilization Fund)	\$ 106,407	\$ 97,681	\$ 116,272	\$ 103,734
Operating Surplus	31,512	16,782	19,115	15,494
Wholesale Customer Refunds/Payments for Prior Years	250	-	(3,483)	-
Transfer to Rate Stabilization Fund	(4,000)	-	-	-
Prior Year Right of Way Payment	-	-	-	-
Prior Year Federal Billing Reconciliation	(7,896)	(7,015)	(7,014)	(1,918)
Prepayment of Aqueduct Treasury Loans	-	-	-	-
Pay-As-You-Go Capital Financing	(10,001)	(6,013)	(21,156)	(11,633)
Ending O&M Reserve Balance (Net of Rate Stabilization Fund)	\$ 116,272	\$ 101,435	\$ 103,734	\$ 105,677
Rate Stabilization Fund	\$ 31,500	\$ 27,500	\$ 31,500	\$ 31,500

MAJOR HIGHLIGHTS & ISSUES IN DEBT IN FY 2005 - 2007

PROJECTED DEBT SERVICE FY 2005 – 2007 (In \$000's)



	FY 2006			FY 2007		
	Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service
Existing Revenue Bonds						
Series 1998 - Senior	-	14,892	14,892	8,475	14,892	23,367
Series 2003 - Subordinate	-	8,890	8,890	-	8,890	8,890
Series 2004 - Subordinate	-	22,620	22,620	-	22,620	22,620
Subtotal Existing Rev. Bond	-	46,402	46,402	8,475	46,402	54,877
District of Columbia GO Bonds	7,235	1,363	8,598	5,155	894	6,049
Other Debt						
Jennings Randolph	272	533	805	281	524	805
Little Seneca	32	20	52	34	18	52
Subtotal Other Debt	305	553	858	315	542	857
Projected CP & New Debt		2,100	2,100		11,307	11,307
Total	<u>7,540</u>	<u>50,418</u>	<u>57,958</u>	<u>13,945</u>	<u>59,144</u>	<u>73,090</u>

Due to WASA's \$2.2 billion capital improvement program (cash disbursements basis), debt service represents the fastest growing area of WASA's operating budget.

- ✓ FY 2006 projected debt service is \$10.8 million higher than FY 2005 debt service due to projected higher interest rates and expected utilization of the commercial paper program late in the year, offset by a scheduled \$6.5 million reduction in District general obligation debt service.
- ✓ FY 2007 projected debt service is \$15.1 million higher than FY 2006 due primarily to the issuance of new debt, offset by a scheduled \$2.5 million reduction in District general obligation debt service.

CAPITAL FINANCING PLAN

WASA prepared a comprehensive capital financing plan in FY 1999 containing two key goals: 1) minimize WASA's cost of capital and 2) increase operational flexibility. This plan includes the following components:

- ✓ Interim financing program for construction financing – WASA implemented a new commercial paper program in early FY 2002.
- ✓ Issuance of take-out financings (either fixed rate or variable rate debt) as needed for permanent financing.
- ✓ Use of pay-go financing to first prepay higher cost debt and then to reduce future bond issuance.

Future interest rate assumptions are as follows:

- Variable rate – 4.0% plus fees
- Fixed rate – 6.5%

For appropriations purposes, higher interest rates are assumed, as discussed in Section 3.

BOND RATINGS

- Moody's – Aa3
- Standard & Poor's – AA-
- Fitch – AA-

OUTSTANDING DEBT

DEBT OUTSTANDING AS OF SEPTEMBER 30, 2004

<u>SENIOR DEBT</u>	<u>INTEREST RATES</u>	<u>FINAL MATURITY</u>	<u>AMOUNT OUTSTANDING</u>
Public Utility Revenue Bonds, Series 2003	5.50 - 6.00	2028	266,120
SUBORDINATE DEBT			
Public Utility Subordinated Lien Revenue Bonds, Series 2003	5.0 - 5.25	2033	176,220
Public Utility Subordinated Lien Revenue Bonds, Series 2004 (Auction Rate)	variable	2034	295,000
Notes payable to the federal government for Jennings Randolph Reservoir	3.25	2041	16,640
Notes payable to WSSC for Little Seneca Reservoir	5.98 - 6.60	2014	357
District of Columbia general obligation bonds - varying series -reflects prepayment	4.55 - 6.75	2012	35,282
TOTAL SUBORDINATE DEBT			523,499
TOTAL DEBT OUTSTANDING			789,619

LEGAL DEBT LIMIT: WASA is not subject to any legal debt limitations.

PUBLIC UTILITY REVENUE BONDS (Senior Lien): Senior lien debt issued under WASA's master trust indenture; WASA has issued one series to date in 1998 totaling \$266.120 million. This series was insured by FSA and is rated Aaa / AAA / AAA.

PUBLIC UTILITY REVENUE BONDS (Subordinated Lien): Subordinate lien debt issued under WASA's master trust indenture; WASA has issued two subordinate series to date: 1) Series 2003 issued as fixed rate debt and 2) Series 2004 issued as auction rate securities. Both series are insured and rated Aaa / AAA / AAA.

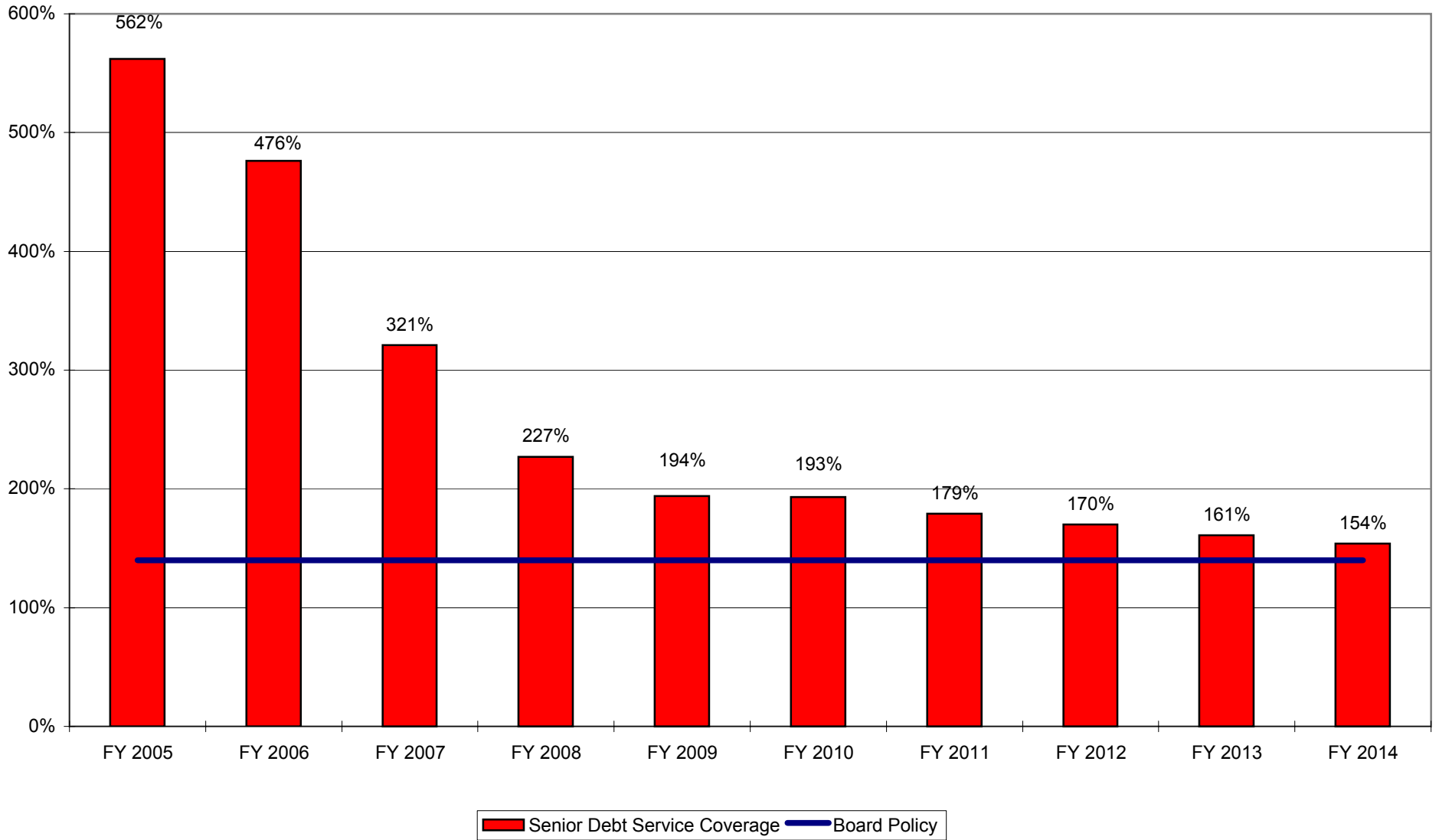
DISTRICT GENERAL OBLIGATION BONDS: Debt issued by the District of Columbia government for capital improvements of WASA's predecessor agency which WASA assumed at its creation. This debt is treated as subordinate under WASA's master trust indenture. Under a 1998 MOU with the District, WASA prepays the next fiscal year's debt service each September, e.g., in September 2005, WASA prepaid FY 2006 debt service.

NOTES FOR JENNINGS RANDOLPH RESERVOIR: Debt issued by the federal government for construction of this backup water supply facility; WASA's share of operating and capital costs is 30 percent.

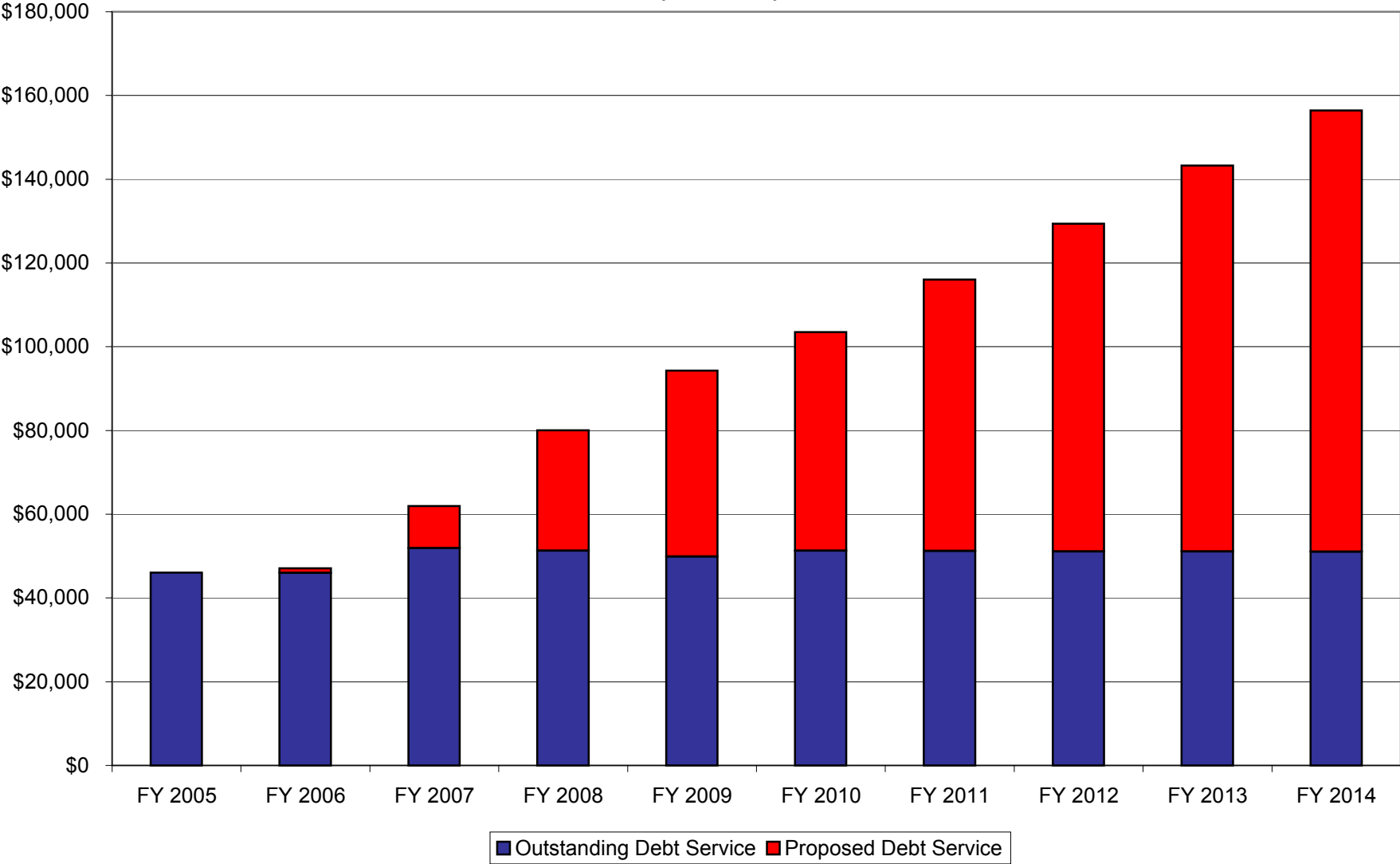
NOTES FOR LITTLE SENECA RESERVOIR: Debt issued by the Washington Suburban Sanitary Commission (WSSC) for construction of this backup water supply facility; WASA's share of operating and capital costs is 40 percent.

COMMERCIAL PAPER: As described in Section 3, WASA developed this program in early FY 2002 for interim financing of its capital program, and all outstanding borrowings were refunded by the issuance of subordinated lien revenue bonds in 2004. WASA's commercial paper program is issued in increments with maturities less than 270 days, and in normal market conditions carries significantly lower interest rates than long-term debt. In addition, notes under the program are issued on a subordinate basis. WASA's commercial paper program is backed by a direct pay letter of credit issued by Westdeutsche Landesbank Girozentrale (WestLB).

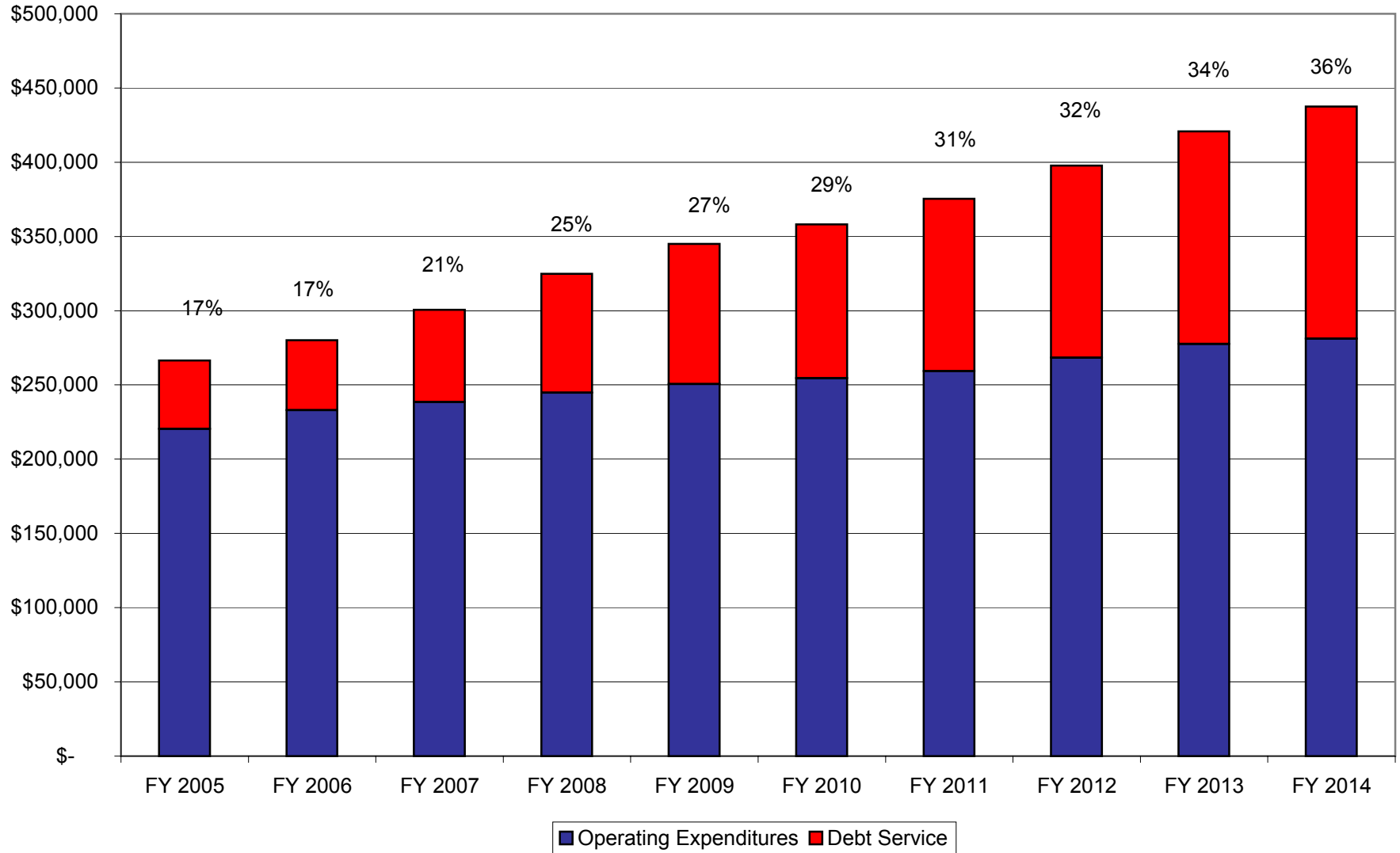
SENIOR DEBT SERVICE COVERAGE
FY 2005 - 2014



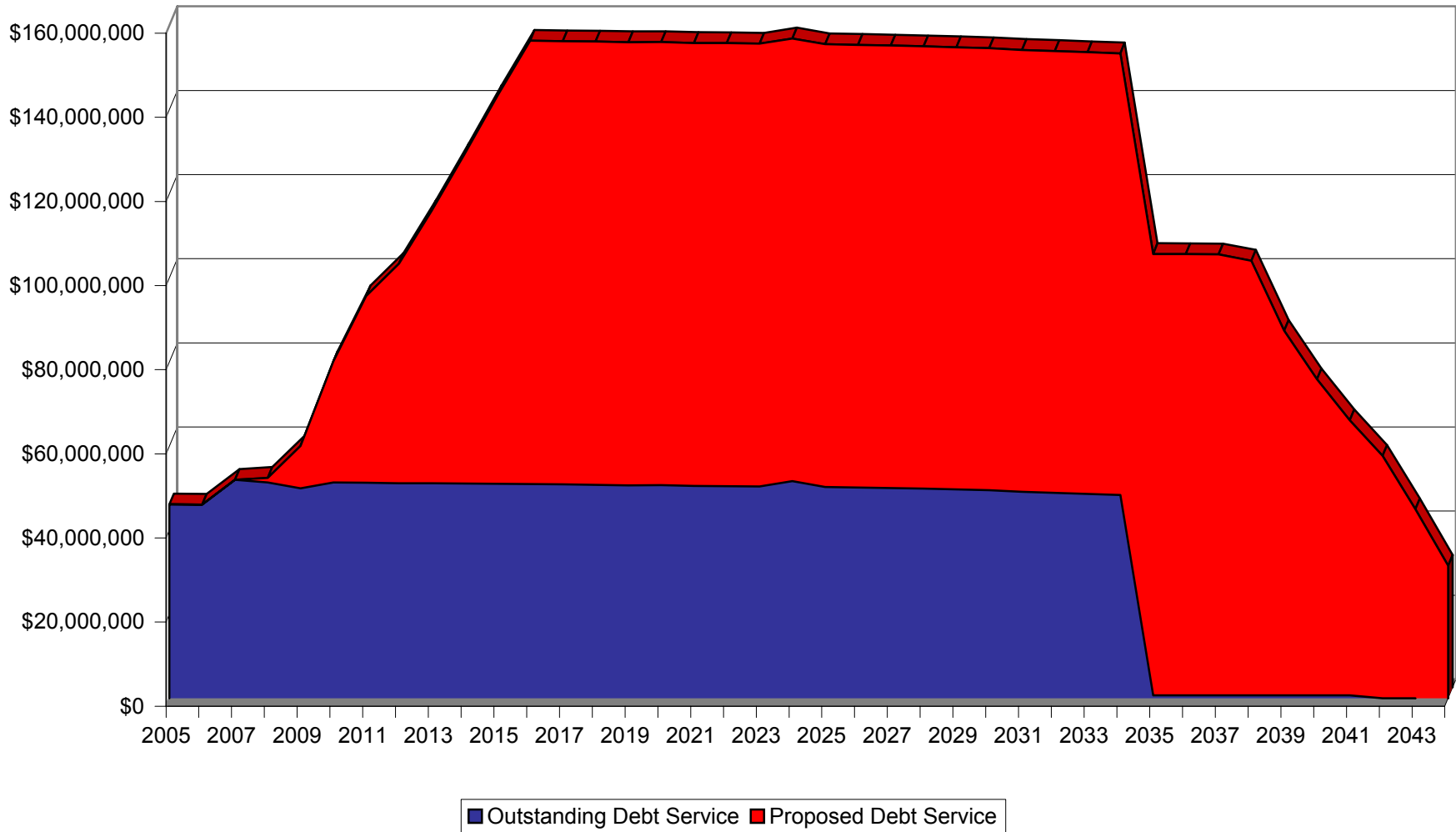
OUTSTANDING & PROPOSED DEBT SERVICE
FY 2005 - 2014
(In \$000's)



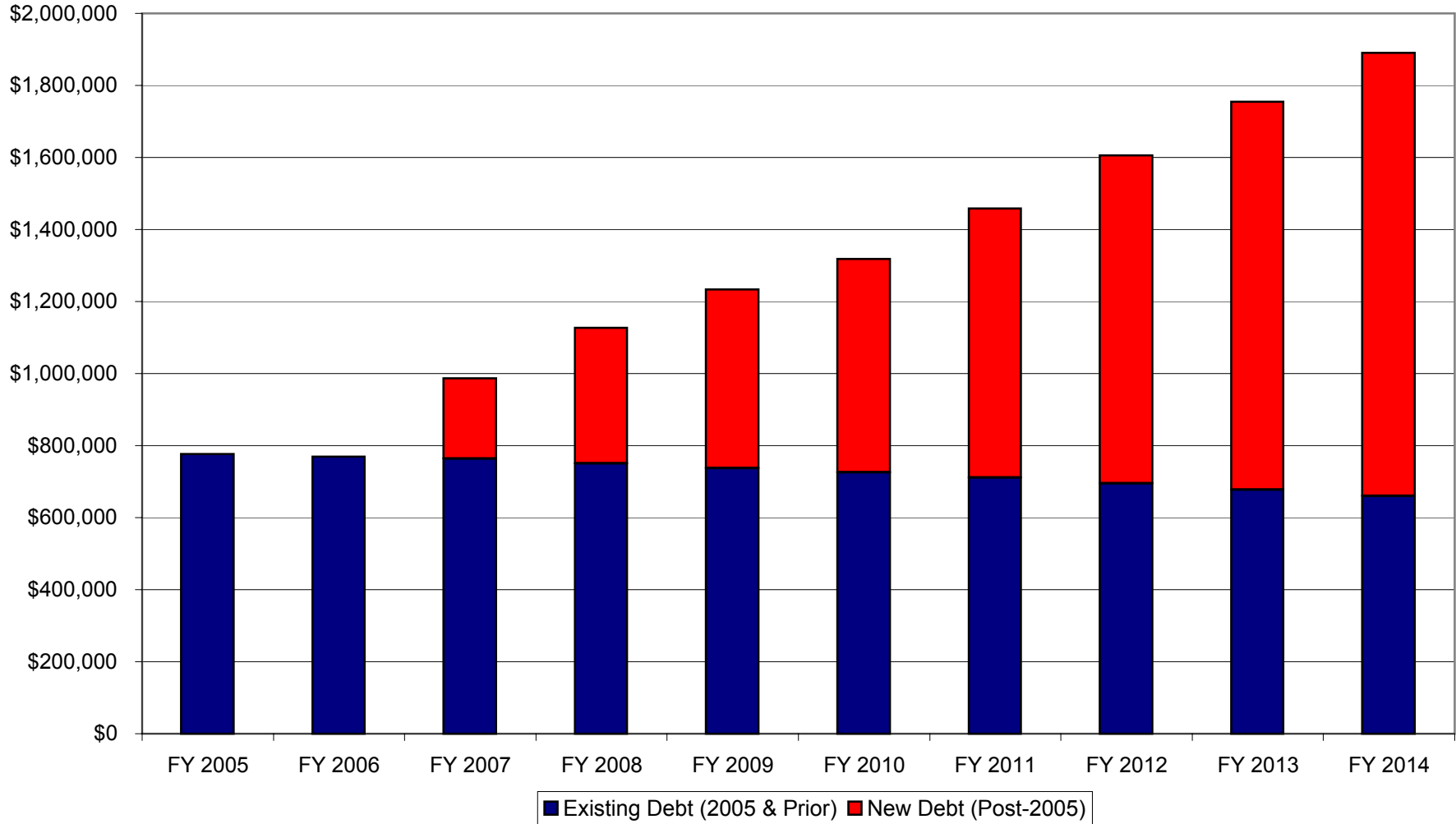
DEBT SERVICE AS PERCENTAGE OF TOTAL OPERATING EXPENDITURES
FY 2005 - 2014
(In \$000's)



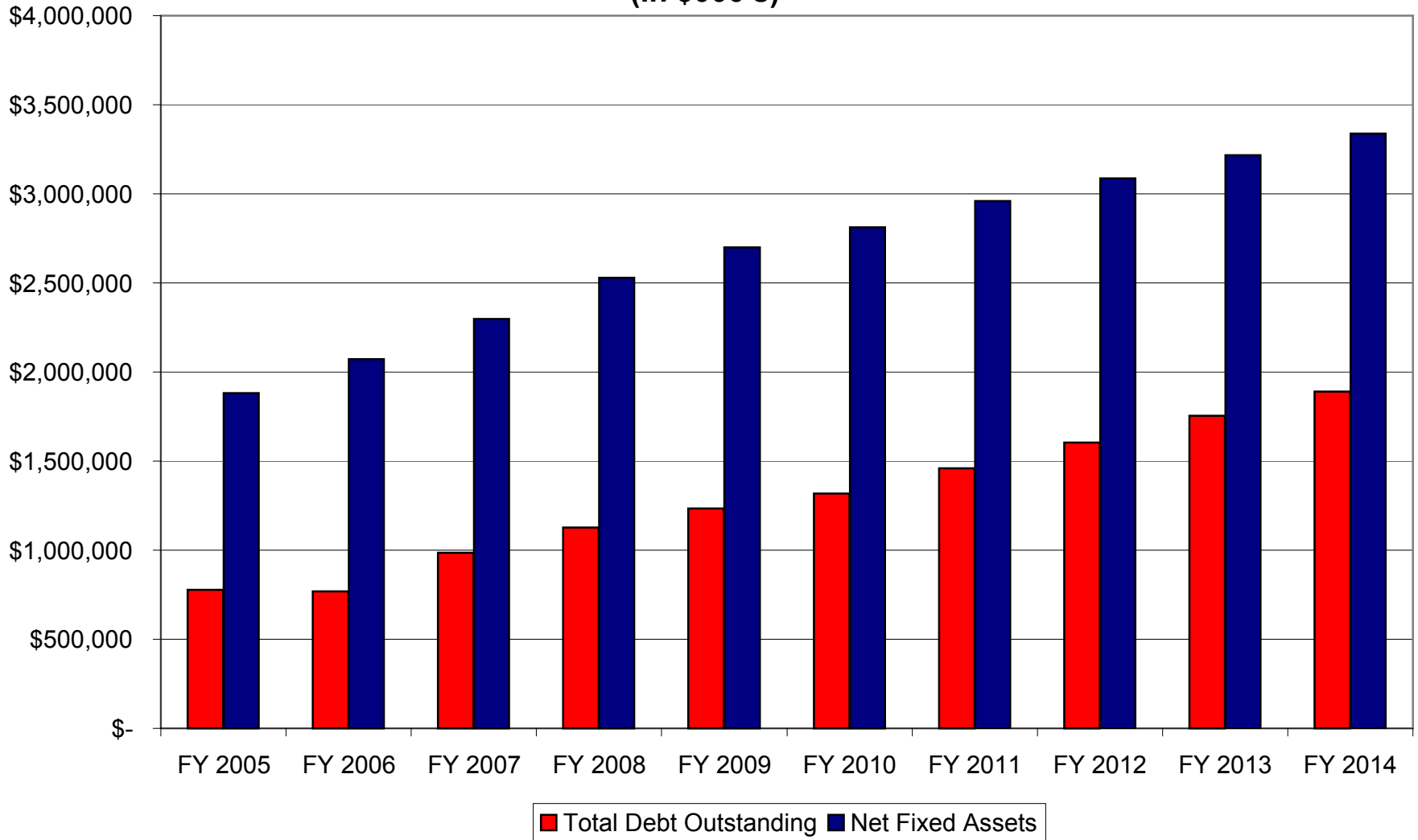
OUTSTANDING & PROPOSED DEBT SERVICE
FY 2005 - 2043
Based on FY 2005 - 2014 Financial Plan



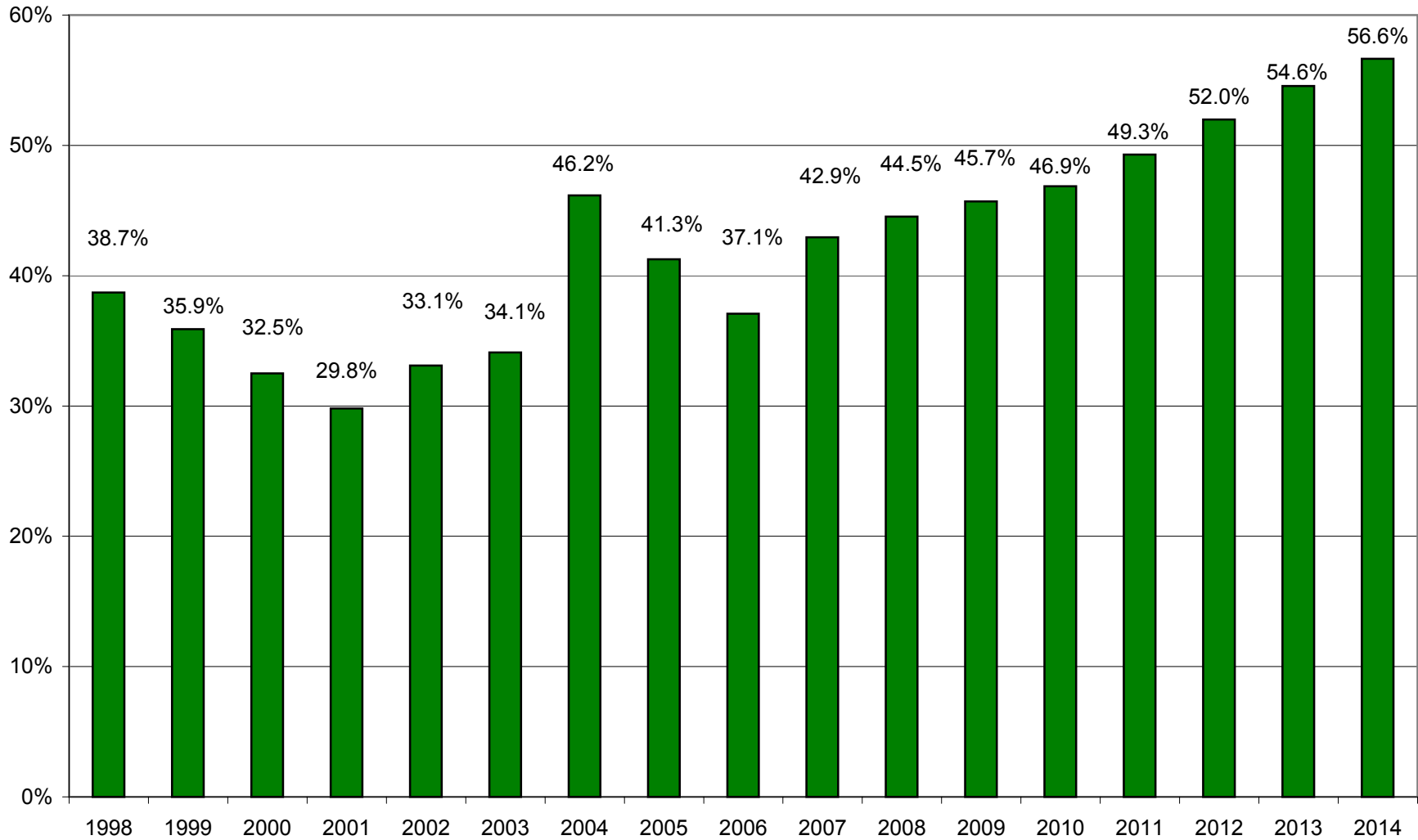
TOTAL PRINCIPAL OUTSTANDING
Existing and Projected Based on FY 2005 - 2014
Capital Improvement Program
(In \$000's)



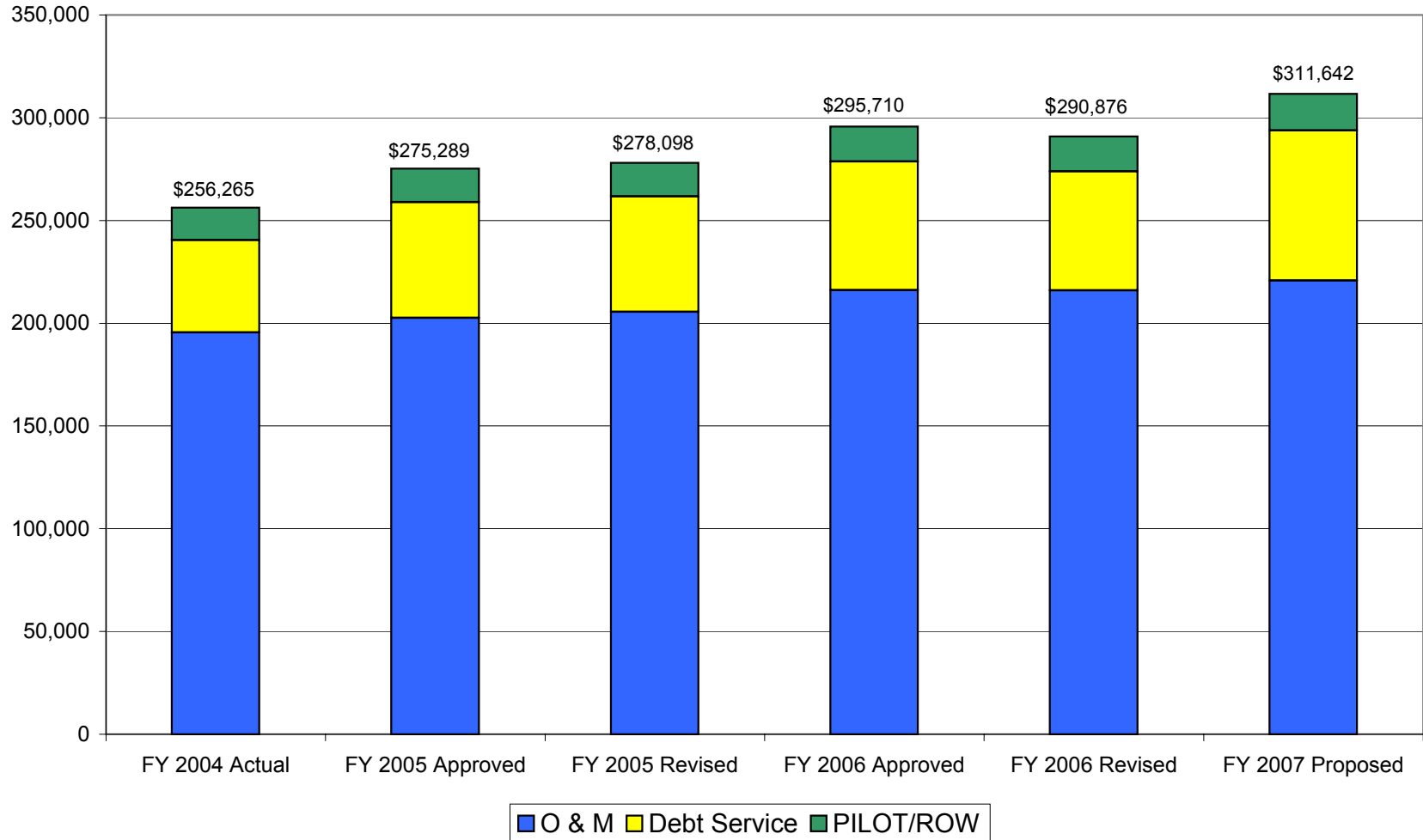
PROJECTED TOTAL DEBT VS. PROJECTED TOTAL FIXED ASSETS
FY 2005 - 2014
(In \$000's)



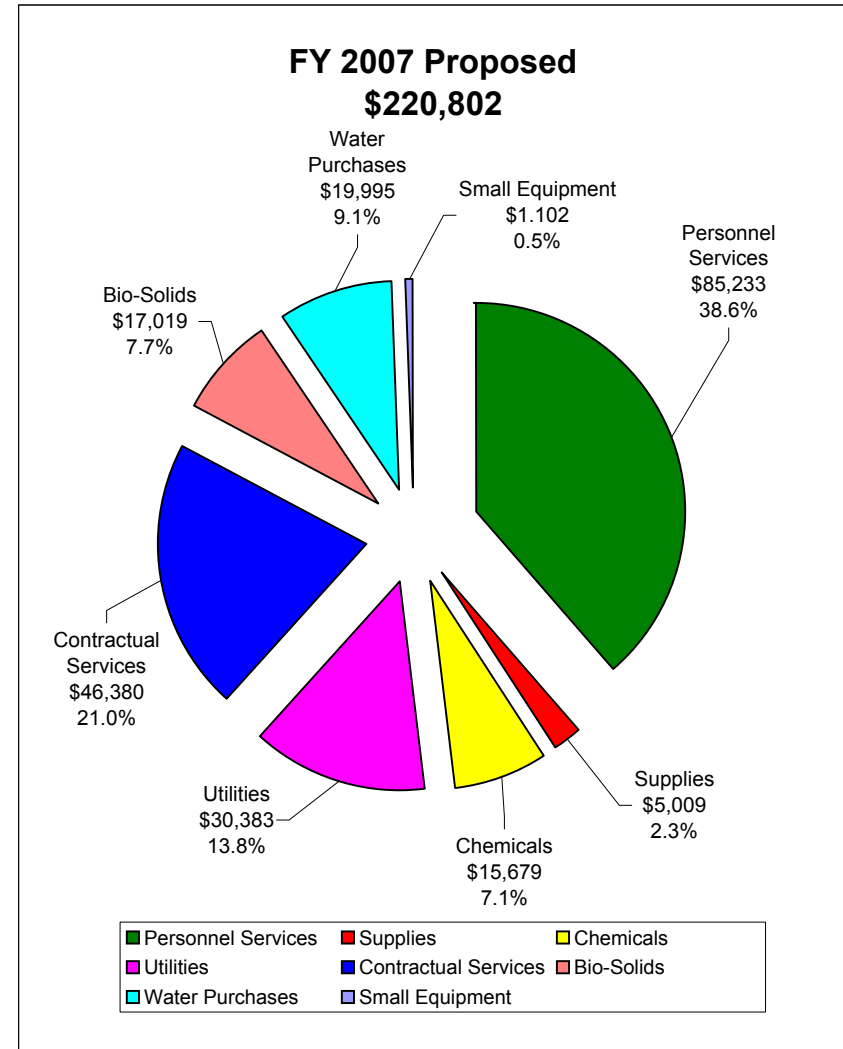
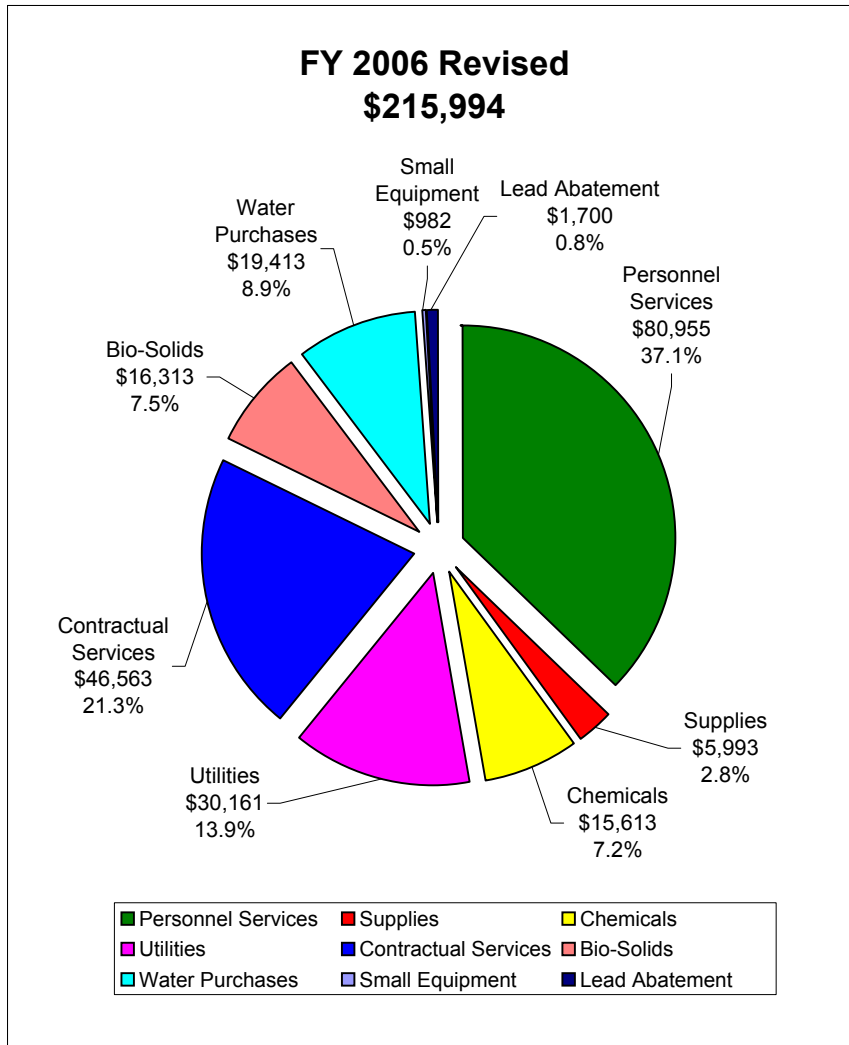
**DEBT TO NET FIXED ASSETS RATIO
FY 1998 - 2014**



Comparative Operating Expenditure Budgets FY 2004 - FY 2007 (\$000's)



Operations & Maintenance Expenditures By Category (\$000's)



Comparative Operating Expenditure Budgets
(\$000's)

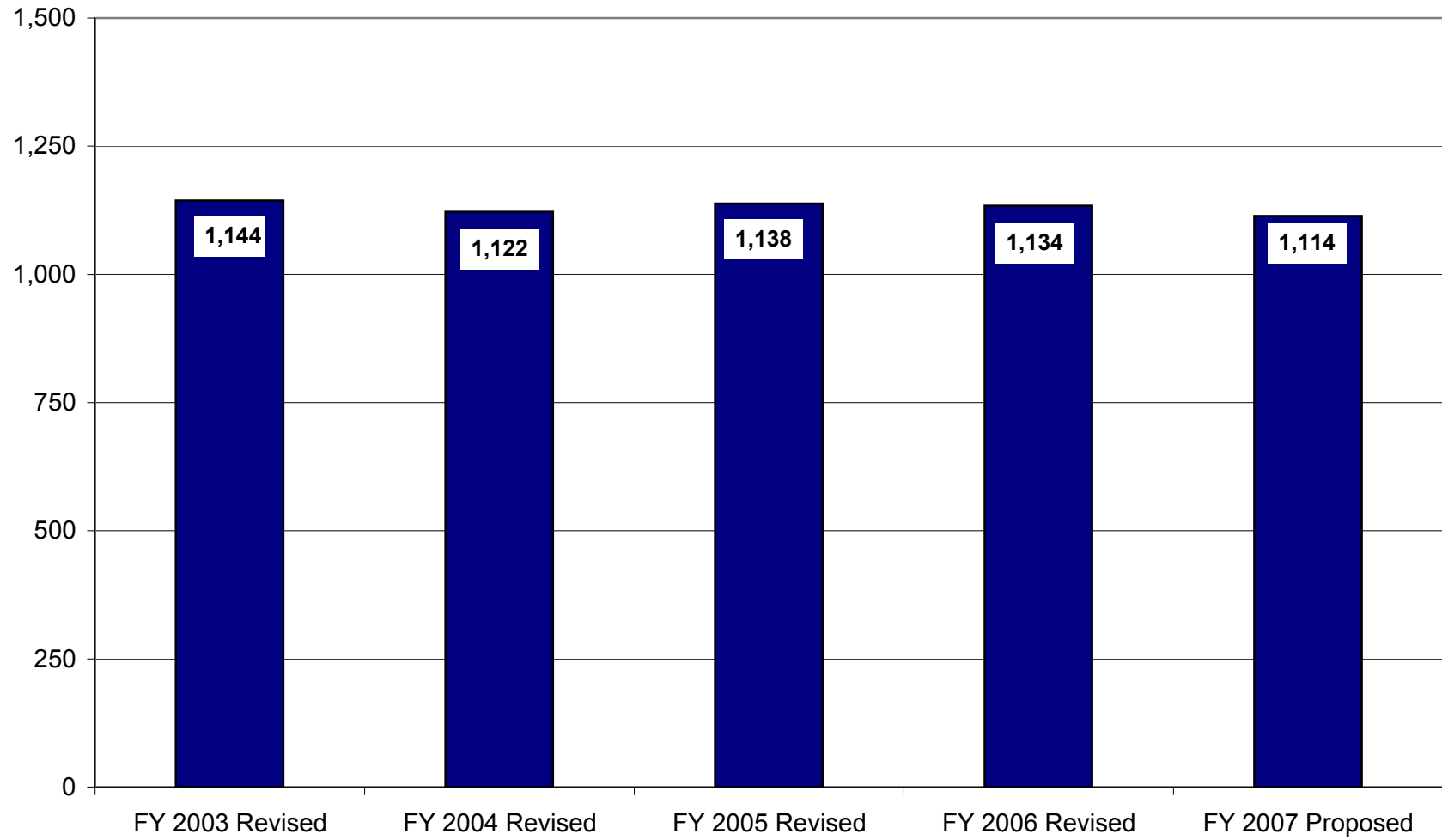
	<u>FY 2004 ACTUAL</u>	<u>FY 2005 REVISED</u>	<u>FY 2006 APPROVED</u>	<u>FY 2006 REVISED</u>	<u>FY 2007 PROPOSED</u>
<u>OPERATING</u>					
Personnel Services	69,963	77,113	81,751	80,955	85,233
Contractual Services	57,498	61,836	62,306	62,177	63,400
Water Purchases	20,692	18,365	18,916	19,413	19,995
Chemicals and Supplies	14,786	18,175	18,592	20,606	20,688
Utilities	22,188	26,228	28,316	30,161	30,383
Small Equipment	749	946	970	982	1,102
Lead Abatement	9,659	2,830	5,301	1,700	
Subtotal O & M Expenditures	195,535	205,493	216,152	215,994	220,802
Debt Service	44,958	56,298	62,579	57,959	73,090
Payment in Lieu of Taxes/ Right of Way	15,773	16,307	16,979	16,923	17,751
Total O & M Expenditures	256,265	278,098	295,710	290,876	311,642
Personnel Services charged to Capital Projects	(7,783)	(9,005)	(9,349)	(9,349)	(9,816)
Total Net Operating Expenditures	248,483	269,093	286,361	281,527	301,826

Comparative Operating Expenditures by Department

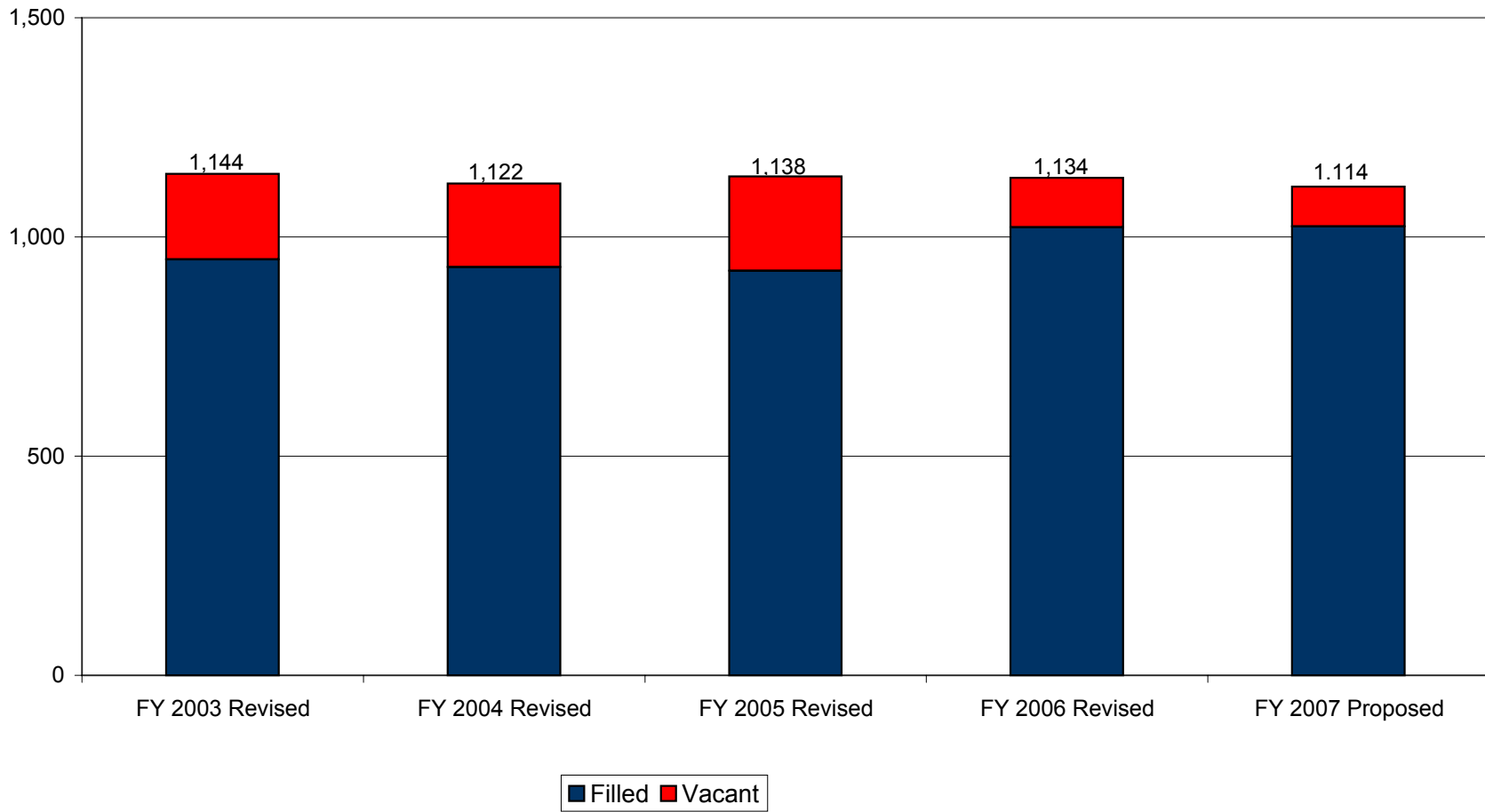
(\$000's)

	FY 2005 Revised	FY 2006 Approved	FY 2006 Revised	FY 2007 Proposed	
O p e r a t i o n s	Wastewater Treatment	62,644	64,855	67,666	68,325
	Water Services	37,674	38,989	40,034	41,757
	Sewer Services	14,183	14,955	14,848	15,500
	Maintenance Services	21,157	21,679	20,686	21,309
	Engineering & Technical Services	12,245	13,642	14,203	14,636
	Customer Service	11,985	12,626	12,599	13,067
	Lead Program	2,830	5,301	1,700	-
	Subtotal	162,718	172,047	171,736	174,594
	538	399	399	463	
A d m i n i s t r a t i o n	Office of the Secretary				
	General Manager	1,281	1,337	1,461	1,693
	General Counsel	2,992	3,256	3,340	3,614
	Public Affairs	1,119	1,165	1,102	1,232
	Internal Audit	481	508	457	481
	Finance and Budget	5,817	6,063	5,763	5,990
	Information Technology	4,449	4,708	4,893	5,252
	Risk Management	7,493	7,551	7,527	7,569
	Assistant General Manager	422	540	438	451
	Facilities & Security	8,011	8,265	8,716	8,966
	Occupational Safety and Health	740	771	732	807
	Procurement & Materiel Management	3,001	3,134	2,727	2,856
	Fleet Management	2,839	2,904	3,087	3,175
	Human Resources	3,592	3,504	3,616	3,658
Subtotal	42,775	44,105	44,257	46,208	
Subtotal O & M Expenditures	205,493	216,152	215,994	220,802	
Debt Service	56,298	62,579	57,959	73,090	
Payment in Lieu of Taxes/ Right of Way	16,307	16,979	16,923	17,751	
Total O & M Expenditures	278,098	295,710	290,876	311,642	
Personnel Services charged to Capital Projects	(9,005)	(9,349)	(9,349)	(9,816)	
Total Net Operating Expenditures	269,093	286,361	281,527	301,826	

Authorized Positions FY 2003 - FY 2007



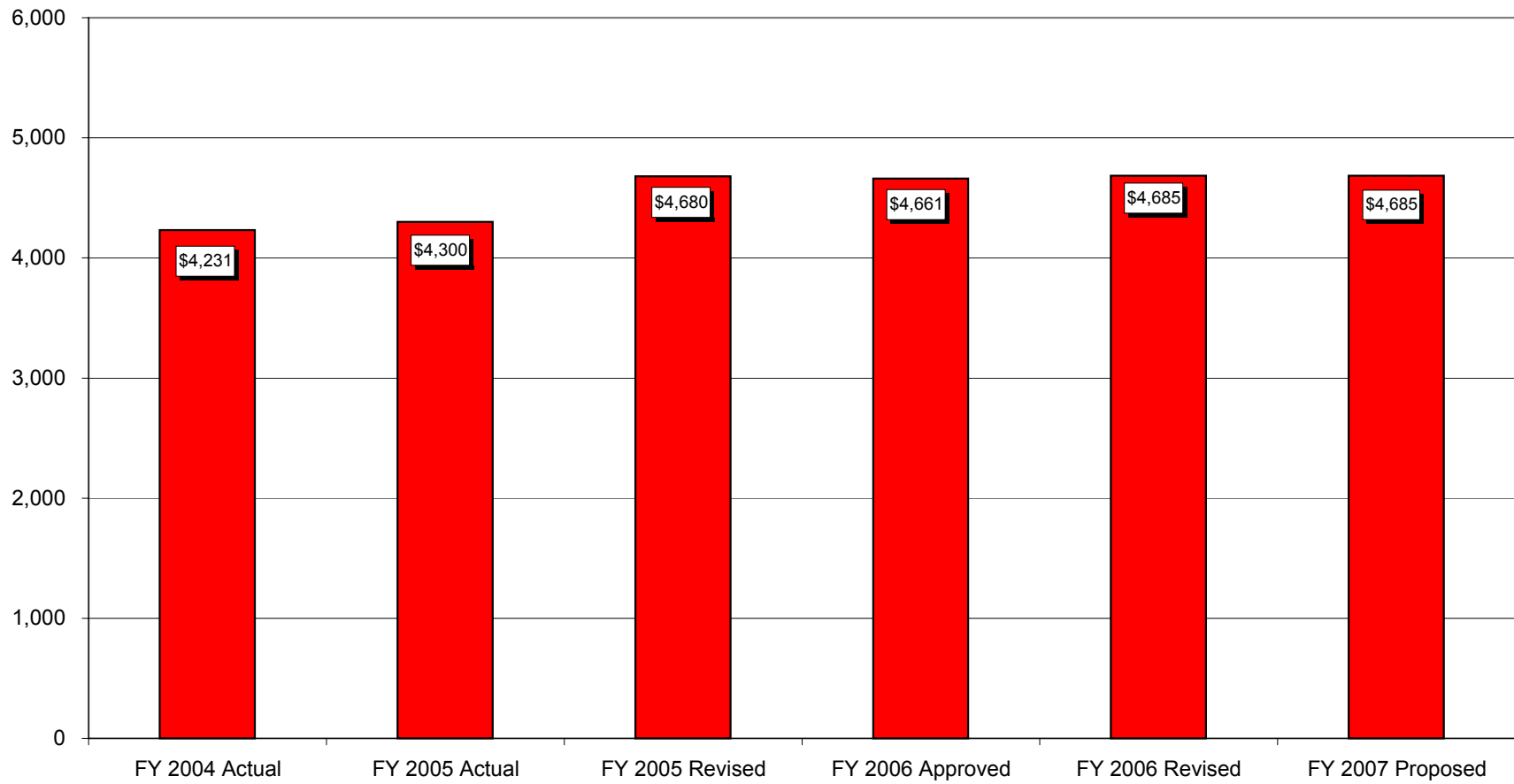
Filled vs. Vacant Positions FY 2003 - FY 2007



FY 2006 Revised & FY 2007 Proposed Position Request

	Fiscal Year 2004			FY 2004	Fiscal Year 2005			FY 2005	Fiscal Year 2006		Fiscal Year 2007	
	Authorized	Average Filled	Average Vacant	Year-End Filled	Authorized	Average Filled	Average Vacant	Year-End Filled	Authorized	Revised	Proposed	
Operations	Wastewater Treatment	144	124	20	117	144	112	32	108	133	132	112
	Water Services	170	130	40	129	158	137	21	133	158	166	166
	Sewer Services	160	134	26	130	159	135	24	136	159	159	159
	Maintenance Services	190	169	21	163	182	155	27	151	178	178	178
	Engineering & Technical Services	118	100	18	101	118	103	15	107	125	125	125
	Customer Service	105	92	13	94	119	104	15	106	123	123	123
	Subtotal	887	749	138	734	880	746	134	741	876	883	863
Administration	Secretary to the Board of Directors	2	2	-	2	2	2	-	2	2	2	2
	General Manager	6	5	1	5	6	5	1	4	7	9	9
	General Counsel	10	7	3	8	10	7	3	8	14	14	14
	Public Affairs	5	4	1	4	5	5	-	5	8	8	8
	Internal Audit	4	3	1	3	4	4	-	3	4	4	4
	Finance	42	36	6	34	42	33	9	32	43	43	43
	Information Technology	29	16	13	14	29	12	17	13	29	29	29
	Risk Management	3	2	1	2	3	3	-	3	3	3	3
	Assistant General Manager	4	3	1	3	3	3	-	3	4	4	4
	Facilities and Security	63	54	9	57	64	50	14	50	64	64	64
	Occupational Safety and Health	6	6	-	6	6	6	-	6	6	6	6
	Procurement & Materiel Management	40	37	3	35	38	31	7	31	38	38	38
	Fleet Management	5	5	-	5	5	4	1	4	5	5	5
Human Resources	21	20	1	19	21	19	2	18	22	22	22	
	Subtotal	240	200	40	197	238	184	54	182	249	251	251
	Total Positions	1,127	949	178	931	1,118	930	188	923	1,125	1,134	1,114

Overtime Expenditures
FY 2004 - FY 2007
(\$000's)



OVERTIME BY DEPARTMENT
(\$000's)

Department	FY 2004 Actual	FY 2005 Actual	FY 2005 Revised	FY 2006 Approved	FY 2006 Revised	FY 2007 Proposed
Wastewater Treatment	837	786	948	929	790	790
Water Services	874	855	978	978	978	978
Sewer Services	869	861	882	882	942	942
Maintenance Services	827	1022	800	800	900	900
Engineering & Technical Services	328	321	425	425	425	425
Customer Service	190	218	300	300	300	300
Secretary to the Board of Directors	2		2	2	2	2
General Manager	13	25	25	25	25	25
General Counsel	1		2	2	2	2
Public Affairs	1	2	2	2	2	2
Internal Audit	-		-	-	-	-
Finance & Budget	30	26	40	40	40	40
Information Technology	22	19	50	50	50	50
Risk Management	2		2	2	4	4
Assistant General Manager	1	1	1	1	1	1
Facilities & Security	192	118	142	142	142	142
Occupational Safety & Health	1		1	1	1	1
Procurement & Materiel Management	38	44	52	52	52	52
Fleet Management	1		3	3	4	4
Human Resources	2	2	25	25	25	25
Lead Abatement	-		-	-		
Total	4,231	4,300	4,680	4,661	4,685	4,685



DCWASA

**FY 2007
Operating Budget
\$311,642,000**

**BOARD
OF
DIRECTORS**

Office of the Secretary

**GENERAL
MANAGER**

**Public
Affairs**

**Internal
Audit**

**Chief Financial
Officer**

**Finance and
Budget**

**Risk
Management**

**Information
Technology**

**Assistant
General Manager**

**Human
Resources**

**Fleet
Management**

**Fleet
Management**

**Occupational Health
and
Safety**

**Procurement and
Materiel Management**

**General
Counsel**

POSITIONS			
CURRENT		FY 2006	FY 2007
Budget	Filled		
1,122	930	1,134	1,114

**Chief Engineer/
Deputy General
Manager**

**Assistant
General Manager
Consumer Services**

**Water
Services**

**Sewer
Services**

**Customer
Service**

**Engineering
and
Technical
Services**

**Wastewater
Treatment**

**Maintenance
Services**



**FY 2007 Budget
\$ 68,325,000**

**CHIEF
ENGINEER**

**WASTEWATER
TREATMENT
4 - Positions**

**General Foremen
4 - Positions**

**Process Engineering
8 - Positions**

**Laboratory and
Pretreatment
Branch
10 - Positions**

**Solids
Processing
Branch
30 - Positions**

**Wastewater
Treatment
Branch
50 - Positions**

**Biosolids
Management
Branch
6 - Positions**

POSITIONS				
Authorized	CURRENT		FY 2006	FY 2007
	Average Positions Filled	Year-End Positions Filled		
145	112	108	132	112

FUNCTIONS

- Physical, chemical and biological analysis of wastewater and biosolids used for process control and permit reporting
- Industrial discharge monitoring

FUNCTIONS

- Biosolids conditioning, thickening, dewatering, and stabilization

FUNCTIONS

- Treat influent wastewater to remove pollutants and meet National Pollutant Discharge Elimination System Permit (NPDES) requirements

FUNCTIONS

- Biosolids storage, loading, hauling and utilization/ disposal

WASTEWATER TREATMENT

MISSION: To treat wastewater delivered to Blue Plains from the collection system of the District of Columbia and surrounding jurisdictions in Maryland and Virginia, ensuring that effluent is in compliance with the Clean Water Act.

BUDGET OVERVIEW: The revised FY 2006 budget is approximately \$2.8 million greater than the approved FY 2006 budget due to higher chemicals and electricity costs. This increase was partly offset by reductions in biosolids hauling and disposal and lower overtime costs. The FY 2007 proposed budget increases by approximately 1% from the FY 2006 revised budget, primarily due to anticipated increases in biosolids costs. The FY 2007 projected compensation increases are offset by the reduction of 20 positions in support of the Internal Improvement Program (IIP).

	FY 2005 Revised	FY 2006 Approved	FY 2006 Revised	FY 2007 Proposed
Positions: (FTE's)				
Number of authorized positions	145	133	132	112
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	9,463	9,968	9,667	9,703
Overtime	948	929	790	790
Non-Personnel Services:				
Chemicals & Supplies	13,625	13,967	15,925	15,950
Utilities	17,718	19,360	20,819	20,949
Contractual Services, etc.	5,665	4,970	4,841	4,609
Biosolids	16,077	16,495	16,313	17,019
Small Equipment	96	94	101	95
Total Non-Personnel Services	53,181	54,887	57,999	58,622
Total Operations	62,644	64,855	67,666	68,325
Capital Equipment	84	58	81	30

Targeted Performance Measures	FY 2005 Projection	FY 2006 Budget	FY 2006 Projection	FY 2007 Projection
Achieve AMSA Award Status	Gold	Gold	Gold	Gold
Compliance with disposal of biosolids regulations (%)	100% Compliance	100% Compliance	100% Compliance	100% Compliance
Inspection and Sampling of Pretreatment Permittees (%)	100 % Complete	100 % Complete	100 % Complete	100 % Complete
Obtain 90% acceptable results on discharge monitoring report quality assurance samples	90% Acceptable results	90% Acceptable results	90% Acceptable results	90% Acceptable results
Number of certified operators	102	116	116	92

WASTEWATER TREATMENT

OVERVIEW

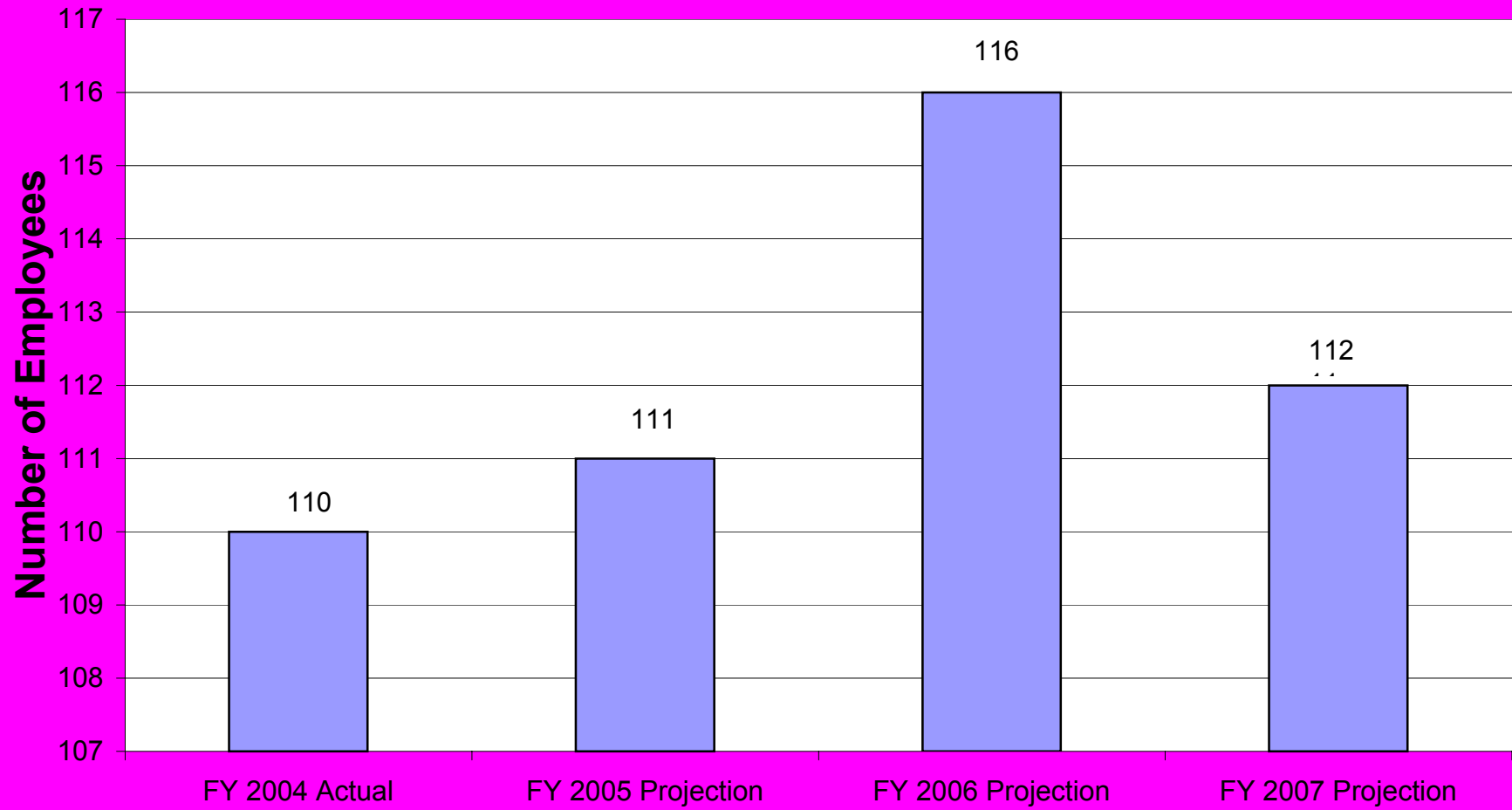
FY 2006 Major Recommended Activities and Changes

- Maintain full compliance with NPDES permit
- Reduce 13 positions from FY 2005 as a result of the Internal Improvement Plan (IPP)
- Actively participate in chemicals procurement to ensure lowest cost and reliability of service
- Continue to minimize plant and biosolids odor
- Implement training programs
- Continue implementation of High Priority Rehabilitation Program (HPRP) to ensure critical process equipment remains in service
- Continue operation of treatment facilities during construction of the following Capital Improvement Program (CIP) projects:
 - Secondary Treatment Upgrades – operational in 2006
 - Additional Dewatering Upgrades – operational in 2006
 - Process Control Computer System – partially operational in 2005
 - Filtration & Disinfection Upgrades – operational in 2007
 - Grit and Screen Upgrades – operational in 2007
 - Digester Construction – operational in stages beginning in FY 2011
- Continue to conduct wastewater treatment process research and development in various areas including:
 - Use of methanol for denitrification in winter
 - Sidestream treatment for nitrogen removal
 - Primary influent septicity on chemically enhanced primary treatment
 - Digestion process temperature evaluation
 - Biosolids product quality improvement
- Continue to work with Maryland and Virginia on regulatory requirements for biosolids and land applications
- Monitor and evaluate impact of Chesapeake Bay program changes on Blue Plains
- Monitor and evaluate impact of CSO LTCP on Blue Plains

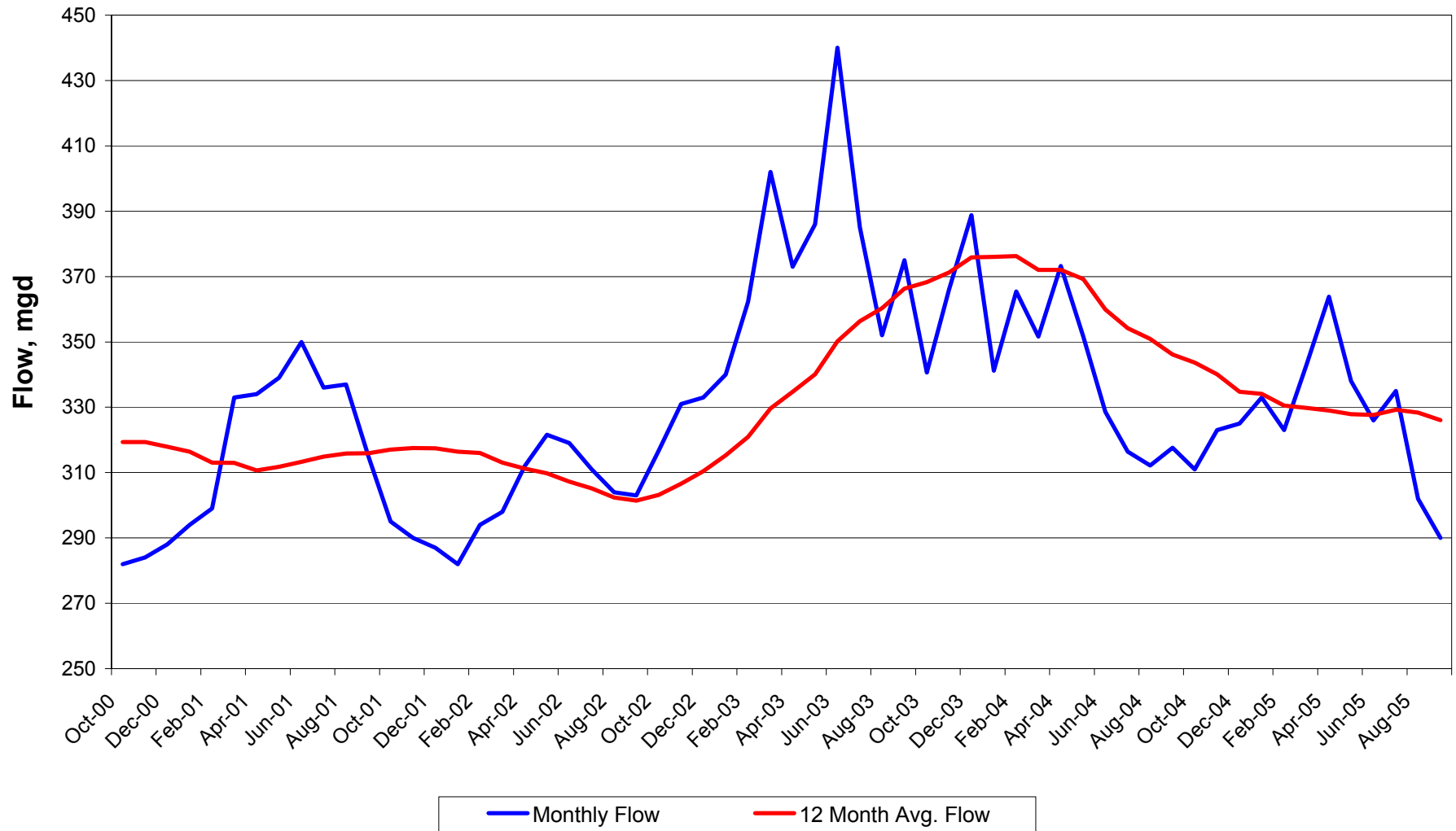
FY 2007 Major Recommended Activities and Changes

- Continue to implement the Internal Improvement Plan (IIP) recommendations for plant efficiency and effectiveness
- Continue operation of treatment facilities during construction of the following CIP projects:
 - Filtration & Disinfection Upgrades – partially operational in 2005
 - Grit and Screen Upgrades – operational in 2007
 - Nitrification / Denitrification Upgrades – operational in 2007
 - Digester Construction – operational in stages beginning in FY 2011
- Continue to conduct wastewater treatment process research and development in various areas of wastewater treatment
- Continue to work with Maryland and Virginia on regulatory requirements for biosolids and land applications

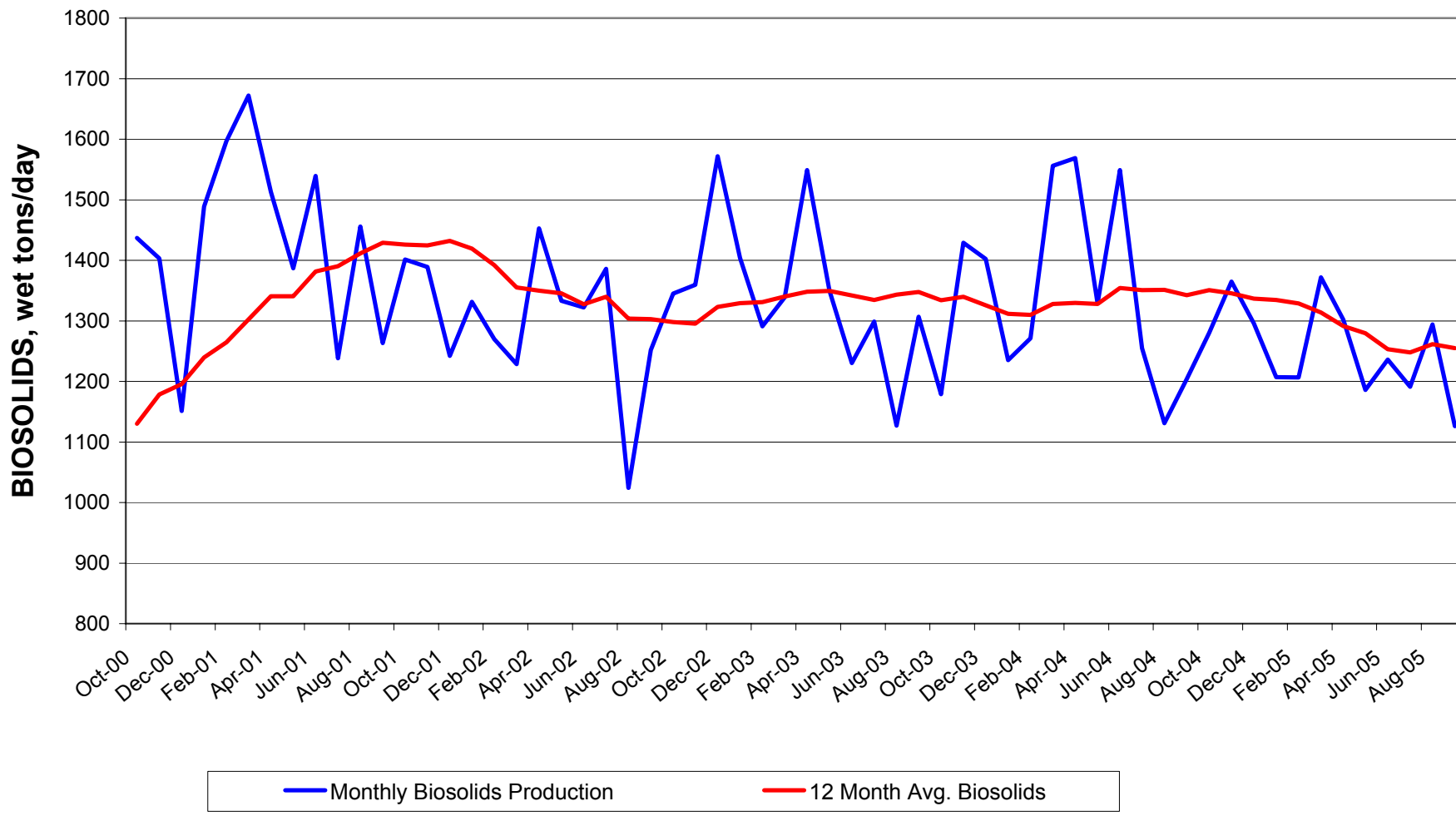
CERTIFIED OPERATORS



BLUE PLAINS WASTEWATER TREATMENT PLANT EFFLUENT FLOW OCTOBER 2000 - SEPTEMBER 2005

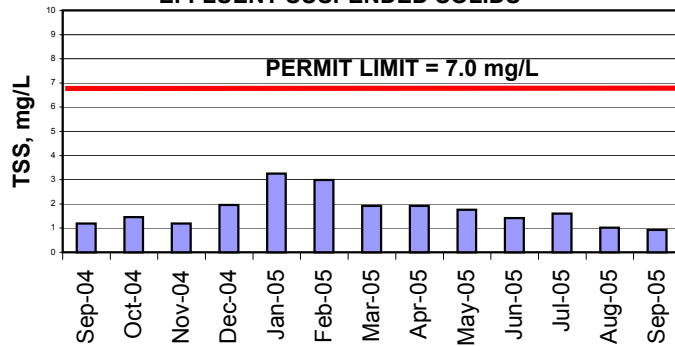


BLUE PLAINS WASTEWATER TREATMENT PLANT BIOSOLIDS PRODUCTION OCTOBER 2000 - SEPTEMBER 2005



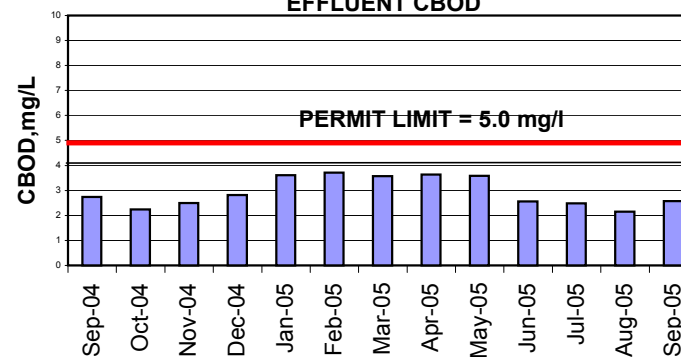
**BLUE PLAINS WASTEWATER TREATMENT PLANT
PLANT EFFLUENT QUALITY
SEPTEMBER 2004 - SEPTEMBER 2005**

**MONTHLY AVERAGE
EFFLUENT SUSPENDED SOLIDS**



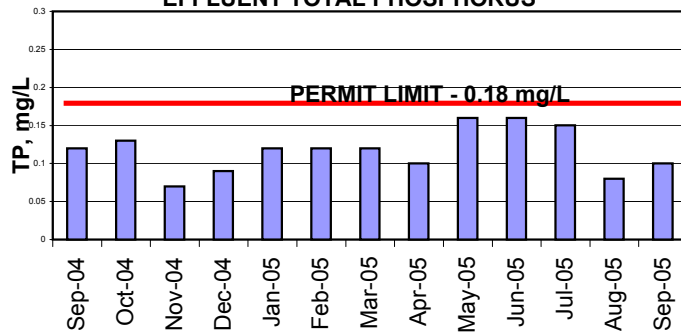
Effluent Total Suspended Solids (TSS) is a measure of the amount of solid materials that remains suspended after treatment.

**MONTHLY AVERAGE
EFFLUENT CBOD**



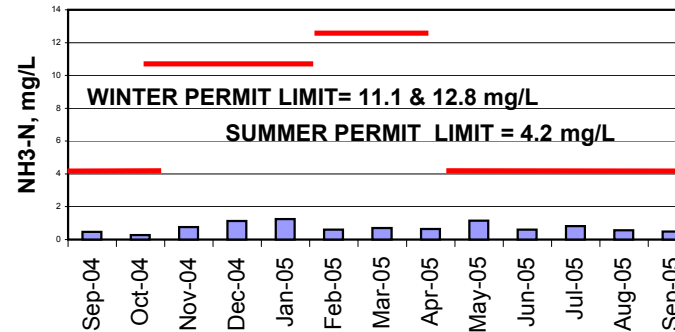
Carbonaceous Biochemical Oxygen Demand (CBOD) is a measure of the amount of dissolved oxygen required for the decomposition of organic materials.

**ANNUAL AVERAGE
EFFLUENT TOTAL PHOSPHORUS**



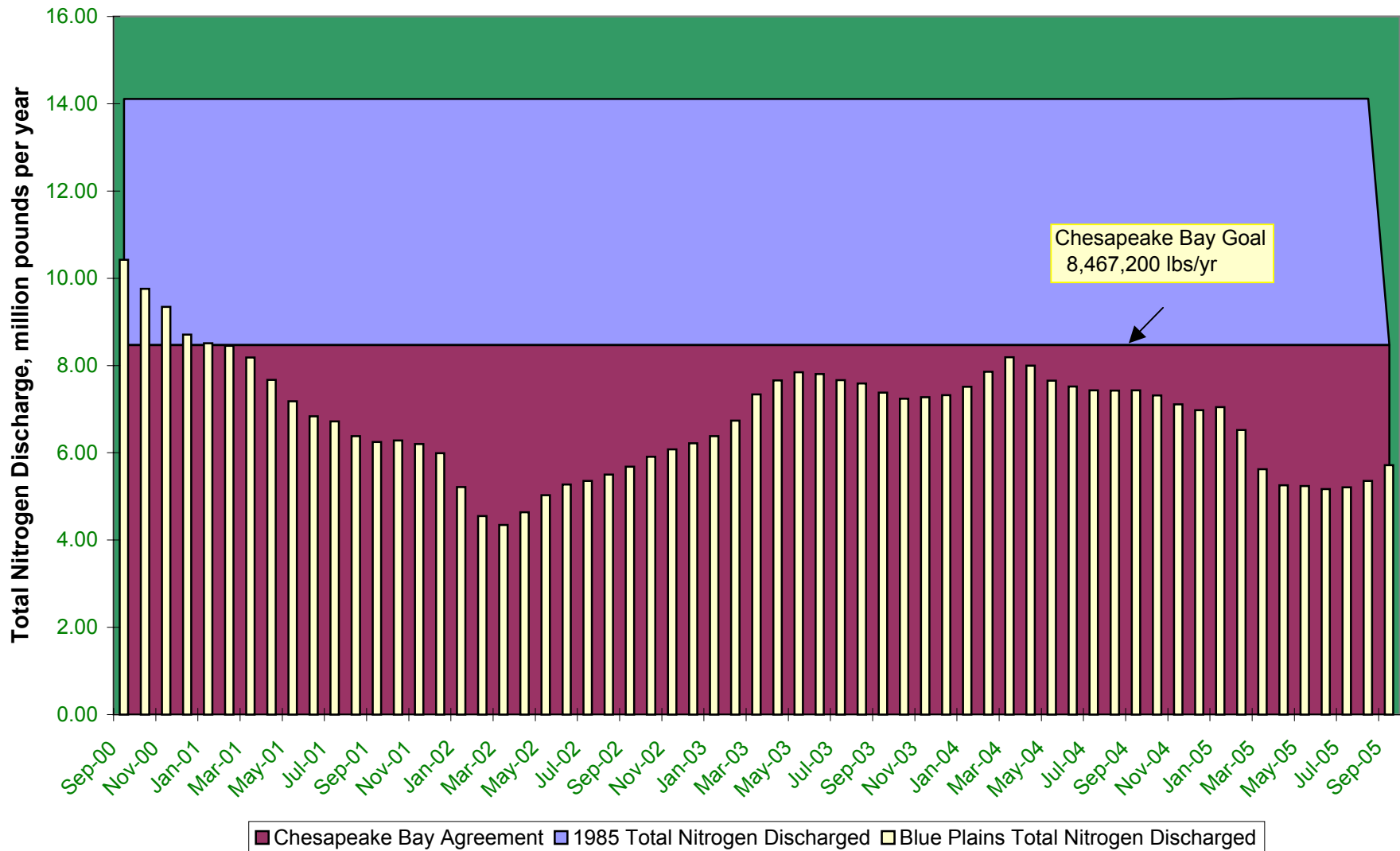
The total Phosphorus (TP) is a measure of the particulate and dissolved phosphorus in the effluent.

**MONTHLY AVERAGE
EFFLUENT AMMONIA NITROGEN**



The Ammonia Nitrogen (NH₃-N) is a measure of the nitrogen found in ammonia.

Annual Total Nitrogen Load, Pounds per year





**FY 2007 Budget
\$41,757,000**

**ASST. GEN. MGR.
RETAIL
SERVICES**

**WATER
SERVICES
4 - Positions**

POSITIONS				
Authorized	CURRENT		FY 2006	FY 2007
	Average Positions Filled	Year-End Positions Filled		
158	137	133	166	166

**Pumping
Services
13 - Positions**

**Repair &
Investigations
79 - Positions**

**Preventive
Maintenance
49 - Positions**

**Technical
Support Services
8 - Positions**

**Water Quality
13 - Positions**

FUNCTIONS

- Operate and maintain pumping stations, water storage, and facilities
- Monitor and maintain appropriate pressure in the distribution system
- Operate control valves in the pumping stations and storage facilities
- Operate and maintain Supervisory Control and Data Acquisition (SCADA) system
- Coordinate pumping operations with the daily water consumption requirements with Washington Aqueduct Treatment Plants
- Perform preventive maintenance on pumping operations assets

FUNCTIONS

- Water main repair & replacement
- Water service line repair and replacement
- Valve replacement
- Tap / tap abandonment
- Contract support for Capital Improvement Program (CIP)
- Hydrant replacement
- Investigation of customer issues
- Hydrant operation & maintenance
- Valve operation and maintenance
- Minor leak repairs
- Support lead replacement program
- Perform scheduled & emergency shuts
- Inventory management
- Support Departmental safety efforts

FUNCTIONS

- Inspects, exercises and performs preventative maintenance on the 40,000 system valves
- Inspects, exercises and performs preventative maintenance on the 9,000 system valves and hydrants
- Performs minor leak repairs
- Implements Water Quality flushing program.
- Provides support for CIP projects.
- Assists Distributions as first responder during emergency situations
- Inspects construction projects
- Supports departmental safety efforts

FUNCTIONS

- Manage the Valve Coordination Control (War Room) program
- Establish and administer a comprehensive asset management program for the water and sewer systems
- Evaluate CIP design and construction documents
- Manage multiple infrastructure repair and maintenance contracts
- Support the Bryant Street renovation project
- Test valve shutdown plans for construction of CIP projects
- Manage the Fire Hydrant Program
- Track all valve closures in the system
- Maintain databases that support valve, hydrant, and work management
- Support departmental safety efforts

FUNCTIONS

- Environmental Protection Agency (EPA) compliance monitoring
- Corrosion control and monitoring
- Unidirectional flushing program
- Cross connection
- Chloramination treatment monitoring
- Lead and copper testing program
- Conduct studies of corrosion issues
- Overall water quality monitoring
- Publication of annual Consumer Confidence report
- Co-operative water quality ventures and outreach
- Public notification and regulatory monitoring
- Support departmental safety efforts
- Implement a comprehensive, customer oriented water conservation program

WATER SERVICES

MISSION: To operate and maintain a potable water transmission and distribution system, which delivers high quality water to WASA's customers. Water Services will ensure that water distribution meets or exceeds the applicable water quality regulations promulgated by the Safe Water Drinking Act and is provided in a reliable manner.

BUDGET OVERVIEW: The revised FY 2006 is approximately \$1 million more than the approved FY 2006 budget higher water purchases cost at the Washington Aqueduct and higher staffing levels for preventive maintenance efforts. The proposed FY 2007 budget increases by approximately \$1.7 million mainly due to anticipated compensation increases and higher water purchases costs at the Washington Aqueduct.

	FY 2005 Revised	FY 2006 Approved	FY 2006 Revised	FY 2007 Proposed
Positions: (FTE's)				
Number of authorized positions	158	158	166	166
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	10,079	10,640	11,039	11,978
Overtime	978	978	978	978
Non-personnel Services:				
Chemicals and Supplies	809	809	979	1,013
Utilities	4,258	4,461	4,605	4,621
Contractual Services, etc.	4,053	4,053	3,873	4,006
Water Purchases	18,365	18,916	19,413	19,995
Small Equipment	110	110	125	143
Total Non-Personnel Services	27,595	28,349	28,995	29,779
Total Operations & Maintenance	37,674	38,989	40,034	41,757
Capital Equipment	717	673	891	886

Targeted Performance Measures	FY 2005 Projection	FY 2006 Budget	FY 2006 Projection	FY 2007 Projection
Maintain full compliance with Safe Drinking Water Act standards for positive coliform results (less than 5%)	< 5%	< 5%	< 5%	< 5%
Flush 500 - 1,300 miles of distribution system annually	1,278	500 - 1,300	650	650
Exercise 18,000 - 23,000 valves annually	23,268	15,000	24,000	24,000
Maintain a 99.5% fire hydrant operational rate	99.20%	99.00%	99.0%	99.0%
Respond to all water leaks within 45 minutes	66% within 45 minutes	within 45 minutes	within 45 minutes	within 45 minutes
Repair 90% of reported main leaks within 10 days	84%	90%	90%	90%

WATER SERVICES

OVERVIEW

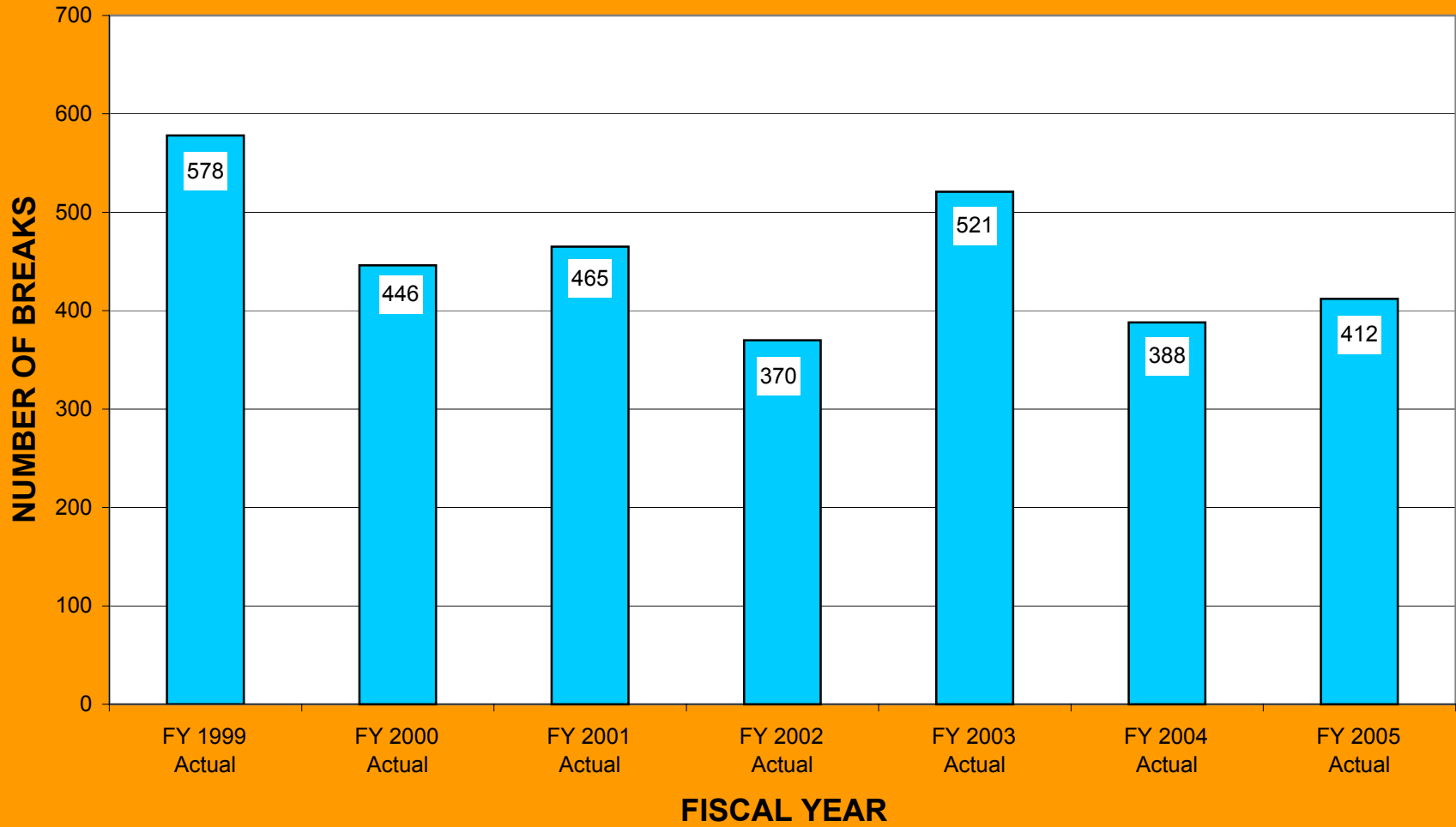
FY 2006 Major Recommended Activities and Changes

- Addition of eight positions for preventive maintenance efforts
- Continue organizational evaluation to provide flexibility in workforce utilization in support of IIP efforts
- Continue enhanced water quality efforts
- Continue valve assessment effort and implement refined exercising program
- Complete unidirectional flushing of entire distribution system in 2006, and develop long-term flushing program
- Implement next phase of asset management system
- Refine WASA's water conservation program
- Continue effective operations during CIP activities including construction of Anacostia and Bryant Street pumping stations
- Support lead service line replacement and abatement program

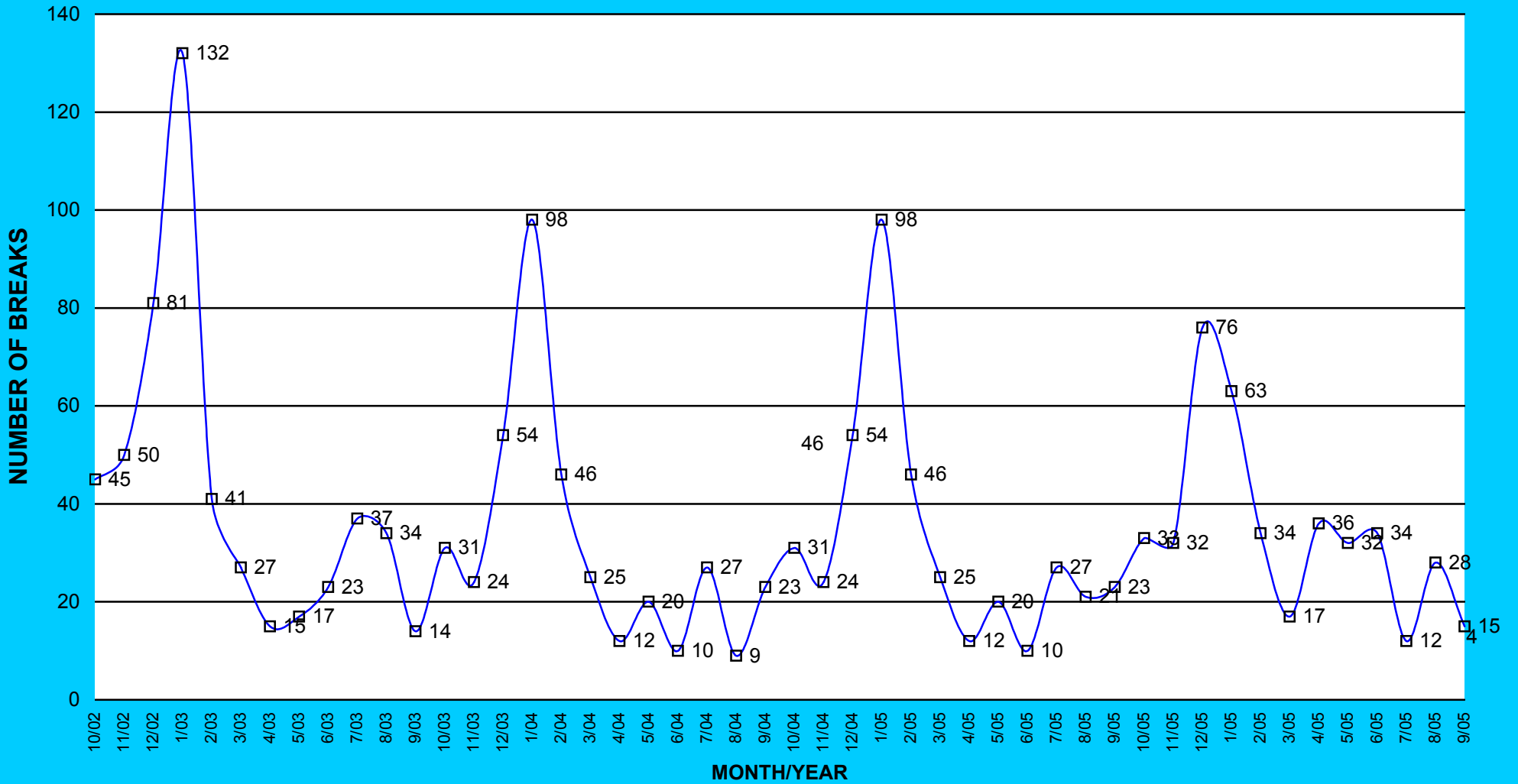
FY 2007 Major Recommended Activities and Changes

- Continue enhanced water quality efforts, including supporting the lead abatement program
- Continue valve assessment effort and implement refined exercising program
- Implement next phase of asset management system
- Complete fire hydrant assessment program
- Continue effective operations during CIP activities including completion of Bryant Street pumping station
- Support lead service line replacement and abatement program

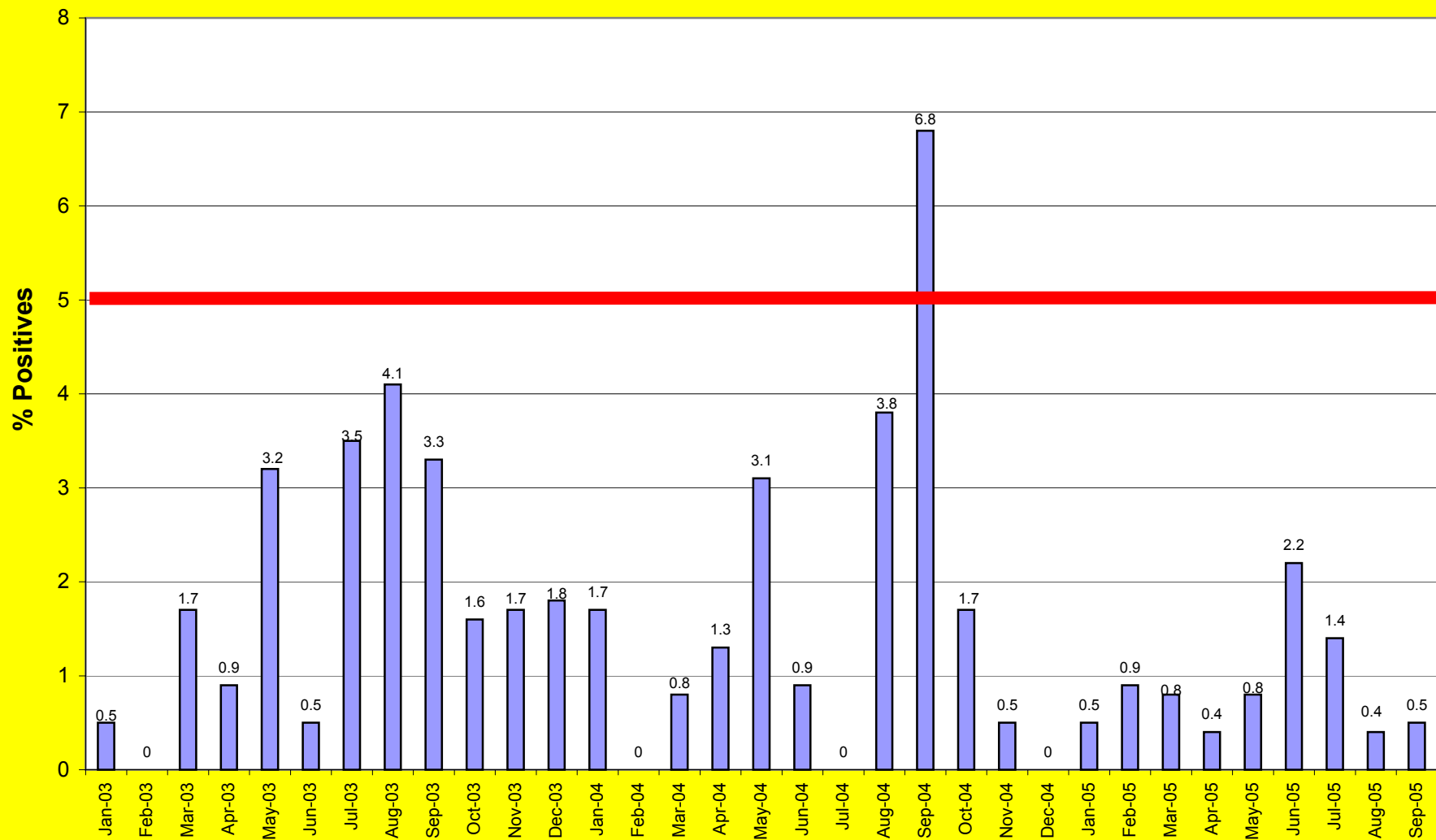
HISTORICAL WATER MAIN BREAKS FY 1999 - FY 2005



HISTORICAL MONTHLY MAIN BREAKS 2002 - 2005



**DC DRINKING WATER TOTAL COLIFORM RESULTS
2003 - 2005**
EPA Maximum Contaminant Levels = 5% positives per month



NOTE: The September 2004 exceedance appears to be related to the Aqueduct's addition of orthophosphate to address lead in drinking water issues.



**ASST. GEN. MGR.
RETAIL
SERVICES**

**SEWER
SERVICES**

			POSITIONS	
CURRENT			FY 2006	FY 2007
Authorized	Average Positions Filled	Year-End Positions Filled		
159	135	136	159	159

**FY 2007 Budget
\$15,500,000**

**Sewage Pumping
34 - Positions**

FUNCTIONS

- Operation of sanitary and stormwater pumping stations
- Operation of combined sewer system controls, including swirl concentrator and fabric dams.

**Inspection & Maintenance
75 - Positions**

FUNCTIONS

- Public sewer investigation
- Sewer lateral investigation
- Sewer cleaning
- Inlet & Outlet Structure cleaning
- Sewer regulator structure operations and maintenance
- Catch basin cleaning
- Floatable debris removal

**Construction & Repair
46 - Positions**

FUNCTIONS

- Sewer main installation and repair
- Catch basin installation and repair
- Sewer lateral replacement and repair
- Management of construction contracts
- Management of CIP Projects
- Management & Inspection of in-house projects
- Coordinate work orders

**Potomac Interceptor
4 - Positions**

FUNCTIONS

- Operation and maintenance of the Potomac Interceptor Sewer
- Operation and maintenance of related odor control facilities and manholes
- Right-of-Way maintenance and surveillance

SEWER SERVICES

MISSION: Provide for the operation and maintenance of the sewer system which collects and transports wastewater and stormwater flows to treatment and authorized discharge points.

BUDGET OVERVIEW: The FY 2006 revised budget is approximately \$0.1 million less than the approved FY 2006 budget due to reductions in contractual services and budgeted vacant positions, offset in part by electricity increases. The FY 2007 proposed budget is approximately \$0.7 million higher than the FY 2006 revised budget due to projected compensation increases and increase contractual services associated with Potomac Interceptor odor control and system maintenance.

	FY 2005 Revised	FY 2006 Approved	FY 2006 Revised	FY 2007 Proposed
Positions: (FTE's)				
Number of authorized positions	159	159	159	159
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	9,672	10,213	10,071	10,539
Overtime	882	882	942	942
Non-Personnel Services:				
Chemicals & Supplies	442	442	449	443
Utilities	2,240	2,423	2,626	2,640
Contractual Services, etc.	1,739	1,775	1,600	1,775
Small Equipment	90	102	103	103
Total Non-Personnel Services	4,511	4,742	4,777	4,961
Total Operations & Maintenance	14,183	14,955	14,848	15,500
Capital Equipment/Projects:	617	673	718	268

Targeted Performance Measures	FY 2005 Projection	FY 2006 Budget	FY 2006 Projection	FY 2007 Projection
Number of catch basins cleaned annually	28,536	25,000	25,000	25,000
Number of laterals investigated or relieved annually	2,278	2,000	2,000	2,000
Tonnage of floatable debris removed from rivers	372	500	400	400
Number of sewer laterals repaired or replaced annually	285	300	300	300
Feet of sewer main repaired or replaced annually	320	500	500	500
Number of inspections completed on Potomac Interceptor meters	402	350	375	375

SEWER SERVICES

OVERVIEW

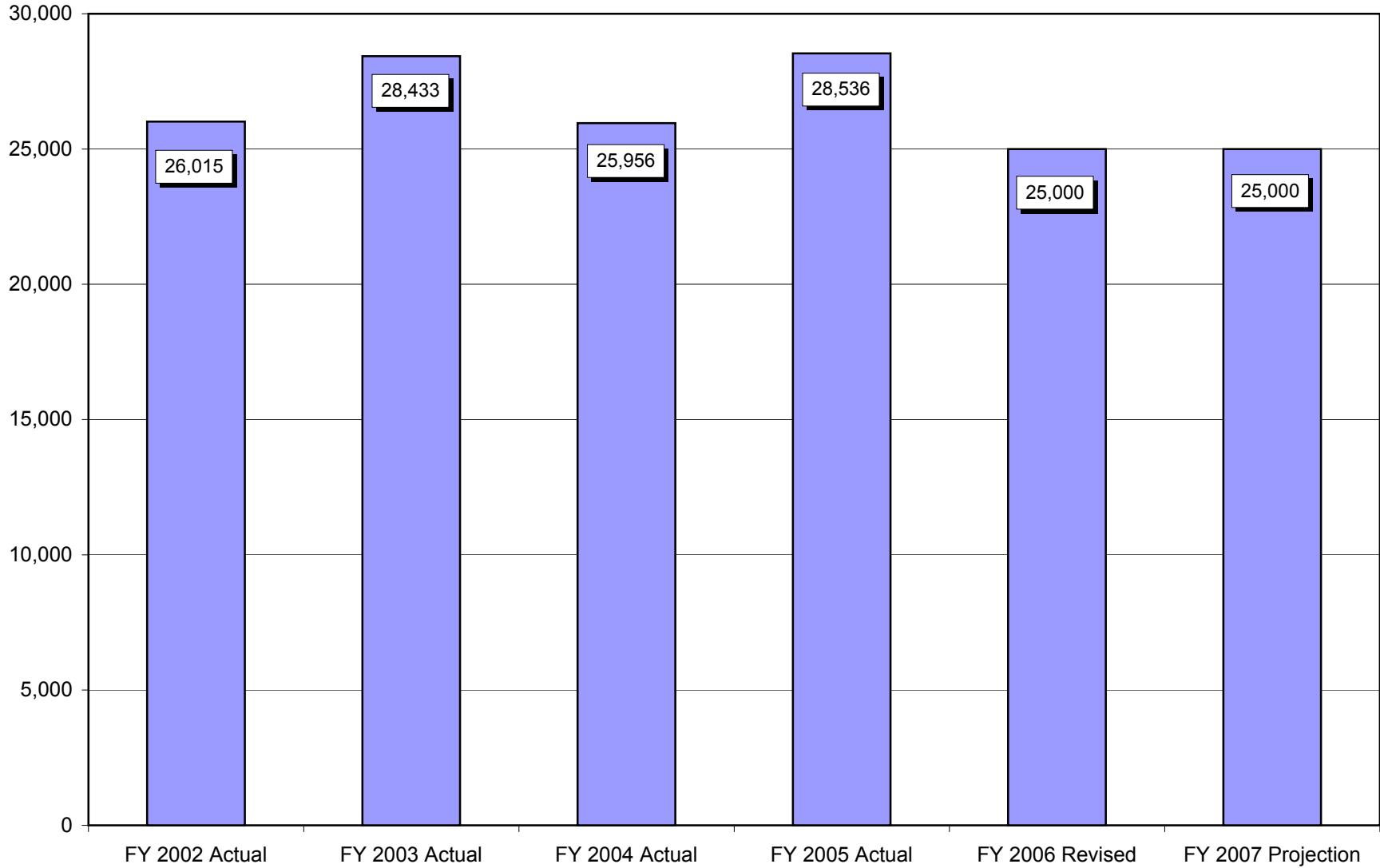
2006 Major Recommended Activities and Changes

- Support implementation of the Combined Sewer Overflow Long-Term Control Plan (CSO LTCP) and the Nine Minimum Controls consent decree
- Continue effective operations of pumping stations during rehabilitation activities:
 - Main and O St.
 - Eastside
 - Poplar Point
 - Potomac
 - Rock Creek
- Develop plans for operations performed at Main and O St. in light of the District's Anacostia Waterfront development plans and the new baseball stadium
- Support Engineering and Technical Services in comprehensive condition assessment of WASA's sewer system
- Continue odor control and rehabilitation projects on the Potomac Interceptor
- Evaluate the impact of proposed Sanitary Sewer Overflow (SSO) and capacity, management, operation, and maintenance (CMOM) regulations
- Implement new asset management system
- Evaluate operational and financial impact of potential transfer of stormwater responsibilities to the District, including stormwater pumping stations as well as potential assumption by WASA of catch basin maintenance on federal roads in the District's metropolis

2007 Major Recommended Activities and Changes

- Continue to support implementation of the Combined Sewer Overflow Long-Term Control Plan (CSO LTCP) and the Nine Minimum Controls consent decree
- Begin operation of the new Eastside and Potomac Pumping Stations
- Continue to support Engineering and Technical Services in comprehensive condition assessment of WASA's sewer system
- Continue odor control and rehabilitation projects on the Potomac Interceptor

FY 2002 - FY 2007 Catch Basins Cleaned





**FY 2007 Budget
\$21,309,000**

**CHIEF
ENGINEER**

**MAINTENANCE
SERVICES**

POSITIONS				
CURRENT			FY 2006	FY 2007
Authorized	Average Positions Filled	Year-End Positions Filled		
181	155	151	178	178

**Electrical
Maintenance
55 – Positions**

FUNCTIONS

- Maintain electrical power distribution and process control systems, equipment, and components for water, stormwater, and wastewater pumping facilities, and the Blue Plains Advanced Wastewater Treatment Plant
- Operate and maintain electrical power distribution system from 69kv to 5kv, electrical control systems for process equipment and facilities.

**Mechanical
Maintenance
76 – Positions**

FUNCTIONS

- Maintain mechanical process systems and equipment for water, stormwater, and wastewater pumping facilities, and the Blue Plains Advanced Wastewater Treatment Plant

**Maintenance
Management
21 – Positions**

FUNCTIONS

- Plan and coordinate all activities for corrective, preventive, and predictive maintenance.
- Plan and operate support systems to manage maintenance by planning, estimating, inspecting, and scheduling maintenance activities.
- Coordinate work through operations and engineering.

**Instrumentation and
Telemetry
26 – Positions**

FUNCTIONS

- Maintain electronic process control systems, flow measurement, metering and recording equipment for water, stormwater, and wastewater pumping facilities, and the Blue Plains Advanced Wastewater Treatment Plant
- Maintain electronic systems and components to measure flow, transmit data and control critical system operating equipment

MAINTENANCE SERVICES

MISSION: To economically maintain WASA's process equipment and facilities, ensuring that the operational and customer service objectives of the Authority are achieved.

BUDGET OVERVIEW: The revised FY 2006 budget declines by approximately \$1.0 million from the approved FY 2006 budget due to reductions in budgeted vacant positions and further reductions in contractual services associated with electrical equipment and systems maintenance. The FY 2007 proposed budget increases by \$0.6 million due to projected compensation increases.

	FY 2005 Revised	FY 2006 Approved	FY 2006 Revised	FY 2007 Proposed
Positions: (FTE's)				
Number of authorized positions	181	178	178	178
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	12,631	13,148	12,873	13,345
Overtime	800	800	900	900
Non-Personnel Services:				
Chemicals and Supplies	2,201	2,201	2,112	2,112
Utilities	73	73	75	75
Contractual Services, etc.	6,112	6,117	5,489	5,569
Small Equipment	140	140	138	208
Total Non-Personnel Services	8,527	8,532	7,814	7,964
Total Operations & Maintenance	21,158	21,679	20,686	21,309
Capital Equipment	2,389	1,950	1,920	1,920

Targeted Performance Measures	FY 2005 Projection	FY 2006 Budget	FY 2006 Projection	FY 2007 Projection
Critical Process trains available for service at Blue Plains	92%	97%	97%	97%
Critical Process trains available for service at Water and Sewer Pumping Facilities.	96%	97%	97%	97%

MAINTENANCE SERVICES

OVERVIEW

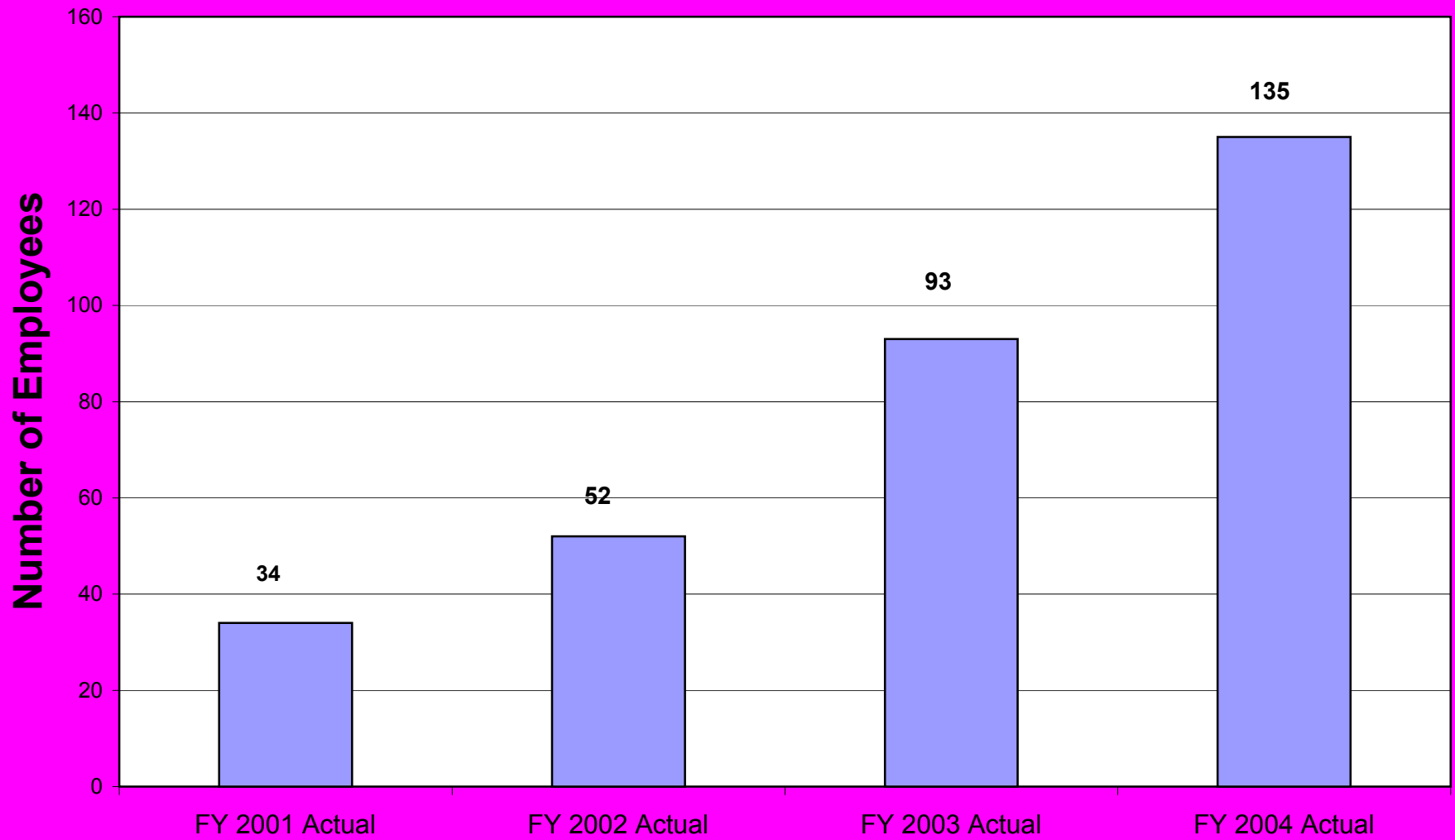
FY 2006 Major Recommended Activities and Changes

- Reduce three positions from FY2005 in support of the Internal Improvement Program (IIP)
- Reduce dependency on contractor maintenance
- Continue maintenance training and certification program
- Continue the High Priority Rehabilitation Program
- Continue predictive maintenance program / condition monitoring program to improve equipment reliability
- Continue maintenance support and develop new maintenance plans for the following capital projects:
 - Secondary Treatment Upgrades – operational in 2006
 - Additional Dewatering - operational in 2006
 - Process Control Computer System – partially operational in 2005
 - Filtration & Disinfection Upgrades – operational in 2007
 - Grit and Screen Facilities Upgrades – operational in 2007
 - Digester Construction – operational in stages beginning in FY 2011

FY 2007 Major Recommended Activities and Changes

- Continue implementation of the Internal Improvement Program (IIP)
- Continue maintenance training and certification program
- Continue predictive maintenance program / condition monitoring program to improve equipment reliability
- Continue maintenance support and develop new maintenance plans for the following capital projects:
 - Process Computer Control System – partially operational in 2005
 - Filtration & Disinfection Upgrades – operational in 2007
 - Grit and Screen Facilities Upgrades – operational in 2007
 - Digester Construction – operational in stages beginning in FY 2011
 - Nitrification / Denitrification Upgrades – operational in FY 2009
 - Water & Sewer Pumping Stations Upgrades – operational in 2008

MAINTENANCE CERTIFICATION





**GENERAL
MANAGER**

**FY 2007 Budget
\$14,636,000**

**ENGINEERING
and TECHNICAL
SERVICES
2 - Positions**

POSITIONS				
Authorized	CURRENT		FY 2006	FY 2007
	Average Positions Filled	Year-End Positions Filled		
125	103	107	125	125

**Program
Management
Branch
10 - Positions**

FUNCTIONS

- Develop and maintain long-term facility planning process
- Generate bid documents for construction and rehabilitation projects
- Provide engineering data for production of the Capital Improvement Plan (CIP)
- Provide staff support for environmental policy issues affecting WASA
- Technical and policy coordination with other jurisdictions and federal agencies
- Manage outside professional engineering firms.
- Provide coordination and other related services in support of the District of Columbia's storm water permit and in conjunction with the Departments of Health, Public Works, and Transportation

**Planning and
Design
Branch
37- Positions**

FUNCTIONS

- Perform system and facilities planning for the water, sewer, and storm sewer system
- Review, create and maintain standards to ensure technical adequacy
- Accomplish water and sewer pipeline design and facility design
- Maintain engineering records of the water and sewer system and provide for customer access
- Review and issue permits for all new sewer and water connections and other construction affecting WASA facilities
- Provide technical engineering expertise to support operating departments
- Perform sewer and water system capacity and conditional assessments and manage resultant CIP projects

**Engineering
Management
Services Branch
19 - Positions**

FUNCTIONS

- Develop and maintain contract specifications and solicitations
- Insure DETS contract documents complies with WASA and EPA Procurement Regulations
- Recommend all contract award
- Insures WASA design consultant and construction contractors comply with LSDBE and MBE/WBE requirements
- Manage and track the CIP
- Manage and track EPA Grants, applications and coordination
- Develop, prepare and coordinate DETS operating budget
- Manage DETS engineering systems hardware/software

**Water and Sewer
Construction
Branch
41- Positions**

FUNCTIONS

- Administer contracts for new construction, major repairs, and modifications to water and sewer systems
- Inspect construction of WASA facilities by contractors, other District agencies and private developers

**Blue Plains
Project
Branch
9 - Positions**

FUNCTIONS

- Administer contracts for construction management, new construction, major repairs, modifications and start-up to the Blue Plains Advanced Wastewater Treatment Plant
- Perform design reviews and coordinate construction work with other departments at Blue Plains

**Lead Program
Branch
7 - Positions**

FUNCTIONS

- Responsible for construction and program management of lead service line replacements

ENGINEERING AND TECHNICAL SERVICES

MISSION: To perform engineering planning, design, and construction management necessary to execute the Authority's capital improvement program (CIP); to provide assistance and advice to WASA operating departments and management on engineering aspects of the Authority's operation and facilities; to develop and maintain engineering documentation of the Authority's facilities and systems; and to assist the Authority with environmental policy.

BUDGET OVERVIEW: The FY 2006 revised budget increases by approximately \$0.6 million from the approved FY 2006 budget due to projected compensation increases. Additionally, WASA's share of the District's sotrmwater permit compliance efforts increase due to the new permit. The FY 2007 proposed budget increases by approximately \$0.4 million due to projected compensation increases.

	FY 2005 Revised	FY 2006 Approved	FY 2006 Revised	FY 2007 Proposed
Positions: (FTE's)				
Number of authorized positions	125	125	125	125
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	10,228	10,831	11,063	11,609
Overtime	425	425	425	425
Non-Personnel Services:				
Chemical and Supplies	107	107	112	112
Utilities	139	139	126	126
Contractual Services, etc.	1,722	2,515	2,843	2,730
Small Equipment	49	49	59	59
Total Non-Personnel Services	2,017	2,810	3,140	3,028
Total Operations & Maintenance	12,245	13,642	14,203	14,636
Capital Equipment			181	53

Targeted Performance Measures	FY 2005 Projection	FY 2006 Budget	FY 2006 Projection	FY 2007 Projection
Ensure capital disbursements are between 90-100% of forecast for Engineering and Technical Services managed projects; FY 2005 actual of 68%				
Complete 90% of projects on time and within budget				
Ensure fewer than 5% change orders to capital contracts				
Upgrade 250 engineering records				
Utilize 100% of Clean Water Act grant funds				
Utilize 100% of Safe Drinking Water Act grant funds				

ENGINEERING & TECHNICAL SERVICES

OVERVIEW

FY 2006 Major Recommended Activities and Changes

- Lead and manage timely and in-budget implementation of the Capital Improvement Program (CIP), including the following key projects, among others:
 - Digesters construction
 - Lead service line replacement program and related administrative order compliance
- Manage implementation of the Combined Sewer Overflows Long-Term Control Plan (CSO LTCP) and Nine Minimum Controls consent decree
- Lead discussions with the District on stormwater responsibilities, including stormwater permit compliance activities and stormwater pumping stations
- Support new asset management system implementation
- Continue comprehensive sewer system assessment

FY 2007 Major Recommended Activities and Changes

- Continue to lead and manage timely and in-budget implementation of the Capital Improvement Program (CIP)
- Continue to manage implementation of the CSO LTCP and Nine Minimum Controls consent decree
- Continue support for the new asset management system
- Continue comprehensive sewer system assessment



**ASST. GEN. MGR.
RETAIL
SERVICES**

**CUSTOMER
SERVICE
Office of the Director
6 - Positions**

**FY 2007 Budget
\$13,067,000**

CURRENT POSITIONS			FY 2006	FY 2007
Authorized	Average Filled Positions	Year-End Positions Filled		
123	104	106	123	123

**Customer Care
44 - Positions**

**Credit &
Collections
12- Positions**

**Billing Services &
Control
16 - Positions**

**Meter & Field
Services
45 - Positions**

FUNCTIONS

- Respond to customer calls and correspondence including lead service line replacement issues
- Assist customers in Business Office

FUNCTIONS

- Manage receivables and collections process on delinquent accounts, including multi-family service termination, property lien filing, dunning process, and receivership
- Manage Customer Assistance Program

FUNCTIONS

- Manage billing process and ongoing improvement of customer information and billing system
- Monitor and assist large accounts
- Provide planning and project management for future systems implementations

FUNCTIONS

- Maintain, install, test, repair, and replace meters
- Manage meter replacement/ automated meter reading project
- Perform interior inspections
- Perform terminations of service for non-payment of bills

CUSTOMER SERVICE

MISSION: To provide superior, equitable, and responsive customer service to the diverse community that we serve.

BUDGET OVERVIEW: There are no significant changes in the revised FY 2006 budget compared to the approved FY 2006 budget. The proposed FY 2007 budget reflects a \$0.5 million increase due to projected compensation increases.

	FY 2005 Revised	FY 2006 Approved	FY 2006 Revised	FY 2007 Proposed
Positions: (FTE's)				
Number of authorized positions	123	123	123	123
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	6,984	7,396	7,350	7,712
Overtime	300	300	300	300
Non-personnel Services:				
Chemicals and Supplies	177	177	160	174
Utilities	971	1,024	1,029	1,086
Contractual Services, etc.	3,767	3,944	3,974	3,976
Small Equipment	85	85	85	119
Total Non-Personnel Services	5,000	5,230	5,249	5,355
Total Operations & Maintenance	11,984	12,626	12,599	13,067
Capital Equipment	1,049	4,170	5,341	3,450
Targeted Performance Measures	FY 2005 Projection	FY 2006 Budget	FY 2006 Projection	FY 2007 Projection
Calls Answered within 40 seconds	80%	85%	85%	85%
Percentage of AMR Meters Read	98%	98%	98%	98%
Accuracy of Meter Reads	99.9%	99.9%	99.9%	99.9%
Compliance Rate on Small Meter Preventive Maintenance Program	99%	99%	99%	99%
Greater than 90 days accounts receivable balance	\$10.9 Million	\$14.25 Million	\$10.15 Million	\$9.6 Million
Percentage of Top 100 Accounts Billed as Scheduled	95%	97%	97%	98%

CUSTOMER SERVICE

OVERVIEW

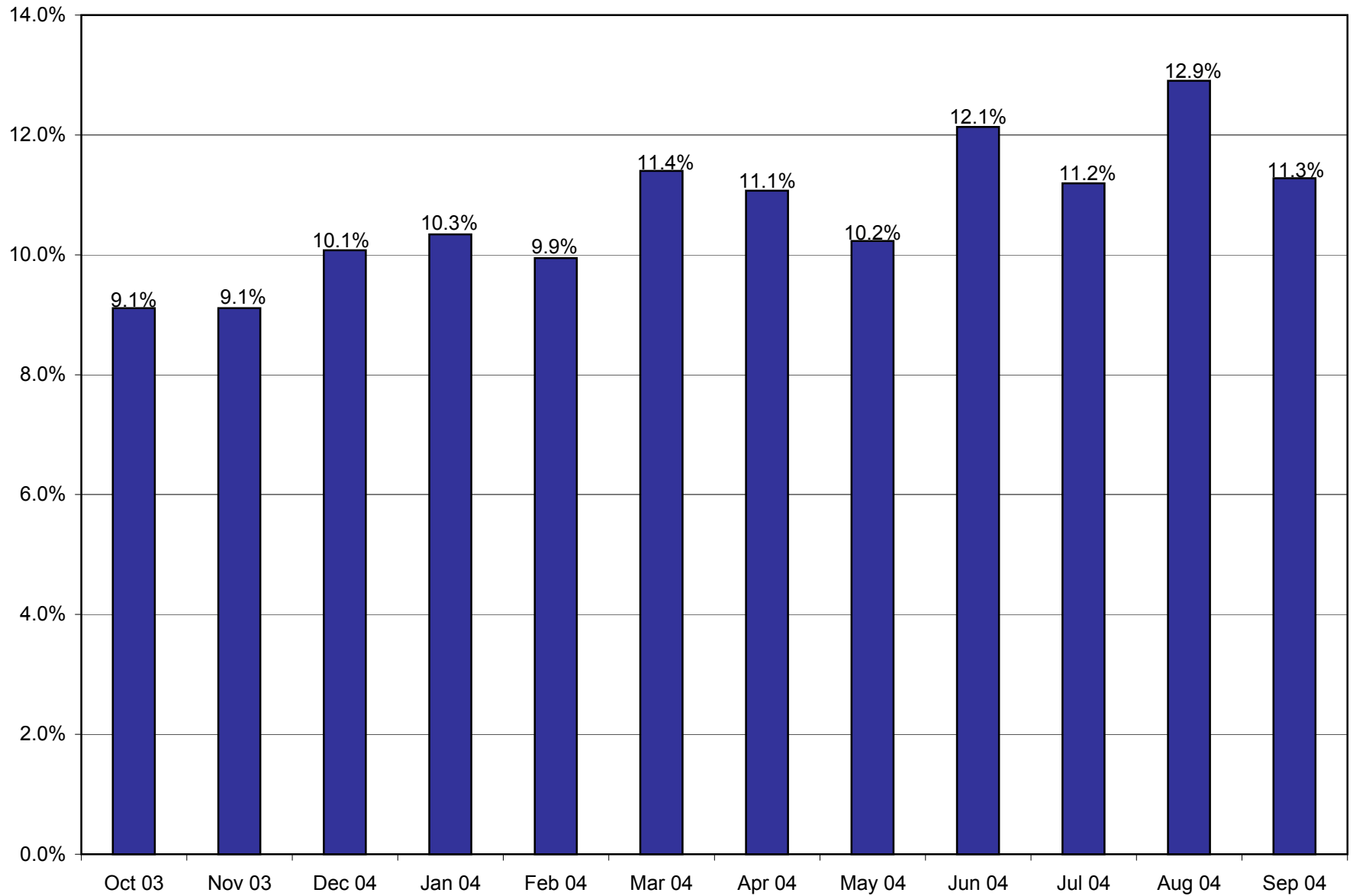
FY 2006 Major Recommended Activities and Changes

- Develop and complete a comprehensive WASA customer survey
- Implementation of asset management system
- Develop long-term plans for operations located at 810 First Street, NE, in light of upcoming lease expiration and WASA's participation in the Anacostia waterfront development initiative
- Complete AMR installation program
- Begin analysis of next generation customer information and billing system (CIS) as existing contract expires in 2007; begin data clean-up project
- Support lead service line replacement program
- Develop and establish Internet portal that will allow live customer and call center interaction via internet

FY 2007 Major Recommended Activities and Changes

- Assess in-house and outsourcing models of CIS and bill print
- Complete data analysis required in converting data to the new customer information system

**Electronic Payment Transactions as a Percentage of Total Transactions
FY 2004**





**FY 2007 Budget
\$463,000**

**BOARD
OF
DIRECTORS**

POSITIONS				
CURRENT			FY 2006	FY 2007
Authorized	Average Positions Filled	Year-End Positions Filled		
2	2	2	2	2

**OFFICE OF
THE
SECRETARY (BOARD)
2 - Positions**

**GENERAL
MANAGER**

FUNCTIONS

- Manage the logistics for Board of Directors and Committee meetings
- Manage and oversee the day-to-day operations of the Board of Directors
- Coordinate logistics for Board's strategic planning process
- Administer the subpoena process for the Authority

OFFICE OF THE SECRETARY

MISSION: To support the Board of Directors in developing and reviewing the Authority's strategic goals, providing executive level assistance in planning, coordinating, executing assignments, and ensuring that the Board's business and activities are effectively managed.

BUDGET OVERVIEW: The revised FY 2006 is the same level as the approved budget. The \$0.6 million increase in the proposed FY 2007 budget reflects funding for projected compensation increases and contractual services to support an update of the Board's strategic plan.

	FY 2005 Revised	FY 2006 Approved	FY 2006 Revised	FY 2007 Proposed
Positions: (FTE's)				
Number of authorized positions	2	2	2	2
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	181	192	190	200
Overtime	2	2	2	2
Non-Personnel Services:				
Chemicals and Supplies	16	16	18	18
Utilities	3	3	3	3
Contractual Services, etc.	332	182	182	237
Small Equipment	6	6	6	6
Total Non-Personnel Services	357	207	209	264
Total Operations & Maintenance	538	399	399	463
Capital Equipment	-	-	-	-

Targeted Performance Measures

Ensure timely and accurate Board and Committee agendas, reports and minutes
 Ensure follow-up and completion of all Board actions

OFFICE OF THE SECRETARY

OVERVIEW

FY 2006 Major Recommended Activities and Changes

- Coordinate logistics for Board's governance study and strategic planning efforts
- Assist Board Committees in monitoring Committee Work Plan implementation
- Continue to enhance the data dissemination process for both WASA employees and the general public by use of WASA's website

FY 2007 Major Recommended Activities and Changes

- No major changes anticipated



**FY 2007 Budget
\$1,693,000**

**BOARD
OF
DIRECTORS**



**GENERAL
MANAGER
9 - Positions**

			POSITIONS	
CURRENT			FY 2006	FY 2007
Authorized	Average Positions Filled	Year-End Positions Filled		
7	5	4	9	9

FUNCTIONS

- Overall operational and policy direction in support of the Board of Directors' Strategic Plan

GENERAL MANAGER

MISSION: The General Manager's Office administers, plans, organizes, and directs the operations of the Authority.

BUDGET OVERVIEW: The revised FY 2006 budget reflects the addition of a new assistant general manager for consumer affairs, and the transfer of the energy manager position to the General Manager's office from Wastewater Treatment.

	FY 2005 Revised	FY 2006 Approved	FY 2006 Revised	FY 2007 Proposed
Positions: (FTE's)				
Average number of authorized positions	7	7	9	9
Number of positions filled				
Operating Expenses				
Personnel Services including Overtime	945	1,001	1,136	1,368
Overtime	25	25	25	25
Non-Personnel Services:				
Chemicals and Supplies	10	10	10	10
Utilities	13	13	13	13
Contractual Services, etc.	298	298	298	298
Small Equipment	15	15	4	4
Total Non-Personnel Services	336	337	326	326
Total Operations & Maintenance	1,281	1,337	1,462	1,693
Capital Equipment	-	-	-	-
Targeted Performance Measures				
Implement all policies and directives of the Board of Directors				

GENERAL MANAGER

OVERVIEW

FY 2006 Major Recommended Activities and Changes

- Oversee implementation of the Board's Strategic Plan and governance study
- Oversee implementation of key projects
 - Lead abatement program
 - Combined Sewer Overflow (CSO) Long-Term Control Plan (LTCP) and Mine Minimum Controls consent decree
 - Customer service improvements, such as Automated Meter Reading (AMR)
 - Internal Improvement Program
 - Capital Improvement Program
- Continue to evaluate and refine Authority's organizational structure
- Addition of new positions for consumer services and transfer of energy manager function to General Manager's Office

FY 2007 Major Recommended Activities and Changes

- No major changes anticipated



**GENERAL
MANAGER**

**GENERAL
COUNSEL
14 - Positions**

**FY 2007 Budget
\$3,614,000**

POSITIONS				
CURRENT			FY 2006	FY 2007
Authorized	Average Positions Filled	Year-End Positions Filled		
12	7	8	14	14

Litigation

**Administrative
Law**

FUNCTIONS

- Appellate matters
- Bankruptcy
- Civil enforcement
- Construction claims
- Environmental defense and enforcement
- Procurement litigation
- Tort defense
- Receivership petitions
- Employment litigation

FUNCTIONS

- Board of Directors support
- Supply and Service Contract review and advise
- Clean Water Act compliance
- Clean Air Act compliance
- Safe Drinking Water Act compliance
- Employment law matters
- Intra-governmental and Inter-jurisdictional agreements
- Legislation review and support
- Municipal law matters
- Pretreatment enforcement support
- Procurement protests, claims, and internal appeals
- Real property matters
- Regulatory compliance support
- Draft and review Authority Policies

GENERAL COUNSEL

MISSION: To support the Authority's mission by providing legal advice and services to the Board of Directors, the General Manager and the Authority's departments.

BUDGET OVERVIEW: The revised FY 2006 budget is \$0.1 million higher than approved FY 2006 budget due to increased litigation costs and energy consulting services. These increases are partially offset by lower personnel services costs because of higher vacancy rates in line with prior-year actual staffing level. The FY 2007 budget increases by \$0.3 million primarily due to projected compensation increases.

	FY 2005 Revised	FY 2006 Approved	FY 2006 Revised	FY 2007 Proposed
Positions: (FTE's)				
Number of authorized positions	12	14	14	14
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	1,028	1,408	1,103	1,294
Overtime	2	2	2	2
Non-personnel Services:				
Chemicals and Supplies	12	12	12	15
Utilities	12	12	12	17
Contractual Services, etc.	1,916	1,801	2,200	2,275
Small Equipment	24	23	13	13
Total Non-Personnel Services	1,964	1,848	2,237	2,320
Total Operations & Maintenance	2,992	3,255	3,340	3,614

GENERAL COUNSEL

OVERVIEW

FY 2006 Major Recommended Activities and Changes

- Continue recruitment efforts to fill vacant positions in an effort to reduce reliance on outside legal services
- Enhanced focus on regulatory compliance across WASA

FY 2007 Major Recommended Activities and Changes

- No other major changes anticipated



**GENERAL
MANAGER**

**PUBLIC
AFFAIRS
8 - Positions**

			POSITIONS	
CURRENT			FY 2006	FY 2007
Authorized	Average Positions Filled	Year-End Positions Filled		
8	5	5	8	8

**FY 2007 Budget
\$1,232,000**

**Community/Employee
Outreach**

Publications

FUNCTIONS

- General information dissemination to the public and customers
- Develop relationships with Advisory Neighborhood Commission's (ANC's), civic and environmental groups, schools and churches
- Specialized training for employees (i.e. media training)
- Provide departmental support for special projects
- Coordinate media relations
- Coordinate and manage comprehensive public relations program
- Coordinate community and customer outreach activities
- Develop Internal/External communications program

FUNCTIONS

- Produce newsletters and brochures
- Produce annual report
- Publish CCR on water quality
- Publish customer newsletter and bill inserts
- Write Op-Ed articles
- Produce articles for community newspapers/ letters
- Produce press releases, Public Service Announcements (PSAs), etc.
- Coordinate production of monthly Board report
- Coordinate CSO publications

PUBLIC AFFAIRS

MISSION: To provide information about WASA services and programs and to raise awareness about WASA efforts and achievements to improve the quality of life in the region by protecting the environment in which it operates and supporting the community it serves.

BUDGET OVERVIEW: The revised FY 2006 budget reflects a slight decrease from the approved FY 2006 approved budget due to vacancy savings. These savings are offset by increased costs associated with the production and mailing of required public documents and the WASA annual report. The FY 2007 budget increases due to projected compensation increases.

	FY 2005 Revised	FY 2006 Approved	FY 2006 Revised	FY 2007 Proposed
Positions: (FTE's)				
Number of authorized positions	8	8	8	8
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	727	772	661	791
Overtime	2	2	2	2
Non-Personnel Services:				
Chemical and Supplies	23	23	30	30
Utilities	12	12	13	13
Contractual Services, etc.	340	341	391	391
Small Equipment	17	17	7	7
Total Non-Personnel Services	392	393	441	441
Total Operations & Maintenance	1,119	1,165	1,102	1,232

Targeted Performance Measures	FY 2005 Projection	FY 2006 Budget	FY 2006 Projection	FY 2007 Projection
On-schedule issuance of WASA publications: Annual Report; Employees' Newsletter; Consumer Confidence Report.				
Provide content approval for WASA's website				

PUBLIC AFFAIRS

OVERVIEW

FY 2006 Major Recommended Activities and Changes

- Continue implementation and evaluation of WASA public communications plan and media-related activities
- Assist with the development and completion of a customer survey to evaluate customer satisfaction, as well as attitudes and perceptions about WASA as an organization and the services it provides
- Expand outreach and education efforts in the community and in the public schools in areas of water quality, wastewater management and water conservation
- Redesign and re-format content of the following publications: Annual Report, Water Quality Report and monthly customer and employee newsletters
- Support communications needs of internal customers

FY 2007 Major Recommended Activities and Changes

- Supplement WASA Internet website with new content and features
- Provide media relations and presentation skills training to executive and management staff
- Expand capacity of Speakers Bureau
- Continue community outreach efforts associated with lead service line replacement, water distribution and CSO control projects



**FY 2007 Budget
\$481,000**

**GENERAL
MANAGER**



**INTERNAL
AUDIT
4 - Positions**

POSITIONS				
CURRENT			FY 2006	FY 2007
Authorized	Average Positions Filled	Year-End Positions Filled		
4	4	3	4	4

FUNCTIONS

- Conduct financial, operational, compliance and information systems audits for all of WASA's operations in accordance with Board-approved Audit Plan
- Audit outside contractors
- Perform other audits as assigned by the Board and General Manager

INTERNAL AUDIT

MISSION: To assist the Authority's management and its Board of Directors in the effective discharge of their responsibilities by providing them with objective analyses, appraisals, recommendations, and pertinent comments on key Authority activities.

BUDGET OVERVIEW: The FY 2006 revised budget declines slightly from the approved budget due to increased use of in-house staff to conduct planned audits. The FY 2007 proposed budget increases slightly due to projected compensation increases.

	FY 2005 Revised	FY 2006 Approved	FY 2006 Revised	FY 2007 Proposed
Positions: (FTE's)				
Number of authorized positions	4	4	4	4
Average number of positions filled	4	4	4	4
Operating Expenses				
Personnel Services including Overtime	376	398	376	395
Overtime	1	-	-	-
Non-Personnel Services:				
Chemicals and Supplies	8	8	8	10
Utilities	5	5	4	5
Contractual Services, etc.	92	96	68	69
Small Equipment	1	1	1	1
Total Non-Personnel Services	106	110	81	85
Total Operations & Maintenance	482	508	457	481

Targeted Performance Measures	FY 2005 Projection	FY 2006 Budget	FY 2006 Projection	FY 2007 Projection
Audits Complete Annually	11	11	13	13

INTERNAL AUDIT

OVERVIEW

FY 2006 Major Recommended Activities and Changes

- Execute Audit Committee – approved work plan, including audits of construction contracts and vendors
- Implement audit training programs

FY 2007 Major Recommended Activities and Changes

- No major changes anticipated



**FY 2007 Budget
\$5,990,000**

**CHIEF FINANCIAL
OFFICER
43 - Positions**

**FINANCE
AND
BUDGET
3 - Positions**

POSITIONS				
Authorized	CURRENT		FY 2006	FY 2007
	Average Positions Filled	Year-End Positions Filled		
44	33	32	43	43

**Office of the
Controller
21 - Positions**

FUNCTIONS

- Prepare Comprehensive Annual Financial Report (CAFR)
 - Record and report financial transactions
 - Maintain financial records and an effective internal control structure
 - Establish accounting and reporting policies
- Manage vendor payment operations
- Manage payroll operations
- Manage grants and county billing operations
- Manage asset management process
- Manage special project billing process

**Finance and Budget
19 - Positions**

FUNCTIONS

- Manage WASA's short and long-range financial planning
- Prepare and monitor operating and capital budgets
- Manage Finance and Budget Committee reporting process
- Manage revenue forecasting and monitoring process
- Manage rate-setting process, including CSO and stormwater rates
- Manage WASA's debt issuance and existing debt portfolio, including commercial paper program
- Perform treasury functions, including investments and banking services
- Manage financial aspects of Inter-Municipal Agreement (IMA)
- Manage financial relationship with Washington Aqueduct
- Assistance on special projects, e.g. federal billing issues

FINANCE AND BUDGET

MISSION: Lead and coordinate all of WASA's financial activities to ensure that WASA's financial condition and performance meet the expectations of its Board of Directors and the broader financial community.

BUDGET OVERVIEW: The revised FY 2006 budget is approximately \$0.3 million lower than the approved FY 2006 budget, due mainly to reduced personnel services spending because of higher projected vacancy rates. The proposed FY 2007 budget reflects an increase of approximately \$0.3 million due to projected compensation increases.

	FY 2005 Revised	FY 2006 Approved	FY 2006 Revised	FY 2007 Proposed
Positions: (FTE's)				
Number of authorized positions	44	43	43	43
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	3,621	3,841	3,570	3,848
Overtime	40	40	40	40
Non-Personnel Services:				
Chemical and Supplies	20	20	20	20
Utilities	60	60	61	61
Contractual Services, etc.	2,075	2,100	2,091	2,040
Small Equipment	41	41	21	21
Total Non-Personnel Services	2,196	2,221	2,193	2,142
Total Operations & Maintenance	5,817	6,063	5,763	5,990
Capital Equipment	130	130	280	150

Targeted Performance Measures	FY 2005 Projection	FY 2006 Budget	FY 2006 Projection	FY 2007 Projection
Manage Authority's financial operations to ensure revenue is within 99% of projections and expenditures are within budget.	Receipts - projected at 3.8% above budget Expenditures - projected at 3% below budget	Within budget	Within budget	Within budget
Comply with the Board's investment policy and exceed the three-month Treasury bill rate by 15 basis points ¹	- 23 basis points	15 basis points	15 basis points	15 basis points
Manage Authority's financial operations to ensure 140% debt service coverage.	562%	442%	476%	321%
Meet or exceed the 180 day operating & maintenance expense reserve target as set by Board policy - target was \$97.7 million in FY 2005.	\$116.3 million	\$100.2 million	\$102.4 million	\$104.8 million
Issue Comprehensive Annual Financial Report (CAFR) by February.	February	February	February	February
Pay 97% of all undisputed invoices within 30 days.	90%	97%	97%	97%

Note:

In 2005, the yield on WASA's investment portfolio lagged the benchmark due to prior year investments in two year U.S. treasury securities that were higher yielding than market conditions at the time. As interest rates increased in 2005, these two year securities lagged the general market. WASA's portfolio yields did meet budgeted rates.

FINANCE AND BUDGET

OVERVIEW

FY 2006 Major Recommended Changes and Activities

- Continue to develop a strong budget management, procurement and internal control culture within WASA's management team to ensure that WASA meets the Board's and financial community's expectations for continued strong financial performance
- Improve capital budget forecasting process in conjunction with the Department of Engineering and Technical Services to ensure projections meet expectations of the Board and are consistent with retail rate increase proposals
- Continue evaluation of CSO LTCP funding and rate options Retail Rates Committee
- Support process to resolve outstanding rate and revenue issues with Soldiers' Home / Howard University and Potomac Interceptor users
- Continue to review and improve internal controls to ensure accountability and safeguard of WASA's assets
- Continue to leverage technology to increase efficiency and improve accuracy payroll
 - Upgrade the HR/PR system to facilitate conversion of our current modem Data Collection Terminals (DCT) to internet DCTs. This will allow real time reporting of time worked by employees.
 - Enable additional functionality on the Employee Self Service portal, to allow employees to make certain changes in their personnel and tax records from their work sites.

FY 2007 Major Recommended Changes and Activities

- No major changes anticipated

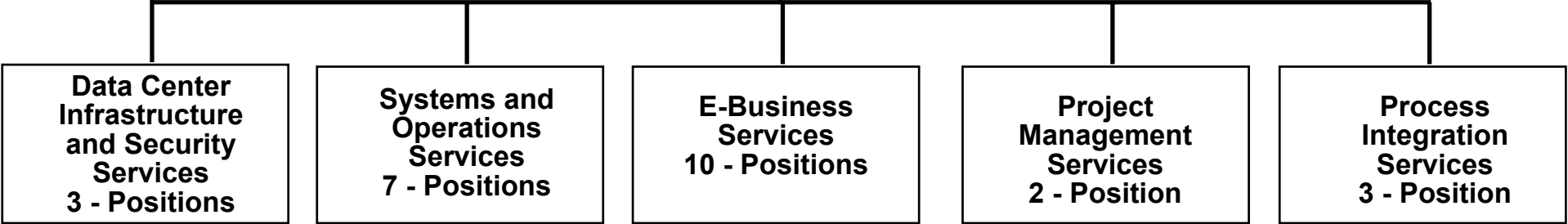


**GENERAL
MANAGER**

POSITIONS				
CURRENT			FY 2006	FY 2007
Authorized	Average Positions Filled	Year-End Positions Filled		
29	12	13	29	29

**FY 2007 Budget
\$5,252,000**

**INFORMATION
TECHNOLOGY
Office of the
Director
4 - Positions**



**Data Center
Infrastructure
and Security
Services
3 - Positions**

**Systems and
Operations
Services
7 - Positions**

**E-Business
Services
10 - Positions**

**Project
Management
Services
2 - Position**

**Process
Integration
Services
3 - Position**

FUNCTIONS

FUNCTIONS

FUNCTIONS

FUNCTIONS

FUNCTIONS

- Network infrastructure design and support
- Systems administration and system backups
- Information systems security monitoring and administration
- Develop and support electronic messaging environment

- Day-to-day operations of central and remote systems sites
- Maintain WASA's technology standards
- Solutions Center (help desk)
- Install, operate, maintain and support new and existing telecommunication infrastructure and equipment
- Install, operate, and maintain audio/video systems and equipment
- Implement and support radio systems

- Integrate and provide product support for the financial, payroll, maintenance and customer information and billing systems
- Design and maintain WASA's website to allow customer e-business access
- Database administration
- Develop and support WASA's intranet

- Ensure successful project implementations
- Manage project prioritization process
- Support project planning, management, and implementation

- Provide implementation support for process computer control system

INFORMATION TECHNOLOGY

MISSION: To ensure that the Authority's mission is supported by state-of-the-art technology with an infrastructure capable of accommodating all traffic and connectivity demands, and a computing environment that encourages development of efficient business processes to serve internal and external customers.

BUDGET OVERVIEW: The revised FY 2006 budget increases by approximately \$0.2 million due to professional services for infrastructure support. The FY 2007 proposed budget reflects an increase of \$0.4 million over the FY 2006 revised budget due to additional professional services for infrastructure support and projected compensation increases.

	FY 2005 Revised	FY 2006 Approved	FY 2006 Revised	FY 2007 Proposed
Positions: (FTE's)				
Number of authorized positions	29	29	29	29
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	1,680	1,781	1,764	1,852
Overtime	50	50	50	50
Non-personnel Services:				
Chemicals and Supplies	154	179	159	164
Utilities	96	97	104	104
Contractual Services, etc.	2,422	2,536	2,738	3,002
Small Equipment	97	117	129	131
Total Non-Personnel Services	2,768	2,928	3,129	3,400
Total Operations & Maintenance	4,448	4,709	4,893	5,252
Capital Equipment	7,112	8,101	7,350	8,665
Targeted Performance Measures				
	FY 2005 Projection	FY 2006 Budget	FY 2006 Projection	FY 2007 Projection
98% Network uptime during peak hours	99.80%	99.80%	99.80%	99.80%
95% Network uptime during non-peak hours	99.80%	99.80%	99.80%	99.80%
96% of all high priority tickets completed within 4 hours	96.00%	96.00%	96.00%	96.00%

INFORMATION TECHNOLOGY

OVERVIEW

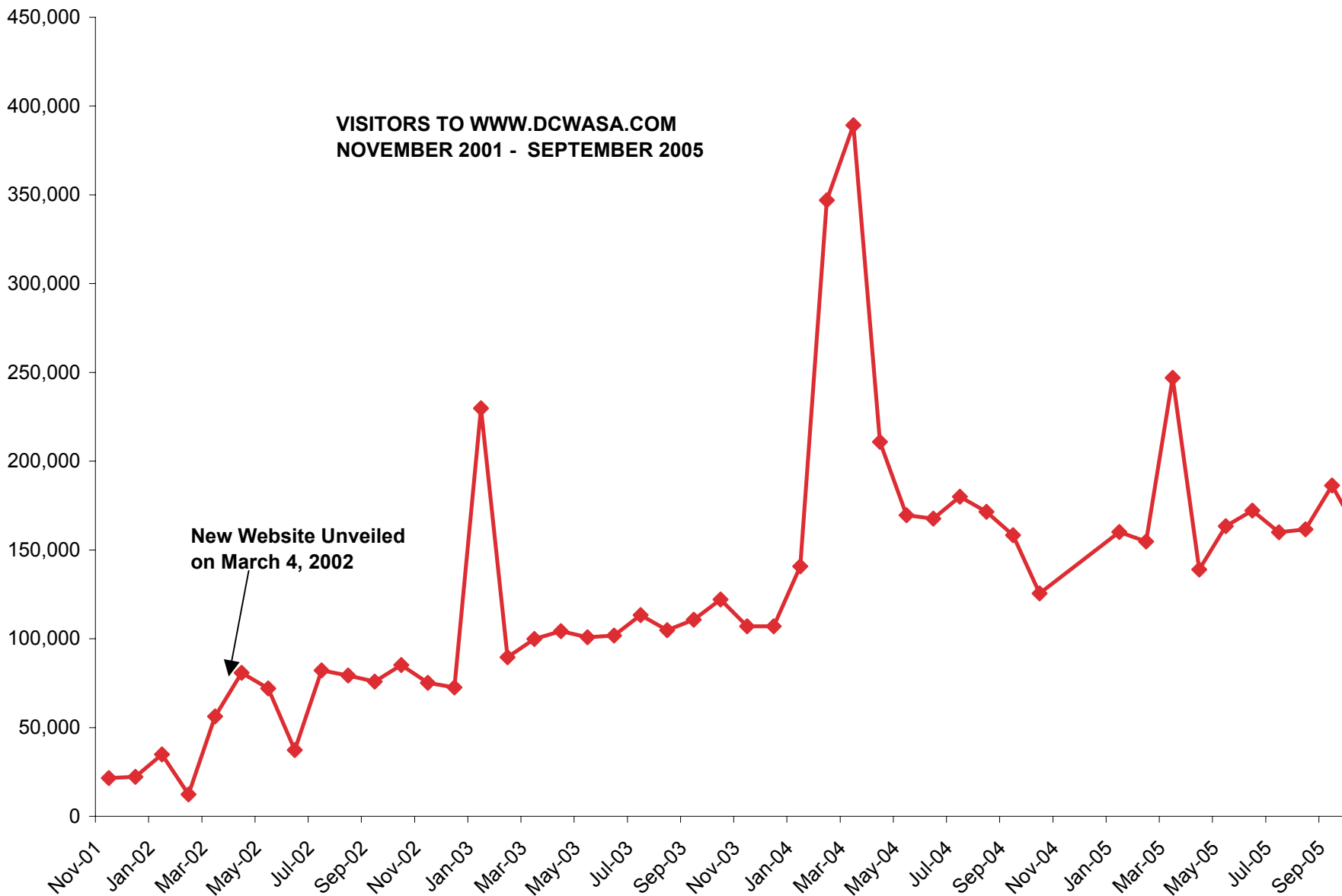
FY 2006 Major Recommended Activities and Changes

- Integrate engineering and plant related technology with IT projects and functions, including Process Control Computer System (PCCS)
- Lead implementation of the following key projects:
 - Asset management system and GIS
 - Document management system
- Ensure IT infrastructure is reliable and upgraded consistent with industry standards and customer needs:
 - Network infrastructure
 - Telephone system - upgrade to begin in 2006
 - Personal computers
 - New e-mail system – upgrade to begin in 2006
- Lead IT security efforts, including redundant data center
- Lead business process improvement efforts for MAXIMO and asset management
- Assume operating support for key systems, including:
 - Automated Meter Reading (AMR)
 - Interactive Voice Response (IVR)
 - Supervisory Control and Data Acquisition System (SCADA)
 - PCCS
- Upgrade IT strategic plan

FY 2007 Major Recommended Activities and Changes

- Continue to integrate engineering and plant related technology with IT projects and functions, including PCCS
- Continue to lead implementation of the following key projects:
 - Asset management system and GIS
 - Document management system
- Continue to ensure IT infrastructure is reliable and upgraded consistent with industry standards and customer needs:
 - Network infrastructure
 - Telephone system - upgrade to begin in 2006
 - Personal computers
 - New e-mail system – upgrade to begin in 2006
- Assume operating support for key systems, including:
 - SCADA system
 - PCCS

**VISITORS TO WWW.DCWASA.COM
NOVEMBER 2001 - SEPTEMBER 2005**





**CHIEF FINANCIAL
OFFICER**

**FY 2007 Budget
\$7,569,000**

**RISK
MANAGEMENT
3 - Positions**

POSITIONS				
Authorized	CURRENT		FY 2006	FY 2007
	Average Positions Filled	Year-End Positions Filled		
3	3	3	3	3

FUNCTIONS

- Manage all claims, including workers compensation and tort claims
- Procure and manage insurance contracts
- Develop and ensure adequate reserve levels
- Perform ongoing risk assessments of operations
- Coordinate loss prevention programs

RISK MANAGEMENT

MISSION: To manage and coordinate all risk management programs to reduce and cost effectively transfer the Authority's financial risk, protect its assets and reduce financial loss.

BUDGET OVERVIEW: There are no significant changes in the revised FY 2006 operating budget compared to the approved FY 2006 budget. The approved FY 2006 operating budget reflects a slight increase due to projected compensation increases.

	FY 2005 Revised	FY 2006 Approved	FY 2006 Revised	FY 2007 Proposed
Positions: (FTE's)				
Number of authorized positions	3	3	3	3
Average number of positions filled	3	3		
Operating Expenses				
Personnel Services including Overtime	234	248	247	259
Overtime	3	5	6	4
Non-personnel Services:		3	3	3
Chemicals and Supplies	5	5	6	7
Utilities	3	3	3	3
Contractual Services, etc.	7,245	7,296	7,271	7,300
Small Equipment	6	-	-	-
Total Non-Personnel Services	7,259	7,303	7,280	7,310
Total Operations & Maintenance	7,493	7,551	7,527	7,569
Targeted Performance Measures	FY 2005 Projection	FY 2006 Budget	FY 2006 Projection	FY 2007 Projection
Resolve 90% of tort claims within 45 days				
Reduce workers compensation cost by 10%				

RISK MANAGEMENT

OVERVIEW

FY 2006 Major Recommended Activities and Changes

- Continue to evaluate insurance program in light of changing insurance market, with focus on balancing risk transfers versus cost
- Continue to improve reserves forecasting and management process to ensure all costs are adequately budgeted
- Review and improve claims management to reduce cost for workers' compensation and tort liability claims, including implementing new policies and training for WASA departments; develop benchmarks and torts performance goals for each department
- Continue implementation of the Owner Controlled Insurance Program (OCIP) for capital projects, which will yield savings in insurance and claims costs

FY 2007 Major Recommended Activities and Changes

- Continue efforts to identify and reduce financial risk related to claims
- Continue implementation of the Owner Controlled Insurance Program (OCIP) for capital projects

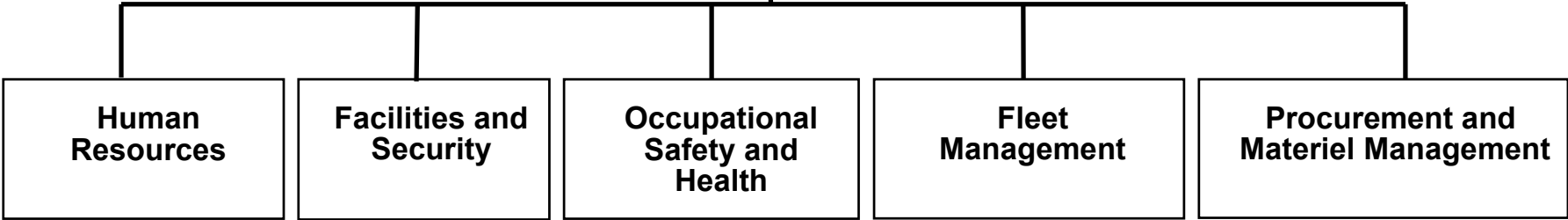


**GENERAL
MANAGER**

POSITIONS				
CURRENT			FY 2006	FY 2007
Authorized	Average Positions Filled	Year-End Positions Filled		
4	3	3	4	4

**FY 2007 Budget
\$451,000**

**ASSISTANT
GENERAL
MANAGER
4 - Positions**



FUNCTIONS

- Oversee and direct the Department of Human Resources, Facilities and Security, Occupational Safety and Health, Fleet Management, and Procurement and Materiel Management
- Manage the Authority's annual workplan development process
- Direct Authority's productivity analysis and planning group

ASSISTANT GENERAL MANAGER

MISSION: To administer and direct the day-to-day operations of administrative and support services in the areas of human resources management, facilities and security services, fleet and equipment management, occupational safety and health services, and procurement and materiel management.

BUDGET OVERVIEW: With the exception of personnel services, the revised FY 2006 revised budget is the same as the approved FY 2006. The lower revised personnel services budget in FY 2006 reflects anticipated higher vacancy rates. The FY 2007 proposed budget is relatively flat compared to the FY 2006 budgets.

	FY 2005 Revised	FY 2006 Approved	FY 2006 Revised	FY 2007 Proposed
Positions: (FTE's)				
Number of authorized positions	3	4	4	4
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	238	346	245	257
Overtime	1	1	1	1
Non-Personnel Services:				
Chemicals and Supplies	10	10	10	10
Utilities	3	3	3	3
Contractual Services, etc.	167	177	177	177
Small Equipment	4	4	4	4
Total Non-Personnel Services	184	194	194	194
Total Operations & Maintenance	422	540	438	451
Capital Equipment	-	-		-

Targeted Performance Measures	FY 2005 Actual	FY 2006 Budget	FY 2006 Projection	FY 2007 Projection
Direct the annual development of the Authority's work plan:				
Sessions with senior staff & supervisors	5	5	5	5
Work Plan Breakfast Sessions with the GM	4	4	4	4
Sessions with Administrative Staff	1	1	1	1

ASSISTANT GENERAL MANAGER

OVERVIEW

FY 2006 Major Recommended Activities and Changes

- Direct and coordinate work plan process in alignment with Board of Directors' Strategic Plan, the Authority's budget priorities, and department goals

FY 2007 Major Recommended Activities and Changes

- No major changes anticipated



**ASSISTANT
GENERAL
MANAGER**

**FACILITIES
AND SECURITY
Office of the Director
2 - Positions**

**FY 2007 Budget
\$8,966,000**

POSITIONS				
CURRENT			FY 2006	FY 2007
Authorized	Average Positions Filled	Year-End Positions Filled		
64	50	50	64	64

**Security
6 - Positions**

FUNCTIONS

- Provides Physical Security Services for WASA employees and property
- Responds to safety and security emergency situations
- Investigates theft incidents, illegal entries and other security concerns
- Contract Guard Service
- Crime Prevention Survey
- Parking and Key Control
- DC EMA Liaison

**Office Services
6 - Positions**

FUNCTIONS

- Properly routes incoming mail and deliveries
- Vending and Mailroom Services
- Motorpool and Courier Services
- Recycling (paper, cans, bottles)
- Customer Service Surveys
- Facilities Work Order Requests
- Vendor Management
- WASA - wide copy services
- Courier service
- Receives and directs people who call or visit the Authority
- Responsible for customer services survey
- Workplan
- Performance Measures/ Balance Scorecard

**Facilities
Operations
38 - Positions**

FUNCTIONS

- Responsible for building & grounds operations including landscaping and trash removal
- Coordinates workspace assignments and moves
- Provides janitorial services
- Responsible for procuring and assigning furniture
- Responsible for building maintenance
- Ensure adequate grounds direction and buildings signage
- Cafeteria operations
- Landscaping Design
- Pest Control
- Fencing

**Mechanical
Services
12 - Positions**

FUNCTIONS

- Responsible for predictive and preventive maintenance
- Responsible for adequate indoor air quality
- Responsible for elevator maintenance
- Engages in major construction and renovation projects
- Manages maintenance of HVAC systems
- Energy Conservation
- Fire Suppression and Detection
- Vendor Management
- Project Management

FACILITIES AND SECURITY

MISSION: Support the operations of the Authority through routine maintenance, custodial, repair and improvement of its facilities, buildings, grounds and roadways and to develop and implement security policies and procedures, asset protection, loss prevention system, and other security measures necessary for WASA's operations.

BUDGET OVERVIEW: The revised FY 2006 budget increases by approximately \$0.5 million primarily due to compensation increases. The FY 2007 proposed budget increases by \$0.2 million due to projected compensation increases.

	FY 2005 Revised	FY 2006 Approved	FY 2006 Revised	FY 2007 Proposed
Positions: (FTE's)				
Number of authorized positions	64	64	64	64
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	3,478	3,683	4,066	4,267
Overtime	142	142	142	142
Non-Personnel Services:				
Chemical and Supplies	392	442	431	431
Utilities	67	67	68	68
Contractual Services, etc.	4,059	4,058	4,100	4,150
Small Equipment	15	15	51	50
Total Non-Personnel Services	4,533	4,581	4,650	4,699
Total Operations & Maintenance	8,011	8,264	8,716	8,966
Capital Equipment	637	406	1,281	656

Targeted Performance Measures	FY 2005 Projection	FY 2006 Budget	FY 2006 Projection	FY 2007 Projection
Number of work orders closed within four days	5	5	5	5
Security inspections/patrols per day	9	9	9	9
Number of customer surveys done annually	4	4	4	4

FACILITIES AND SECURITY

OVERVIEW

FY 2006 Major Recommended Activities and Changes

- Implement and enhance WASA security program, including training and policies
- Improve and track WASA-wide facilities maintenance program
- Continue key Blue Plains projects:
 - New plant entrance design
 - Central Operations Facility upgrades, including new entrance, completion of bathrooms, and Fifth and Second Floor renovations
 - HVAC upgrades
- Continue critical fire suppression and elevator rehab at various WASA facilities
- Develop facilities plan for operations performed at Main and O Streets in light of new baseball stadium and the District's development plans, plus lease expiration at 810 First St. for customer service operations

FY 2007 Major Recommended Activities and Changes

- Continue facilities planning and capital improvement efforts begun in prior years
- Evaluate copy center performance and plan for next procurement



**FY 2007 Budget
\$807,000**

**ASSISTANT
GENERAL
MANAGER**

**OCCUPATIONAL
SAFETY
AND HEALTH
6 - Positions**

**Occupational Safety
&
Health Program**

**Health & Industrial
Hygiene Program**

FUNCTIONS

- Maintain an effective industrial hygiene program
- Coordinate the full implementation of the Respiratory Protection Program
- Expand and maintain the Medical Surveillance Program to comply with Occupational Safety and Health Act (OSHA) requirements in relation to asbestos, lead, low level radiation, etc.

FUNCTIONS

- Maintain an effective Accident Prevention Safety Awareness Program
- Conduct safety inspections of all Water and Sewer Authority (WASA) facilities
- Develop and analyze safety statistics
- Investigate, evaluate, and review all accident, injuries, and incidents, for effective preventive measures.
- Maintain effective safety training guidelines and assistance so that WASA complies with mandated safety requirements
- Oversight of the Comprehensive Construction Safety Program and the Rolling Owner Controlled Insurance Program (ROCIP)
- Assist in planning emergency response activities.

**Environmental Safety
Program**

FUNCTIONS

- Ensure WASA's compliance with environmental safety regulations promulgated by OSHA, Environmental Protection Agency, Department of Transportation, etc.
- Provide oversight and guidance of WASA's Hazardous Waste Program
- Generate and provide required safety reports to regulatory agencies in a timely manner
- Provide oversight and management of aboveground and underground storage tanks

POSITIONS				
CURRENT			FY 2006	FY 2007
Authorized	Average Positions Filled	Year-End Positions Filled		
6	6	6	6	6

OCCUPATIONAL SAFETY AND HEALTH

MISSION: To provide technical services and support that ensures a safe and healthy work environment for all WASA employees.

BUDGET OVERVIEW: There are no significant changes in the revised FY 2006 compared to the approved FY 2006 budget. The proposed FY 2007 budget provides for anticipated compensation increases in merit and fringe benefits. The department will continue to coordinate and direct safety related contractual resources that are budgeted in other departments.

	FY 2005 Revised	FY 2006 Approved	FY 2006 Revised	FY 2007 Proposed
Positions: (FTE's)				
Number of authorized positions	6	6	6	6
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	549	582	581	611
Overtime	1	1	1	1
Non-Personnel Services:				
Chemicals and Supplies	54	54	54	58
Utilities	38	38	10	10
Contractual Services, etc.	57	55	45	83
Small Equipment	42	42	42	45
Total Non-Personnel Services	191	189	151	196
Total Operations & Maintenance	740	771	732	807
Capital Equipment	-	-		-

Targeted Performance Measures	FY 2005 Actual	FY 2006 Budget	FY2006 Projection	FY2007 Projection
Safety Inspections of facilities and crews	515	540	540	585
Accidents Investigated	111	100	100	95
Incidence Rate for Lost Work Day Incidents	6.0	5.0	5.0	4.5

OCCUPATIONAL SAFETY AND HEALTH

OVERVIEW

FY 2006 Major Recommended Activities and Changes

- Manage the implementation of and revise, as appropriate, the Board approved Comprehensive Safety Program and work with departments to develop an ongoing commitment safety culture
- Ongoing development of management reporting of WASA safety performance and benchmarking against national peers
- Investigate, evaluate and analyze all accidents, occupational injuries and incidents to ensure that effective corrective and preventive measures are in place
- Coordinate WASA's Emergency Response Plan and related activities with the District of Columbia and the Council of Government regional emergency planning and conduct annually a major tabletop disaster drill
- Continue the implementation of the safety component of the Rolling Owner Controlled Insurance Program (ROICP) and the Comprehensive Construction Safety Program
- Provide safety guidance, review and inspection of newly designed Capital Improvement Projects (CIP) scheduled to begin construction over the new two years
- Provide oversight of an effective safety-training program to comply with OSHA, EPA, DOT and other applicable safety regulations
- Conduct an internal audit of the Comprehensive Safety Program to ensure established programs and policies are effectively satisfying the organizations needs, safety goals and meeting employee expectations
- Continue an ongoing plan and program to ensure educating, training and conducting drills to stay current with the national and local Homeland Security programs
- Ensure safety initiatives are in place for new capital improvement projects due to come on-line and/or enter the early design phase

FY 2007 Major Recommended Activities and Changes

- Support safety activities to expand the Rolling Owner Controlled Insurance Program for all contractors
- Ongoing management of the Board approved Comprehensive Safety Program (CSP) and implement new recommendations based on the 2006 review of the program



DCWASA

**FY 2007 Budget
\$2,856,000**

**ASSISTANT
GENERAL
MANAGER**

**PROCUREMENT SERVICES
Office of the Director
2 - Positions**

POSITIONS				
CURRENT			FY 2006	FY 2007
Authorized	Average Positions Filled	Year-End Positions Filled		
38	31	31	38	38

**Procurement Operations
15 - Positions**

FUNCTIONS

- Manage WASA's purchasing process, including:
 - vendor bid listing
 - advertisement and solicitation process
 - website information
 - WASA's credit card purchasing program

FUNCTIONS

- Manage pre-award procurement process, including:
 - bids and proposal solicitation
 - contract negotiations
 - contract modifications
- Monitor all WASA's contracts including planning for future procurements
- Manage A&E contracts

**Contract Administration
4 - Positions**

FUNCTIONS

- Manage post-award procurement process
- Investigate wage/labor issues
- Oversight and reporting on LSDBE issues

**Warehouse & Operations
17 - Positions**

FUNCTIONS

- Provide direction and guidance on inventory policies and procedure
- Administer WASA's uniform and safety shoe program
- Administer the materiel control system and associated functions including:
 - Inventory Reconciliation
 - Manage inventory closing process
- Conduct spot, cycle, and annual physical inventory
- Establish minimum and maximum inventory levels
- Manage Warehouse and associated functions
- Manage disposal of excess and obsolete inventory
- Manage Fixed Asset Program

PROCUREMENT SERVICES

MISSION: To deliver, on a timely basis, the best value products and services to the Authority and its customers through excellent purchasing, inventory and contracting operations.

BUDGET OVERVIEW: Changes in the revised FY 2006 compared to the FY 2006 approved budget reflect reduced spending in contractual services, and personnel services due to increased vacancy levels. The FY 2007 proposed budget reflects projected compensation increases.

	FY 2005 Revised	FY 2006 Approved	FY 2006 Revised	FY 2007 Proposed
Positions: (FTE's)				
Number of authorized positions	38	38	38	38
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	2,602	2,760	2,478	2,602
Overtime	52	52	52	52
Non-Personnel Services:				
Chemical and Supplies	65	65	65	65
Utilities and Rent	32	32	32	32
Contractual Services, etc.	287	262	137	142
Small Equipment	15	15	15	15
Total Non-Personnel Services	399	374	249	254
Total Operations & Maintenance	3,001	3,134	2,727	2,856
Capital Equipment	-	-		-

Targeted Performance Measures	FY 2005 Projection	FY 2006 Budget	FY 2006 Projection	FY 2007 Projection
Award 50% of DCWASA actual operating discretionary spending to Local Small Disadvantage Business Enterprises (LSDBE)	48 - 50%	50%	50%	50%
Issued Purchase Orders within 10 business days				
Issue and award Request For Quotation (RFQ) of \$100,000 or less within 30 calendar days	97%	97%	97%	97%
Complete and Issue Invitation for Bid (IFB) within 70 days	95%	97%	97%	97%

PROCUREMENT SERVICES

OVERVIEW

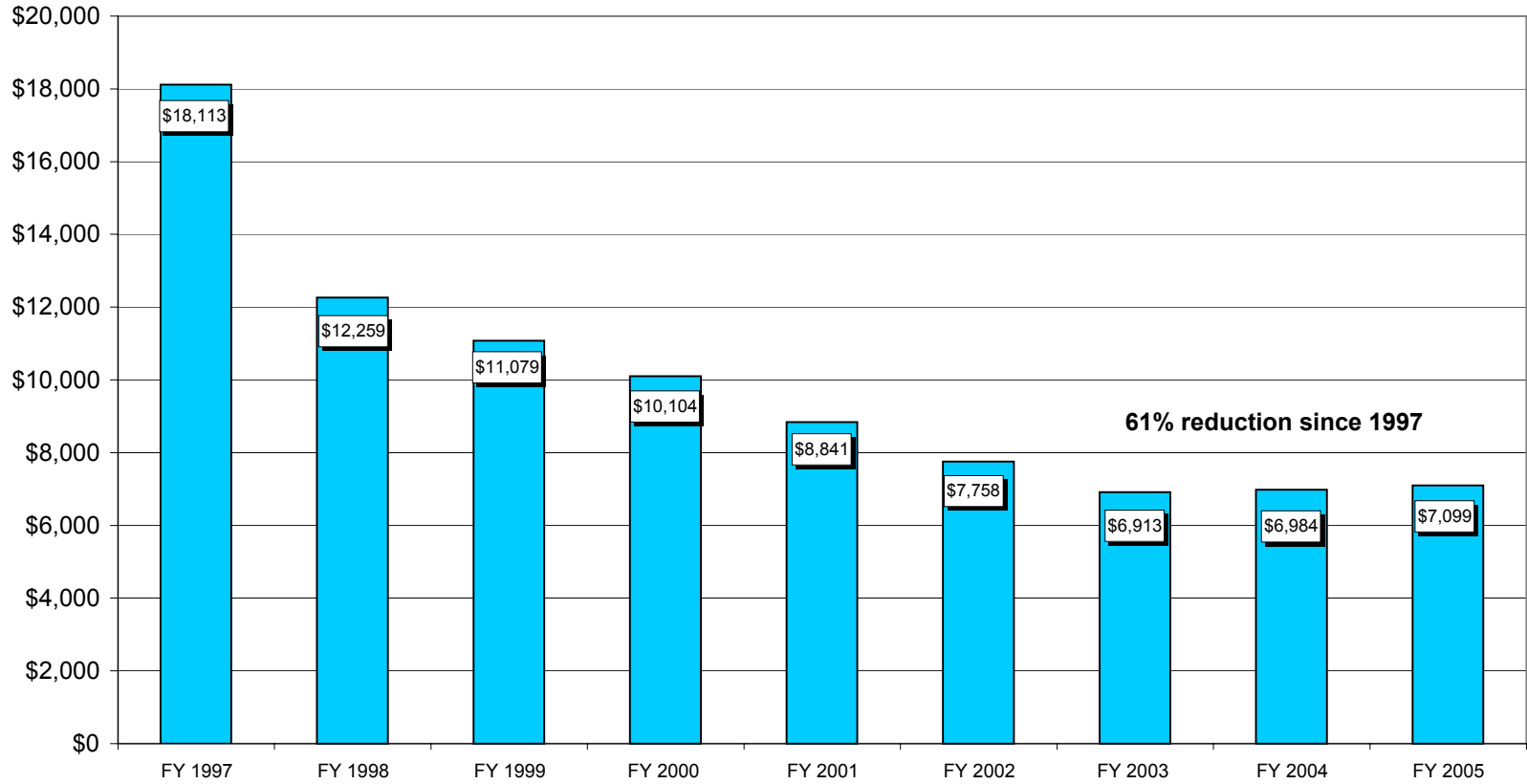
FY 2006 Major Recommended Activities and Changes

- Revise procurement regulations
- Continue to develop and improve purchasing operations and cycle/turnaround time
- Improve inventory management functions and use of maintenance management system
- Ensure that Business Development Plan Goals are met
- Manage filter distribution program as required by the Administrative Order on lead

FY 2007 Major Recommended Activities and Changes

- No major changes anticipated

**Inventory Values
As of September 30
FY 1997 - FY 2005
(\$000's)**





**ASSISTANT
GENERAL
MANAGER**

**FLEET
MANAGEMENT
2 - Positions**

**Maintenance
2 - Positions**

**Acquisition
1 - Position**

**FY 2007 Budget
\$3,175,000**

POSITIONS				
Authorized	CURRENT		FY 2006	FY 2007
	Average Positions Filled	Year-End Positions Filled		
5	4	4	5	5

FUNCTIONS

- Preventive and repair maintenance
- Management of vehicles, equipment, and parts
- Manage fleet maintenance contractor and vendors
- Provide fuel service

FUNCTIONS

- Purchase new vehicles/equipment
- Manage the intra-WASA loaner pool program
- Inventory control

FLEET MANAGEMENT

MISSION: To provide safe, reliable and cost effective vehicles and equipment to the Authority for use by all departments in performance of their missions.

BUDGET OVERVIEW: The increase of approximately \$0.2 million in the FY 2006 revised compared to the FY 2006 approved budget is mainly due to provisions for potential increases in fuel and maintenance service contract which will be rebid in 2006. The FY 2007 proposed is relatively flat compared to the FY 2006 revised budget.

	FY 2005 Revised	FY 2006 Approved	FY 2006 Revised	FY 2007 Proposed
Positions: (FTE's)				
Number of authorized positions	5	5	5	5
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	413	437	440	462
Overtime	3	3	4	4
Non-personnel Services:				
Chemicals and Supplies	10	10	10	10
Utilities	466	472	537	537
Contractual Services, etc.	1,884	1,919	2,036	2,102
Small Equipment	66	66	64	64
Total Non-Personnel Services	2,426	2,467	2,647	2,713
Total Operations & Maintenance	2,839	2,904	3,087	3,175
Capital Equipment	976	1,027	1,027	1,253
Targeted Performance Measures				
	FY 2005 Projection	FY 2006 Budget	FY 2006 Projection	FY 2007 Projection
Percentage of preventive maintenance completed on schedule	97.0%	97.0%	97.0%	97.0%
Percentage of vehicles available	95.0%	95.0%	95.0%	95.0%

FLEET MANAGEMENT

OVERVIEW

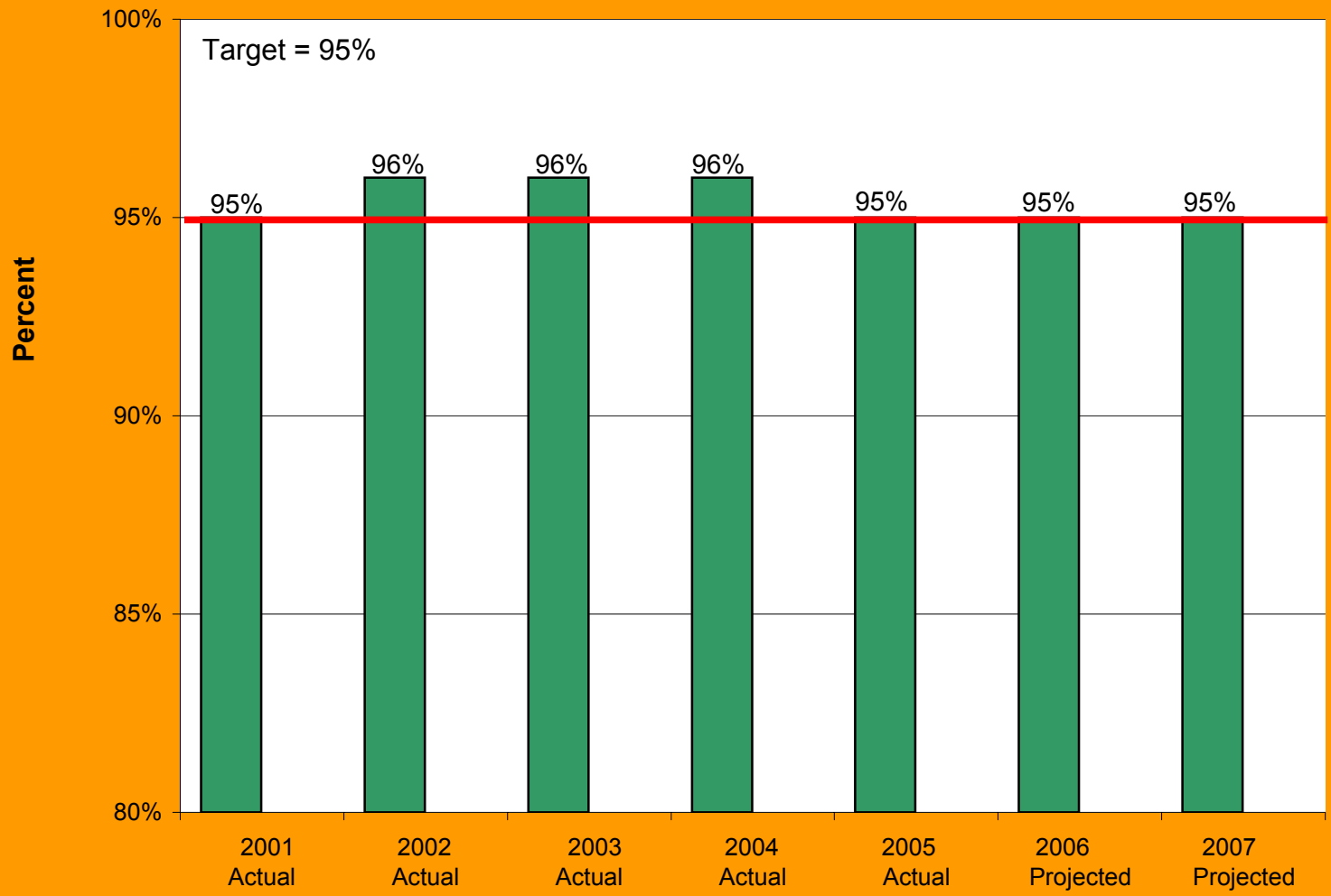
FY 2006 Major Recommended Activities and Changes

- Continue to evaluate the size of fleet, vehicles maintenance cost levels, and replacement schedule to make sure they are aligned with WASA's business needs
- Solicit a new fleet maintenance contract
- Work with departments, in conjunction with safety, to reduce preventable vehicle accidents, including CDL training
- Evaluate and provide vehicles for Sewer Service's increased activities at the O Street facility
- Complete Vehicle/Equipment Replacement Plan including near-term focus on heavy/medium size vehicles

FY 2007 Major Recommended Activities and Changes

- No major changes anticipated

Vehicle In-Service Percentage





**FY 2007 Budget
\$ 3,658,000**

**ASSISTANT
GENERAL
MANAGER**

**HUMAN
RESOURCES
2 - Positions**

POSITIONS				
Authorized	CURRENT		FY 2006	FY 2007
	Average Positions Filled	Year-End Positions Filled		
22	19	18	22	22

**Employment
5 - Positions**

**Compensation
4 - Positions**

**Benefits
3 - Positions**

**Labor Relations
5 - Positions**

**Training
3 - Positions**

FUNCTIONS

- Recruitment & Hiring
- Employee Relations
- Employment Forecasting & Planning
- Unemployment Compensation
- Skills Assessment & Testing

FUNCTIONS

- Compensation Program
- Job Evaluation Program
- Pay Incentive Programs
- Performance Management
- Records Management
- HR Information Systems

FUNCTIONS

- Health & Welfare Benefits Administration
- Pension Benefits Administration
- Employee Assistance Program
- Drug & Alcohol Testing
- Wellness Program
- Fit for Duty
- Americans with Disabilities Act (ADA) Compliance
- Leave Administration

FUNCTIONS

- Labor Relations
- Employee Counseling
- Employee Grievances/Complaints
- Affirmative Action Program
- Equal Employment Opportunity Commission (EEOC)
- Disciplinary Actions
- Arbitration

FUNCTIONS

- Management Training
- Employee Training
- Internship Program
- Education Reimbursement
- Service Awards
- Employee Recognition Awards

HUMAN RESOURCES

MISSION: To deliver high quality, innovative, valued and timely human resource services that are responsive to the needs of employees and the departments of the Authority and enable them to reach their individual and organizational goals.

BUDGET OVERVIEW: The revised FY 2006 budget increases by approximately \$0.1 million due to increased funding for various employee related programs and counsel for employment and labor relations issues. The FY 2007 proposed budget increases slightly due to projected compensation increases.

	FY 2005 Revised	FY 2006 Approved	FY 2006 Revised	FY 2007 Proposed
Positions: (FTE's)				
Number of authorized positions	22	22	22	22
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	1,985	2,106	2,037	2,141
Overtime	25	25	25	25
Non-personnel Services:				
Chemicals and Supplies	35	35	35	35
Utilities	19	19	19	19
Contractual Services, etc.	1,526	1,319	1,511	1,450
Small Equipment	28	27	14	14
Total Non-Personnel Services	1,607	1,399	1,579	1,517
Total Operations & Maintenance	3,592	3,504	3,616	3,658

Targeted Performance Measures	FY 2005 Projection	FY 2006 Budget	FY 2006 Projection	FY 2007 Projection
60 days from job posting to hire	60	60	60	60
10 days to initiate disciplinary action	10	10	10	10

HUMAN RESOURCES

OVERVIEW

FY 2006 Major Recommended Activities and Changes

- Continue efforts to finalize a collective bargaining agreement with the unions
- Revise the Personnel Policies & Procedures Manual
- Implement the basic skills and management development program (including Process Improvement Tools, Leadership Competences for Supervisors, and Career Path)
- Implement Benefits online enrollment for new hires using Ceridian Self Service
- Develop and implement health and welfare request for proposals for WASA Medical, Dental and Life Insurance programs
- Implement basic skills training classes as addition to the WASA Reads program, an on-line skills improvement-training program, and leadership competences training classes for first-line supervisors
- Implement training for supervisory personnel on changes to the collective bargaining agreement
- Provide support to organizational changes and realignments
- Conduct succession planning/knowledge management training to ensure continuity of services during transitional periods

FY 2007 Major Recommended Activities and Changes

- No major changes anticipated

LEAD ABATEMENT PROGRAM

MISSION: To manage WASA's lead abatement and service replacement program so as to ensure the Board's goal to eliminate 23,000 publicly-owned lead services by 2010 is achieved; to comply with the Lead and Copper Rule; replacing lead services required under EPA Regulations; and to adhere to the EPA Administrative Order for Compliance on Consent; and to manage the planning, design and construction of the lead program so as to maximize efficiency and minimize cost and disruption to our customers.

BUDGET OVERVIEW: The revised FY 2006 budget is \$3.6 million less than the approved FY 2006 budget because WASA successfully secured a supplemental appropriation in FY 2005 for lead abatement costs, eliminating the need for a memorandum of understanding with the District and resulting repayment in FY 2006. Additionally, the FY 2006 and 2007 budgets reflect reduced spending for filter cartridge replacement, assuming continued positive testing results.

	FY 2005 Revised	FY 2006 Approved	FY 2006 Revised	FY 2007 Proposed
Positions: (FTE's)				
Number of authorized positions	-	-	-	-
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	-	-		-
Overtime	-	-	-	-
Non-Personnel Services:				
Chemical and Supplies	1,698	3,181	1,000	
Utilities	-	-	-	-
Contractual Services, etc.	1,132	2,120	700	
Small Equipment	-	-	-	-
Total Non-Personnel Services	2,830	5,301	1,700	-
Total Operations & Maintenance	2,830	5,301	1,700	-
Capital Equipment	-	-	-	-

GLOSSARY

ACCRUAL BASIS: The method of accounting under which revenues are recorded when they are earned (whether or not cash is received at that time) and expenditures are recorded when goods and services are received (whether or not cash disbursements are made at that time).

A/E CONTRACT: Architectural and Engineering Contracts

AERATION: The process that forces compressed air into wastewater. The oxygen keeps the microorganisms alive and sets off a chain reaction; live, eat, and work. Oxygen is an essential ingredient in “activating” sludge.

AMSA: Association of Metropolitan Sewerage Agencies

ANAEROBIC DIGESTION: A biological process using microorganisms that will reduce biosolids volume by up to 50 percent. WASA will be constructing nine egg-shaped digesters for anaerobic digestion.

APPROPRIATION: An authorization by Congress, which permits officials to incur obligations and expend Authority resources. Appropriations are usually made for fixed amounts, which extend for a fiscal year. Appropriations for capital improvement projects, however, extend until completion, which usually extends beyond the current fiscal year.

ASSETS: Property with monetary value owned by the Authority.

AUDIT: An independent systematic examination of resource utilization concluding in a written report. It is a test of management’s internal accounting records. It also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements.

AUTOMATED METER READING: System that automatically read customers’ meters using radio frequencies, allowing for more accurate and frequent meter readings.

BIOCHEMICAL OXYGEN DEMAND (BOD): An indicator of the amount of biodegradable contaminants in wastewater.

BIOSOLIDS: Sludge that has been treated to reduce pathogens, organics, and odors, forming a reusable agricultural product.

BLUE PLAINS ADVANCED WASTEWATER TREATMENT PLANT: WASA’s wastewater treatment plant located in southwest Washington. Blue Plains is the world’s largest advanced wastewater treatment plant, and has a permitted capacity of 370 million gallons per day.

BOARD OF DIRECTORS: WASA's governing board, which includes 11 primary members, six members from the District of Columbia, two members each from Montgomery and Prince George's Counties in Maryland, and one member from Fairfax County, Virginia.

BOND: An obligation issued by WASA promising to pay a specified sum of money (called principal or face value) at a specified future date (called the maturity date) along with periodic interest paid at a specified percentage of the principal (interest rate). Bonds are typically issued to fund specific capital improvement expenditures.

BUDGET: A plan of financial operations including an estimate of proposed expenditures and revenues for a fiscal period. The budget establishes funding levels for continuing service programs, operation and maintenance of public facilities, and principal and interest payments on bonded indebtedness. Recurring replacement of capital outlay and minor new capital outlay items are included.

CAPITAL BUDGET: A planned schedule of projects that acquire, improve, or construct property or facilities to enhance water and sewer services in WASA's service area.

CAPITAL EQUIPMENT: A capital asset with a useful life of at least 3 years, a cost exceeding \$5,000 and is financed with short-term debt or cash. Examples include rolling stock and computer equipment.

CAPITAL IMPROVEMENT PROGRAM (CIP): A plan, which identifies the nature, schedule and cost of long-term improvements to WASA's infrastructure. WASA's CIP covers a ten-year period, and totals \$1.6 billion (cash disbursements basis).

CERIDIAN: WASA's fully integrated payroll and personnel system designed to meet various needs in accordance with a variety of pay, leave, and work rules and to provide a comprehensive set of human resource applications.

CHLORAMINATION: The process of adding chloramines to drinking water. Chloramine, a form of chlorine and ammonia, is used as a disinfectant by the Washington Aqueduct.

CLEAN WATER ACT (CWA): Act passed by the U.S. Congress to control water pollution.

COMBINED SEWER OVERFLOWS (CSO): Discharge of untreated wastewater (a mixture of storm water and sanitary waste) directly to waterways during periods of significant rainfall.

COMBINED SEWER OVERFLOW LONG-TERM CONTROL PLAN (CSO LTCP): Draft plan prepared by WASA and to be submitted to the EPA to address CSOs.

COMMERCIAL PAPER: Short-term (less than 270 days) notes issued by WASA to provide interim financing of its capital improvement program. Commercial paper typically carries lower interest rates than long-term debt and is issued on a subordinate basis.

CUSTOMER INFORMATION SYSTEM (CIS): System which WASA utilizes for customer billing and information and other related services.

DEBT RATING: An independent opinion, based on a comprehensive quantitative and qualitative evaluation, of a company's financial position, operating performance, business profile and management. Specifically, the debt rating reflects a company's ability to meet its obligations to repay interest and principal on outstanding obligations to investors. WASA's bond ratings provided by Moody's Investors Service, Standard & Poor's and Fitch Ratings are Aa3, AA-, AA-, respectively.

DEBT SERVICE: Amount of money necessary to pay principal and interest on senior outstanding notes and bonds in any given fiscal year.

DEBT SERVICE COVERAGE: Requirement of WASA's master trust indenture and Board policy that provides that annual revenue available to pay debt service must exceed annual debt service by a certain percentage. WASA's master trust indenture requires 120 percent senior debt service coverage; WASA Board policy requires 140 percent senior debt service coverage.

EFFLUENT: Treated wastewater discharged from the Blue Plains Advanced Wastewater Treatment Plant.

ENABLING ACT: Legislation which established WASA and defined its purpose and authority. WASA's enabling legislation was initially enacted in 1996.

ENCUMBRANCES: Obligations in the form of purchase orders, contracts or salary commitments which are chargeable to an appropriation and for which a part of the appropriation is reserved. They cease to be encumbrances when paid or when an actual liability is released.

ENTERPRISE FUND: A fund established to finance and account for the acquisition, operation, and maintenance of governmental facilities and services, which are entirely or predominantly self-supporting by user charges. This type of fund uses the accrual basis of accounting. WASA is responsible for two enterprise funds:

- 1) Water and Sewer Enterprise Fund
- 2) The District of Columbia Stormwater Enterprise Fund.

ENVIRONMENTAL PROTECTION AGENCY (EPA): Federal agency responsible for environmental regulations and enforcement.

EXPENDITURES: Payment for goods and services received.

FISCAL YEAR: The twelve-month period used by WASA which begins October 1 and ends September 30 of the following calendar year.

FIXED ASSET: Long-lived property owned by an entity that is used by an entity in the production of its income. Tangible fixed assets include real estate, plant, and equipment.

GFOA: Government Finance Officers Association.

INTER-MUNICIPAL AGREEMENT OF 1985 (IMA): This agreement outlines the operating and financial responsibilities for wholesale wastewater treatment services at Blue Plains. Signatories to the IMA include the District of Columbia, Montgomery and Prince George's Counties in Maryland, Fairfax County, Virginia, and the Washington Suburban Sanitary Commission.

INTERCEPTORS: The large pipes that convey wastewater from the collection system to WASA's wastewater treatment plant, Blue Plains.

INTERNAL IMPROVEMENT PLAN (IIP): Operational improvement plans for various operating departments across WASA that will result in improved service and cost savings to WASA's customers. Proposed improvements are a function of new capital projects, investments in technology, and new business processes. IIP's have been developed for the Departments of Wastewater Treatment, Maintenance Services, and Customer Service, and are in process for the Departments of Water and Sewer Services.

LOW IMPACT DEVELOPMENT (LID): Integrates ecological and environmental considerations into all phases of urban planning, design and construction in order to avoid encroaching on environmentally fragile or valuable lands, and to decrease runoff volumes and peak flow impacts.

MASTER FACILITIES PLAN: A twenty-year plan that outlines proposed capital improvements across WASA. This plan is updated every three to five years.

MGD: Million gallons per day

NATIONAL POLLUTANT DISCHARGE ELIMINATION SYSTEM (NPDES): A permit issued by the EPA that governs effluent discharges into various rivers and waterways by Blue Plains and WASA's sewer system.

NITRIFICATION: An aerobic process in which bacteria changes the ammonia and organic nitrogen in wastewater into oxidized nitrogen.

OPERATING RESERVE: Reserve established by the Board of Directors equivalent to approximately 180 days' operating and maintenance expenses.

OPERATING BUDGET: The budget that encompasses the day-to-day Authority activities. The operating budget includes employee salaries, supplies, and other non-personnel items related to current activities. The operating budget also includes other costs including debt service and payment in lieu of taxes/right of way fees.

OUTFALL: The place or structure where effluent is discharged into receiving waters.

PAYMENT IN LIEU of TAXES (PILOT): Amounts which WASA pays each fiscal year to the District and institutions in which its facilities are located. Consistent with the provisions of WASA's Enabling Act, these payments are based on past commitments.

POTOMAC INTERCEPTOR: Fifty-mile interceptor that carries wastewater from Loudoun and Fairfax Counties in Virginia and Montgomery County in Maryland to Blue Plains.

PRIMARY TREATMENT: A wastewater treatment process that takes place in a tank and allows those substances in wastewater that readily settle or float to be separated from the water being treated.

PRINCIPAL: The total amount of money being borrowed or lent

PROCESS COMPUTER CONTROL SYSTEM (PCCS): New system for Blue Plains that will electronically monitor and control all treatment processes and facilities.

RATE STABILIZATION FUND: A fund established by the Board of Directors, which is used to implement rate increases on a gradual and predictable basis.

RESERVES: An accounting entry that properly reflects contingent liabilities.

REVENUE: An increase in (sources of) fund financial resources other than from inter-fund transfers and debt issue proceeds. Revenues should be classified by fund and source.

REVENUE BONDS: Bonds payable from specific source of revenue and which do not pledge the full faith and credit of the issuer

SAFE DRINKING WATER ACT (SDWA): Act passed by the U.S. Congress (most recently amended in 1996) to control drinking water quality.

SECONDARY TREATMENT: Usually following primary treatment, secondary treatment employs microorganisms to reduce the level of biochemical oxygen demand (BOD) in wastewater.

SLUDGE: Solid residue from wastewater treatment.

SPLASH: Serving people by lending a supporting hand

SENIOR DEBT: Debt whose terms in the event of bankruptcy require it to be repaid before subordinated debt receives any payment.

SUBORDINATED DEBT: Debt over which senior debt takes priority. In the event of bankruptcy, subordinated debtholders receive payment only after senior debt claims are paid in full.

SUPERVISORY CONTROL AND DATA ACQUISITION (SCADA): Equipment and computer technology used to monitor and control the water distribution and wastewater conveyance systems.

WASHINGTON AQUEDUCT: A division of the U.S. Army Corps of Engineers which owns and operates the water treatment facilities for WASA and Arlington and Falls Church, Virginia. WASA purchases treated drinking water on a wholesale basis from the Washington Aqueduct, and is responsible for approximately 76 percent of the Aqueduct's costs.