



**DISTRICT OF COLUMBIA  
WATER AND SEWER AUTHORITY**

**Board of Directors**

*Finance and Budget Committee*

*Thursday, June 26, 2014*

11:00 a.m.

1. **Call to Order** ..... Timothy L. Firestine, Chairperson
2. **May 2014 Financial Report** ..... Gail Alexander-Reeves and Robert Hunt
  - A. Operating Revenues & Expenditures
  - B. Capital Disbursements Summary
  - C. Cash Reserves & Investments
  - D. **Investment Report**
3. **FY 2014 Operating Surplus Recommendations** ..... Mark Kim
4. **Status Update: DC PSC Order on Pepco Rate Increase - DC Water Impact**  
..... Randy Hayman/Nancy White, Squire Sanders LLP
5. **Ceridian Contract Update** ..... John Madrid/Teresa Scott
6. **Insurance Renewal Update**..... Tanya DeLeon
7. **Bond Financing Update** ..... Mark Kim
8. **Action Items** ..... Mark Kim
  - A. **FY 2014 DC PILOT Reserve, DC ROW and PayGo Recommendations (Attachment 4)**
  - B. Approval of Bond Documents
    1. **2014A Board Resolution**
    2. **2014B Board Resolution**
    3. **Preliminary Offering Memorandum - Fixed Rate**
    4. **Preliminary Offering Memorandum - Variable Rate**
    5. **Fifteenth Supplement Indenture**
    6. **Sixteenth Supplement Indenture**
    7. **Bond Purchase Agreement**
    8. **Remarketing Agreement**
    9. **Standby Bond Purchase Agreement**
    10. **Rates and Fees Agreement**
  - C. **Ceridian Contract**
9. **Agenda for July Committee Meeting** ..... Timothy L. Firestine
10. **Executive Session**
11. **Adjournment**

***FOLLOW-UP ITEMS –Follow-up Items from the meeting held May 22, 2014.***

1. **Provide Renewable energy requirements for the District. (Mr. Ortiz) Status**



Fiscal Year 2014

# Monthly Financial Report

Period Ending May 31, 2014

## DEPARTMENT OF FINANCE, ACCOUNTING & BUDGET

**Mark Kim**, Chief Financial Officer

**Gail Alexander-Reeves**, Director, Budget

**Robert Hunt**, Finance Director (Acting)

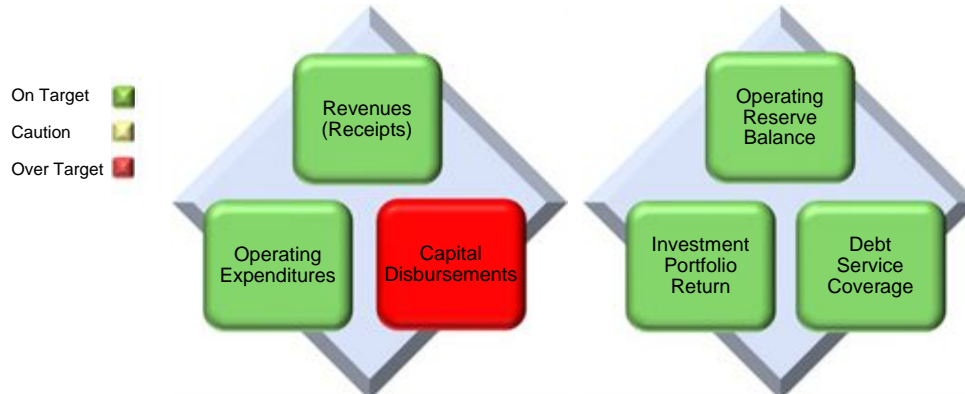
**Syed Khalil**, Manager, Financial Planning & Revenues

**John Madrid**, Controller

MAY 2014

EXECUTIVE SUMMARY

As of the end of May 31, 2014, with approximately 67 percent of the fiscal year completed, find below the current trend of budgetary expectations and targeted performance metrics.



(\$ in millions)

	Approved Budget	Revised Budget	YTD Budget	YTD Actual	Variance Favorable (Unfavorable)	% Revised Budget	Year-End Projections	
Revenues (Receipts)*	\$477.6	\$467.2	\$311.5	\$318.3	\$6.9	2.2%	68%	\$475.2
Expenditures*	\$479.5	\$441.7	\$294.5	\$279.4	\$15.1	5.1%	63%	\$440.8
Capital Disbursements	\$557.1	\$557.1	\$403.1	\$461.4	(\$58.3)	(14.5%)	83%	\$637.7

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

Highlights:

- Plan of Finance – Management will recommend the sale of \$300 million in taxable, senior lien, fixed rate, century bonds (100 year maturity) and \$100 million tax-exempt, subordinate lien, variable rate (35 year maturity) - during the month of July. The Finance and Budget Committee and the Board of Directors will receive additional briefings prior to seeking approval of the bond sale
- FY 2015 Revised Budget Proposals to be presented for Committee recommendation in July and Board action in September
- Due diligence for the FY 2015 Fire Protection Service Study underway. Report will present the actual cost of service for fire protection for FY 2011 – FY 2013, the anticipated cost of service for FY 2014 and the projected cost of service for FY 2015 – FY 2017. The report will present the cost of service for the District and for private fire customers. Anticipated date of completion is on or before September 1, 2014
- FY 2015 Cost of Service Study for water and sewer underway
  - Analyze by customer class differentiation based on consumption
  - Examine development impact fee
- E-Payables program launched June 4, 2014, which will facilitate faster vendor payment, save money based on volume/vendor discounts, reduce fraud and conserve the environment by eliminating costs associated with printing and mailing paper checks.

Mark T. Kim, Chief Financial Officer

## Monthly Financial Report

Fiscal Year-to-Date  
As of May 31, 2014

## Operating Revenues (\$000's)

Category	A	B*	C	D=C/A	E=C-B	F=E/B	G	H=G/A
	FY 2014 BUDGET	YTD BUDGET	YTD ACTUAL	YTD % BUDGET	YTD \$ Fav/(Unfav)	YTD % Fav/(Unfav)	Year-End Projections	% of Budget
Res. / Comm. / Multi.	\$256,193	\$170,795	\$173,789	67.8%	\$2,993	1.8%	\$260,049	101.5%
Federal	55,141	36,761	41,782	75.8%	5,021	13.7%	55,141	100.0%
Municipal (DC Govt.)	9,675	6,450	7,176	74.2%	726	11.3%	11,937	123.4%
DC Housing	6,685	4,457	5,658	84.6%	1,201	27.0%	7,839	117.3%
Metering Fee	10,776	7,184	7,577	70.3%	393	5.5%	11,230	104.2%
Wholesale	71,126	47,417	52,644	74.0%	5,227	11.0%	71,126	100.0%
PILOT/ROW	25,181	16,787	15,615	62.0%	(1,172)	(7.0%)	23,361	92.8%
All Other	32,410	21,607	14,096	43.5%	(7,511)	(34.8%)	34,508	106.5%
<b>TOTAL</b>	<b>\$467,187</b>	<b>\$311,458</b>	<b>\$318,337</b>	<b>68.1%</b>	<b>\$6,879</b>	<b>2.2%</b>	<b>\$475,192</b>	<b>101.7%</b>

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

### VARIANCE ANALYSIS FOR MAJOR REPORTED ITEMS

At the end of May 2014, cash receipts totaled \$318.3 million, or 68.1 percent of the revised FY 2014 budget. Several categories of customers make payments on a quarterly basis, including the Federal and District governments, and wholesale customers.

District Government – Receipts are much higher at \$7.2 million or 74.2 percent of the revised budget. In FY 2014, the District Government switched from quarterly to monthly payments, which resulted in DC Water receiving two additional monthly payments.

Wholesale – The wholesale customers actual receipts through May total \$52.6 million or 74% of the revised budget due to early payment. The wholesale customers made their quarterly payment in May.

Other Revenue – Receipts are lower than the straight-lined budget at \$14.1 million or 43.5 percent of the budgeted category primarily due to IMA Indirect Cost Reimbursement and transfer of Rate Stabilization Fund. The IMA indirect capital reimbursement is not anticipated to be received until the fourth quarter of the fiscal year. The Rate Stabilization Fund transfer is anticipated in the fourth quarter of the fiscal year.

Monthly Financial Report

Fiscal Year-to-Date  
As of May 31, 2014

**Operating Expenditures (\$000's)**

Category	A	B*	C	D=C/A	E=B-C	F=E/B	G	H=G/A
	FY 2014 BUDGET	YTD BUDGET	YTD ACTUAL	YTD % BUDGET	YTD \$ Fav/(Unfav)	YTD % Fav/(Unfav)	Year-End Projections	% of Budget
Personnel	\$119,765	\$79,844	\$82,345	68.8%	(\$2,501)	(3.1%)	\$125,490	104.8%
Contractual Services	76,044	50,696	43,028	56.6%	7,668	15.1%	70,143	92.2%
Water Purchases	27,991	18,661	17,520	62.6%	1,141	6.1%	27,006	96.5%
Supplies & Chemicals	30,909	20,606	18,277	59.1%	2,329	11.3%	28,448	92.0%
Utilities	30,715	20,476	22,437	73.0%	(1,961)	(9.6%)	34,658	112.8%
Small Equipment	993	662	273	27.5%	389	58.8%	726	73.1%
<b>SUBTOTAL O&amp;M</b>	<b>\$286,416</b>	<b>\$190,944</b>	<b>\$183,880</b>	<b>64.2%</b>	<b>\$7,064</b>	<b>3.7%</b>	<b>\$286,471</b>	<b>100.0%</b>
Debt Service	130,120	86,747	78,727	60.5%	8,020	9.2%	129,120	99.2%
PILOT/ROW	25,181	16,787	16,787	66.7%	0	0.0%	25,181	100.0%
<b>TOTAL OPERATING</b>	<b>\$441,717</b>	<b>\$294,478</b>	<b>\$279,394</b>	<b>63.3%</b>	<b>\$15,084</b>	<b>5.1%</b>	<b>\$440,772</b>	<b>99.8%</b>
Capital Labor	(12,960)	(8,640)	(11,133)	85.9%	2,493	(28.9%)	(16,120)	124.4%
<b>TOTAL NET OPERATING</b>	<b>\$428,757</b>	<b>\$285,838</b>	<b>\$268,261</b>	<b>62.6%</b>	<b>\$17,577</b>	<b>6.1%</b>	<b>\$424,652</b>	<b>99.0%</b>

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

**VARIANCE ANALYSIS FOR MAJOR REPORTED ITEMS**

At the end of May 2014, with 67 percent of the fiscal year completed, operating expenditures are at 63.3 percent of the revised budget. These numbers include estimated, incurred but unpaid, invoices and are subject to revision in subsequent reports.

Personnel Services – As previously reported in prior months, the year to date expenditures are in line with expectation and attributable to the impact of wage increases and overtime costs. Year-to-date overtime expenditures total \$5.0 million or 8.4 percent of regular pay. Primary drivers of overtime include: increased after hours work requests due to equipment failures, short-staffing due to retirement in the Maintenance department, and higher water main breaks due to extreme cold temperatures during the winter season. At the end of May, 1,075 positions were filled and 185 authorized positions were vacant. The year-to-date spending on capital labor charges are consistent with expectations through this period.

Contractual Services – Underspending attributable to operational contract savings throughout the Authority, including; electrical equipment, controls and systems maintenance in Blue Plains, water main emergency repairs and Potomac Interceptor maintenance contracts.

Supplies and Chemicals – Underspending in parts and supplies is primarily due to the new warehouse inventory system, processes and procedures. It is anticipated that parts needed for preventive maintenance may increase based on issuances from the warehouse during the latter part of the fiscal year. The year-to-date chemicals expenditures are \$14.1 million, which is at par with budget at this time of the fiscal year.

Utilities – The energy market was stable in May and additional loads were locked, notwithstanding, uncharacteristic electric price during the winter months will significantly impact our electricity expenditure for the year. Additional information is provided in the Appendix on page 12.

## Monthly Financial Report

Fiscal Year-to-Date  
As of May 31, 2014

## Capital Disbursements (\$000's)

Service Area	A	B	C	D=C/A	E=B-C	F=E/B	G	H=G/A
	FY 2014 BUDGET	YTD BUDGET	YTD ACTUAL	YTD % BUDGET	YTD \$ Fav/(Unfav)	YTD % Fav/(Unfav)	Year-End Projections	% of Budget
Wastewater	\$268,192	\$211,601	253,481	94.5%	(\$41,880)	(19.8%)	\$342,036	127.5%
Sanitary Sewer	29,818	19,660	17,039	57.1%	2,621	13.3%	\$26,915	90.3%
Combined Sewer Overflow	166,509	112,264	138,447	83.1%	(26,183)	(23.3%)	\$194,608	116.9%
Stormwater	2,843	2,134	2,008	70.6%	126	5.9%	\$2,138	75.2%
Water	63,136	39,694	35,441	56.1%	4,253	10.7%	\$49,343	78.2%
Washington Aqueduct	10,000	6,667	7,361	73.6%	(694)	(10.4%)	\$10,000	100.0%
Capital Equipment	16,627	11,085	7,590	45.6%	3,495	31.5%	\$12,671	76.2%
<b>TOTAL</b>	<b>\$557,125</b>	<b>\$403,102</b>	<b>\$461,367</b>	<b>82.8%</b>	<b>(\$58,265)</b>	<b>(14.5%)</b>	<b>\$637,711</b>	<b>114.5%</b>

## VARIANCE ANALYSIS FOR MAJOR REPORTED ITEMS

As of the end of May 2014, with 67 percent of the fiscal year completed, capital disbursements are at approximately 83 percent of the FY 2014 Revised budget with primary spending occurring in Wastewater and Combined Sewer Overflow service areas.

Wastewater Treatment - Current YTD spend is 20 percent higher than planned YTD budget primarily due to:

- Mobilization and design changes in the Enhanced Clarification Facilities and the Tunnel Dewatering Pumping Station
- Closeout/retention payments for work completed on the New Warehouse/Visitor Center/Security Facility
- Electrical rehabilitation work in the Nitrification / Denitrification Facility
- Change in scope to accommodate additional basins for the Dual Purpose Rehabilitation project
- Catch-up work in FY 2014 due to slow starts in FY 2013

Combined Sewer Overflow (CSO) - YTD spending is 23 percent higher than planned YTD budget primarily due to work underway for the tunnel projects:

- Division E – Structure Diversions
- Anacostia River and Blue Plains Tunnels
- Program management cost to accommodate for re-modification of some projects

Washington Aqueduct - Spending is in line with plan for work associated with required improvements to the Aqueduct facility. YTD projects spending are associated with the Reservoir Maintenance and Improvements – 1st High reservoir, Dalecarlia Pumping Station Building Renovation, and Dalecarlia Chemical Building Electrical Upgrades.

Capital Equipment - YTD spend is under spent against planned measure, due to timing of invoices. We anticipate to fully recover disbursements by the end of the fiscal year.

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**Monthly Financial Report**

Fiscal Year-to-Date  
As of May 31, 2014

**Cash and Investments (\$ in millions)**
**Cash Balances**

Rate Stabilization Fund Account (RSF)	\$28.9
DC PILOT Fund	22.4
DC ROW Fund	3.8
Operating Reserve Accounts	<u>128.4</u>
<b>Operating Cash Balance Including RSF</b>	<b>\$183.5</b>
Debt Service Reserve - Series 1998	23.5
Bond Fund - Series 2012 (Cap. Int.)	1.7
Bond Construction Fund - Series 2013	46.7
CSO LTCP Appropriations Account	<u>28.0</u>
<b>Total All Funds</b>	<b>\$283.4</b>

**OVERALL PORTFOLIO PERFORMANCE**

- Operating reserve balance was \$128.4 million as compared to the FY 2014 operating reserve level objective of \$125.5 million.
- Average cash balance for the month of May was \$171.1 million.
- Total investment portfolio was in compliance with the Authority's Investment Policy.
- Returns exceeded the established benchmarks for short term (less than one year) and core (one plus years) funds.
- Operating funds interest income for May (on a cash basis) was \$15,718; total year-to-date is \$251,367 as compared to the budget of \$380,527 for the year.
- A detailed investment performance report is attached.

Fiscal Year-to-Date  
As of May 31, 2014

Cash Flow Summary (\$000's)

	Annual Budget Cash Basis	YTD 67% Cash Budget	YTD Actual Cash Oct. 1, 2013 - May 31, 2014	Variance Favorable (Unfavorable)		FY14 Mid-Year Projections
<b>OPERATING BUDGET</b>						
<b>Cash Provided</b>						
Retail	\$338,470	\$225,647	\$235,982	\$10,335	5%	\$369,558
Wholesale	71,126	\$47,417	52,644	5,227	11%	\$70,784
Other	50,972	\$33,981	29,575	(4,406)	-13%	\$28,164
Transfer from Rate Stabilization Fund	6,500	\$4,333		(4,333)	-100%	\$6,500
<b>Total Cash Provided</b>	<b>467,067</b>	<b>311,378</b>	<b>318,200</b>	<b>6,822</b>	<b>2%</b>	<b>475,005</b>
<b>Operating Cash Used</b>						
Personnel Services	106,805	71,203	72,569	(1,366)	-2%	109,370
Contractual Services	76,043	50,695	48,540	2,155	4%	73,519
Chemicals & Supplies	30,909	20,606	23,243	(2,637)	-13%	28,448
Utilities	30,714	20,476	23,415	(2,939)	-14%	34,658
Water Purchases	27,991	18,661	17,618	1,043	6%	27,006
Small Equipment	993	662	646	16	2%	726
<b>Total Operating Cash Used</b>	<b>273,455</b>	<b>182,303</b>	<b>186,032</b>	<b>(3,729)</b>	<b>-2%</b>	<b>273,727</b>
<b>Other Cash Used</b>						
Debt Service	130,120	86,747	78,727	8,020	9%	120,803
Payment In Lieu of Taxes/Right of Way	25,181	16,787	9,311	7,477	45%	12,414
Total Other Cash Used	155,301	103,534	88,038	15,496	15%	133,217
<b>Total Cash Used</b>	<b>428,756</b>	<b>285,837</b>	<b>274,070</b>	<b>11,767</b>	<b>4%</b>	<b>406,944</b>
<b>Net Cash Provided (Used) by Operating Act.</b>	<b>38,311</b>	<b>25,541</b>	<b>44,130</b>	<b>18,589</b>		<b>68,061</b>
<b>CAPITAL BUDGET</b>						
<b>Cash Provided</b>						
Debt Proceeds	316,861	211,241	235,724	24,483	12%	307,482
EPA Grants	19,541	13,028	10,011	(3,016)	-23%	28,700
CSO Grants	21,141	14,094	8,857	(5,237)	-37%	21,141
Interest Income	159	106	128	22	21%	174
Wholesale Capital Contributions	175,673	117,115	167,688	50,573	43%	255,893
<b>Total Cash Provided</b>	<b>533,376</b>	<b>355,584</b>	<b>422,409</b>	<b>66,825</b>	<b>19%</b>	<b>613,390</b>
<b>Cash Used</b>						
WASA Capital Program	547,125	364,750	454,006	(89,256)	-24%	627,711
Washington Aqueduct Projects	10,000	6,667	7,361	(694)	-10%	10,000
<b>Total Cash Used</b>	<b>557,125</b>	<b>371,417</b>	<b>461,367</b>	<b>(89,951)</b>	<b>-24%</b>	<b>637,711</b>
<b>Net Cash/PAYGO Provided (Used) by Cap. Act.</b>	<b>(23,749)</b>	<b>(15,833)</b>	<b>(38,958)</b>	<b>(23,126)</b>		<b>(24,321)</b>
<b>Beginning Balance, October 1 (Net of Rate Stab. Fund) Projected</b>						
Plus (Less) Operating Surplus	38,311	25,541	44,130			68,061
Wholesale Customer Refunds from Prior Years	(9,700)	(6,467)	(10,069)			(10,069)
Interest Eamed From Bond Reserve	120	80	137			137
Transfer to Rate Stabilization Fund						
Prior Year Federal Billing Reconciliation	(6,000)	(4,000)	(4,500)			(6,000)
Transfer to PILOT Reserve						(7,676)
Transfer to Right of Way (ROW) Reserve			(3,825)			(5,100)
Cash Used for Capital	(23,749)	(15,833)	(38,958)			(24,321)
<b>Balance Attributable to O&amp;M Reserve</b>	<b>\$140,500</b>		<b>\$128,433</b>			<b>\$156,550</b>
<b>OTHER CASH RESERVES</b>						
<b>Current Balance</b>						
Rate Stabilization Fund	\$28,950					
DC PILOT Reserve Fund	\$22,387					
Right of Way Reserve Fund	\$3,825					
CSO Long-Term Control Plan Appropriation	\$28,040					



**Monthly Financial Report**

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APPENDIX

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Fiscal Year-to-Date  
As of May 31, 2014

**Operating Revenues Detail**

(\$ in millions)

Revenue Category	Budget	YTD Budget	YTD Actual	Year-End Variance	Variance Favorable / (Unfavorable)		YTD Actual Budget %
Residential, Commercial, and Multi-family	\$256.2	\$170.8	\$173.8	\$82.4	\$3.0	1.7%	67.8%
Federal	55.14	36.8	41.8	13.4	5.0	13.7%	75.8%
District Government	9.7	6.4	7.2	2.5	0.7	11.3%	74.2%
DC Housing Authority	6.7	4.5	5.7	1.0	1.2	27.0%	84.6%
Customer Metering Fee	10.8	7.2	7.6	3.2	0.4	5.5%	70.3%
Wholesale	71.1	47.4	52.6	18.5	5.2	11.0%	74.0%
Right-of-Way Fee/PILOT	25.2	16.8	15.6	9.6	(1.2)	-7.0%	62.0%
<b>Subtotal (before Other Revenues)</b>	<b>\$434.8</b>	<b>\$289.9</b>	<b>\$304.2</b>	<b>\$130.6</b>	<b>\$14.4</b>	<b>5.0%</b>	<b>70.0%</b>
Other Revenue without RSF							
IMA Indirect Cost Reimb. For Capital Projects	8.6	5.7	0.0	8.6	(5.7)	-100.0%	0.0%
DC Fire Protection Fee	6.9	4.6	5.2	1.7	0.6	0.1	74.8%
Stormwater (MS4)	1.0	0.7	0.7	0.3	0.0	3.8%	69.2%
Interest	0.5	0.3	0.4	0.1	0.1	16.2%	77.4%
Developer Fees (Water & Sewer)	6.0	4.0	6.0	0.0	2.0	49.0%	99.5%
Others	2.9	1.9	1.9	1.0	(0.1)	-2.8%	64.8%
<b>Subtotal</b>	<b>\$25.9</b>	<b>\$17.3</b>	<b>\$14.1</b>	<b>\$11.8</b>	<b>(\$3.2)</b>	<b>-18.4%</b>	<b>54.4%</b>
Rate Stabilization Fund Transfer	\$6.5	\$4.3	\$0.0	\$6.5	(\$4.3)	-100.0%	0.0%
<b>Other Revenue Subtotal</b>	<b>\$32.4</b>	<b>\$21.6</b>	<b>\$14.1</b>	<b>\$18.3</b>	<b>(\$7.5)</b>	<b>-34.8%</b>	<b>43.5%</b>
<b>Grand Total</b>	<b>\$467.2</b>	<b>\$311.5</b>	<b>\$318.3</b>	<b>\$148.9</b>	<b>\$6.9</b>	<b>2.2%</b>	<b>68.1%</b>

**BREAKDOWN OF RETAIL RECEIPTS BY CUSTOMER CATEGORY**  
(\$ in 000's)

Customer Category	Water	Sewer	Clean Rivers		Metering Fee	Total
			IAC			
Residential	\$ 19,961	\$ 24,298	\$ 10,576	\$ 3,358	\$ 58,193	
Commercial	31,541	32,411	13,692	2,293	79,936	
Multi-family	17,079	20,376	3,855	792	42,103	
Federal	16,191	15,370	10,221	669	42,450	
District Govt	1,048	1,281	4,848	373	7,550	
DC Housing Authority	2,345	2,831	482	92	5,750	
<b>Total:</b>	<b>\$ 88,164</b>	<b>\$ 96,566</b>	<b>\$ 43,674</b>	<b>\$ 7,577</b>	<b>\$ 235,982</b>	

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

Monthly Financial Report

Fiscal Year-to-Date  
As of May 31, 2014

**Retail Accounts Receivable (Delinquent Accounts)**

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

**Greater Than 90 Days by Month**

	\$ in millions	# of accounts
September 30, 2012	\$5.5	13,063
September 30, 2013	\$4.9	11,920
October 31, 2013	\$4.9	12,547
November 30, 2013	\$5.3	13,680
December 31, 2013	\$5.4	13,955
January 31, 2014	\$5.6	13,674
February 28, 2014	\$5.6	13,252
March 31, 2014	\$5.7	12,873
April 30, 2014	\$5.4	11,741
May 31, 2014	\$5.5	12,009

**Greater Than 90 Days by Customer**

	Number of Accounts			Month of May (All Categories)				Total Delinquent				
				Active		Inactive						
	W & S a/c	Impervious Only a/c	Total No. of a/c	No. of a/c	Amount (\$)	No. of a/c	Amount (\$)	No. of a/c Apr.	Amount (\$)	No. of a/c May	Amount (\$)	%
Commercial	12,037	3,339	15,376	1,117	\$ 1,433,315	144	\$ 104,192	1,271	\$ 1,330,438	1,261	\$ 1,537,507	28%
Multi-family	7,352	419	7,771	667	1,252,502	138	62,226	832	1,532,490	805	1,314,728	25%
Single-Family Residential	104,787	3,138	107,925	7,795	2,035,005	2,148	630,038	9,638	2,551,149	9,943	2,665,042	48%
<b>Total</b>	<b>124,176</b>	<b>6,896</b>	<b>131,072</b>	<b>9,579</b>	<b>\$ 4,720,822</b>	<b>2,430</b>	<b>\$ 796,456</b>	<b>11,741</b>	<b>\$ 5,414,077</b>	<b>12,009</b>	<b>\$ 5,517,277</b>	<b>100%</b>

Notes: Included in the above \$4.72M (or 9,579 accounts) of the DC Water Over 90 days delinquent accounts, \$1,092,896.06 (or 1,777 accounts) represents Impervious only accounts over 90 days delinquent.

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

## Monthly Financial Report

Fiscal Year-to-Date  
As of May 31, 2014

## Overtime by Department

Department	FY 2014			
	Budget	YTD Actual	YTD % of Budget	% of Regular Pay
Office of the Board Secretary	\$4,000	\$2,637	65.9%	2.4%
General Manager	10,000	1,642	16.4%	0.2%
General Counsel	2,000		0.0%	0.0%
External Affairs	4,000	266	6.7%	0.0%
Internal Audit	0	0	0.0%	0.0%
Information Technology	20,000	11,708	58.5%	1.0%
Procurement	30,000	45,741	152.5%	2.7%
Customer Service	240,000	141,925	59.1%	2.7%
Finance, Accounting & Budget	30,000	18,081	60.3%	0.6%
Risk Management	1,000		0.0%	0.0%
Assistant General Manager - Support Services	1,000	12	1.2%	0.0%
Human Capital Management	5,000	1,133	22.7%	0.1%
Occupational Safety and Health	2,000	65	3.2%	0.0%
Facilities Management and Security	200,000	208,938	104.5%	7.7%
Water/Sewer Pump Maintenance	200,000	74,024	37.0%	3.6%
Engineering and Technical Services	780,000	659,184	84.5%	6.1%
Water Services	980,000	955,369	97.5%	12.4%
Clean Rivers	5,000	481	9.6%	0.3%
Sewer Services	900,000	1,060,900	117.9%	16.0%
Wastewater Treatment - Operations	1,108,100	924,118	83.4%	15.7%
Wastewater Treatment - Process Engineering	100,000	57,309	57.3%	4.2%
Maintenance Services	725,000	835,317	115.2%	16.8%
Permit Operations	11,000	1,768	16.1%	0.2%
Fleet Management	1,000	1,056	105.6%	0.3%
<b>Total DC WATER</b>	<b>\$5,359,100</b>	<b>\$5,001,674</b>	<b>93.3%</b>	<b>8.4%</b>

**Notes:**

- Engineering and Technical Services includes overtime that will be charged/transferred to capital projects
- The Authority's overtime target is 6 percent of regular pay
- The budget excludes assumptions for impact of hourly wage increases, actual data reflects these changes

Monthly Financial Report

Fiscal Year-to-Date  
As of May 31, 2014

**Operating Expenditure Detail (Electricity)**

The revised FY 2014 electricity budget of \$22.8 million represents 74 percent of the total utilities budget and assumes an average all-in-cost of \$85.81/mWh.

During the month of May the market remained stable and we locked an additional 7MW at an average price of \$49.23 per MWh effective July through the end of the year. That brings our total loads locked for FY 2014 to 27MW at an average price of \$47.87 per MWh for the remainder of the fiscal year. For FY 2015, we have 15MW of the Authority's electric load locked at an average Western Hub unit price of \$45.40 per MWh. Staff continues to monitor the futures market with intent to purchase additional electric loads for FY 2015, if market conditions are appropriate and in line with budget assumptions and adopted electricity purchase strategy.

As indicated in the chart below, DC Water's average year-to-date actual price is lower than the spot market price but higher than the S.O.S. price primarily due to the extreme weather conditions in the winter season resulting in unusually high prices experienced during the January to March billing cycles.

	All-In-Cost (\$/mWh)			Electricity Budget (\$000)		
	Unit Price			Amount		Variance
	Standard Offer Service (S.O.S.)	Spot Market	Actual <sup>1</sup>	Budget	Actual	Budget vs Actual
Oct-13	\$95.57	\$75.25	\$82.95	\$1,668	\$1,108	\$560
Nov-13	95.06	75.62	83.03	1,674	1,579	95
Dec-13	99.77	80.80	84.31	1,885	1,953	(68)
Jan-14	95.61	213.31	162.36	2,011	2,566	(555)
Feb-14	95.86	113.00	113.00	1,885	3,832	(1,947)
Mar-14	95.69	122.86	122.86	1,964	3,008	(1,044)
Apr-14	95.02	78.66	78.66	1,776	1,781	(4)
May-14	94.92	87.97	90.48	1,811	1,858	(47)
<b>YTD Average</b>	<b>\$95.94</b>	<b>\$105.93</b>	<b>\$102.21</b>	<b>\$14,674</b>	<b>\$17,685</b>	<b>(\$3,011)</b>
				Remainder	\$8,152	
				<b>Total Budget</b>	<b>\$22,826</b>	

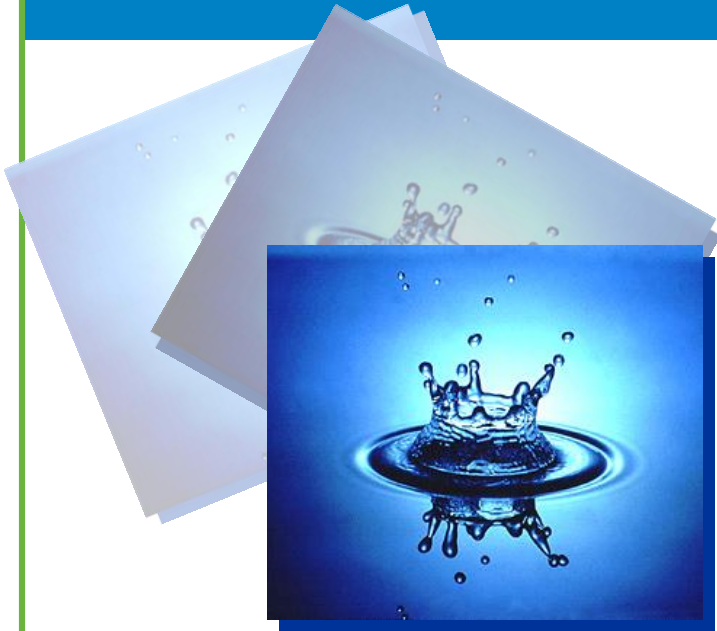
<sup>1</sup> Actual prices are inclusive of the price mix of monthly block purchases and spot market unit prices

Fiscal Year-to-Date

As of May 31, 2014

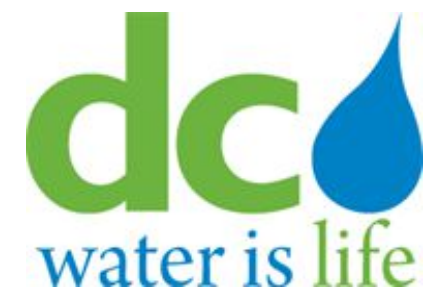
**Capital Disbursements Detail by Program (\$000's)**

Service Areas	Disbursements Budget		Actual Disbursements			% of Disbursements Budget	Year End		Commitments
	Annual	YTD	Oct.- Apr. 2014	May 2014	YTD	YTD %	Projection	% of Budget	
<b>Wastewater Treatment</b>									
Liquid Processing Projects	\$18,072	\$12,110	\$21,151	\$1,847	\$22,998	190%	\$29,462	163%	31,744
Plantwide Projects	18,782	14,020	31,394	3,065	34,459	246%	25,139	134%	62,779
Solids Processing Projects	138,222	116,284	106,709	8,527	115,236	99%	162,543	118%	105,995
Enhanced Nitrogen Removal Facilities	93,116	69,187	70,322	10,466	80,788	117%	124,893	134%	306,302
<b>Total Wastewater Treatment</b>	<b>268,192</b>	<b>211,601</b>	<b>229,576</b>	<b>23,906</b>	<b>253,481</b>	<b>120%</b>	<b>342,036</b>	<b>128%</b>	<b>506,820</b>
<b>Sanitary Sewer</b>									
Sanitary Collection Sewers	1,478	608	842	176	1,017	167%	1,488	101%	1,682
Sanitary On-Going Projects	9,653	7,249	5,134	546	5,680	78%	9,577	99%	9,014
Sanitary Pumping Facilities	957	701	323.39	3	327	47%	839	88%	13
Sanitary Sewer Program Management	4,814	3,386	4,130	897	5,028	148%	7,941	165%	8,797
Sanitary Interceptor/Trunk Force Sewers	12,916	7,716	4,173	814	4,987	65%	7,071	55%	9,013
<b>Total Sanitary Sewer</b>	<b>29,818</b>	<b>19,660</b>	<b>14,601</b>	<b>2,437</b>	<b>17,039</b>	<b>87%</b>	<b>26,915</b>	<b>90%</b>	<b>26,837</b>
<b>Combined Sewer Overflow</b>									
CSO Program Management	2,280	1,595	2,525	395	2,920	183%	4,233	186%	6,638
Combined Sewer Projects	11,904	8,710	6,921	387	7,308	84%	12,594	106%	12,812
D.C. Clean Rivers Project	152,325	101,958	102,986	25,233	128,218	126%	177,781	117%	696,445
<b>Total Combined Sewer Overflow</b>	<b>166,509</b>	<b>112,264</b>	<b>112,432</b>	<b>26,015</b>	<b>138,447</b>	<b>123%</b>	<b>194,608</b>	<b>117%</b>	<b>715,894</b>
<b>Stormwater</b>									
Stormwater Local Drainage	122	107	12	9	21	20%	983	806%	1,276
Stormwater On-Going Program	446	360	753	485	1,238	344%	581	130%	275
Stormwater Pumping Facilities	-	-	-	-	-	0%	-	0%	-
DDOT Stormwater Program	-	1	-	-	-	0%	-	0%	-
Stormwater Research and Program Management	436	283	121	50	171	61%	295	68%	487
Stormwater Trunk/Force Sewers	1,839	1,382	226	352	578	42%	278	15%	143
<b>Total Stormwater</b>	<b>2,843</b>	<b>2,132</b>	<b>1,112</b>	<b>897</b>	<b>2,008</b>	<b>94%</b>	<b>2,138</b>	<b>75%</b>	<b>2,181</b>
<b>Water</b>									
Water Distribution Systems	31,493	19,393	13,293	2,073	15,367	79%	22,919	73%	47,769
Water On-Going Projects	8,770	5,864	2,670	840	3,510	60%	5,633	64%	6,973
Water Pumping Facilities	3,710	2,200	4,469	896	5,365	244%	6,336	171%	13,073
DDOT Water Projects	4,869	3,513	1,318	1,526	2,844	81%	1,236	25%	5,720
Water Storage Facilities	2,173	1,060	1,044	5	1,050	99%	1,805	83%	2,958
Water Projects Program Management	3,565	2,367	3,946	493	4,440	188%	6,873	193%	30,248
Water Lead Program	2,823	1,953	1,974	35	2,009	103%	2,152	76%	4,447
AMR Installation / Replacement	5,733	3,344	731	126	857	26%	2,389	42%	786
<b>Total Water</b>	<b>63,136</b>	<b>39,694</b>	<b>29,446</b>	<b>5,995</b>	<b>35,441</b>	<b>89%</b>	<b>49,343</b>	<b>78%</b>	<b>111,975</b>
<b>Washington Aqueduct</b>	<b>10,000</b>	<b>6,667</b>	<b>7,361</b>	<b>-</b>	<b>7,361</b>	<b>110%</b>	<b>10,000</b>	<b>100%</b>	<b>-</b>
<b>Capital Equipment</b>	<b>16,627</b>	<b>11,085</b>	<b>6,902</b>	<b>688</b>	<b>7,590</b>	<b>68%</b>	<b>12,671</b>	<b>76%</b>	<b>7,197</b>
<b>Total Capital Projects</b>	<b>\$557,125</b>	<b>\$403,102</b>	<b>\$401,429</b>	<b>\$59,937</b>	<b>\$461,367</b>	<b>114%</b>	<b>\$637,711</b>	<b>114%</b>	<b>1,372,586</b>



# DC Water

*Investment Performance Report – May 2014*



DC Water  
Finance Division  
Economic Update

**ECONOMIC COMMENTARY**

- First-quarter U.S. gross domestic product (GDP) growth was revised downward from an increase of 0.1% to a loss of 1.0%, marking the first economic contraction in three years.
- Non-farm payrolls increased by 217,000 jobs in May, consistent with expectations of 215,000. The unemployment rate held at 6.3%, as did the labor force participation rate at 62.8%.
- Minutes released from the Federal Open Market Committee (FOMC) meeting indicated that the FOMC still believed that the economy would experience moderate growth for 2014 but maintained that downside risks remained, such as weakness in the housing and labor markets.
- Yields on bonds continued to decline, driven by lower expectations for global inflation. Surprisingly, yields on intermediate- and longer-maturity Treasuries fell below levels that were last seen just prior to the FOMC tapering announcement in December 2013. Short-term rates continue to remain anchored by Fed policy.

**PORTFOLIO RECAP**

- The portfolio is diversified among Bank Deposits, Commercial Paper, Federal Agencies, Treasury Notes, FDIC Insured CDs, and SEC registered money market funds.
- The overall yield-to-maturity on cost of the portfolio is 0.45%.
- The portfolio is in compliance with the Authority's Investment Policy.

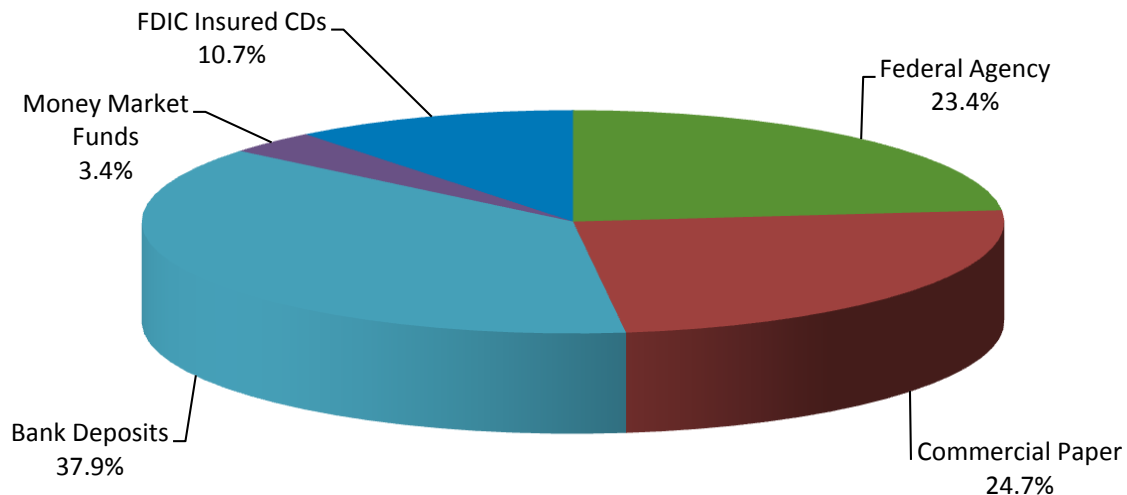
**Rate Stabilization Fund**

- The Authority purchased \$10 million of 3-month Coca-Cola Company Commercial Paper yielding 0.081%.





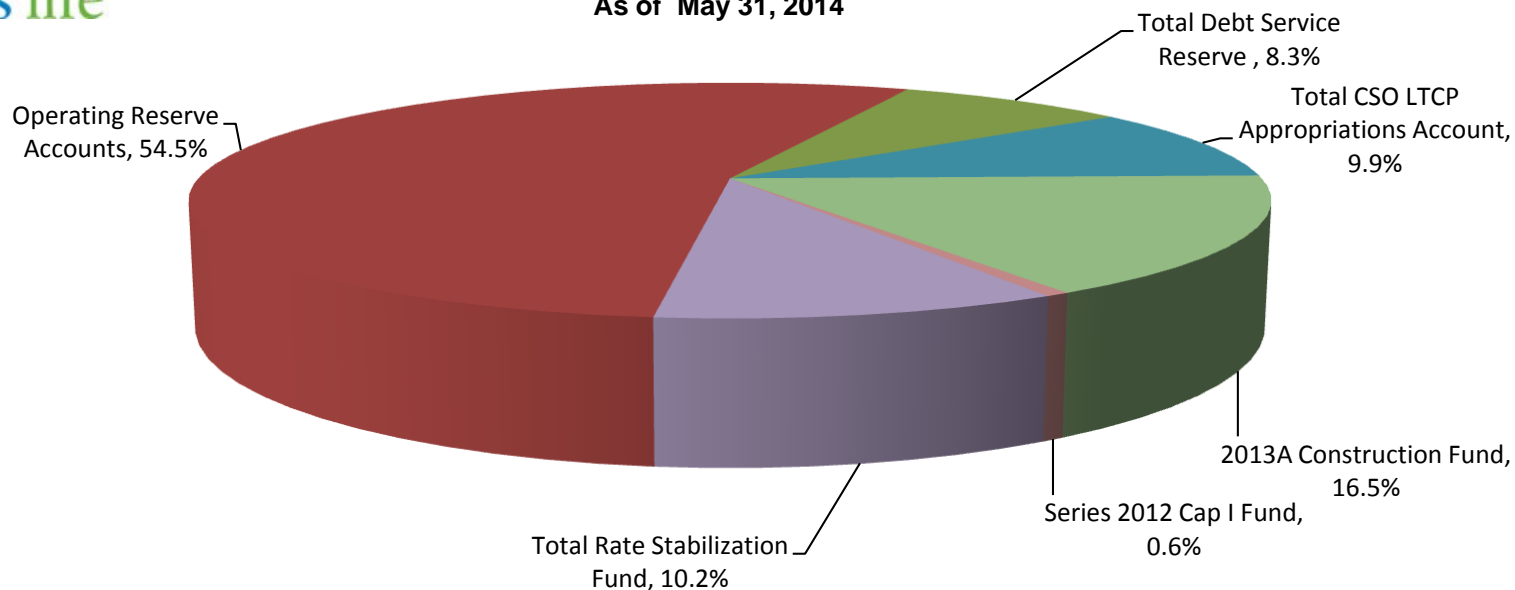
**DC Water  
Finance Division  
Investments - By Security Type  
As of May 31, 2014**



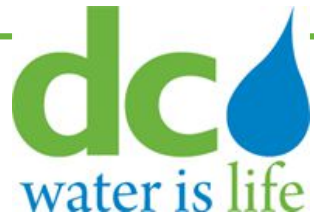
Security Type	Book Value + Accrued Interest	Asset Allocation	Permitted By Policy
Bank Deposits	\$ 107,493,165	37.9%	100.0%
Money Market Funds	9,659,474	3.4%	100.0%
Bankers Acceptances	-	0.0%	40.0%
Commercial Paper	69,993,131	24.7%	35.0%
U.S. Treasuries	-	0.0%	100.0%
Federal Agency	66,305,309	23.4%	80.0%
FDIC Insured CDs	30,253,025	10.7%	30.0%
Municipal Obligations	-	0.0%	20.0%
<b>Total</b>	<b>\$ 283,704,103</b>	<b>100.0%</b>	



**DC Water  
Finance Division  
Investment Analysis – By Fund  
As of May 31, 2014**

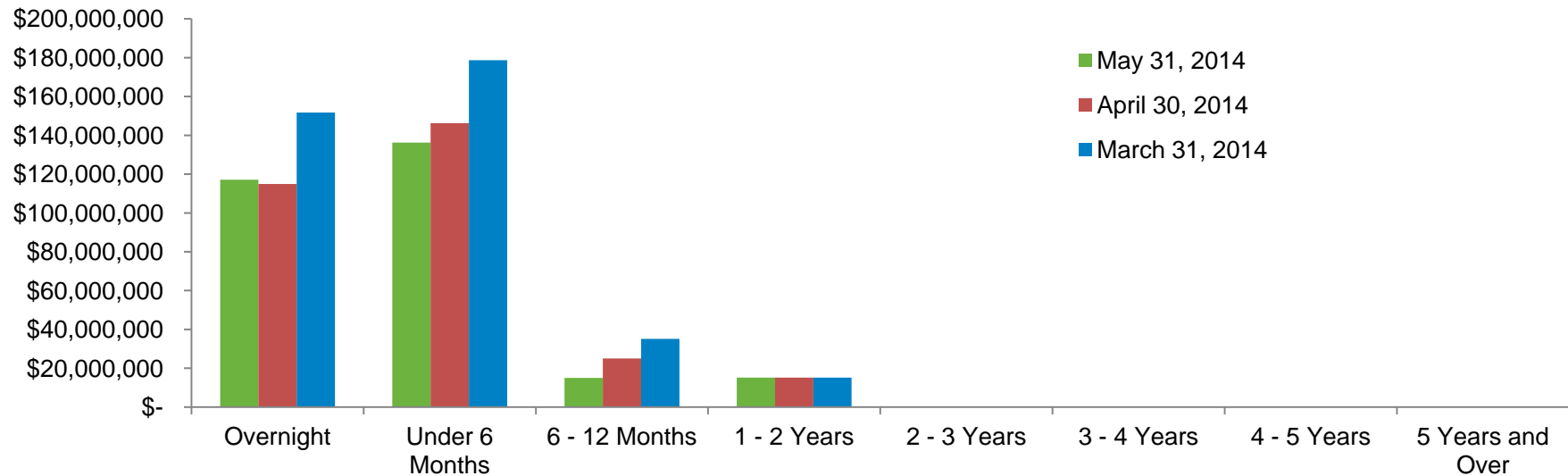


Fund Name	Book Value + Accrued Interest	Yield-to- Maturity at Cost	Effective Duration (years)	Weighted Average Maturity (days)
Total Rate Stabilization Fund	\$ 28,950,089	0.62%	0.08	29.0
Operating Reserve Accounts	\$ 154,729,325	0.55%	0.16	57.8
Total Debt Service Reserve	\$ 23,528,120	0.30%	1.06	392.1
Total CSO LTCP Appropriations Account	\$ 28,044,301	0.45%	0.01	2.8
2013A Construction Fund	\$ 46,724,790	0.15%	0.05	17.8
Series 2012 Cap I Fund	\$ 1,727,478	0.01%	0.00	1.0
<b>Total</b>	<b>\$ 283,704,103</b>	<b>0.46%</b>	<b>0.19</b>	<b>70.2</b>



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

Maturity Distribution	May 31, 2014	April 30, 2014	March 31, 2014
Overnight \$	117,152,638.42 \$	114,897,341.69 \$	151,766,045.26
Under 6 Months	136,289,666.19	146,247,710.00	178,662,304.56
6 - 12 Months	15,054,774.06	25,071,393.04	35,148,650.69
1 - 2 Years	15,207,024.08	15,200,865.08	15,194,787.35
2 - 3 Years	-	-	-
3 - 4 Years	-	-	-
4 - 5 Years	-	-	-
5 Years and Over	-	-	-
<b>Totals \$</b>	<b>283,704,102.75 \$</b>	<b>301,417,309.81 \$</b>	<b>380,771,787.86</b>





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

	Credit Ratings S&P / Moody's	Book Value		Investment Policy Limit	Compliance with Investment Policy
<b>Bank Deposits</b>					
TD Bank		97,387,492.63	34.3%	100.0%	Yes
Premier Bank		5,037,065.42	1.8%	100.0%	Yes
Capital One Bank		5,068,606.67	1.8%	100.0%	Yes
<b>Sub-Total Bank Deposits</b>		<b>107,493,164.72</b>	<b>37.9%</b>	100.0%	Yes
<b>Money Market Mutual Funds</b>					
American Beacon MMF	AAAm	1,483,759.31	0.5%	50.0%	Yes
Williams Capital Money Market Fund	AAAm	2,500,635.16	0.9%	50.0%	Yes
Merrill Lynch MMF	AAAm	1,185,686.76	0.4%	50.0%	Yes
Wells Fargo Government MMF	AAAm	4,489,392.47	1.6%	50.0%	Yes
<b>Sub-Total Money Market Mutual Funds</b>		<b>9,659,473.70</b>	<b>3.4%</b>	100.0%	Yes
<b>Certificates of Deposit</b>					
CDARs - Placed by Industrial Bank	NR / NR	20,191,838.47	7.1%	30.0%	Yes
CDARs - Placed by City First Bank	NR / NR	10,061,186.33	3.5%	30.0%	Yes
<b>Sub-Total Certificates of Deposit</b>		<b>30,253,024.80</b>	<b>10.7%</b>	30.0%	Yes
<b>Commercial Paper</b>					
Baylor University Comm Paper	A-1+ / NR	9,999,600.00	3.5%	5.0%	Yes
Coca-Cola Company Comm Paper	A-1+ / P-1	9,998,200.00	3.5%	5.0%	Yes
Honeywell Intl Comm Paper	A-1 / P-1	9,999,277.80	3.5%	5.0%	Yes
Hsbc Usa Inc Comm Paper	A-1 / P-1	9,998,630.60	3.5%	5.0%	Yes
Mizuho Funding Llc Comm Paper	A-1 / P-1	9,998,658.30	3.5%	5.0%	Yes
Toyota Motor Credit Corp Comm Paper	A-1+ / P-1	9,999,847.20	3.5%	5.0%	Yes
Union Bank Na Comm Paper	A-1 / P-1	9,998,916.70	3.5%	5.0%	Yes
<b>Sub-Total Commercial Paper</b>		<b>69,993,130.60</b>	<b>24.7%</b>	35.0%	Yes
<b>Federal Agencies</b>					
Federal Home Loan Bank	AA+ / Aaa	66,305,308.93	23.4%	40.0%	Yes
<b>Sub-Total Federal Agencies</b>		<b>66,305,308.93</b>	<b>23.4%</b>	100.0%	Yes
<b>Total</b>		<b>\$ 283,704,102.75</b>	<b>100.0%</b>		



**DC Water  
Finance Division  
Book Value Performance  
As of May 31, 2014**

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

	Trailing 1 Months		Trailing 3 Months		Trailing 6 Months		Trailing 12 Months
	Periodic	Annualized	Periodic	Annualized	Periodic	Annualized	
Total Rate Stabilization Fund	0.04%	0.52%	0.11%	0.44%	0.20%	0.40%	0.45%
Operating Reserve Accounts	0.02%	0.28%	0.07%	0.27%	0.14%	0.28%	0.35%
Total Debt Service Reserve	0.02%	0.29%	0.07%	0.30%	0.15%	0.31%	0.37%
Total CSO LTCP Appropriations Account	0.01%	0.16%	0.03%	0.11%	0.05%	0.09%	0.12%
2010A Capitalized Interest Fund	0.00%	0.00%	0.09%	0.37%	0.41%	0.82%	0.96%
2013A Construction Fund	0.01%	0.12%	0.03%	0.10%	0.05%	0.11%	n/a
Series 2012 Cap I Fund	0.00%	0.01%	0.00%	0.01%	0.01%	0.01%	n/a
<b>Short-Term</b>	<b>0.04%</b>	<b>0.45%</b>	<b>0.10%</b>	<b>0.39%</b>	<b>0.18%</b>	<b>0.35%</b>	<b>0.36%</b>
Merrill Lynch 3-Month Treasury Index (Book Value) <sup>1</sup>	0.02%	0.20%	0.02%	0.09%	0.04%	0.07%	0.05%
<b>Core (1+ Years)</b>	<b>0.04%</b>	<b>0.48%</b>	<b>0.12%</b>	<b>0.48%</b>	<b>0.23%</b>	<b>0.46%</b>	<b>0.45%</b>
Merrill Lynch 1-3 Year Treasury Index (Book Value) <sup>2</sup>	0.04%	0.42%	0.10%	0.40%	0.19%	0.38%	0.36%

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



**DC Water  
Finance Division  
Portfolio Holdings by Fund**

DESCRIPTION	CUSIP	PAR AMOUNT	COUPON RATE	MATURITY DATE	SETTLEMENT DATE	YTM AT COST	ORIGINAL COST	MARKET VALUE + ACCRUED INTEREST	AMORTIZED COST + ACCRUED INTEREST	TOTAL VALUE
<b>Rate Stabilization Fund</b>										
TD BANK BANK DEPOSIT		\$ 18,951,889		6/1/2014		0.90%	\$ 18,951,889	\$ 18,951,889	\$ 18,951,889	
COCA-COLA COMPANY COMM PAPER	19121BHM4	10,000,000	-	8/21/2014	5/28/2014	0.08%	9,998,111	9,997,280	9,998,200	
										\$ 28,950,088.89
<b>Operating Reserve Accounts</b>										
TD BANK BANK DEPOSIT		\$ 66,911,975		6/1/2014		0.90%	\$ 66,911,975	\$ 66,911,975	\$ 66,911,975	
CAPITAL ONE BANK		5,068,607		6/1/2014		0.50%	5,068,607	5,068,607	5,068,607	
WILLIAMS CAPITAL MONEY MARKET FUND		2,500,635		6/1/2014		0.00%	2,500,635	2,500,635	2,500,635	
BAYLOR UNIVERSITY COMM PAPER	07286NFH7	10,000,000	-	6/17/2014	3/26/2014	0.09%	9,997,925	9,997,925	9,999,600	
MIZUHO FUNDING LLC COMM PAPER	60688GFQ5	10,000,000	-	6/24/2014	2/28/2014	0.21%	9,993,233	9,998,940	9,998,658	
HONEYWELL INTL COMM PAPER	43851UFT5	10,000,000	-	6/27/2014	3/26/2014	0.10%	9,997,417	9,999,380	9,999,278	
HSBC USA INC COMM PAPER	40427SFW4	10,000,000	-	6/30/2014	2/28/2014	0.17%	9,994,239	9,999,040	9,998,631	
UNION BANK NA COMM PAPER	90526NG17	10,000,000	-	7/1/2014	3/26/2014	0.13%	9,996,497	9,998,820	9,998,917	
INDUSTRIAL BANK CDARS		5,000,000	0.650	10/16/2014	10/18/2012	0.65%	5,000,000	5,052,623	5,052,623	
INDUSTRIAL BANK CDARS		5,030,007	0.350	10/16/2014	10/17/2013	0.35%	5,030,007	5,041,108	5,041,108	
CITY FIRST BK OF WASHINGTON, D.C (CDARS)		5,000,000	0.400	11/13/2014	11/14/2013	0.40%	5,000,000	5,011,033	5,011,033	
INDUSTRIAL BANK CDARS		5,000,000	0.500	11/13/2014	11/14/2013	0.50%	5,000,000	5,013,791	5,013,791	
INDUSTRIAL BANK CDARS		2,528,080	0.450	1/22/2015	1/23/2014	0.45%	2,528,080	2,532,156	2,532,156	
CITY FIRST BK OF WASHINGTON, DC (CDARS)		2,500,000	0.600	3/19/2015	3/21/2013	0.60%	2,500,000	2,518,016	2,518,016	
INDUSTRIAL BANK CDARS		2,545,282	0.750	1/21/2016	1/23/2014	0.75%	2,545,282	2,552,161	2,552,161	
CITY FIRST BK OF WASHINGTON, DC (CDARS)		2,530,097	0.400	3/17/2016	3/20/2014	0.40%	2,530,097	2,532,137	2,532,137	
										\$ 154,729,325.01
<b>Total Debt Service Reserve</b>										
MERRILL LYNCH MMF		\$ 1,185,687		6/1/2014		0.06%	\$ 1,185,687	\$ 1,185,687	\$ 1,185,687	
WELLS FARGO GOVERNMENT MMF	94975P405	2,215,106		6/1/2014		0.01%	2,215,106	2,215,106	2,215,106	
FHLB NOTES	3130A0FX3	5,000,000	0.210	2/18/2015	12/17/2013	0.21%	4,999,745	5,005,424	5,002,848	
FEDERAL HOME LOAN BANK GLOBAL NOTES	313381YP4	5,000,000	0.250	2/20/2015	1/30/2013	0.30%	4,995,000	5,007,482	5,001,754	
FHLB NOTES	313375RN9	10,000,000	1.000	3/11/2016	5/22/2013	0.43%	10,158,100	10,121,282	10,122,726	
										\$ 23,528,120.35
<b>Total CSO LTCP Appropriations Account</b>										
TD BANK BANK DEPOSIT		\$ 11,523,629		6/1/2014		0.90%	\$ 11,523,629	\$ 11,523,629	\$ 11,523,629	
PREMIER BANK DEPOSIT		5,037,065		6/1/2014		0.24%	5,037,065	5,037,065	5,037,065	
AMERICAN BEACON MMF	02368W200	1,483,759		6/1/2014		0.01%	1,483,759	1,483,759	1,483,759	
TOYOTA MOTOR CREDIT CORP COMM PAPER	89233HF66	10,000,000	-	6/6/2014	1/27/2014	0.11%	9,996,028	9,999,900	9,999,847	
										\$ 28,044,300.69
<b>2013A Bond Construction Fund</b>										
WELLS FARGO GOVERNMENT MMF	94975P405	\$ 546,809		6/1/2014		0.01%	\$ 546,809	\$ 546,809	\$ 546,809	
FHLB GLOBAL BONDS	3133X7FK5	45,000,000	5.250	6/18/2014	8/8/2013	0.15%	46,974,150	46,173,143	46,177,981	
										\$ 46,724,790.06
<b>Series 2012 Cap I Fund</b>										
WELLS FARGO GOVERNMENT MMF	94975P405	\$ 1,727,478		6/1/2014		0.01%	\$ 1,727,478	\$ 1,727,478	\$ 1,727,478	
										\$ 1,727,477.75
							\$ 284,386,548.30	\$ 283,704,279.05	\$ 283,704,102.75	\$ 283,704,102.75



DC Water  
Finance Division  
Security Transactions  
Last 6 Months

ACCOUNT	CUSIP	DESCRIPTION	PAR	COUPON	MATURITY DATE	SETTLE DATE	YTM	TRANSACTION AMOUNT
<b>Purchases</b>								
DC WASA OPERATING RESERVE ACCOUNTS	RE0907981	INDUSTRIAL BANK CDARS	2,528,080	0.450	01/22/2015	01/23/2014	0.456	\$ 2,528,079.57
DC WASA OPERATING RESERVE ACCOUNTS	RE0907999	INDUSTRIAL BANK CDARS	2,545,282	0.750	01/21/2016	01/23/2014	0.756	\$ 2,545,282.08
DC WASA OPERATING RESERVE ACCOUNTS	40427SFW4	HSBC USA INC COMM PAPER	10,000,000	-	06/30/2014	02/28/2014	0.173	\$ 9,994,238.89
DC WASA OPERATING RESERVE ACCOUNTS	60688GFQ5	MIZUHO FUNDING LLC COMM PAPER	10,000,000	-	06/24/2014	02/28/2014	0.213	\$ 9,993,233.33
DC WASA OPERATING RESERVE ACCOUNTS	86562LE16	SUMITOMO MITSUI BANK NY COMM PAPER	10,000,000	-	05/01/2014	02/28/2014	0.152	\$ 9,997,416.67
DC WASA OPERATING RESERVE ACCOUNTS	RE0908013	CITY FIRST BK OF WASHINGTON, DC (CDARS)	2,530,097	0.400	03/17/2016	03/20/2014	0.404	\$ 2,530,096.57
DC WASA OPERATING RESERVE ACCOUNTS	07286NFH7	BAYLOR UNIVERSITY COMM PAPER	10,000,000	-	06/17/2014	03/26/2014	0.091	\$ 9,997,925.00
DC WASA OPERATING RESERVE ACCOUNTS	43851UFT5	HONEYWELL INTL COMM PAPER	10,000,000	-	06/27/2014	03/26/2014	0.101	\$ 9,997,416.70
DC WASA OPERATING RESERVE ACCOUNTS	90526NG17	UNION BANK NA COMM PAPER	10,000,000	-	07/01/2014	03/26/2014	0.132	\$ 9,996,497.22
DC WASA TOTAL CSO LTCP APPROPRIATIONS	06416KET3	BANK OF NOVA SCOTIA NY COMM PAPER	10,000,000	-	05/27/2014	01/24/2014	0.122	\$ 9,995,900.00
DC WASA TOTAL CSO LTCP APPROPRIATIONS	89233HF66	TOYOTA MOTOR CREDIT CORP COMM PAPER	10,000,000	-	06/06/2014	01/27/2014	0.112	\$ 9,996,027.78
DC WASA TOTAL DEBT SERVICE RESERVE	3130A0FX3	FHLB NOTES	5,000,000	0.210	02/18/2015	12/17/2013	0.214	\$ 4,999,890.83
DC WASA RATE STABILIZATION FD	25153KDW4	DEUTSCHE BANK FINL LLC COMM PAPER	10,000,000	-	04/30/2014	01/24/2014	0.213	\$ 9,994,400.00
DC WASA RATE STABILIZATION FD	36959JEW9	GENERAL ELEC CAP CORP COMM PAPER	10,000,000	-	05/30/2014	01/24/2014	0.132	\$ 9,995,450.00
DC WASA RATE STABILIZATION FD	19121BHM4	COCA-COLA COMPANY COMM PAPER	10,000,000	-	08/21/2014	05/28/2014	0.081	\$ 9,998,111.11

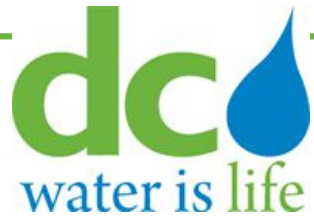
Securities highlighted in **blue font** denote trades executed during the current month.



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

DATE	TRANSACTION	CUSIP	DESCRIPTION	COUPON	MATURITY DATE	PAR VALUE/SHARES	PRINCIPAL	INTEREST	TOTAL
<b><u>Operating Reserve Accounts</u></b>									
06/17/14	MATURITY	07286NFH7	BAYLOR UNIVERSITY COMM PAPER		06/17/14	10,000,000	9,997,925.00	2,075.00	10,000,000.00
06/24/14	MATURITY	60688GFQ5	MIZUHO FUNDING LLC COMM PAPER		06/24/14	10,000,000	9,993,233.33	6,766.67	10,000,000.00
06/27/14	MATURITY	43851UFT5	HONEYWELL INTL COMM PAPER		06/27/14	10,000,000	9,997,416.66	2,583.34	10,000,000.00
06/30/14	MATURITY	40427SFW4	HSBC USA INC COMM PAPER		06/30/14	10,000,000	9,994,238.89	5,761.11	10,000,000.00
<b><u>2013A Bond Construction Fund</u></b>									
06/18/14	MATURITY	3133X7FK5	FHLB GLOBAL BONDS	5.250	06/18/14	45,000,000	45,000,000.00	1,181,250.00	46,181,250.00
<b><u>DC WASA CSO LTCP Appropriations</u></b>									
06/06/14	MATURITY	89233HF66	TOYOTA MOTOR CREDIT CORP COMM PAPER		06/06/14	10,000,000	9,996,027.78	3,972.22	10,000,000.00





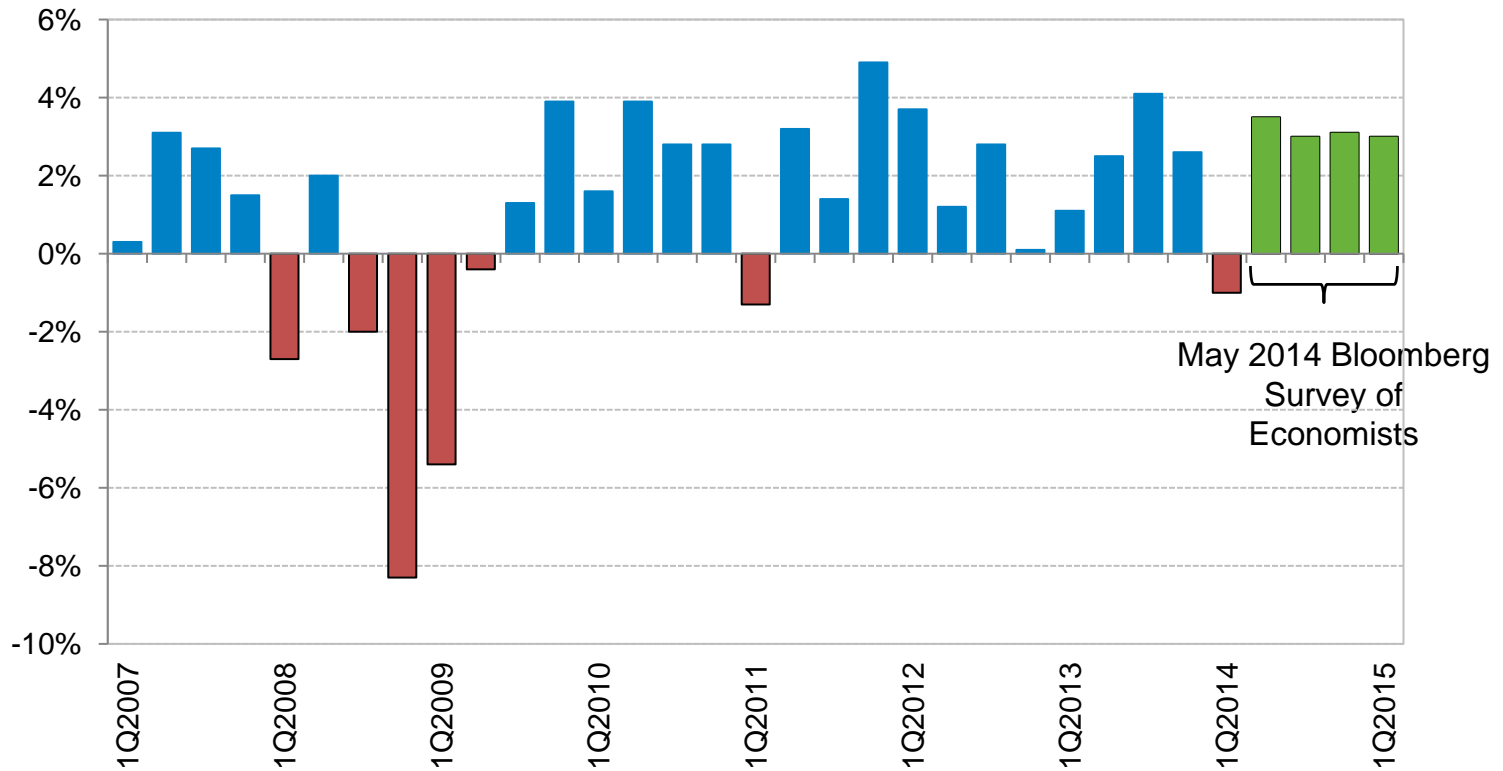
# Appendix: Economic Update



# Gross Domestic Product

- First-quarter U.S. gross domestic product (GDP) growth was revised downward from +0.1% to -1.0%. However, consensus estimates for second quarter GDP are +3.5%.

**Gross Domestic Product Growth**  
January 2007 – March 2015 (projected)



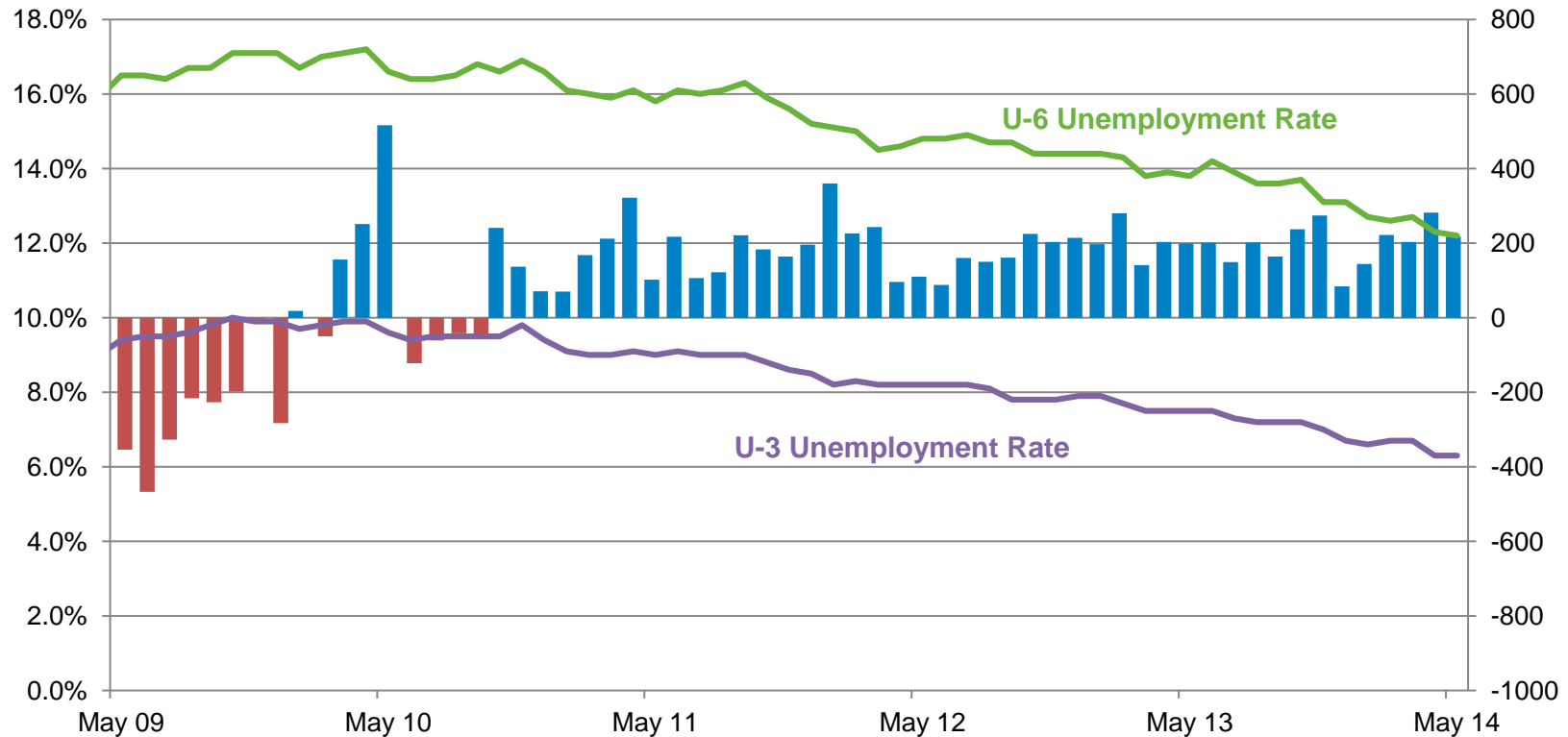
Source: Bloomberg



## May Job Growth was Consistent with Expectations

- Nonfarm payrolls expanded by 217,000 jobs in May. The United States has now added more than 200,000 jobs a month for four straight months — the first time since 1999.

**Unemployment vs. Non-Farm Payrolls**  
April 2009 – May 2014

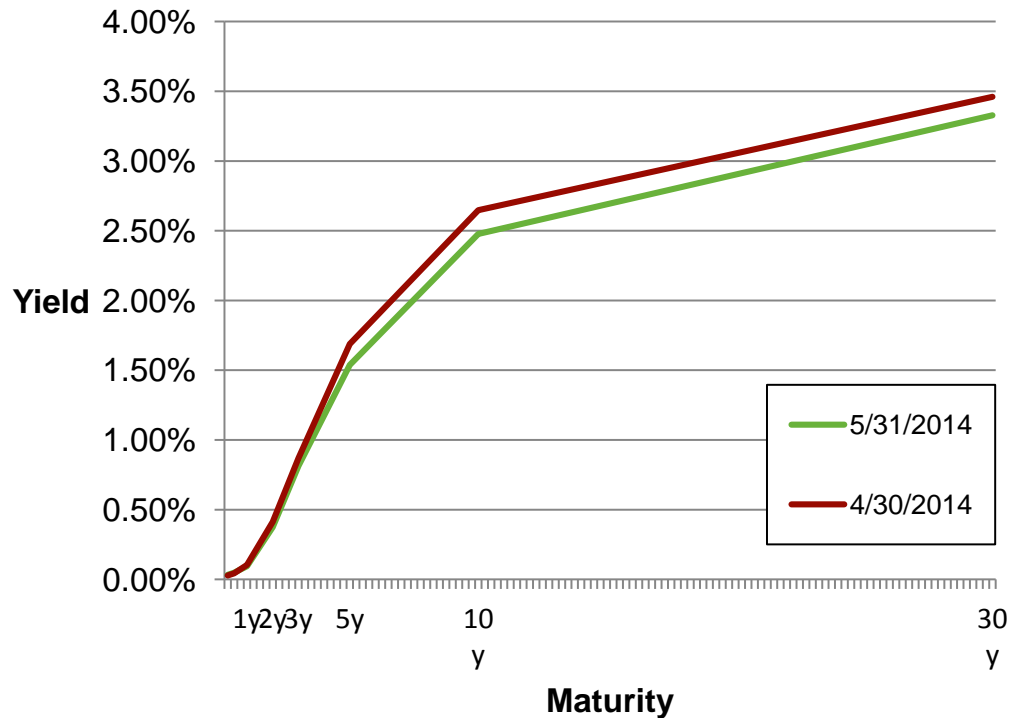


Source: Bloomberg



# The Yield Curve Flattened During May

**U.S. Treasury Yield Curve**  
May 31, 2014 versus April 30, 2014



	<u>5/31/2014</u>	<u>4/30/2014</u>	<u>Change</u>
3 month	0.03%	0.03%	0.00%
6 month	0.05%	0.04%	0.01%
1 year	0.09%	0.10%	-0.01%
2 year	0.38%	0.41%	-0.03%
3 year	0.81%	0.87%	-0.06%
5 year	1.54%	1.69%	-0.15%
10 year	2.48%	2.65%	-0.17%
30 year	3.33%	3.46%	-0.13%

Source: Bloomberg



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

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

*The views expressed within this material constitute the perspective and judgment of PFMAM at the time of distribution and are subject to change. Any forecast, projection, or prediction of the market, the economy, economic trends, and equity or fixed-income markets are based upon current opinion as of the date of issue, and are also subject to change. Opinions and data presented are not necessarily indicative of future events or expected performance. PFMAM cannot and does not claim to be able to accurately predict the future investment performance of any individual security or of any asset class.*

*PFMAM's investment consulting recommendations involve some degree of risk. Investment activity involving a client's assets shall be at the client's own risk, which can result in loss of investment capital, income, and/or tax benefits respecting such assets.*

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



# **FY 2014 Operating Cash Surplus Recommendation**

**Finance and Budget Committee  
June 26, 2014**

---

Presented by:

George S. Hawkins  
General Manager

Mark Kim  
Chief Financial Officer

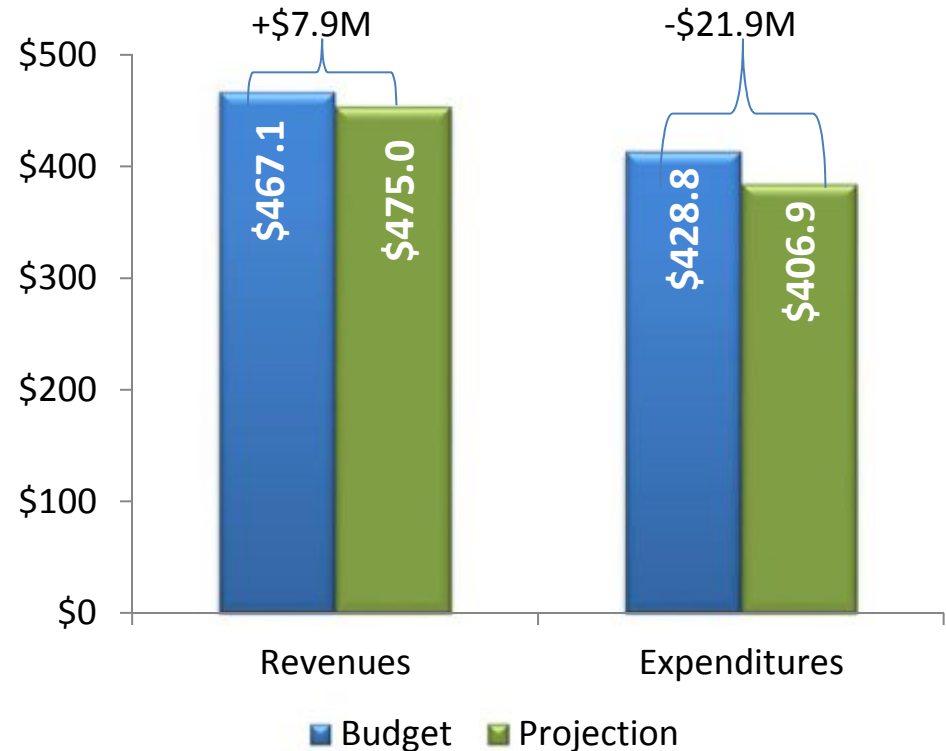


## FY 2014 FINANCIAL PERFORMANCE (PROJECTIONS – CASH BASIS)

💧 \$29.8M cash surplus is projected at year end

- Revenues higher than budget (\$7.9M or 1.7% )
- Expenditures slightly below budget (\$21.9M or 5.1%)

Cashflow Projections (\$ in millions)





## RECOMMENDATIONS FOR FY 2014 PROJECTED CASH SURPLUS

- 💧 Increase refund to wholesale customers by \$0.4M
- 💧 Transfer \$7.7M to PILOT Reserve
- 💧 Transfer \$5.1M to ROW Reserve
- 💧 Increase contribution to PAYGO by \$0.6M
- 💧 Maintain working capital of \$16M above the O&M Reserve

Cash Basis (\$ in millions)			
	FY 2014 REVISED	FY 2014 PROJECTION	VARIANCE \$
<b>Beginning Cash Balance</b>	\$ 141.5	\$ 141.5	\$ -
Plus (Less) Operating Surplus	38.3	68.1	(29.8)
Wholesale Customer Refunds from Prior Years	(9.7)	(10.1)	0.4
Interest Earned From Bond Reserve	0.1	0.1	
Prior Year Federal Billing Reconciliation	(6.0)	(6.0)	
DC PILOT Reserve Fund		(7.7)	7.7
DC ROW Reserve Fund		(5.1)	5.1
Cash Used for Capital	(23.7)	(24.3)	0.6
<b>Ending Cash Balance</b>	<b>\$ 140.5</b>	<b>\$ 156.5</b>	<b>\$ (16.0)</b>
<b>Recommendations</b>			
Additional Refund to Wholesale Customers			\$ 0.4
Transfer to DC PILOT Reserve			7.7
Transfer to DC ROW Reserve			5.1
Additional Transfer to PAYGO			0.6
Maintain working capital above target cash balance			16.0
<b>Total Cash Surplus Recommendations</b>			<b>\$ 29.8</b>





## NEXT STEPS



## NEXT STEPS

- 💧 Board Adoption – July
  - PAYGO, ROW Reserve Fund, DC PILOT Reserve Fund and Wholesale Customers refund contributions
- 💧 Committee Recommendations - July
  - Revised FY 2015 operating budget
  - Revised FY 2015 capital budget
  - FY 2015 retail rates and fees
- 💧 Board Adoption – September



Update:  
July 1 Property & Casualty  
Insurance Renewals

Finance and Budget Committee  
June 26, 2014

Tanya DeLeon, Risk Manager



# Background

- The Authority is on track to renew its Property, Workers' Compensation, Public Officials' Liability, Umbrella/Excess Liability, Crime and Fiduciary insurance coverages on July 1.
- The value of each of these insurance contracts falls below the threshold required for board approval. However, it has been the customary practice to provide an informational update to the committee at this time each year.
- The insurance market is presently stable. Most insurance buyers with good loss experience are seeing flat rate renewals with any premium increases driven by growth in exposures. The present low bond yield environment, which has a worsening effect on pricing, is being offset by strong underwriting profitability and competition resulting from an influx of capital in the reinsurance markets.



# Renewal Results

- We anticipated a 9% increase in total premiums partly due to concern regarding potential hardening of the insurance market and partly due to the Authority's increased operating exposures. Year-to-year changes for property values, payroll and operating budget are +4%, +9% and -3% respectively.
- Renewal negotiations are still underway, but it appears the total premium increase will be +1%. Coverages remain generally comparable to expiring. We are pleased with the renewal results.



# Appendix I

## Prospective Program – Jul 1, 2014-15

Coverage	Main Limit	Main Deductible / Retention	Insurer	Premium* (thousand)
Property incl. Boiler & Machinery	\$1 Bil per occurrence \$100 Mil annual Flood \$25 Mil ann.–100 Yr Flood	\$1 Mil  \$10,000 equip	Public Entity Property Ins. Program (PEPIP)**	\$829
Cyber/Data Security***	\$2 Mil ann. (subject to \$25M ann. total limit for entire purchasing group)	\$100,000	same as above	incl. above
Excess Workers' Compensation (WC) and Employers' Liability (EL)	Full benefits due under WC law; \$3 Mil Employers' Liability	\$1 Mil / accident or disease	Safety National	Safety Nat'l \$328
Public Officials' Liability (POL)	\$20 Mil ann.	\$250,000	RSUI and Hiscox	\$121
Excess Liability (excess of GL, AL POL, EPL)	\$100 Mil	\$1 Mil	Alliant National Municipal Liability (ANML) and Catastrophe Liability Ins. Program (CLIP)*	\$928
Crime & Fidelity	\$10 Mil	\$200,000	Travelers	\$29
Fiduciary Liability	\$5 Mil	Nil	Travelers	\$15
TOTAL			(Expiring \$2,230)	\$2,250 (+ 1%)

\* All premiums include broker placement fees/commissions.

\*\* These are Group Purchasing programs involving public entities throughout the country and a broad syndication of insurers.

\*\*\* The Authority is investigating the cost of increased cyber coverage.

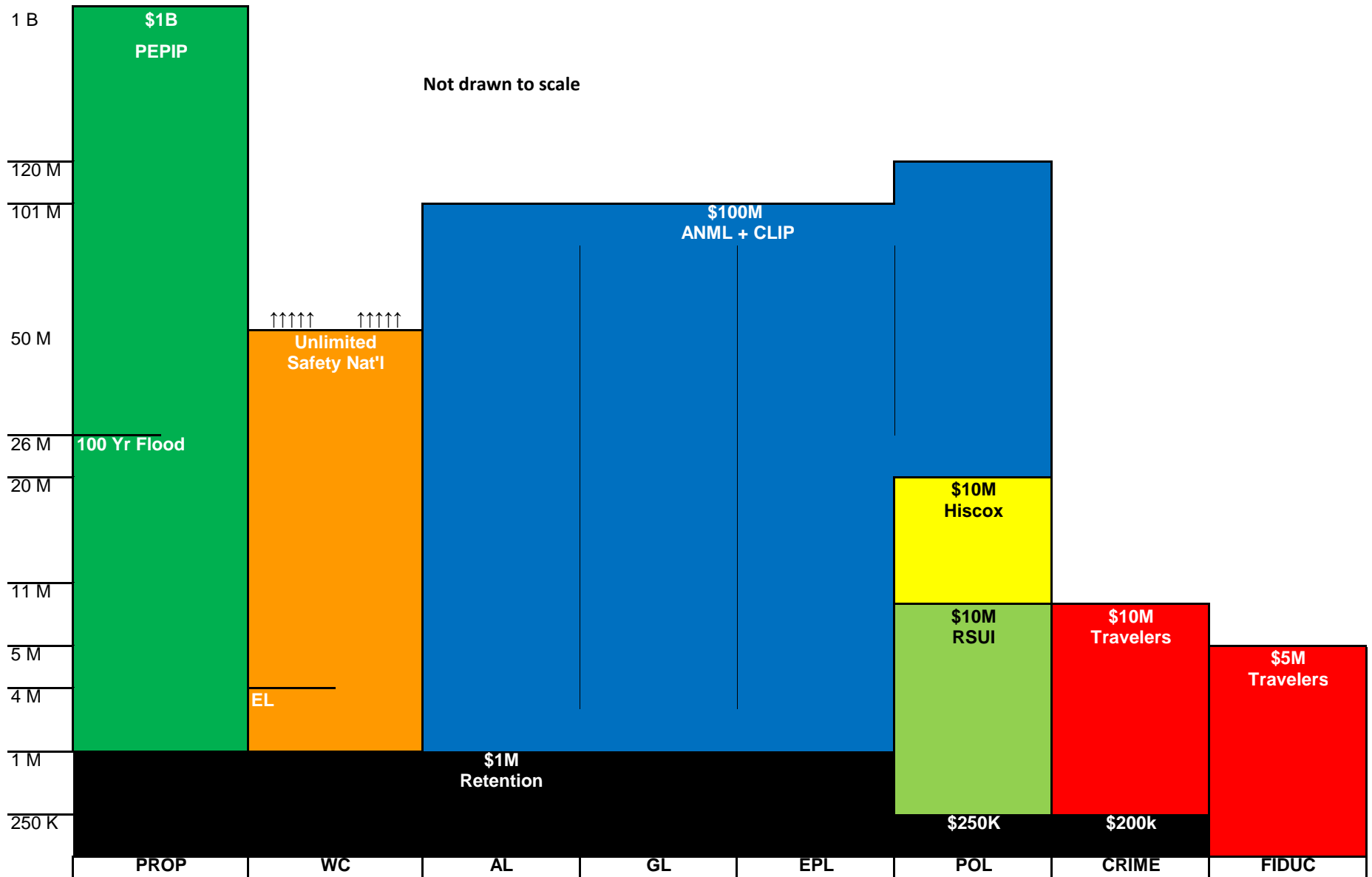


# Appendix I (cont.) Insurance Coverages

Coverage	Scope
Property, Equip. and Boiler & Machinery	Provides blanket "all risk" coverage for direct physical damage to WASA structures, buildings and contents.
Cyber Liability and Breach Notification	Provides coverage for third party liability and privacy notification expenses resulting from data breaches.
Excess Workers Compensation (WC) and Employers Liability (EL)	Provides excess statutory workers' compensation benefits over self-funded levels. EL covers liability from employee injuries that are not covered under workers compensation law. Very rare in DC.
Public Officials Liability (POL)	Provides reimbursement protection for wrongful acts (excl. bodily injury and property damage) that are actually or allegedly caused by WASA directors, officers and employees within the course of their duties.
Employment Practices Liability (EPL)	Provides protection for claims of discrimination, harassment, or wrongful termination.
Umbrella / Excess Liability	Provides protection for bodily injury, property damage, and personal injuries to third parties arising out of WASA operations (GL) including use of automobiles (AL) in excess of self-funded levels. Beginning in 2009, also applies excess of public officials (POL) and employment practices liability (EPL), with additional restrictions.
Crime & Fidelity	Employee dishonesty coverage and miscellaneous crime coverages.
Fiduciary Liability	Provides protection for wrongful acts that actually or allegedly are caused by trustees and employees of the DCWASA sponsored Employee Benefit Plans.



# Insurance Program Chart







## Appendix I – Background

- 1998
  - Began purchasing insurance. Prior to 1996, WASA was part of the District's program.
- 2001
  - Became self-insurer for workers compensation
- 2002
  - 9/11 impacts on insurance market, particularly workers compensation
  - Had independent program review conducted.
- 2003
  - Purchased broadened public officials' liability coverage .
  - Purchased employment practices liability coverage for the Authority.
- 2004
  - Lead controversy first surfaced, public officials' coverage/premium impacts.
  - Rolling Owner Controlled Insurance Program (ROCIP) implemented.
- 2005
  - Regained ground on public officials' coverage.
- 2006
  - H. Katrina impacts on insurance market, particularly property with flood exposure. Increased property deductible from \$250k to \$1m for cost savings. Regained ground on workers' compensation coverage (full limits) and public officials' liability pricing.



## Appendix I – Background (cont.)

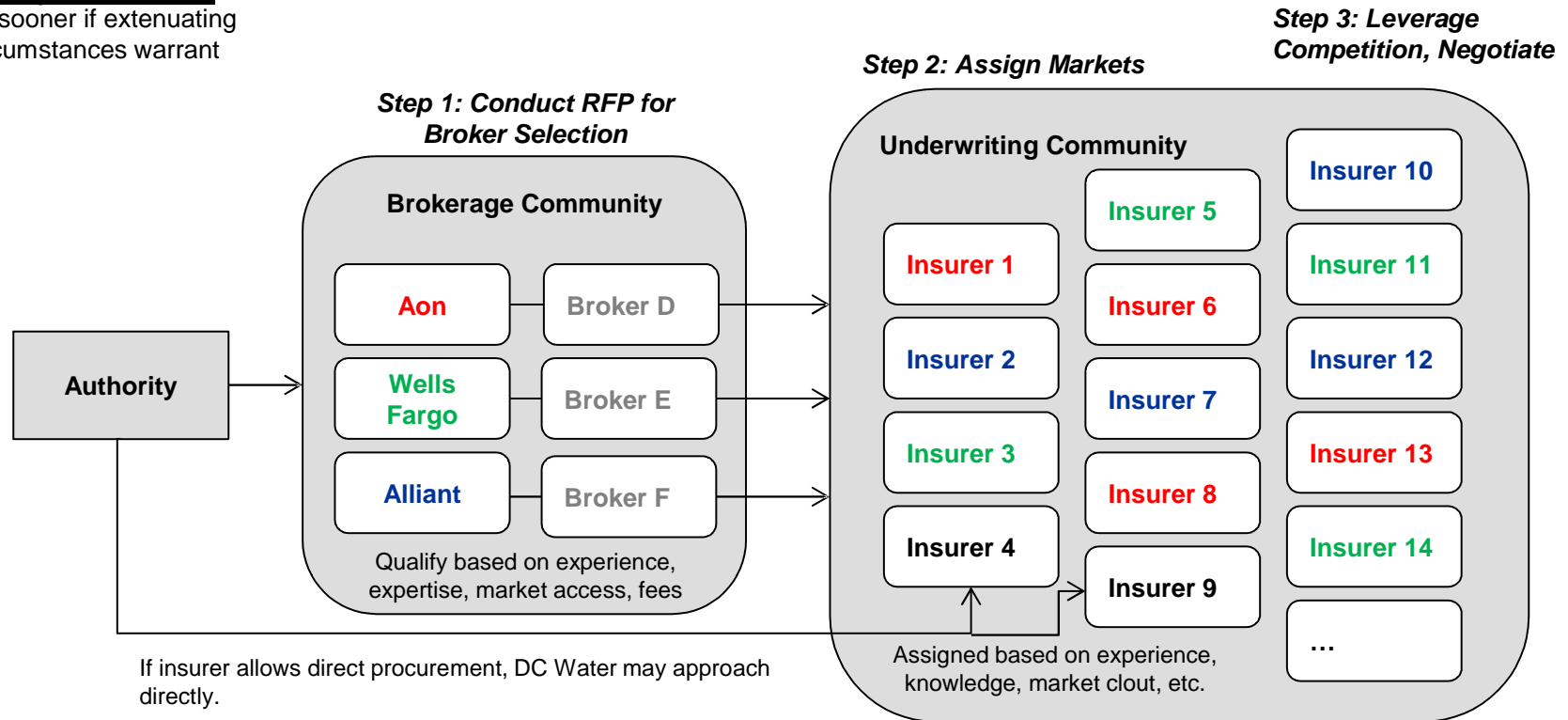
- 2007
  - Conducted Broker RFQ process and qualified 3 brokers to access insurance markets that don't allow direct procurement.
  - Competitively bid all insurance lines.
  - Changed Property insurer. Generally increased coverage and decreased cost.
- 2008
  - Remained with same carriers. Increased property limit from \$500M to \$1B and high hazard flood from \$10M to \$25M. Increased Employment Practices retention from \$250K to \$1M for premium savings.
- 2009
  - Change in Umbrella/Excess Liability and Employment Practices Liability carriers. Increased limits for Public Officials Liability from \$20M to \$120M as part of overall program purchase.
- 2012
  - Conducted Broker RFQ process and qualified 3 brokers.
  - Competitively bid all insurance lines.
  - Increased fiduciary liability limit from \$3M to \$5M.
- 2013
  - Increased crime coverage from \$5M to \$10M.



# Appendix II - Procurement Approach

## Every 5 Years – Last Done in 2012

Or sooner if extenuating circumstances warrant



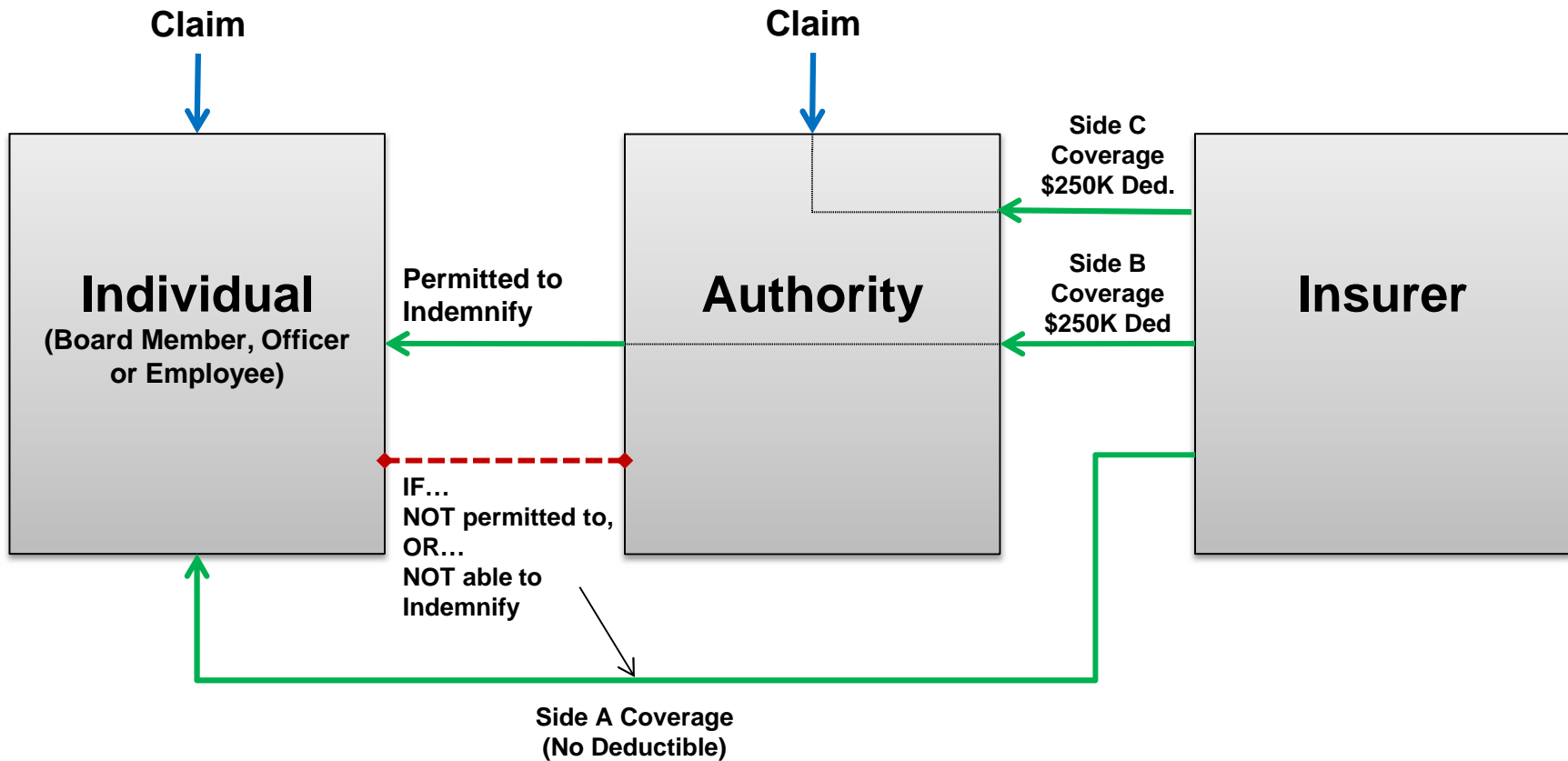
Serves Public Interests: Maximizes Competition with Competent Broker Firms ♦ Requires Demonstration of Marketing Skill ♦ Preserves Options

## Interim Years (2012-Present)

Multi-year insurance contracts are not available in the present insurance market. On each annual policy renewal, a particular line of coverage is typically handled by the incumbent broker. That broker is generally granted full access to the market and asked to recommend a marketing strategy for the year, which the Authority must approve. However, the Authority reserves the right to use a multi-broker, assigned-market competitive process like the above in the interim years if challenging situations warrant. The Authority uses its independent insurance consultant as well as conduct its own due diligence to establish expectations.



# Appendix III - How Public Officials' (D&O) Liability Coverage Works



Presented and Adopted: July [3], 2014

Subject: Approving the Final Form of Certain Documents,  
Authorizing the Sale and Setting Terms and Details of the  
Series 2014A Bonds

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

The Board of Directors (“Board”) of the District of Columbia Water and Sewer Authority (“Authority”), at its meeting on July [3], 2014, by a vote of \_\_\_\_\_ (\_\_\_) in favor and \_\_\_\_\_ (\_\_\_) opposed, decided to approve the following:

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

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

**WHEREAS**, the Authority has heretofore entered into fourteen (14) supplemental indentures of trust with the Trustee in connection with the issuance of Senior Debt and Subordinate Debt (both as defined in the Indenture) or to amend or clarify provisions of the Master Indenture; and

**WHEREAS**, the Authority now intends (i) to issue taxable Public Utility Senior Lien Revenue Bonds, Series 2014A (the “Series 2014A Senior Lien Bonds”) to finance certain Costs of the System, fund a Series 2014A Debt Service Reserve Requirement (as defined herein), if determined necessary; and pay certain costs of issuance; (ii) to designate the Series 2014A Senior Lien Bonds as Senior Debt for purposes of the Indenture; and (iii) to secure the Series 2014A Senior Lien Bonds by a pledge of Net Revenues on a parity with the pledge of Net

Revenues that secures the Series 1998 Senior Lien Bonds, the Series 2009A Senior Lien Bonds and other Senior Debt, including, without limitation, other Senior Debt that the Authority may issue from time to time in the future; and

**WHEREAS**, there have been presented at this meeting drafts of the following documents, all as hereinafter defined: the Fifteenth Supplemental Indenture, the form of the Series 2014A Senior Lien Bond (attached as an Exhibit to the Fifteenth Supplemental Indenture); the Bond Purchase Agreement, the Offering Memorandum and the Continuing Disclosure Agreement; and

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

**WHEREAS**, the Finance and Budget Committee met on June [26], 2014, to review the issuance of the Series 2014A Senior Lien Bonds and has recommended approval of this Resolution by the Board.

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

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

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

“Bond Purchase Agreement” means the Bond Purchase Agreement between the Authority and the Series 2014A Original Purchasers, dated as of the same date as the Certificate of Award.

“Certificate of Award” means the certificate of an Authorized Official awarding the Series 2014A Senior Lien Bonds to the Series 2014A Original Purchasers and specifying terms of the Series 2014A Senior Lien Bonds, as provided for in Section 4 of this Resolution.

“Continuing Disclosure Agreement” means the Continuing Disclosure Agreement executed by the Authority and the Trustee, dated as of the same date as the date of issuance and delivery of the Series 2014A Senior Lien Bonds, as originally executed and as it may be amended from time to time in accordance with its terms.

“Fifteenth Supplemental Indenture” means the Fifteenth Supplemental Indenture of Trust, dated as of the same date as and relating to the Series 2014A Senior Lien Bonds, by and between the Authority and the Trustee.

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

“Interest Payment Dates” for the Series 2014A Senior Lien Bonds means each April 1 and October 1 commencing on the April 1 or October 1 specified in the Certificate of Award as the first Interest Payment Date, and thereafter during the time the Series 2014A Senior Lien Bonds are outstanding.

“Series 2014A Debt Service Reserve Requirement” means, if determined necessary, a required fund balance, if any, in the Series 2014 Debt Service Reserve Account or Accounts established under the Fifteenth Supplemental Indenture, the amount of which shall be specified in the Certificate of Award.

“Series 2014A Original Purchasers” for the Series 2014A Senior Lien Bonds means the purchasers identified as such in the Bond Purchase Agreement for the Series 2014A Senior Lien Bonds, represented by Goldman, Sachs & Co.

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

Section 2. Authorization, Designation and Purposes of Series 2014A Senior Lien Bonds. The Authority is authorized to issue, sell and deliver, as provided in this Resolution and the Certificate of Award, not to exceed [Three Hundred Fifty Million Dollars (\$350,000,000)] principal amount of bonds of the Authority, which shall be designated “Public Utility Senior Lien Revenue Bonds, Series 2014A”, and constituting Senior Debt for purposes of the Indenture, for the purpose of (i) financing certain Costs of the System, including, without limitation, interest on the Series 2014A Senior Lien Bonds for a period to be specified in the Certificate of Award; (ii) funding a Series 2014A Debt Service Reserve Requirement, if determined necessary; and (iii) paying issuance costs of the Series 2014A Senior Lien Bonds. For those purposes the proceeds from the sale of the Series 2014A Senior Lien Bonds shall be allocated and deposited as provided in the Fifteenth Supplemental Indenture. If and to the extent that any Series 2014A Senior Lien Bonds are issued to fund a Series 2014A Debt Service Reserve Requirement, then the aggregate principal amount of Series 2014A Senior Lien Bonds hereby authorized may exceed [\$350,000,000] by the aggregate principal amount of the Series 2014A Senior Lien Bonds to be issued to fund the Series 2014A Debt Service Reserve Requirement.

Section 3. Terms and Provisions Applicable to Series 2014A Senior Lien Bonds. All capitalized words and terms used in this Section 3 not elsewhere defined herein are used with the definitions assigned to them in Section 102 of the Fifteenth Supplemental Indenture.

(a) Form, Numbering, Transfer and Exchange. The Series 2014A Senior Lien Bonds shall be issued, unless otherwise subsequently provided pursuant to the Fifteenth

Supplemental Indenture, only in fully registered form and substantially in the form attached as Exhibit A to the Fifteenth Supplemental Indenture. The Series 2014A Senior Lien Bonds shall be issued only to a Depository for holding in a book entry system and (i) the Series 2014A Senior Lien Bonds shall be registered in the name of the Depository or its nominee, as Holder, and immobilized in the custody of the Depository and (ii) the Series 2014A Senior Lien Bonds shall not be transferable or exchangeable, except for transfer to another Depository or to another nominee of a Depository as referenced in the Fifteenth Supplemental Indenture.

(b) Denominations and Dates. The Series 2014A Senior Lien Bonds shall be dated as of the date of issuance and delivery but in no event later than December 31, 2014, and there shall be a single Series 2014A Senior Lien Bond representing each interest rate for each maturity of the Series 2014A Senior Lien Bonds provided for in subsection (c) of this Section 3. Each Series 2014A Senior Lien Bond shall have only one principal maturity.

(c) Principal Maturities and Interest Rates. The Series 2014A Senior Lien Bonds shall bear interest on their unpaid principal amount payable on each Interest Payment Date, commencing on the first Interest Payment Date specified in the Certificate of Award, at such fixed rates per annum as set forth in the Certificate of Award as provided in Section 4(c) hereof, provided however, that the “true interest cost” (i.e., interest cost on bonds defined as the rate, compounded semiannually, necessary to discount the amounts payable on the respective interest and principal payment dates to the purchase price received for the bonds) on the Series 2014A Senior Lien Bonds shall not exceed six and one half percent (6.50%) per annum. The principal of the Series 2014A Senior Lien Bonds shall be paid in such amounts on each principal retirement date (whether at stated maturity date or a mandatory redemption date) as set forth in the Certificate of Award, provided that the final principal retirement date shall be no later than December 31, 2114.

(d) Optional and Mandatory Redemption.

(i) *Make Whole Optional Redemption* - The Series 2014A Senior Lien Bonds shall be subject to redemption prior to their stated maturities, at the option of the Authority, on any date from any source of available funds, as a whole or in part, as specified in Section 301(a) of the Fifteenth Supplemental Indenture.

(ii) *Mandatory Sinking Fund Redemption* - The Series 2014A Senior Lien Bonds are required to be redeemed prior to maturity on October 1 in years and amounts upon payment of 100% of the principal amount thereof plus interest accrued to the redemption date, as specified in Section 301(b) of the Fifteenth Supplemental Indenture.

(e) Redemption Provisions. Redemption of Series 2014A Senior Lien Bonds shall be effected in accordance with Article IV of the Master Indenture, provided, however, that notices of redemption of Series 2014A Senior Lien Bonds sent pursuant to Section 402 of the Master Indenture may specify that the redemption is conditional upon the Authority’s obtaining the funds needed to effect that redemption prior to the specified redemption date.



(f) Places and Manner of Payment, and Paying Agents. The principal of and the interest and any redemption premium on the Series 2014A Senior Lien Bonds shall be payable as specified in the Fifteenth Supplemental Indenture.

(g) Execution. The Authorized Officials are, and each of them is, authorized and directed to execute the Series 2014A Senior Lien Bonds, and the Secretary of the Board is authorized and directed to affix the seal of the Authority to the Series 2014A Senior Lien Bonds and to deliver them to the Trustee for authentication in accordance with the Indenture.

Section 4. Sale of Series 2014A Senior Lien Bonds.

(a) General. The Series 2014A Senior Lien Bonds shall be awarded and sold to the Series 2014A Original Purchasers in accordance with the Bond Purchase Agreement and the Certificate of Award, at a purchase price of not less than ninety-five percent (95%) of the aggregate of the products from multiplying the principal amount of each Series 2014A Senior Lien Bond times the percentage of such principal amount at which such Series 2014A Senior Lien Bond shall be initially offered to the public, after subtracting from the aggregate of such products the premium payable for any municipal bond insurance policy applicable to the Series 2014A Senior Lien Bonds.

(b) Bond Purchase Agreement. The Authorized Officials are, and each of them is, authorized and directed to execute and deliver the Bond Purchase Agreement between the Authority and the Series 2014A Original Purchasers, substantially in the form presented to this Authority, but with such changes not inconsistent with the Indenture and this Resolution and not substantially adverse to the Authority as may be approved by the Authorized Official executing the same on behalf of the Authority. The approval of any such changes by such Authorized Official and the determination by such Authorized Official that no such change is substantially adverse to the Authority shall be conclusively evidenced by the execution of the Bond Purchase Agreement by such Authorized Official. The price for and terms of the Series 2014A Senior Lien Bonds and the sale thereof, all as provided in this Resolution, the Bond Purchase Agreement, the Certificate of Award, and the Fifteenth Supplemental Indenture, are hereby approved and determined to be in the best interests of the Authority.

(c) Certificate of Award. Such sale and award shall be further evidenced by the Certificate of Award executed by an Authorized Official. The terms of the Series 2014A Senior Lien Bonds approved in the Certificate of Award shall be incorporated into the Fifteenth Supplemental Indenture. The Certificate of Award, subject to the restrictions set forth herein, shall (i) state, with respect to the Series 2014A Senior Lien Bonds, the aggregate principal amount, the purchase price, the Interest Payment Dates, the interest rates, the principal retirement dates, the mandatory sinking fund requirements (if any), the redemption dates, and the optional redemption prices thereof; (ii) specify whether a municipal bond insurance policy, letter of credit, or other credit or liquidity facility shall be obtained with respect to the Series 2014A Senior Lien Bonds and, if so, from whom and on what terms; (iii) specify the amount, if any, of the Series 2014A Debt Service Reserve Requirement and determine whether it shall be met entirely with (X) cash and Permitted Investments; (Y) a Qualified Reserve Credit Facility (as defined in the Fifteenth Supplemental Indenture); or (Z) a specified combination of (X) and (Y); and (iv) include any

additional information that may be required or permitted to be stated therein by the terms of this Resolution and the Bond Purchase Agreement.

(d) Authorization of Bond Insurance and Qualified Reserve Credit Facilities. The submission of applications to (i) recognized providers of municipal bond insurance requesting the issuance of one or more municipal bond insurance policies to insure the Authority's obligation to make payments of principal of and interest on the Series 2014A Senior Lien Bonds, and (ii) potential providers of Qualified Reserve Credit Facilities, is hereby ratified and approved. The Authorized Officials are, and each of them is, hereby authorized to specify in the Certificate of Award that the Authority shall accept one or more commitments for insurance from such providers, and one or more commitments for a Qualified Reserve Credit Facility. There is hereby authorized to be paid from the moneys deposited in the Series 2014A Costs of Issuance Subaccount such amount as is required to pay the premium and expenses for such insurance policies and Qualified Reserve Credit Facilities relating to the Series 2014A Senior Lien Bonds. The Authorized Officials are, and each of them is, hereby further authorized to enter into a reimbursement agreement with the provider of any Qualified Reserve Credit Facility to provide for the Authority's reimbursement of the provider for any amounts drawn under the Qualified Reserve Credit Facility in a manner consistent with the Indenture. Any determination of the Authorized Officials under this paragraph shall be based on the written advice of the Financial Advisor.

(e) Certificates. The General Manager and Chief Financial Officer of the Authority are authorized and directed in their official capacities, to execute and deliver to the Series 2014A Original Purchasers the certificates required by the Bond Purchase Agreement to be executed on behalf of the Authority.

(f) Delivery of Bonds. The Authorized Officials are, and each of them is, authorized and directed to make the necessary arrangements with the Series 2014A Original Purchasers to establish the date, location, procedure and conditions for the delivery of the Series 2014A Senior Lien Bonds to the Series 2014A Original Purchasers. The Authorized Officials are, and each of them is, further authorized and directed to make the necessary arrangements for the printing of the Series 2014A Senior Lien Bonds and the execution, authentication and delivery of the Series 2014A Senior Lien Bonds to DTC for the accounts of the Series 2014A Original Purchasers in accordance with this Resolution and the Indenture, and upon the receipt of payment of the purchase price, to cause such amount to be applied in accordance with the terms and provisions of this Resolution and the Indenture.

Section 5. Allocation of Proceeds of the Series 2014A Senior Lien Bonds. The proceeds from the sale of the Series 2014A Senior Lien Bonds, including any accrued interest, shall be allocated, deposited and credited for the purposes approved in this Resolution and as specified in the Fifteenth Supplemental Indenture.

Section 6. Fifteenth Supplemental Indenture and Other Documents. The Authorized Officials are, and each of them is, authorized in connection with the issuance of the Series 2014A Senior Lien Bonds, to execute, acknowledge and deliver in the name of and on behalf of the Authority, the Fifteenth Supplemental Indenture, substantially in the form thereof submitted to the Authority at or prior to this meeting, but with such changes therein as may be

permitted by the Indenture and this Resolution and approved by the Authorized Officer executing the document on behalf of the Authority. The approval of those changes shall be conclusively evidenced by the execution of the document by an Authorized Official.

The Authorized Officials and any other member, officer or employee of the Authority are each authorized to execute and deliver, on behalf of the Authority, such other certificates, documents and instruments related to the Series 2014A Senior Lien Bonds as are necessary in connection with the transactions authorized in this Resolution, and to do all other things required of them or the Authority pursuant to the Indenture, the Fifteenth Supplemental Indenture, the Bond Purchase Agreement and this Resolution.

No covenant, agreement or obligation contained herein shall be deemed to be a covenant, agreement or obligation of any present or future member of the Board or officer, employee or agent of the Authority in his or her individual capacity, and neither the members of the Board nor any officer of the Authority executing the Series 2014A Senior Lien Bonds shall be liable personally thereon or be subject to any personal liability or accountability by reason of the issuance thereof. No member of the Board or officer, employee, agent or advisor of the Authority shall incur any personal liability with respect to any other action taken by him pursuant to this Resolution or the Indenture or any other document authorized by this Resolution, provided such member, officer, employee, agent or advisor acts in good faith.

Section 7. Offering Memorandum; Continuing Disclosure. The Authorized Officials shall cause to be prepared and issued on behalf of the Authority, an offering memorandum (the "Offering Memorandum") relating to the original issuance of the Series 2014A Senior Lien Bonds. The Authorized Officials are, and each of them is, authorized to execute the Offering Memorandum on behalf of the Authority, which shall be in substantially the form of the Offering Memorandum submitted to the Authority at this meeting, with such changes as the Authorized Official who executes it may approve, the execution thereof on behalf of the Authority by an Authorized Official to be conclusive evidence of such authorization and approval (including approval of any such changes), and copies thereof are hereby authorized to be prepared and furnished to the Series 2014A Original Purchasers for distribution to prospective purchasers of the Series 2014A Senior Lien Bonds and other interested persons. The preliminary Offering Memorandum shall be "deemed substantially final" by the Authority within the meaning of Rule 15c2-12 of the Securities Exchange Commission, subject to completion as provided below.

The distribution by the Authority and by the Series 2014A Original Purchasers of the preliminary Offering Memorandum and the Offering Memorandum, in such form and with any changes as may be approved in writing by an Authorized Official is hereby authorized and approved.

The Authority shall make sufficient copies of the Offering Memorandum, with any supplements, available to the Series 2014A Original Purchasers to sell book-entry interests in the Series 2014A Senior Lien Bonds, and will provide copies as appropriate to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access.

The Authorized Officials are each hereby authorized to furnish such information, to execute such instruments and to take such other action in cooperation with the Series 2014A

Original Purchasers as may be reasonably requested to qualify the Series 2014A Senior Lien Bonds for offer and sale under the Blue Sky or other securities laws and regulations and to determine their eligibility for investment under the laws and regulations of such states and other jurisdictions of the United States of America as may be designated by the Series 2014A Original Purchasers; provided, however, that the Authority shall not be required to register as a dealer or broker in any such state or jurisdiction or become subject to the service of process in any jurisdiction in which the Authority is not now subject to such service.

The Authorized Officials are each hereby further authorized: (i) to supplement and complete the “deemed substantially final” preliminary Offering Memorandum by affixing thereto or inserting therein information to identify the Series 2014A Original Purchasers and to specify the final principal amount, interest rates and redemption provisions of the Series 2014A Senior Lien Bonds, the price of the Series 2014A Senior Lien Bonds to the general public, any credit enhancement provisions with respect to the Series 2014A Senior Lien Bonds and any change in ratings of the Series 2014A Senior Lien Bonds resulting from such credit enhancement, and such other information as is necessary to supplement and complete the Offering Memorandum with the approved and agreed upon terms of Series 2014A Senior Lien Bonds, and (ii) to make such other changes to the preliminary Offering Memorandum or the Offering Memorandum as are, in the judgment of an Authorized Official, necessary and appropriate in order to make the preliminary Offering Memorandum or the Offering Memorandum not materially misleading and to comply with applicable securities laws or otherwise to enable the Authority to fulfill its obligations regarding the preliminary Offering Memorandum or the Offering Memorandum under the Bond Purchase Agreement.

The Authority hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of this Resolution or the Indenture, failure of the Authority to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, any holder of Series 2014A Senior Lien Bonds may, and the Trustee may (and, at the request of the Holders of at least 25% in aggregate principal amount of Outstanding Series 2014A Senior Lien Bonds, shall) take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Authority to comply with its obligations under this paragraph. The Authorized Officials are, and each of them is, hereby authorized and directed to execute and deliver the Continuing Disclosure Agreement in substantially the form submitted to the Authority at or prior to this meeting with such changes therein as may be approved by the officer executing the Continuing Disclosure Agreement. The approval of those changes shall be conclusively evidenced by the execution of the Continuing Disclosure Agreement by an Authorized Official.

Section 8. General. The appropriate officers and employees of the Authority will do all things necessary and proper to implement and carry out the orders and agreements set forth or approved in this Resolution for the proper fulfillment of the purposes thereof. The Authority shall furnish to the Series 2014A Original Purchasers of the Series 2014A Senior Lien Bonds a true and certified transcript of all proceedings relating to the authorization and issuance of the Series 2014A Senior Lien Bonds along with other information as is necessary or proper with respect to the Series 2014A Senior Lien Bonds.

Section 9. Tax-Exempt Senior Debt or Subordinate Debt. Notwithstanding anything herein to the contrary, if the Chief Financial Officer of the Authority determines, prior to the issuance of the Series 2014A Senior Lien Bonds as taxable Senior Debt that such structure no longer is the optimal financing structure for the Authority due to market conditions, the Board authorizes the Authorized Officials to issue the Series 2014A Bonds not as taxable Senior Debt but as either (i) tax-exempt Senior Debt or (ii) fixed or variable rate, taxable or tax-exempt Subordinate Debt, whichever is determined by the Chief Financial Officer as presenting the then optimal financing structure for the Authority; provided, however, that (x) the aggregate principal amount of any such Series 2014A Bonds shall not exceed the amount specified in Section 2, (y) the final principal retirement date of any such Series 2014A Bonds shall be no later than the date specified in Section 3(c) of this Resolution, and (z) the Series 2014A Bonds shall satisfy the requirements and comply with the restrictions of the Indenture. If the Series 2014A Bonds are issued as tax-exempt bonds, the Board authorizes the Authorized Officials to approve the tax covenants, authorizations and agreements necessary to achieve and maintain the tax-exempt status of the Series 2014A Bonds. If the Authority issues the Series 2014A Bonds as tax-exempt Senior Debt, the Board approves the use of the form of the documents executed in connection with the issuance of the Series 2009A Senior Lien Bonds, including, but not limited to, the Tenth Supplemental Indenture, the form of the Series 2009A Senior Lien Bond; the bond purchase agreement, the official statement and the continuing disclosure agreement substantially in the form approved by the Board for the Series 2009 Senior Lien Bonds with such conforming changes and updates as may be approved by the Authorized Officials executing the same on behalf of the Authority. If the Authority issues the Series 2014A Bonds as fixed-rate Subordinate Debt, the Board approves the use of the form of the documents executed in connection with the issuance of the Series 2013A Bonds including, but not limited to, the Fourteenth Supplemental Indenture, the form of the Series 2013A Bond; the bond purchase agreement, the official statement and the continuing disclosure agreement, with such conforming changes and updates as may be approved by the Authorized Officials executing the same on behalf of the Authority. If the Authority issues the Series 2014A Bonds as variable-rate Subordinate Debt, the Board approves the use of the form of the documents approved by the Board in connection with the issuance of the Series 2014B Bonds including, but not limited to, the Sixteenth Supplemental Indenture, the form of the Series 2014B Bond; the bond purchase agreement, the remarketing agreement, the standby bond purchase agreement, the official statement and the continuing disclosure agreement substantially in the form approved by the Board for the Series 2014B Bonds with such conforming changes and updates as may be approved by the Authorized Officials executing the same on behalf of the Authority.

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

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Secretary to the Board of Directors

Presented and Adopted: July [3], 2014  
Subject: Approving the Final Form of Certain Documents,  
Authorizing the Sale and Setting Terms and Details of the  
Series 2014B Subordinate Bonds

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

The Board of Directors (“Board”) of the District of Columbia Water and Sewer Authority (“Authority”), at its meeting on July [3], 2014, by a vote of \_\_\_\_\_ (\_\_\_) in favor and \_\_\_\_\_ (\_\_\_) opposed, decided to approve the following:

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

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

**WHEREAS**, the Authority has heretofore entered into fifteen (15) supplemental indentures of trust with the Trustee in connection with the issuance of Senior Debt and Subordinate Debt (both as defined in the Indenture) or to amend or clarify provisions of the Master Indenture; and

**WHEREAS**, the Authority now intends (i) to issue Public Utility Subordinate Lien Multimodal Revenue Bonds, Series 2014B (the “Series 2014B Subordinate Bonds”) to finance certain Costs of the System, [retire Series C Notes], [fund a Series 2014B Debt Service Reserve Requirement (as defined herein), if determined necessary,] and pay certain costs of issuance, (ii) to designate the Series 2014B Subordinate Bonds as Subordinate Debt for purposes of the Indenture, and (iii) to secure the Series 2014B Subordinate Bonds by a pledge of Net Revenues subordinate

to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future; and

**WHEREAS**, there have been presented at this meeting drafts of the following documents, all as hereinafter defined: the Sixteenth Supplemental Indenture, the form of the Series 2014B Subordinate Bond (attached as an Exhibit to the Sixteenth Supplemental Indenture); the Bond Purchase Agreement, the Remarketing Agreement, Standby Bond Purchase Agreement, the Official Statement and the Continuing Disclosure Agreement; and

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

**WHEREAS**, the Finance and Budget Committee met on June [26], 2014, to review the issuance of the Series 2014B Subordinate Bonds and has recommended approval of this Resolution by the Board.

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

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

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

“Bond Purchase Agreement” means the Bond Purchase Agreement between the Series 2014B Original Purchasers and the Authority dated as of the same date as the Certificate of Award.

“Certificate of Award” means the certificate of an Authorized Official awarding the Series 2014B Subordinate Bonds to the Series 2014B Original Purchasers and specifying terms of the Series 2014B Subordinate Bonds, as provided for in Section 4 of this Resolution.

“Continuing Disclosure Agreement” means the Continuing Disclosure Agreement executed by the Authority and the Trustee, dated as of the same date as the date of issuance and delivery of the Series 2014B Subordinate Bonds, as originally executed and as it may be amended from time to time in accordance with its terms.

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

“Interest Payment Dates” means the “Interest Payment Date” as defined for the 2014B Subordinate Bonds in the Sixteenth Supplemental Indenture.

“Remarketing Agent” means any Remarketing Agent designated for the Series 2014B Subordinate Bonds under the Sixteenth Supplemental Indenture.

“Remarketing Agreement” means any Remarketing Agreement entered into for the Series 2014B Subordinate Bonds under the Sixteenth Supplemental Indenture.

“Series 2014B Debt Service Reserve Requirement” means a required fund balance, if determined necessary, in the Series 2014B Debt Service Reserve Account or Accounts established under the Sixteenth Supplemental Indenture, the amount of which shall be specified in the Certificate of Award, but which shall not exceed the maximum amount permitted to constitute a “reasonably required reserve or replacement fund” under Section 1.148-2(f)(2) of the Code (taking into account any moneys in any other fund or account that may be required to be included in such computation) unless the Authority furnishes to the Trustee the opinion of nationally recognized bond counsel to the effect that the required balance in the Series 2014B Debt Service Reserve Account does not exceed the amount that qualifies as a “reasonably required reserve or replacement fund” within the meaning of Section 148(d) of the Code and the Treasury Regulations thereunder and that the existence of a balance in the Series 2014B Debt Service Reserve Account in the amount of the required fund balance will not cause the interest on any Series 2014B Subordinate Bonds that had been excluded from gross income for federal income tax purposes to cease to be so.

“Series 2014B Original Purchasers” for the Series 2014B Subordinate Bonds means the purchasers identified as such in the Bond Purchase Agreement for the Series 2014B Subordinate Bonds.

“Sixteenth Supplemental Indenture” means the Sixteenth Supplemental Indenture of Trust by and between the Authority and the Trustee, dated as of the same date as and relating to the Series 2014B Subordinate Bonds.

“Standby Bond Purchase Agreement” means any Standby Bond Purchase Agreement entered into for the Series 2014B Subordinate Bonds under the Sixteenth Supplemental Indenture.

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

Section 2. Authorization, Designation and Purposes of Series 2014B Subordinate Bonds. The Authority is authorized to issue, sell and deliver, as provided in this Resolution and the Certificate of Award, not to exceed (except as provided below) One Hundred Million Dollars (\$100,000,000) principal amount of bonds of the Authority, which shall be



designated “Public Utility Subordinate Lien Multimodal Revenue Bonds, Series 2014B” and constituting Subordinate Debt for purposes of the Indenture, for the purpose of: (i) financing certain Costs of the System; (ii) [retiring such portion of the Series C Notes as may be specified in the Certificate of Award]; (iii) funding a Series 2014B Debt Service Reserve Requirement, if determined necessary; and (iv) paying issuance costs of the Series 2014B Subordinate Bonds. For those purposes the proceeds from the sale of the Series 2014B Subordinate Bonds shall be allocated and deposited, as provided in the Sixteenth Supplemental Indenture. If and to the extent that any Series 2014B Subordinate Bonds are issued for the purpose of funding a Series 2014B Debt Service Reserve Requirement, then the aggregate principal amount of Series 2014B Subordinate Bonds hereby authorized may exceed \$100,000,000 by the aggregate principal amount of the Series 2014B Subordinate Bonds to be issued for that purpose.

Section 3. Terms and Provisions Applicable to Series 2014B Subordinate Bonds.

(a) Form, Numbering, Transfer and Exchange. The Series 2014B Subordinate Bonds: (i) shall initially be issued only in fully registered form and substantially in the form attached as Exhibit A to the Sixteenth Supplemental Indenture; (ii) shall initially be issued only to a Depository for holding in a book entry system, and shall be registered in the name of the Depository or its nominee, as Holder, and immobilized in the custody of the Depository, and (iii) shall not be transferable or exchangeable except as provided in the Sixteenth Supplemental Indenture.

(b) Denominations and Dates. The Series 2014B Subordinate Bonds shall be dated as of the date of issuance and delivery, but in no event later than December 31, 2014, and there shall be a single Series 2014B Bond representing each interest rate for each maturity of the Series 2014B Subordinate Bonds bearing the same series or subseries designation.

(c) Maturities. The principal of the Series 2014B Subordinate Bonds shall be payable in such amounts on each principal retirement date (whether at stated maturity date or a mandatory redemption date) as set forth in the Certificate of Award, provided that the final principal retirement date shall be no later than December 31, [2049].

(d) Interest Rates and Interest Rate Periods for the Series 2014B Subordinate Bonds. The Series 2014B Subordinate Bonds shall initially be issued as Weekly Rate Bonds. The initial interest rate for the Series 2014B Subordinate Bonds will be the rate that the Series 2014B Original Purchasers determine is necessary to sell the Series 2014B Subordinate Bonds at par subject to the Maximum Rate. The Series 2014B Subordinate Bonds initially may be issued in multiple subseries, as determined in the Certificate of Award. The provisions of Section 403 of the Sixteenth Supplemental Indenture shall govern the interest rates per annum and payment terms of the Series 2014B Subordinate Bonds.

(e) Redemption. The Series 2014B Subordinate Bonds shall be subject to redemption prior to stated maturity as and to the extent provided in the Sixteenth Supplemental Indenture and shall be subject from time to time to optional and mandatory tender for purchase as provided in the Sixteenth Supplemental Indenture.

(f) Places and Manner of Payment, and Paying Agents. The principal and tender price of and the interest and any redemption premium on the Series 2014B Subordinate Bonds shall be payable as specified in the Sixteenth Supplemental Indenture.

(g) Execution. The Authorized Officials are, and each of them is, authorized and directed to execute the Series 2014B Subordinate Bonds, and the Secretary of the Board is authorized and directed to affix the seal of the Authority to the Series 2014B Subordinate Bonds and to deliver them to the Trustee for authentication in accordance with the Indenture.

Section 4. Sale of Series 2014B Subordinate Bonds.

(a) General. The Series 2014B Subordinate Bonds shall be awarded and sold to the Series 2014B Original Purchasers in accordance with the Bond Purchase Agreement and the Certificate of Award, at a purchase price of not less than ninety-five percent (95%) of the aggregate of the products from multiplying the principal amount of each Series 2014B Bond times the percentage of such principal amount at which such Series 2014B Bond shall be initially offered to the public.

(b) Bond Purchase Agreement. The Authorized Officials are, and each of them is, authorized and directed to execute and deliver the Bond Purchase Agreement between the Authority and the Series 2014B Original Purchasers, substantially in the form presented to this Authority, but with such changes not inconsistent with the Indenture and this Resolution and not substantially adverse to the Authority as may be approved by the Authorized Official executing the same on behalf of the Authority. The approval of any such changes by such Authorized Official and the determination by such Authorized Official that no such change is substantially adverse to the Authority shall be conclusively evidenced by the execution of the Bond Purchase Agreement by such Authorized Official. The price for and terms of the Series 2014B Subordinate Bonds and the sale thereof, all as provided in this Resolution, the Bond Purchase Agreement, the Certificate of Award, and the Sixteenth Supplemental Indenture, are hereby approved and determined to be in the best interests of the Authority.

(c) Certificate of Award. Such sale and award shall be further evidenced by the Certificate of Award executed by an Authorized Official. The terms of the Series 2014B Subordinate Bonds approved in the Certificate of Award shall be incorporated into the Sixteenth Supplemental Indenture. The Certificate of Award, subject to the restrictions set forth herein, shall: (i) state, with respect to the Series 2014B Subordinate Bonds, the aggregate principal amount, the purchase price, the Interest Payment Dates, the principal retirement dates, the mandatory sinking fund requirements (if any), the redemption dates, and the redemption prices thereof; [(ii) specify what, if any, portion of the Series C Notes are to be retired]; (iii) specify whether a municipal bond insurance policy, letter of credit, or other credit or liquidity facility shall be obtained with respect to the Series 2014B Subordinate Bonds and, if so, from whom and on what terms; (iv) specify the amount, if determined necessary, of the Series 2014B Debt Service Reserve Requirement and determine whether it shall be met entirely with (X) cash and Permitted Investments; (Y) a Qualified Reserve Credit Facility (as defined in the Sixteenth Supplemental Indenture); or (Z) a specified combination of (X) and (Y); and (v) include any additional information that may be required or permitted to be stated therein by the terms of this Resolution and the Bond Purchase Agreement. A separate Certificate of Award may be delivered for each

subseries of the Series 2014B Subordinate Bonds, and each reference in this Resolution to the Certificate of Award shall refer to each and all such Certificates of Award. A separate Bond Purchase Agreement, Remarketing Agreement, Standby Bond Purchase Agreement and Continuing Disclosure Agreement may be entered into for each subseries of the Series 2014B Subordinate Bonds, and each reference in this Resolution to the Bond Purchase Agreement, Remarketing Agreement, Standby Bond Purchase Agreement or to the Continuing Disclosure Agreement shall refer to each and all such Bond Purchase Agreements Remarketing Agreements, Standby Bond Purchase Agreements or Continuing Disclosure Agreements, respectively.

(d) Authorization of Bond Insurance and Qualified Reserve Credit Facilities. The submission of applications to: (i) recognized providers of municipal bond insurance requesting the issuance of one or more municipal bond insurance policies to insure the Authority's obligation to make payments of principal of and interest on the Series 2014B Subordinate Bonds, and (ii) potential providers of Qualified Reserve Credit Facilities, is hereby ratified and approved. The Authorized Officials are, and each of them is, hereby authorized to specify in the Certificate of Award that the Authority shall accept one or more commitments for insurance from such providers, and one or more commitments for a Qualified Reserve Credit Facility. There is hereby authorized to be paid from the moneys deposited in the Series 2014B Costs of Issuance Subaccount such amount as is required to pay the premium and expenses for such insurance policies and Qualified Reserve Credit Facilities relating to the Series 2014B Subordinate Bonds. The Authorized Officials are, and each of them is, hereby further authorized to enter into a reimbursement agreement with the provider of any Qualified Reserve Credit Facility to provide for the Authority's reimbursement of the provider for any amounts drawn under the Qualified Reserve Credit Facility in a manner consistent with the Indenture. Any determination of the Authorized Officials under this paragraph shall be based on the written advice of the Financial Advisor.]

(e) Certificates. The Authorized Officials are, and each of them is, authorized and directed, in their official capacities, and only in those capacities, to execute and deliver to the Series 2014B Original Purchasers the certificates required by the Bond Purchase Agreement to be executed on behalf of the Authority.

(f) Delivery of Bonds. The Authorized Officials are, and each of them is, authorized and directed to make the necessary arrangements with the Series 2014B Original Purchasers to establish the date, location, procedure and conditions for the delivery of the Series 2014B Subordinate Bonds to the Series 2014B Original Purchasers. The Authorized Officials are, and each of them is, further authorized and directed to make the necessary arrangements for the printing of the Series 2014B Subordinate Bonds, and the execution, authentication and delivery of the Series 2014B Subordinate Bonds to DTC for the accounts of the Series 2014B Original Purchasers in accordance with this Resolution and the Indenture, and upon the receipt of payment of the purchase price, to cause such amount to be applied in accordance with the terms and provisions of this Resolution and the Indenture.

Section 5. Allocation of Proceeds of the Series 2014B Subordinate Bonds; Tax Covenants.

(a) Allocation of Proceeds of the Series 2014B Subordinate Bonds. The proceeds from the sale of the Series 2014B Subordinate Bonds, including any accrued interest, shall be allocated, deposited and credited for the purposes approved in this Resolution and as specified in the Sixteenth Supplemental Indenture.

(b) Tax Covenants. The Board authorizes the Authorized Officials to approve the tax covenants, authorizations and agreements necessary to achieve and maintain the tax-exempt status of the Series 2014B Subordinate Bonds.

Section 6. Sixteenth Supplemental Indenture and Other Documents. The Authorized Officials are, and each of them is, authorized in connection with the issuance of the Series 2014B Subordinate Bonds, to execute, acknowledge and deliver in the name of and on behalf of the Authority, the Sixteenth Supplemental Indenture, the Remarketing Agreement and the Standby Bond Purchase Agreement, substantially in the respective forms thereof submitted to the Authority at or prior to this meeting, but with such changes therein as may be permitted by the Indenture and approved by the Authorized Officer executing the document on behalf of the Authority. The approval of those changes shall be conclusively evidenced by the execution of the document by an Authorized Official.

The Authorized Officials are, and each of them is, authorized at the time required under the Sixteenth Supplemental Indenture to designate the Remarketing Agent and to execute, acknowledge and deliver, in the name of and on behalf of the Authority, the Remarketing Agreement in a form determined by the Authorized Officer executing the document on behalf of the Authority to be consistent with the Indenture and this Resolution. The determination of such consistency shall be conclusively evidenced by the execution of the document by an Authorized Official.

The Authorized Officials and any other member, officer or employee of the Authority are each authorized to execute and deliver, on behalf of the Authority, such other certificates, documents and instruments related to the Series 2014B Subordinate Bonds as are necessary in connection with the transactions authorized in this Resolution, and to do all other things required of them or the Authority pursuant to the Indenture, the Sixteenth Supplemental Indenture, the Bond Purchase Agreement, the Remarketing Agreement, the Standby Bond Purchase Agreement and this Resolution.

No covenant, agreement or obligation contained herein shall be deemed to be a covenant, agreement or obligation of any present or future member of the Board or officer, employee or agent of the Authority in his or her individual capacity, and neither the members of the Board nor any officer of the Authority executing the Series 2014B Subordinate Bonds shall be liable personally thereon or be subject to any personal liability or accountability by reason of the issuance thereof. No member of the Board or officer, employee, agent or advisor of the Authority shall incur any personal liability with respect to any other action taken by him pursuant to this Resolution or the Indenture or any other document authorized by this Resolution, provided such member, officer, employee, agent or advisor acts in good faith.

Section 7. Official Statement; Continuing Disclosure. The Authorized Officials shall cause to be prepared and issued on behalf of the Authority, an official statement (the “Official Statement”) relating to the original issuance of the Series 2014B Subordinate Bonds. The Authorized Officials are, and each of them is, authorized to execute the Official Statement on behalf of the Authority, which shall be in substantially the form of the Official Statement submitted to the Authority at this meeting, with such changes as the Authorized Official who executes it may approve, the execution thereof on behalf of the Authority by an Authorized Official to be conclusive evidence of such authorization and approval (including approval of any such changes), and copies thereof are hereby authorized to be prepared and furnished to the Series 2014B Original Purchasers for distribution to prospective purchasers of the Series 2014B Subordinate Bonds and other interested persons. The preliminary Official Statement shall be “deemed substantially final” by the Authority within the meaning of Rule 15c2-12 of the Securities Exchange Commission, subject to completion as provided below.

The distribution by the Authority and by the Series 2014B Original Purchasers of the preliminary Official Statement and the Official Statement, in such form and with any changes as may be approved in writing by an Authorized Official, is hereby authorized and approved.

The Authority shall make sufficient copies of the Official Statement, with any supplements, available to the Series 2014B Original Purchasers to sell book-entry interests in the Series 2014B Subordinate Bonds, and will provide copies as appropriate to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access.

The Authorized Officials are each hereby authorized to furnish such information, to execute such instruments and to take such other action in cooperation with the Series 2014B Original Purchasers as may be reasonably requested to qualify the Series 2014B Subordinate Bonds for offer and sale under the Blue Sky or other securities laws and regulations and to determine their eligibility for investment under the laws and regulations of such states and other jurisdictions of the United States of America as may be designated by the Series 2014B Original Purchasers; provided, however, that the Authority shall not be required to register as a dealer or broker in any such state or jurisdiction or become subject to the service of process in any jurisdiction in which the Authority is not now subject to such service.

The Authorized Officials are each hereby further authorized: (i) to supplement and complete the “deemed substantially final” preliminary Official Statement by affixing thereto or inserting therein information to identify the Series 2014B Original Purchasers, and to specify the final principal amount, interest rates and redemption provisions of the Series 2014B Subordinate Bonds, the price of the Series 2014B Subordinate Bonds to the general public and such other information as is necessary to supplement and complete the Official Statement with the approved and agreed upon terms of Series 2014B Subordinate Bonds, and (ii) to make such other changes to the preliminary Official Statement or the Official Statement as are, in the judgment of an Authorized Official, necessary and appropriate in order to make the preliminary Official Statement or the Official Statement not materially misleading, and to comply with applicable securities laws or otherwise to enable the Authority to fulfill its obligations regarding the preliminary Official Statement or the Official Statement under the Bond Purchase Agreement.

The Authority hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of this Resolution or the Indenture, failure of the Authority to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, any Holder of Series 2014B Subordinate Bonds may, and the Trustee may (and, at the request of the Holders of at least 25% in aggregate principal amount of Outstanding Series 2014B Subordinate Bonds, shall) take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Authority to comply with its obligations under this paragraph. The Authorized Officials are, and each of them is, hereby authorized and directed to execute and deliver the Continuing Disclosure Agreement in substantially the form submitted to the Authority at or prior to this meeting with such changes therein as may be approved by the officer executing the Continuing Disclosure Agreement. The approval of those changes shall be conclusively evidenced by the execution of the Continuing Disclosure Agreement by an Authorized Official.

Section 8. General. The appropriate officers and employees of the Authority will do all things necessary and proper to implement and carry out the orders and agreements set forth or approved in this Resolution for the proper fulfillment of the purposes thereof. The Authority shall furnish to the Series 2014B Original Purchasers a true and certified transcript of all proceedings relating to the authorization and issuance of the Series 2014B Subordinate Bonds along with other information as is necessary or proper with respect to the Series 2014B Subordinate Bonds.

Section 9. Effective Date. This Resolution shall take effect immediately.

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Secretary to the Board of Directors

Presented and Adopted: July [3], 2014  
Subject: Approving the Final Form of Certain Documents,  
Authorizing the Sale and Setting Terms and Details of the  
Series 2014B Subordinate Bonds

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

The Board of Directors (“Board”) of the District of Columbia Water and Sewer Authority (“Authority”), at its meeting on July [3], 2014, by a vote of \_\_\_\_\_ (\_\_\_) in favor and \_\_\_\_\_ (\_\_\_) opposed, decided to approve the following:

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

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

**WHEREAS**, the Authority has heretofore entered into fifteen (15) supplemental indentures of trust with the Trustee in connection with the issuance of Senior Debt and Subordinate Debt (both as defined in the Indenture) or to amend or clarify provisions of the Master Indenture; and

**WHEREAS**, the Authority now intends (i) to issue Public Utility Subordinate Lien Multimodal Revenue Bonds, Series 2014B (the “Series 2014B Subordinate Bonds”) to finance certain Costs of the System, [retire Series C Notes], [fund a Series 2014B Debt Service Reserve Requirement (as defined herein), if determined necessary,] and pay certain costs of issuance, (ii) to designate the Series 2014B Subordinate Bonds as Subordinate Debt for purposes of the Indenture, and (iii) to secure the Series 2014B Subordinate Bonds by a pledge of Net Revenues subordinate

to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future; and

**WHEREAS**, there have been presented at this meeting drafts of the following documents, all as hereinafter defined: the Sixteenth Supplemental Indenture, the form of the Series 2014B Subordinate Bond (attached as an Exhibit to the Sixteenth Supplemental Indenture); the Bond Purchase Agreement, the Remarketing Agreement, Standby Bond Purchase Agreement, the Official Statement and the Continuing Disclosure Agreement; and

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

**WHEREAS**, the Finance and Budget Committee met on June [26], 2014, to review the issuance of the Series 2014B Subordinate Bonds and has recommended approval of this Resolution by the Board.

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

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

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

“Bond Purchase Agreement” means the Bond Purchase Agreement between the Series 2014B Original Purchasers and the Authority dated as of the same date as the Certificate of Award.

“Certificate of Award” means the certificate of an Authorized Official awarding the Series 2014B Subordinate Bonds to the Series 2014B Original Purchasers and specifying terms of the Series 2014B Subordinate Bonds, as provided for in Section 4 of this Resolution.

“Continuing Disclosure Agreement” means the Continuing Disclosure Agreement executed by the Authority and the Trustee, dated as of the same date as the date of issuance and delivery of the Series 2014B Subordinate Bonds, as originally executed and as it may be amended from time to time in accordance with its terms.



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

“Interest Payment Dates” means the “Interest Payment Date” as defined for the 2014B Subordinate Bonds in the Sixteenth Supplemental Indenture.

“Remarketing Agent” means any Remarketing Agent designated for the Series 2014B Subordinate Bonds under the Sixteenth Supplemental Indenture.

“Remarketing Agreement” means any Remarketing Agreement entered into for the Series 2014B Subordinate Bonds under the Sixteenth Supplemental Indenture.

“Series 2014B Debt Service Reserve Requirement” means a required fund balance, if determined necessary, in the Series 2014B Debt Service Reserve Account or Accounts established under the Sixteenth Supplemental Indenture, the amount of which shall be specified in the Certificate of Award, but which shall not exceed the maximum amount permitted to constitute a “reasonably required reserve or replacement fund” under Section 1.148-2(f)(2) of the Code (taking into account any moneys in any other fund or account that may be required to be included in such computation) unless the Authority furnishes to the Trustee the opinion of nationally recognized bond counsel to the effect that the required balance in the Series 2014B Debt Service Reserve Account does not exceed the amount that qualifies as a “reasonably required reserve or replacement fund” within the meaning of Section 148(d) of the Code and the Treasury Regulations thereunder and that the existence of a balance in the Series 2014B Debt Service Reserve Account in the amount of the required fund balance will not cause the interest on any Series 2014B Subordinate Bonds that had been excluded from gross income for federal income tax purposes to cease to be so.

“Series 2014B Original Purchasers” for the Series 2014B Subordinate Bonds means the purchasers identified as such in the Bond Purchase Agreement for the Series 2014B Subordinate Bonds.

“Sixteenth Supplemental Indenture” means the Sixteenth Supplemental Indenture of Trust by and between the Authority and the Trustee, dated as of the same date as and relating to the Series 2014B Subordinate Bonds.

“Standby Bond Purchase Agreement” means any Standby Bond Purchase Agreement entered into for the Series 2014B Subordinate Bonds under the Sixteenth Supplemental Indenture.

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

Section 2. Authorization, Designation and Purposes of Series 2014B Subordinate Bonds. The Authority is authorized to issue, sell and deliver, as provided in this Resolution and the Certificate of Award, not to exceed (except as provided below) One Hundred Million Dollars (\$100,000,000) principal amount of bonds of the Authority, which shall be

designated “Public Utility Subordinate Lien Multimodal Revenue Bonds, Series 2014B” and constituting Subordinate Debt for purposes of the Indenture, for the purpose of: (i) financing certain Costs of the System; (ii) [retiring such portion of the Series C Notes as may be specified in the Certificate of Award]; (iii) funding a Series 2014B Debt Service Reserve Requirement, if determined necessary; and (iv) paying issuance costs of the Series 2014B Subordinate Bonds. For those purposes the proceeds from the sale of the Series 2014B Subordinate Bonds shall be allocated and deposited, as provided in the Sixteenth Supplemental Indenture. If and to the extent that any Series 2014B Subordinate Bonds are issued for the purpose of funding a Series 2014B Debt Service Reserve Requirement, then the aggregate principal amount of Series 2014B Subordinate Bonds hereby authorized may exceed \$100,000,000 by the aggregate principal amount of the Series 2014B Subordinate Bonds to be issued for that purpose.

Section 3. Terms and Provisions Applicable to Series 2014B Subordinate Bonds.

(a) Form, Numbering, Transfer and Exchange. The Series 2014B Subordinate Bonds: (i) shall initially be issued only in fully registered form and substantially in the form attached as Exhibit A to the Sixteenth Supplemental Indenture; (ii) shall initially be issued only to a Depository for holding in a book entry system, and shall be registered in the name of the Depository or its nominee, as Holder, and immobilized in the custody of the Depository, and (iii) shall not be transferable or exchangeable except as provided in the Sixteenth Supplemental Indenture.

(b) Denominations and Dates. The Series 2014B Subordinate Bonds shall be dated as of the date of issuance and delivery, but in no event later than December 31, 2014, and there shall be a single Series 2014B Bond representing each interest rate for each maturity of the Series 2014B Subordinate Bonds bearing the same series or subseries designation.

(c) Maturities. The principal of the Series 2014B Subordinate Bonds shall be payable in such amounts on each principal retirement date (whether at stated maturity date or a mandatory redemption date) as set forth in the Certificate of Award, provided that the final principal retirement date shall be no later than December 31, [2049].

(d) Interest Rates and Interest Rate Periods for the Series 2014B Subordinate Bonds. The Series 2014B Subordinate Bonds shall initially be issued as Weekly Rate Bonds. The initial interest rate for the Series 2014B Subordinate Bonds will be the rate that the Series 2014B Original Purchasers determine is necessary to sell the Series 2014B Subordinate Bonds at par subject to the Maximum Rate. The Series 2014B Subordinate Bonds initially may be issued in multiple subseries, as determined in the Certificate of Award. The provisions of Section 403 of the Sixteenth Supplemental Indenture shall govern the interest rates per annum and payment terms of the Series 2014B Subordinate Bonds.

(e) Redemption. The Series 2014B Subordinate Bonds shall be subject to redemption prior to stated maturity as and to the extent provided in the Sixteenth Supplemental Indenture and shall be subject from time to time to optional and mandatory tender for purchase as provided in the Sixteenth Supplemental Indenture.

(f) Places and Manner of Payment, and Paying Agents. The principal and tender price of and the interest and any redemption premium on the Series 2014B Subordinate Bonds shall be payable as specified in the Sixteenth Supplemental Indenture.

(g) Execution. The Authorized Officials are, and each of them is, authorized and directed to execute the Series 2014B Subordinate Bonds, and the Secretary of the Board is authorized and directed to affix the seal of the Authority to the Series 2014B Subordinate Bonds and to deliver them to the Trustee for authentication in accordance with the Indenture.

Section 4. Sale of Series 2014B Subordinate Bonds.

(a) General. The Series 2014B Subordinate Bonds shall be awarded and sold to the Series 2014B Original Purchasers in accordance with the Bond Purchase Agreement and the Certificate of Award, at a purchase price of not less than ninety-five percent (95%) of the aggregate of the products from multiplying the principal amount of each Series 2014B Bond times the percentage of such principal amount at which such Series 2014B Bond shall be initially offered to the public.

(b) Bond Purchase Agreement. The Authorized Officials are, and each of them is, authorized and directed to execute and deliver the Bond Purchase Agreement between the Authority and the Series 2014B Original Purchasers, substantially in the form presented to this Authority, but with such changes not inconsistent with the Indenture and this Resolution and not substantially adverse to the Authority as may be approved by the Authorized Official executing the same on behalf of the Authority. The approval of any such changes by such Authorized Official and the determination by such Authorized Official that no such change is substantially adverse to the Authority shall be conclusively evidenced by the execution of the Bond Purchase Agreement by such Authorized Official. The price for and terms of the Series 2014B Subordinate Bonds and the sale thereof, all as provided in this Resolution, the Bond Purchase Agreement, the Certificate of Award, and the Sixteenth Supplemental Indenture, are hereby approved and determined to be in the best interests of the Authority.

(c) Certificate of Award. Such sale and award shall be further evidenced by the Certificate of Award executed by an Authorized Official. The terms of the Series 2014B Subordinate Bonds approved in the Certificate of Award shall be incorporated into the Sixteenth Supplemental Indenture. The Certificate of Award, subject to the restrictions set forth herein, shall: (i) state, with respect to the Series 2014B Subordinate Bonds, the aggregate principal amount, the purchase price, the Interest Payment Dates, the principal retirement dates, the mandatory sinking fund requirements (if any), the redemption dates, and the redemption prices thereof; [(ii) specify what, if any, portion of the Series C Notes are to be retired]; (iii) specify whether a municipal bond insurance policy, letter of credit, or other credit or liquidity facility shall be obtained with respect to the Series 2014B Subordinate Bonds and, if so, from whom and on what terms; (iv) specify the amount, if determined necessary, of the Series 2014B Debt Service Reserve Requirement and determine whether it shall be met entirely with (X) cash and Permitted Investments; (Y) a Qualified Reserve Credit Facility (as defined in the Sixteenth Supplemental Indenture); or (Z) a specified combination of (X) and (Y); and (v) include any additional information that may be required or permitted to be stated therein by the terms of this Resolution and the Bond Purchase Agreement. A separate Certificate of Award may be delivered for each

subseries of the Series 2014B Subordinate Bonds, and each reference in this Resolution to the Certificate of Award shall refer to each and all such Certificates of Award. A separate Bond Purchase Agreement, Remarketing Agreement, Standby Bond Purchase Agreement and Continuing Disclosure Agreement may be entered into for each subseries of the Series 2014B Subordinate Bonds, and each reference in this Resolution to the Bond Purchase Agreement, Remarketing Agreement, Standby Bond Purchase Agreement or to the Continuing Disclosure Agreement shall refer to each and all such Bond Purchase Agreements Remarketing Agreements, Standby Bond Purchase Agreements or Continuing Disclosure Agreements, respectively.

(d) Authorization of Bond Insurance and Qualified Reserve Credit Facilities. The submission of applications to: (i) recognized providers of municipal bond insurance requesting the issuance of one or more municipal bond insurance policies to insure the Authority's obligation to make payments of principal of and interest on the Series 2014B Subordinate Bonds, and (ii) potential providers of Qualified Reserve Credit Facilities, is hereby ratified and approved. The Authorized Officials are, and each of them is, hereby authorized to specify in the Certificate of Award that the Authority shall accept one or more commitments for insurance from such providers, and one or more commitments for a Qualified Reserve Credit Facility. There is hereby authorized to be paid from the moneys deposited in the Series 2014B Costs of Issuance Subaccount such amount as is required to pay the premium and expenses for such insurance policies and Qualified Reserve Credit Facilities relating to the Series 2014B Subordinate Bonds. The Authorized Officials are, and each of them is, hereby further authorized to enter into a reimbursement agreement with the provider of any Qualified Reserve Credit Facility to provide for the Authority's reimbursement of the provider for any amounts drawn under the Qualified Reserve Credit Facility in a manner consistent with the Indenture. Any determination of the Authorized Officials under this paragraph shall be based on the written advice of the Financial Advisor.]

(e) Certificates. The Authorized Officials are, and each of them is, authorized and directed, in their official capacities, and only in those capacities, to execute and deliver to the Series 2014B Original Purchasers the certificates required by the Bond Purchase Agreement to be executed on behalf of the Authority.

(f) Delivery of Bonds. The Authorized Officials are, and each of them is, authorized and directed to make the necessary arrangements with the Series 2014B Original Purchasers to establish the date, location, procedure and conditions for the delivery of the Series 2014B Subordinate Bonds to the Series 2014B Original Purchasers. The Authorized Officials are, and each of them is, further authorized and directed to make the necessary arrangements for the printing of the Series 2014B Subordinate Bonds, and the execution, authentication and delivery of the Series 2014B Subordinate Bonds to DTC for the accounts of the Series 2014B Original Purchasers in accordance with this Resolution and the Indenture, and upon the receipt of payment of the purchase price, to cause such amount to be applied in accordance with the terms and provisions of this Resolution and the Indenture.

Section 5. Allocation of Proceeds of the Series 2014B Subordinate Bonds; Tax Covenants.

(a) Allocation of Proceeds of the Series 2014B Subordinate Bonds. The proceeds from the sale of the Series 2014B Subordinate Bonds, including any accrued interest, shall be allocated, deposited and credited for the purposes approved in this Resolution and as specified in the Sixteenth Supplemental Indenture.

(b) Tax Covenants. The Board authorizes the Authorized Officials to approve the tax covenants, authorizations and agreements necessary to achieve and maintain the tax-exempt status of the Series 2014B Subordinate Bonds.

Section 6. Sixteenth Supplemental Indenture and Other Documents. The Authorized Officials are, and each of them is, authorized in connection with the issuance of the Series 2014B Subordinate Bonds, to execute, acknowledge and deliver in the name of and on behalf of the Authority, the Sixteenth Supplemental Indenture, the Remarketing Agreement and the Standby Bond Purchase Agreement, substantially in the respective forms thereof submitted to the Authority at or prior to this meeting, but with such changes therein as may be permitted by the Indenture and approved by the Authorized Officer executing the document on behalf of the Authority. The approval of those changes shall be conclusively evidenced by the execution of the document by an Authorized Official.

The Authorized Officials are, and each of them is, authorized at the time required under the Sixteenth Supplemental Indenture to designate the Remarketing Agent and to execute, acknowledge and deliver, in the name of and on behalf of the Authority, the Remarketing Agreement in a form determined by the Authorized Officer executing the document on behalf of the Authority to be consistent with the Indenture and this Resolution. The determination of such consistency shall be conclusively evidenced by the execution of the document by an Authorized Official.

The Authorized Officials and any other member, officer or employee of the Authority are each authorized to execute and deliver, on behalf of the Authority, such other certificates, documents and instruments related to the Series 2014B Subordinate Bonds as are necessary in connection with the transactions authorized in this Resolution, and to do all other things required of them or the Authority pursuant to the Indenture, the Sixteenth Supplemental Indenture, the Bond Purchase Agreement, the Remarketing Agreement, the Standby Bond Purchase Agreement and this Resolution.

No covenant, agreement or obligation contained herein shall be deemed to be a covenant, agreement or obligation of any present or future member of the Board or officer, employee or agent of the Authority in his or her individual capacity, and neither the members of the Board nor any officer of the Authority executing the Series 2014B Subordinate Bonds shall be liable personally thereon or be subject to any personal liability or accountability by reason of the issuance thereof. No member of the Board or officer, employee, agent or advisor of the Authority shall incur any personal liability with respect to any other action taken by him pursuant to this Resolution or the Indenture or any other document authorized by this Resolution, provided such member, officer, employee, agent or advisor acts in good faith.

Section 7. Official Statement; Continuing Disclosure. The Authorized Officials shall cause to be prepared and issued on behalf of the Authority, an official statement (the “Official Statement”) relating to the original issuance of the Series 2014B Subordinate Bonds. The Authorized Officials are, and each of them is, authorized to execute the Official Statement on behalf of the Authority, which shall be in substantially the form of the Official Statement submitted to the Authority at this meeting, with such changes as the Authorized Official who executes it may approve, the execution thereof on behalf of the Authority by an Authorized Official to be conclusive evidence of such authorization and approval (including approval of any such changes), and copies thereof are hereby authorized to be prepared and furnished to the Series 2014B Original Purchasers for distribution to prospective purchasers of the Series 2014B Subordinate Bonds and other interested persons. The preliminary Official Statement shall be “deemed substantially final” by the Authority within the meaning of Rule 15c2-12 of the Securities Exchange Commission, subject to completion as provided below.

The distribution by the Authority and by the Series 2014B Original Purchasers of the preliminary Official Statement and the Official Statement, in such form and with any changes as may be approved in writing by an Authorized Official, is hereby authorized and approved.

The Authority shall make sufficient copies of the Official Statement, with any supplements, available to the Series 2014B Original Purchasers to sell book-entry interests in the Series 2014B Subordinate Bonds, and will provide copies as appropriate to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access.

The Authorized Officials are each hereby authorized to furnish such information, to execute such instruments and to take such other action in cooperation with the Series 2014B Original Purchasers as may be reasonably requested to qualify the Series 2014B Subordinate Bonds for offer and sale under the Blue Sky or other securities laws and regulations and to determine their eligibility for investment under the laws and regulations of such states and other jurisdictions of the United States of America as may be designated by the Series 2014B Original Purchasers; provided, however, that the Authority shall not be required to register as a dealer or broker in any such state or jurisdiction or become subject to the service of process in any jurisdiction in which the Authority is not now subject to such service.

The Authorized Officials are each hereby further authorized: (i) to supplement and complete the “deemed substantially final” preliminary Official Statement by affixing thereto or inserting therein information to identify the Series 2014B Original Purchasers, and to specify the final principal amount, interest rates and redemption provisions of the Series 2014B Subordinate Bonds, the price of the Series 2014B Subordinate Bonds to the general public and such other information as is necessary to supplement and complete the Official Statement with the approved and agreed upon terms of Series 2014B Subordinate Bonds, and (ii) to make such other changes to the preliminary Official Statement or the Official Statement as are, in the judgment of an Authorized Official, necessary and appropriate in order to make the preliminary Official Statement or the Official Statement not materially misleading, and to comply with applicable securities laws or otherwise to enable the Authority to fulfill its obligations regarding the preliminary Official Statement or the Official Statement under the Bond Purchase Agreement.

The Authority hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of this Resolution or the Indenture, failure of the Authority to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, any Holder of Series 2014B Subordinate Bonds may, and the Trustee may (and, at the request of the Holders of at least 25% in aggregate principal amount of Outstanding Series 2014B Subordinate Bonds, shall) take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Authority to comply with its obligations under this paragraph. The Authorized Officials are, and each of them is, hereby authorized and directed to execute and deliver the Continuing Disclosure Agreement in substantially the form submitted to the Authority at or prior to this meeting with such changes therein as may be approved by the officer executing the Continuing Disclosure Agreement. The approval of those changes shall be conclusively evidenced by the execution of the Continuing Disclosure Agreement by an Authorized Official.

Section 8. General. The appropriate officers and employees of the Authority will do all things necessary and proper to implement and carry out the orders and agreements set forth or approved in this Resolution for the proper fulfillment of the purposes thereof. The Authority shall furnish to the Series 2014B Original Purchasers a true and certified transcript of all proceedings relating to the authorization and issuance of the Series 2014B Subordinate Bonds along with other information as is necessary or proper with respect to the Series 2014B Subordinate Bonds.

Section 9. Effective Date. This Resolution shall take effect immediately.

---

Secretary to the Board of Directors

ATTACHMENT 7

DRAFT – JUNE 19, 2014

PRELIMINARY OFFERING MEMORANDUM DATED JUNE 26, 2014

**NEW ISSUE – BOOK-ENTRY ONLY**

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

In the opinion of Squire Patton Boggs (US) LLP and Leftwich & Ludaway, LLC, Co-Bond Counsel, under existing law, the Series 2014A Bonds and the interest thereon are exempt from District taxation, except estate, inheritance and gift taxes. INTEREST ON THE SERIES 2014A BONDS IS NOT EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. For a more complete discussion of the tax aspects, see "TAX MATTERS" herein.

[Authority logo]

[Clean Rivers logo]

\$                      \*

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**  
**[ ]% Public Utility Senior Lien Revenue Bonds, Series 2014A**  
**(Federally Taxable)**  
**(Green Bonds)**

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

**Dated: Date of Delivery      CUSIP No. [ ]†      Price/Yield: [ ]      Due: October 1, 2114**

The Public Utility Senior Lien Revenue Bonds, Series 2014A (the "Series 2014A Bonds") are being issued, subject to authorization by its Board of Directors, by the District of Columbia Water and Sewer Authority (the "Authority," also commonly referred to as "DC Water") pursuant to a Master Indenture of Trust, dated as of April 1, 1998 (the "Master Indenture"), by and between the Authority and Wells Fargo Bank, N.A., as trustee (the "Trustee"), as amended and supplemented to the date of issuance of the Series 2014A Bonds (the "Indenture"). The proceeds of the Series 2014A Bonds will be used to pay (i) a portion of the costs of certain capital improvements to the System (as more particularly described herein) and (ii) costs of issuing the Series 2014A Bonds. The Series 2014A Bonds will be secured by a pledge of Net Revenues that will be on a parity with the pledge of Net Revenues that secures any Outstanding Senior Debt and other Senior Debt the Authority may issue from time to time in the future, all as further described and defined herein. See "SECURITY FOR THE SERIES 2014A BONDS."

The Series 2014A Bonds will be issued initially in denominations of \$1,000 or any integral multiple thereof and in fully registered form in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC") under the book-entry only system maintained by DTC or its nominee. So long as Cede & Co. is the registered owner of the Series 2014A Bonds, the principal of and premium, if any, and interest on the Series 2014A Bonds will be payable by the Trustee to DTC, which will in turn remit such payments to its participants for subsequent disbursement to beneficial owners of the Series 2014A Bonds, as more fully described herein. See APPENDIX E – "DTC BOOK-ENTRY ONLY SYSTEM."

Interest on the Series 2014A Bonds will be calculated on the basis of a 360-day year of twelve 30-day months, payable semi-annually on each April 1 and October 1, commencing April 1, 2015.

The Series 2014A Bonds are subject to redemption prior to maturity, as more fully described herein. See "THE SERIES 2014A BONDS – Redemption Provisions."

The net proceeds of the Series 2014A Bonds will be used to finance a portion of the construction and/or development of the tunnel systems associated with the DC Clean Rivers Project, an Eligible Project (as hereinafter defined). The Eligible Project has been independently assessed by Vigeo on environmental, social and governance. See APPENDIX G - "Opinion of Independent Sustainability Consultant."

[VIGEO LOGO]

The Series 2014A Bonds shall be special, limited obligations of the Authority payable solely from the Net Revenues of the Authority. The Series 2014A Bonds shall be without recourse to the District of Columbia (the "District"). The Series 2014A Bonds shall not be general obligations of the District or of the Authority. The Series 2014A Bonds shall not be a pledge of or involve the faith and credit or the taxing power of the District, shall not constitute a debt of the District, the United States of America or any User Jurisdiction (as defined herein) or any agency or instrumentality of any User Jurisdiction, and neither the District, the United States, any User Jurisdiction nor any agency or instrumentality of any User Jurisdiction shall be liable thereon. The Series 2014A Bonds also shall not constitute the lending of the public credit for private undertakings as prohibited by the Home Rule Act (as defined herein). The Authority has no taxing power.

The Series 2014A Bonds are offered when, as and if issued by the Authority and received by the Underwriters. Certain legal matters with respect to the issuance of the Series 2014A Bonds are subject to the approval of Squire Patton Boggs (US) LLP, and Leftwich & Ludaway, LLC, Co-Bond Counsel to the Authority. Squire Patton Boggs (US) LLP and Leftwich & Ludaway, LLC, also serve as Co-Disclosure Counsel to the Authority in connection with the preparation of this Offering Memorandum. Certain legal matters will be passed upon for the Authority by its General Counsel and for the Underwriters by Orrick, Herrington & Sutcliffe LLP, and McKenzie & Associates, Co-Underwriters' Counsel. It is expected that the Series 2014A Bonds will be available for delivery through the facilities of DTC in New York, New York on or about \_\_\_\_\_, 2014.

**Goldman, Sachs & Co.**

**Barclays**

Dated: \_\_\_\_\_, 2014

\*Preliminary; subject to change.  
 † See "IMPORTANT NOTICES" herein

THIS PRELIMINARY OFFERING MEMORANDUM AND THE INFORMATION CONTAINED IN IT ARE SUBJECT TO COMPLETION AND AMENDMENT IN A FINAL OFFERING MEMORANDUM. Under no circumstances shall this Preliminary Offering Memorandum constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Bonds offered hereby, in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to the registration or qualification under the securities laws of that jurisdiction.



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

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

**Principal Board Members**

Allen Y. Lew, Chairman  
 Ellen O. Boardman  
 Rachna Butani  
 Timothy L. Firestine  
 Robert Hoyt  
 Edward L. Long, Jr.  
 Robert Mallett  
 Obiora "Bo" Menkiti  
 Alan J. Roth  
 Nicholas A. Majett  
 Vacant

**Jurisdiction**

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

**Alternate Board Members**

Keith Anderson  
 Matthew Brown\*  
 Bonnie Franklin  
 Shirley Branch  
 Howard C. Gibbs  
 David W. Lake  
 Adam Ortiz  
 James Patteson  
 Brenda L. Richardson  
 Vacancy  
 Vacancy

**Jurisdiction**

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

**Authority Staff**

George S. Hawkins  
 Mark Kim  
 Walter Bailey  
 Leonard R. Benson  
 Randy Hayman  
 Charles Kiely  
 Carlton Ray

**Title**

*General Manager*  
*Chief Financial Officer*  
*Assistant General Manager, Blue Plains*  
*Chief Engineer*  
*General Counsel*  
*Assistant General Manager, Customer Care & Operations*  
*Director, Clean Rivers Project*

**Authority Consultants and Counsel**

Squire Patton Boggs (US) LLP and Leftwich & Ludaway, LLC  
 Amawalk Consulting Group LLC  
 Johnson, Mirmiran, and Thompson, Inc.  
 Public Financial Management, Inc. and G~Entry Principle, P.C.  
 Vigeo Enterprises

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

\* Pending swearing in; term begins in June 2014.

**IMPORTANT NOTICES**

This Offering Memorandum is provided in connection with the issuance of the Series 2014A Bonds referred to herein and may not be reproduced or be used, in whole or in part, for any other purpose. The information contained in this Offering Memorandum has been derived from information provided by the Authority and other sources which are believed to be reliable. Additional information, including financial information, concerning the Authority is available from the Authority's website. Any such information that is inconsistent with the information set forth in this Offering Memorandum should be disregarded.

No dealer, broker, salesperson or other person has been authorized by the Authority or the Underwriters to give any information or to make any representations with respect to this offering, other than as contained in this Offering Memorandum and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority or the Underwriters. This Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2014A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in such information since the date thereof.

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

The CUSIP data provided on the cover of this Offering Memorandum are provided by Standard & Poor's CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of the Holders of the Series 2014A Bonds only at the time of issuance of the Series 2014A Bonds, and the Authority does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2014A Bonds as a result of procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2014A Bonds.

THE SERIES 2014A BONDS HAVE NOT BEEN REGISTERED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXCEPTIONS CONTAINED IN THE ACT. NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SERIES 2014A BONDS OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2014A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

**CAUTIONARY STATEMENTS REGARDING  
FORWARD-LOOKING STATEMENTS IN THIS OFFERING MEMORANDUM**

Some statements contained in this Offering Memorandum reflect not historical facts but forecasts and "forward-looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe," "plan," "budget," and similar expressions are intended to identify forward-looking statements. Projections, forecasts, assumptions, expressions of opinions, estimates and other forward- looking statements are not

to be construed as representations of fact and are qualified in their entirety by the cautionary statements set forth in this Offering Memorandum.

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

**INFORMATION CONCERNING OFFERING RESTRICTIONS  
IN CERTAIN JURISDICTIONS OUTSIDE THE UNITED STATES**

REFERENCES HEREIN TO THE “ISSUER” MEAN THE DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY AND REFERENCES TO “BONDS” OR “SECURITIES” MEAN THE BONDS OFFERED HEREBY.

**MINIMUM UNIT SALES**

THE BONDS WILL TRADE AND SETTLE ON A UNIT BASIS (ONE UNIT EQUALING ONE BOND OF \$1,000 PRINCIPAL AMOUNT). FOR ANY SALES MADE OUTSIDE THE UNITED STATES, THE MINIMUM PURCHASE AND TRADING AMOUNT IS 150 UNITS (BEING 150 BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF \$150,000).

**NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA**

THIS OFFERING MEMORANDUM IS NOT A PROSPECTUS FOR THE PURPOSES OF EUROPEAN COMMISSION REGULATION 809/2004 OR EUROPEAN COMMISSION DIRECTIVE 2003/71/EC (AS AMENDED, INCLUDING BY EUROPEAN COMMISSION DIRECTIVE 2010/73/EU, AS APPLICABLE) (THE “PROSPECTUS DIRECTIVE”). IT HAS BEEN PREPARED ON THE BASIS THAT ALL OFFERS OF THE BONDS WILL BE MADE PURSUANT TO AN EXEMPTION UNDER ARTICLE 3 OF THE PROSPECTUS DIRECTIVE, AS IMPLEMENTED IN MEMBER STATES OF THE EUROPEAN ECONOMIC AREA, FROM THE REQUIREMENT TO PRODUCE A PROSPECTUS FOR SUCH OFFERS. THIS OFFERING MEMORANDUM IS ONLY ADDRESSED TO AND DIRECTED AT PERSONS IN MEMBER STATES OF THE EUROPEAN ECONOMIC AREA WHO ARE “QUALIFIED INVESTORS” WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE AND ANY RELEVANT IMPLEMENTING MEASURE IN EACH MEMBER STATE OF THE EUROPEAN ECONOMIC AREA (“QUALIFIED INVESTORS”). THIS OFFERING MEMORANDUM MUST NOT BE ACTED ON OR RELIED ON IN ANY SUCH MEMBER STATE OF THE EUROPEAN ECONOMIC AREA BY PERSONS WHO ARE NOT QUALIFIED INVESTORS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFERING MEMORANDUM RELATES IS AVAILABLE ONLY TO QUALIFIED INVESTORS IN ANY MEMBER STATE OF THE EUROPEAN ECONOMIC AREA AND WILL NOT BE ENGAGED IN WITH ANY OTHER PERSONS.

**NOTICE TO RESIDENTS OF JAPAN**

THE BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE *FINANCIAL INSTRUMENTS AND EXCHANGE LAW OF JAPAN* (LAW NO. 25 OF 1948, AS AMENDED, THE “FIEL”). NEITHER THE BONDS NOR ANY INTEREST THEREIN MAY BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO, OR FOR THE BENEFIT OF, ANY RESIDENT OF JAPAN (WHICH TERM AS USED HEREIN MEANS ANY PERSON RESIDENT IN JAPAN, INCLUDING ANY CORPORATION OR OTHER ENTITY ORGANIZED UNDER THE LAWS OF JAPAN), OR TO OTHERS FOR RE-OFFERING OR RESALE, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO, OR FOR THE BENEFIT OF, ANY RESIDENT OF JAPAN, EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF, AND OTHERWISE IN COMPLIANCE WITH, THE FIEL AND ANY OTHER APPLICABLE LAWS, REGULATIONS AND MINISTERIAL GUIDELINES OF JAPAN.

THE PRIMARY OFFERING OF THE BONDS AND THE SOLICITATION OF AN OFFER FOR ACQUISITION THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER PARAGRAPH 1, ARTICLE 4 OF THE FIEL. AS IT IS A PRIMARY OFFERING, IN JAPAN, THE BONDS MAY ONLY BE

OFFERED, SOLD, RESOLD OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY TO, OR FOR THE BENEFIT OF A QUALIFIED INSTITUTIONAL INVESTOR ("QII") DEFINED IN ARTICLE 10 OF THE CABINET ORDINANCE CONCERNING DEFINITIONS UNDER ARTICLE 2 OF THE FIEL (ORDINANCE NO. 14 OF 1993, AS AMENDED). A PERSON WHO PURCHASED OR OTHERWISE OBTAINED THE BONDS CANNOT RESELL OR OTHERWISE TRANSFER THE BONDS IN JAPAN TO ANY PERSON EXCEPT ANOTHER QII.

**NOTICE OF SELLING RESTRICTIONS FOR OFFER OF BONDS IN SINGAPORE  
TO ACCREDITED INVESTORS AND INSTITUTIONAL INVESTORS**

NEITHER THIS OFFERING MEMORANDUM NOR ANY OTHER DOCUMENT OR MATERIAL IN CONNECTION WITH ANY OFFER OF THE BONDS HAS BEEN OR WILL BE LODGED OR REGISTERED AS A PROSPECTUS WITH THE MONETARY AUTHORITY OF SINGAPORE ("MAS") UNDER THE *SECURITIES AND FUTURES ACT* (CAP. 289) OF SINGAPORE ("SFA"). ACCORDINGLY, MAS ASSUMES NO RESPONSIBILITY FOR THE CONTENTS OF THIS OFFERING MEMORANDUM. THIS OFFERING MEMORANDUM IS NOT A PROSPECTUS AS DEFINED IN THE SFA AND STATUTORY LIABILITY UNDER THE SFA IN RELATION TO THE CONTENTS OF PROSPECTUSES WOULD NOT APPLY. PROSPECTIVE INVESTORS SHOULD CONSIDER CAREFULLY WHETHER THE INVESTMENT IS SUITABLE FOR IT.

THIS OFFERING MEMORANDUM AND ANY OTHER DOCUMENTS OR MATERIALS IN CONNECTION WITH THIS OFFER AND THE BONDS MAY NOT BE DIRECTLY OR INDIRECTLY ISSUED, CIRCULATED OR DISTRIBUTED, NOR MAY THE BONDS BE OFFERED OR SOLD, OR BE MADE THE SUBJECT OF AN INVITATION FOR SUBSCRIPTION OR PURCHASE, WHETHER DIRECTLY OR INDIRECTLY, TO PERSONS IN SINGAPORE OTHER THAN (I) TO AN INSTITUTIONAL INVESTOR UNDER SECTION 274 OF THE SFA ("INSTITUTIONAL INVESTOR"); (II) TO A RELEVANT PERSON (AS DEFINED IN SECTION 275(2) OF THE SFA) ("RELEVANT PERSON") PURSUANT TO SECTION 275(1) OF THE SFA, AND IN ACCORDANCE WITH THE CONDITIONS SPECIFIED IN SECTION 275 OF THE SFA; (III) TO ANY PERSON PURSUANT TO THE CONDITIONS OF SECTION 275(1A) OF THE SFA; OR (IV) OTHERWISE PURSUANT TO, AND IN ACCORDANCE WITH, THE CONDITIONS OF ANY OTHER APPLICABLE PROVISIONS OF THE SFA.

UNLESS ANY OFFER OF SUCH BONDS WAS PREVIOUSLY MADE IN OR ACCOMPANIED BY A PROSPECTUS AND WHICH ARE OF THE SAME CLASS AS OTHER BONDS OF A CORPORATION LISTED ON THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ("SGX"), ANY SUBSEQUENT OFFERS IN SINGAPORE OF BONDS ACQUIRED PURSUANT TO AN INITIAL OFFER MADE IN RELIANCE ON AN EXEMPTION UNDER SECTION 274 OF THE SFA OR SECTION 275 OF THE SFA MAY ONLY BE MADE, PURSUANT TO THE REQUIREMENTS OF SECTION 276 OF THE SFA, FOR THE INITIAL SIX MONTH PERIOD AFTER SUCH ACQUISITION TO PERSONS WHO ARE INSTITUTIONAL INVESTORS OR TO ACCREDITED INVESTORS (AS DEFINED IN SECTION 4A OF THE SFA) (**ACCREDITED INVESTOR**) OR RELEVANT PERSONS OR TO SUCH PERSONS PURSUANT TO AN OFFER REFERRED TO UNDER SECTION 275(1A) OF THE SFA. ANY TRANSFER AFTER SUCH INITIAL SIX MONTH PERIOD IN SINGAPORE SHALL BE MADE, PURSUANT TO THE REQUIREMENTS OF SECTION 257 OF THE SFA, IN RELIANCE ON ANY APPLICABLE EXEMPTION UNDER SUBDIVISION (4) OF DIVISION 1 OF PART XIII OF THE SFA (OTHER THAN SECTION 280 OF THE SFA).

IN ADDITION TO THE ABOVE, WHERE THE BONDS ARE SUBSCRIBED OR PURCHASED UNDER SECTION 275 OF THE SFA BY A RELEVANT PERSON WHICH IS:

- (1) A CORPORATION (WHICH IS NOT AN ACCREDITED INVESTOR), THE SOLE BUSINESS OF WHICH IS TO HOLD INVESTMENTS AND THE ENTIRE SHARE CAPITAL OF WHICH IS OWNED BY ONE OR MORE INDIVIDUALS, EACH OF WHOM IS AN ACCREDITED INVESTOR; OR
- (2) A TRUST (WHERE THE TRUSTEE IS NOT AN ACCREDITED INVESTOR) WHOSE SOLE PURPOSE IS TO HOLD INVESTMENTS AND EACH BENEFICIARY OF THE TRUST IS AN INDIVIDUAL WHO IS AN ACCREDITED INVESTOR,

SECURITIES (AS DEFINED IN SECTION 239(1) OF THE SFA) OF THAT CORPORATION OR THE BENEFICIARIES' RIGHTS AND INTEREST (HOWSOEVER DESCRIBED) IN THAT TRUST SHALL NOT BE TRANSFERRED WITHIN SIX MONTHS AFTER THAT CORPORATION OR THAT TRUST HAS ACQUIRED THE BONDS PURSUANT TO AN OFFER MADE UNDER SECTION 275 OF THE SFA EXCEPT:

- (A) TO AN INSTITUTIONAL INVESTOR OR TO A RELEVANT PERSON, OR TO ANY PERSON ARISING FROM AN OFFER REFERRED TO IN SECTION 275(1A) OR SECTION 276(4)(i)(B) OF THE SFA;

- (B) WHERE NO CONSIDERATION IS OR WILL BE GIVEN FOR THE TRANSFER;
- (C) WHERE THE TRANSFER IS BY OPERATION OF LAW; OR
- (D) WHERE SUCH ANY OFFER OF SUCH BONDS WERE PREVIOUSLY MADE IN OR ACCOMPANIED BY A PROSPECTUS AND WHICH ARE OF THE SAME CLASS AS OTHER SECURITIES OF A CORPORATION LISTED ON SGX.

**NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM**

THIS OFFERING MEMORANDUM HAS NOT BEEN APPROVED FOR THE PURPOSES OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 ("FSMA") AND DOES NOT CONSTITUTE AN OFFER TO THE PUBLIC IN ACCORDANCE WITH THE PROVISIONS OF SECTION 85 OF THE FSMA. IT IS FOR DISTRIBUTION ONLY TO, AND IS DIRECTED SOLELY AT, PERSONS WHO (I) ARE OUTSIDE THE UNITED KINGDOM, (II) ARE INVESTMENT PROFESSIONALS, AS SUCH TERM IS DEFINED IN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE "FINANCIAL PROMOTION ORDER"), (III) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE FINANCIAL PROMOTION ORDER, OR (IV) ARE PERSONS TO WHOM AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FSMA) IN CONNECTION WITH THE ISSUE OR SALE OF ANY SECURITIES MAY OTHERWISE BE LAWFULLY COMMUNICATED OR CAUSED TO BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "RELEVANT PERSONS"). THIS OFFERING MEMORANDUM IS DIRECTED ONLY AT RELEVANT PERSONS AND MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS, INCLUDING IN CIRCUMSTANCES IN WHICH SECTION 21(1) OF THE FSMA APPLIES TO THE CORPORATION. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFERING MEMORANDUM RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS OFFERING MEMORANDUM OR ANY OF ITS CONTENTS.

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**OFFERING MEMORANDUM**

**\$ [REDACTED]  
DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY  
Public Utility Senior Lien Revenue Bonds, Series 2014A  
(Federally Taxable)  
(Green Bonds)**

**INTRODUCTION**

**General**

This Offering Memorandum, including the cover page and the appendices hereto (the "Offering Memorandum"), is provided in connection with the issuance by the District of Columbia Water and Sewer Authority (the "Authority," also commonly referred to as "DC Water") of its Public Utility Senior Lien Revenue Bonds, Series 2014A, in the original principal amount of \$[REDACTED] (the "Series 2014A Bonds").

The Series 2014A Bonds are being issued, subject to authorization by the Authority's Board of Directors, pursuant to the Master Indenture of Trust, dated as of April 1, 1998 (the "Master Indenture"), as amended and supplemented to the date of delivery of the Series 2014A Bonds (the "Indenture"), including by the Fifteenth Supplemental Indenture of Trust, to be dated the date of issuance and delivery of the Series 2014A Bonds (the "Fifteenth Supplemental Indenture"), each by and between the Authority and Wells Fargo Bank, N.A., as trustee (the "Trustee"). The Authority's Board of Directors is expected to consider the adoption of a resolution authorizing the issuance of the Series 2014A Bonds at its meeting on July 3, 2014. The Finance and Budget Committee of the Board of Directors, at its meeting on June 26, 2014, approved a recommendation to the Board of Directors to adopt the authorizing resolution. The distribution of this Preliminary Offering Memorandum does not obligate the Board of Directors to authorize the issuance of the Series 2014A Bonds, nor does it create any contractual or legal obligation of the Authority to proceed with the issuance of the Series 2014A Bonds.

Capitalized terms used in this Offering Memorandum and not otherwise defined herein shall have the meanings ascribed thereto in APPENDIX C – "GLOSSARY AND SUMMARY OF THE INDENTURE."

**District of Columbia Water and Sewer Authority**

The Authority is an independent authority of the District of Columbia (the "District"), which was created in April 1996 and began operating on October 1, 1996, under and pursuant to an act of the Council of the District (the "Council"), which is entitled the "Water and Sewer Authority Establishment and Department of Public Works Reorganization Act of 1996" (D.C. Law 11-111) (D.C. Code §§ 34-2201.01 *et seq.*), as amended and supplemented (the "Act"), and an act of the United States Congress entitled the "District of Columbia Water and Sewer Authority Act of 1996" (Public Law 104-184) (the "Federal Act"). The Council was authorized to adopt the Act pursuant to the authority set forth in the District of Columbia Self-Government and Governmental Reorganization Act (P.L. 93-198; 87 Stat 777; D.C. Official Code, 2006 Repl., §§ 1-201 *et seq.*), as amended (the "Home Rule Act"). See "THE AUTHORITY."

The Authority provides retail water and wastewater services to more than 640,000 residents in the District and wholesale wastewater conveyance and treatment to approximately 1.6 million people in major suburban areas of Prince George's and Montgomery Counties in Maryland and Fairfax and

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Loudoun Counties in Virginia (collectively, the “User Jurisdictions”). Pursuant to the Act, the District authorized the Authority to use all of the property and assets of the water distribution system (the “Water System”) and the wastewater collection, treatment and disposal system (the “Wastewater System” and, together with the Water System, the “System”) formerly operated by the District, for as long as any revenue bonds of the Authority, including the Series 2014A Bonds, remain outstanding. In accordance with the Act, the District retains full legal title to and a complete equitable interest in the System. See “THE SYSTEM.”

The Authority’s service area consists of the District and certain areas of the User Jurisdictions and, therefore, certain demographic, economic and statistical information relating to the District and the User Jurisdictions may be relevant to prospective purchasers of the Series 2014A Bonds. The Authority makes no representation as to the accuracy or completeness of such information.

**Use of the Series 2014A Bond Proceeds**

The proceeds of the Series 2014A Bonds will be used to (i) pay the costs of the Series 2014A Project (as hereinafter defined), and (ii) pay costs of issuing the Series 2014A Bonds. See “PLAN OF FINANCE” and “CAPITAL IMPROVEMENT PROGRAM – Categories of CIP Projects – Combined Sewer Overflow Projects.”

The proceeds of the 2014A Bonds will be used for the Series 2014A Project, which promotes environmental stewardship and sustainability, such as reducing combined sewer overflow (CSO) into the Potomac and Anacostia Rivers (“Eligible Project”). Eligible Projects will meet the environmental, social, and governance criteria developed with and independently validated by Vigeo. See APPENDIX G - “Opinion of Independent Sustainability Consultant.” The Authority has determined that the Series 2014A Project qualifies as an Eligible Project. For a description of certain Eligible Projects, see “CAPITAL IMPROVEMENT PROGRAM – Categories of CIP Projects – Combined Sewer Overflow Projects.”

The proceeds of the 2014A Bonds will be deposited in a segregated account of the Construction Fund for the Series 2014A Project established and maintained under the Indenture. The Authority will report annually on environmental and social performance of the Eligible Project.

**Security and Source of Payment**

Under the Indenture, the Authority may issue “Senior Debt” and “Subordinate Debt” from time to time. The Series 2014A Bonds will constitute Senior Debt under the Indenture. The Series 2014A Bonds will be secured by a pledge of Net Revenues that is on a parity with the pledge of Net Revenues that secures any Outstanding Senior Debt and other Senior Debt the Authority may issue from time to time in the future, without preference, priority or distinction of any Senior Debt over any other Senior Debt. Prior to the issuance of the Series 2014A Bonds, approximately \$487,195,000 aggregate principal amount of Senior Debt and \$1,578,147,000 aggregate principal amount of Subordinate Debt are outstanding. See “OUTSTANDING INDEBTEDNESS.” The Series 2014A Bonds will be payable solely from Net Revenues after the funding of certain Funds and Accounts established under the Indenture. The principal sources of Net Revenues are the payments received by the Authority pursuant to its rates and charges imposed for the use of and the services furnished by the System, as described in the Indenture. See “RATES AND CHARGES.” The Series 2014A Bonds will not be secured by a Debt Service Reserve Fund.

**The Series 2014A Bonds shall be special and limited obligations of the Authority. The Series 2014A Bonds shall be without recourse to the District. The Series 2014A Bonds shall not be general obligations of the District or of the Authority. The Series 2014A Bonds shall not be a**

pledge of or involve the faith and credit or the taxing power of the District, shall not constitute a debt of the District, the United States of America or any User Jurisdiction or any agency or instrumentality of any User Jurisdiction, and neither the District, the United States, any User Jurisdiction, nor any agency or instrumentality of any User Jurisdiction shall be liable thereon. The Series 2014A Bonds also shall not constitute the lending of the public credit for private undertakings as prohibited by the Home Rule Act of the District. The Authority has no taxing power.

#### **Concurrent Issuance of Bonds of the Authority**

Concurrently with the issuance of the Series 2014A Bonds, the Authority expects to issue a series of its Public Utility Subordinate Lien Revenue Bonds, Series 2014B (the "Series 2014B Subordinate Bonds"), in an amount not to exceed \$100 million, pursuant to the Indenture, as supplemented by the Sixteenth Supplemental Indenture. The Authority expects that the Series 2014B Bonds will bear interest at variable rates, and that any interest income derived therefrom by a holder will be exempt from federal income taxation. The Series 2014B Bonds will be secured by a subordinate pledge of the Net Revenues, and will not be secured on a parity basis with the Series 2014A Bonds or any Other Outstanding Senior Debt or other Senior Debt of the Authority. The issuance of the Series 2014A Bonds is not dependent upon the Authority's issuance of the Series 2014B Bonds, and such Series 2014A Bonds will be sold separately and independently from the Series 2014B Bonds.

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

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

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

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

See "SECURITY FOR THE SERIES 2014A BONDS – Rate Covenant." Financial information, including projections and projected debt service coverages are included in "FINANCIAL OPERATIONS – Projected Financial Operations" herein.

#### **Capital Improvement Program**

The Authority utilizes an annually adopted ten-year Capital Improvement Program (the "Capital Improvement Program" or the "CIP") to plan and manage the capital investments necessary to fulfill its service missions, comply with regulatory requirements and preserve and upgrade its water and wastewater systems. The Authority updates the CIP annually in conjunction with its budget process, based on detailed project review by engineering staff, external engineering consultants retained by the Authority, operations staff and senior management. The Authority intends to finance the costs of the CIP from a number of sources, including the proceeds of the Series 2014A Bonds, proceeds of future bonds, grants, certain operating revenues and wholesale customer contributions. As more fully described herein, the

Authority estimates the cost of the current ten-year CIP at \$3.8 billion on a cash disbursement basis. The Board approved the CIP on December 5, 2013. See "CAPITAL IMPROVEMENT PROGRAM."

**Miscellaneous**

This Offering Memorandum contains brief descriptions of the Series 2014A Bonds, the Authority, the System, the Capital Improvement Program, the Indenture and certain provisions of the Act. Such descriptions and the summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be comprehensive or definitive, and each such document, statute, report or instrument is qualified in its entirety by reference to each such document, statute, report or instrument, copies of which are available from the Authority. All references to the Series 2014A Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Indenture. Insofar as any statements are made in this Offering Memorandum involving matters of opinion, regardless of whether expressly so stated, they are intended merely as such and not as representations of fact.

The information in this Offering Memorandum is subject to change without notice, and neither the delivery of this Offering Memorandum, nor any sale made hereunder shall under any circumstances create an implication that there has been no change in the affairs of the Authority since the date hereof. This Offering Memorandum is not to be construed as a contract or agreement between the Authority or the Underwriters and the purchasers or owners of any of the Series 2014A Bonds.

Inquiries regarding information about the Authority and the financial matters contained in this Offering Memorandum may be directed to the Chief Financial Officer of the Authority at (202) 787-2000.

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## THE SERIES 2014A BONDS

### General

The Series 2014A Bonds will be dated their date of delivery and will bear interest at the rates set forth on the inside cover page hereof. Interest on the Series 2014A Bonds will be calculated on the basis of a 360-day year of twelve 30-day months, payable semi-annually on each April 1 and October 1, commencing April 1, 2015 (each, an "Interest Payment Date"), and will mature on October 1 in the years and in the principal amounts set forth on the inside cover page hereof.

### Book-Entry Only System

The Series 2014A Bonds will be issued in fully registered form and, when issued, will be held by DTC or its nominee, as securities depository with respect to the Series 2014A Bonds. Individual purchases of interests in the Series 2014A Bonds will be made in book-entry form only, in the principal amount of \$1,000 or any integral multiple thereof for sales made within the United States. For sales made outside the United States, the minimum purchase and trading amount for the Series 2014A Bonds is 20 units (*i.e.*, 20 Series 2014A Bonds in an aggregate principal amount of \$100,000) as described herein. Individual purchasers will not receive physical delivery of bond certificates. So long as Cede & Co. is the registered owner of the Series 2014A Bonds as nominee of DTC, references herein to the holders or registered owners of the Series 2014A Bonds will mean Cede & Co. and will not mean the beneficial owners of the Series 2014A Bonds. Beneficial interests in the Series 2014A Bonds may be held through DTC, Clearstream, Luxembourg or Euroclear Bank as operator of the Euroclear System, directly as a participant or indirectly through organizations that are participants in such system. See APPENDIX E – "DTC BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES."

As long as the Series 2014A Bonds are held by DTC or its nominee, interest will be paid to Cede & Co., as nominee of DTC, in same-day funds on each Interest Payment Date. If the book-entry only system is discontinued, bond certificates will be delivered as described in the Indenture, and Beneficial Owners (as defined herein) will become registered owners of the Series 2014A Bonds (the "Bondholders"). If the book-entry only system is discontinued, interest on the Series 2014A Bonds shall be payable on each Interest Payment Date by check or draft mailed to the registered owner at the address as it appears on the 15th day of the month preceding an Interest Payment Date on the registration books kept by the Trustee.

Neither the Authority, the Trustee nor the Underwriters will have any responsibility or obligation to the Participants, DTC or the persons for whom they act with respect to (i) the accuracy of any records maintained by DTC or by any Direct or Indirect Participant of DTC, (ii) payments or the providing of notice to Direct Participants, the Indirect Participants or the beneficial owners, (iii) the selection by DTC or by any Direct or Indirect Participant of any beneficial owner to receive payment in the event of a partial redemption of the Series 2014A Bonds or (iv) any other action taken by DTC or its partnership nominee as owner of the Series 2014A Bonds. For more information on DTC and the book-entry only system, see APPENDIX E – "DTC BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES."

### Redemption Provisions

#### *Optional Redemption*

The Series 2014A Bonds are subject to optional redemption prior to maturity on or after October 1, 20[ ] from any source, in whole or in part on any date, at a redemption price equal to the

principal amount thereof plus the Make-Whole Premium (as defined herein), if any, plus accrued interest to the date fixed for redemption.

“Make-Whole Premium” means, with respect to any Series 2014A Bond to be redeemed, an amount calculated by a Designated Institution (as defined herein) equal to the positive difference, if any, between:

(1) the sum of the present values, calculated as of the date fixed for redemption of:

(a) each interest payment that, but for the redemption, would have been payable on the Series 2014A Bond or a portion thereof being redeemed on each regularly scheduled Interest Payment Date occurring after the date fixed for redemption through the maturity date of such Series 2014A Bond (excluding any accrued interest for the period prior to the date fixed for redemption); provided that if the date fixed for redemption is not a regularly scheduled Interest Payment Date with respect to such Series 2014A Bond, the amount of the next regularly scheduled interest payment will be reduced by the amount of interest accrued on such Series 2014A Bond to the date fixed for redemption; plus

(b) the principal amount that, but for such redemption, would have been payable on the maturity date of the Series 2014A Bond or portion thereof being redeemed; minus

(2) the principal amount of the Series 2014A Bonds or portion thereof being redeemed.

The present values of the interest and principal payments referred to in (1) above will be determined by discounting the amount of each such interest and principal payment from the date that each such payment would have been payable but for the redemption to the date fixed for redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at a discount rate equal to the Comparable Treasury Yield (as defined herein), **plus [ ] basis points.**

“Comparable Treasury Yield” means the yield appearing in the most recently published statistical release designated “H.15(519) Selected Interest Rates” under the heading “Treasury Constant Maturities,” or any successor publication selected by the Designated Banking Institution that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity, for the maturity corresponding to the remaining term to maturity of the Series 2014A Bond being redeemed. The Comparable Treasury Yield will be determined at least two business days but not more than 45 calendar days preceding the applicable date fixed for redemption. If the H.15(519) statistical release sets forth a weekly average yield for United States Treasury securities that have a constant maturity that is the same as the remaining term to maturity of the Series 2014A Bond being redeemed, then the Comparable Treasury Yield will be equal to such weekly average yield. In all other cases, the Comparable Treasury Yield will be calculated by interpolation on a straight-line basis, between the weekly average yields on the United States Treasury securities that have a constant maturity (i) closest to and greater than the remaining term to maturity of the Series 2014A Bond being redeemed; and (ii) closest to and less than the remaining term to maturity of the Series 2014A Bond being redeemed. Any weekly average yields calculated by interpolation will be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward.

If, and only if, weekly average yields for United States Treasury securities for the preceding week are not available in the H.15(519) statistical release or any successor publication, then the Comparable Treasury Yield will be the rate of interest per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Price (each as defined herein) as of the date fixed for redemption.

“Comparable Treasury Issue” means the United States Treasury selected by the Designated Banking Institution as having a maturity comparable to the remaining term to maturity of the Series 2014A Bond being redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term to maturity of the Series 2014A Bond being redeemed.

“Designated Banking Institution” means an investment banking institution of national standing which is a primary United States government securities dealer in the City of New York designated by the Authority, which may be one of the underwriters of the Series 2014A Bonds.

“Comparable Treasury Price” means, with respect to any date on which a Series 2014A Bond or portion thereof is being redeemed, either (a) the average of five Reference Treasury Dealer quotations for the date fixed for redemption, after excluding the highest and lowest such quotations, and (b) if the Designated Banking Institution is unable to obtain five such quotations, the average of the quotations that are obtained. The quotations will be the average, as determined by the Designated Banking Institution, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of principal amount) quoted in writing to the Designated Banking Institution, at 2:00 p.m. New York City time on a business day at least two business days but no more than 45 calendar days preceding the applicable date fixed for redemption.

“Reference Treasury Dealer” means a primary United States Government securities dealer in the United States appointed by the Authority and reasonably acceptable to the Designated Banking Institution, which may be one of the underwriters of the Series 2014A Bonds.

*Mandatory Redemption*

The Series 2014A Bonds maturing on October 1, 20[ ] and October 1, 20[ ] (the “Series 2014A Term Bonds”) are subject to mandatory sinking fund redemption in part (in accordance with the procedures described below in “*Selection of the Series 2014A Bonds to be Redeemed*”), prior to maturity on October 1, in the years set forth below, at a redemption price equal to the principal amount of the Series 2014A Bonds called for redemption plus interest accrued to the redemption date.

\$[ ] 20[ ] Term Bonds			
Year	Amount	Year	Amount
	\$		\$

† Final Maturity

The principal amount of the Series 2014A Term Bonds required to be redeemed on any redemption date pursuant to the operation of mandatory sinking fund redemption provisions will be reduced, at the option of the Authority, by the principal amount of any Series 2014A Term Bond scheduled for redemption on such redemption date or dates, which, at least 45 days prior to the mandatory sinking fund redemption date, (1) have been acquired by the Authority and delivered to the Trustee for cancellation, (2) have been acquired and canceled by the Trustee, at the direction of the Authority, at a price not exceeding the principal amount of such Series 2014A Term Bond plus accrued interest to the date of acquisition thereof, or (3) have been redeemed pursuant to the optional redemption provisions and not previously credited to a scheduled mandatory redemption. Upon such purchase of such Series 2014A Term Bonds, the Trustee shall then credit an amount equal to the principal of such Series 2014A Term Bonds so



purchased towards the sinking fund installments for the Series 2014A Term Bonds of such maturity in such order as may be determined by the Authority in a certificate of an Authorized Official, which will direct the reduction of a ratable portion of each annual mandatory sinking fund installment requirement in accordance with the procedures set forth under “*Selection of the Series 2014A Bonds to be Redeemed*” below.

*Selection of the Series 2014A Bonds to be Redeemed*

The Series 2014A Bonds to be redeemed at the option of the Authority will be determined by the Authority in its sole discretion.

If less than all of the Series 2014A Bonds of a maturity are called for prior redemption and if the Series 2014A Bonds are registered in book-entry only form and DTC or a successor securities depository is the sole registered owner of such Series 2014A Bonds, the particular Series 2014A Bonds or portions thereof to be redeemed shall be selected on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, provided that, so long as the Series 2014A Bonds are held in book-entry form, the selection for redemption of such Series 2014A Bonds shall be made in accordance with the operational arrangements of DTC then in effect, and, if DTC operational arrangements do not allow for redemption on a pro rata pass-through distribution of principal basis, the Series 2014A Bonds will be selected for redemption, in accordance with DTC procedures, by lot.

**It is the Authority’s intent that redemption allocations made by DTC be made on a pro rata pass-through distribution of principal basis as described above. However, neither the Authority nor the Underwriters can provide any assurance that DTC, DTC’s direct and indirect participants or any other intermediary will allocate the redemption of Series 2014A Bonds on such basis.**

If the Series 2014A Bonds are not registered in book-entry only form, any redemption of less than all of the Series 2014A Bonds will be allocated among the registered owners of such Series 2014A Bonds on a pro rata basis. For purposes of the pro rata pass-through distribution of principal, “pro rata” means, for any amount of principal to be paid, the application of a fraction to each denomination of the respective Series 2014A Bonds where (a) the numerator is equal to the amount due to the respective bondholders on a payment date and (b) the denominator is equal to the total original par amount of the respective Series 2014A Bonds.

*Notice of Redemption*

The Authority shall not be responsible for mailing a notice of redemption to anyone other than DTC or another qualified securities depository or its nominee unless no qualified securities depository is the registered owner of the Series 2014A Bonds. If no qualified securities depository is the registered owner of the Series 2014A Bonds, a notice of redemption shall be mailed to the registered owners of the Series 2014A Bonds. See “THE SERIES 2014A BONDS – Book-Entry Only System.”

The Trustee shall send notice of the call for redemption, identifying the Series 2014A Bonds or portions thereof to be redeemed, not fewer than 20 days prior to the redemption date or such shorter period as may be acceptable to DTC while the Series 2014A Bonds are in book-entry form and registered to DTC (a) by registered or certified mail or overnight express delivery, to the holder of each Series 2014A Bond to be redeemed at the address as it appears on the registration books kept by the Trustee, (b) by registered or certified mail or overnight express delivery, to all organizations registered as securities depositories with the SEC and (c) to each nationally recognized municipal securities information repository designated as such by the SEC. Failure to give any notice specified in (a) above, or any defect therein, shall not affect the validity of any proceedings for the redemption of any

Series 2014A Bond with respect to which no such failure or defect has occurred. Failure to give any notice specified in (b) or (c) above, or any defect therein, shall not affect the validity of any proceedings for the redemption of any Series 2014A Bond with respect to which the notice specified in (a) above is correctly given. If the notices of redemption are sent before there is sufficient money on deposit in the applicable fund or account to pay the full redemption price of the Series 2014A Bonds, the notice of redemption of the Series 2014A Bonds shall specify that the redemption is conditional upon there being on deposit in the applicable fund or account on the redemption date sufficient money to pay the full redemption price of the Series 2014A Bonds to be redeemed.

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

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**PLAN OF FINANCE**

The proceeds of the Series 2014A Bonds will be used to finance a portion of the construction and development of the tunnel systems associated with the DC Clean Rivers Project (the “Series 2014A Project”). For a description of the DC Clean Rivers Project (also referred to as the “CSO LTCP” in this Offering Memorandum, see “CAPITAL IMPROVEMENT PROGRAM – Categories of CIP Projects – Combined Sewer Overflow Projects.”). Such proceeds will be deposited in a segregated account of the Construction Fund for the Series 2014A Project established and maintained under the Indenture. As reflected in the Independent Engineering Opinion, the Series 2014A Project is designed to achieve a minimum service life of 100 years. See “OPINION OF INDEPENDENT ENGINEER” and “APPENDIX H – Opinion of Independent Engineer.” Due to the nature of the Series 2014A Project, the Authority has determined that it qualifies as an Eligible Project and accordingly has been independently assessed by Vigeo on environmental, social and governance criteria. See “APPENDIX G - Opinion of Independent Sustainability Consultant.”

**SOURCES AND USES OF FUNDS**

The proceeds of the Series 2014A Bonds are expected to be applied as follows:

<b>Sources of Funds</b>	
Par Amount of Bonds	\$ _____
Net Original Issue [Premium/Discount]	_____
Total Sources	_____ \$
<b>Uses of Funds</b>	
Deposit to 2014A Construction Account	\$ _____
Underwriters’ Discount	_____
Other Costs of Issuance	_____
Total Uses	_____ \$

## SECURITY FOR THE SERIES 2014A BONDS

### Pledge of the Master Indenture

#### *General*

The Series 2014A Bonds are authorized and will be issued in accordance with the statutes of the District and the United States, and will constitute valid and legally binding special and limited obligations of the Authority.

The Series 2014A Bonds will constitute Senior Debt under the Indenture, payable solely from the Net Revenues of the System. The Series 2014A Bonds are payable and secured on a parity basis with the Outstanding Senior Debt and all other Senior Debt hereafter issued or incurred by the Authority pursuant to the Indenture. The Authority expects to issue additional Senior Debt and Subordinate Debt in the future, including, but not limited to, the Series 2014B Subordinate Bonds. For a listing of the Authority's Outstanding Senior Debt and Subordinate Debt, see "OUTSTANDING INDEBTEDNESS."

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

The Indenture pledges to the payment of the principal of and premium, if any, and interest on all Senior Debt and Subordinate Debt (at their respective levels of priority of security) that may from time to time be outstanding: (i) all right, title and interest of the Authority in and to the Net Revenues; (ii) all moneys or securities in any of the funds or Accounts established under the Indenture (other than the Operating Fund, and all Accounts in the Construction Fund other than the Construction Account, except to the extent a specific Account or subaccount therein relates, and is pledged, solely to specific series of Bonds or Subordinate Debt); and (iii) all rights and privileges of every kind and nature appurtenant to, all proceeds of, and all right, title and claim which the Authority now or may hereafter acquire in the aforesaid property, subject only to the provisions of the Indenture and the Act relating to the use and application thereof.

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

**Amendment of the Master Indenture**

*Effective October 26, 2010*

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

*Springing Amendment*

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

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

**Effect of Sequestration on Direct Payments**

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

On April 10, 2013, the President signed an executive order, as required by the Budget Control Act and the American Taxpayer Relief Act of 2012, reducing the spending authority in accounts subject to sequestration in accordance with the Report of the Office of Management and Budget ("OMB") to the Congress on the Joint Committee Sequestration for Fiscal Year 2014. According to a release entitled

*Update: Effect of Sequestration on Certain State & Local Government Filers of Form 8038-CP* and issued on March 26, 2014, by the office of Tax Exempt Bonds within the Internal Revenue Service, interest subsidy payments to issuers of direct payment bonds processed on or after October 1, 2013, through and including September 30, 2014, will be reduced by 7.2%, unless intervening congressional action changes the reduction percentage. The President's April 10, 2013, sequester order does not affect interest subsidy payments for future years, but under the Budget Control Act there could be additional sequester orders for future fiscal years through and including fiscal year 2021.

On March 10, 2014, the President signed an executive order reducing the spending authority in accounts subject to sequestration in accordance with the Report of the OMB to the Congress on the joint Committee Reductions for Fiscal Year 2015. According to the OMB report for Fiscal Year 2015, interest subsidy payments to issuers of direct payment bonds processed on or after October 1, 2014, through and including September 30, 2015, will be reduced by 7.3% unless intervening congressional action changes the reduction percentage. The President's March 10, 2014, sequester order does not affect interest subsidy payments for future years, but under the Budget Control Act there could be additional sequester orders for future fiscal years through and including fiscal year 2021.

The largest Direct Payment the Authority currently expects to collect in any future year is \$5,710,149; 7.3% of that amount is \$416,840. It is too soon to predict by what percentage, if any, cuts may be made to interest subsidy payments in the future. The Projected Financial Operations of the Authority, as presented herein, assume that Direct Payments will be thirty-two percent (32%) of the interest payments on Series 2010A Bonds in each year starting in Fiscal Year 2015. The Authority is obligated to make all payments of principal of and interest on the Series 2010A Bonds whether or not such Direct Payments are received.

**Limited Remedies of Holders of Subordinate Debt**

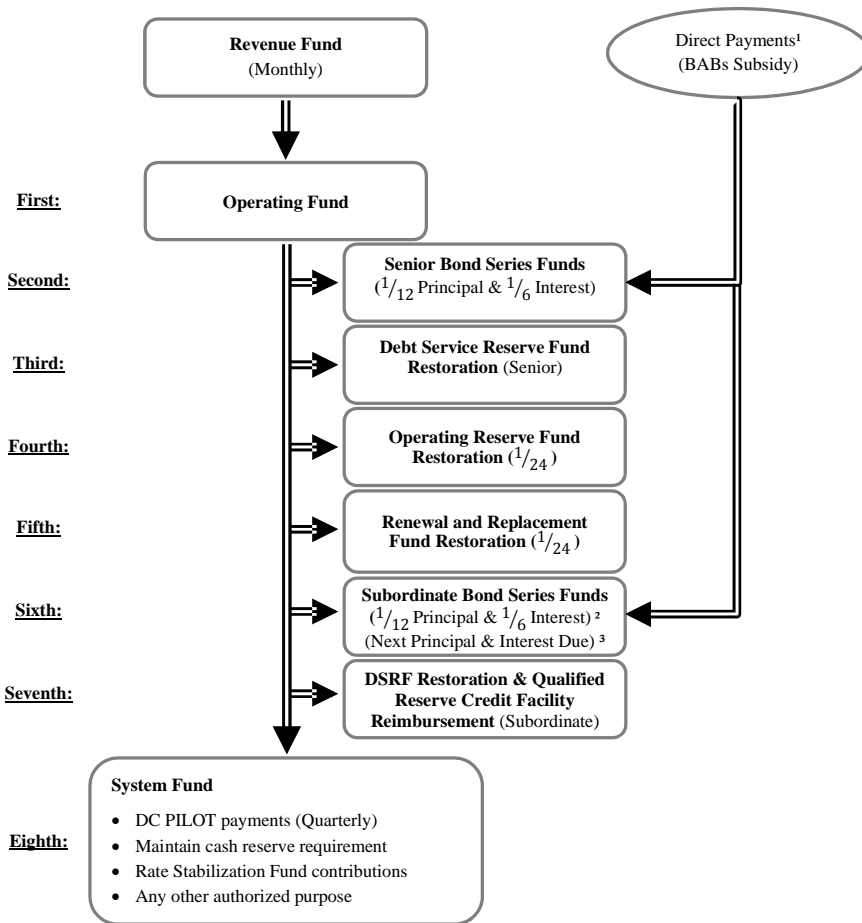
The Indenture prohibits the acceleration of Subordinate Debt if any Senior Debt (including Bonds) is outstanding. The Indenture confers upon the holders of not less than 25% of the aggregate principal amount of Outstanding Bonds (which includes Senior Debt only, not Subordinate Debt) the right to direct the Trustee to protect and enforce their rights by mandamus or other suit, action or proceeding, and confers upon the holders of a majority of the aggregate principal amount of Outstanding Bonds the right to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture or any other proceedings under the Indenture, in accordance with the provisions of law and the Indenture. The Indenture does not confer those rights upon any specified percentage of the holders of Subordinate Debt.

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**Flow of Funds**

The Authority deposits all revenues, as received, in the Revenue Fund. The chart below depicts a simplified flow of Revenues required by the Indenture after being deposited into the Revenue Fund. This chart is for illustrative purposes only, is in no way comprehensive or definitive, and must be read in conjunction with the entire Offering Memorandum.

**Indenture Revenue Flow of Funds**



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

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

<sup>3</sup>For variable rate Subordinate Debt  
1404375/10/CLEVELAND

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

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

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



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

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

For a more extensive discussion of the terms and provisions of the Indenture including the security for the Series 2014A Bonds, the funds and Accounts established by the Indenture and the purposes to which moneys in such funds and Accounts may be applied, see APPENDIX C – "GLOSSARY AND SUMMARY OF THE INDENTURE."

#### **Certain Reserve Funds**

*Debt Service Reserve Fund and Subordinate Debt Service Reserve Fund.* The Indenture creates a Debt Service Reserve Fund and a Subordinate Debt Service Reserve Fund, each to be held by the Trustee. The Indenture permits, but does not require, the Authority to specify a debt service reserve requirement for each issuance of Senior Debt or Subordinate Debt and to make provision for the means by which any such reserve requirements will be met. The Authority will not specify a debt service reserve requirement for the Series 2014A Bonds. The Series 1998 Senior Bonds are the only outstanding Senior Debt for which the Authority has specified a debt service reserve requirement.

*Operating Reserve Fund.* The Master Indenture creates an Operating Reserve Fund in which the Authority must maintain a balance equal to at least 60 days of operating and maintenance expenses of the prior year. Moneys in the Operating Reserve Fund shall be used to pay, to the extent necessary, Operating Expenses of the Authority. In addition, to the extent that moneys on deposit in the Bond Fund are insufficient to make the required interest and principal payments, moneys in the Operating Reserve Fund shall be used prior to any withdrawal from the Debt Service Reserve Fund to satisfy any such deficiencies. The Board has adopted a policy of funding operating reserves to a level in excess of that required by the Master Indenture. See “ – Discretionary Reserves” below. As of March 31, 2014, the balance in the Operating Reserve Fund was \$46.1 million which represents 60 days of operating and maintenance expenses.

*Renewal and Replacement Reserve Fund.* The Master Indenture creates a Renewal and Replacement Reserve Fund to be held by the Authority to provide funding for unforeseen or emergency needs. Moneys in the Renewal and Replacement Reserve Fund may be used to pay for any capital expenditures related to the System. In addition, to the extent that moneys on deposit in the Bond Fund and the Operating Reserve Fund are insufficient to make the required interest and principal payments, moneys in the Renewal and Replacement Reserve Fund shall be used prior to any withdrawal from the Debt Service Reserve Fund to satisfy any such deficiencies. The Master Indenture allows this requirement to be met if an amount equal to 2% of original plant in service cost, or some other amount as approved by the Board, is held by the Authority. The Board has adopted a policy requiring the Authority to maintain a balance of at least \$35 million in the Renewal and Replacement Reserve Fund. As of March 31, 2014, the balance in the Renewal and Replacement Reserve Fund was \$35 million.

*Rate Stabilization Fund.* The Master Indenture creates a Rate Stabilization Fund to be held by the Authority, the moneys in which may be transferred by the Authority to the Revenue Fund at any time. The Board has adopted a policy allowing moneys to be transferred to the Rate Stabilization Fund from the System Fund annually based on an analysis of the Authority’s financial performance conducted by the General Manager and reported to the Board for approval during the fourth quarter of each Fiscal Year, and at other times at the direction of the Board. The Authority expects to withdraw certain funds on deposit in the Rate Stabilization Fund in Fiscal Years 2014, 2015 and 2018, in order to reduce rate increases that might otherwise be required. See “FINANCIAL OPERATIONS – Reserve Funds – Rate Stabilization Fund.” The Rate Stabilization Fund has no minimum balance requirements. As of March 31, 2014, the balance in the Rate Stabilization Fund was \$28.9 million. See also “FINANCIAL OPERATIONS – Projected Financial Operations.”

*Discretionary Reserves.* The Board has adopted a policy of funding operating reserves at a level in excess of the 60-day operating and maintenance reserve required by the Master Indenture. To comply with the Board’s policy, the Authority is required to have cash reserves equal to 120 days of budgeted operating and maintenance costs calculated on an average daily balance basis, with the objective of maintaining at least \$125.5 million in operating reserves. For purposes of calculating this requirement, the balances in the Operating Reserve Fund and the Renewal and Replacement Reserve Fund are included. For Fiscal Year 2014, the operating reserves requirement is \$125.5 million. As of March 31, 2014, the Authority had an operating reserve cash balance of \$148.1 million which exceeded this policy requirement.

In Fiscal Year 2013, Amawalk independently evaluated the adequacy of the Authority’s reserves and concluded that the current Board policy provides for an appropriate level of reserves.

### Rate Covenant

*Master Indenture Covenant.* The Master Indenture includes a rate covenant (the “Rate Covenant”) as described below. Rates, fees and charges are established by the Authority and are not subject to regulatory approval, nor are they subject to other regulations under current law. (For a description of the pledge of the District not to limit or alter rights vested in the Authority to fulfill agreements made with holders of its bonds, see “COVENANT BY THE DISTRICT OF COLUMBIA.”) The Authority has never failed to satisfy the Rate Covenant, which provides that the Authority covenants to fix, charge, revise and collect rates, fees and other charges for the use of and the services furnished by the System sufficient in each Fiscal Year so that:

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

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

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

*Deposit and Crediting of Direct Payments.* The Twelfth Supplemental Indenture amended the Master Indenture to provide that, for purposes of determining the Authority’s compliance with the Rate Covenant (but not for the purposes of determining compliance with the Indenture’s restrictions on the Authority’s issuance of additional Senior Debt or additional Subordinate Debt), the amount of any Direct Payment received by the Authority or the Trustee in any Fiscal Year shall be credited against (i) Annual Debt Service on Senior Debt in such Fiscal Year if such Direct Payment related to Senior Debt or (ii) Annual Debt Service on Subordinate Debt in such Fiscal Year if such Direct Payment related to Subordinate Debt. This amendment became effective upon the execution of the Twelfth Supplemental Indenture. See “SECURITY FOR THE SERIES 2014A BONDS – Amendments to the Master Indenture.”

*Additional Board Policy.* In addition to the Rate Covenant described above, in 1997, the Board adopted a financial policy of fixing, charging, revising and collecting rates, fees and other charges for the use of and the services furnished by the System sufficient in each Fiscal Year so that Net Revenues shall

be at least equal to one hundred and forty percent (140%) of the Annual Debt Service on Senior Debt in each such Fiscal Year. See “FINANCIAL OPERATIONS – Financial Policies.” To date, the Authority consistently has met or exceeded this policy goal. There can be no assurance, however, that the Board will not change this financial policy or that the Authority will continue to meet this policy goal.

#### **Additional Senior Debt**

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

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

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

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

The Authority may incur or refinance Other System Indebtedness provided that: (1) the documents relating to the Other System Indebtedness acknowledge that such debt constitutes Other System Indebtedness under the Master Indenture and is subject to the applicable terms and conditions thereof, and specify the amounts and due dates of Annual Debt Service with respect to the Other System

Indebtedness; (2) the conditions of the Master Indenture regarding the issuance of Bonds have been met as if the Other System Indebtedness was an additional Series of Bonds; (3) the Trustee receives written notice of the issuance of the Other System Indebtedness and the material terms and conditions thereof, and the Trustee shall register the holder as owner thereof as such on its books and records; and (4) the Trustee receives an Opinion of Counsel that the documents creating the Other System Indebtedness have been duly authorized, executed and delivered on behalf of the Authority and constitute valid, binding and enforceable obligations. In connection with the incurrence of any Other System Indebtedness, the Trustee shall enter into an intercreditor arrangement with the holder of such Other System Indebtedness, the terms of which shall be determined at the time of incurrence of such Other System Indebtedness.

The Authority has proposed to modify the Master Indenture to include provisions regarding the crediting of Direct Payments for the purposes of computing Annual Debt Service on any Direct Payment BABs or Other System Indebtedness as to which Direct Payments are expected to be made in connection with any proposed issuance of additional Bonds or Other System Indebtedness. See "SECURITY FOR THE SERIES 2014A BONDS – Amendments to Master Indenture."

**Additional Subordinate Debt**

Under the Indenture, the Authority may at any time issue Subordinate Debt and pledge Net Revenues thereto so long as rates, fees and charges are in effect or scheduled to go into effect to meet the Rate Covenant immediately after the issuance of such Subordinate Debt. The Authority has proposed to modify the Master Indenture to include provisions regarding the crediting of Direct Payments for the purposes of computing Annual Debt Service on any Direct Payment BABs or other Indebtedness as to which Direct Payments are expected to be made in connection with any proposed issuance of additional Bonds, Subordinate Debt or Other System Indebtedness. See "SECURITY FOR THE SERIES 2014A BONDS – Amendments to Master Indenture."

**District and User Jurisdictions Not Liable**

**Neither the members of the Board nor employees or agents of the Authority executing the Series 2014A Bonds shall be liable personally on the Series 2014A Bonds by reason of the issuance thereof. The Series 2014A Bonds shall be special and limited obligations of the Authority payable solely from the Net Revenues of the Authority. The Series 2014A Bonds shall be without recourse to the District. The Series 2014A Bonds shall not be general obligations of the District or of the Authority. The Series 2014A Bonds shall not be a pledge of or involve the faith and credit or the taxing power of the District, shall not constitute a debt of the District, the United States of America or any User Jurisdiction or any agency or instrumentality of any User Jurisdiction, and neither the District, the United States, any User Jurisdiction nor any agency or instrumentality of any User Jurisdiction shall be liable thereon. The Series 2014A Bonds also shall not constitute the lending of the public credit for private undertakings as prohibited by the Home Rule Act. The Authority has no taxing power.**

**DEBT SERVICE REQUIREMENTS**

The following tables set forth the annual principal and interest requirements for (i) Outstanding Senior Debt, (ii) Outstanding Subordinate Debt and (iii) the Series 2014A Bonds, as well as annual and aggregate totals.

Fiscal Year Ending September 30	Series 2014A Bonds			Series 2014B Bonds		Direct payments Relating to Series 2010A Bonds <sup>2</sup>	Total Subordinate Debt	Total Senior and Subordinate Debt	
	Outstanding Senior Debt <sup>1</sup>	Principal	Interest	Total	Outstanding Subordinate Debt <sup>1,2,3,4,5</sup>				Principal and Interest <sup>6</sup>
2014	42,045,433				86,166,667	189,041	81,056,691	123,102,123	
2015	42,320,433				87,351,352	1,000,000	82,641,203	124,961,636	
2016	42,478,583				88,049,615	2,001,841	84,341,308	126,819,891	
2017	42,688,533				89,775,084	3,247,008	87,311,943	130,000,476	
2018	42,949,683				89,567,864	3,250,000	87,107,716	130,057,398	
2019	43,317,358				89,227,277	3,250,000	86,767,128	130,084,486	
2020	43,264,008				92,880,382	3,252,992	90,423,225	133,687,233	
2021	43,746,633				92,326,864	3,247,008	89,928,007.78	133,674,640	
2022	43,915,528				92,081,630	3,250,000	89,754,406	133,669,933	
2023	44,191,668				91,737,601	3,250,000	89,482,666	133,674,334	
2024	27,220,503				108,639,628	3,252,992	106,463,868	133,684,371	
2025	25,546,068				110,239,403	3,247,008	108,150,362	133,696,429	
2026	24,558,443				111,140,975	3,250,000	109,149,905	133,708,348	
2027	24,681,968				110,908,001	3,250,000	109,014,284	133,696,251	
2028	26,444,368				109,050,587	3,252,992	107,259,777	133,704,144	
2029	18,782,655				116,506,221	3,247,008	114,911,816	133,694,471	
2030	19,515,305				115,575,069	3,250,000	114,196,252	133,711,557	
2031	20,166,775				114,560,435	3,250,000	113,398,081	133,564,856	
2032	20,837,675				113,791,868	3,252,992	112,855,153	133,692,828	
2033	21,518,675				112,843,267	3,247,008	112,132,588	133,651,263	
2034	22,224,975				110,819,726	3,250,000	110,351,018	132,575,993	
2035	39,770,575				93,027,250	3,250,000	92,804,671	132,575,246	
2036	39,780,275				92,766,158	3,252,992	92,798,885	132,579,160	
2037	39,885,875				91,974,312	3,247,008	92,262,259	132,148,134	
2038	39,978,625				90,451,911	3,250,000	91,011,303	130,989,928	
2039	40,158,575				89,876,928	3,250,000	90,712,695	130,871,270	
2040	0				129,636,663	3,252,992	130,758,274	130,758,274	
2041	0				102,167,086	11,872,008	112,976,882	112,976,882	
2042	0				101,915,714	11,874,687	112,979,827	112,979,827	
2043	0				101,653,647	11,870,275	112,974,068	112,974,068	
2044	0				101,385,117	11,873,793	112,979,152	112,979,152	
2045	0				28,200,000	11,871,266	40,071,266	40,071,266	
2046	0				28,200,000	11,874,675	40,074,675	40,074,675	
2047	0				28,202,000	11,870,775	40,072,775	40,072,775	
2048	0				28,203,000	11,872,313	40,075,313	40,075,313	
2049	0				0	11,875,123	11,875,123	11,875,123	
2050	0				0	11,873,750	11,873,750	11,873,750	
2051 - 2104									
2105									
2106									
2107									
2108									
2109									
2110									
2111									
2112									
2113									
2114									
<b>Total</b>	<b>881,989,188</b>				<b>3,240,899,301</b>	<b>199,919,547</b>	<b>(127,820,532)</b>	<b>3,312,998,316</b>	<b>4,194,987,504</b>

<sup>1</sup> Amounts due October 1 are shown as debt service for the preceding Fiscal Year ending September 30 (since the amounts actually are required to be set aside in such Fiscal Year). For example, debt service payments due October 1, 2014, are shown in the Fiscal Year ending September 30, 2014.

<sup>2</sup> Series 2010 A Bonds are Build America Bonds. Interest on \$75 million of the 2010 A Bonds was capitalized through April 2014 and amount shown is net of capitalized interest. Debt Service is calculated excluding the impact of the direct payment of the federal BABs subsidy. With respect to the effect of sequestration on the receipt by the Authority of Direct Payments on its Series 2010A Bonds, a reduction of 7.2% was applied for 2014. See "SECURITY FOR THE SERIES 2014A BONDS – Effect of Sequestration on Direct Payments."

<sup>3</sup> Series 2012 B Bonds have a variable rate based on SIFMA plus a spread to that benchmark of 48 bps and 58 bps for the Sub-Series B-1 and B-2, respectively. For calculation of the debt service requirement, the all-inclusive rate was assumed to be 1.00% in 2014 and 2015, 2% in 2016 and 3.25% thereafter. Interest on the 2012 B-1 is projected to be capitalized through July 2015 (based on the capitalized interest fund balance as of May 31, 2014) and amount shown is net of capitalized interest.

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

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

<sup>6</sup> The Authority expects to issue \$100 million of variable rate Series 2014 B Bonds concurrently with the Series 2014 A Bonds, as a part of the same plan of finance. For calculation of the projected debt service requirement, the all-inclusive rate was assumed to be 1.00% in 2014 and 2015, 2% in 2016 and 3.25% thereafter. The debt is assumed to amortize in FY 2041 - FY 2050.

**List of Outstanding Indebtedness**

A table summarizing the Authority’s existing indebtedness as of June 30, 2014 is set forth below. For a summary of the annual debt service payments for the Authority’s existing indebtedness, see “FINANCIAL OPERATIONS – Debt Service.”

**Outstanding Indebtedness**  
(\$ in thousands)

	Original Principal Amount	Interest Rates	Final Maturity	Amount Outstanding as of 6/30/2014 <sup>1</sup>
<b>Senior Debt</b>				
Series 1998 Bonds	\$ 266,120	5.50-6.00%	2028	\$ 195,050
Series 2009A Bonds	300,000	3.00-6.00	2039	291,145
Total Senior Debt				\$ 487,195
<b>Subordinate Debt</b>				
Series 2007A Bonds	\$ 218,715	4.75-5.50%	2041	\$ 218,715
Series 2008A Bonds	290,375	4.00-5.00	2034	268,095
Series 2010A Bonds	300,000	4.07-5.52 <sup>2</sup>	2044	300,000
Series 2012A Bonds	177,430	2.00-5.00	2037	172,990
Series 2012B-1 Bonds	52,690	0.53 <sup>3</sup>	2044	52,690
Series 2012B-2 Bonds	47,310	0.63 <sup>3</sup>	2040	47,310
Series 2012C Bonds	163,215	4.00-5.00	2033	163,215
Series 2013A Bonds	300,000	4.75-5.00	2049	300,000
<b>Government Notes</b>				
Jennings Randolph Reservoir Debt	\$ 18,269	3.25%	2041	\$ 13,932
<b>Commercial Paper Notes (“CP Notes”)<sup>5</sup></b>				
Series B CP Notes (tax-exempt)	N/A	0.11-0.22%	2015 <sup>4</sup>	12,000
Series C CP Notes (taxable)	N/A	0.16-0.22	2015 <sup>4</sup>	29,200
Total Subordinate Debt				\$ 1,578,147
<b>Total</b>				<b>\$ 2,065,342</b>

<sup>1</sup> Amounts outstanding do not reflect any amortization of accrued principal.

<sup>2</sup> Taking into account the Direct Payment subsidy, the Series 2010A Bonds had an all-in-true interest cost of 3.6%. With respect to the effect of sequestration on the receipt by the Authority of Direct Payments on its Series 2010A Bonds, see “SECURITY FOR THE SERIES 2014A BONDS – Effect of Sequestration on Direct Payments.”

<sup>3</sup> Series 2012B Bonds have a variable rate based on SIFMA plus a spread to that benchmark. The spread to SIFMA is 48 and 58 basis points for the Sub-Series 2012B-1s and Sub-Series 2012B-2s, respectively. As of [redacted], 2014, SIFMA was [redacted] basis points.

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

<sup>5</sup> Maximum amount authorized for the CP Notes is \$200 million; the Series A CP Notes have been retired.

Source: Authority records.

**Outstanding Senior Debt**

As indicated above, as of June 30, 2014, the Authority had Senior Debt outstanding in the aggregate principal amount of \$487,195,000 consisting of its Public Utility Senior Lien Revenue Bonds, Series 1998 (the “Series 1998 Senior Bonds”) and its Public Utility Senior Lien Revenue Bonds, Series 2009A (the “Series 2009A Senior Bonds”), but not including the Series 2014A Bonds. The Authority expects to issue additional Senior Debt in the future to finance capital improvements to the System. See “CAPITAL IMPROVEMENT PROGRAM.”

### **Outstanding Subordinate Debt**

The Subordinate Debt summarized above consists of the following categories of outstanding debt: (i) Subordinate Revenue Bonds; (ii) Government Notes; and (iii) Commercial Paper Notes. As of June 30, 2014, the Authority has Subordinate Debt outstanding in the aggregate principal amount of \$1,578,147,000.

Government Notes. The Authority is responsible for debt service on notes payable to the federal government for the construction of the Jennings Randolph Reservoir. Previous obligations of the Authority regarding the Little Seneca Reservoir have been paid in full.

Commercial Paper Notes. The Authority has established a commercial paper program to provide interim financing for Costs of the System. Three series of notes have been issued under the commercial paper program: the tax-exempt Series A CP Notes in an aggregate principal amount not to exceed \$75 million, the tax-exempt Series B CP Notes in an aggregate principal amount not to exceed \$50 million, and the taxable Series C CP Notes in an aggregate principal amount not to exceed \$75 million (collectively, the "Commercial Paper Notes"), each as Subordinate Debt. See "OUTSTANDING INDEBTEDNESS – Outstanding Senior Debt." To provide liquidity and credit support for the Commercial Paper Notes, the Authority obtained irrevocable, direct-pay letters of credit (the "Letters of Credit") issued by J.P. Morgan Chase Bank and U.S. Bank National Association (collectively, the "Banks") which currently expire on May 28, 2015. In connection with the Banks' issuance of the Letters of Credit, the Authority and each Bank entered into a Reimbursement Agreement dated as of June 1, 2010, each as amended (collectively, the "Reimbursement Agreements") that obligates the Authority to pay Bank Obligations and Reimbursement Obligations (both as defined in the Eleventh Supplemental Indenture relating to the Commercial Paper Notes) and Fee Obligations (as defined in each Reimbursement Agreement) to the applicable Bank. The Bank Obligations, the Reimbursement Obligations and Fee Obligations are Subordinate Debt under the Indenture. The amount of the Commercial Notes outstanding as of June 30, 2014, is \$42.2 million.

### **Interest Rate Exchange Agreements and Guaranteed Investment Contracts**

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

## **THE AUTHORITY**

### **General**

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



The Authority currently provides retail water and wastewater services to more than 640,000 residents of the District of Columbia and wholesale wastewater services to approximately 1.6 million residents of Prince George's and Montgomery Counties in Maryland and Fairfax and Loudoun Counties in Virginia. In addition, the Authority annually serves approximately 17.8 million visitors to the area and approximately 700,000 workers in the District. In addition to providing services to the White House, the U.S. Congress and the Supreme Court, the Authority also counts among its customers a number of international organizations, including the International Monetary Fund and numerous diplomatic embassies. The Authority also provides services to a number of nationally recognized cultural and educational institutions, including the John F. Kennedy Center for the Performing Arts, and Georgetown, Howard, American, Catholic and George Washington Universities.

The Authority operates the largest advanced wastewater treatment facility in the United States and is in compliance with all requisite permits. Since its creation as an independent authority of the District, the Authority has become a leader in the water and wastewater industry. The Board has provided stable leadership and a focus on establishing long-term policies and planning, particularly financial stability. Under its leadership, the Authority has adopted and implemented financial and rate-setting policies that have enhanced financial performance. The Authority has received the Distinguished Budget Presentation Award (2001-2013) and Certificate of Achievement for Excellence in Financial Reporting (1997-2012) from the Government Finance Officers Association. The Authority's unrestricted cash, cash equivalents and investment balances have increased from \$20.5 million as of September 30, 1997, to \$204 million as of September 30, 2013. The Authority's operating revenues have increased, from \$221.5 million in Fiscal Year 1997 to \$439.1 million in Fiscal Year 2013.

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

- *American Academy of Environmental Engineers*: Excellence in Environmental Engineering for research on nitrogen removal (2010).
- *American Academy of Environmental Engineers*: Excellence in Environmental Engineering for performance in nitrogen removal (2010).
- *American Academy of Environmental Engineers*: Excellence in Environmental Engineering for Environmental Communications Award (2012).
- *American Academy of Environmental Engineers*: Excellence in Environmental Engineering Grand Prize in Research for work done on Mainstream Deammonification (2013).
- *American Academy of Environmental Engineers*: Excellence in Environmental Engineering for Environmental Communications Award (2013).
- *American Academy of Environmental Engineers*: Edward J. Cleary Award for exemplary management of environmental protection enterprises (2014).
- *Silver Communicators Award*: Award of Distinction (2012).
- *National Association of Clean Water Agencies*: Outstanding Contributions to Environmental Protection and the Clean Water Community (2012); National Environmental Achievement Award in Research and Technology (2012) for innovation of external carbon based suspended growth technology for enhanced nitrogen removal; Platinum Peak Performance Award (2010-2013) for 100 percent compliance with the National Pollutant Discharge Elimination System ("NPDES") requirements for a consecutive five-year period; Gold Peak Performance Award (2002-2009) for wastewater treatment facilities that have achieved outstanding plant effluent quality and 100 percent compliance with the NPDES requirements at Blue Plains; Research and Technology

Award (2009) for its collaboration with the Alexandria Sanitation Authority on “Enhancing Nitrogen Removal and Increasing Sustainability with Innovative Sidestream Treatment”; and Public Information and Education Award (2009) for public information and outreach efforts as part of the Virginia Biosolids Council.

- *Water Environmental Research Foundation*: Award for Excellence in Innovation (2011) for the Digester Project.
- *Emerson Process Management Power and Solutions*: Innovation Award for Water and Wastewater for the Blue Plains Process Control System (2011).
- *Water Environmental Federation*: George Bradley Gascoigne Medal for Operational Problem Solving and Improvement (2011).
- *Water Environmental Federation*: Fuhrman Medal for Joint Research with Universities (2012).
- *Computerworld and Storage Networking Industry Association*: Best Practice Award for Adopting Emerging and Innovative Technologies (2011).
- *ESRI*: Special Achievement Geographic Information System (“GIS”) Award (2009) for innovative use of GIS technology for managing data on public fire hydrants.
- *CIO Magazine*: Chief Information Officer Top 100 Award (2009), for creating business value using innovative technology for new infrastructure to support Supervisory Control and Data Acquisition system needs.
- *Association of Metropolitan Water Agencies*: Platinum Award for Utility Excellence (2008) for operational and strategic excellence in water utility management.

### **Purposes and Powers**

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

Pursuant to the Home Rule Act, the Council delegated to the Authority, under the Act, its power to issue revenue bonds, including the Series 2014A Bonds, for the purpose of financing “water and sewer facilities” (as such term is defined in the Home Rule Act). Pursuant to the Home Rule Act and the Act, the Authority is required to submit its annual operating budget to the District for its review and recommendations; however, the District has no power to change the annual budget of the Authority. See “FINANCIAL OPERATIONS – Annual Budget.”

### **Board of Directors**

The Authority is governed by a Board of Directors consisting of 11 principal and 11 alternate members, each appointed for a staggered four-year term. Six principal members (appointed by the Mayor of the District with the advice and consent of the Council) represent the District and five principal

members (appointed by the Mayor on the recommendations of the User Jurisdictions) represent the User Jurisdictions, two each from Prince George’s and Montgomery Counties in Maryland, and one from Fairfax County, Virginia. The powers of the Authority are vested in and exercised by the Board at meetings duly called and held where a quorum of at least six members is present. All Board members participate in decisions directly affecting the management of joint-use facilities which are those facilities used by all three jurisdictions. Only the District members participate in those matters that affect District ratepayers and in setting fees for various services that affect only District residents. The Board meets monthly and operates through various standing and ad-hoc committees. The committees include Environmental Quality and Sewerage Services, Water Quality and Water Services, Finance and Budget, Human Resources and Labor Relations, Audit, Strategic Planning, Governance, and District of Columbia Retail Water and Sewer Rates. The current principal members of the Board are listed below.

<u>Principal Board Members</u>	<u>Appointing Authority</u>	<u>Term Start Date</u> <sup>*</sup>	<u>Term Expiration</u>
Allen Y. Lew, Chairman	District of Columbia	July 2011	September 2015
Ellen O. Boardman	District of Columbia	July 2013	September 2016
Rachna Butani	District of Columbia	September 2012	September 2014
Timothy L. Firestine	Montgomery County	February 2007	May 2016
Robert Hoyt	Montgomery County	January 2008	May 2015
Edward Long, Jr.	Fairfax County	September 2012	September 2015
Robert Mallet	District of Columbia	April 2013	September 2016
Obiora “Bo” Menkiti	District of Columbia	July 2013	September 2016
Alan J. Roth	District of Columbia	April 2007	September 2015
Nicholas A. Majett	Prince George’s County	June 2014	September 2014
Vacant	Prince George’s County		

<sup>\*</sup> Term start date indicates start of the Board member’s initial term as a principal member.  
Source: Authority records.

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

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

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

*Ellen O. Boardman (District of Columbia)*

Ms. Boardman was appointed as a principal member to the Board in 2013. Ms. Boardman is a partner at O’Donoghue & O’Donoghue LLP. Prior to joining O’Donoghue & O’Donoghue LLP, in 1986, Ms. Boardman served as an attorney for the National Labor Relations Board. Ms. Boardman is a member of the District of Columbia and Maryland bar associations, numerous federal district and appellate courts,

and the United States Supreme Court. Ms. Boardman is a fellow of the College of Labor and Employment Lawyers, and is listed as a Washington, D.C. Super Lawyer.

*Rachna Butani (District of Columbia)*

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

*Timothy L. Firestine (Montgomery County)*

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

*Robert Hoyt (Montgomery County)*

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

*Edward Long, Jr. (Fairfax County)*

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

*Nicholas A. Majett (Prince George's County)*

Nicholas A. Majett previously served the District government in several capacities for over 29 years. In 1985, Mr. Majett joined the D.C. Office of the Attorney General and served as an Assistant Attorney General for approximately 19 years. During his tenure as an Assistant Attorney General, Mr. Majett regularly handled regulatory, real estate, tax and civil cases and prosecuted tax and government fraud cases. From 1990 until 1991 Mr. Majett served as the Chief of Assessment Services for the Office of Tax and Revenue and then returned to the Office of Attorney General.

In 2006, Mr. Majett became the Deputy Director of the Department of Consumer and Regulatory Affairs ("DCRA") and served until he was appointed as Director on December 18, 2010, and subsequently unanimously confirmed by the Council of the District. As Director of DCRA, Mr. Majett was responsible for overall management and oversight of the District's regulatory agency that ensures the health, safety and economic welfare of District residents through licensing, inspection, compliance, and enforcement programs.

Mr. Majett earned both his Bachelor of Science and Law Degrees from Howard University before becoming a member of the District of Columbia Bar Association. In 2005, he was elected to the District of Columbia Bar Association's District of Columbia Affairs Section Steering Committee where he currently serves as a member. He is also a member of the Board of Directors for the Washington, D.C. Economic Partnership, a member of the D.C. Streetcar Task Force, and former Board Member of Joseph's House, non-profit organization in the District.

*Robert Mallett (District of Columbia)*

Mr. Mallett is the Peter P. Mullen Visiting Professor of Law at Georgetown University. Before coming to Georgetown, he served as Executive Vice President & General Counsel, Public and Senior Markets Group, a division of United Health Group. Immediately prior to joining United Health Group, Mr. Mallett served as Senior Vice President, Worldwide Policy & Public Affairs, Pfizer Inc. Prior to joining Pfizer in April 2001, Mr. Mallett served as Deputy Secretary of the U.S. Department of Commerce. Prior to his federal executive service, Mr. Mallett was a shareholder and associate attorney at two major law firms in Washington, D.C. He also served as City Administrator and Deputy Mayor for the District of Columbia under Mayor Sharon Pratt Kelly, and Legal Counsel to former United States Senator Lloyd Bentsen. He has been an adjunct professor at Georgetown University's Law Center, and was a Visiting Professor at Harvard University's John F. Kennedy School of Government. He served as a law clerk to the Honorable John R. Brown of the United States Court of Appeals for the Fifth Circuit. Mr. Mallett is a Phi Beta Kappa graduate of Morehouse College (1979) and received his law degree from Harvard University in 1982, where he was Projects Editor of the Harvard Civil Rights-Civil Liberties Law Review.

*Obiora "Bo" Menkiti (District of Columbia)*

Mr. Menkiti was appointed as a principal member to the Board in 2013. Mr. Menkiti is the founder and CEO of The Menkiti Group, a values-based real estate services company. Mr. Menkiti is also the CEO and founding partner of Keller Williams Capital Properties, a residential real estate brokerage firm. Prior to forming The Menkiti Group and Keller Williams Capital Properties, Mr. Menkiti served as the Chief Operating Officer of College Summit, a national non-profit organization dedicated to increasing the college enrollment rate of low-income students. Mr. Menkiti also serves on the board of City First Bank, Greater Capital Area Association of Realtors, Dance Place, and is the chair of the Public Policy Committee for the Washington, DC Association of Realtors. Mr. Menkiti is a graduate of Harvard University.

*Alan J. Roth (District of Columbia)*

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

### **Organizational Structure**

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

### **Senior Management**

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

*George S. Hawkins, General Manager*

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

*Mark T. Kim, Chief Financial Officer*

Mr. Kim is Chief Financial Officer for the Authority. Mr. Kim joined the Authority in March 2013 from the Office of the New York City Comptroller, where he served as NYC's Deputy

Comptroller for Economic Development and Assistant Comptroller for Public Finance, and previously as an investment banker at several global financial institutions. Over his career, Mr. Kim has raised in excess of \$50 billion in the capital markets. Currently, he sits on the Environmental Financial Advisory Board of the U.S. Environmental Protection Agency (EPA) and the Committee on Governmental Debt Management of the Government Finance Officers Association (GFOA), and he is a member of the Bars of the State of New York and the District of Columbia. Mr. Kim holds a B.A. from Northwestern University; a J.D. from Cornell Law School; and a Ph.D. in public policy from Harvard University.

*Walter Bailey, Assistant General Manager of Wastewater Treatment*

Mr. Bailey was appointed Assistant General Manager of Wastewater Treatment in August 2010. He had served as the Director of Blue Plains for more than 20 years. Prior to this assignment, he served as Wastewater Operations Manager, Plant Process Engineer and Civil Engineer in the Department of Engineering and Technical Services. He is a Licensed Professional Engineer, a Licensed Wastewater Treatment Plant Operator, and a Board Certified Environmental Engineer. Mr. Bailey holds a B.S. in Civil Engineering from Virginia Polytechnic Institute and State University (Virginia Tech) and a M.S. in Environmental Engineering from George Washington University.

*Leonard R. Benson, Chief Engineer*

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

*Randy Hayman, General Counsel*

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

*Charles Kiely, Assistant General Manager of Consumer Care & Operations*

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

*Carlton Ray, Director, DC Clean Rivers Program*

Mr. Ray joined the Authority in July 2009, and is responsible for the planning, design, construction and implementation of the DC Clean Rivers Project. The 20-year, \$2.6 billion project is designed to capture nearly all combined sewer overflows (CSOs) to the Potomac and Anacostia Rivers and to the Rock Creek during periods of wet weather through a system of deep underground tunnels. Previously, Mr. Ray managed the capital program for the City of Indianapolis, including successfully developing and managing a similar CSO abatement program. Mr. Ray has over 30 years' experience in water and wastewater engineering and holds a B.S. in Civil Engineering from Auburn University.

#### **Relationship to District**

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

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

- A January 29, 1998, Memorandum of Understanding provides that the Authority will pay the District a PILOT for government services it receives from the District (e.g., police, fire, emergency services, etc.). This MOU provides that, beginning in Fiscal Year 1999, the annual PILOT will be based on the amount due from the Authority to the District for the previous Fiscal Year plus a percentage increase in an amount equivalent to the Authority's System-wide rate increase for the current Fiscal Year. The amount the Authority pays to the District, however, shall not exceed the amount provided in the annual cost certification produced by the District CFO. In June 2009, the Authority received a cost certification from the District CFO that estimated the value of the government services rendered by the District to the Authority in Fiscal Year 2008. In the Authority's view, the District CFO's estimates were significantly higher than the amounts permitted based on the criteria established in this MOU. The Authority is engaged in negotiations with the District regarding the District's estimates. The Authority has continued to make certain payments to the District and has set aside approximately \$22.4 million in reserves as of March 31, 2014 pending resolution of its negotiations with the District.
- A September 12, 2003, Memorandum of Understanding provides that the Authority will make quarterly payments to the District for its public right of way occupancy permit fee. This fee is levied on all utilities in the District for the occupancy of public rights of way for underground infrastructure. Under the terms of this MOU, the Authority's annual obligation under this fee was capped at \$5.1 million through September 30, 2013, the expiration date of the MOU. The MOU has now expired and the Authority is engaged in negotiations with the District regarding the public right of way occupancy permit fee. The Authority has set aside approximately \$2.6 million in reserves as of March 31, 2014 for ROW fees pending resolution of its negotiations with the District.



- Effective February 2007, the administration of the District’s stormwater program was transferred to DDOE. In July 2008, the Authority executed a Memorandum of Understanding, which extends for one year periods at the option of the parties, with DDOE pursuant to which the Authority collects a stormwater fee on behalf of DDOE and transfers it to DDOE. See “THE SYSTEM – The Wastewater System – District Stormwater Permit and Management Program” and “CUSTOMER BASE, RATES AND CHARGES – Components of Retail Rates and Charges.”
- An October 25, 2007, Memorandum of Understanding provided for the replacement and upgrade of all fire hydrants in the District. As part of the initial phase (within five years of the MOU’s execution) of the upgrade program, the Authority replaced 3,500 hydrants. This MOU also provides that while the District of Columbia Fire and Emergency Medical Services Department is responsible for the inspection of all fire hydrants in the District, the Authority is responsible for identifying and installing new fire hydrants, determining protocols for inspection and inspection data collection and management, as well as for appropriate fire hydrant use and maintenance standards to ensure that they are maintained and fully operational. The Authority annually bills the District for fire protection to recover the cost of service.

**Employees and Labor Relations**

The total number of authorized positions for the Authority for Fiscal Year 2014 was 1,260. As of January 1, 2013, the Authority had 1,062 full-time equivalent employees, of which approximately 729 were represented by five unions:

- American Federation of Government Employees (“AFGE”) consisting of Locals 631, 872 and 2553, representing 460 employees;
- American Federation of State, County and Municipal Employees (“AFSCME”), Local 2091, representing 250 employees; and,
- National Association of Government Employees (“NAGE”), representing 19 employees.

The Authority and the unions operate under a single Master Collective Bargaining Agreement for Compensation which expires on September 30, 2015. There are five separate working conditions agreements with the unions. The Authority has reached agreement on three (3) of the five (5) unions for successor agreements on working condition. These agreements expire on September 30, 2016 and September 30, 2017. The Authority is presently engaged in various stages of impasse mediation and arbitration on the remaining two (2) agreements. By law, the Authority employees may not strike.

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

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

	12/31/2014	12/31/2019	12/31/2024
Employees	14.33%	26.52%	36.60%
Directors and Executives	17.65%	23.53%	58.82%

Source: Authority records.

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

**Retirement/Pension Plan**

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

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

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

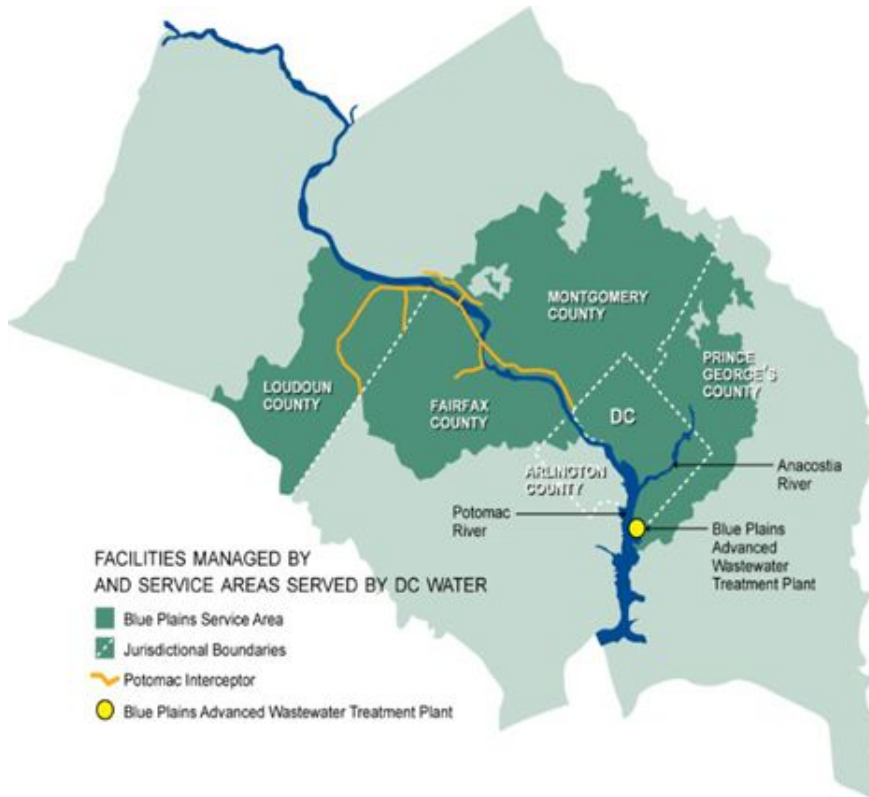
**Risk Management and Insurance**

The Authority has developed a comprehensive risk management and insurance program which is annually reviewed and periodically bid by management and their independent insurance advisors through qualified brokers and direct insurance writers. The most recent risk management, insurance assessment and bid process was completed in July 2013. The Authority’s insurance policies (including liability insurance and workers’ compensation, property, equipment, crime, fiduciary, public officials’ and employment practices liability) renew in July 2014. Since the passage of the Terrorism Risk Insurance Act of 2002 (“TRIA”), terrorism coverage is included under all insurance policies.

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**THE SYSTEM**

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



**The Wastewater System**

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

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

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

*Service Area*

The Blue Plains service area includes the District (retail service), parts of Fairfax and Loudoun Counties, the Town of Vienna in Virginia, parts of Prince George's and Montgomery Counties in Maryland, Washington Dulles International Airport and various U.S. Government agencies located in Virginia and Maryland (wholesale service). The population of the Blue Plains service area totals approximately 2.2 million, consisting of more than 640,000 residents of the District and 1.6 million residents of the surrounding jurisdictions. In addition, the Authority annually serves approximately 17.8 million visitors to the area and approximately 700,000 workers in the District.

*Wholesale Customer Agreements*

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

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

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

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

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

#### *Wastewater Collection*

The wastewater collection system consists of approximately 1,800 miles of sanitary, stormwater and combined sewers, 125,000 building sewer laterals, 22 flow-metering stations, nine off-site wastewater pumping stations and 16 stormwater pumping stations. The Authority has completed detailed assessments and a large number of improvements to many of the pumping stations. See “THE SYSTEM – Wastewater Regulation and Permits” below.

#### *Sanitary Sewer System*

A sanitary sewer system serves two-thirds of the District's land area. The system includes 600 miles of interceptor and sewer collection pipes with eight sanitary pumping stations. The typical operation is a gravity flow system with a few pumping stations to pump across higher grades in the District. A series of recent upgrades to the Authority's sanitary sewer system have made the system compliant with new code standards and regulations, and increased the efficiency and effectiveness of several of the system's pump stations.

#### *Combined Sewer Overflow Wastewater System*

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

#### *Biosolids Disposal*

Blue Plains currently produces approximately 1,200 wet tons or 60 truckloads of biosolids on a daily basis. Currently these biosolids are considered Class B and are applied directly to land at various sites in Virginia and Maryland, with disposal in landfills being utilized as an alternate method if weather conditions do not allow land application. The CIP includes approximately \$222 million for the costs of implementing the new biosolids disposal process. The Authority expects to begin operating the new biosolids digestion process in Fiscal Year 2015. See “CAPITAL IMPROVEMENT PROGRAM – Categories of CIP Projects – Wastewater Treatment Projects.”

### Wastewater Regulation and Permits

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

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

The CSO LTCP project continues on schedule. The Anacostia River Facilities Plan was approved by EPA in July 2010 and the implementation of the plan commenced. The CIP includes approximately \$1.49 billion for the costs of the CSO LTCP and combined sewer projects. See “CAPITAL IMPROVEMENT PROGRAM – Categories of CIP Projects – Combined Sewer Overflow Projects.” Once completed, the CSO LTCP project will create 12 miles of tunnels with a combined storage capacity of 184 million gallons, two new tunnels dewatering pumping stations, and several diversion structures and sewers to collect CSO overflows. Effective May 1, 2009, the Authority implemented a rate structure that more equitably allocates the costs of the CSO LTCP to retail customers based on the impervious surface area on customers’ properties. See “CUSTOMER BASE, RATES AND CHARGES – Rate-Setting Authority – Components of Retail Rates and Charges – Clean Rivers Impervious Area Charge.”

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

*Wastewater Consent Decree and Stipulated Agreement and Orders.* Upon its creation, the Authority assumed responsibility for compliance with various legal actions taken against the District related to operation of, and discharges from, Blue Plains, specifically including a judicial Consent Decree issued in 1995 (the “1995 Consent Decree”) and a subsequent Stipulated Agreement and Order (the “1996 Stipulated Agreement and Order”). The Authority is presently in compliance with all of the requirements under each of the 1995 Consent Decree and the 1996 Stipulated Agreement and Order. The EPA Region III has acknowledged satisfaction of these requirements, although the 1995 Consent Decree remains in effect.

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

The NPDES Permit requires the Authority to comply with a new total nitrogen discharge limit by January 1, 2015. The new total nitrogen discharge limit matches the 2010 goal of the Chesapeake 2000 Agreement. The Authority has negotiated with EPA Region III to define the scope and schedule of capital improvements that are necessary to implement this modification and as a result has developed the Blue Plains Enhanced Nitrogen Removal Facilities program (“ENRF”), which is designed to improve treatment processes to achieve advanced treatment with nitrification and denitrification facilities. The CIP includes approximately \$405 million for the cost of the ENRF, which is expected to be completed in 2015. See “CAPITAL IMPROVEMENT PROGRAM – Categories of CIP Projects – Wastewater Treatment Projects.”

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

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

## **The Water System**

### *The Washington Aqueduct*

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

The Aqueduct facilities supply treated water to distribution systems of the Authority, Arlington County, Fairfax County Water Authority (“FCWA”) (collectively, the “Aqueduct Customers”), the federal government, and other parts of northern Virginia. As of January 3, 2014, FCWA assumed ownership and operation of the water distribution system previously owned and operated by the City of Falls Church. The Authority is responsible for managing the treated Water System that serves the District and several other governmental customers outside the District. The Authority purchases approximately 73% of the finished water produced by the Aqueduct, and Arlington County and the FCWA, Virginia purchase the remainder. The Authority’s share of the water purchased from the Aqueduct in the last ten



Fiscal Years is set forth in the following table. For a discussion regarding the reduction in consumption and customer demand, see “CUSTOMER BASE, RATES AND CHARGES – Customer Demand.”

**Historical Water Demand**

Fiscal Year ended September 30	Annual Deliveries to System (MG)	Average Day (MGD)	Max Day (MGD)
2004	46,725	128.0	164.6
2005	45,057	123.4	149.6
2006	41,541	113.8	161.6
2007	41,687	114.2	156.5
2008	40,755	111.7	150.5
2009	39,998	109.6	150.4
2010	38,589	105.7	146.9
2011	37,556	102.9	143.7
2012	36,930	100.9	142.9
2013	34,714	95.1	129.7

Source: Authority’s CAFR.

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

The federal Safe Drinking Water Act Amendments of 1996 authorized the Secretary of the Army with the consent of the Authority, the City of Falls Church and Arlington County to either establish a non-federal public or private utility to receive title to operate, maintain and manage the Aqueduct or to allow the Army to remain as owner and operator with the Authority, the City of Falls Church and Arlington County having some input into strategic operations, direction, operations and capital improvement of the Aqueduct. In May 1998, the Authority, the City of Falls Church, Arlington County and the Army executed a Memorandum of Understanding that the Army would continue to own and operate the Aqueduct facilities. In December 2013, the Authority, FCWA, Arlington County and the Army executed a revised Memorandum of Understanding to include the FCWA as the successor in interest to the City of Falls Church.

The Aqueduct has developed a capital improvement program, including improvements to the Dalecarlia and McMillan Water Treatment Plants (each a “WTP”), raw water conduits, pumping stations and reservoirs. The proposed lifetime budget for the Authority’s share of the costs of Aqueduct capital improvements totals approximately \$286 million. The Authority estimates in the CIP that the cost of the Washington Aqueduct Project will be \$100 million. See “CAPITAL IMPROVEMENT PROGRAM – Categories of CIP Projects – Washington Aqueduct Projects.”

*Water Sales Agreement*

Pursuant to a Water Sales Agreement, dated as of July 31, 1997, by and between the Authority and the Army (the “Water Sales Agreement”), the Army sells and furnishes to the Authority all of the finished water that the Authority requires for the operation of the Water System to the extent that the

Army has water and facilities available at the Aqueduct. In accordance with the Water Sales Agreement, the Authority is obligated to make monthly payments into an escrow account to be used by the Army to cover the Authority's pro rata share, based on its consumption of water, of the costs of the operation and capital improvement of the Aqueduct. The Authority currently contributes approximately 73% of capital and operating expenditures of the Aqueduct. The Water Sales Agreement will remain in effect until September 30, 2023, unless earlier terminated in accordance with its terms. Thereafter, the Water Sales Agreement may continue until terminated by either party giving the other party not less than six months' prior written notice.

*Water Supply*

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

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

*Raw Water Supply Agreements*

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

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

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

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

*The Novation and Future Water Supply Storage Agreement* was executed in July 1982, by and among the United States, the Maryland Potomac Water Authority, WSSC, FCWA and the District, to provide for an initial water supply storage in the Jennings Randolph Lake reservoir of approximately two billion gallons. The Novation and Future Water Supply Storage Agreement increases the amount of water supply storage to 13.4 billion gallons, or 32% of the reservoir's total storage. Of the remaining reservoir storage 40% is designated for water quality and 28% for flood control.

#### *Water Treatment and Storage*

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

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

#### *Sold vs. Pumped Ratio*

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

The sold versus pumped ratio increased from 68% in 2004, to 76% in 2013, partly due to improvements in meter reading as a result of the Authority's comprehensive meter replacement and AMR project which began in 2002. The Authority has replaced approximately 99% of all meters designated for replacement. See "CAPITAL IMPROVEMENT PROGRAM – Categories of CIP Projects – Meter Replacement Projects." Water sales are derived from the operating budget of the Authority and may not be consistent with the audited financial statements for each year. The cost of unbilled water is not substantial relative to total annual expenses of the Authority.

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

#### *Drinking Water Quality*

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

The Aqueduct and the Authority are in substantial compliance with all physical, chemical, radiological and bacteriological standards established by the regulations currently in effect under the Safe

Drinking Water Act and are studying the potential impacts of proposed rules as well as those still under development by the EPA. As the EPA promulgates additional regulations, there is a potential that the Aqueduct or the Authority will be required to modify operations and/or construct facilities beyond those contemplated by the CIP. The Aqueduct and the Authority management believe, however, that planned capital projects should address all current regulatory requirements.

*NPDES Permit and Water Treatment System Sediments*

Until April 2003, during high flow periods, the Aqueduct discharged into the Potomac River the river sediments that are removed during the treatment process. The NPDES Permit issued in March 2003 included discharge limitations on sediments. The Aqueduct entered into a Federal Facilities Compliance Agreement (“FFCA”) with EPA Region III, which provides a legally mandated plan and an enforceable compliance schedule for achieving the effluent discharge limitations in the NPDES Permit. The Aqueduct evaluated various options for residuals collection, conveyance, processing and disposal and selected a process which dewateres the residuals on site and transports them off-site for disposal. Construction on this project commenced in Fiscal Year 2008, was completed and placed into service on November 22, 2012. The Authority’s share of the total cost of this project was \$98.6 million. See “CAPITAL IMPROVEMENT PROGRAM – Categories of CIP Projects – Washington Aqueduct Projects.”

*Lead Levels*

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

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

In February 2004, EPA Region III commenced an audit of the Authority’s compliance with the Lead and Copper Rule and found noncompliance with regard to sampling, monitoring, public notification and reporting requirements. In an Administrative Order dated June 17, 2004, as supplemented on January 14, 2005, and amended on June 8, 2005 (collectively, the “Administrative Order”), EPA Region III and the Authority agreed to remedies for the issues identified by the compliance audit. The Authority and the Aqueduct undertook appropriate measures to implement corrosion control treatment. Lead levels

have consistently been below the action level since 2005 and the Authority is no longer subject to the Administrative Order from EPA Region III.

Pursuant to a Consent Agreement and Final Order (“CAFO”) executed on May 2, 2007, the Authority agreed to pay a civil penalty in the amount of \$10,000 to EPA Region III for certain alleged reporting violations of the Lead and Copper Rule. The CAFO resolved all of the civil claims in connection with these allegations. EPA Region III and the DOJ also conducted an investigation to determine whether any criminal violations occurred in connection with the Annual Report on Lead Service Replacement Program the Authority filed with EPA Region III in October 2003 and the two different methods the Authority used to test lead levels. In October 2008, EPA Region III and the DOJ informed the Authority that it would take no adverse action against the Authority, thereby resolving all criminal claims against the Authority in connection with this matter.

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

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

The Edwards Study prompted the United States House of Representative’s Committee on Science and Technology to open an investigation into the 2004 CDC Report. The Majority Staff of the Subcommittee on Investigations and Oversight of the Committee on Science and Technology issued a report on May 20, 2010, releasing its findings. The Subcommittee’s primary findings include, among others, that (i) the CDC knowingly used flawed data in drafting the 2004 CDC Report, leading to “scientifically indefensible” claims being included in the 2004 CDC Report, and (ii) the CDC failed to publicize later research showing that the harm was more serious than the 2004 CDC Report suggested. In May and June 2010, the CDC issued two notices to the readers of its digest, *Morbidity and Mortality Weekly Report*, admitting that the 2004 CDC Report was misleading and that it “should not be used to make conclusions about the contribution of water lead to blood levels in DC, to predict what might occur in other situations where lead levels in drinking water are high, or to determine safe levels of lead in drinking water.” In December 2010, the CDC published a study of the District’s water supply conducted from 1998 to 2006, which concluded that children living in the District were exposed to high levels of

lead despite an attempt to prevent the water from being contaminated by partial lead service replacements. The 2010 CDC Study confirms information the Authority received in previous years which led the Authority in 2008 to discontinue the partial lead service line replacements. Partial line replacements can cause agitation that temporarily releases lead into the home, which can cause a temporary spike in lead levels. As described above, the Authority modified its lead service line replacement program in 2009 and continues its efforts to address lead in drinking water by: (i) monitoring household lead levels to ensure drinking water is in compliance with the EPA drinking water standards, (ii) conducting research on household plumbing characteristics, (iii) offering free lead testing, (iv) recommending full lead service replacements on public and private property, (v) providing free water filters and lead testing following a full or partial lead service line replacement, (vi) recommending that pregnant women and children under the age six should use filtered tap water for drinking and cooking until all sources of lead impacting water are removed, and (vii) participating in coordinated District interagency meetings and responses to lead in water issues.

The Authority estimates the cost of the lead service line replacement program in the CIP at \$12.7 million. Since inception through April, 2014, the Authority expended \$137.3 million on the lead service line replacement program. See "CAPITAL IMPROVEMENT PROGRAM – Categories of CIP Projects – Water Projects."

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

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

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

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

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

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

**CAPITAL IMPROVEMENT PROGRAM**

**General**

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

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

**Capital Improvement Program Criteria**

	Mandates	Health & Safety	Board Policy	Potential Failure	High Profile / Good Neighbor	Good Engineering Practices / High Payback	Good Engineering Practices / Low Payback	Total
	Agreements, Regulatory standards, Court orders, Issues and Permits requirements, Stipulated Agreements, Etc.	Required to address Public Safety	Undertaken as a result of the Board's commitment to outside agencies	Related to Facilities in danger of failing, or critical to meeting permit requirements	Address Public concerns	Need to fulfill Mission and upgrade Facilities	Lower priority projects	
FY 2014	\$211,942	\$19,138	\$44,285	\$38,532	\$10,752	\$216,696	\$15,780	\$557,125
FY 2015	283,057	27,804	84,896	58,926	8,416	148,019	17,659	628,779
FY 2016	240,269	17,096	30,889	74,119	5,877	113,943	40,728	522,921
FY 2017	190,474	10,398	5,499	64,678	1,619	93,991	53,409	420,070
FY 2018	184,551	7,155	5,006	45,560	192	102,767	57,714	402,945
FY 2019	131,076	18,295	5,052	47,130	179	105,383	22,879	329,994
FY 2020	95,473	13,219	3,953	21,875	184	98,556	19,763	253,022
FY 2021	82,261	10,432	1,710	14,427	187	91,884	34,996	235,898
FY 2022	68,077	14,083	1,203	15,474	182	92,983	37,584	229,586
FY 2023	107,928	13,171	1,161	18,873	176	104,324	23,970	269,603
<b>Total</b>	<b>1,595,108</b>	<b>150,790</b>	<b>183,655</b>	<b>399,596</b>	<b>27,764</b>	<b>1,168,547</b>	<b>324,482</b>	<b>3,849,942</b>
<b>Total % of Total</b>	<b>41.43%</b>	<b>3.92%</b>	<b>4.77%</b>	<b>10.38%</b>	<b>0.72%</b>	<b>30.35%</b>	<b>8.43%</b>	<b>100.00%</b>
<b>FY 12- FY21</b>	<b>43.73%</b>	<b>2.95%</b>	<b>2.74%</b>	<b>11.01%</b>	<b>0.87%</b>	<b>34.64%</b>	<b>4.06%</b>	<b>100.00%</b>

Source: Authority records.

Since its creation in 1996 through September 30, 2013, the Authority has expended approximately \$3.6 billion, on a cash disbursement basis, for capital improvement projects, including \$1.2 billion for projects at Blue Plains, \$662 million for Water System infrastructure projects, \$800 million for the CSO LTCP and combined sewer projects, \$174 million for sanitary sewer projects and \$53 million for meter replacement/AMR projects. The Authority estimates the cost of the Fiscal Year 2014 - 2023 CIP at \$3.8 billion on a cash disbursement basis, including approximately \$924 million for

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wastewater treatment projects at Blue Plains, \$1.5 billion for the CSO LTCP and combined sewer projects, \$626 million for Water System infrastructure projects, \$491 million for sanitary sewer projects, \$139 million for capital equipment and \$39 million for meter replacement/AMR projects. The Board approved the CIP on December 5, 2013.

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

Fiscal Year 2014-2023 Capital Improvement Program  
Sources and Uses of Capital Funds  
Fiscal Years ended/ending September 30  
(\$ in millions)<sup>1</sup>

	Actual 2013	2014	2015	2016	2017	Projected						Total
						2018	2019	2020	2021	2022	2023	
<b>Beginning Balance</b>	\$244.48	\$283.18	\$365.03	\$200.82	\$156.42	\$169.69	\$140.77	\$105.12	\$102.87	\$110.93	\$118.18	\$283.18
<b>Sources of Funds</b>												
Proceeds from Revenue Bonds	300.00	396.15	250.00	300.00	286.00	240.00	182.00	140.00	130.00	115.00	115.00	2,154.15
Pay-Go Financing	52.54	26.32	40.42	46.49	50.52	59.87	70.02	78.08	82.72	86.35	94.84	635.63
EPA Grants/D.C. Reimbursement	34.96	19.54	31.77	16.90	11.62	11.62	11.62	11.62	11.62	11.62	11.62	149.54
CSO Grants	25.56	21.14	15.74	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	36.88
Wholesale Customer Contributions	184.40	175.67	126.01	113.64	83.05	60.14	28.44	19.33	17.99	22.42	23.83	670.52
Interest Income	0.27	0.16	0.63	1.50	2.15	2.40	2.28	1.75	1.63	1.44	1.44	15.35
<b>Total Sources of Funds</b>	<b>\$597.74</b>	<b>\$638.98</b>	<b>\$464.56</b>	<b>\$478.53</b>	<b>\$433.34</b>	<b>\$374.02</b>	<b>\$294.35</b>	<b>\$250.78</b>	<b>\$243.96</b>	<b>\$236.83</b>	<b>\$246.72</b>	<b>\$3,662.07</b>
<b>Uses of Funds</b>												
Water Projects	\$ 47.58	\$ 57.40	\$ 84.11	\$ 71.27	\$ 57.22	\$ 73.71	\$ 65.45	\$59.40	\$50.27	\$51.63	\$55.93	\$ 626.39
Wastewater Treatment Projects	313.95	268.19	174.36	146.11	118.39	91.69	31.55	19.56	16.32	27.90	29.79	923.87
Sanitary Sewer Projects	24.64	29.82	49.28	69.56	56.07	51.32	66.97	46.42	43.92	34.43	42.77	490.54
Combined Sewer Projects	8.28	14.18	12.32	41.94	37.71	20.52	23.79	18.75	27.45	31.82	18.90	247.38
CSO LTCP Projects	136.14	152.33	271.59	160.60	111.96	128.44	115.90	82.31	70.67	57.09	96.75	1,247.63
Stormwater Projects	3.30	2.84	2.04	3.81	9.53	10.58	1.53	1.04	1.41	1.49	1.13	35.39
Washington Aqueduct Projects	5.92	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	100.00
Capital Equipment	16.32	16.63	17.19	14.10	14.75	14.50	12.11	12.92	12.74	12.77	11.72	139.44
Meter Replacement/AMR	2.91	5.73	7.90	5.54	4.44	2.19	2.69	2.62	3.13	2.45	2.62	39.30
<b>Total Uses of Funds</b>	<b>\$559.04</b>	<b>\$557.13</b>	<b>\$628.78</b>	<b>\$522.92</b>	<b>\$420.07</b>	<b>\$402.95</b>	<b>\$329.99</b>	<b>\$253.02</b>	<b>\$235.90</b>	<b>\$229.59</b>	<b>\$269.60</b>	<b>\$3,849.95</b>
<b>Sources Minus Uses</b>	<b>\$38.69</b>	<b>\$81.86</b>	<b>(\$164.21)</b>	<b>(\$44.39)</b>	<b>\$13.27</b>	<b>(\$28.92)</b>	<b>(\$35.65)</b>	<b>(\$2.24)</b>	<b>\$8.06</b>	<b>\$7.24</b>	<b>(\$22.88)</b>	<b>(\$187.88)</b>
<b>Ending Balance</b>	<b>\$283.18</b>	<b>\$365.03</b>	<b>\$200.82</b>	<b>\$156.42</b>	<b>\$169.69</b>	<b>\$140.77</b>	<b>\$105.12</b>	<b>\$102.87</b>	<b>\$110.93</b>	<b>\$118.18</b>	<b>\$95.30</b>	<b>\$95.30</b>

<sup>1</sup> Totals may not add due to rounding.



### Categories of CIP Projects

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

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

The CIP budget for wastewater treatment projects is approximately \$924 million, which includes approximately \$222 million in disbursements for solids processing projects such as major improvements to solids dewatering and thickening facilities and \$405 million for the ENRF program. In the event the EPA Region III requires the Authority to revise its current plans and/or proposals for the ENRF program, the cost of implementing the ENRF program could be substantially greater than the amount included in the CIP. See "THE SYSTEM – Wastewater Regulation and Permits – *The Chesapeake Bay Agreements.*"

*Sanitary Sewer Projects.* The CIP includes approximately \$491 million for sanitary sewer projects including the rehabilitation of three sanitary sewer pumping stations – Rock Creek, Earl Place and Upper Anacostia, sewer condition assessments that cover 90 miles of the system per year through year 2016, reconstruction of the 50-mile Potomac Interceptor and other on-going sewer projects such as repairs and replacement of manholes and improvements to access roads.

In 2009, the Authority completed a Sewer System Facilities Plan. This document culminated a five year effort involving sewer inspection and condition assessment, development of a sewer GIS database, hydraulic monitoring and modeling to assess system capacity and the development of prioritized activities for system improvement. The Sewer System Facilities Plan identified a significant increase in funding needed for sewer infrastructure improvement, which is reflected in the CIP.

*Combined Sewer Overflow Projects.* The CIP includes \$1.495 billion for the CSO LTCP and combined sewer projects. The CSO LTCP is designed to control combined sewer overflow discharges to prevent them from causing or contributing to violations of applicable water quality standards. See “THE SYSTEM – Wastewater Regulation and Permits – NPDES Permit.” Pursuant to the CSO LTCP, the Authority will construct combined sewage storage/conveyance tunnels that are designed to intercept and store water until Blue Plains can receive and treat the combined sewage. The CSO LTCP includes a variety of capital improvement projects throughout the System including three large tunnel systems which will accommodate the storage of combined sewer overflows (CSOs) from storm events until they can be conveyed to Blue Plains for treatment. Approximately one-third of the System is served by a combined sewer system, in which both sanitary sewage and storm water flow through the same pipes. When the collection system reaches capacity, typically during periods of heavy rainfall, the system is designed to overflow the excess diluted sewage or CSOs. When completed, the CSO LTCP will reduce the combined sewer overflows by at least 96% (exceeding the EPA standard of 85%), reducing pollution to the Potomac, Anacostia and Rock Creek waterways, improving water quality, and reducing locally generated debris from the combined sewer system and local waterways. The Authority expects to implement the CSO LTCP over a 20-year period [OR 25 YEAR PERIOD?], which commenced in March 2005, at a total estimated cost (including funds spent prior to Fiscal Year 2013) of \$2.3 billion [OR 2.6 BILLION?].

The Authority has also proposed a Green Infrastructure (GI) initiative as part of the DC Clean Rivers Project to explore the potential to reduce the size of the tunnels required to serve the Rock Creek and Potomac River by implementing new environmental technologies on a significant scale. GI technologies capture, infiltrate, treat and reuse polluted storm water runoff before it enters the sewer system. Examples of GI technologies include rain gardens, porous pavements, bio-swells, green roofs, infiltration planters, trees and tree boxes, and rainwater harvesting for non-potable uses such as landscape irrigation.

*Stormwater Projects.* The budget for the stormwater service area in the CIP is approximately \$35 million and includes extensions to the system and relief of certain sewers as well as rehabilitation or replacement of deteriorated storm sewers.

*Washington Aqueduct Projects.* The Washington Aqueduct provides wholesale water treatment services to the Authority and other Aqueduct Customers. See “THE SYSTEM – The Water System – The Washington Aqueduct.” Under federal legislation enacted and a memorandum of understanding executed in 1997, the Aqueduct Customers have a role in the oversight of the Aqueduct’s operations and its capital improvement program. The Aqueduct successfully designed, constructed and implemented a new orthophosphate corrosion control system at its water treatment plants in 2005 that meets the optimal corrosion control requirements of the Lead and Copper Rule. As a result, periodic sampling by the Authority shows that lead levels are below the action level, which supported the decision of the Authority to significantly modify its lead pipe replacement program. The CIP includes approximately \$100 million for Aqueduct projects. See “THE SYSTEM – The Water System – Water System Regulation and Permits – NPDES Permit and Water Treatment System Sediments.”

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

The CIP includes approximately \$626 million in improvements to the Water System, including new system storage facilities, a wide range of water distribution piping improvements such as new main

extensions, major valve replacements, water main dead-end elimination and a large number of water transmission and distribution rehabilitation/replacements, fire-hydrant replacements, DDOT-related water main projects, and approximately \$12.7 million for the water lead program. See “THE SYSTEM – The Water System – Water System Regulation and Permits – *Lead Levels*.”

*Capital Equipment Projects.* The CIP includes approximately \$139 million for major information technology projects, vehicle fleet upgrades and maintenance of large equipment projects at Blue Plains and the major water and sewer pumping stations.

*Meter Replacement Projects.* The CIP includes approximately \$39 million for ongoing meter replacements and continued AMR system improvements and upgrades to the AMR equipment. This planned upgrade is part of the Authority’s preventative maintenance program for the advanced meter infrastructure, which collect approximately 260,000 meter readings per day and are an essential asset to the Authority’s billing process. The upgrades allow the Authority to move to the current version of AMI software and replace aging meters and meter data communication equipment.

### **CIP Financing Sources**

The Authority expects to finance the CIP from the sources summarized below.

- *Revenue Bonds/Commercial Paper Notes* – The Authority expects to finance approximately \$2.154 billion, or 59% of the CIP funding sources, with new long-term debt. The Authority has used, and expects to use in the future, its Commercial Paper Notes to fund capital needs on an interim basis, followed by issuance of long-term revenue bonds to retire outstanding Commercial Paper Notes and provide permanent financing for CIP costs. As approved by the Board, the total amount of Commercial Paper Notes outstanding at any time cannot exceed \$200 million. As of the date of this Offering Memorandum, \$12 million of the Series B CP Notes and \$29.2 million of the Series C CP Notes were outstanding. The Series B CP Notes and the Series C CP Notes will be retired in installments from proceeds of future tax-exempt bonds.

- *Wholesale Customer Contributions* – Under the terms of the 2012 IMA, the Authority’s wholesale customers share the cost of operating, maintaining and making capital improvements at Blue Plains. A separate agreement with the Loudoun County Sanitation Authority (“LCSA”) allows the Authority to recoup capital and operating costs from the LCSA on the same basis as provided for in the 2012 IMA. Contribution levels are governed by the agreements that provide for the pro-rata reimbursement for capital improvements based on the capacity allocated to each wholesale customer. The Authority expects to finance approximately \$671 million, or 18% of the CIP funding sources, with capital funding from wholesale customers. As of the date of this Offering Memorandum, all wholesale customers were current on their capital contributions payments.

- *Federal and Other Grants* – The Authority receives annual grants under the Clean Water Act and Safe Drinking Water Act for a variety of projects at Blue Plains and for the Water System. In addition, the Authority has received a special Congressional appropriation for improvements to the combined sewer system. The Authority expects to finance approximately \$186 million, or 5% of the CIP funding sources, with federal grants. Pursuant to the Safe Drinking Water Act and the Clean Water Act, the federal government makes annual appropriations for projects to improve drinking water supplies and wastewater treatment. Unlike most public water or wastewater utilities, the Authority receives appropriations in the form of grants and not as loans pursuant to a State Revolving Fund program. Under the terms of these grants, payments to the Authority are made on a reimbursable basis, with unclaimed appropriations remaining available to be obligated in subsequent years.

Under the Wet Weather Water Quality Act of 2000 that codified the EPA's 1994 National CSO Policy, the United States Congress authorized grant funding for the CSO LTCP projects. These appropriations require a 50% match from the Authority. As of March 31, 2014, the Authority had received \$182.8 million in grant funding for the CSO LTCP projects.

- *Pay-As-You-Go Financing* – Revenues in excess of those required to meet operating and maintenance expenses, to make debt service payments and to fund reserves can be used, at the discretion of the Authority, to fund a portion of the CIP. The Projected Financial Operations of the Authority assume that such amounts are used as a source of funds for the CIP. In addition, the Authority has established a separate line item in its operating budget beginning in Fiscal Year 2015 to provide funds for additional cash-financed capital construction, the defeasance of debt, or other uses at the discretion of the Authority. The Projected Financial Operations of the Authority assume that the amounts in this line item are also used a source of funds for the CIP. The authority expects to finance approximately \$636 million, or 17%, of the CIP funding sources with pay-as-you-go funds.

The Board has also adopted a policy that authorizes any funds in excess of the operations and maintenance reserve and any other significant one-time cash infusions to be used to finance the CIP or to pay off higher cost taxable debt. The Projected Financial Operations of the Authority assume that no funds are currently available from these potential sources at the time of this Offering Memorandum.

- *Interest Income on Bond Proceeds* – Subject to Federal tax law requirements relating to use of the proceeds of tax-exempt bonds, the Authority uses interest earned on the proceeds of its bonds as a source of funds for the CIP. This interest income is treated as non-operating revenue of the Authority that is available to pay debt service, if needed. The use of this income for capital funding purposes represents another source of pay-as-you-go capital. The Authority estimates that \$15 million in interest income will be available to finance the CIP.

**Cost Estimates**

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

An additional consideration regarding the construction cost estimates is the value of change orders relative to the total cost of construction work performed. The cost of construction-related change orders executed by the Authority for contracts undertaken during the five-year period from Fiscal Year 2009 through Fiscal Year 2013 was \$58 million, or 3% of the total original value of the contracts of \$1.9 billion for this period. The relatively low value of change orders compared to the total construction costs incurred is an indication that project designs are thorough and that projects are being effectively managed during construction.

**CUSTOMER BASE, RATES AND CHARGES**

**Customer Categories and Accounts**

As of September 30, 2013, the System had 126,497 active, metered water and wastewater accounts. Except for wholesale accounts, the majority of accounts receive both water and wastewater

service. The Authority's customer accounts are divided into four categories: residential, commercial, governmental and wholesale. The number of accounts in each of the categories is as follows:

<u>Customer Category</u>	<u>Number of Accounts</u>
Residential	104,477
Commercial	19,343
Governmental	
Federal	542
District of Columbia	630
D.C. Housing Authority <sup>1</sup>	1,460
Authority <sup>1</sup>	36
Aqueduct	2
Wholesale	7
<b>Total</b>	<b>126,497</b>

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

Source: Authority records.

**Customer Base**

The Authority's customer and revenue base is diverse, consisting of a wide variety of residential, commercial and governmental customers, as well as wholesale wastewater customers. For the three year period from Fiscal Year 2011 through Fiscal Year 2013, the commercial customer revenue represented about 21.5% of total operating revenue.

This group includes a variety of commercial uses, including nationally recognized universities and regional hospitals, commercial office space with tenants that are national associations, lobbying firms, major law firms and large hotels. The following table reflects the Authority's ten largest commercial customer accounts in Fiscal Year 2013, which in aggregate represented 3.5% of total operating revenues.

**Ten Largest Commercial Customers (2013)**

<u>Customer</u>	<u>Revenue</u>	<u>% of Total Operating Revenues</u>
Howard University	\$ 2,699,376	0.6%
George Washington University	2,161,183	0.5
Georgetown University	1,865,068	0.4
William C. Smith & Co.	1,782,719	0.4
Washington Hospital Center	1,693,655	0.4
Horning Brothers	1,258,995	0.3
American University	1,253,038	0.3
Georgetown University Hospital	1,053,659	0.2
Amtrak	1,004,177	0.2
Metropolitan Washington Airports	716,929	0.2
<b>Total</b>	<b>\$15,488,799</b>	<b>3.5%</b>

Source: Authority records.

The Authority serves many facilities of the federal government as well as the District of Columbia. In Fiscal Year 2013, government revenue represented approximately 15.2% of total operating

revenues. The following table reflects the Authority's ten largest government customers in Fiscal Year 2013, which in aggregate represented 7.9% of total operating revenues.

**Ten Largest Government Customers (2013)**

<b>Customer</b>	<b>Revenue</b>	<b>% of Total Operating Revenues</b>
U.S. General Services Administration	\$ 7,184,034	1.6%
D.C. Housing Authority	5,879,383	1.3
U.S. Congress	4,926,790	1.1
Department of Defense (VA)	3,275,936	0.7
Smithsonian Institution	3,038,455	0.7
National Park Service	2,577,096	0.6
Bolling Air Force Base	2,265,348	0.5
D.C. Board of Education	2,092,748	0.5
Federal Naval Research Lab	1,833,491	0.4
Department of the Navy	1,521,264	0.3
<b>Total</b>	<b>\$34,594,495</b>	<b>7.9%</b>

Source: Authority records.

**Customer Demand**

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

The following table shows the average percentage of annual water consumption by customer category for the period from Fiscal Year 2009 through Fiscal Year 2013. The results illustrate the diversification of the Authority's customer base.

**Average Annual Consumption By Customer Category**  
**Fiscal Years 2009 – 2013**  
(millions of Ccf)

	<u>Average Annual</u>	<u>Percent of Total</u>
Residential Single-Family	8.08	21.5%
Residential Multi-Family	7.77	20.7%
Commercial	13.20	35.1%
Federal Government	5.93	15.8%
D.C. Municipal Government	1.10	2.9%
D.C. Housing Authority	0.89	2.4%
Authority	0.28	0.7%
Special Accounts <sup>1</sup>	0.31	0.8%
<b>Total Average Consumption</b>	<b>37.56</b>	<b>100.0%</b>

Source: Authority records.

<sup>1</sup> See “THE SYSTEM – Customer Base Rates and Charges – Special Accounts.”

The following table shows historical consumption for the Authority’s customer categories for Fiscal Years 2010 through 2013, and projected consumption for Fiscal Years 2014 through 2018. The Authority’s implementation of the AMR program, which included the replacement and repair of meters, significantly reduced estimated meter readings and improved the reporting of actual consumption.

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

	<u>Actual</u>				<u>Projected</u>				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Residential Single-Family	8.32	8.27	7.88	7.64	7.58	7.50	7.43	7.35	7.28
Residential Multi-Family	7.99	7.83	7.57	7.46	7.37	7.30	7.22	7.15	7.08
Commercial	13.16	13.44	13.26	13.16	12.94	12.81	12.67	12.55	12.42
Federal Government	5.91	6.00	6.07	5.38	5.35	5.30	5.24	5.19	5.14
D.C. Municipal Government	1.26	1.32	1.20	0.46	0.74	0.73	0.72	0.71	0.70
D.C. Housing Authority	0.94	0.91	0.78	0.76	0.75	0.74	0.74	0.73	0.72
Authority	0.33	0.34	0.34	0.11	0.14	0.14	0.14	0.14	0.13
Special Accounts <sup>1</sup>	0.41	0.44	0.15	0.13	0.09	0.09	0.09	0.09	0.09
<b>Total Consumption</b>	<b>38.32</b>	<b>38.54</b>	<b>37.24</b>	<b>35.10</b>	<b>34.96</b>	<b>34.61</b>	<b>34.25</b>	<b>33.91</b>	<b>33.57</b>

Note: Projections for Fiscal Year 2014 and for Fiscal Years 2015 through 2018 assume a 0.44% and a 1% annual decline in water consumption for each customer category, respectively.

\*Totals may not add due to rounding.

Source: Authority records.

<sup>1</sup> See “THE SYSTEM – Customer Base Rates and Charges – Special Accounts.”

Some fluctuation in consumption can occur in a given year due to variations in weather conditions and other factors such as billing adjustments. Consumption increased slightly in Fiscal Year 2011. In Fiscal Year 2012, consumption declined as compared to Fiscal Year 2011 at a rate of 3.4%. The decline continued in Fiscal Year 2013, during which consumption declined by 5.7%. For present revenue projection purposes, the Authority assumed that demand will continue to decline for the foreseeable future given the experience of DC Water and many other large water utilities in recent years.

The Authority anticipates that consumption will total 34.96 million Ccf in Fiscal Year 2014, representing a decrease of approximately 0.44% compared to Fiscal Year 2013. The Authority assumes that long-term water consumption will decline at the rate of 1% per year beginning in Fiscal Year 2015,

recognizing that weather conditions and other factors may affect water demand in a given year. The expectation that future sales will decline is consistent with recent trends in the Washington, D.C. region as well as the projected sales in other large cities in the northeast United States.

Year-to-date demand through March 31, 2014 (the first six months of Fiscal Year 2014), was 3.3% lower than the comparable period in Fiscal Year 2013, excluding use by the Aqueduct. The decline is primarily attributable to reductions in use by the federal government. The Authority is reviewing metered consumption and billings to the federal government.

It is too early in the Fiscal Year to reach any conclusions concerning the likely Fiscal Year 2014 consumption by retail customers since revenue in a given month may be affected by billing adjustments or other factors. However, there is some risk that consumption could be lower than anticipated during the Projection Period. The risk is mitigated to some extent in that revenues from the federal government are determined in advance and then subject to a true-up after the year is completed. Retail revenue that is not consumption-related, such as the meter charge and the CRIAC, would also be unaffected. Consumption-based water and sewer revenues within the District are estimated to comprise about 57% of total revenues (excluding withdrawals from the Rate Stabilization Fund) in Fiscal Years 2014 through 2018. The Authority evaluates its water consumption projections annually in connection with its budget preparations and more frequently if the need arises.

Year-to-date cash receipts through March 31, 2014 are relatively consistent with planned receipts. The risk of lower-than-projected revenues in Fiscal Year 2014 due to lower-than-assumed consumption is expected to be mitigated, in part, by the Authority's track record of keeping its costs below budget. The Authority also anticipates that it will have a surplus of funds in Fiscal Year 2014. In Fiscal year 2015 and subsequent years, the Authority anticipates that the difference between actual and budgeted operating expenses will be less than in previous years due to budget planning that focuses on having actual expenses more closely aligned with budgeted expenses. Simultaneously, the Authority has established a separate line item in its operating budget beginning in Fiscal Year 2015 to provide funds for additional cash-financed capital construction, the defeasance of debt, or other uses at the discretion of the Authority. The amounts in this line item could alternatively be used by the Authority to help address potential shortfalls in cash receipts or increases in expenses, should the need arise. In addition, the Authority has the ability to adjust its rates, as necessary, to provide the required revenues in each year.

#### **Rate-Setting Authority**

##### *Retail Rates and Fees*

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

The Authority receives annual grant funding under the Clean Water Act which requires the maintenance of wastewater charges sufficient to defray costs of operation, maintenance and replacement and surcharges for industrial discharges into the System's sewers levied in conformity with formulas set forth in the Clean Water Act and regulations thereunder. Retail revenues, including the Federal Government, are expected to constitute approximately 76% of the Authority's total annual revenues during Fiscal Year 2014 through Fiscal Year 2018 (excluding withdrawals from the Rate Stabilization Fund and Right-of-Way and PILOT Revenues).



*Federal Government Charges*

The Authority's forecasted water and wastewater charges for the federal government are prepared and included in the federal budget 18 months in advance of the commencement of the Authority's Fiscal Year based on the prevailing consumption estimates, projected retail rate increases as included in the current 10-year financial plan and adjustments for prior year true-ups. The federal government budgets for and pays its bills quarterly, directly from the U.S. Treasury, based on the estimates provided by the Authority in advance. Under the current billing process, any differences between the projected and the actual charges are netted against a future year's billing. Federal government revenues are expected to constitute approximately 9% of the Authority's total annual revenues during Fiscal Year 2014 through Fiscal Year 2018 (excluding withdrawals from the Rate Stabilization Fund).

*Wholesale Customer Charges*

The Authority provides wholesale wastewater treatment services to User Jurisdictions at Blue Plains. Each wholesale customer's share of operating costs at Blue Plains is recovered in accordance with the Blue Plains Intermunicipal Agreement of 1985, the 2012 IMA, the Potomac Interceptor Agreements and the Loudoun County Sanitation Authority Agreement (as discussed in more detail in "THE SYSTEM – The Wastewater System"), and is based on actual costs of operating and maintaining the plant and the collection facilities, prorated to each User Jurisdiction based on its respective actual share of wastewater flows. A User Jurisdiction's share of capital costs is based on its share of capacity allocations in the plant. Both operating and capital payments are made on a quarterly basis. Wholesale customer revenues are expected to constitute approximately 14% of the Authority's total annual revenues during Fiscal Year 2014 through Fiscal Year 2018 (excluding withdrawals from the Rate Stabilization Fund).

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

**Components of Retail Rates and Charges**

*Water and Wastewater Charges*

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

- Water and Wastewater Consumption Rates – These rates are based on metered water usage and are stated in terms of hundred cubic feet, also known as "Ccf." All customer groups are charged the same consumption rates. In 2009, the Authority retained Raftelis Financial Consultants, Inc. ("RFC") to review the allocation of costs between the water and wastewater rates and prepare the Fiscal Year 2009 Cost of Service Study ("2009 COS Study"). Based on the 2009 COS Study, RFC recommended a shift in the water and wastewater volumetric rates due to higher capital costs in the water service area. As a result, the Authority adjusted the water and wastewater volumetric rates in Fiscal Year 2011, from the allocation of 41/59 percent to 45/55 percent. The Authority continues to use this allocation ratio. A new Cost of Service Study is expected to be completed in Fiscal Year 2015.

- Customer Metering Fee – The Authority assesses a metering fee to recover costs associated with installing, operating and maintaining meters and the AMR system. The metering fee is charged as a separate line item on retail customer bills and varies by meter size. Based on the 2009 COS Study recommendations, the Authority increased the metering fee effective October 1, 2010, to better reflect the actual cost of installing, operating and maintaining meters and the AMR system. The metering fee in Fiscal Year 2014 remains unchanged from the prior year.

*Clean Rivers Impervious Area Charge*

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

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

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

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

Tiers	Size of Impervious Area (square feet)	Equivalent Residential Unit	No. of Properties (as of April 2014)
Tier 1	100 – 600	0.6	18,878
Tier 2	700 – 2,000	1.0	78,746
Tier 3	2,100 – 3,000	2.4	5,881
Tier 4	3,100 – 7,000	3.8	2,602
Tier 5	7,100 – 11,000	8.6	131
Tier 6	11,100 and more	13.5	54

Source: Authority records.

The CRIAC is applied to all lots, parcels, properties and private streets throughout the District that are greater than 100 square feet, except for District or federally owned rights-of-way. The CRIAC is added to the customer's metered service bill and billed monthly unless the property is impervious only and has no other metered water or wastewater service. The CRIAC will be reviewed regularly and adjusted as appropriate by the Board. Effective October 1, 2013, the Authority's CRIAC rate was \$11.85 per ERU.

On January 23, 2009, the Mayor of the District signed the Water and Sewer Authority Equitable Ratemaking Act of 2008, which states that DC Water will establish, together with the District Department of Environment ("DDOE"), an incentive program to institute certain eligible best management practices that reduce the amount of stormwater runoff generated from a property. On April 4, 2013, the Board approved a resolution that authorized staff to advertise the CRIAC Incentive Program for public comment and the rulemaking process. The proposed program is a three year pilot credit program for CRIAC that will provide a 4% maximum incentive credit (the actual credit amount is to be calculated based upon the DDOE formula proposed on October 5, 2012), with a not-to-exceed annual budgeted allowance of \$500,000. The public hearing that was held on May 8, 2013, was the formal process for obtaining public input, and a final decision was reached on July 3, 2013. The not-to-exceed annual budgeted allowance of \$500,000 in credits is taken into consideration in the projection of revenues from the CRIAC.

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

This fee recovers the cost of the PILOT and the District's Right of Way Fee ("PILOT/ROW Fee") which is a charge levied by the District for payment in lieu of taxes and occupancy or use of public space or public rights of way including that used by the Authority's underground infrastructure. The Authority passes through the PILOT/ROW Fee to retail customers based on metered water consumption as a separate line item on the bills. Effective October 1, 2013, the Authority's PILOT/ROW Fee was \$0.70 per Ccf.

*Stormwater Fee*

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

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

The Board has raised retail water and wastewater rates regularly since 1996, in line with its policy of implementing rate increases in a gradual and predictable manner. In Fiscal Year 2013, the Authority's retail rates were \$3.42 per Ccf for water and \$4.18 per Ccf for wastewater. Effective October 1, 2013 (i.e., for Fiscal Year 2014), water rates increased by \$0.19 per Ccf to \$3.61 per Ccf, and the wastewater rates increased by \$0.23 per Ccf to \$4.41 per Ccf. Federal government customers in Virginia pay the Arlington County retail rate, which, as of May 1, 2014, was \$3.07 per Ccf for water or \$4.10 per 1,000 gallons. Federal government customers in Maryland pay according to the WSSC rates, which include a fixed charge and a consumption-based charge that increases with higher levels of usage. Effective October 1, 2013, the Authority's CRIAC rate was \$11.85 per ERU.

Since 2000, the Board has adopted a series of ten-year financial plans that include annual, gradual rate increases. The latest of these was a retail rate increase for water and wastewater charges of 5.5% effective October 1, 2013, for Fiscal Year 2014. For Fiscal Years 2015 through 2018, the Authority's financial plan projects retail water and wastewater rate increases of 7.5% annually in each of the four years. Rate increases take effect at the beginning of the Fiscal Year (October 1).

The Authority's financial forecast includes an anticipated increase in the CRIAC from \$11.85 per ERU in Fiscal Year 2014 to \$16.75 per ERU in Fiscal Year 2015 and to \$20.63 per ERU in Fiscal Year 2016. Further increases in the CRIAC are expected in Fiscal Years 2017 and 2018.

The following table sets forth historical water and wastewater rates and the CRIAC of the Authority and the projected rate adjustments of the Authority for Fiscal Years 2015 through 2018. The revenue resulting from the CRIAC reduces the amount of revenue that must be raised through wastewater charges, resulting in a lower wastewater rate. The wastewater rate for Fiscal Year 2009 is shown in the following table before and after the effects of the CRIAC.

**Historical and Projected Water and Wastewater Retail Rates**  
 (\$ per Ccf for Water and Sewer and \$ per ERU for the CRIAC)

<b>Fiscal Year</b>	<b>Water Consumption Rate</b>	<b>Sewer Usage Rate</b>	<b>Combined Rate</b>	<b>Percent Increase</b>	<b>CRIAC Rate (Per ERU)</b>
<i>Historical</i>					
2005	1.83	2.76	4.59	5.0%	
2006	1.93	2.91	4.84	5.5%	
2007	2.03	3.06	5.09	5.0%	
2008	2.14	3.23	5.37	5.5%	
2009 <sup>1</sup>	2.30	3.47	5.77	7.5%	
2009 <sup>2</sup>	2.30	3.31	5.61	4.5%	1.24
2010	2.51	3.61	6.12	9.0%	2.20
2011	3.10	3.79	6.89	12.5%	3.45
2012	3.24	3.96	7.20	4.5%	6.64
2013	3.42	4.18	7.60	5.5%	9.57
2014	3.61	4.41	8.02	5.5%	11.85
<i>Projected</i>					
2015 <sup>3</sup>	3.88	4.74	8.62	7.5%	16.75
2016 <sup>3</sup>	4.17	5.10	9.27	7.5%	20.63
2017 <sup>3</sup>	4.48	5.48	9.96	7.5%	23.07
2018 <sup>3</sup>	4.82	5.89	10.71	7.5%	24.45

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

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

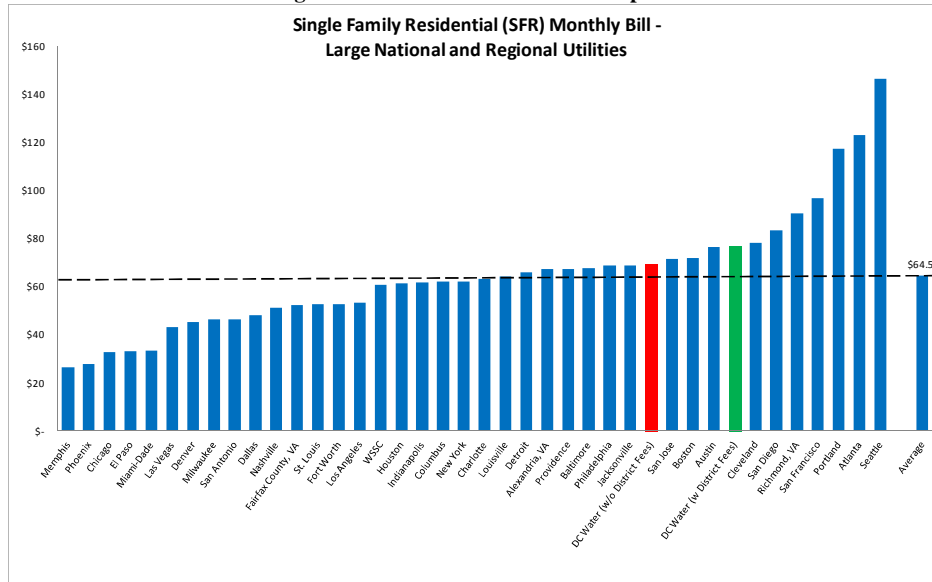
<sup>3</sup> Rates for Fiscal Years 2015 through 2018 are projected and subject to change.

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**Retail Rate Comparison**

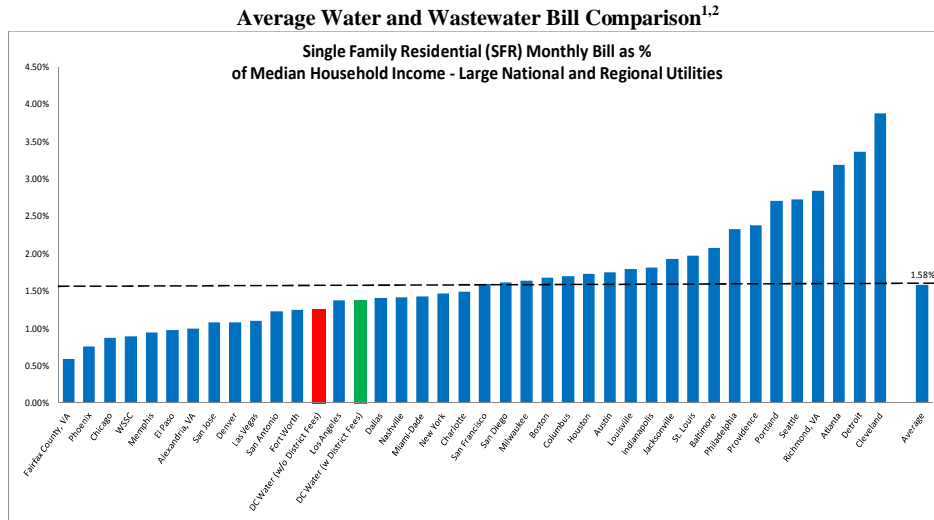
The Authority’s retail rates are comparable to those of other utilities in the metropolitan Washington, D.C., region and other similar utilities in the eastern United States. The following chart compares the Authority’s combined water, wastewater and impervious area residential charges to these utilities. The table reflects the Authority’s current Fiscal Year 2014 rate and fee charges, while other utilities’ rates are as of May 2014. The Authority’s Fiscal Year 2014 rate and fee charges are shown both with and without the pass-through of the District’s PILOT/ROW Fee in the amount of \$0.70 per Ccf, and the DDOE residential stormwater rate of \$2.67 per ERU per month.

**Average Water and Wastewater Bill Comparison<sup>1,2</sup>**



<sup>1</sup> Assumes average residential consumption of 6.69 Ccf, or 5,004 gallons, per month. Ccf = hundred cubic feet, or 748 gallons.  
<sup>2</sup> Reflects rates and fees in place as of May 2014. The Authority’s rate with District Fees includes the PILOT/ROW fee totaling \$0.70 per Ccf (effective October 1, 2013) and the DDOE residential stormwater rate of \$2.67 per ERU per month.  
 Source: Amawalk

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



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

<sup>2</sup> Reflects rates and fees in place as of May 2014. The Authority's rate with District Fees includes the PILOT/ROW fee totaling \$0.70 per Ccf (effective October 1, 2013) and the DDOE residential stormwater rate of \$2.67 per ERU per month.

Source: Amawalk

**Collections**

The Authority has implemented policies and business practices intended to optimize the collection of customer billings. Measures are taken including cross checks with property records to ensure that all users of the Authority's system are being billed. With the implementation of automated meter reading (AMR), the Authority can access customer usage data at any time and can alert customers to apparent leaks promptly. In September 2013, the Authority achieved the lowest 90-day receivable balance in the Authority's history at \$4.8 million. From July 2009 until present, the Authority's 90-day receivable balance has ranged from \$5.1 to \$6 million, even with multiple rate increases that doubled the typical residential bill, resulting in a receivable balance as a percentage of operating revenues that now approaches just 1%. This is the result of a comprehensive strategy that integrates several consumer services functions along with an aggressive customer contact process that addresses collections issues early when outstanding balances are within the range of customers' ability to pay, improves lien processing for delinquent accounts, and enhances coordination efforts with other District agencies.

The Authority's collection program includes: (i) assessing customers a 10% late fee if their bill is not paid on day 31 after the date of billing and sending customers a friendly reminder notice; (ii) placing a call to the customer using an automatic notification call program on day 34; (iii) sending the customer notice of intent to disconnect service on day 39 (which, in accordance with District laws and regulations gives customer 15 days to pay the delinquent bill and maintain service); (iv) mailing to the owner of the property an intent to place a lien on the property on day 65 (which gives the owner 10 additional days to pay the bill before a lien is placed on their property) and imposing an additional 1% penalty per month on all delinquent balances; (v) placing a call to the customer on day 67 to inform him/her of the Authority's intent to place a lien on the property if the delinquent bill is not paid; (vi) placing a lien on the property on

day 80. The lien becomes a part of the public record and appears on the owner’s credit report and adversely affects their FICO score. The Authority will remove a lien only if the account balance is paid in full, and/or if the lien was placed in error. Once paid, the lien is removed and reflected as “satisfied” on the credit report but the customer’s FICO score is not changed. The Authority’s liens are continuous, which entitles the Authority to collect the current outstanding balance owed by a customer regardless of the balance at the time the lien was placed.

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

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

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

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

<u>As of September 30,</u>	<u>Amount<sup>1</sup></u>	<u>Percent of Operating Revenue</u>
2003	\$21.8	8.5%
2004	16.3	6.1%
2005	10.9	3.8%
2006	7.4	2.5%
2007	7.1	2.3%
2008	6.1	1.8%
2009	4.9	1.4%
2010	5.1	1.4%
2011	5.5	1.4%
2012	5.5	1.3%
2013	4.9	1.1%

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

Source: Authority records.

**Special Accounts**

The Authority has historically provided some U.S. Soldiers and Airmen’s Home (“Soldiers’ Home”) accounts with free water service in exchange for the use of certain parcels of Soldiers’ Home property to maintain a reservoir that provides water to the District. The Authority contends that the Soldiers’ Home is required to pay for sewer service and impervious area fees, as well as water services for certain accounts. The parties have been in negotiation in an effort to resolve the issues surrounding this historically exempt account. There are no other exempt accounts and the Authority does not anticipate the addition of any new exempted accounts.



### **Customer Assistance Programs**

The Authority sponsors two programs to assist low income customers in paying their water bills: Customer Assistance Program or the “CAP” and Serving People by Lending A Supporting Hand (“S.P.L.A.S.H.”). The Authority implemented the CAP in 2001 providing a discount of 4 Ccf per month of water service for single family residential homeowners that meet income eligibility guidelines. In Fiscal Year 2004, the Authority expanded the CAP to include tenants who meet the financial eligibility requirements and whose primary residence is separately metered by the Authority. In January 2009, the Authority further expanded the CAP to provide a discount of 4 Ccf per month of sewer services to eligible customers. Effective October 1, 2010, the Board expanded the CAP discount to include the first 4 Ccf of PILOT/ROW fees. In Fiscal Year 2010, a total of 6,107 customers received a discount on their bills totaling \$919,156. In Fiscal Year 2011, 6,025 customers received a discount on their bills totaling \$1,380,207. In Fiscal Year 2012, 5,648 customers received a discount on their bills totaling \$1,330,511. In Fiscal Year 2013, 5,206 customers received a discount on their bills totaling \$1,200,835. In the first seven months of Fiscal Year 2014, the Authority provided assistance totaling \$423,007 to 3,958 customers. The projected revenues of the Authority take into consideration the discounts provided to low-income customers under the CAP.

Through the S.P.L.A.S.H. program, the Authority offers assistance to families in need so that they can receive critical water services. S.P.L.A.S.H. is funded solely by contributions from the community, as well as from the Authority’s customers. The Authority has redesigned its water and sewer bills to make it easier for its customers to make contributions to S.P.L.A.S.H. The Authority pays all administrative costs of this program, which is administered directly by the Greater Washington Urban League (“Urban League”). All contributions are deposited in a bank account from which the Urban League makes payments on behalf of eligible customers. Every dollar received by the Authority is distributed to eligible customers. In Fiscal Year 2010, the Authority provided assistance to 300 customers totaling \$94,767. In Fiscal Year 2011, the Authority provided assistance to 294 customers totaling \$100,030. In Fiscal Year 2012, the Authority provided assistance to over 354 customers totaling \$96,665. In Fiscal Year 2013, the Authority provided assistance to 359 customers totaling \$115,455. As of April 30, 2014, the Authority has provided assistance to approximately 188 customers totaling \$62,161 year to date in Fiscal Year 2014.

### **Customer Service Operations**

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

## **FINANCIAL OPERATIONS**

### **Historical Financial Operations**

The Authority derives its revenues primarily from retail customer payments for water and wastewater treatment services, which account for 80.1% of total revenues, and wholesale customer payments for wastewater treatment services, which account for 19.9% of total revenues. The Authority’s operating revenues have steadily increased since its creation, due largely to rate and fee increases approved by the Board which are discussed in more detail in the section entitled “RATES AND CHARGES – Historical and Projected Water and Wastewater Retail Rates.”

The Authority is committed to optimizing the cost of service it offers and as a result places emphasis on managing its expenses. The Authority's Department of Finance and Budget closely monitors spending to ensure compliance with approved operating and capital budgets. This includes preparation of daily and monthly management reports for each operating unit and financial system controls that prevent overspending. In addition, the Authority provides detailed monthly reports on cash and investments, revenues, operating budget and capital spending to the Board's Finance and Budget Committees and quarterly updates on the CIP status to the Board's Environmental Quality and Operations Committees. The average annual rate of increase in expenses for Fiscal Years 2009 through 2013 was 3.3%; however, the actual expenses for each of these Fiscal Years were less than the budgeted amount.

The following table presents historical revenues, expenses and changes in net position using information contained in the audited financial statements for Fiscal Years 2009 through 2013. The Authority's complete financial statements for the Fiscal Years ended September 30, 2013, and 2012, are attached hereto as APPENDIX B.

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

	Fiscal Year Ended September 30th,				
	2009	2010	2011	2012	2013*
<b>Operating revenues</b>					
Residential, commercial and multi-family customers	\$191,543	\$209,796	\$241,475	\$256,846	\$275,337
Federal government	35,195	37,845	43,033	48,381	45,187
District government and DC Housing Authority	16,804	21,947	25,123	24,713	21,677
Charges for wholesale wastewater treatment	85,519	87,505	90,414	94,549	87,178
Other	3,337	6,655	8,210	16,077	9,700
<b>Total Operating Revenues</b>	<b>\$332,398</b>	<b>\$363,748</b>	<b>\$408,255</b>	<b>\$440,566</b>	<b>\$439,079</b>
<b>Operating expenses</b>					
Personnel services	\$82,248	\$88,210	\$93,240	\$97,784	\$103,908
Contractual services	64,513	69,497	71,055	64,939	68,417
Chemicals, supplies and small equipment	29,074	29,003	28,188	28,815	28,987
Utilities and rent	32,813	29,929	29,429	26,786	26,098
Depreciation and amortization	59,291	64,425	70,209	74,342	77,330
Water purchases	25,371	27,587	27,170	28,389	27,223
Payment in lieu of taxes and right of way fee	19,183	20,474	21,982	21,982	21,982
<b>Total operating expenses</b>	<b>\$312,493</b>	<b>\$329,125</b>	<b>\$341,273</b>	<b>\$343,037</b>	<b>\$353,945</b>
<b>Operating income</b>	<b>\$19,905</b>	<b>\$34,623</b>	<b>\$66,982</b>	<b>\$97,529</b>	<b>\$85,134</b>
<b>Non-operating revenue (expenses)</b>					
Interest income	\$1,704	\$1,343	\$2,036	\$749	\$1,144
Interest expense and fiscal charges	(51,431)	(58,370)	(71,621)	(71,895)	(62,699)
<b>Total non-operating revenue (expenses)</b>	<b>(\$49,727)</b>	<b>(\$57,027)</b>	<b>(\$69,585)</b>	<b>(\$71,146)</b>	<b>(\$61,555)</b>
Change in net position before Federal grants and contributions	(\$29,822)	(\$22,404)	(\$2,603)	\$26,383	\$23,579
Contributions of capital from Federal government	27,752	30,403	47,374	58,957	58,310
<b>Change in net position</b>	<b>(2,070)</b>	<b>7,999</b>	<b>44,771</b>	<b>85,340</b>	<b>81,889</b>
<b>Net position, beginning of year</b>	<b>\$1,009,449</b>	<b>\$1,007,379</b>	<b>\$1,015,378</b>	<b>\$1,060,149</b>	<b>\$1,145,489</b>
<b>Net position, end of year</b>	<b>\$1,007,379</b>	<b>\$1,015,378</b>	<b>\$1,060,149</b>	<b>\$1,145,489</b>	<b>\$1,227,378</b>

Source: Authority

\* For a detailed discussion of the Authority's operating revenue trends, see APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY FOR THE YEARS ENDED SEPTEMBER 30, 2013, AND 2012."

**Statements of Revenues, Expenses and Changes in Net Position**  
**For the six months ended March 31, 2014 and March 31, 2013**  
(\$ in thousands)

	Second Quarter	
	2014	2013
Operating revenues:		
Water and wastewater user charges:		
Residential, commercial and multi-family customers	\$ 141,220	\$ 129,104
Federal government	16,703	20,393
District government and D.C. Housing Authority	13,938	8,763
Charges for wholesale wastewater treatment	44,464	47,694
Other	6,354	3,154
Total operating revenues	<u>\$ 222,679</u>	<u>\$ 209,108</u>
Operating expenses:		
Personnel Services	\$ 54,686	\$ 51,237
Contractual Services	27,391	24,111
Chemicals, supplies and small equipment	14,027	12,176
Utilities and rent	15,748	12,070
Depreciation and amortization	38,107	38,987
Water purchases	12,623	12,512
Payment in lieu of tax & right-of-way fee	12,591	10,991
Total operating expenses	<u>\$ 175,173</u>	<u>\$ 162,084</u>
Operating income	\$ 47,506	\$ 47,024
Non-operating revenues (expenses):		
Interest Income	596	742
Interest expense and fiscal charges	(56,257)	(36,708)
Total non-operating revenue (expenses)	<u>\$ (55,661)</u>	<u>\$ (35,996)</u>
Changes in net position before Federal grants and contributions	\$ (81,55)	\$ 11,058
Contributions of capital from Federal government	22,857	20,964
Change in net position	<u>\$ 14,702</u>	<u>\$ 32,022</u>
Total net positions, beginning of period	<u>\$1,227,378</u>	<u>\$1,157,742</u>
Total net position, end of period	<u>\$1,242,080</u>	<u>\$1,189,764</u>

Source: Unaudited Quarterly Authority Records.

*Historical Debt Service Coverage*

The Authority has exceeded the Rate Covenant requirement of 1.20x Senior Debt service coverage set forth in the Indenture and the Authority’s policy goal of 1.40x Senior Debt service coverage in each of the last five Fiscal Years, as shown in the following table. Debt service for Fiscal Year 2013 differs from the coverage as presented in the 2013 Comprehensive Annual Financial Report due to the exclusion of transfers to District of Columbia PILOT Fund (in the table below) in calculating Net Revenues Available for Debt Service.

**Historical Debt Service Coverage<sup>1</sup>**  
(\$ in thousands)

	Fiscal Year ended September 30				
	2009	2010	2011	2012	2013
Revenues:					
Retail	\$217,995	\$241,842	\$278,327	\$295,247	\$328,361
Wholesale	65,680	67,471	69,261	75,240	75,009
Other Non-Operating	32,761	36,225	46,887	47,136	51,088
(Contributions to)/Transfers from Rate Stabilization Fund	15,000	11,900	-	(11,250)	(1,000)
Total Revenues (A)	\$331,436	\$357,438	\$394,475	\$406,373	\$453,458
Operating Expenses (B)	235,060	243,976	249,186	248,622	252,329
Revenues Less Operating Expenses (C=A-B)	\$96,376	\$113,462	\$145,289	\$157,751	\$201,129
Debt Service:					
Senior Debt Service (D)	\$33,631	\$41,278	\$41,511	\$41,918	\$41,904
Subordinate Debt Service (E)	41,147	42,236	50,377	57,354	65,796
Total Outstanding and Projected Debt Service (F=D+E)	\$74,778	\$83,514	\$91,888	\$99,272	\$107,700
Calculation of Net Revenues Available for Senior Debt Service:					
Revenues Less Operating Expenses (C)	\$96,376	\$113,462	\$145,289	\$157,751	\$201,129
Prior Year Federal Billing Reconciliation	(982)	(839)	1,669	(1,000)	(5,105)
(Refund to)/Payment from wholesale customers	4,483	752	(3,861)	(5,661)	(5,800)
(Additions to)/Transfers from DC PILOT Fund	-	-	(\$10,000)	(\$4,468)	(\$7,900)
Customer Rebate	-	-	-	-	(\$3,298)
Net Revenues Available for Senior Debt Service (G)	\$99,877	\$113,375	\$133,097	\$146,622	\$179,026
<b>Senior Debt Service Coverage (G/D)</b>	<b>2.97</b>	<b>2.75</b>	<b>3.21</b>	<b>3.50</b>	<b>4.27</b>
Calculation of Subordinate Debt Service Coverage:					
Net Revenue Available for Senior Debt Service	\$99,877	\$113,375	\$133,097	\$146,622	\$179,026
Less Senior Debt Service (D)	(33,631)	(41,278)	(41,511)	(41,918)	(41,904)
Net Revenues Available for Subordinate Debt Service (G-D)	\$66,246	\$72,097	\$91,586	\$104,704	\$137,122
<b>Subordinate Debt Service Coverage ((G-D)/E)</b>	<b>1.61</b>	<b>1.71</b>	<b>1.82</b>	<b>1.83</b>	<b>2.08</b>
<b>Combined Debt Service Coverage (G/F)</b>	<b>1.34</b>	<b>1.36</b>	<b>1.45</b>	<b>1.48</b>	<b>1.66</b>

<sup>1</sup> Prepared in accordance with the Indenture, which closely corresponds to cash basis accounting. Debt service on the Series 2010A Bonds (which is included in Subordinate Debt Service above) reflects the Direct Payments the Authority receives from the United States Treasury. The Authority has agreed to deposit the Direct Payments related to the Series 2010A Bonds directly into the Series 2010A Interest Account of the Subordinate Lien Bond Fund to pay interest when due on the Series 2010A Bonds. With respect to the effect of Sequestration on the receipt by the Authority of Direct Payments on its Series 2010A Bonds, see “SECURITY FOR THE SERIES 2014A BONDS – Effect of Sequestration on Direct Payments.”

Source: Authority’s CAFR.

**Annual Budget**

*Annual Budget Process*

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

with final action by the full Board scheduled for January of each year. Upon final approval by the Board, the Authority's budget is forwarded to the District for inclusion in its submission to the President as described below.

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

*The Approved and Revised Fiscal Year 2014 Budget*

The Board adopted the Revised Fiscal Year 2014 budget (the "Revised Fiscal Year 2014 Budget") on December 5, 2013.

The Revised Fiscal Year 2014 Budget for expenditures totals \$428.8 million, which is \$30.3 million or 6.6% lower than the Approved Fiscal Year 2014 Budget, primarily due to reductions in contractual services costs and debt service.

The Revised Fiscal Year 2014 revenues total \$467.1 million, which is \$10.3 million or 2.2% lower than the Approved Fiscal Year 2014 Budget, reflecting the actual 5.5% increase in combined water and wastewater rates, a \$2.28 per ERU increase in the CRIAC and the increase of \$0.04 per Ccf in the ROW portion of the PILOT/ROW Fee.

*The Approved Fiscal Year 2015 Budget*

The Board adopted the Fiscal Year 2015 operating budget (the "Fiscal Year 2015 Budget") on December 5, 2013.

The Fiscal Year 2015 Budget for expenditures totals \$489.8 million, which is \$61 million or 14.2% higher than the Revised Fiscal Year 2014 Budget, primarily due to increases in debt service, operations and maintenance costs, and cash-financing of certain capital improvements. It is anticipated that there will be significantly less variance between actual expenditures and budgeted expenditures in Fiscal Year 2015 compared to the experience of the Authority in recent years.

**Projected Financial Operations**

The following table was prepared by Amawalk in its capacity as the financial feasibility consultant to the Authority, and it shows (i) the actual cash flows, cash reserves and debt service coverage for Fiscal Year 2013 and (ii) projected cash flows, cash reserves and debt service coverage for Fiscal Years 2014 through 2018. The projected revenues reflect the increases in rates and charges adopted by the Authority for Fiscal Year 2014 and the anticipated increases in rates and charges for Fiscal Years 2015 through 2018.

The projected cash flows for Fiscal Years 2014 through 2018 incorporate updated assumptions and may present different results than the Revised Fiscal Year 2014 Budget and the Approved Fiscal Year 2015 Budget. The projected debt service coverage in the following table assumes that debt service on the Series 2014A Bonds is based on interest only at the rate of 5.5% annually during the projection period and that debt service on the Series 2014B Bonds is based on interest only at the rate of 3.25% annually in Fiscal Years 2017 and 2018, with lower rates of interest in Fiscal Year 2014 through Fiscal Year 2016.

Following the issuance of the Series 2014A Bonds and Series 2014B Bonds, anticipated future bonds are assumed to be issued on a subordinate lien basis for Fiscal Years 2015, 2016 and 2018. It is assumed that bonds will be issued on a senior lien basis for Fiscal Year 2017. It is further assumed that the future bonds will have a fixed interest rate of 5.75% in Fiscal Year 2015 and 6.5% in Fiscal Year 2016 and subsequent years. Debt service on the anticipated future bonds is calculated on the basis of a 35 year term with level principal and interest payments. There are no deposits to the debt service reserve fund assumed for the Series 2014A Bonds, the Series 2014 B Bonds and any anticipated future bonds; the Authority may decide to make contributions to the debt service reserve fund in the future at its discretion.

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

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

**Finance and Budget Committee - 8. Action Items- Mark Kim**

**Analysis of Actual and Projected Financial Results**  
Fiscal Years ended/ending September 30  
(\$ in thousands)

	Actual 2013	2014	2015	Projected 2016	2017	2018
<b>Revenues and Payment Obligations</b>						
Revenues						
Retail Revenues <sup>1</sup>	328,361	338,470	374,479	410,852	441,705	468,956
Wholesale Revenues	75,009	71,126	75,124	75,485	77,756	80,156
Other Non-Operating Revenues	51,088	51,091	50,098	54,099	56,468	60,599
Transfer from RSF	6,500	6,500	14,500	0	0	2,000
(Contributions to RSF)	(7,500)	0	0	(4,500)	(4,000)	0
Total Revenues	453,458	467,187	514,202	535,936	571,928	611,711
Prior Year Federal Billing Reconciliation	(5,105)	(6,000)	(5,053)	0	0	0
Transfer to DC PILOT Fund	(7,900)	0	0	0	0	0
Customer Rebate	(3,298)	0	0	0	0	0
(Refund to)/Payment from IMA	(5,800)	(9,700)	(3,000)	0	0	0
Net Revenues (A)	431,354	451,487	506,149	535,936	571,928	611,711
Operating Expenses (B)	252,329	273,455	282,789	287,460	296,096	305,106
Net Revenues Available for Debt Service (C=A-B)	179,026	178,032	223,360	248,476	275,833	306,604
Total Senior Debt Service (D) <sup>2,3,4</sup>	41,904	42,045	60,654	58,979	69,793	80,659
Total Subordinate Debt Service (E) <sup>2,3,4,5,6</sup>	65,796	85,507	96,095	114,705	125,470	134,162
Total Outstanding & Projected Debt Service (F=D+E)	107,700	127,553	156,749	173,684	195,263	214,821
<b>Debt Service Coverage</b>						
Calculation of Net Revenues Available for Senior Debt Service						
<b>Senior Debt Service Coverage (C/D)</b>	<b>4.27x</b>	<b>4.23x</b>	<b>3.68x</b>	<b>4.21x</b>	<b>3.95x</b>	<b>3.80x</b>
Calculation of Subordinate Debt Service Coverage						
Net Revenue Available for Senior Debt Service (C)	179,026	178,032	223,360	248,476	275,833	306,604
Less Senior Debt Service (D)	(41,904)	(42,045)	(60,654)	(58,979)	(69,793)	(80,659)
Net Revenue Available for Subordinate Debt Service (C-D)	137,122	135,986	162,707	189,497	206,040	225,946
<b>Subordinate Debt Service Coverage [(C-D)/E]</b>	<b>2.08x</b>	<b>1.59x</b>	<b>1.69x</b>	<b>1.65x</b>	<b>1.64x</b>	<b>1.68x</b>
<b>Combined Debt Service Coverage (C/F)</b>	<b>1.66x</b>	<b>1.40x</b>	<b>1.42x</b>	<b>1.43x</b>	<b>1.41x</b>	<b>1.43x</b>
<b>Subordinated Payment Obligations</b>						
Payment In Lieu of Taxes/Right of Way Fee (G)	17,514	25,181	26,687	28,306	30,046	31,917
Defeasance/Cash Financed Capital Construction (H) <sup>7</sup>	0	0	20,058	21,958	23,588	25,044
<b>Revenues Less Disbursements (I=A-B-F-G-H)</b>	<b>53,811</b>	<b>25,298</b>	<b>19,866</b>	<b>24,528</b>	<b>26,936</b>	<b>34,822</b>
<b>Reserve Balances</b>						
Beginning Cash Reserve Balance (J)	140,251	141,518	140,500	140,000	140,000	140,000
Cash Reserve Balance Breakdown						
Beginning Undesignated Reserve Balance	64,132	65,081	63,445	59,424	57,868	57,090
Additions to/(Transfers from) Undesignated Reserve						
Annual Balance from Operations	75,915	40,998	27,919	24,528	26,936	34,822
Prior Year Federal Billing Reconciliation	(5,105)	(6,000)	(5,053)	0	0	0
(Refund to)/Payment from IMA	(5,800)	(9,700)	(3,000)	0	0	0
Transfer to DC PILOT Fund	(7,900)	0	0	0	0	0
Customer Rebate	(3,298)	0	0	0	0	0
Pay-Go Capital Financing	(52,544)	(26,316)	(20,366)	(24,528)	(26,936)	(34,822)
(Transfers to)/Transfers from 60-Day Reserve	(318)	(618)	(3,521)	(1,556)	(779)	(1,439)
Ending Undesignated Reserve Balance	65,081	63,445	59,424	57,868	57,090	55,651
Beginning 60-Day Operating Reserve Balance	41,119	41,437	42,055	45,576	47,131	47,910
Additions to/(Transfers from) 60-Day Reserve	318	618	3,521	1,556	779	1,439
60-Day Operating Reserve Balance	41,437	42,055	45,576	47,131	47,910	49,349
Beginning Renewal & Replacement Balance	35,000	35,000	35,000	35,000	35,000	35,000
Additions to/(Transfers from) Renewal & Replacement Reserve	0	0	0	0	0	0
Renewal & Replacement Balance	35,000	35,000	35,000	35,000	35,000	35,000
Ending Balance Cash Reserve	<b>141,518</b>	<b>140,500</b>	<b>140,000</b>	<b>140,000</b>	<b>140,000</b>	<b>140,000</b>
Stormwater Receipts - DC Water Share (K)	898	1,000	1,000	1,000	1,000	1,000
Cash Reserve Requirement Per Board Policy [Maximum of (B-K)*(120/365) or \$125.5 Million] <sup>8</sup>	125,500	125,500	125,500	125,500	125,500	125,500
Beginning Rate Stabilization Fund Balance	27,950	28,950	22,450	7,950	12,450	16,450
Transfers from Operations (Additions to Rate Stabilization Fund)	7,500	0	0	4,500	4,000	0
Additions to Operations/(Transfers from) Rate Stabilization Fund	(6,500)	(6,500)	(14,500)	0	0	(2,000)
Rate Stabilization Fund Balance	28,950	22,450	7,950	12,450	16,450	14,450



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<sup>1</sup> Includes retail revenue from water and wastewater charges as well as the Clean River Impervious Area Charge.

<sup>2</sup> Debt service is shown on a cash basis, and may differ from the CAFR.

<sup>3</sup> The projected debt service for the Series 2014A Bonds assumes a 100-year term, payments that begin in FY 2015, deferred amortization of principal and an average annual interest rate of 5.5%, and a senior lien obligation. The projected debt service for the Series 2014B-1 and 2014B-2 Bonds assumes a 40-year term, payments that begin in FY 2014, deferred amortization and a net average annual interest rate of 3.25% in FY 2017 and onward, and a subordinate lien obligation.

<sup>4</sup> Anticipated future bonds in 2015, 2016 and 2018 are currently assumed to be issued on a subordinate lien basis. Anticipated future bonds in 2017 are currently assumed to be issued on a senior lien basis. The Authority may decide in the future to issue bonds on a senior or subordinate basis. Debt service for anticipated future bonds in Fiscal Year 2015 is calculated based on an assumed annual interest rate of 5.75%, a term of 35 years and level debt service. Debt service for anticipated future bonds starting in Fiscal Year 2016 are calculated based on an assumed annual interest rate of 6.5%, a term of 35 years and level debt service.

<sup>5</sup> The Total Subordinated Debt Service is net of the Build America Bonds (BABs) subsidies the Authority expects to receive from the United States Treasury equal to 32% of the interest payable on the Series 2010A Bonds. It reflects the reduction in BABs subsidy payments due to expected effects of sequestration.

<sup>6</sup> Reflects the interest cost of \$0.6 million on CP in FY 2014, \$2.5 million per year in FY 2015 through FY 2018 (assumed average of \$100 million of CP outstanding each year at 2.5%), as well as an additional \$12 million of payments over the period of 2014-16 on CP that was used for Capital Equipment Needs.

<sup>7</sup> Beginning in FY 2015, DC Water is including funds in its annual budget that are intended to be used to defease outstanding debt or pay for construction on a cash basis. These funds are separate from the Pay-Go Capital Financing amounts referenced under Reserve Funds above and are presently assumed to be added to the Pay-Go amounts and deposited in total as a source of funds for the CIP. Alternatively, these funds could be used to cover unexpected declines in revenues or increases in expenses. The Authority reserves the right to modify the amount of the funds and the usage of funds during each year.

<sup>8</sup> Board financial policy requires the maintenance of a cash equivalent to 120 days of operating costs less District stormwater revenues, but not less than a cash balance of \$125.5 million.

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**System Revenues**

The Authority collects revenues from retail and wholesale customers as well as other sources that include fees paid by developers and interest earnings on available funds. Authority revenues also include transfers from the Rate Stabilization Fund. The following table shows historical revenues of the Authority for Fiscal Year 2013, and the projected revenues for Fiscal Years 2014 through 2018.

**Historical and Projected Revenue on a Cash Basis**  
Fiscal Years ended/ending September 30  
(\$ in millions)

	Actual 2013	2014	2015	Projected		
				2016	2017	2018
<b>Retail Revenue</b>						
Residential, Commercial, Multi-Family	\$218.95	\$217.08	\$231.00	\$245.81	\$261.57	\$278.34
D. C. Municipal Government	3.96	5.89	6.26	6.67	7.10	7.55
Federal Government	42.58	41.51	42.91	45.66	48.60	51.72
D. C. Housing Authority	4.57	6.00	6.38	6.79	7.23	7.70
Groundwater <sup>3</sup>	0.00	0.01	0.01	0.01	0.01	0.01
Metering Fee	11.10	10.78	10.78	10.78	10.78	10.78
CRIAC	47.20	57.21	77.14	95.14	106.43	112.87
<b>Total Retail Revenue</b>	<b>\$328.36</b>	<b>\$338.47</b>	<b>\$374.48</b>	<b>\$410.85</b>	<b>\$441.70</b>	<b>\$468.96</b>
<b>Wholesale Revenue</b>						
Loudoun County & Potomac Interceptor	\$ 7.54	\$ 7.30	\$ 7.37	\$ 7.39	\$ 7.61	\$ 7.84
WSSC	53.49	50.87	54.35	54.63	56.27	58.01
Fairfax County	13.98	12.95	13.41	13.47	13.88	14.31
<b>Total Wholesale Revenue</b>	<b>\$75.01</b>	<b>\$71.13</b>	<b>\$75.12</b>	<b>\$75.49</b>	<b>\$77.76</b>	<b>\$80.16</b>
<b>Other Revenues</b>						
District Stormwater Revenues	\$ 0.90	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
Transfer from Rate Stabilization Fund	6.50	6.50	14.50	0.00	0.00	2.00
Miscellaneous Revenues	26.70	24.21	21.61	21.61	20.11	20.11
Aqueduct Debt Service Revenue from Falls Church and Arlington	0.21	0.20	0.19	0.19	0.19	0.19
Interest Income	0.77	0.50	0.61	2.99	5.12	7.38
D.C. Right of Way Occupancy Fee/PILOT	22.52	25.18	26.69	28.31	30.05	31.92
<b>Total Other Revenue</b>	<b>\$57.59</b>	<b>\$57.59</b>	<b>\$64.60</b>	<b>\$54.10</b>	<b>\$56.47</b>	<b>\$62.60</b>
<b>Total Operating Cash Receipts</b>	<b>\$460.96</b>	<b>\$467.19</b>	<b>\$514.20</b>	<b>\$540.44</b>	<b>\$575.93</b>	<b>\$611.71</b>
<b>Less: Contributions to Rate Stabilization Fund</b>	<b>(\$7.50)</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>(\$4.50)</b>	<b>(\$4.00)</b>	<b>\$0.00</b>
<b>Total Operating Cash Receipts with RSF Transfers</b>	<b>\$453.46</b>	<b>\$467.19</b>	<b>\$514.20</b>	<b>\$535.94</b>	<b>\$571.93</b>	<b>\$611.71</b>

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

<sup>2</sup> Fiscal Year 2014 - 2018 cost projections are based on the Authority's financial plan.

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

An overview of the revenue components on a cash basis is provided below.

*Retail Water and Wastewater Revenues*

Retail revenues comprise the vast majority of all System revenues. In Fiscal Year 2010 through Fiscal Year 2013, retail revenues accounted for approximately 71% of total revenue (excluding the effects of withdrawals from the Rate Stabilization Fund and the PILOT/ROW fees), wholesale customer payments represented about 18% of total revenues, with the remaining 11% coming from a variety of sources, such as interest income, penalties and fines, and fees from service installations. Retail revenues will comprise an increasing percentage of total revenues during the period of Fiscal Year 2014 through Fiscal Year 2018 primarily due to the increasing cost of the CSO LTCP, which will result in additional revenues being collected from the CRIAC. Retail revenues are derived primarily from water and wastewater service charges of the Authority that are based on water consumption as described earlier in

this Offering Memorandum. Other sources of retail revenue include the customer metering fee. See “CUSTOMER BASE, RATES AND CHARGES – Components of Retail Rates and Charges.”

The Authority has projected that revenues from retail customers will be \$338.5 million in Fiscal Year 2014, or 73% of the Authority’s revenues (excluding the effects of withdrawals from the Rate Stabilization Fund). This amount includes approximately \$57.2 million from the CRIAC and excludes the PILOT/ROW fees. Without the effects of the CRIAC, the Fiscal Year 2014 projected revenue is expected to be comparable to the Fiscal Year 2013 revenues. The projected increases in retail revenue anticipate that the customer metering fee will be unchanged from the current fee schedule and that consumption will be lower in Fiscal Year 2014 compared to Fiscal Year 2013. Cash Receipts for the six months of Fiscal Year 2014 (to March 31, 2014), excluding transfers from the Rate Stabilization Fund, were about the same as the Budgeted Receipts for this period.

Revenues from retail consumption are projected to be \$374.5 million in Fiscal Year 2015. This amount includes approximately \$77.1 million from the CRIAC. Without the effects of the CRIAC, the Fiscal Year 2015 projected revenue represents an increase of \$16.1 million or 5.7% compared to the projected Fiscal Year 2014 revenues.

Revenues from retail consumption are projected to be \$410.9 million in Fiscal Year 2016. This amount includes approximately \$95.1 million from the CRIAC. Without the effects of the CRIAC, the Fiscal Year 2016 projected revenue represents an increase of \$18.4 million or 6.2% compared to the projected Fiscal Year 2015 revenues.

Retail revenues in Fiscal Years 2017 and 2018 are anticipated to increase in each year reflecting both the effects of projected rate increases as well as the expectation that water demand will decrease by 1% annually.

*Clean Rivers Impervious Area Charge Revenues*

The revenues from the CRIAC were \$47.2 million in Fiscal Year 2013. Based on increases in the CRIAC in each year, revenues are expected to increase to \$57.2 million in Fiscal Year 2014, \$77.1 million in Fiscal Year 2015 and to \$95.1 million in Fiscal Year 2016. The revenues from the CRIAC in Fiscal Year 2017 and 2018 are expected to increase further reflecting the effects of projected rate increases.

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

*Stormwater Revenues*

In Fiscal Years 2014 through 2018, the Authority anticipates that it will collect \$1 million in stormwater fees from its retail accounts to cover its share of District stormwater expenditures. The District Council has stormwater rate-setting authority for stormwater services provided by the District. The Authority will work collaboratively with the District Council to set future rates. The projected revenue from stormwater fees that are payable to the District are based on the current stormwater rate. For more information regarding the stormwater fee, see “CUSTOMER BASE, RATES AND CHARGES – Components of Retail Rates and Charges – Stormwater Fee.”

*Wholesale Revenues*

The Authority's wholesale revenues for wastewater operations are stable and reflect modest increases in the cost of service and changes in the volumes of wastewater flow from suburban customers. In Fiscal Year 2013, the Authority received \$75 million in revenue from its wholesale customers pursuant to the IMA.

Revenue from wholesale customers is projected to decrease to \$71.1 million in Fiscal Year 2014 and then increase to \$75.1 million in Fiscal Year 2015. Revenues are expected to increase slightly to \$75.5 million in Fiscal Year 2016. The reason for this anticipated decline in payments is that the Authority expects to begin operation of its new biosolids digestion facilities in Fiscal Year 2015. The Authority expects such facilities to produce a net reduction in operating expenses; the benefits of which would be shared by both retail and wholesale customers. The projected revenue needs in Fiscal Year 2015 for both retail and wholesale customers reflect the anticipated effects of such savings. Wholesale customers are paying for their share of the capital costs of the new digestion facilities upfront in the form of cash contributions towards the CIP; retail customers will pay their share of the capital costs over time through the payment of debt service on bonds issued by the Authority. The revenues from the wholesale customers in Fiscal Years 2017 and 2018 are projected to increase reflecting the effects of projected rate increases, allocated digester savings, as well as the expectation that water demand will decrease by 1% annually.

*Loan Repayment from Arlington County and Falls Church*

The Authority provided a loan to the Aqueduct to finance certain improvements at the Aqueduct. This loan is repaid to the Authority by Arlington County, Virginia, and Falls Church, Virginia, as Aqueduct Customers, in the form of a credit that is issued to the Authority on the monthly water bills generated by the Aqueduct. The amount of the credit is determined by the Aqueduct in accordance with the Water Sales Agreement, and the annual amount is expected to be \$200,950 in Fiscal Year 2014 and \$193,246 in Fiscal Year 2015.

*Interest Income on Reserve Funds*

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

Interest earnings will fluctuate from year to year based on changes in cash flow, fund balances and market conditions affecting interest rates and other investment terms. The Authority has projected interest earnings of \$0.50 million in Fiscal Year 2014, \$0.61 million in Fiscal Year 2015, \$2.99 million in Fiscal Year 2016, and increasing amounts in subsequent years, including interest earned from the bond reserves. The assumed annual interest earnings rates for the funds are 0.325% in Fiscal Year 2014, 0.425% in Fiscal Year 2015, 2.0% in Fiscal Year 2016 and increasing rates in subsequent years. Projected fund balances and interest rate assumptions are reviewed annually as part of the Authority's budget process. The available interest earnings for secure investments are very low in today's financial markets. The Authority's assumed interest earnings reflect these conditions. Recognizing the low earnings rates, the current interest rates on borrowed funds, including commercial paper interest, are also very low compared to historical experience. This helps reduce interest costs (and resulting revenue requirements) of the Authority. The Authority assumes for forecasting purposes that interest earnings rates will increase over time while simultaneously assuming that borrowing rates for future Authority debt also will increase.

*Miscellaneous Revenue*

The Authority realizes revenue from several sources classified as miscellaneous, such as charges for late payments by customers, service installation charges, service line repairs, engineering reviews, the sale of manuals, the District fire protection fee, and fees charged to commercial waste haulers. Miscellaneous revenues in Fiscal Year 2013 were 26.7 million. Revenues from these sources are expected to decrease to \$24.2 million in Fiscal Year 2014 and \$21.6 million in Fiscal Year 2015. These amounts include payments for various development-related services provided by the Authority and charges to the District for fire protection services. The Authority's annual investments (operating and capital) in fire protection assets and services increased significantly following the execution of the Memorandum of Understanding between the Authority and the District of Columbia Fire and EMS Department (FEMS) on October 25, 2007. The fees charged by the Authority are intended to recover the costs incurred by the Authority related to fire protection services provided by the water system including, but not limited to, the ability to deliver water for firefighting as well as maintaining and upgrading fire hydrants. The Authority's investments will continue in future years but at a pace that is much lower than the peak years of Fiscal Year 2008 and Fiscal Year 2009. The projected miscellaneous revenues assume that the District will make such payments in each year or that a combination of payments and credits against Authority payments to the District will result in the Authority receiving the full amounts expected from the District.

*PILOT/ROW Fee*

The total combined revenues from the PILOT/ROW Fee are expected to total \$25.2 million in Fiscal Year 2014, and increase to \$31.9 million in Fiscal Year 2018.

**System Expenditures**

*Operating Expenses*

The following table presents the historical Operating and Maintenance ("O&M") expenses of the Authority for Fiscal Year 2013, and the projected O&M expenses for Fiscal Years 2014 through 2018. The average annual rate of increase in expenses for Fiscal Years 2010 through 2013 was 1.1%, excluding PILOT payments to the District.

The projected expenses for Fiscal Year 2014 reflect the current adopted budget of the Authority which represents a 8.4% increase over the expenses for Fiscal Year 2013. The anticipated expenses for Fiscal Year 2015 reflect an annual increase of 3.4% over the projected expenses for Fiscal Year 2014, excluding the PILOT payments to the District. In Fiscal Years 2015 and 2016, energy savings resulting from new biosolids digestion facilities are expected to offset a portion of the potential increases in expenses. The anticipated increase in annual expenses in Fiscal Year 2016 is 1.7%. The Personnel Services amounts shown in operating and maintenance costs table are net of amounts charged to capital projects.

**Historical and Projected Operation & Maintenance Costs on a Cash Disbursement Basis**  
 Fiscal Years ended/ending September 30  
 (\$ in millions) <sup>1,2</sup>

	Actual 2013	2014	2015	Projected 2016	2017	2018
Personnel Services	\$98.28	\$106.81	\$118.28	\$121.83	\$125.48	\$129.25
Contractual Services	74.01	76.04	76.94	78.49	80.84	83.27
Water Purchases	27.40	27.99	28.83	29.41	30.29	31.20
Chemical & Supplies	28.82	30.91	36.19	36.91	38.02	39.16
Utilities and Rent	22.88	30.71	30.42	31.02	31.95	32.91
Small Equipment	0.94	0.99	1.03	1.05	1.08	1.11
Digester Project - Operating Savings	0.00	0.00	(8.89)	(11.24)	(11.57)	(11.79)
Total O and M Expenses	\$252.33	\$273.46	\$282.79	\$287.46	\$296.10	\$305.11
PILOT and D.C. Occupancy ROW Fee	\$ 17.51	\$ 25.18	\$ 26.69	\$ 28.31	\$ 30.05	\$ 31.92
<b>Total Expenses</b>	<b>\$269.84</b>	<b>\$298.64</b>	<b>\$309.48</b>	<b>\$315.77</b>	<b>\$326.14</b>	<b>\$337.02</b>

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

<sup>2</sup> Fiscal Year 2014 - 2018 cost projections are based on the Authority's financial plan.

The following table provides a comparison of the budgeted versus actual costs from Fiscal Year 2011 to Fiscal Year 2013 on an accrual basis. The Authority has historically under-spent its annual budget (including O&M expenses), as illustrated in the following table.

**Budget to Actual Expense Comparison**  
 Fiscal Years ended September 30  
 (\$ in millions) <sup>1</sup>

Category	Fiscal Year Ended September 30th,								
	2011			2012			2013		
	Approved Budget	Actual Cost	Variance	Approved Budget	Actual Cost	Variance	Approved Budget	Actual Cost	Variance
Personnel Services	\$ 104,422	\$ 103,145	\$ 1,277	\$ 113,354	\$ 107,334	\$ 6,020	\$ 116,609	\$ 118,567	\$ (1,958)
Contractual Services	76,801	71,067	5,734	78,826	64,939	13,887	82,350	68,430	13,920
Water Purchases	33,872	27,170	6,702	33,000	28,389	4,611	31,513	27,223	4,290
Chemical & Supplies	30,080	26,412	3,668	29,946	26,744	3,202	31,360	27,120	4,240
Utilities & Rent	36,225	29,429	6,796	37,447	26,786	10,661	34,185	26,098	8,087
Small Equipment	974	694	280	995	1,139	(144)	993	1,192	(199)
Debt Service	103,354	91,888	11,466	105,387	99,272	6,115	121,330	105,811	15,519
PILOT/ ROW Fee	22,365	21,982	383	23,401	21,982	1,419	21,982	21,982	-
Total budgetary basis expenditures	<u>408,093</u>	<u>371,787</u>	<u>36,306</u>	<u>422,356</u>	<u>376,585</u>	<u>45,771</u>	<u>440,322</u>	<u>396,423</u>	<u>43,899</u>

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

Source: Authority Records

Several factors affecting future expenses are described herein. The Authority has undertaken long-term initiatives to optimize the cost of service. Management's forecast of operations and maintenance expenses reflects continued emphasis on managing such expenses. Examples of historical and ongoing initiatives are outlined in the description of the major categories of expense. Management continually monitors expenditures and reports the results monthly to the Board's Budget and Finance Committee. The Authority also has the option, in any given year, to defer certain expenses in order to stay within its budget and conform to Board policy requirements.

Labor-Related Expenses

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

Certain individuals at the Authority are responsible for planning and implementing the CIP. The salaries, wages and fringe benefits of such personnel are charged to capital projects and are paid for through the sources of funds for the CIP. In Fiscal Year 2014, the costs of such personnel are budgeted at \$12.9 million.

**Salaries and Fringe Benefits.** The Authority has a Master Agreement on Compensation and five working condition agreements with unions representing approximately 69% of its workforce. Each of the collective bargaining agreements expired on September 30, 2011. The Authority is currently in the negotiation process with the unions for new collective bargaining agreements. On December 5, 2013, the Authority, by Resolution #13-113, granted the Director the authority to execute a collective bargaining agreement with the American Federation of Government Employees Local 2553. This collective bargaining agreement is effective as of December 5, 2013, and expires on September 30, 2016. An agreement with the AFSCME Local 2091 is awaiting union ratification. With respect to the AFGE Local 631, a new agreement has been ratified by the Authority’s Board of Directors and the union, and is awaiting review and recommendation by the Authority’s Human Resources Committee. Negotiations with the AFGE Local 872 and NAGE R3-06 are at an impasse.

The Authority provides its employees with a comprehensive fringe benefit package, including coverage for health insurance, group term life insurance, dental care, vision care, disability coverage and retirement plans. The fringe benefit component of total labor costs has increased at a greater rate than salaries and wages in recent years, primarily due to the increasing cost of health care coverage. Fringe benefits are budgeted to be approximately 29.2% of salaries in Fiscal Year 2014.

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

**Overtime Expenses.** The Authority uses overtime work by its employees to address unplanned repairs and service needs (e.g., to repair water main breaks that occur outside of normal business hours) as well as to provide resources to offset unfilled positions and to reduce the need for contractual labor. Overtime expenses in Fiscal Year 2013, including an allowance for fringe benefits, totaled \$6.1 million, or about 5.1% of total personnel services costs. Overtime spending in Fiscal Years 2007 and 2008 on a percentage basis was higher than in the prior six years due to higher than expected vacancy rates, a challenging winter which resulted in a record number of water main breaks, and increased activities related to maintenance and repair including fire hydrant inspections. Overtime spending in Fiscal Years 2009 through 2013 was more consistent with the experience of Fiscal Years 2002 through 2006.

**Total Personnel Expenses.** The Authority’s personnel costs increased at an annual average of 4.0% per year from Fiscal Year 2010 through Fiscal Year 2013. Budgeted personnel expenses for Fiscal Year 2014 are \$106.8 million, an 8.7% increase over Fiscal Year 2013. In Fiscal Year 2015, personnel

expenses are expected to increase 10.7% from the prior year. Beginning in Fiscal Year 2016, personnel expenses are projected to increase at an average annual rate of 3.0%. The projected rate of increase is supported by the Authority's demonstrated ability to reduce staffing levels and overtime costs through improvements in its facilities and business practices, as well as the expectation that new employees in the upcoming years will have lower salaries and benefits compared to the employees who will retire during that same period.

Non-Labor Operating Expenses

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

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

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

The actual costs for contractual services in Fiscal Year 2013 were \$74 million. The budgeted amounts for contractual services in Fiscal Year 2014 and Fiscal Year 2015 are \$76 million and \$76.9 million, respectively. Contractual services expenses are assumed to increase at the average annual rate of 2.0% in Fiscal Year 2016 and 3.0% per year for Fiscal Years 2017 and 2018.

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

**Water Purchases.** The Authority purchases all of its treated drinking water from the Aqueduct on the basis of a 1997 agreement between the Authority and the Corps of Engineers, the operator of the Aqueduct. Under the terms of the agreement and based on its usage in relation to the other Aqueduct Customers, the Authority pays an average of approximately 73% of the Aqueduct's operating costs. The Authority's share of Aqueduct capital costs is reflected in the Authority's CIP.

The actual costs for water purchases in Fiscal Year 2013 were \$27.4 million. The budgeted amount for water purchases in Fiscal Year 2014 and 2015 is \$28 million and \$28.8 million, respectively. An average annual increase in water supply costs is assumed of approximately 2.0% in Fiscal Year 2016 and 3.0% in Fiscal Years 2017 and 2018.

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

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



The actual expenses for chemicals and supplies in Fiscal Year 2013 were \$28.8 million. The budgeted amount for chemicals and supplies in Fiscal Year 2014 and 2015 is \$30.9 million and \$36.2 million, respectively. The average annual increase of costs for chemicals and supplies is 2.0% in Fiscal Year 2016 and 3.0% in Fiscal Years 2017 and 2018.

**Utilities and Rent.** The Authority is a major user of energy, primarily for the operation of the Blue Plains Wastewater Treatment Facilities. Approximately 81% of the expenses associated with utilities and rent are attributable to the cost of power. The combined heat and power project will provide about a third of the plant's energy needs, saving approximately \$10 million to \$15 million annually on energy costs. See "CAPITAL IMPROVEMENT PROGRAM – Categories of CIP Projects – *Wastewater Treatment Projects.*" The Authority has taken a proactive approach to the procurement of power and its pricing. In Fiscal Year 2005, the Authority entered into a full service electricity contract to purchase power from Amerada Hess in the deregulated environment, which expires on September 30, 2014. In anticipation of the expiration of the Authority's agreement with Amerada Hess, the Authority has entered into a replacement agreement with ConEdison Solutions, which goes into effect on October 1, 2014. As part of its power purchasing strategy under deregulation, the Authority has entered into a successor five-year contract for generation that allows it to lock in blocks of power at a fixed price when futures pricing meets budget targets. To the extent that the Authority has power needs that exceed the locked in fixed price blocks, the price of the additional power would be established each day at market rates with direct pass-through of all costs. This contract includes an enhanced process for block power purchases that gives the Authority access to the wholesale market. The Authority's Department of Finance, Accounting and Budget monitors the energy market on a continuous basis.

#### **Reserve Funds**

The Authority maintains various reserve funds as previously described herein. See "SECURITY FOR THE SERIES 2014A BONDS – Certain Reserve Funds – *Discretionary Reserves*; – *Operating Reserve Fund*; – *Rate Stabilization Fund*; and – *Renewal and Replacement Reserve Fund.*"

#### **Financial Policies**

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

##### *Capital Financing Policy*

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

1. Maintain Senior Debt service coverage of 1.40x.\*
2. Maintain cash reserves equivalent to 120 days of budgeted operations and maintenance costs calculated on an average daily balance basis with the objective of maintaining at least \$125.5 million in operating reserves. The annual reserve amount will be formally approved by the Board as part of its annual approval of the operating and capital budgets. The operating reserve requirement will be evaluated every five years by the Authority's

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

independent rate consultant in conjunction with the Indenture-required system assessment. At a minimum include in the operating reserve any reserve requirements contained in the Indenture, excluding any debt service reserve funds and the rate stabilization fund.

3. Utilize operating cash in excess of the Board's reserve requirement and any other significant one-time cash infusions for capital financing or for repayment of higher cost debt.
4. Whenever possible, use the least costly type of financing for capital projects, based on a careful evaluation of the Authority's capital and operating requirements and financial position for each year.
5. Attempt to match the period of debt repayment, in total, with the lives of the assets financed by any such debt.
6. Finance its capital equipment needs (e.g., computer equipment and systems; minor utility equipment such as pumps, motors, etc.) and certain taxable costs of the Aqueduct with operating cash or short-term financing instruments with the same or shorter average lives as the related assets.

#### *Rate-Setting Policies*

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

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

#### *Debt Policy*

In June 2014, the Board adopted a revised Debt Policy. This policy provides detailed guidelines that the Authority's management applies to the Authority's current and future debt portfolio. The goals of this policy are to ensure compliance with all laws, legal agreements, contracts and adopted policies related to debt issuance and management; to promote cooperation and coordination with all stakeholders in the financing and delivery of services; to promote sound financial management to maximize and best utilize future debt capacity; and to ensure that the duties and responsibilities of those charged with the implementation of the Debt Policy are clearly conveyed and understood.

#### *Cash Management and Investment Policies*

In May 2014, the Board amended its comprehensive Statement of Investment Policy. The statement outlines broad investment policies to include delegation of certain authority to the General Manager, investment objectives, collateralization of deposits, selection of financial institutions, protection of funds, permitted investments, limits on maturities, investment of bond proceeds and investment reporting.

The Office of Treasury and Debt produces daily and monthly internal reports on all cash management and investment activities, with significant peer oversight within the Chief Financial

Officer's office, monthly reports to the General Manager and quarterly reports to the Board's Finance and Budget Committee that enables them to monitor compliance with Board policies.

#### **OPINION OF INDEPENDENT ENGINEER**

The Authority retained Johnson, Mirmiran, and Thompson, Inc. (JMT) to prepare an Independent Engineering Opinion on the service life of the Series 2014A Project dated May 2, 2014, which is attached hereto as APPENDIX H. The Opinion of Independent Engineer presents findings and conclusions based upon information provided by the Authority or others that is summarized or referred to therein. JMT's principal finding and conclusion is that the Series 2014A Project is designed to achieve a minimum service life of 100 years. The Opinion of Independent Engineer should be read in its entirety for a complete understanding of the assumptions, considerations, estimates and calculations upon which it is based.

#### **ENGINEERING FEASIBILITY REPORT**

The Authority retained JMT to prepare an Independent Consulting Engineering Assessment Report dated July 9, 2013, a copy of which is available on the Authority's website at [www.dewater.com](http://www.dewater.com). Pursuant to the Indenture requirement for an inspection of the System at least once every five years, an Independent Consulting Engineering Assessment Report reviews the Authority's progress in implementing capital projects and its plans to initiate additional capital improvements. The Report evaluates the adequacy of the Authority's CIP to maintain its water and wastewater infrastructure and to continue providing reliable service of a high quality to its customers. The Independent Consulting Engineering Assessment Report has not been updated since the date of its issuance.

The Independent Consulting Engineering Assessment Report presents findings and conclusions based upon information provided by the Authority or others which is summarized or referred to therein. Set forth below are JMT's principal findings and conclusions. The Independent Consulting Engineering Assessment Report should be read in its entirety for a complete understanding of the assumptions, considerations, estimates and calculations upon which these conclusions are based.

- The Authority has continued implementing its vision and strategic plan, focusing on increasing the operational efficiency of the Water and Wastewater Systems and providing satisfactory service to its customers.
- The Authority staff, including both management and key operations and maintenance personnel, is well qualified, effectively organized and sufficient to meet overall staffing needs.
- The existing Water and Wastewater Systems are effectively maintained and operated.
- The Authority has developed and continues to implement thorough capital programs for ensuring the integrity of the Water and Wastewater Systems.
- Through appropriate management, operational practices, technology, staffing, tools and equipment and selective outsourcing, the Authority has developed capital, operations and maintenance programs that should ensure the continued effective operation of the systems for the foreseeable future. The systems should continue to provide high levels of service with minimal disruption.

- The Authority's wastewater and drinking water facilities are in material compliance with all applicable permits and regulations and continue to provide uninterrupted service to its wholesale and retail customers. Such compliance is anticipated to continue through the foreseeable future.
- Substantial progress has been made by the Authority in improving the operating condition of existing facilities. The CIP is structured to provide a systematic program to replace and rehabilitate aging infrastructure on a priority basis.
- Implementation of the Authority's CIP is intended to address identified system needs and priorities and is within budget.

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

The Authority retained Amawalk Consulting Group LLC as its financial feasibility consultant, in which capacity Amawalk prepared the Financial Feasibility Opinion Letter dated [REDACTED], 2014, which is attached hereto as APPENDIX A. Amawalk provides financial and management consulting services to water and wastewater utilities, local governments and other organizations. Examples of the consulting services offered by the firm include: cost of service and rate studies; financial modeling; feasibility studies to support the issuance of debt; competitive assessments, including benchmarking and implementation of best practices; analyses supporting the consolidation of services; and the formation/start-up of public authorities including transition planning.

The conclusions set forth in the Financial Feasibility Opinion Letter reflect Amawalk's analysis of the Authority's anticipated financial results for Fiscal Years 2014 to 2018. Amawalk has assisted the Authority in preparing certain portions of this Offering Memorandum relating to historical and projected financial performance of the Authority. The Financial Feasibility Opinion Letter has not been updated to reflect any changes occurring after the date of the Financial Feasibility Opinion Letter.

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

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

- The Authority's financial forecast is viable, consistent with industry standards, and its projections are expected to meet the Board's debt service coverage and reserve requirements and targets.
- Revenues of the Authority (including projected revenue increases resulting from anticipated future rate increases to be implemented by the Authority) in the Reporting Period will be sufficient to pay: (i) the actual Operating Expenses;

(ii) Annual Debt Service on Senior Debt; (iii) any amount necessary to be deposited in any Account in the Debt Service Reserve Fund relating to a Series of Bonds to restore the amount on deposit therein to the Series Debt Service Reserve Requirement; (iv) the amount required to pay Annual Debt Service on the Subordinate Debt (including any reserves in connection therewith and the restoration thereof); (v) any amount necessary to be deposited in the Operating Reserve Fund and the Renewal and Replacement Reserve Fund to maintain the required balances therein; and (vi) any amount necessary to make any payments in lieu of taxes in such Fiscal Years. Sufficient funds are projected to be on deposit in each of the required reserve funds during the Reporting Period.

- Pursuant to Board policy, the Authority maintains a financial policy of fixing, charging, revising and collecting rates, fees and other charges for the use of and the services furnished by the System sufficient in each Fiscal Year so that Net Revenues shall be at least equal to one hundred and forty percent (140%) of the Annual Debt Service on Senior Debt in each such Fiscal Year. Revenues of the Authority (including projected revenue increases resulting from anticipated future rate increases to be implemented by the Authority) in such Fiscal Years will be sufficient to achieve the more stringent financial policy established by the Authority. There can be no assurance that the Board will not change this additional financial policy.

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

- The water and wastewater rates, fees and charges of the Authority, including projected increases for FY 2015 through 2018, are reasonable and compare favorably to the rates and charges of other major cities.

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

#### **VIGEO OPINION LETTER**

The Authority retained Vigeo to prepare an Independent Consultant Opinion on the project to be funded by the proceeds of the Series 2014A Bonds -- Green Bonds -- based on issuer, project and reporting standards and commitments delivered via an Opinion Letter dated June \_\_, 2014, which is attached here as APPENDIX C. Vigeo is an extra-financial research agency and provides ratings and research on corporate environmental, social and governance to investors (through the business brand of Vigeo Rating) and sustainability consulting services to organizations (through the business brand of Vigeo Enterprise). Vigeo provides an opinion based solely on the environmental, social and governance assessment. **Vigeo is not a financial advisor and any financial implications, positive or negative, resulting from an investment made should not be attributed to Vigeo. Furthermore Vigeo does not guarantee the Authority will honor the current and future commitments to standards and reporting identified.**

The Opinion of Independent Sustainability Consultant presents findings and conclusions based upon the analysis of the Authority's environmental, social and governance policies, guidelines and results according to criteria aligned with public international standards, in compliance with the ISO 26000 guidelines, and organized in 6 domains: Environment, Human Resources, Human Rights, Community Involvement, Business Behavior and Corporate Governance. Vigeo's review uses information provided by the Authority or others and from internal interviews with department managers and representatives.

The Opinion of Independent Sustainability Consultant should be read in its entirety for a complete understanding of the assumptions, considerations, estimates and calculations upon which these conclusions are based.

#### TAX MATTERS

##### *General*

In the opinion of Squire Patton Boggs (US) LLP and Leftwich & Ludaway, LLC, Co-Bond Counsel, under existing law, the Series 2014A Bonds and the interest thereon are exempt from District taxation, except estate, inheritance and gift taxes. An opinion to those effects will be included in the legal opinion. Co-Bond Counsel expresses no opinion as to any other tax consequences regarding the Series 2014A Bonds. INTEREST ON THE SERIES 2014A BONDS IS NOT EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. THE LEGAL DEFEASANCE OF THE SERIES 2014A BONDS MAY RESULT IN A DEEMED SALE OR EXCHANGE OF THE SERIES 2014A BONDS UNDER CERTAIN CIRCUMSTANCES; OWNERS OF THE SERIES 2014A BONDS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE FEDERAL INCOME TAX CONSEQUENCES OF SUCH AN EVENT. PROSPECTIVE PURCHASERS OF THE SERIES 2014A BONDS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS AS TO THE FEDERAL, STATE AND LOCAL, AND FOREIGN TAX CONSEQUENCES OF THEIR ACQUISITION, OWNERSHIP AND DISPOSITION OF THE SERIES 2014A BONDS.

The following discussion is generally limited to "U.S. owners," meaning beneficial owners of Series 2014A Bonds that for United States federal income tax purposes are individual citizens or residents of the United States, corporations or other entities taxable as corporations created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), and certain estates or trusts with specific connections to the United States. *Partnerships holding Series 2014A Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Series 2014A Bonds (including their status as U.S. owners).*

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

Certain of the Series 2014A Bonds ("Discount Bonds") may be offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of a Discount Bond, provided that excess equals or exceeds a statutory *de minimis* amount (one-quarter of one percent of the Discount Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity (or, if required by applicable Treasury Regulations, to an earlier call date)). The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity is sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the time a U.S. owner owns a Discount Bond (i) is interest includable in the U.S. owner's gross income for federal income tax purposes, and (ii) is added to the U.S. owner's tax basis for purposes of

determining gain or loss on the maturity, redemption, prior sale, or other disposition of the Discount Bond. The effect of OID is to accelerate the recognition of taxable income during the term of the Discount Bond.

Certain of the Series 2014A Bonds (“Premium Bonds”) may be offered and sold to the public at a price in excess of their stated redemption price at maturity (the principal amount). If a U.S. owner purchases a Premium Bond, that owner will be considered to have purchased such Premium Bond with “amortizable bond premium” equal in amount to such excess. The U.S. owner may elect (which election shall apply to all securities purchased at a premium by such U.S. owner), in accordance with the applicable provisions of Section 171 of the Code, to amortize that premium as an offset to the interest payments on the Premium Bond using a constant yield to maturity method over the remaining term of the Premium Bond (or, if required by applicable Treasury Regulations, to an earlier call date). Pursuant to Section 67(b)(11) of the Code, the amortization of that premium is not considered a miscellaneous itemized deduction. Any amortization of bond premium will reduce the basis of the Premium Bond pursuant to Section 1016(a)(5) of the Code.

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

#### **Information Reporting and Backup Withholding**

General information reporting requirements will apply to payments of principal and interest made on a Series 2014A Bond and the proceeds of the sale of a Series 2014A Bond to non-corporate holders of the Series 2014A Bonds, and “backup withholding,” currently at a rate of 28%, will apply to such payments if the owner fails to provide an accurate taxpayer identification number in the manner required or fails to report all interest required to be shown on its federal income tax returns. A beneficial owner of a Series 2014A Bond that is a U.S. owner generally can obtain complete exemption from backup withholding by providing a properly completed IRS Form W-9 (Request for Taxpayer Identification Number and Certification).

#### **Medicare Tax Affecting U.S. Owners**

For taxable years beginning after December 31, 2012, a U.S. owner that is an individual or estate, or a trust not included in a special class of trusts that is exempt from such tax, is subject to a 3.8% Medicare tax on the lesser of (1) the U.S. owner’s “net investment income” for the taxable year and (2) the excess of the U.S. owner’s modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals is between \$125,000 and \$250,000, depending on the individual’s circumstances). A U.S. owner’s net investment income generally includes interest income on, and net gains from the disposition of, Series 2014A Bonds, unless such interest income or net gains are derived in the ordinary course of a trade or business (other than a trade or business that consists of certain passive or trading activities). A U.S. owner that is an individual, estate, or trust, should consult its own tax advisor regarding the applicability of the Medicare tax.

#### **Non-U.S. Owners**

Under the Code, interest and OID on any Series 2014A Bond whose beneficial owner is not a U.S. owner are generally not subject to United States income tax or withholding tax (including backup withholding) if the non-U.S. owner provides the payor of interest on the Series 2014A Bonds with an appropriate statement as to its status as a non-U.S. owner. This statement can be made on IRS Form W-8BEN or a successor form. If, however, the non-U.S. owner conducts a trade or business in the United

States and the interest or OID on the Series 2014A Bonds held by the non-U.S. owner is effectively connected with such trade or business, that interest or OID will be subject to United States income tax but will generally not be subject to United States withholding tax (including backup withholding). The foregoing is a brief summary of certain federal income tax consequences to a non-U.S. owner. *Non-U.S. owners should consult their own tax advisors regarding the tax consequences of an investment in the Series 2014A Bonds.*

**Circular 230**

THE FOREGOING DISCUSSION IN “TAX MATTERS” WAS NOT INTENDED OR WRITTEN BY CO-BOND COUNSEL TO BE USED, AND IT CANNOT BE USED, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON AN OWNER OF THE SERIES 2014A BONDS. THE FOREGOING DISCUSSION IN “TAX MATTERS” WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE SERIES 2014A BONDS. EACH PROSPECTIVE PURCHASER OF THE SERIES 2014A BONDS SHOULD SEEK ADVICE BASED ON THE PROSPECTIVE PURCHASER’S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

**COVENANT BY THE DISTRICT OF COLUMBIA**

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

**LITIGATION**

There is not now pending or, to the best of the Authority’s knowledge, threatened any litigation restraining or enjoining the issuance or delivery of the Series 2014A Bonds or questioning or affecting the validity of the Series 2014A Bonds, the proceedings and authority under which they are to be issued, nor is the creation, organization, or existence of the Authority being contested. Nor is there any litigation pending or, to the best of the Authority’s knowledge, threatened which (i) in any manner questions the right of the Authority to operate the System or its right to conduct its activities in accordance with the provisions of the Act and of the Indenture or (ii) if determined adversely to the Authority, would have a material adverse impact on the financial condition of the Authority.

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

**LEGAL MATTERS**

Certain legal matters relating to the issuance of the Series 2014A Bonds are subject to the approving opinions of Squire Patton Boggs (US) LLP and Leftwich & Ludaway, LLC, Co-Bond Counsel, which will be furnished upon delivery of the Series 2014A Bonds, substantially in the form set forth as APPENDIX F. Squire Patton Boggs (US) LLP and Leftwich & Ludaway, LLC also serve as Co-Disclosure Counsel to the Authority in connection with the preparation of this Offering Memorandum. Certain legal matters will be passed upon for the Authority by its General Counsel, and for the Underwriters by their co-counsel, Orrick, Herrington & Sutcliffe LLP and McKenzie & Associates.



### INDEPENDENT AUDITORS

The fiscal year 2013 financial statements of the Authority included in this Offering Memorandum have been audited by KPMG LLP (“KPMG”). KPMG has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG also has not performed any procedures relating to this Offering Memorandum.

### THE TRUSTEE

The Authority has appointed Wells Fargo Bank, N.A., a national banking association organized under the laws of the United States, to serve as Trustee. The Trustee is to carry out those duties assignable to it under the Master Indenture. Except for the contents of this section, the Trustee has not reviewed or participated in the preparation of this Offering Memorandum and assumes no responsibility for the nature, contents, accuracy or completeness of the information set forth in this Offering Memorandum or for the recitals contained in the Indenture or the Series 2014A Bonds, or for the validity, sufficiency, or legal effect of any of such documents.

Furthermore, the Trustee has no oversight responsibility, and is not accountable, for the use or application of the proceeds of such Series 2014A Bonds by the Authority. The Trustee has not evaluated the risks, benefits, or propriety of any investment in the Series 2014A Bonds and makes no representation, and has reached no conclusions, regarding the value or condition of any assets or revenues pledged or assigned as security for the Series 2014A Bonds, the technical or financial feasibility of the Project, or the investment quality of the Series 2014A Bonds, about all of which the Trustee expresses no opinion and expressly disclaims the expertise to evaluate.

### RATINGS

Standard & Poor’s (“S&P”), a division of The McGraw-Hill Companies, Inc., Moody’s Investors Service, Inc. (“Moody’s”) and Fitch Ratings (“Fitch”), have assigned long-term municipal bond ratings of “[ ],” “[ ]” and “[ ],” respectively, to the Series 2014A Bonds. A securities rating is not a recommendation to buy, sell or hold the Series 2014A Bonds and may be subject to revision or withdrawal at any time. A rating reflects only the view of the rating agency giving such rating. An explanation of the significance of the ratings may be obtained from: S&P at 55 Water Street, New York, New York 10041; from Moody’s at 7 World Trade Center, New York, New York 10007; and from Fitch at 1 State Street Plaza, New York, New York 10099. There is no assurance that a rating will apply for any given period of time, or that a rating will not be revised or withdrawn. A revision or withdrawal of a rating may have an effect on the market price of or the market for the Series 2014A Bonds.

### CONTINUING DISCLOSURE

In accordance with the requirements of the Rule promulgated by the SEC, the Authority will enter into the Continuing Disclosure Agreement dated the date of delivery of the Series 2014A Bonds, which will constitute a written undertaking for the benefit of the Owners of the Series 2014A Bonds, solely to assist the Underwriters in complying with subsection (b)(5) of the Rule. Pursuant to the Continuing Disclosure Agreement, the Authority has covenanted to provide certain financial information on an annual basis and to provide notice of certain enumerated events. See APPENDIX D – “FORM OF CONTINUING DISCLOSURE AGREEMENT” for detailed provisions of the Continuing Disclosure Agreement. The Authority has complied in all material respects with its previous continuing disclosure agreements under the Rule, except that it failed to file on a timely basis a special event notice relating to a rating upgrade. The notice has been filed.

### FINANCIAL ADVISORS

Public Financial Management, Inc. and G-Entry Principle, PC have served as co-financial advisors to the Authority with respect to the issuance of the Series 2014A Bonds.

### UNDERWRITING

Goldman Sachs & Co., on behalf of itself and as representative of the Underwriters for the Series 2014A Bonds, has agreed to purchase from the Authority the Series 2014A Bonds at an aggregate purchase price equal to \$[REDACTED] (which amount constitutes the aggregate principal amount of the Series 2014A Bonds of \$[REDACTED]), plus net original issue premium of \$[REDACTED], less the Underwriters' discount of \$[REDACTED]).

The Bond Purchase Agreement by and among the Authority and Goldman Sachs & Co., on behalf of itself, and as representative of the Underwriters dated [REDACTED], 2014 (the "Series 2014A Bond Purchase Agreement"), provides that the Underwriters will purchase all of the Series 2014A Bonds, if any are purchased, and the obligation to make such purchases is subject to certain terms and conditions set forth in the Series 2014A Bond Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions.

The Series 2014A Bonds may be offered and sold to certain dealers (including dealers depositing the Series 2014A Bonds into investment trusts) at prices lower than the public offering prices and such public offering prices may be changed from time to time by the Underwriters.

Certain of the Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities.

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

### LEGALITY FOR INVESTMENT

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

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

### RELATIONSHIP OF PARTIES

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

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

**MISCELLANEOUS**

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

The agreement of the Authority with the holders of the Series 2014A Bonds is fully set forth in the Indenture. Neither any advertisement of the Series 2014A Bonds nor this Offering Memorandum is to be construed as constituting an agreement with the purchasers of the Series 2014A Bonds.

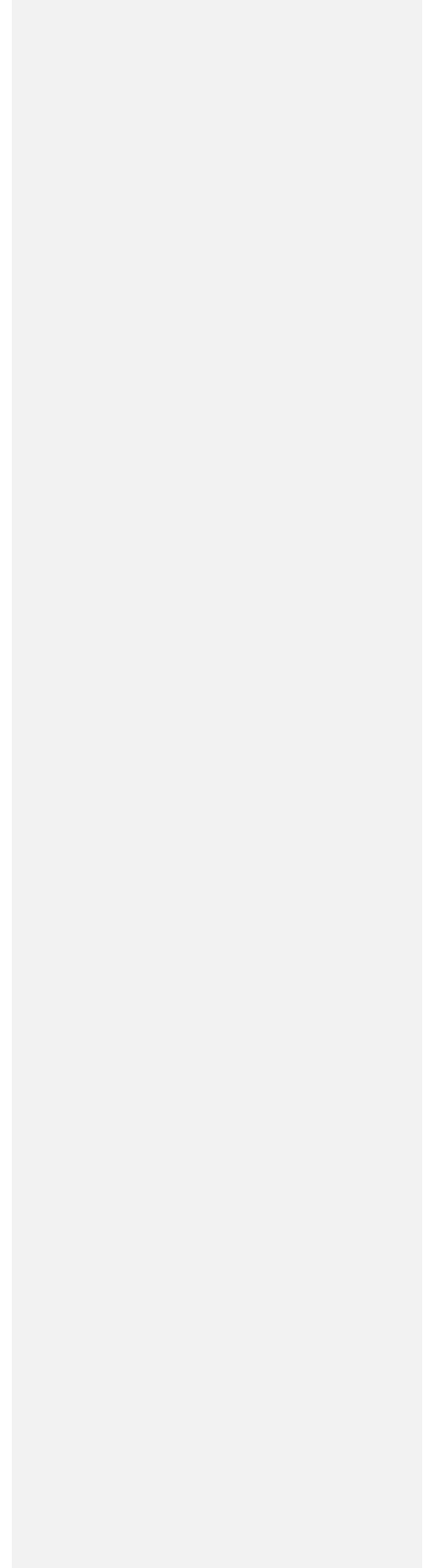
The information contained herein should not be construed as representing all conditions affecting the Authority or the Series 2014A Bonds. The foregoing statements relating to the Act, the Federal Act, the Indenture and other documents are summaries of certain provisions thereof, and in all respects are subject to and qualified in their entirety by express reference to the provisions of such documents in their complete forms.

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

**DISTRICT OF COLUMBIA  
WATER AND SEWER AUTHORITY**

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

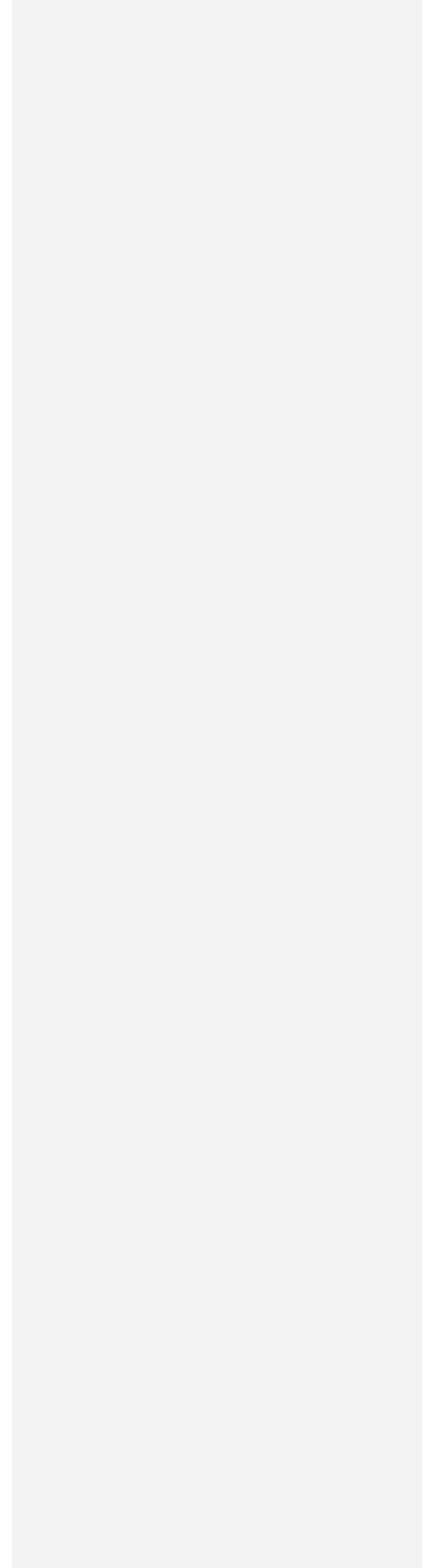
**APPENDIX A**  
**FINANCIAL FEASIBILITY OPINION LETTER OF**  
**AMAWALK CONSULTING GROUP LLC**  
**DATED [REDACTED], 2014**



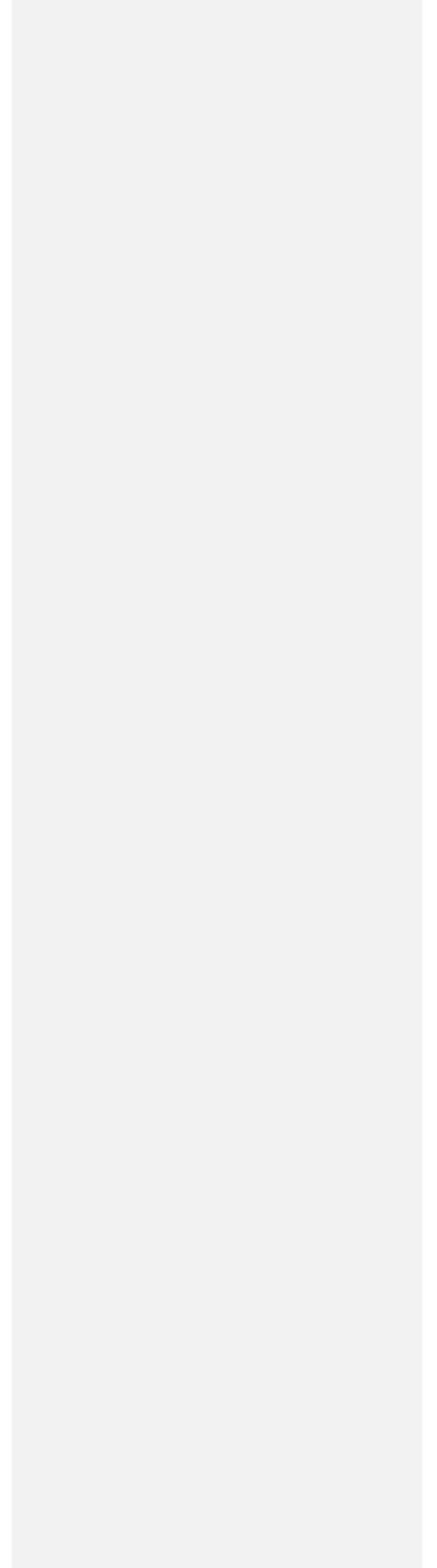
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**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY  
FOR THE YEARS ENDED SEPTEMBER 30, 2013, AND 2012**

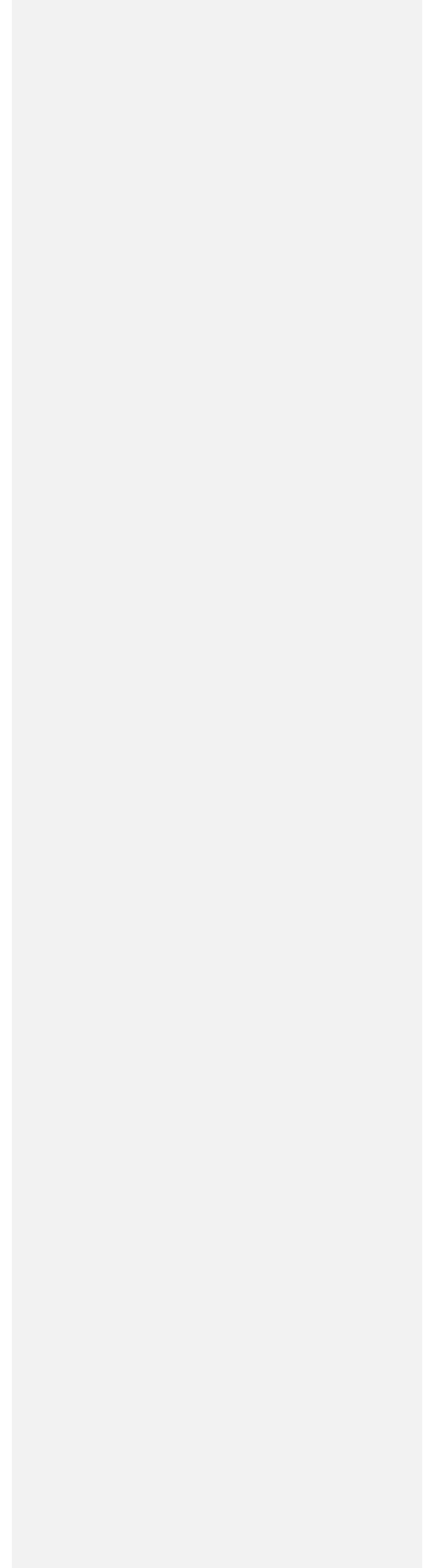


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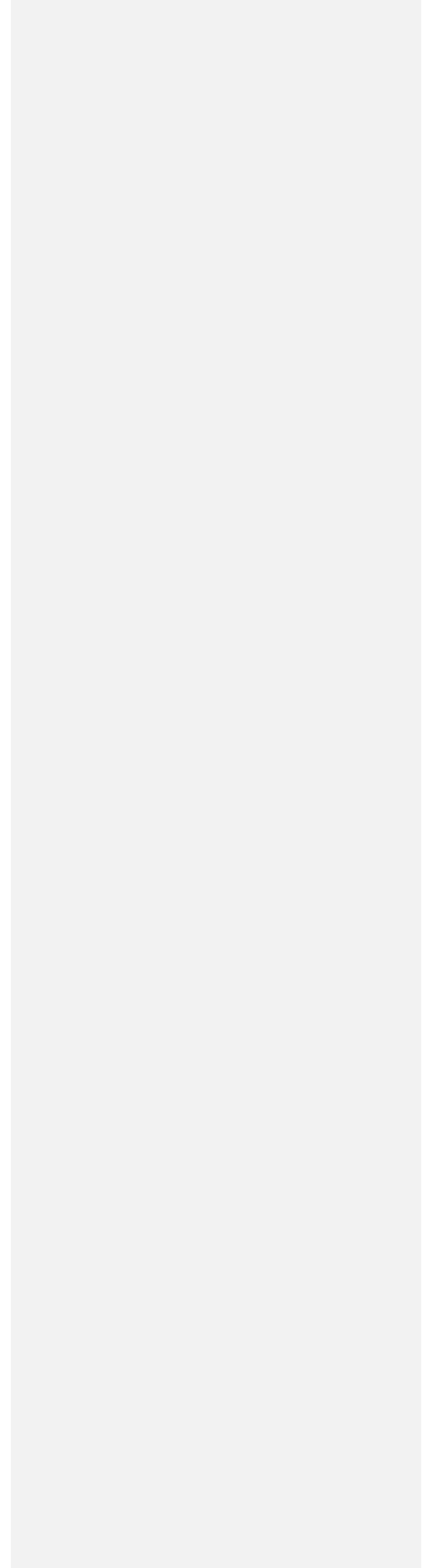




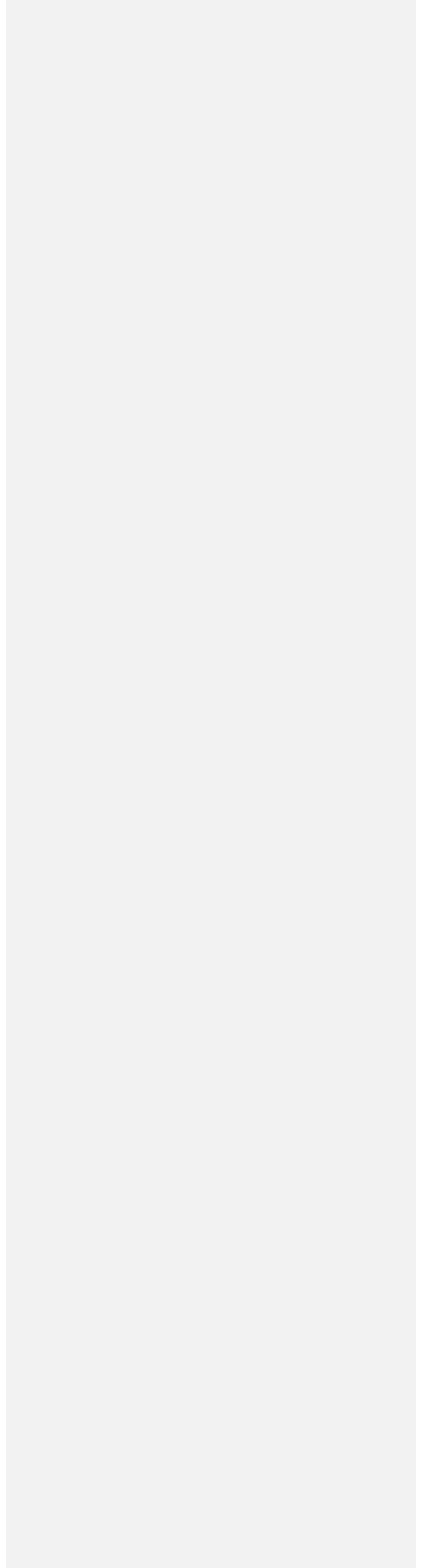
**APPENDIX C**  
**GLOSSARY AND SUMMARY OF THE INDENTURE**



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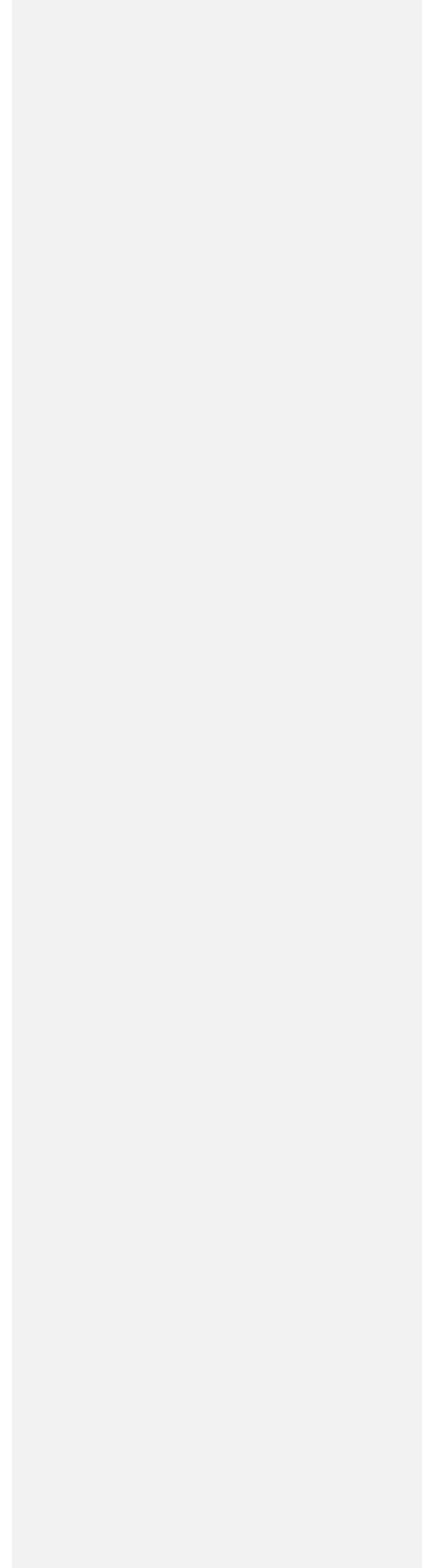


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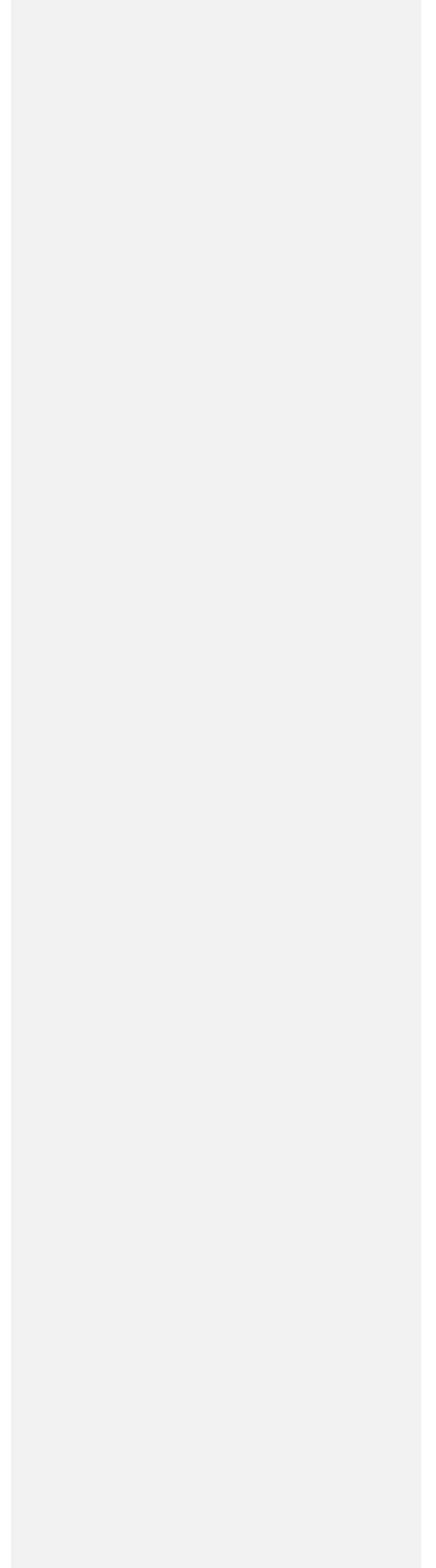


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**APPENDIX D**  
**FORM OF CONTINUING DISCLOSURE AGREEMENT**



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### FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by the District of Columbia Water and Sewer Authority (the “Issuer”) in connection with the issuance of its Public Utility Senior Lien Revenue Bonds, Series 2013A (the “Series 2014A Bonds”). The Bonds are being issued pursuant to the Master Indenture of Trust, dated as of April 1, 1998 (the “Master Indenture”), as amended and supplemented to the date of delivery of the Bonds (the “Indenture”), including by the Fourteenth Supplemental Indenture of Trust, to be dated the date of issuance and delivery of the Bonds (the “Fourteenth Supplemental Indenture”), each by and between the Authority and Wells Fargo Bank, N.A., as trustee (the “Trustee”). The Issuer covenants and agrees as follows:

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

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

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

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

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

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

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

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

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

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

**SECTION 3. Provision of Annual Reports.**

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

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

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

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

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

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

(b) to the extent not included in the CAFR, material historical financial and operating data concerning the Issuer and the Revenues of the Issuer generally of the type found in the tables included in the Issuer's Offering Memorandum dated July 23, 2013, relating to the Bonds (the "Offering Memorandum") under the captions "THE SYSTEM," "CAPITAL IMPROVEMENT PROGRAM," "FINANCIAL OPERATIONS" and "CUSTOMER BASE, RATES AND CHARGES."

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

SECTION 5. Reporting of Significant Events.

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

Date: August 1, 2013.

DISTRICT OF COLUMBIA WATER AND SEWER  
AUTHORITY

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

**CONTINUING DISCLOSURE AGREEMENT**

**EXHIBIT A**

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

Name of Issuer: District of Columbia Water and Sewer Authority  
Name of Bond Issue: District of Columbia Water and Sewer Authority  
Public Utility Senior Lien Revenue Bonds, Series 2013A  
Date of Issuance: August 1, 2013

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

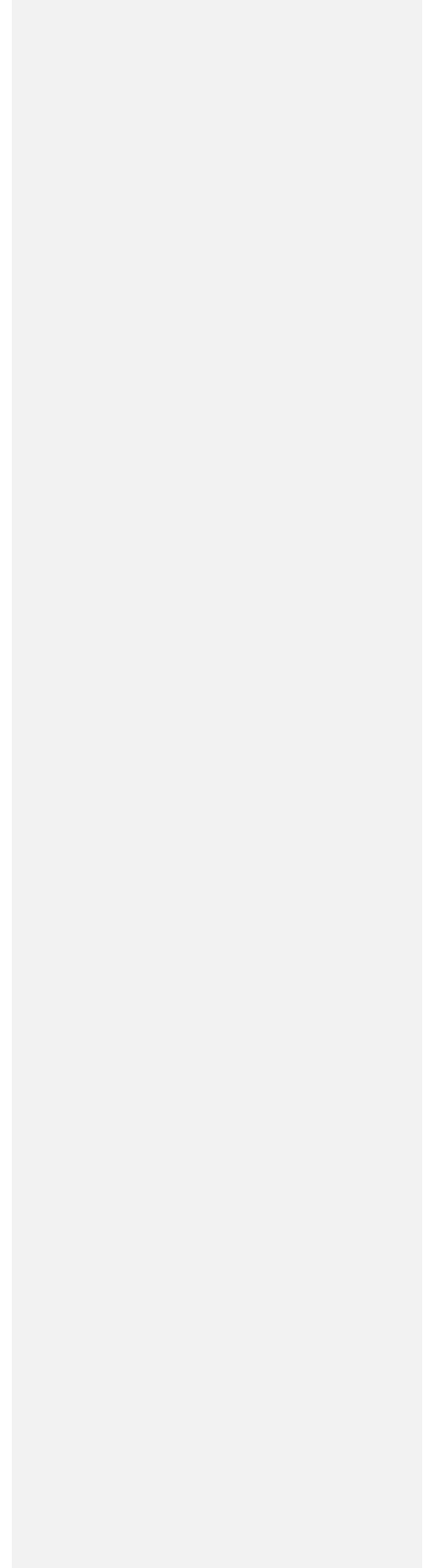
Dated:[\_\_\_\_\_]

DISTRICT OF COLUMBIA WATER AND SEWER  
AUTHORITY

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

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**APPENDIX E**  
**DTC BOOK-ENTRY ONLY SYSTEM**



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#### **DTC BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES**

**The description that follows of the procedures and record keeping with respect to beneficial ownership interests in the Series 2014A Bonds, payments of principal, premium, if any, and interest on the Series 2014A Bonds to DTC, its nominee, Participants, or Beneficial Owners, confirmation and transfer of beneficial ownership interests in the Series 2014A Bonds and other bond-related transactions by and between DTC, Participants and Beneficial Owners is based on information furnished by DTC. The Authority and the Underwriters take no responsibility for the accuracy thereof.**

The Depository Trust Company, New York, New York (“DTC”) will act as securities depository for the Series 2014A Bonds. The Series 2014A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2014A Bond will be issued for the Series 2014A Bonds of each series and maturity in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of the Series 2014A Bonds under the DTC system must be made by or through Direct Participants, who will receive a credit for such Series 2014A Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2014A Bond (the “Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2014A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2014A Bonds, except in the event that use of the book-entry system for the Series 2014A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2014A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2014A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2014A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2014A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all of the Series 2014A Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE SERIES 2014A BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER OF ANY NOTICE AND OF ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE SERIES 2014A BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2014A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2014A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2014A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirement as may be in effect from time to time. Payment of principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2014A Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2014A Bond certificates are required to be printed and delivered. The Authority may decide to discontinue use of the



system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2014A Bond certificates will be printed and delivered.

So long as Cede & Co. is the registered owner of the Series 2014A Bonds, as partnership nominee for DTC, references herein to Bondholders or registered owners of the Series 2014A Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co. and shall not mean the Beneficial Owners of the Series 2014A Bonds.

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

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, CEDE & CO., ANY DTC PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (ii) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2014A BONDS; (iii) THE SELECTION BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2014A BONDS; (iv) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE SERIES 2014A BONDS; (v) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE SERIES 2014A BONDS; OR (vi) ANY OTHER MATTER.

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

F- 1

**APPENDIX G**

**VIGEO OPINION LETTER**

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G-1

**APPENDIX H**

**OPINION OF INDEPENDENT ENGINEER**

H-1

OFFERING MEMORANDUM DATED JULY \_\_, 2014

NEW ISSUE – BOOK-ENTRY ONLY

Ratings: Standard & Poor's: [ ]  
 Moody's: [ ]  
 Fitch: [ ]  
 See "Ratings" herein.

*In the opinion of Co-Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Series 2014B Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (ii) the Series 2014B Bonds and the interest thereon are exempt from District taxation, except estate, inheritance and gift taxes. Interest on the Series 2014B Bonds may be subject to certain federal taxes imposed only on certain corporations, including the corporate alternative minimum tax on a portion of that interest. For a more complete discussion of the tax aspects, see "TAX MATTERS" herein.*

[logo]

\$100,000,000\*

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Public Utility Subordinate Lien Revenue Bonds

Series 2014B

(Weekly Rate Period)

\$ \_\_\_\_\_  
 Subseries 2014B-1

\$ \_\_\_\_\_  
 Subseries 2014B-2

Dated: Date of Delivery

Due: As shown on inside cover

The Public Utility Subordinate Lien Revenue Bonds, Series 2014B (the "Series 2014B Bonds") are being issued by the District of Columbia Water and Sewer Authority (the "Authority," also commonly referred to as "DC Water") pursuant to a Master Indenture of Trust, dated as of April 1, 1998 (the "Master Indenture"), by and between the Authority and Wells Fargo Bank, N.A., as trustee (the "Trustee"), as amended and supplemented to the date of issuance of the Series 2014B Bonds (the "Indenture"). The proceeds of the Series 2014B Bonds will be used to pay (i) a portion of the costs of certain capital improvements to the System (as defined herein) and (ii) costs of issuing the Series 2014B Bonds. The Series 2014B Bonds will be secured by a pledge of Net Revenues that will be subordinate to the pledge of Net Revenues that secures any Outstanding Senior Debt and other Senior Debt the Authority may issue from time to time in the future, and on a parity with the pledge of Net Revenues that secures the Outstanding Subordinate Debt and other Subordinate Debt the Authority may issue from time to time in the future, without preference, priority or distinction of any Subordinate Debt over any other Subordinate Debt, all as further described and defined herein. See "SECURITY FOR THE SERIES 2014B BONDS."

Each Subseries of the Series 2014B Bonds will initially bear interest at a Weekly Rate, as described herein. Interest on the Series 2014B Bonds in the Weekly Rate will be calculated on the basis of a 365- or 366-day year for the number of days actually elapsed, payable on the first Business Day of each calendar month, commencing [August 1, 2014]. After the Initial Period, each Subseries will continue to bear interest in the specified Interest Period unless and until all of the Series 2014B Bonds of a Subseries are converted to a different Interest Period, as more fully described in this Offering Memorandum. The applicable interest rate for the Initial Period shall be determined by Bank of America Merrill Lynch for the Series 2014B-1 Bonds (the "Series 2014B-1 Remarketing Agent") and by Loop Capital Markets, LLC, for the Series 2014B-2 Bonds (the "Series 2014B-2 Remarketing Agent"), all in the manner described in this Offering Memorandum.

The Series 2014B Bonds will be issued initially in denominations of \$100,000 or any \$5,000 integral multiple in excess thereof and in fully registered form in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC") under the book-entry only system maintained by DTC. So long as Cede & Co. is the registered owner of the Series 2014B Bonds, the principal of and premium, if any, and interest on the Series 2014B Bonds will be payable by the Trustee to DTC, which will in turn remit such payments to its participants for subsequent disbursement to beneficial owners of the Series 2014B Bonds, as more fully described herein. See APPENDIX E – "DTC BOOK-ENTRY ONLY SYSTEM."

The Series 2014B Bonds are subject to redemption prior to maturity, as more fully described herein.

Funds for the purchase of each Subseries upon optional or mandatory tender thereof will be available, subject to certain conditions, through a Credit Facility provided by the Credit Facility Provider named on the inside cover of this Offering Memorandum. Upon the occurrence of certain events of default under the Credit Facility, the obligation of Credit Facility Provider to purchase tendered Series 2014B Bonds of the relevant Subseries will terminate or, in certain cases, be suspended, immediately, without any prior notice to holders of the Series 2014B Bonds. Upon the occurrence of certain other events of default under the applicable Credit Facility, the obligation of Credit Facility Provider to purchase tendered Series 2014B Bonds of the applicable Subseries may be terminated by the Credit Facility Provider as described in this Offering Memorandum.

**The Series 2014B Bonds shall be special, limited obligations of the Authority payable solely from the Net Revenues of the Authority. The Series 2014B Bonds shall be without recourse to the District of Columbia (the "District"). The Series 2014B Bonds shall not be general obligations of the District or of the Authority. The Series 2014B Bonds shall not be a pledge of or involve the faith and credit or the taxing power of the District, shall not constitute a debt of the District, the United States of America or any User Jurisdiction (as defined herein) or any agency or instrumentality of any User Jurisdiction, and neither the District, the United States, any User Jurisdiction nor any agency or instrumentality of any User Jurisdiction shall be liable thereon. The Series 2014B Bonds also shall not constitute the lending of the public credit for private undertakings as prohibited by the Home Rule Act (as defined herein). The Authority has no taxing power.**

The Series 2014B Bonds are offered when, as and if issued by the Authority and received by the Underwriters. Certain legal matters with respect to the issuance of the Series 2014A Bonds are subject to the approval of Squire Patton Boggs (US) LLP, and Leftwich & Ludaway, LLC, Co-Bond Counsel to the Authority. Squire Patton Boggs (US) LLP and Leftwich & Ludaway, LLC, also serve as Co-Disclosure Counsel to the Authority in connection with the preparation of this Offering Memorandum. Certain legal matters will be passed upon for the Authority by its General Counsel, and for the Underwriters by Orrick, Herrington & Sutcliffe, LLP, and McKenzie & Associates, Co-Underwriters' Counsel. It is expected that the Series 2014B Bonds will be available for delivery through the facilities of DTC in New York, New York on or about \_\_\_\_\_, 2014.

**BOFA MERRILL LYNCH**

(Senior Manager and Remarketing Agent for the Series 2014B-1 Bonds)

**LOOP CAPITAL MARKETS, LLC**

(Senior Manager and Remarketing Agent for the Series 2014B-2 Bonds)

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

Dated: July [ ], 2014

\* Preliminary; subject to change.

**\$100,000,000\***  
**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**  
**Public Utility Subordinate Lien Revenue Bonds**  
**Series 2014B**

**Series 2014B-1**

Principal: \$[\_\_\_\_\_]  
CUSIP: 254845 [\_\_]<sup>†</sup>  
Remarketing Agent: Bank of America Merrill Lynch  
Credit Facility Provider: TD Bank, N.A.  
Credit Facility Stated Expiration Date: July [\_\_], 2017  
Rate Period: Weekly  
Initial Interest Payment Date: [August 1], 2014  
Authorized Denominations: \$100,000 and integral multiples of \$5,000 in excess thereof

**Series 2014B-2**

Principal: \$[\_\_\_\_\_]  
CUSIP: 254845 [\_\_]<sup>†</sup>  
Remarketing Agent: Loop Capital Markets, LLC  
Credit Facility Provider: TD Bank, N.A.  
Credit Facility Stated Expiration Date: July [\_\_], 2017  
Rate Period: Weekly  
Initial Interest Payment Date: [August 1], 2014  
Authorized Denominations: \$100,000 and integral multiples of \$5,000 in excess thereof

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\* Preliminary; subject to change.

<sup>†</sup> CUSIP® is a registered trademark of the American Bankers Association. CUSIP numbers are provided by the CUSIP Service Bureau, operated by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the Authority and are included solely for the convenience of investors. Neither the Authority nor the Underwriters are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Series 2014B Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2014B Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2014B Bonds.

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

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

**Principal Board Members**

Allen Y. Lew, Chairman  
 Ellen O. Boardman  
 Rachna Butani  
 Timothy L. Firestine  
 Robert Hoyt  
 Edward L. Long, Jr.  
 Robert Mallett  
 Obiora “Bo” Menkiti  
 Alan J. Roth  
 Nicholas Majett  
 Vacant

**Jurisdiction**

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

**Alternate Board Members**

Keith Anderson  
 Matthew Brown\*  
 Bonnie Franklin  
 Shirley Branch  
 Howard C. Gibbs  
 David W. Lake  
 Adam Ortiz  
 James Patteson  
 Brenda L. Richardson  
 Vacancy  
 Vacancy

**Jurisdiction**

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

**Authority Staff**

George S. Hawkins  
 Mark Kim  
 Walter Bailey  
 Leonard R. Benson  
 Randy Hayman, Esq.  
 Charles Kiely  
 Thomas Kuczynski

**Title**

*General Manager*  
*Chief Financial Officer*  
*Assistant General Manager, Blue Plains*  
*Chief Engineer*  
*General Counsel*  
*Assistant General Manager, Customer Care & Operations*  
*Chief Information Officer*

**Authority Consultants and Counsel**

Squire Patton Boggs (US) LLP and Leftwich & Ludaway, LLC  
 Amawalk Consulting Group LLC  
 Johnson, Mirmiran, and Thompson, Inc.  
 Public Financial Management, Inc. and G~Entry Principle, P.C.

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

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\* Pending swearing in; term begins in June 2014.

### IMPORTANT NOTICES

This Offering Memorandum is provided in connection with the issuance of the Series 2014B Bonds referred to herein and may not be reproduced or be used, in whole or in part, for any other purpose. The information contained in this Offering Memorandum has been derived from information provided by the Authority and other sources which are believed to be reliable. Additional information, including financial information, concerning the Authority is available from the Authority's website. Any such information that is inconsistent with the information set forth in this Offering Memorandum should be disregarded.

No dealer, broker, salesperson or other person has been authorized by the Authority or the Underwriters to give any information or to make any representations with respect to this offering, other than as contained in this Offering Memorandum and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority or the Underwriters. This Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2014B Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in such information since the date thereof.

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

THE SERIES 2014B BONDS HAVE NOT BEEN REGISTERED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXCEPTIONS CONTAINED IN THE ACT. NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SERIES 2014B BONDS OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2014B BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

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

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

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



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## OFFICIAL STATEMENT

\$100,000,000<sup>5</sup>

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**  
**Public Utility Subordinate Lien Revenue Bonds**  
**Series 2014B**

### INTRODUCTION

#### General

This Offering Memorandum, including the cover page and the appendices hereto (the “Offering Memorandum”), is provided in connection with the issuance by the District of Columbia Water and Sewer Authority (the “Authority,” also commonly referred to as “DC Water”) of its Public Utility Subordinate Lien Revenue Bonds, Series 2014B, in the original principal amount of \$100,000,000,\* consisting of its Subseries 2014B-1, in the original principal amount of \$[\_\_\_\_\_] (the “Subseries 2014B-1 Bonds”), and its Subseries 2014B-2, in the original principal amount of \$[\_\_\_\_\_] (the “Subseries 2014B-2 Bonds” and the Subseries 2014B-1 Bonds, each a “Subseries” and, together, the “Series 2014B Bonds”).

The Series 2014B Bonds are being issued pursuant to the Master Indenture of Trust, dated as of April 1, 1998 (the “Master Indenture”), as amended and supplemented to the date of delivery of the Series 2014B Bonds (the “Indenture”), including by the Sixteenth Supplemental Indenture of Trust, to be dated the date of issuance and delivery of the Series 2014B Bonds (the “Sixteenth Supplemental Indenture”), each by and between the Authority and Wells Fargo Bank, N.A., as trustee (the “Trustee”).

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

#### District of Columbia Water and Sewer Authority

The Authority is an independent authority of the District of Columbia (the “District”), which was created in April 1996 and began operating on October 1, 1996, under and pursuant to an act of the Council of the District (the “Council”), which is entitled the “Water and Sewer Authority Establishment and Department of Public Works Reorganization Act of 1996” (D.C. Law 11-111) (D.C. Code §§ 34-2201.01 *et seq.*), as amended and supplemented (the “Act”), and an act of the United States Congress entitled the “District of Columbia Water and Sewer Authority Act of 1996” (Public Law 104-184) (the “Federal Act”). The Council was authorized to adopt the Act pursuant to the authority set forth in the District of Columbia Self-Government and Governmental Reorganization Act (P.L. 93-198; 87 Stat 777; D.C. Official Code, 2006 Repl., §§ 1-201 *et seq.*), as amended (the “Home Rule Act”). See “THE AUTHORITY.”

The Authority provides retail water and wastewater services to more than 640,000 residents in the District and wholesale wastewater conveyance and treatment to approximately 1.6 million people in major suburban areas of Prince George’s and Montgomery Counties in Maryland and Fairfax and Loudoun Counties in Virginia (collectively, the “User Jurisdictions”). Pursuant to the Act, the District authorized the Authority to use all of the property and assets of the water distribution system (the “Water System”) and the wastewater collection, treatment and disposal system (the “Wastewater System” and,

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<sup>5</sup> Preliminary; subject to change.

together with the Water System, the “System”) formerly operated by the District, for as long as any revenue bonds of the Authority, including the Series 2014B Bonds, remain outstanding. In accordance with the Act, the District retains full legal title to and a complete equitable interest in the System. See “THE SYSTEM.”

The Authority’s service area consists of the District and certain areas of the User Jurisdictions and, therefore, certain demographic, economic and statistical information relating to the District and the User Jurisdictions may be relevant to prospective purchasers of the Series 2014B Bonds. The Authority makes no representation as to the accuracy or completeness of such information.

**Use of the Series 2014B Bond Proceeds**

The proceeds of the Series 2014B Bonds will be used to (i) pay a portion of the costs of certain capital improvements to the System (as defined herein) and (ii) pay costs of issuing the Series 2014B Bonds. See “SOURCES AND USES OF FUNDS” and “CAPITAL IMPROVEMENT PROGRAM – Categories of CIP Projects”

**Security and Source of Payment**

Under the Indenture, the Authority may issue “Senior Debt” and “Subordinate Debt” from time to time. The Series 2014B Bonds will constitute Subordinate Debt under the Indenture. The Series 2014B Bonds will be secured by a pledge of Net Revenues that is subordinate to the pledge of Net Revenues that secures any Outstanding Senior Debt and other Senior Debt the Authority may issue from time to time in the future, and on a parity with the pledge of Net Revenues that secures the Outstanding Subordinate Debt and other Subordinate Debt the Authority may issue from time to time in the future, without preference, priority or distinction of any Subordinate Debt over any other Subordinate Debt. Upon the issuance of the Series 2014B Bonds, approximately \$1,578,147 aggregate principal amount of Subordinate Debt and \$487,195<sup>6</sup> aggregate principal amount of Senior Debt will be outstanding. See “OUTSTANDING INDEBTEDNESS.” The Series 2014B Bonds will be payable solely from Net Revenues after the funding of certain Funds and Accounts established under the Indenture. The principal sources of Net Revenues are the payments received by the Authority pursuant to its rates and charges imposed for the use of and the services furnished by the System, as described in the Indenture. See “RATES AND CHARGES.” The Series 2014B Bonds will not be secured by a Debt Service Reserve Fund.

**The Series 2014B Bonds shall be special and limited obligations of the Authority. The Series 2014B Bonds shall be without recourse to the District. The Series 2014B Bonds shall not be general obligations of the District or of the Authority. The Series 2014B Bonds shall not be a pledge of or involve the faith and credit or the taxing power of the District, shall not constitute a debt of the District, the United States of America or any User Jurisdiction or any agency or instrumentality of any User Jurisdiction, and neither the District, the United States, any User Jurisdiction, nor any agency or instrumentality of any User Jurisdiction shall be liable thereon. The Series 2014B Bonds also shall not constitute the lending of the public credit for private undertakings as prohibited by the Home Rule Act of the District. The Authority has no taxing power.**

The Indenture prohibits the acceleration of Subordinate Debt if any Senior Debt is outstanding. The right of acceleration of the Series 2014B Bonds is also subject to the requirement that acceleration of the Series 2014B Bonds may occur only in connection with the acceleration of all Subordinate Debt, and accordingly shall be subject to the rights of the holders (including bond insurers acting on behalf of the bondholders to the extent their policies so provide) of other Subordinate Debt. The Sixteenth

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<sup>6</sup> Does not include the \$[\_\_\_\_\_] of Senior Debt the Authority anticipates issuing concurrently with the Series 2014B Bonds.

Supplemental Indenture confers upon the holders of the Series 2014B Bonds comparable rights to direct the Trustee in the exercise of remedies (other than acceleration while any Senior Debt is outstanding) for the enforcement of their right to be paid debt service on the Series 2014B Bonds from moneys in the Subordinate Bond Fund required by the Indenture to be used for such payment, but the exercise of all other remedies for the protection of the rights of holders of the Series 2014B Bonds are discretionary with the Trustee and subject to the herein described rights of the holders of the Bonds (the term “Bonds” as defined in the Indenture does not include Other System Indebtedness and Subordinate Debt). See “SECURITY FOR THE SERIES 2014B BONDS.”

### **Concurrent Issuance of Bonds by the Authority**

Concurrently with the issuance of the Series 2014B Bonds, the Authority expects to issue a series of its Public Utility Senior Lien Revenue Bonds, Series 2014A (the “Series 2014A Senior Bonds”), in an amount not to exceed \$350 million, pursuant to the Indenture, as supplemented by the Fifteenth Supplemental Indenture. The Authority expects that the Series 2014A Bonds will bear interest at a fixed rate, and that any interest income derived therefrom by a holder will not be exempt from federal income taxation. The Series 2014A Bonds will be secured by a senior pledge of the Net Revenues. The issuance of the Series 2014B Bonds is not dependent upon the Authority’s issuance of the Series 2014A Bonds, and such Series 2014B Bonds will be sold separately and independently from the Series 2014A Bonds.

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

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

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

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

See “SECURITY FOR THE SERIES 2014B BONDS – Rate Covenant.” Financial information, including projections and projected debt service coverages are included in “FINANCIAL OPERATIONS – Projected Financial Operations” herein.

### **Capital Improvement Program**

The Authority utilizes an annually adopted ten-year Capital Improvement Program (the “Capital Improvement Program” or the “CIP”) to plan and manage the capital investments necessary to fulfill its service missions, comply with regulatory requirements and preserve and upgrade its water and wastewater systems. The Authority updates the CIP annually in conjunction with its budget process, based on detailed project review by engineering staff, external engineering consultants retained by the Authority, operations staff and senior management. The Authority intends to finance the costs of the CIP from a number of sources, including the proceeds of the Series 2014B Bonds, proceeds of future bonds, grants, certain operating revenues and wholesale customer contributions. As more fully described herein, the Authority estimates the cost of the current ten-year CIP at \$3.8 billion on a cash disbursement basis. The Board approved the CIP on December 5, 2013. See “CAPITAL IMPROVEMENT PROGRAM.”

**Miscellaneous**

This Offering Memorandum contains brief descriptions of the Series 2014B Bonds, the Authority, the System, the Capital Improvement Program, the Indenture and certain provisions of the Act. Such descriptions and the summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be comprehensive or definitive, and each such document, statute, report or instrument is qualified in its entirety by reference to each such document, statute, report or instrument, copies of which are available from the Authority. All references to the Series 2014B Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Indenture. Insofar as any statements are made in this Offering Memorandum involving matters of opinion, regardless of whether expressly so stated, they are intended merely as such and not as representations of fact.

The information in this Offering Memorandum is subject to change without notice, and neither the delivery of this Offering Memorandum, nor any sale made hereunder shall under any circumstances create an implication that there has been no change in the affairs of the Authority since the date hereof. This Offering Memorandum is not to be construed as a contract or agreement between the Authority or the Underwriters and the purchasers or owners of any of the Series 2014B Bonds.

Inquiries regarding information about the Authority and the financial matters contained in this Offering Memorandum may be directed to the Chief Financial Officer of the Authority at (202) 787-2000.

## THE SERIES 2014B BONDS

### General

The Series 2014B Bonds are issuable as fully registered bonds, without coupons, in book-entry form and will be registered in the name of Cede & Co., as described below. Since the Series 2014B Bonds will be issued in book-entry form, no Tender Agent will be appointed for the Series 2014B Bonds and all references in this Offering Memorandum to the Tender Agent shall mean the Trustee until such time as the Series 2014B Bonds are no longer held in book-entry form and a separate Tender Agent is appointed.

The Series 2014B Bonds will mature on October 1, 20[ ] (the “Maturity Date”). The Series 2014B Bonds will be issued under and secured by the Indenture and will initially bear interest at a Weekly Rate, as described herein. The Series 2014B Bonds will be issued in denominations of \$100,000 or any \$5,000 integral multiple in excess thereof (“Authorized Denominations”). See “— Rate Periods; Determination of Rates” and “— Redemption Dates and Prices” below for a description of the interest rate-setting process and the redemption provisions applicable to the Series 2014B Bonds during a Weekly Rate Period. Each Subseries of the Series 2014B Bonds is subject to conversion in whole from the then current Rate Period to a Daily Rate Period, Weekly Rate Period, or Short-Term Rate Period, Long-Term Rate Period, Fixed Rate Period, Index Rate Period, Subsequent Index Rate Period (each a “Rate Period”). For a discussion of each Rate Period, see APPENDIX C - Glossary and Summary of the Indenture.” The Series 2014B Bonds will be subject to mandatory tender and purchase on the date of conversion to a different Rate Period (a “Conversion Date”). All Series 2014B Bonds of a Subseries must be in the same Rate Period at any given time.

The Series 2014B Bonds will be dated as of the date of initial issuance and will initially bear interest at a Weekly Rate, as described in this Offering Memorandum. Thereafter, each Subseries of the Series 2014B Bonds will continue to bear interest at the Weekly Rate unless and until all of the Series 2014B Bonds of a Subseries are converted to a different Rate Period. See “THE SERIES 2014B BONDS – Conversions.” While in the Weekly Rate Period, interest on each Subseries of the Series 2014B Bonds will be calculated on the basis of a 365- or 366-day year for the number of days actually elapsed, payable on the first Business Day of each calendar month, commencing [August 1], 2014 (each, an “Interest Payment Date”), and will mature, be subject to redemption, acceleration or purchase prior to the Maturity Date (as defined below), as more particularly described in this Offering Memorandum. The interest rate on the Series 2014B Bonds may not exceed the Maximum Rate (i.e., the least of (i) 12% per annum, (ii) the maximum interest rate permitted by law, or (iii) with respect to Series 2014B Bonds that are not Credit Facility Provider Bonds, the maximum rate used to determine the amount available under any Credit Facility then in effect). Each Beneficial Owner of the Series 2014B Bonds will have the right to tender such Beneficial Owner’s Series 2014B Bonds for purchase as described in this Offering Memorandum, but only with respect to Series 2014B Bonds in a Weekly Rate Period.

During a Weekly Rate Period, owners of Series 2014B Bonds may tender all or any portion of their Series 2014B Bonds for purchase on any Business Day upon the appropriate notice as described below under “— Optional Tender” and are required to tender their Series 2014B Bonds on the dates described below under the caption “— Mandatory Tender.”

The Series 2014B Bonds are subject to mandatory sinking fund redemption, optional redemption, extraordinary optional redemption and optional purchase in lieu of redemption prior to maturity pursuant to the provisions of the Indenture summarized below under the caption “—Redemption Provisions.”

Except while the Series 2014B Bonds are registered in the name of Cede & Co., as described below under “ – Book-Entry Only System,” with respect to the Series 2014B Bonds bearing interest in a

Weekly Rate Period, (i) the principal of and any premium on such Series 2014B Bonds will be payable upon presentation and surrender thereof at the Designated Office of the Tender Agent, and (ii) interest on those Series 2014B Bonds will be paid to the registered holders thereof as such appear on the registration books of the Trustee on the Regular Record Date (A) by check or draft of the mailed on the Interest Payment Date to such holder at its address as it appears on the registration books of the Trustee or at such other address furnished by the holder in writing to the Trustee, (B) sent on the Interest Payment Date upon written notice to the Trustee from the registered holder containing the wire transfer address (which must be in the continental United States) received not later than the Business Day prior to the Interest Payment Date or (C) in such other fashion as is agreed upon between the registered holder and the Trustee. Defaulted interest will be paid to registered holders of the Series 2014B Bonds as of a[Special Record Date] established by the Trustee in accordance with the Indenture.

For further information concerning the security for the Series 2014B Bonds, see the caption “SECURITY FOR THE SERIES 2014B BONDS” herein.

**THIS OFFERING MEMORANDUM ONLY DESCRIBES THE TERMS AND PROVISIONS OF THE SERIES 2014B BONDS AND THE DOCUMENTS RELATING THERETO WHILE THE SERIES 2014B BONDS BEAR INTEREST IN A WEEKLY RATE PERIOD.** If the Rate Period for the Series 2014B Bonds is changed to a Rate Period other than those described herein, the Authority will supplement this Offering Memorandum to describe the new Rate Period.

Series 2014B Bonds that are tendered or are required to be tendered for purchase pursuant to the provisions of the Indenture (the “Tendered Bonds”) will be remarketed by (i) Bank of America Merrill Lynch (the “Series 2014B-1 Remarketing Agent”) with respect to the Series 2014B-1 Bonds, and (ii) by Loop Capital Markets, LLC (the “Series 2014B-2 Remarketing Agent” and, together with the Series 2014B-1 Remarketing Agent, the “Remarketing Agents”) with respect to the Series 2014B-2 Bonds. The Remarketing Agents will also perform certain interest rate-setting functions with respect to the Series 2014B Bonds. See “THE SERIES 2014B BONDS – Determination of Rates.” On the date of issuance of the Series 2014B Bonds, each of the Remarketing Agents will enter into a Remarketing Agreement dated as of July [\_\_], 2014 (individually, a “Remarketing Agreement” and, together, the “Remarketing Agreements”), that will provide, among other things, for the remarketing of the Tendered Bonds for the related Subseries and the performance by the Remarketing Agent of its interest rate-setting responsibilities. See “REMARKETING OF THE SERIES 2014B BONDS.”

The procedures to be followed in connection with tendering the Tendered Bonds are more fully described in “THE SERIES 2014B BONDS – Purchase of Tendered Bonds Delivered to the Tender Agent.”

### **Liquidity**

Funds for the purchase of Tendered Bonds of each Subseries that are not remarketed will be provided, subject to certain conditions, from funds made available to the Authority by a bank, trust company, insurance company, or other financial services company, or the Authority pursuant to a letter of credit, liquidity facility, or other credit enhancement instrument (each a “Credit Facility”). A Credit Facility will initially be provided by TD Bank, N.A. (the “Credit Facility Provider”), for both the Series 2014B-1 Bonds and for the Series 2014B-2 Bonds for a period of four years, pursuant to a Standby Bond Purchase Agreement for each Subseries of Series 2014B Bonds, each dated as of July \_\_, 2014 (collectively, the “Credit Facility”), by and among the Authority, the Credit Facility Provider, and the Trustee. Funds will be available under the Credit Facility provided by the Credit Facility Provider, subject to certain conditions, for the purchase of Tendered Bonds of the related Subseries that have not

been remarketed. See APPENDIX G – “The Credit Facility Provider” for additional information regarding the Credit Facility Provider.

The Credit Facility will provide, subject to certain conditions, for the Credit Facility Provider to purchase at the Purchase Price any Tendered Bonds that have not been remarketed. The aggregate amount available under the Credit Facility from time to time for any Subseries is equal to the aggregate principal of the Series 2014B Bonds of each Subseries outstanding at the time that are not Credit Facility Provider Bonds, plus accrued and unpaid interest thereon to the date of purchase up to an amount equal to 34 days of interest at a rate of 12%.

In certain circumstances described herein under the caption the “CREDIT FACILITY RELATING TO THE SERIES 2014B BONDS,” relating to the occurrence of certain events of default under the Credit Facility, and as circumstances dictate, the obligations of the Credit Facility Provider under the Credit Facility may (i) terminate without notice or demand, (ii) terminate on the thirtieth day after the provision of required notice, or (iii) be immediately and automatically suspend so long as an event of default persists, and upon the occurrence of any event of default, the Credit Facility Provider may declare all accrued and unpaid amounts owed to it under the Credit Facility immediately due and payable.

Under certain circumstances set forth in the Sixteenth Supplemental Indenture, the Authority is not required to maintain a Credit Facility for the Series 2014B Bonds, or any Subseries thereof. If a Credit Facility is not maintained for a Subseries, funds for the purchase of Tendered Bonds of that Subseries that are not remarketed shall be provided by the Authority. In certain circumstances, the Authority may substitute a new Credit Facility (a “Substitute Credit Facility”) for the Credit Facility or, if after the expiration of the Credit Facility, the Credit Facility then in effect as to any Subseries. See APPENDIX C – “Glossary and Summary of the Indenture.”

Each Subseries is subject to mandatory tender for purchase prior to the expiration of the related Credit Facility then in effect and on the date on which a Substitute Credit Facility becomes effective. See “THE SERIES 2014B BONDS – Mandatory Tender.”

### **Rate Periods; Determination of Rates**

The Series 2014B Bonds will initially be issued bearing interest at a Weekly Rate, and will bear interest as determined by the Remarketing Agent. While bearing interest at a Weekly Rate during a Weekly Rate Period, Weekly Interest Periods for the Series 2014B Bonds will commence on Thursday of each week and end on Wednesday of each week. In the case of (i) a conversion to a Weekly Rate Period from a different Rate Period, the initial Weekly Rate Period shall commence on the Conversion Date and end on the next succeeding Wednesday, and (ii) a conversion from a Weekly Rate Period to a Daily Rate Period, the last Weekly Rate Period prior to conversion shall end on the last day immediately preceding the Conversion Date. The interest rate for each Weekly Interest Period shall be effective from and including the commencement date (*i.e.*, a Thursday or a Conversion Date) of such Weekly Interest Period until and including the last day thereof (*i.e.*, a Wednesday or the day immediately preceding a Conversion Date). The interest rate for each Weekly Interest Period shall be determined by the Remarketing Agent by 5:00 p.m., New York City time, on the Business Day immediately preceding the commencement date of the related Weekly Interest Period.

### **Conversions**

The Authority, subject to the consent of the Credit Facility Provider, may elect to convert all or a portion of the Series 2014B Bonds from one Rate Period to another Rate Period. Any such conversion



shall be subject to the provision of certain notices required by the Sixteenth Supplemental Indenture and the satisfaction of certain conditions precedent. With respect to the Series 2014B Bonds while bearing interest in a Weekly Rate Period, the following conditions apply:

i. If the conversion is from a Weekly Rate Period to a Long-Term Rate Period or a Fixed Rate Period, the Authority must provide to the Trustee and the Remarketing Agent, no later than one day before the Conversion Date, a Favorable Opinion of Bond Counsel;

ii. Any Credit Facility to be held by the Trustee after the Conversion Date that relates to the converted Series 2014B Bonds shall be in an amount equal to the aggregate principal amount of all of the Series 2014B Bonds to which it relates, plus an amount for payment of interest equal to at least (a) 34 days' interest, plus, in the case of a Credit Facility that does not automatically reinstate coverage for interest following a draw upon the Credit Facility to pay interest on the related Series 2014B Bonds, the number of days during which the related Series 2014B Bonds may continue to bear interest until purchased upon mandatory tender, or (b) in the event that a rating will be maintained on the Series 2014B Bonds, then such other number of days of interest as may be required by any Rating Agency;

iii. If the conversion is to a Fixed Rate Period, the Authority shall provide written notice of the conversion to the Remarketing Agent, in addition to the Trustee. Such notice shall also be accompanied by a Favorable Opinion of Bond Counsel required by the Sixteenth Supplemental Indenture and a firm underwriting or purchase contract from a firm, which may be the Remarketing Agent, to underwrite or purchase all of the Series 2014B Bonds to be converted to a Fixed Rate Period at a price of 100% of the principal amount thereof at an agreed upon interest rate which such firm certifies is the lowest rate that will permit such Series 2014B Bonds to be sold at par on the first day of the Fixed Rate Period, and containing a Mandatory Sinking Fund Requirements schedule, as required by the Sixteenth Supplemental Indenture. Upon receipt of such notice, the Trustee shall promptly cause the same information to be delivered to the Tender Agent, any affected Credit Facility Provider, and any Rating Agency. A conversion to a Fixed Rate Period shall not occur unless the Authority shall also file with the Trustee any Favorable Opinion of Bond Counsel relating to the conversion;

iv. The conversion shall not occur unless the Conversion Date is a date on which the Series 2014B Bonds being converted could be redeemed without premium pursuant to the Sixteenth Supplemental Indenture;

v. If the conversion is to a Short-Term Rate Period, (a) the Authority, at its own expense, must engage a commercial paper trustee and paying agent (the "Issuing Agent"), which may or may not be the Trustee and which shall be reasonably acceptable to the Trustee, any Credit Facility Provider and the Tender Agent, having access to the Depository's electronic money market issuing and payment system and otherwise eligible to serve as an issuing and paying agent under the Depository's policies and procedures for the issuance and payment of commercial paper; and (b) the Remarketing Agent must arrange for the execution and delivery to the Depository of its required letter of representation for the eligibility of the Series 2014B Bonds in the Short-Term Rate Period in the Depository's book-entry system and the provision of any needed CUSIP numbers; and (c) the Authority shall take all other action needed to comply with the Depository's requirements applicable to the issuance and payment of the Series 2014B Bonds while in the Short-Term Rate Period; and (d) the Authority shall enter into any amendment of the Sixteenth Supplemental Indenture permitted under such Indenture that is needed to comply with the Depository's or any Rating Agency's requirements concerning the issuance and payment of the Series 2014B Bonds in the Short-Term Rate Period.

If any condition precedent to a conversion is not fulfilled, (i) the Conversion Date shall not occur; (ii) the mandatory tender for purchase, if otherwise required by the Sixteenth Supplemental Indenture,

shall not occur; and (iii) the Series 2014B Bonds shall continue to bear interest in the then-existing Rate Period with the length and interest rate of such Rate Period being determined pursuant to the Sixteenth Supplemental Indenture. Notice of withdrawal of a conversion notice shall be given by the Authority to the Trustee, the Remarketing Agent, the Tender Agent, any Credit Facility Provider, and the Holders as provided in the Sixteenth Supplemental Indenture. No failure or cancellation of conversion for failure to satisfy a condition precedent to such conversion shall constitute an Event of Default.

For a complete discussion of the conditions that must be met to convert the Series 2014B Bonds from one Rate Period to another Rate Period, see APPENDIX C – “Glossary and Summary of the Indenture.”

### **Optional Tender**

Holders of Weekly Rate Bonds may elect to have their Series 2014B Bonds, or portions thereof in Authorized Denominations, purchased at the applicable Purchase Price by tendering such Series 2014B Bonds on any Business Day upon delivery of notice (in writing or by Electronic Means) of tender to the Tender Agent not later than 5:00 p.m., New York City time, on a Business Day not fewer than seven days prior to the designated Purchase Date.

Each notice of tender for Weekly Rate Bonds shall:

(i) in the case of written notice, be delivered to the Tender Agent at its designated office and be in a form satisfactory to the Tender Agent;

(ii) state (a) the principal amount of each Weekly Rate Bond to which the notice relates and the CUSIP number of each such Bond, (b) that the Holder irrevocably demands purchase of each Weekly Rate Bond covered by the notice, (c) the Purchase Date on which that Weekly Rate Bond or portion thereof is to be purchased, and (d) the payment instructions with respect to the Purchase Price; and

(iii) automatically constitute (a) an irrevocable offer to sell the Series 2014B Bond to which the notice relates on the Purchase Date and for the Purchase Price, (b) an irrevocable authorization and instruction to the Tender Agent to effect the transfer of each tendered Series 2014B Bond upon receipt by the Tender Agent of funds sufficient to pay the Purchase Price on the Purchase Date, (c) an irrevocable authorization and instruction to the Tender Agent to effect the exchange of each purchased Series 2014B Bond for another Series 2014B Bond in an equal aggregate principal amount, (d) an acknowledgment that such Holder will have no further rights with respect to each tendered Series 2014B Bond (or portion thereof) upon deposit of an amount equal to the Purchase Price, except for the right of such Holder to receive the Purchase Price upon surrender of such Series 2014B Bond, and (e) an agreement of such Holder to deliver each tendered Series 2014B Bond with all necessary endorsements for transfer and signature guarantees to the Tender Agent at its Designated Office not later than 1:00 p.m., New York City time, on the Purchase Date.

The determination of the Tender Agent as to whether a notice of tender has been properly delivered pursuant to the foregoing shall be conclusive and binding upon the Holder.

### **Mandatory Tender**

The Series 2014B Bonds of each Subseries bearing interest at a Weekly Rate shall be subject to mandatory tender for purchase by the Tender Agent at the Purchase Price on the following dates:

(i) on each Conversion Date for such Subseries;

(ii) for Series 2014B Bonds requiring the maintenance of a Credit Facility, (a) on a Business Day not later than five days prior to the Expiration Date of the Credit Facility, and (b) on each Substitution Date, which shall be at least five days prior to the Expiration Date of the Credit Facility being replaced; and

(iii) While a Credit Facility is in effect, (a) on a Business Day selected by the Trustee that is not more than one Business Day after the Trustee's receipt from that Credit Facility Provider of that Credit Facility Provider's decision to exercise its right of mandatory tender as the result of the occurrence of certain events of default or termination under the Credit Facility, and (b) on a Business Day that is not more than one Business Day, as designated by the Trustee, following receipt by the Trustee of notice from the Credit Facility Provider that the Credit Facility Provider will not reinstate the Credit Facility following a draw.

For a discussion of the notice and other requirements associated with a mandatory tender for purchase, see APPENDIX C – “Glossary and Summary of the Indenture.”

#### **Purchase of Tendered Bonds Delivered to the Tender Agent**

The Sixteenth Supplemental Indenture provides that Tendered Bonds will be purchased by the Tender Agent at the Purchase Price on the Purchase Date from amounts on deposit in the Purchase Fund. Within the Purchase Fund, the Tender Agent shall establish four separate accounts: (i) the Remarketing Proceeds Account, (ii) the Credit Facility Purchase Account, (iii) the Authority Purchase Account, and (iv) the Undelivered Bond Payment Account. Only the Tender Agent is authorized to make withdrawals from the Purchase Fund, and any such withdrawal shall be for the sole and exclusive benefit of the Holders of Series 2014B Bonds subject to purchase on the applicable Purchase Date. Moneys received by the Tender Agent shall be deposited in the relevant account of the Purchase Fund as provided in the Sixteenth Supplemental Indenture. See APPENDIX C – “Glossary and Summary of the Indenture.” Amounts on deposit in each account of the Purchase Fund may not be commingled with another account.

Not later than 3:00 p.m., New York City time, on the Purchase Date, and upon receipt by the Tender Agent of 100% of the aggregate Purchase Price of the Tendered Bonds, the Tender Agent shall pay the Purchase Price of those Tendered Bonds to the Holders thereof at its Designated Office or as directed by the Holders, so long as such Holders deliver the Tendered Bonds to the Tender Agent as follows:

(i) All Series 2014B Bonds (or the beneficial ownership interest thereof, if such Bonds are held in a book-entry form) bearing interest at a Weekly Rate to be purchased pursuant to an optional tender for purchase shall be delivered to the Tender Agent at its Designated Office not later than 1:00 p.m., New York City time, on the applicable Purchase Date;

(ii) All Series 2014B Bonds (or the beneficial ownership interest thereof, if such Bonds are held in a book-entry form) bearing interest at a Weekly Rate to be purchased pursuant to a mandatory tender for purchase shall be delivered to the Tender Agent at its Designated Office not later than 1:00 p.m., New York City time, on the applicable Purchase Date.

If the Tendered Bonds (or the beneficial ownership interests thereof) have been properly delivered to the Tender Agent, the Tender Agent shall pay the Purchase Price on the Purchase Date from the following sources and in the following order of priority:

(i) Moneys on deposit in the Remarketing Proceeds Account attributable to the remarketing of the Tendered Bonds;

(ii) If a Credit Facility is in effect, moneys on deposit in the Credit Facility Purchase Account (representing the proceeds of a Credit Facility Request); and

(iii) Moneys on deposit in the Authority Purchase Account (representing amounts paid by the Authority to the Tender Agent for the purchase of the Tendered Bonds). If a Credit Facility is in effect, the Authority has no obligation to deposit moneys in the Authority Purchase Account and has no obligation to purchase Tendered Bonds that are not remarketed.

If the funds available in the Remarketing Proceeds Account, the Credit Facility Purchase Account (if applicable), and the Authority Purchase Account (if applicable) for the purchase of the Tendered Bonds are insufficient to purchase all of the Tendered Bonds subject to purchase on the applicable Purchase Date, then no purchase of any of those Tendered Bonds shall occur on the Purchase Date. If a Credit Facility is in effect with respect to the Tendered Bonds and the Credit Facility Provider is not in default thereunder, the failure to purchase the Tendered Bonds shall constitute an Event of Default under the Sixteenth Supplemental Indenture.

### **Book-Entry Only System**

The Series 2014B Bonds will be issued in fully registered form and, when issued, will be held by DTC or its nominee, as securities depository with respect to the Series 2014B Bonds. Individual purchases of interests in the Series 2014B Bonds will be made in book-entry form only, in the principal amount of \$100,000 and \$5,000 integral multiples in excess thereof. Individual purchasers will not receive physical delivery of bond certificates. So long as Cede & Co. is the registered owner of the Series 2014B Bonds as nominee of DTC, references herein to the holders or registered owners of the Series 2014B Bonds will mean Cede & Co. and will not mean the beneficial owners (“Beneficial Owners”) of the Series 2014B Bonds. Beneficial interests in the Series 2014B Bonds may be held through DTC directly as a participant or indirectly through organizations that are participants in such system. See APPENDIX E – “DTC BOOK-ENTRY ONLY SYSTEM.”

As long as the Series 2014B Bonds are held by DTC or its nominee, interest will be paid to Cede & Co., as nominee of DTC, in same-day funds on each Interest Payment Date. If the book-entry only system is discontinued, bond certificates will be delivered as described in the Indenture, and Beneficial Owners (as defined herein) will become registered owners of the Series 2014B Bonds (the “Bondholders”). If the book-entry only system is discontinued, interest on the Series 2014B Bonds shall be payable on each Interest Payment Date by check or draft mailed to the registered owner at the address as it appears on the 15th day of the month preceding an Interest Payment Date on the registration books kept by the Trustee.

Neither the Authority, the Trustee nor the Underwriters will have any responsibility or obligation to the Participants, DTC or the persons for whom they act with respect to (i) the accuracy of any records maintained by DTC or by any Direct or Indirect Participant of DTC, (ii) payments or the providing of notice to Direct Participants, the Indirect Participants or the beneficial owners, (iii) the selection by DTC or by any Direct or Indirect Participant of any beneficial owner to receive payment in the event of a partial redemption of the Series 2014B Bonds or (iv) any other action taken by DTC or its partnership nominee as owner of the Series 2014B Bonds. For more information on DTC and the book-entry only system, see APPENDIX E – “DTC BOOK-ENTRY ONLY SYSTEM.”

**Redemption Provisions**

*Optional Redemption*

The Weekly Rate Bonds are subject to optional redemption prior to maturity in whole or in part on any date at a redemption price of 100% of the principal amount thereof, together with accrued interest, if any, to the redemption date.

*Mandatory Redemption*

The Series 2014B-1 Bonds (the “Series 2014B-1 Term Bonds”) are subject to mandatory sinking fund redemption in part (in accordance with the procedures described below in “*Selection of the Series 2014B Bonds to be Redeemed*”), prior to maturity on October 1 (or the Interest Payment Date immediately succeeding that date if October 1 is not an Interest Payment Date), in the years set forth below, at a redemption price equal to the principal amount of the Series 2014B-1 Bonds called for redemption plus interest accrued to the redemption date (subject to any conversion of the interest rate to a Fixed Rate in accordance with the Sixteenth Supplemental Indenture).

\$[\_\_\_\_\_]   
 **2014B-1 Bonds**

Year	Amount	Year	Amount
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† Final Maturity

The Series 2014B-2 Bonds (the “Series 2014B-2 Term Bonds”) are subject to mandatory sinking fund redemption in part (in accordance with the procedures described below in “*Selection of the Series 2014B Bonds to be Redeemed*”), prior to maturity on October 1 (or the Interest Payment Date immediately succeeding that date if October 1 is not an Interest Payment Date), in the years set forth below, at a redemption price equal to the principal amount of the Series 2014B-2 Bonds called for redemption plus interest accrued to the redemption date (subject to any conversion of the interest rate to a Fixed Rate in accordance with the Sixteenth Supplemental Indenture).

\$[\_\_\_\_\_]   
 **2014B-2 Bonds**

Year	Amount	Year	Amount
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† Final Maturity

The principal amount of the Series 2014B Term Bonds required to be redeemed on any redemption date pursuant to the operation of mandatory sinking fund redemption provisions will be reduced, at the option of the Authority, by the principal amount of any Series 2014B Term Bond scheduled for redemption on such redemption date or dates, that, at least 45 days prior to the mandatory sinking fund redemption date, (1) have been acquired by the Authority and delivered to the Trustee for cancellation, or (2) have been purchased or otherwise redeemed and cancelled by the Trustee at the request of the Authority

*Selection of the Series 2014B Bonds to be Redeemed*

The particular maturities of the Series 2014B Bonds to be redeemed at the option of the Authority will be determined by the Authority in its sole discretion.

If fewer than all of the Series 2014B Bonds that are stated to mature on different dates are called for redemption at one time, those Series 2014B Bonds that are called shall be designated by the Authority; provided, however, that any Credit Facility Provider Bonds shall be redeemed first. If fewer than all of the Series 2014B Bonds of a single maturity are to be redeemed, the selection of the Series 2014B Bonds to be redeemed, or portions thereof, shall be in amounts of \$5,000 or integral multiples thereof. So long as the Series 2014B Bonds remain in book-entry form, any redemption shall be made by the Depository (or any successor thereto) in accordance with the Depository's procedures and otherwise will be made as specified by and selected at the sole discretion of the Authority. In the case of a partial redemption of the Series 2014B Bonds by lot when the Series 2014B Bonds of Authorized Denominations greater than \$5,000 are then outstanding, each \$5,000 unit of principal shall be treated as though it is a separate Series 2014B Bond of the denomination of \$5,000.

*Notice of Redemption*

The Authority shall not be responsible for mailing a notice of redemption to anyone other than DTC or another qualified securities depository or its nominee unless no qualified securities depository is the registered owner of the Series 2014B Bonds. If no qualified securities depository is the registered owner of the Series 2014B Bonds, a notice of redemption shall be mailed to the registered owners of the Series 2014B Bonds. See "THE SERIES 2014B BONDS – Book-Entry Only System."

The Trustee shall send, or cause to be sent, notice of the call for redemption (i) to be mailed at the registered address appearing on the Register to the Holders of all Series 2014B Bonds to be redeemed, and (ii) by Electronic Means to each Depository and to the Electronic Municipal Market Access system of the Municipal Securities Rulemaking Board.

Each such notice shall (i) be send not more than 45 days nor fewer than 15 calendar days prior to the date fixed for redemption, (ii) identify the Series 2014B Bonds to be redeemed (by CUSIP number, if any), (iii) specify the redemption date and the redemption price, (iv) set forth the name, address, and telephone number of the person from whom information pertaining to the redemption may be obtained, and (v) state that (a) on the redemption date, the Series 2014B Bonds called for redemption will be payable at the Designated Office of the Trustee, (b) that from that date, interest will cease to accrue, and (c) that no representation is made as to the accuracy or correctness of the CUSIP numbers printed therein or on the Series 2014B Bonds to be redeemed.

Any notice of redemption shall be mailed by first-class mail, postage prepaid. A certificate of the Trustee shall conclusively establish the mailing of any such notice for all purposes. No defect in the notice of redemption or the delivery thereof shall affect the validity of the redemption proceedings for any other Series 2014B Bonds.

*Purchase in Lieu of Redemption*

The Authority may purchase any Series 2014B Bond that is redeemable by optional redemption on any date on which the Series 2014B Bond is redeemable at a purchase price no less than the redemption price to be paid to Holders upon optional redemption. The Authority may exercise this option by delivering written direction to the Trustee in sufficient time that the Trustee may provide notice of the

purchase to the Holders in the same manner as required in an optional redemption. The purchase of such Series 2014B Bonds shall be mandatory and enforceable against the Holders of the Series 2014B Bonds to be purchased. If fewer than all of the Series 2014B Bonds are selected for purchase, the Series 2014B Bonds to be purchased shall be selected as if the purchase was an optional redemption, or in such manner as the Authority may direct; provided that such selection is described in the Authority's written direction to the Trustee.

## **REMARKETING OF THE SERIES 2014B BONDS**

### **Remarketing Agreements**

Concurrently with the issuance of the Series 2014B Bonds, the Authority will enter into the Remarketing Agreements with the respective Remarketing Agents. The Remarketing Agents will agree, pursuant to the Remarketing Agreements, to determine the interest rate on the related Subseries of the Series 2014B Bonds and to use their best efforts to remarket the Series 2014B Bonds of the Subseries related to the Remarketing Agreement subject to optional or mandatory redemption for purchase, as applicable.

### **Duties of the Remarketing Agents**

The Sixteenth Supplemental Indenture provides that each Remarketing Agent shall agree, in a written instrument delivered to the Authority, the Trustee, the Tender Agent, and any Credit Facility Provider, to carry out the following duties and obligations:

(i) Hold all moneys delivered to it for the purchase of the Series 2014B Bonds of the applicable Subseries in trust for the exclusive benefit of the Person or Persons who have delivered such moneys until the applicable Series 2014B Bonds have been purchased with such moneys and delivered to or for the account of such Person or Persons;

(ii) Keep such books and records as shall be consistent with prudent industry practice and to make such books and records available for inspection by the Authority, the Trustee, or the Tender Agent at all reasonable times;

(iii) Determine the Weekly Rates;

(iv) Remarket Weekly Rate Bonds at rates no higher than the rate of interest under the Credit Facility, if a Credit Facility secures the Series 2014B Bonds of the applicable Subseries;

(v) Offer for sale and use its best efforts to find purchasers for the Series 2014B Bonds of the applicable Subseries tendered for purchase, in accordance with the Sixteenth Supplemental Indenture;

(vi) Deliver to the Tender Agent all of the Series 2014B Bonds of the applicable Subseries held by it in accordance with the terms of the Sixteenth Supplemental Indenture and the applicable Remarketing Agreement;

(vii) Perform such other duties and responsibilities that are provided for in the Sixteenth Supplemental Indenture with respect to the Remarketing Agreements.

### **Removal or Resignation of a Remarketing Agent**

A Remarketing Agent may resign and be discharged of its duties upon giving at least 60 days' notice of its intent to resign to the Authority, the Trustee, the Tender Agent, each Credit Facility Provider, and each Rating Agency. Upon the Written Request of the Authority, a Remarketing Agent may be removed at any time; provided, however, no such removal shall take effect unless and until a successor Remarketing Agent has been appointed and accepted such appointment as provided in the Sixteenth Supplemental Indenture.

### **THE CREDIT FACILITY**

The following is a summary of certain provisions of the Credit Facility securing the Series 2014B Bonds. Unless extended or terminated earlier in accordance with its terms, the Credit Facility will terminate on the fourth anniversary of the date of initial delivery of the Series 2014B Bonds. The term of the Credit Facility may be extended for not less than one year and not more than three years at the request of the Authority and subject to the Credit Facility Provider's consent.

**This summary does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the Credit Facility, to which reference is hereby made. Included in APPENDIX G of this Offering Memorandum is certain information with respect to the Credit Facility Provider. Prospective purchasers of the Series 2014B Bonds should review the information provided by the Credit Facility Provider with respect to the Series 2014B Bonds.**

So long as the Series 2014B Bonds remain outstanding, the Authority must maintain (i) a Credit Facility that meets the requirements of the Sixteenth Supplemental Indenture or (ii) agree to pay the Purchase Price of any Tendered Bonds itself. In addition, under certain circumstances, the Authority may substitute a new Credit Facility for the Credit Facility. See "THE SERIES 2014 BONDS – Liquidity."

### **General**

Under certain circumstances described below, the obligation of the Credit Facility Provider to purchase Series 2014B Bonds tendered or deemed tendered by the owners thereof pursuant to an optional or mandatory tender may be suspended or terminated. See "CREDIT FACILITY RELATING TO THE SERIES 2014B Bonds – Remedies" herein. In such event, sufficient funds may not be available to purchase Series 2014B Bonds tendered or deemed tendered by the owners thereof pursuant to an optional or mandatory tender. In addition, the Credit Facility does not provide security for the payment of principal of or interest on or premium, if any, on the Series 2014B Bonds.

### **Purchase of Tendered Series 2014B Bonds by the Credit Facility Provider**

The Credit Facility Provider will purchase from time to time during the period prior to the expiration or earlier termination of the Credit Facility, Eligible Bonds (as defined in the Credit Facility), tendered or deemed tendered from time to time during the period from the date of issuance of the Series 2014B Bonds hereunder to and including July \_\_, 2017 (unless extended or earlier terminated pursuant to the terms of the Credit Facility), pursuant to an optional or mandatory tender by owners thereof in accordance with the terms and provisions of the Indenture, in each case, to the extent such Series 2014B Bonds are not remarketed in accordance with the terms and provisions of the applicable Remarketing Agreement. The price to be paid by the Credit Facility Provider for Series 2014B Bonds will be equal to (i) the aggregate principal amount of each such Series 2014B Bond, provided that the aggregate principal amount of all Series 2014B Bonds so purchased shall not exceed the Available Principal Commitment (as defined in the Credit Facility), plus (ii) the lesser of (a) the Available Interest Commitment (as defined in



the Credit Facility) and (b) interest accrued thereon to but excluding the date of such purchase, provided that accrued interest will not be included in the purchase price if the applicable purchase date is an interest payment date.

### Events of Default

The following events constitute events of default under the Credit Facility.

i. The Authority shall fail to pay or cause to be paid when due (a) any amounts with respect to the principal of, or interest or premium, if any, on, the 2014B Bonds (including Bank Bonds); (b) any amounts owed to the Credit Facility Provider pursuant to the Credit Facility; or (c) any amount with respect to the principal of, or interest or premium, if any, on, any Senior Debt or other Subordinate Debt; or

ii. Any “event of default” shall have occurred and be continuing under any of the Series 2014B Bonds, the Credit Facility Provider Bond Custody Agreement, the Indenture, this Offering Memorandum or the Remarketing Agreement (the “Related Documents”) (as “event of default” is defined respectively therein); or

iii. Any representation or warranty made or deemed to be made to the Credit Facility Provider by or on behalf of the Authority in the Credit Facility or in any Related Document or in any certificate or statement delivered hereunder or thereunder shall be incorrect or untrue in any material respect when made or deemed to have been made; or

iv. Failure on the part of the Authority to observe or perform certain enumerated covenants shall constitute an event of default immediately and without regard to any grace period; or

v. The Authority shall default in the due performance or observance of any other term, covenant or agreement contained (or incorporated by reference) in the Credit Facility (other than those referred to in paragraphs (i) through (iv) above) and such default shall remain unremedied for a period of 30 days from the occurrence thereof; or

vi. The Authority shall commence any case, proceeding or other action (1) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (2) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or the Authority shall make a general assignment for the benefit of its creditors; or (b) there shall be commenced against the Authority any case, proceeding or other action of a nature referred to in clause (a) above which (x) results in an order for such relief or in the appointment of a receiver or similar official or (y) remains undismissed, undischarged or unbonded for a period of 60 days; or (c) there shall be commenced against the Authority, any case, proceeding or other action seeking issuance of a warrant of attachment, execution, rehabilitation, distraint or similar process against all or any substantial part of its assets, which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within 60 days from the entry thereof; or (d) the Authority shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (a), (b) or (c) above; or (e) the Authority institutes a debt moratorium, debt restructuring, debt adjustment or comparable restriction is imposed on the repayment when due and payable of the principal of or interest on any debt of the Authority or shall generally not, or shall be unable to, or so admit in writing its inability to, pay its debts; or

vii. Other than as set forth in paragraph (i) above, an event or condition shall occur which results in the acceleration of the maturity of any Senior Debt, Subordinate Debt (including the 2014B Bonds) or any other debt payable from Net Revenues or which enables (or with the giving of notice or lapse of time, or both, would enable) the holder of such debt or any person acting on such holder's behalf to accelerate the maturity thereof; or

viii. Any material provision of the Credit Facility or any Related Document (other than this Offering Memorandum) shall cease to be valid and binding on the Authority or any other party thereto or shall be declared to be null and void, or the validity or enforceability thereof shall be contested by the Authority or such other party thereto or by any Governmental Agency (as defined in the Credit Facility) having jurisdiction, or any Governmental Agency having jurisdiction shall find or rule that any material provision of the Credit Facility or any Related Document (other than this Offering Memorandum) is not valid or binding on the Authority or such other party thereto, or the Authority or such other party (in each case, through an authorized person) shall deny that it has any or further liability or obligation under any such document; or

ix. The occurrence of either of the following (i) the date on which the long-term debt of the Authority is not rated at least Baa1 (in the case of Moody's) and BBB+ (in the case of S&P and Fitch) by at least two of the rating agencies or (b) the date on which a rating on the long-term debt of the Authority is cancelled, withdrawn or suspended by any one rating agency; or

x. One or more final judgment, decree, or order (each, a "Final Judgment" and collectively, the "Final Judgments") for the payment of money shall have been rendered against or imposed on the Authority and shall, by order of the Governmental Agency issuing such Final Judgment, be payable from the Net Revenues and other monies pledged to the payment of Senior Debt or Subordinate Debt under the Indenture, and such Final Judgment shall not have been satisfied, stayed or bonded pending appeal within a period of 60 days from the date on which it was first so rendered.

#### **Remedies Upon Occurrence of an Event of Default**

Following the occurrence of certain of the above referenced events of default, the Credit Facility Provider may take any one or more of the following actions.

i. In the case of the occurrence of an event of default specified in paragraphs (i)(a), (i)(c), (vi)(a), (vi)(d), (vi)(e), (vii), (viii), (ix) or (x) under the heading "Events of Default" above (each, a "Termination Event"), the obligations of the Credit Facility Provider under the Credit Facility to purchase Series 2014B Bonds shall immediately terminate without notice or demand to any person, and thereafter the Credit Facility Provider shall be under no obligation to purchase Series 2014B Bonds. Promptly upon such Termination Event, the Credit Facility Provider shall give written notice of the same to the Authority, the Trustee and the Remarketing Agent; provided, that the Credit Facility Provider shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the termination of the obligation of the Credit Facility Provider to purchase Series 2014B Bonds pursuant to the Credit Facility. The Authority shall cause the Trustee to notify all Bondowners in writing of the termination of the obligation of the Credit Facility Provider to purchase the Series 2014B Bonds.

ii. In the case of the occurrence of any event of default described above (other than a Termination Event), the Credit Facility Provider may give written notice of such event of default and termination of the Credit Facility (a "Notice of Termination Date") to the Trustee, the Tender Agent, the Authority and the Remarketing Agent, requesting a mandatory tender of the Series 2014B Bonds. The obligation of the Credit Facility Provider to purchase the Series 2014B Bonds shall terminate on the

thirtieth day (or if such day is not a Business Day, the next following Business Day) after such Notice of Termination Date is received by the Trustee and on such date the Credit Facility Provider shall be under no obligation under the Credit Facility to purchase Series 2014B Bonds.

iii. In the case of any occurrence, circumstance or event, or any combination thereof, which, with the lapse of time and/or giving of notice, would constitute an Event of Default described in paragraph (vi)(b) or (vi)(c) under the heading “Events of Default” above (each a “Suspension Event”), the obligation of the Credit Facility Provider to advance funds for the purchase of Series 2014B Bonds under the Credit Facility shall be immediately and automatically suspended, without notice, until the Credit Facility bankruptcy, insolvency or similar proceeding referred to in such paragraph is terminated prior to the court entering an order granting the relief sought in such proceeding. In the event such proceeding is terminated, then the obligations of the Credit Facility Provider under the Credit Facility shall be automatically reinstated and the terms of the Credit Facility shall continue in full force and effect (unless the obligation of the Credit Facility Provider to purchase Series 2014B Bonds under the Credit Facility shall otherwise have terminated as provided above) as if there had been no such suspension. If at any time prior to the earlier of (a) the Expiration Date, including any extension, and (b) the date that is one year following the suspension of the obligation of the Credit Facility Provider to purchase Series 2014B Bonds, (x) the Suspension Event is cured or ceased to be continuing and (y) the obligation of the Credit Facility Provider to purchase Series 2014B Bonds under the Credit Facility has not otherwise terminated, then, upon written notice from the Trustee to the Credit Facility Provider to such effect, the obligation of the Credit Facility Provider to purchase Series 2014B Bonds under the Credit Facility shall be automatically reinstated. If the Suspension Event has not been cured or has not ceased to be continuing prior to the first anniversary of such occurrence and the obligation of the Credit Facility Provider to purchase Series 2014B Bonds under the Credit Facility has not otherwise terminated, then the obligations of the Credit Facility Provider to advance funds for the purchase of Series 2014B Bonds shall be terminated and thereafter the Credit Facility Provider shall have no further obligations to purchase any 2014B Bonds and the Credit Facility Provider will use best efforts to send written notice to the Authority and the Trustee; provided that the Credit Facility Provider shall not incur any liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the termination of the Available Commitment and of the obligations of the Credit Facility Provider to purchase Series 2014B Bonds under the Credit Facility.

iv. Upon the occurrence of any event of default described above, the Credit Facility Provider may declare all accrued and unpaid amounts payable to it under the Credit Facility immediately due and payable (other than payments of principal of and interest on Bank Bonds, acceleration rights with respect to which are governed by the Indenture), and the Credit Facility Provider shall have all remedies provided at law or equity, including, without limitation, specific performance; provided, however, the Credit Facility Provider agrees to purchase the Series 2014B Bonds on the terms and conditions of the Credit Facility notwithstanding the occurrence of an event of default which does not terminate its obligation to purchase Series 2014B Bonds under paragraphs (i) and (ii) above or does not suspend its obligation to purchase Credit Facility Bonds under paragraph (iii) above.

v. The remedies described under paragraphs (i), (ii), (iii) and (iv) above shall only be exclusive with respect to such events of default to the extent they are obtained by the Credit Facility Provider. If, for any reason whatsoever, the Credit Facility Provider is not able to obtain all such remedies, then the Credit Facility Provider reserves the right and shall have the right to pursue any other available remedies, whether provided by law, equity or the Credit Facility.

**SOURCES AND USES OF FUNDS**

**General**

The proceeds of the Series 2014B Bonds are expected to be applied as follows:

<b>Sources of Funds</b>	
Par Amount of Bonds	\$[_____]
Net Original Issue [Premium/Discount]	[_____]
Total Sources	\$[_____]
 <b>Uses of Funds</b>	
Deposit to 2014B Construction Account	\$[_____]
Underwriters' Discount	[_____]
Other Costs of Issuance	[_____]
Total Uses	\$[_____]

**[MIDDLE PORTION OF THIS OFFERING MEMORANDUM TO BE ADDED; WILL BE LARGELY IDENTICAL TO THE SERIES 2014A OFFERING MEMORANDUM]**

**TAX MATTERS**

In the opinion of Squire Patton Boggs (US) LLP and Leftwich & Ludaway, LLC, Co-Bond Counsel, under existing law: (i) interest on the Series 2014B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; and (ii) the Series 2014B Bonds and the interest thereon are exempt from District taxation, except estate, inheritance and gift taxes. Co-Bond Counsel expresses no opinion as to any other tax consequences regarding the Series 2014B Bonds.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Authority contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Series 2014B Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Co-Bond Counsel will not independently verify the accuracy of the Authority's certifications and representations or the continuing compliance with the Authority's covenants.

The opinion of Co-Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Co-Bond Counsel's legal judgment as to exclusion of interest on the Series 2014B Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the Internal Revenue Service ("IRS") or any court. Co-Bond Counsel expresses no opinion about (i) the effect of future changes in the Code and the applicable regulations under the Code or (ii) the interpretation and the enforcement of the Code or those regulations by the IRS.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations. Noncompliance

with these requirements by the Authority may cause loss of such status and result in the interest on the Series 2014B Bonds being included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2014B Bonds. The Authority has covenanted to take the actions required of it for the interest on the Series 2014B Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. After the date of issuance of the Series 2014B Bonds, Co-Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Co-Bond Counsel's attention, may adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2014B Bonds or the market value of the Series 2014B Bonds.

A portion of the interest on the Series 2014B Bonds earned by certain corporations may be subject to a federal corporate alternative minimum tax. In addition, interest on the Series 2014B Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations. Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Series 2014B Bonds. Co-Bond Counsel will express no opinion regarding those consequences.

Payments of interest on tax-exempt obligations, including the Series 2014B Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If a Bond owner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the exclusion of such interest from gross income for federal income tax purposes.

Co-Bond Counsel's engagement with respect to the Series 2014B Bonds ends with the issuance of the Series 2014B Bonds, and, unless separately engaged, Co-Bond Counsel is not obligated to defend the Authority or the owners of the Series 2014B Bonds regarding the tax status of interest thereon in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Series 2014B Bonds, under current IRS procedures, the IRS will treat the Authority as the taxpayer and the beneficial owners of the Series 2014B Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including but not limited to selection of the Series 2014B Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market value of the Series 2014B Bonds.

Prospective purchasers of the Series 2014B Bonds upon their original issuance at prices other than the respective prices indicated on the inside cover of this Offering Memorandum, and prospective purchasers of the Series 2014B Bonds at other than their original issuance, should consult their own tax advisers regarding other tax considerations such as the consequences of market discount, as to all of which Co-Bond Counsel expresses no opinion.

### **Risk of Future Legislative Changes and/or Court Decisions**

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the State legislature. Court proceedings may also be filed, the

outcome of which could modify the tax treatment of obligations such as the Series 2014B Bonds. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Series 2014B Bonds will not have an adverse effect on the tax status of interest on the Series 2014B Bonds or the market value or marketability of the Series 2014B Bonds. These adverse effects could result, for example, from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), or repeal (or reduction in the benefit) of the exclusion of interest on the Series 2014B Bonds from gross income for federal or state income tax purposes for all or certain taxpayers.

For example, recent presidential and legislative proposals would eliminate, reduce or otherwise alter the tax benefits currently provided to certain owners of state and local government bonds, including proposals that would result in additional federal income tax on taxpayers that own tax-exempt obligations if their incomes exceed certain thresholds. Investors in the Series 2014B Bonds should be aware that any such future legislative actions (including federal income tax reform) may retroactively change the treatment of all or a portion of the interest on the Series 2014B Bonds for federal income tax purposes for all or certain taxpayers. In such event, the market value of the Series 2014B Bonds may be adversely affected and the ability of holders to sell their Bonds in the secondary market may be reduced.

Investors should consult their own financial and tax advisers to analyze the importance of these risks.

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

Certain of the Series 2014B Bonds (“Discount Bonds”) as indicated on the cover of this Offering Memorandum were offered and sold to the public at an original issue discount (“OID”). OID is the excess of the stated redemption price at maturity (the principal amount) over the “issue price” of a Discount Bond. The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity is sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excluded from the owner’s gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as other interest on the Series 2014B Bonds, and (ii) is added to the owner’s tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond. The amount of OID that accrues each year to a corporate owner of a Discount Bond is taken into account in computing the corporation’s liability for federal alternative minimum tax. A purchaser of a Discount Bond in the initial public offering at the price for that Discount Bond stated on the inside cover of this Offering Memorandum who holds that Discount Bond to maturity will realize no gain or loss upon the retirement of that Discount Bond.

Certain of the Series 2014B Bonds (“Premium Bonds”) as indicated on the inside cover of this Offering Memorandum were offered and sold to the public at a price in excess of their stated redemption price at maturity (the principal amount). That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner’s gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond,

the owner's tax basis in the Premium Bond is reduced by the amount of bond premium that is amortized during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond. A purchaser of a Premium Bond in the initial public offering at the price for that Premium Bond stated on the inside cover of this Offering Memorandum who holds that Premium Bond to maturity (or, in the case of a callable Premium Bond, to its earlier call date that results in the lowest yield on that Premium Bond) will realize no gain or loss upon the retirement of that Premium Bond.

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

*Circular 230.* THE FOREGOING DISCUSSION IN "TAX MATTERS" WAS NOT INTENDED OR WRITTEN BY CO-BOND COUNSEL TO BE USED, AND IT CANNOT BE USED, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON AN OWNER OF THE SERIES 2014B BONDS. THE FOREGOING DISCUSSION IN "TAX MATTERS" WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE SERIES 2014B BONDS. EACH PROSPECTIVE PURCHASER OF THE SERIES 2014B BONDS SHOULD SEEK ADVICE BASED ON THE PROSPECTIVE PURCHASER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

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

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

#### **LITIGATION**

There is not now pending or, to the best of the Authority's knowledge, threatened any litigation restraining or enjoining the issuance or delivery of the Series 2014B Bonds or questioning or affecting the validity of the Series 2014B Bonds, the proceedings and authority under which they are to be issued, nor is the creation, organization, or existence of the Authority being contested. Nor is there any litigation pending or, to the best of the Authority's knowledge, threatened which (i) in any manner questions the right of the Authority to operate the System or its right to conduct its activities in accordance with the provisions of the Act and of the Indenture or (ii) if determined adversely to the Authority, would have a material adverse impact on the financial condition of the Authority.

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

## LEGAL MATTERS

Certain legal matters relating to the issuance of the Series 2014B Bonds are subject to the approving opinions of Squire Patton Boggs (US) LLP and Leftwich & Ludaway, LLC, Co-Bond Counsel, which will be furnished upon delivery of the Series 2014B Bonds, substantially in the form set forth as APPENDIX F. Squire Patton Boggs (US) LLP and Leftwich & Ludaway, LLC also serve as Co-Disclosure Counsel to the Authority in connection with the preparation of this Offering Memorandum. Certain legal matters will be passed upon for the Authority by its General Counsel, and for the Underwriters by their co-counsel, Orrick, Herrington & Sutcliffe, LLP and McKenzie & Associates.

## INDEPENDENT ACCOUNTANTS

The financial statements of the Authority included in this Offering Memorandum have been audited by KPMG, independent certified public accountants, to the extent and for the period indicated in their report thereon. Such financial statements have been included in reliance upon the report of KPMG.

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

## RATINGS

Standard & Poor's ("S&P"), a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. ("Moody's") and Fitch Ratings ("Fitch"), have assigned long-term municipal bond ratings of "[\_\_]," "[\_\_]" and "[\_\_]", respectively, to the Series 2014B Bonds. A securities rating is not a recommendation to buy, sell or hold the Series 2014B Bonds and may be subject to revision or withdrawal at any time. A rating reflects only the view of the rating agency giving such rating. An explanation of the significance of the ratings may be obtained from: S&P at 55 Water Street, New York, New York 10041; from Moody's at 7 World Trade Center, New York, New York 10007; and from Fitch at 1 State Street Plaza, New York, New York 10099. There is no assurance that a rating will apply for any given period of time, or that a rating will not be revised or withdrawn. A revision or withdrawal of a rating may have an effect on the market price of or the market for the Series 2014B Bonds.

## CONTINUING DISCLOSURE

In accordance with the requirements of the Rule promulgated by the SEC, the Authority will enter into the Continuing Disclosure Agreement dated the date of delivery of the Series 2014B Bonds, which will constitute a written undertaking for the benefit of the Owners of the Series 2014B Bonds, solely to assist the Underwriters in complying with subsection (b)(5) of the Rule. Pursuant to the Continuing Disclosure Agreement, the Authority has covenanted to provide certain financial information on an annual basis and to provide notice of certain enumerated events. See APPENDIX D – "FORM OF CONTINUING DISCLOSURE AGREEMENT" for detailed provisions of the Continuing Disclosure Agreement. The Authority has complied in all material respects with its previous continuing disclosure agreements under the Rule, except that it failed to file on a timely basis a special event notice relating to a rating upgrade. The notice has been filed.

## FINANCIAL ADVISORS

Public Financial Management, Inc. and G~Entry Principle, PC, have served as co-financial advisors to the Authority with respect to the issuance of the Series 2014B Bonds.

## UNDERWRITING



Merrill Lynch, Pierce, Fenner and Smith, Incorporated, New York, New York (the “Representative”), on behalf of itself and as representative of the underwriters for the Series 2014B Bonds, has agreed to purchase from the Authority the Series 2014B Bonds at an aggregate purchase price equal to \$[\_\_\_\_\_] (which amount constitutes the aggregate principal amount of the Series 2014B Bonds of \$[\_\_\_\_\_] plus net original issue premium of \$[\_\_\_\_\_] less the Underwriters’ discount of \$[\_\_\_\_\_]).

The Bond Purchase Agreement by and among the Authority and the Representative, on behalf of itself, and as representative of the Underwriters dated July [\_\_\_], 2014 (the “Series 2014B Bond Purchase Agreement”) provides that the Underwriters will purchase all of the Series 2014B Bonds, if any are purchased, and the obligation to make such purchases is subject to certain terms and conditions set forth in the Series 2014B Bond Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions.

The Series 2014B Bonds may be offered and sold to certain dealers (including dealers depositing the Series 2014B Bonds into investment trusts) at prices lower than the public offering prices and such public offering prices may be changed from time to time by the Underwriters.

Loop Capital Markets LLC has entered into distribution agreements (each a “Distribution Agreement”) with each of UBS Financial Services Inc. (“UBSFS”) and Deutsche Bank Securities Inc. (“DBS”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Distribution Agreement (if applicable to this transaction), each of UBSFS and DBS will purchase the Series 2014B Bonds from Loop Capital Markets LLC at the original issue price less a negotiated portion of the selling concession applicable to any Series 2014B Bonds that such firm sells.

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

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

### **LEGALITY FOR INVESTMENT**

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

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

### **RELATIONSHIP OF PARTIES**

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

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

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**MISCELLANEOUS**

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

The agreement of the Authority with the holders of the Series 2014B Bonds is fully set forth in the Indenture. Neither any advertisement of the Series 2014B Bonds nor this Offering Memorandum is to be construed as constituting an agreement with the purchasers of the Series 2014B Bonds.

The information contained herein should not be construed as representing all conditions affecting the Authority or the Series 2014B Bonds. The foregoing statements relating to the Act, the Federal Act, the Indenture and other documents are summaries of certain provisions thereof, and in all respects are subject to and qualified in their entirety by express reference to the provisions of such documents in their complete forms.

**DISTRICT OF COLUMBIA  
WATER AND SEWER AUTHORITY**

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

**APPENDIX A-1**

**FINANCIAL FEASIBILITY OPINION LETTER OF  
AMAWALK CONSULTING GROUP LLC  
DATED JULY [ ], 2014**

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**APPENDIX A-2**

**ENGINEERING FEASIBILITY OPINION LETTER OF  
JOHNSON, MIRMIRAN & THOMPSON,  
DATED [JULY 9, 2013]**

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**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY  
FOR THE YEARS ENDED SEPTEMBER 30, 2013, AND 2012**



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**APPENDIX C**

**GLOSSARY AND SUMMARY OF THE INDENTURE**

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**APPENDIX D**

**FORM OF CONTINUING DISCLOSURE AGREEMENT**

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## FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by the District of Columbia Water and Sewer Authority (the “Issuer”) in connection with the issuance of its Public Utility Subordinate Lien Revenue Bonds, Series 2014B (the “Series 2014B Bonds”). The Bonds are being issued pursuant to the Master Indenture of Trust, dated as of April 1, 1998 (the “Master Indenture”), as amended and supplemented to the date of delivery of the Bonds (the “Indenture”), including by the Fourteenth Supplemental Indenture of Trust, to be dated the date of issuance and delivery of the Bonds (the “Fourteenth Supplemental Indenture”), each by and between the Authority and Wells Fargo Bank, N.A., as trustee (the “Trustee”). The Issuer covenants and agrees as follows:

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

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

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

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

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

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

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

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

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

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

SECTION 3. Provision of Annual Reports.

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

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

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

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

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

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

(b) to the extent not included in the CAFR, material historical financial and operating data concerning the Issuer and the Revenues of the Issuer generally of the type found in the tables included in the Issuer's Offering Memorandum dated July 23, 2013, relating to the Bonds (the "Offering Memorandum") under the captions "THE SYSTEM," "CAPITAL IMPROVEMENT PROGRAM," "FINANCIAL OPERATIONS" and "CUSTOMER BASE, RATES AND CHARGES."

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

SECTION 5. Reporting of Significant Events.

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Date: August 1, 2013.

DISTRICT OF COLUMBIA WATER AND SEWER  
AUTHORITY

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

**CONTINUING DISCLOSURE AGREEMENT**

**EXHIBIT A**

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

Name of Issuer: District of Columbia Water and Sewer Authority  
Name of Bond Issue: District of Columbia Water and Sewer Authority  
Public Utility Subordinate Lien Revenue Bonds, Series 2014B  
Date of Issuance: July [\_\_], 2014

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

Dated:[\_\_\_\_\_]

DISTRICT OF COLUMBIA WATER AND SEWER  
AUTHORITY

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

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**APPENDIX E**

**DTC BOOK-ENTRY ONLY SYSTEM**

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### DTC BOOK-ENTRY ONLY SYSTEM

**The description that follows of the procedures and record keeping with respect to beneficial ownership interests in the Series 2014B Bonds, payments of principal, premium, if any, and interest on the Series 2014B Bonds to DTC, its nominee, Participants, or Beneficial Owners, confirmation and transfer of beneficial ownership interests in the Series 2014B Bonds and other bond-related transactions by and between DTC, Participants and Beneficial Owners is based on information furnished by DTC. The Authority and the Underwriters take no responsibility for the accuracy thereof.**

The Depository Trust Company, New York, New York (“DTC”) will act as securities depository for the Series 2014B Bonds. The Series 2014B Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2014B Bond will be issued for the Series 2014B Bonds of each series and maturity in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of the Series 2014B Bonds under the DTC system must be made by or through Direct Participants, who will receive a credit for such Series 2014B Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2014B Bond (the “Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2014B Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2014B Bonds, except in the event that use of the book-entry system for the Series 2014B Bonds is discontinued.



To facilitate subsequent transfers, all Series 2014B Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2014B Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2014B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2014B Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all of the Series 2014B Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE SERIES 2014B BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER OF ANY NOTICE AND OF ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE SERIES 2014B BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2014B Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2014B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2014B Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirement as may be in effect from time to time. Payment of principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2014B Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2014B Bond certificates are required to be printed and delivered. The Authority may decide to discontinue use of the

system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2014B Bond certificates will be printed and delivered.

So long as Cede & Co. is the registered owner of the Series 2014B Bonds, as partnership nominee for DTC, references herein to Bondholders or registered owners of the Series 2014B Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co. and shall not mean the Beneficial Owners of the Series 2014B Bonds.

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

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, CEDE & CO., ANY DTC PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (ii) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2014B BONDS; (iii) THE SELECTION BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2014B BONDS; (iv) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE SERIES 2014B BONDS; (v) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE SERIES 2014B BONDS; OR (vi) ANY OTHER MATTER.

**APPENDIX F**

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

August 1, 2013

District of Columbia Water and Sewer Authority

Re: District of Columbia Water and Sewer Authority Public Utility Subordinate Lien Revenue Bonds, Series 2014B

We have served as co-bond counsel to our client, the District of Columbia Water and Sewer Authority (the "Authority"), and not as counsel to any other person, in connection with the issuance by the Authority of its \$300,000,000 Public Utility Subordinate Lien Revenue Bonds, Series 2014B (the "Series 2014B Bonds"), dated the date of this letter.

The Series 2014B Bonds are issued pursuant to the Master Indenture of Trust, dated as of April 1, 1998 (the "Master Indenture") between the Authority and Wells Fargo Bank Minnesota, N.A., as successor to Norwest Bank Minnesota, N.A. (the "Trustee"), as supplemented and amended, including by the Fourteenth Supplemental Indenture of Trust, dated as of the same date as and relating to the Series 2014B Bonds, between the Authority and the Trustee (together with the Master Indenture as previously amended and supplemented, the "Indenture"). Capitalized terms not otherwise defined in this letter are used as defined in the Indenture.

In our capacity as co-bond counsel, we have examined the transcript of proceedings relating to the issuance of the Series 2014B Bonds, a copy of each signed and authenticated Series 2014B Bond of the first maturity, the Indenture and such other documents and matters and law as we deem necessary to render the opinions set forth in this letter.

Based on that examination and subject to the limitations stated below, we are of the opinion that under existing law:

1. The Series 2014B Bonds and the Indenture are valid and binding obligations of the Authority, enforceable in accordance with their respective terms.

2. The Series 2014B Bonds constitute special, limited obligations of the Authority, and the principal of and interest and any premium (collectively, "debt service") on the Series 2014B Bonds, together with debt service on Senior Debt and other Subordinate Debt that the Authority has issued or may in the future issue under the Indenture, are payable solely from the Net Revenues and certain funds and accounts established under the Indenture. The Series 2014B Bonds are secured as Subordinate Debt under the Indenture, including, without limitation, by a pledge of (i) Net Revenues on a parity with the pledge of Net Revenues that secures other Subordinate Debt; and (ii) the moneys and Permitted Investments in the Subordinate Bond Fund

on a parity with the pledge of Net Revenues that secures other Subordinate Debt. The Series 2014B Bonds and the payments of debt service are not general obligations of the District of Columbia and are not secured by an obligation or pledge of any money raised by taxation.

3. Interest on the Series 2014B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, portions of the interest on the Series 2014B Bonds earned by certain corporations may be subject to a corporate alternative minimum tax. The Series 2014B Bonds and the interest thereon are exempt from District of Columbia taxation, except estate, inheritance and gift taxes. We express no opinion as to any other tax consequences regarding the Series 2014B Bonds.

The opinions stated above are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. In rendering all such opinions, we assume, without independent verification, and rely upon (i) the accuracy of the factual matters represented, warranted or certified in the proceedings and documents we have examined, and (ii) the due and legal authorization, execution and delivery of those documents by, and the valid, binding and enforceable nature of those documents upon, any parties other than the Authority.

In rendering those opinions with respect to treatment of the interest on the Series 2014B Bonds under the federal tax laws and District of Columbia tax laws, we further assume and rely upon compliance with the covenants in the proceedings and documents we have examined, including those of the Authority. Failure to comply with certain of those covenants subsequent to issuance of the Series 2014B Bonds may cause interest on the Series 2014B Bonds to be included in gross income for federal income tax purposes retroactively to their date of issuance.

The rights of the owners of the Series 2014B Bonds and the enforceability of the Series 2014B Bonds and the Indenture are subject to bankruptcy, insolvency, arrangement, fraudulent conveyance or transfer, reorganization, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion, and to limitations on legal remedies against public entities.

The opinions rendered in this letter are stated only as of this date, and no other opinion shall be implied or inferred as a result of anything contained in or omitted from this letter.

Very truly yours,

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SQUIRE DRAFT: JUNE 5, 2014

**FIFTEENTH SUPPLEMENTAL INDENTURE OF TRUST**

**between**

**DISTRICT OF COLUMBIA  
WATER AND SEWER AUTHORITY**

**and**

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

**Dated July \_\_, 2014**

**THIS FIFTEENTH SUPPLEMENTAL INDENTURE OF TRUST** dated the \_\_\_ day of July, 2014 (as defined in more detail below, the “**Fifteenth Supplemental Indenture**”), by and between the District of Columbia Water and Sewer Authority (the “**Authority**”), an independent authority of the District of Columbia (the “**District**”), and Wells Fargo Bank, N.A., a national banking association, having a corporate trust office in Columbia, Maryland, as trustee (in such capacity, together with any successor in such capacity, herein called the “**Trustee**”), provides:

**WHEREAS**, the Authority and the Trustee (its predecessor in that capacity having been Norwest Bank, N.A.) entered into the Master Indenture of Trust, dated as of April 1, 1998 (the “**Master Indenture**” and, as previously supplemented and amended by the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, the Fifth Supplemental Indenture, the Sixth Supplemental Indenture, the Seventh Supplemental Indenture, the Eighth Supplemental Indenture, the Ninth Supplemental Indenture, the Tenth Supplemental Indenture, the Eleventh Supplemental Indenture, the Twelfth Supplemental Indenture and the Thirteenth Supplemental Indenture, all as hereinafter defined, and as it may further be supplemented and amended in accordance with its terms, the “**Indenture**”), to provide for financing or refinancing the acquisition, construction, operation, maintenance and extension of the System (as defined in the Master Indenture) by the issuance of bonds, notes and other obligations payable solely from Net Revenues (as defined in the Master Indenture); and

**WHEREAS**, pursuant to the First Supplemental Indenture of Trust, dated as of April 1, 1998 (the “**First Supplemental Indenture**”), between the Authority and the Trustee, the Authority issued its \$266,120,000 Public Utility Revenue Bonds, Series 1998, dated as of April 1, 1998 (the “**Series 1998 Senior Lien Bonds**”), to finance Costs of the System (as defined in the Master Indenture) and to refund then outstanding debt of the Authority; and

**WHEREAS**, the Master Indenture permits the Authority, for certain purposes and subject to certain conditions, to issue Other System Indebtedness (as defined therein) secured on a parity with the Series 1998 Senior Lien Bonds and referred to collectively with the Series 1998 Senior Lien Bonds as “Senior Debt,” and also permits the Authority to issue Subordinate Debt (as defined therein), to which it has pledged to its payment Net Revenues, as a subordinate lien pledge after the pledge of Net Revenues to Senior Debt; and

**WHEREAS**, pursuant to the Second Supplemental Indenture of Trust, dated as of November 1, 2001 (the “**Second Supplemental Indenture**”), between the Authority and the Trustee, the Authority amended and supplemented the Master Indenture in accordance with its terms to clarify provisions thereof related to certain forms of Indebtedness (as defined in the Master Indenture, i.e., Senior Debt and Subordinate Debt) and thereby facilitate the issuance of such forms of Indebtedness; and

**WHEREAS**, pursuant to the Third Supplemental Indenture of Trust, dated as of November 1, 2001 (the “**Third Supplemental Indenture**”), between the Authority and the Trustee, the Authority (i) issued its Commercial Paper Notes defined therein as the Series A-B Notes, (ii) designated the Series A-B Notes as Subordinate Debt for purposes of the Indenture, and (iii) made provision for the securing of the Series A-B Notes and of the Reimbursement

Obligations to the Bank that provided the Letters of Credit (all as defined therein) that secure the Series A-B Notes; and

**WHEREAS**, pursuant to the Fourth Supplemental Indenture of Trust, dated August 12, 2003 (the “**Fourth Supplemental Indenture**”), between the Authority and the Trustee, the Authority: (i) issued its Public Utility Subordinated Lien Revenue Bonds, Series 2003, dated August 12, 2003 (the “**Series 2003 Subordinated Bonds**”), in the aggregate principal amount of \$176,220,000 to finance certain Costs of the System and retire Series A-B Notes, (ii) designated the Series 2003 Subordinated Bonds as Subordinate Debt for purposes of the Indenture, and (iii) secured the Series 2003 Subordinated Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future; and

**WHEREAS**, pursuant to the Fifth Supplemental Indenture of Trust, dated August 3, 2004 (the “**Fifth Supplemental Indenture**”), between the Authority and the Trustee, the Authority: (i) issued its Public Utility Subordinated Lien Revenue Bonds, Series 2004, as Subseries 2004A-1, Subseries 2004A-2, Subseries 2004B-1 and Subseries B-2 (collectively, the “**Series 2004 Subordinated Bonds**”) in the aggregate principal amount of \$295,000,000 to finance certain Costs of the System, (ii) designated the Series 2004 Subordinated Bonds as Subordinate Debt for purposes of the Indenture, and (iii) secured the Series 2004 Subordinated Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures the Series 2003 Subordinated Bonds and other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future; and

**WHEREAS**, pursuant to the Sixth Supplemental Indenture of Trust, dated June 6, 2007 (the “**Sixth Supplemental Indenture**”), between the Authority and the Trustee, the Authority: (i) issued its Public Utility Subordinated Lien Revenue Bonds, Series 2007A (the “**Series 2007A Subordinated Bonds**”), in the aggregate principal amount of \$218,715,000 to finance certain Costs of the System and retire Series A-B Notes, (ii) designated the Series 2007A Subordinated Bonds as Subordinate Debt for purposes of the Indenture, and (iii) secured the Series 2007A Subordinated Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures the Series 2003 Subordinated Bonds, Series 2004 Subordinated Bonds and other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future; and

**WHEREAS**, pursuant to the Seventh Supplemental Indenture of Trust, dated June 6, 2007 (the “**Seventh Supplemental Indenture**”), between the Authority and the Trustee, the Authority: (i) issued its Public Utility Subordinated Lien Taxable Revenue Bonds, Series 2007B (the “**Series 2007B Subordinated Bonds**”), in the aggregate principal amount of \$59,000,000 to finance certain Costs of the System, (ii) designated the Series 2007B Subordinated Bonds as Subordinate Debt for purposes of the Indenture, and (iii) secured the Series 2007A Subordinated Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures the Series 2003 Subordinated Bonds, the Series 2004 Subordinated Bonds and other Subordinate Debt, including,



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

**WHEREAS**, pursuant to the Eighth Supplemental Indenture of Trust, dated April 24, 2008 (the “**Eighth Supplemental Indenture**”), between the Authority and the Trustee, the Authority: (i) issued its Public Utility Subordinated Lien Revenue Refunding Bonds, Series 2008 (the “**Series 2008 Subordinated Bonds**”), in the aggregate principal amount of \$290,375,000 to (a) currently refund all of the outstanding Series 2004 Subordinated Bonds and a portion of the Series 2007B Subordinated Bonds, and (b) pay issuance costs of the Series 2008 Subordinated Bonds, (ii) designated the Series 2008 Subordinated Bonds as Subordinate Debt for purposes of the Indenture, and (iii) secured the Series 2008 Subordinated Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future; and

**WHEREAS**, pursuant to the Ninth Supplemental Indenture of Trust, dated December 19, 2008 (the “**Ninth Supplemental Indenture**”), between the Authority and the Trustee, the Authority agreed to confer on the Holders of the Series 2003 Subordinated Bonds additional rights related to the Reserve Credit Facility (as defined therein) and to cure any ambiguity or omission in the Indenture regarding the obligations of the Authority as a consequence of a downgrade of the Reserve Policy related to the Series 2003 Subordinated Bonds, or in the event that the Reserve Policy were to cease to be in effect; and

**WHEREAS**, pursuant to the Tenth Supplemental Indenture of Trust, dated February 12, 2009 (the “**Tenth Supplemental Indenture**”), between the Authority and the Trustee, the Authority: (i) issued its Public Utility Senior Lien Revenue Bonds, Series 2009A (the “**Series 2009A Senior Lien Bonds**”), in the aggregate principal amount of \$300,000,000 to finance certain Costs of the System and retire Series A-B Notes, (ii) designated the Series 2009A Senior Lien Bonds as Senior Debt for purposes of the Indenture, and (iii) secured the Series 2009A Senior Lien Bonds by a pledge of Net Revenues on a parity with the pledge of Net Revenues that secures the Series 1998 Senior Lien Bonds and other Senior Debt, including, without limitation, other Senior Debt that the Authority may issue from time to time in the future; and

**WHEREAS**, pursuant to the Eleventh Supplemental Indenture of Trust, dated June 2, 2010 (the “**Eleventh Supplemental Indenture**”), between the Authority and the Trustee, the Authority: (i) issued its Commercial Paper Notes defined therein as the Series A-B-C Notes, (ii) designated the Series A-B-C Notes as Subordinate Debt for purposes of the Indenture, and (iii) made provision for the securing of the Series A-B-C Notes and of the Reimbursement Obligations to the Bank that provided the Letters of Credit (all as defined therein) that secure the Series A-B-C Notes; and

**WHEREAS**, pursuant to the Twelfth Supplemental Indenture of Trust, dated October 27, 2010 (the “**Twelfth Supplemental Indenture**”), between the Authority and the Trustee, the Authority (i) issued its Public Utility Subordinate Lien Revenue Bonds, Series 2010A (Federally Taxable – Issuer Subsidy – Build America Bonds) (the “**Series 2010A Subordinate Bonds**”) in the aggregate principal amount of \$300,000,000 to finance certain Costs of the System, and fund

capitalized interest on a portion of the Series 2010A Subordinate Bonds, subject to specified limitations, (ii) designated the Series 2010A Subordinate Bonds as Subordinate Debt for purposes of the Indenture, (iii) secured the Series 2010A Subordinate Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future, and (iv) included provisions in the Indenture related to potential Direct Payments (as defined therein) received or expected to be received by the Authority, including certain provisions requiring the consent of the holders of a majority of Outstanding Bonds; and

**WHEREAS**, pursuant to the Thirteenth Supplemental Indenture of Trust, dated March 22, 2012 (the “**Thirteenth Supplemental Indenture**”), between the Authority and the Trustee, the Authority: (A) (i) issued its Public Utility Subordinate Lien Revenue Bonds, Series 2012A (the “**Series 2012A Subordinated Bonds**”) in the aggregate principal of \$177,430,000 to finance certain Costs of the System and pay certain costs of issuance, (ii) designated the Series 2012A Subordinate Bonds as Subordinate Debt for purposes of the Indenture, and (iii) secured the Series 2012A Subordinate Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future, (B) (i) issued its Public Utility Subordinate Lien Multimodal Revenue Bonds, Series 2012B (the “**Series 2012B Subordinate Bonds**”) in the aggregate principal amount of \$100,000,000 to finance certain Costs of the System, fund capitalized interest on a portion of the Series 2012B Subordinate Bonds subject to specified limitations, and pay certain costs of issuance, (ii) designated the Series 2012B Subordinate Bonds as Subordinate Debt for purposes of the Indenture, and (iii) secured the Series 2012B Subordinate Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future, and (C) (i) issued its Public Utility Subordinate Lien Revenue Refunding Bonds, Series 2012C (the “**Series 2012C Subordinate Bonds**”) in the aggregate principal amount of \$163,215,000, and applied the proceeds thereof, together with any other funds of the Authority, to advance refund the Refunded Bonds (as defined in the Thirteenth Supplemental Indenture) and caused them to be deemed paid and no longer Outstanding for purposes of the Indenture, and paid certain costs of issuance, (ii) designated the Series 2012C Subordinate Bonds as Subordinate Debt for purposes of the Indenture, and (iii) secured the Series 2012C Subordinate Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future; and

**WHEREAS**, pursuant to the Fourteenth Supplemental Indenture of Trust, dated August 1, 2013 (the “**Fourteenth Supplemental Indenture**”), between the Authority and the Trustee, the Authority: (i) issued its Public Utility Subordinate Lien Revenue Refunding Bonds, Series 2013A (the “**Series 2013A Subordinate Bonds**”), in the aggregate principal amount of \$300,000,000 to (a) finance certain Costs of the System, and (b) pay issuance costs of the Series 2013A Subordinate Bonds, (ii) designated the Series 2013A Subordinate Bonds as Subordinate

Debt for purposes of the Indenture, and (iii) secured the Series 2013A Subordinate Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future; and

**WHEREAS**, the Authority now intends to: (i) issue Public Utility Senior Lien Revenue Bonds, Series 2014A (Federally Taxable) in the aggregate principal amount of \$\_\_\_\_\_ (the “**Series 2014A Bonds**”) to finance certain Costs of the System and pay certain costs of issuance, (ii) designate the Series 2014A Bonds as Senior Debt for purposes of the Indenture, and (iii) secure the Series 2014A Bonds by a pledge of Net Revenues on a parity with the pledge of Net Revenues that secures the 1998 Senior Lien Bonds, the Series 2009 Senior Lien Bonds and other Senior Debt, including, without limitation, other Senior Debt that the Authority may issue from time to time in the future; and

**NOW THEREFORE**, in consideration of the premises and the mutual covenants and agreements hereinafter contained, the parties hereto agree, as follows:

**ARTICLE I  
FIFTEENTH SUPPLEMENTAL INDENTURE**

**Section 101. Authorization of Fifteenth Supplemental Indenture.**

This Fifteenth Supplemental Indenture is authorized and executed by the Authority and delivered to the Trustee pursuant to and in accordance with Articles III and X of the Master Indenture. All terms, covenants, conditions and agreements of the Indenture shall apply with full force and effect to the Series 2014A Bonds as Senior Debt and to the Holders thereof as Holders of Senior Debt, except as otherwise provided in this Fifteenth Supplemental Indenture.

**Section 102. Definitions.**

Except as otherwise defined in this Fifteenth Supplemental Indenture, capitalized words and terms defined in the Master Indenture as amended by the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, the Fifth Supplemental Indenture, the Sixth Supplemental Indenture, the Seventh Supplemental Indenture, the Eighth Supplemental Indenture, the Ninth Supplemental Indenture, the Tenth Supplemental Indenture, the Eleventh Supplemental Indenture, the Twelfth Supplemental Indenture, the Thirteenth Supplemental Indenture and the Fourteenth Supplemental Indenture are used in this Fifteenth Supplemental Indenture with the meanings assigned to them therein. In addition, the following words as used in this Fifteenth Supplemental Indenture have the following meanings unless the context or use clearly indicates another or different intent or meaning:

“Book-entry form” or “book-entry system” means a form or system under which the physical Series 2014A Bond certificates in fully registered form are issued only to a Depository or its nominee as Holder, with the certificated Series 2014A Bonds held by and “immobilized” in the custody of the Depository, and the book-entry system, maintained by and the responsibility

of the Depository and not maintained by or the responsibility of the Authority or the Trustee, is the record that identifies, and records the transfer of the interests of, the owners of beneficial, book-entry interests in the Series 2014A Bonds.

“Depository” means any securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a book-entry system to record ownership of book-entry interests in Series 2014A Bonds, and to effect transfers of book-entry interests in Series 2014A Bonds, and includes and means initially The Depository Trust Company (a limited purpose trust company), New York, New York.

“Fifteenth Supplemental Indenture” means this Fifteenth Supplemental Indenture of Trust, dated July \_\_, 2014, between the Authority and the Trustee, which supplements and amends the Master Indenture, as previously supplemented and amended by the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, the Fifth Supplemental Indenture, the Sixth Supplemental Indenture, the Seventh Supplemental Indenture, the Eighth Supplemental Indenture, the Ninth Supplemental Indenture, the Tenth Supplemental Indenture, the Eleventh Supplemental Indenture, the Twelfth Supplemental Indenture, the Thirteenth Supplemental Indenture and the Fourteenth Supplemental Indenture.

“Interest Payment Dates” for the Series 2014A Bonds means each April 1 and October 1 commencing April 1, 2015 and thereafter during the time the Series 2014A Bonds are outstanding.

“Series 2014A Construction Account” means the Series 2014A Construction Account established by this Fifteenth Supplemental Indenture in the Construction Fund.

“Series 2014A Costs of Issuance Subaccount” means the Series 2014A Costs of Issuance Subaccount established by this Fifteenth Supplemental Indenture in the Series 2014A Construction Account of the Construction Fund.

“Series 2014A Resolution” means Resolution No. 14-\_\_, adopted by the Authority’s Board on July 3, 2014, authorizing the Series 2014A Bonds.

“Series 2014A Bond Event of Default” means any of the events defined as such in Section 703 of this Fifteenth Supplemental Indenture.

“Series 2014A Bondholder” or “holder of Series 2014A Bonds” means the registered owner of a Series 2014A Bond.

“Series 2014A Bonds Interest Subaccount” means the Series 2014A Bonds Interest Subaccount established by this Fifteenth Supplemental Indenture in the Interest Account in the Bond Fund.

“Series 2014A Bonds Principal Subaccount” means the Series 2014A Bonds Principal Subaccount established by this Fifteenth Supplemental Indenture in the Principal Account in the Bond Fund.

**Section 103. Reference to Articles and Sections.**

Unless otherwise indicated, all references herein to particular articles or sections are references to articles or sections of this Fifteenth Supplemental Indenture.

**ARTICLE II  
AUTHORIZATION, DETAILS AND FORM  
OF SERIES 2014A BONDS**

**Section 201. Authorization of Series 2014A Bonds.**

Pursuant to Article III of the Master Indenture and, specifically, Section 303 thereof, and the Series 2014A Resolution, the Authority is authorized to issue a series of public utility revenue bonds of the Authority in the aggregate principal amount of \$\_\_\_\_\_ for the purpose of: (i) financing certain Costs of the System, and (ii) paying issuance costs of the Series 2014A Bonds. The Series 2014A Bonds shall be issued as Senior Debt pursuant to the Indenture.

**Section 202. Details of Series 2014A Bonds.**

The Series 2014A Bonds shall be designated “Public Utility Senior Lien Revenue Bonds, Series 2014A,” shall be dated July \_\_, 2014, shall be issuable only as fully registered bonds in denominations of \$5,000 and multiples thereof, shall be numbered R-1 upward and shall bear interest at rates, payable semiannually on the Interest Payment Dates, until their final payment or maturity, and shall mature on October 1 in years and amounts, as follows:

<u>October 1</u> <u>Maturity</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
-------------------------------------	-----------------------------------	--------------------------------

Each Series 2014A Bond shall bear interest: (a) from its date, if such Series 2014A Bond is authenticated prior to the first Interest Payment Date, or (b) otherwise from the Interest Payment Date that is, or immediately precedes, the date on which such Series 2014A Bond is authenticated; provided, however, that if at the time of authentication of any Series 2014A Bond payment of interest is in default, such Series 2014A Bond shall bear interest from the date to which interest has been paid. The interest payable on the Series 2014A Bonds will be computed on the basis of a 360-day year of twelve 30-day months.

Principal of and premium, if any, on the Series 2014A Bonds shall be payable to the registered owners upon the surrender of Series 2014A Bonds at the designated office of the Trustee. Interest on the Series 2014A Bonds shall be payable by check or draft mailed to the registered owners at their addresses as they appear on the fifteenth day of the month preceding the Interest Payment Date on the registration books kept by the Trustee; provided, however, if the Series 2014A Bonds are registered in the name of a Depository or its nominee as registered owner or at the option of a registered owner of at least \$1,000,000 of Series 2014A Bonds,

payment shall be made by wire transfer pursuant to the wire instructions received by the Trustee with respect to each such payment from such registered owner. Principal, premium, if any, and interest shall be payable in lawful money of the United States of America.

**Section 203. Form of Bonds.**

The Series 2014A Bonds shall be in substantially the form set forth in **Exhibit A**, with such appropriate variations, omissions and insertions as are permitted or required by the Indenture.

**Section 204. Depository Provisions.**

The Series 2014A Bonds shall initially be issued to a Depository for holding in a book-entry system. Those Series 2014A Bonds shall be registered in the name of the Depository or its nominee, as registered owner, and immobilized in the custody of the Depository or the Trustee on behalf of the Depository; and shall not be transferable or exchangeable, except for transfer to another Depository or to another nominee of a Depository, without further action by the Authority.

If any Depository determines not to continue to act as a Depository for the Series 2014A Bonds for holding in a book-entry system or the Authority determines to remove the Series 2014A Bonds from a Depository, the Authority may attempt to have established a securities depository/book-entry system relationship with another qualified Depository. If the Authority does not or is unable to do so, the Authority, after making provision for notification of the owners of book-entry interests by appropriate notice to the then Depository and any other arrangements it deems necessary, shall permit withdrawal of the Series 2014A Bonds from the Depository, and shall execute and direct the Trustee to authenticate and deliver Series 2014A Bond certificates, in fully registered form, to the assigns of the Depository or its nominee (if such Series 2014A Bonds were held by a nominee), all at the cost and expense (including costs of printing or otherwise preparing and delivering replacement Series 2014A Bonds), if the event is not the result of Authority action or inaction, of those persons requesting that authentication and delivery. Series 2014A Bond certificates authenticated and delivered pursuant to this paragraph shall be in authorized denominations. In the event that Series 2014A Bonds shall cease to be in book-entry form, then the Authority or the Depository shall provide to the Trustee the name, address of record and taxpayer identification number of each registered holder thereof. The Trustee may rely on such information without any investigation.

If the Series 2014A Bonds are withdrawn from a Depository and printed bond certificates in fully registered form are or are to be authenticated and delivered pursuant to this Section, and if, in the opinion of Bond Counsel addressed to the Trustee, the delivery of coupon bonds payable to bearer would not result in the interest on any of the Series 2014A Bonds then outstanding becoming includable in gross income for federal income tax purposes, the Authority, without the consent of or notice to any of the holders of the Series 2014A Bonds, may authorize the exchange of Series 2014A Bond certificates in fully registered form or Series 2014A Bonds under a book-entry system for coupon bonds payable to bearer, in an aggregate principal amount not exceeding the then unmatured and unredeemed principal amount of the Series 2014A Bonds, bearing interest at the same rate and maturing on the same date, with coupons attached

representing all unpaid interest due or to become due thereon. Such certificated Series 2014A Bonds will be registrable, transferable and exchangeable as set forth in Section 204 and Section 205 of the Master Indenture.

So long as a Depository holds the Series 2014A Bonds in a book-entry system (A) it or its nominee shall be the registered owner of the Series 2014A Bonds, (B) notwithstanding anything to the contrary in this Fifteenth Supplemental Indenture, determinations of persons entitled to payment of principal, premium, if any, and interest, transfers of ownership and exchanges and receipt of notices shall be the responsibility of the Depository and shall be effected pursuant to rules and procedures established by such Depository, (C) the Authority and the Trustee shall not be responsible or liable for maintaining, supervising or reviewing the records maintained by the Depository, its participants or persons acting through such participants, and (D) references in this Fifteenth Supplemental Indenture to registered owners of the Series 2014A Bonds shall mean such Depository or its nominee and shall not mean the beneficial owners of the Series 2014A Bonds.

**Section 205. Delivery of Series 2014A Bonds.**

The Trustee shall authenticate and deliver the Series 2014A Bonds when there have been filed with or delivered to it the following items:

- (a) An original executed counterpart of this Fifteenth Supplemental Indenture;
- (b) A certified copy of applicable resolution(s) of the Board of Directors of the Authority and related Certificate of Award: (i) authorizing the execution and delivery of the Fifteenth Supplemental Indenture, and (ii) authorizing the issuance, sale, award, execution and delivery of the Series 2014A Bonds.
- (c) A certificate signed by an Authorized Representative of the Authority and dated the date of such issuance, to the effect that:
  - (1) Either: (A) upon and immediately following such issuance, no Event of Default has occurred which has not been cured or waived, and no event or condition exists which, with the giving of notice or lapse of time or both, would become an Event of Default, or (B) if any such event or condition is happening or existing, specifying such event or condition, stating that the Authority will act with due diligence to correct such event or condition after the issuance of the Series 2014A Bonds, and describing in reasonable detail the actions to be taken by the Authority toward such correction; and
  - (2) All required approvals, limitations, conditions and provisions precedent to the issuance of the Series 2014A Bonds have been obtained, observed, met and satisfied.
- (d) An Opinion or Opinions of Counsel, subject to customary exceptions and qualifications, substantially to the effect that this Fifteenth Supplemental Indenture has been duly authorized, executed and delivered to the Trustee and is a valid, binding and enforceable obligation of the Authority.

(e) An opinion or opinions of Bond Counsel, subject to customary exceptions and qualifications, substantially to the effect that the issuance of the Series 2014A Bonds has been duly authorized, and that the Series 2014A Bonds are valid and binding limited obligations of the Authority.

(f) A certificate of an Authorized Representative of the Authority, stating that rates, fees and charges are in effect or scheduled to go into effect to meet the Rate Covenant immediately after the issuance of the Series 2014A Bonds.

(g) A request and authorization of the Authority, signed by an Authorized Representative of the Authority, to the Trustee to authenticate and deliver such Bonds to the purchaser upon payment to the Trustee in immediately available funds for the account of the Authority of a specified sum plus accrued interest to the date of delivery.

### **ARTICLE III REDEMPTION OF SERIES 2014A BONDS**

#### **Section 301. Redemption Dates and Prices.**

The Series 2014A Bonds may not be called for redemption by the Authority except as provided below:

(a) Make-Whole Optional Redemption. The Series 2014A Bonds are subject to redemption prior to their stated maturities, at the option of the Authority, on any date from any source of available funds, as a whole or in part, at a redemption price equal to the principal amount thereof plus the Make-Whole Premium (as defined in this Section 301(a)), if any, plus accrued interest to the date fixed for redemption.

For purposes of this Section 301(a), the following terms have the meaning ascribed to them below:

“Make-Whole Premium” means, with respect to any Series 2014A Bond to be redeemed, an amount calculated by a Designated Institution (as defined in this Section 301(a)) equal to the positive difference, if any, between:

(1) the sum of the present values, calculated as of the date fixed for redemption of:

(a) each interest payment that, but for the redemption, would have been payable on the Series 2014A Bond or a portion thereof being redeemed on each regularly scheduled Interest Payment Date occurring after the date fixed for redemption through the maturity date of such Series 2014A Bond (excluding any accrued interest for the period prior to the date fixed for redemption); provided that if the date fixed for redemption is not a regularly scheduled Interest Payment Date with respect to such Series 2014A Bond, the amount of the next regularly scheduled interest payment will be reduced by the amount of interest accrued on such Series 2014A Bond to the date fixed for redemption; plus



(b) the principal amount that, but for such redemption, would have been payable on the maturity date of the Series 2014A Bond or portion thereof being redeemed; minus

(2) the principal amount of the Series 2014A Bonds or portion thereof being redeemed.

The present values of the interest and principal payments referred to in (1) above will be determined by discounting the amount of each such interest and principal payment from the date that each such payment would have been payable but for the redemption to the date fixed for redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at a discount rate equal to the Comparable Treasury Yield (as defined in this Section 301(a)), plus 30 basis points.

“Comparable Treasury Yield” means the yield appearing in the most recently published statistical release designated “H.15(519) Selected Interest Rates” under the heading “Treasury Constant Maturities,” or any successor publication selected by the Designated Banking Institution that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity, for the maturity corresponding to the remaining term to maturity of the Series 2014A Bond being redeemed. The Comparable Treasury Yield shall be determined at least two business days but not more than 45 calendar days preceding the applicable date fixed for redemption. If the H.15(519) statistical release sets forth a weekly average yield for United States Treasury securities that have a constant maturity that is the same as the remaining term to maturity of the Series 2014A Bond being redeemed, then the Comparable Treasury Yield will be equal to such weekly average yield. In all other cases, the Comparable Treasury Yield will be calculated by interpolation on a straight-line basis, between the weekly average yields on the United States Treasury securities that have a constant maturity (i) closest to and greater than the remaining term to maturity of the Series 2014A Bond being redeemed; and (ii) closest to and less than the remaining term to maturity of the Series 2014A Bond being redeemed. Any weekly average yields calculated by interpolation will be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward. If, and only if, weekly average yields for United States Treasury securities for the preceding week are not available in the H.15(519) statistical release or any successor publication, then the Comparable Treasury Yield will be the rate of interest per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Price (each as defined in this Section 301(a)) as of the date fixed for redemption.

“Comparable Treasury Issue” means the United States Treasury selected by the Designated Banking Institution as having a maturity comparable to the remaining term to maturity of the Series 2014A Bond being redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term to maturity of the Series 2014A Bond being redeemed.

“Designated Banking Institution” means an investment banking institution of national standing which is a primary United States government securities dealer in the City of New York designated by the Authority (which may be one of the underwriters of the Series 2014A Bonds).

“Comparable Treasury Price” means, with respect to any date on which a Series 2014A Bond or portion thereof is being redeemed, either (a) the average of five Reference Treasury Dealer (as defined in this Section 301(a) quotations for the date fixed for redemption, after excluding the highest and lowest such quotations, and (b) if the Designated Banking Institution is unable to obtain five such quotations, the average of the quotations that are obtained. The quotations will be the average, as determined by the Designated Banking Institution, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of principal amount) quoted in writing to the Designated Banking Institution, at 2:00 p.m. New York City time on a business day at least two business days but no more than 45 calendar days preceding the applicable date fixed for redemption.

“Reference Treasury Dealer” means a primary United States Government securities dealer in the United States appointed by the Authority and reasonably acceptable to the Designated Banking Institution (which may be one of the underwriters of the Series 2014A Bonds).

(b) Mandatory Redemption. The Series 2014A Bonds are required to be redeemed prior to maturity on October 1 in years and amounts upon payment of 100% of the principal amount thereof plus interest accrued to the redemption date, as follows:

The Series 2014A Bonds are subject to mandatory sinking fund redemption on each October 1 as set forth below:

<u>Year</u>	<u>Amount</u>
-------------	---------------

\*Final Maturity

The Trustee shall provide for a mandatory redemption of the Series 2014A Bonds in accordance with the schedules set forth above; provided, however, that on or before the 70th day next preceding any such mandatory redemption date, the Authority may:

(1) deliver to the Trustee for cancellation Series 2014A Bonds of the maturity required to be redeemed on such mandatory redemption date in any aggregate principal amount desired; or

(2) instruct the Trustee in writing to apply a credit against the Authority’s next mandatory redemption obligation for any such Series 2014A Bonds that previously have been redeemed (other than through mandatory redemption) and canceled but not theretofore applied as a credit against any mandatory redemption obligation.

Upon the occurrence of any of the events described in clauses (1) or (2) of the preceding sentence, the Trustee shall credit against the Authority's mandatory redemption obligation on the next mandatory redemption date the amount of such Series 2014A Bonds so delivered or previously redeemed. Any principal amount of such Series 2014A Bonds in excess of the principal amount required to be redeemed on such mandatory redemption date shall be similarly credited in an amount equal to the principal of such Series 2014A Bonds so purchased towards the sinking fund installments for the Series 2014A Bonds of such maturity on a pro rata basis in accordance with a certificate of an Authorized Representative of the Authority, which will direct the reduction of a ratable portion of each annual mandatory sinking fund installment requirement in accordance with the procedures set forth below. Within seven days of receipt of such Series 2014A Bonds or instructions to apply as a credit, any amounts remaining in the Sinking Fund Account in excess of the amount required to fulfill the remaining required mandatory redemption obligation on the next mandatory redemption date shall be used in such manner as determined at the written direction of the Authority.

The particular maturities of the Series Subordinate 2010A Bonds to be redeemed at the option of the Authority will be determined by the Authority in its sole discretion.

If less than all of the Series 2014A Bonds of a maturity are called for prior redemption and if the Series 2014A Bonds are registered in book-entry only form and DTC or a successor securities depository is the sole registered owner of such Series 2014A Bonds, the particular Series 2014A Bonds or portions thereof to be redeemed shall be selected on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, provided that, so long as the Series 2014A Bonds are held in book-entry form, the selection for redemption of such Series 2014A Bonds shall be made in accordance with the operational arrangements of DTC then in effect, and, if DTC operational arrangements do not allow for redemption on a pro rata pass-through distribution of principal basis, the Series 2014A Bonds will be selected for redemption, in accordance with DTC procedures, by lot.

The portion of any Series 2014A Bond to be redeemed shall be in the principal amount of \$5,000 or some integral multiple thereof. In selecting Series 2014A Bonds for redemption, each Series 2014A Bond shall be considered as representing that number of Bonds which is obtained by dividing the principal amount of such Series 2014A Bond by \$5,000. If a portion of a Series 2014A Bond shall be called for redemption, a new Series 2014A Bond in principal amount equal to the unredeemed portion thereof shall be issued to the registered owner upon the surrender thereof.

If the Series 2014A Bonds are not registered in book-entry only form, any redemption of less than all of the Series 2014A Bonds will be allocated among the registered owners of such Series 2014A Bonds on a pro rata basis. For purposes of the pro rata pass-through distribution of principal, "pro rata" means, for any amount of principal to be paid, the application of a fraction to each denomination of the respective Series 2014A Bonds where (a) the numerator is equal to the amount due to the respective bondholders on a payment date and (b) the denominator is equal to the total original par amount of the respective Series 2014A Bonds.

**Section 303. Notice of Redemption.**

Notice of redemption of Series 2014A Bonds shall be given in the manner set forth in Section 402 of the Master Indenture, as though the Series 2014A Bonds constituted “Bonds” for purposes of that Section, provided, however, that: notices of redemption of Series 2014A Bonds sent pursuant to Section 402 of the Master Indenture shall either (i) explicitly state that the proposed redemption is conditioned on there being on deposit in the applicable fund or account on the redemption date sufficient money to pay the full redemption price of the Series 2014A Bonds to be redeemed, or (ii) be sent only if sufficient money to pay the full redemption price of the Series 2014A Bonds to be redeemed is on deposit in the applicable fund or account. Notwithstanding the foregoing and the otherwise applicable requirement of Section 402 of the Master Indenture that the Trustee send notice of a call for redemption not less than 30 days prior to the redemption date, the Trustee may send any notice of redemption of Series 2014A Bonds not less than 20 days prior to the redemption date or such shorter period of time as may be acceptable to The Depository Trust Company (“DTC”) while the Series 2014A Bonds are in book-entry form and registered to DTC.

**ARTICLE IV  
APPLICATION OF PROCEEDS OF SERIES 2014A BONDS**

**Section 401. Application of Proceeds of Series 2014A Bonds; Application of Related Amounts.**

(a) The net proceeds of the Series 2014A Bonds in the amount of \$\_\_\_\_\_, which represents the par amount of the Series 2014A Bonds \$\_\_\_\_\_), minus the underwriters’ discount \$\_\_\_\_\_), and plus net original issue premium \$\_\_\_\_\_) by the Original Purchasers, at the request and direction of the Authority shall be applied as follows:

- (1) \$\_\_\_\_\_ shall be deposited in the Series 2014A Construction Account of the Construction Fund and used to pay Costs of the System.
- (2) \$\_\_\_\_\_ shall be deposited in the Series 2014A Costs of Issuance Subaccount of the Series 2014A Construction Account of the Construction Fund and used to pay costs of issuance.

**ARTICLE V  
FUNDS AND ACCOUNTS**

**Section 501. Series 2014A Construction Account.**

In the Construction Fund, there shall be established a Series 2014A Construction Account and, within that Account, a Series 2014A Costs of Issuance Subaccount. The portion of the proceeds of the Series 2014A Bonds specified in Section 401(a)(2) shall be deposited in the Series 2014A Costs of Issuance Subaccount and used to pay costs of issuance related to the Series 2014A Bonds. When all costs of issuance have been paid or moneys have been reserved

to pay all remaining unpaid costs of issuance, the balance of any Series 2014A Bond proceeds remaining in excess of the amount to be reserved for payment of unpaid costs of issuance shall, as directed by the Authority, either (i) be deposited in the Series 2014A Construction Account of the Construction Fund and used to pay Costs of the System, or (ii) be deposited in the Bond Fund to be used solely to pay principal of and interest on the Series 2014A Bonds, in either case to the extent approved by Bond Counsel.

**Section 502. Series 2014A Bonds Subaccounts in the Interest Account and Principal Account.**

(a) Within the Interest Account there shall be established a “Series 2014A Bonds Interest Subaccount.” Within the Principal Account there shall be established a “Series 2014A Bonds Principal Subaccount.”

(b) In accordance with Section 604(a)(1) of the Master Indenture, Net Revenues shall be deposited in the Series 2014A Bond Interest Subaccount on or prior to the last Business Day of each of the six months prior to any month in which an Interest Payment Date occurs, in an amount equal to one-sixth (1/6) of the interest due and payable on the Series 2014A Bonds on such Interest Payment Date.

(c) In accordance with Section 604(a)(2) of the Master Indenture, Net Revenues shall be deposited in the Series 2014A Bonds Principal Subaccount on or prior to the last Business Day of each of the twelve months prior to any month in which principal of Series 2014A Bonds is payable on their stated maturity date or pursuant to mandatory redemption requirements, in an amount equal to one-twelfth (1/12) of the principal amount scheduled to be due and payable on the Series 2014A Bonds in such month.

**ARTICLE VI  
SECURITY FOR SERIES 2014A BONDS**

**Section 601. Security for Series 2014A Bonds.**

The Series 2014 Bonds shall be equally and ratably secured under the Master Indenture of Trust with any other Senior Debt issued pursuant to Article III of the Master Indenture of Trust, without preference, priority or distinction of any Senior Debt over any other Senior Debt, as provided in the Master Indenture of Trust, except with respect to any separate Account relating to a specific series of Senior Debt in the Debt Service Reserve Fund created pursuant to Section 606 of the Master Indenture.

Pursuant to the WASA Act (as defined in the Master Indenture), the Authority hereby includes in this Fifteenth Supplemental Indenture the pledge of the District to the Authority and any holders of its bonds that, except as provided in the WASA Act, the District will not limit or alter rights vested in the Authority to fulfill agreements made with holders of the bonds, or in any way impair the rights and remedies of the holders of the bonds until the bonds, together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceedings by or on behalf of the holders of the bonds are fully met and discharged.

**ARTICLE VII  
MISCELLANEOUS**

**Section 701. Limitation of Rights.**

With the exception of rights herein expressly conferred, nothing expressed or mentioned in or to be implied from this Fifteenth Supplemental Indenture or the Series 2014A Bonds is intended or shall be construed to give to any person other than the parties hereto, the Series 2014A Bondholders any legal or equitable right, remedy or claim under or in respect to this Fifteenth Supplemental Indenture or any covenants, conditions and agreements herein contained since this Fifteenth Supplemental Indenture and all of the covenants, conditions and agreements hereof are intended to be and are for the sole and exclusive benefit of the parties hereto, the Series 2014A Bondholders as herein provided.

**Section 702. Severability.**

If any provision of this Fifteenth Supplemental Indenture shall be held invalid by any court of competent jurisdiction, such holding shall not invalidate any other provision hereof, and this Fifteenth Supplemental Indenture shall be construed and enforced as if such illegal provision had not been contained herein.

**Section 703. Successors and Assigns.**

This Fifteenth Supplemental Indenture shall be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

**Section 704. Limitations on Liability.**

No covenant, agreement or obligation contained herein shall be deemed to be a covenant, agreement or obligation of any present or future member of the Board of Directors of the Authority or officer, employee or agent of the Authority in his or her individual capacity, and neither the members of the Board of Directors of the Authority nor any officer of the Authority executing the Series 2014A Bonds shall be liable personally on the Series 2014A Bonds or be subject to any personal liability or accountability by reason of the issuance thereof. No member of the Board of Directors of the Authority or officer, employee, agent or advisor of the Authority shall incur any personal liability with respect to any other action taken by him or her pursuant to this Fifteenth Supplemental Indenture or the Indenture or any other document authorized by the Indenture, provided such member, officer, employee, agent or advisor acts in good faith.

**Section 705. Applicable Law.**

This Fifteenth Supplemental Indenture shall be governed by the applicable laws of the District of Columbia.

**Section 706. Counterparts.**

This Fifteenth Supplemental Indenture may be executed in several counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

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**IN WITNESS WHEREOF**, the Authority and the Trustee have caused this Fifteenth Supplemental Indenture to be executed in their respective corporate names as of the date first above written.

**DISTRICT OF COLUMBIA WATER  
AND SEWER AUTHORITY**

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

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

By \_\_\_\_\_  
Its \_\_\_\_\_



**EXHIBIT A**

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation (“DTC”), to the Authority or its agent for registration of transfer, exchange, or payment, and any certificate is registered in the name of Cede & Co., or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

**REGISTERED**  
R-\_\_

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

**UNITED STATES OF AMERICA**

**DISTRICT OF COLUMBIA**

**WATER AND SEWER AUTHORITY**

**PUBLIC UTILITY SENIOR LIEN REVENUE BOND, SERIES 2014A**

<b>INTEREST RATE</b>	<b>MATURITY DATE</b>	<b>DATED DATE</b>	<b>CUSIP</b>
_____%	October 1, 20__	July __, 2014	254845 ____

**REGISTERED OWNER: CEDE & CO.**

**PRINCIPAL AMOUNT:**

The District of Columbia Water and Sewer Authority (the “Authority”), for value received, hereby promises to pay upon surrender hereof at the designated corporate trust office of Wells Fargo Bank, N.A., as trustee, or its successor in trust (the “Trustee”), under the Indenture, as hereinafter defined, solely from the sources and as hereinafter provided, to the registered owner hereof, or registered assigns or legal representative, the principal sum stated above on the maturity date stated above, subject to prior redemption as hereinafter provided, and to pay, solely from such sources, interest hereon semiannually on each April 1 and October 1, beginning October 1, 2014 at the annual rate stated above, calculated on the basis of a 360-day year of twelve 30-day months. Interest is payable (a) from July \_\_, 2014, if this Series 2014A Bond is authenticated prior to the [Record Date], or (b) otherwise from the interest payment date that is, or immediately precedes, the date on which this Series 2014A Bond is authenticated (unless payment of interest hereon is in default, in which case this Series 2014A Bond shall bear interest from the date to which interest has been paid). Interest is payable by check or draft mailed to the registered owner hereof at its address as it appears on the fifteenth day of the month preceding each interest payment date on registration books kept by the Trustee; provided, however, that if

the Series 2014A Bonds, as hereinafter defined, are registered in the name of a securities depository or its nominee as registered owner or at the option of a registered owner of at least \$1,000,000 of Series 2014A Bonds, payment will be made by wire transfer pursuant to the most recent wire instructions received by the Trustee from such registered owner. Principal, premium, if any, and interest are payable in lawful money of the United States of America. Capitalized terms which are not defined herein shall have the meanings set forth in the Indenture.

Notwithstanding any other provision hereof, this Series 2014A Bond is subject to book-entry form maintained by The Depository Trust Company (“DTC”), and the payment of principal, premium, if any, and interest, the providing of notices and other matters shall be made as described in the Authority’s Blanket Letter of Representations to DTC.

This Series 2014A Bond is one of an issue of \$\_\_\_\_\_ Public Utility Senior Lien Revenue Bonds, Series 2014A (the “Series 2014A Bonds”), of like date and tenor, except as to number, denomination, rate of interest, privilege of redemption and maturity. The Series 2014A Bonds are issued under a Master Indenture of Trust, dated as of April 1, 1998, between the Authority and the Trustee (f.k.a. Norwest Bank, N.A.) (the “Master Indenture”), as amended and supplemented by the First Supplemental Indenture of Trust, dated as of April 1, 1998, the Second Supplemental Indenture of Trust, dated as of November 1, 2001, the Third Supplemental Indenture of Trust, dated as of November 1, 2001, the Fourth Supplemental Indenture of Trust, dated August 12, 2003, the Fifth Supplemental Indenture of Trust, dated as of August 3, 2004, the Sixth Supplemental Indenture of Trust, dated June 6, 2007, the Seventh Supplemental Indenture of Trust, dated June 6, 2007, the Eighth Supplemental Indenture of Trust, dated April 24, 2008, the Ninth Supplemental Indenture of Trust, dated December 19, 2008, the Tenth Supplemental Indenture of Trust, dated February 12, 2009, the Eleventh Supplemental Indenture of Trust, dated June 2, 2010, the Twelfth Supplemental Indenture of Trust, dated October 27, 2010, the Thirteenth Supplemental Indenture of Trust, dated March 22, 2012, the Fourteenth Supplemental Indenture of Trust, dated August 1, 2013 and the Fifteenth Supplemental Indenture of Trust, dated July \_\_, 2014, all between the Authority and the Trustee (the “Indenture”). The Series 2014A Bonds are secured under the Indenture as Senior Debt by a pledge of Net Revenues on a parity with the pledge that secures Senior Debt and senior to the pledge that secures any Subordinate Debt. Reference is hereby made to the Indenture for a description of the provisions, among others, with respect to the nature and extent of the security, the rights, duties and obligations of the Authority and the Trustee, the rights of the holders of the Series 2014A Bonds and the terms upon which the Series 2014A Bonds are issued and secured. Additional Senior Debt secured by a pledge of Net Revenues on a parity with the pledge that secures the Series 2014A Bonds, the Series 2009A Bonds, the 1998 Bonds and other Senior Debt, and additional Subordinate Debt secured on a basis subordinate to Senior Debt with the Series 2003 Subordinated Bonds, the Series 2007A Subordinated Bonds, the Series 2008A Subordinated Bonds, the Series 2010A Subordinate Bonds, the Series 2012A Subordinate Bonds, the Series 2012B Subordinate Bonds, and the Series 2012C Subordinate Bonds may be issued under the terms and conditions set forth in the Indenture.

The Series 2014A Bonds and the premium, if any, and the interest thereon are limited obligations of the Authority payable from Net Revenues of the System, subject to the prior payment therefrom of the principal of and interest due and payable on all Senior Debt heretofore and hereafter issued or incurred by the Authority, and from certain other funds and accounts

pledged thereto by, and on the terms set forth in, the Indenture. The Series 2014A Bonds shall be without recourse to the District of Columbia (the “District”). The Series 2014A Bonds shall not be general obligations of the District, shall not be a pledge of or involve the faith and credit or the taxing power of the District, shall not constitute a debt of the District, and shall not constitute lending of the public credit for private undertakings.

[The Series 2014A Bonds are subject to redemption prior to maturity at the option of the Authority at any time, from any source, in whole or in part on any date, in such order of maturities as shall be determined by the Authority at a redemption price \_\_\_\_\_ . If fewer than all of the Series 2014A Bonds of a maturity are called for redemption and if the Series 2014A are registered in book-entry only form and DTC or a successor securities depository is to the sole registered owner of such Series 2014A Bonds, the particular Series 2014A Bonds or portions thereof to be redeemed shall be selected on a pro-rata pass-through distribution of principal basis in accordance with DTC, or applicable securities depository, procedures.]

The Series 2014A Bonds are required to be redeemed prior to maturity on October 1 in years and amounts upon payment of 100% of the principal amount thereof plus interest accrued to the redemption date, as follows:

The Series 2014A Bonds are subject to mandatory sinking fund redemption on each October 1 as set forth below:

<u>Year</u>	<u>Amount</u>
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\*Final Maturity

If less than all the Series 2014A Bonds are called for redemption, they shall be redeemed from maturities in such order as determined by the Authority. If less than all of the Series 2014A Bonds of a maturity are called for prior redemption, the particular Series 2014A Bonds or portions thereof to be redeemed shall be selected on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, provided that, so long as the Series 2014A Bonds are held in book-entry form, the selection for redemption of such Series 2014A Bonds shall be made in accordance with the operational arrangements of DTC then in effect, and, if DTC operational arrangements do not allow for redemption on a pro rata pass-through distribution of principal basis, the Series 2014A Bonds will be selected for redemption, in accordance with DTC procedures, by lot. In either case, (a) the portion of any of the Series 2014A Bonds to be redeemed shall be in the principal amount of \$5,000 or some multiple thereof and (b) in selecting Series 2014A Bonds for redemption each Series 2014A Bond shall be considered as representing that number of Series 2014A Bonds which is obtained by dividing the principal amount of such Series 2014A Bond by \$5,000.

If any of the Series 2014A Bonds or portions thereof are called for redemption, the Trustee shall send notice of the call for redemption, identifying the Series 2014A Bonds or portions thereof to be redeemed, not less than 30 nor more than 60 days prior to the redemption date, by facsimile, registered or certified mail or overnight express delivery, to the registered owner of each the Series 2014A Bond. Provided funds for their redemption are on deposit at the place of payment on the redemption date, all Series 2014A Bonds or portions thereof so called for redemption shall cease to bear interest on such date, shall no longer be secured by the Indenture and shall not be deemed to be Outstanding under the provisions of the Indenture. If a portion of the Series 2014A Bonds shall be called for redemption, a new Series 2014A Bond in principal amount equal to the unredeemed portion hereof will be issued to DTC or its nominee upon the surrender hereof, or if the book-entry system is discontinued, to the registered owners of the Series 2014A Bonds.

The registered owner of this Series 2014A Bond shall have no right to enforce the provisions of the Indenture or to institute action to enforce the covenants therein or to take any action with respect to any Event of Default or Series 2014A Bond Event of Default under the Indenture or to institute, appear in or defend any suit or other proceedings with respect thereto, except as provided in the Indenture. Modifications or alterations of the Indenture, or of any supplement thereto, may be made only to the extent and in the circumstances permitted by the Indenture.

No covenant, agreement or obligation contained herein shall be deemed to be a covenant, agreement or obligation of any present or future member of the Board of Directors of the Authority or officer, employee or agent of the Authority in his or her individual capacity, and neither the members of the Board of Directors of the Authority nor any officer of the Authority executing the Series 2014A Bonds shall be liable personally on the Series 2014A Bonds or be subject to any personal liability or accountability by reason of the issuance thereof. No member of the Board of Directors of the Authority or officer, employee, agent or advisor of the Authority shall incur any personal liability with respect to any other action taken by him or her pursuant to this Series 2014A Bond, the Fifteenth Supplemental Indenture or the Indenture or any other document authorized by the Indenture, provided such member, officer, employee, agent or advisor acts in good faith.

The Series 2014A Bonds are issuable as registered bonds in denominations of \$5,000 and integral multiples thereof. Upon surrender for transfer or exchange of this Series 2014A Bond at the principal corporate trust office of the Trustee, together with an assignment duly executed by the registered owner or its duly authorized attorney or legal representative in such form as shall be satisfactory to the Trustee, the Authority shall execute, and the Trustee shall authenticate and deliver in exchange, a new Series 2014A Bond or Series 2014A Bonds in the manner and subject to the limitations and conditions provided in the Indenture, having an equal aggregate principal amount, in authorized denominations, of the same series, form and maturity, bearing interest at the same rate and registered in the name or names as requested by the then registered owner hereof or its duly authorized attorney or legal representative. Any such exchange shall be at the expense of the Authority, except that the Trustee may charge the person requesting such exchange the amount of any tax or other governmental charge required to be paid with respect thereto.

The Trustee shall treat the registered owner as the person exclusively entitled to payment of principal, premium, if any, and interest and the exercise of all other rights and powers of the owner, except that interest payments shall be made to the person shown as owner on the fifteenth day of the month preceding each interest payment date.

All acts, conditions and things required to happen, exist or be performed precedent to and in the issuance of this Series 2014A Bond have happened, exist and have been performed.

This Series 2014A Bond shall not become obligatory for any purpose or be entitled to any security or benefit under the Indenture or be valid until the Trustee shall have executed the Certificate of Authentication appearing hereon and inserted the date of authentication hereon.

IN WITNESS WHEREOF, the DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY has caused this Series 2014A Bond to be executed by the manual or facsimile signatures of the Chairman of the Board of Directors, its seal to be affixed hereto or a facsimile to be printed hereon and attested by the manual or facsimile signature of the Secretary to the Authority, and this Series 2014A Bond to be dated July \_\_, 2014.

ATTEST:

Secretary to the Authority

Chairman

[SEAL]

**CERTIFICATE OF AUTHENTICATION**

Date Authenticated: \_\_\_\_\_

This Series 2014A Bond is one of the Series 2014A Bonds described in the within mentioned Indenture.

**Wells Fargo Bank, N.A.,**  
Trustee

By \_\_\_\_\_  
Authorized Officer

**ASSIGNMENT**

FOR VALUE RECEIVED the undersigned hereby sell(s), assign(s) and transfer(s) unto

\_\_\_\_\_  
\_\_\_\_\_

(please print or typewrite name and address, including zip code, of Transferee)

PLEASE INSERT SOCIAL SECURITY OR OTHER  
IDENTIFYING NUMBER OF TRANSFEREE

\_\_\_\_\_  
: \_\_\_\_\_ :  
: \_\_\_\_\_ :  
: \_\_\_\_\_ :

the within Series 2014A Bond and all rights thereunder, hereby irrevocably constituting and appointing

\_\_\_\_\_, Attorney, to transfer said Series 2014A Bond on the books kept for the registration thereof, with full power of substitution in the premises.

Dated: \_\_\_\_\_

Signature Guaranteed

NOTICE: Signature(s) must be guaranteed by an Eligible Guarantor Institution such as a Commercial Institution such as a Commercial Bank, Trust Company, Securities Broker/Dealer, Credit Union, or Savings Association who is a member of a medallion program approved by The Securities Transfer Association, Inc.

NOTICE: The signature above must correspond with the name of the registered owner as it appears on the front of this Series 2014A Bond in every particular, without alteration or enlargement or any change whatsoever.

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**SIXTEENTH SUPPLEMENTAL INDENTURE OF TRUST**

**between**

**DISTRICT OF COLUMBIA  
WATER AND SEWER AUTHORITY**

**and**

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

**Dated July \_\_, 2014**



**THIS SIXTEENTH SUPPLEMENTAL INDENTURE OF TRUST** dated the \_\_\_\_ day of July, 2014 (as defined in more detail below, the “**Sixteenth Supplemental Indenture**”), by and between the District of Columbia Water and Sewer Authority (the “**Authority**”), an independent authority of the District of Columbia (the “**District**”), and Wells Fargo Bank, N.A., a national banking association, having a corporate trust office in Columbia, Maryland, as trustee (in such capacity, together with any successor in such capacity, herein called the “**Trustee**”), provides:

**WHEREAS**, the Authority and the Trustee (its predecessor in that capacity having been Norwest Bank, N.A.) entered into the Master Indenture of Trust, dated as of April 1, 1998 (the “**Master Indenture**” and, as previously supplemented and amended by the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, the Fifth Supplemental Indenture, the Sixth Supplemental Indenture, the Seventh Supplemental Indenture, the Eighth Supplemental Indenture, the Ninth Supplemental Indenture, the Tenth Supplemental Indenture, the Eleventh Supplemental Indenture, the Twelfth Supplemental Indenture, the Thirteenth Supplemental Indenture, the Fourteenth Supplemental Indenture and the Fifteenth Supplemental Indenture all as hereinafter defined, and as it may further be supplemented and amended in accordance with its terms, the “**Indenture**”), to provide for financing or refinancing the acquisition, construction, operation, maintenance and extension of the System (as defined in the Master Indenture) by the issuance of bonds, notes and other obligations payable solely from Net Revenues (as defined in the Master Indenture); and

**WHEREAS**, pursuant to the First Supplemental Indenture of Trust, dated as of April 1, 1998 (the “**First Supplemental Indenture**”), between the Authority and the Trustee, the Authority issued its \$266,120,000 Public Utility Revenue Bonds, Series 1998, dated as of April 1, 1998 (the “**Series 1998 Senior Lien Bonds**”), to finance Costs of the System (as defined in the Master Indenture) and to refund then outstanding debt of the Authority; and

**WHEREAS**, the Master Indenture permits the Authority, for certain purposes and subject to certain conditions, to issue Other System Indebtedness (as defined therein) secured on a parity with the Series 1998 Senior Lien Bonds and referred to collectively with the Series 1998 Senior Lien Bonds as “**Senior Debt**,” and also permits the Authority to issue Subordinate Debt (as defined therein), which has pledged to its payment Net Revenues as a subordinate lien pledge after the pledge of Net Revenues to Senior Debt; and

**WHEREAS**, pursuant to the Second Supplemental Indenture of Trust, dated as of November 1, 2001 (the “**Second Supplemental Indenture**”), between the Authority and the Trustee, the Authority amended and supplemented the Master Indenture in accordance with its terms to clarify provisions thereof related to certain forms of Indebtedness (as defined in the Master Indenture, i.e., Senior Debt and Subordinate Debt) and thereby facilitate the issuance of such forms of Indebtedness; and

**WHEREAS**, pursuant to the Third Supplemental Indenture of Trust, dated as of November 1, 2001 (the “**Third Supplemental Indenture**”), between the Authority and the Trustee, the Authority (i) issued its Commercial Paper Notes defined therein as the Series A-B Notes, (ii) designated the Series A-B Notes as Subordinate Debt for purposes of the Indenture,

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and (iii) made provision for the securing of the Series A-B Notes and of the Reimbursement Obligations to the Bank that provided the Letters of Credit (all as defined therein) that secure the Series A-B Notes; and

**WHEREAS**, pursuant to the Fourth Supplemental Indenture of Trust, dated August 12, 2003: (the “**Fourth Supplemental Indenture**”), between the Authority and the Trustee, the Authority (i) issued its Public Utility Subordinated Lien Revenue Bonds, Series 2003, dated August 12, 2003 (the “**Series 2003 Subordinated Bonds**”), in the aggregate principal amount of \$176,220,000 to finance certain Costs of the System and retire Series A-B Notes, (ii) designated the Series 2003 Subordinated Bonds as Subordinate Debt for purposes of the Indenture, and (iii) secured the Series 2003 Subordinated Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future; and

**WHEREAS**, pursuant to the Fifth Supplemental Indenture of Trust, dated August 3, 2004 (the “**Fifth Supplemental Indenture**”), between the Authority and the Trustee, the Authority: (i) issued its Public Utility Subordinated Lien Revenue Bonds, Series 2004, as Subseries 2004A-1, Subseries 2004A-2, Subseries 2004B-1 and Subseries B-2 (collectively, the “**Series 2004 Subordinated Bonds**”) in the aggregate principal amount of \$295,000,000 to finance certain Costs of the System, (ii) designated the Series 2004 Subordinated Bonds as Subordinate Debt for purposes of the Indenture, and (iii) secured the Series 2004 Subordinated Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures the Series 2003 Subordinated Bonds and other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future; and

**WHEREAS**, pursuant to the Sixth Supplemental Indenture of Trust, dated June 6, 2007 (the “**Sixth Supplemental Indenture**”), between the Authority and the Trustee, the Authority: (i) issued its Public Utility Subordinated Lien Revenue Bonds, Series 2007A, in the aggregate principal amount of \$218,715,000 to finance certain Costs of the System and retire Series A-B Notes, (ii) designated the Series 2007A Subordinated Bonds as Subordinate Debt for purposes of the Indenture, and (iii) secured the Series 2007A Subordinated Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures the Series 2003 Subordinated Bonds, Series 2004 Subordinated Bonds and other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future; and

**WHEREAS**, pursuant to the Seventh Supplemental Indenture of Trust, dated June 6, 2007 (the “**Seventh Supplemental Indenture**”), between the Authority and the Trustee, the Authority: (i) issued its Public Utility Subordinated Lien Taxable Revenue Bonds, Series 2007B, in the aggregate principal amount of \$59,000,000 to finance certain Costs of the System, (ii) designated the Series 2007B Subordinated Bonds as Subordinate Debt for purposes of the Indenture, and (iii) secured the Series 2007A Subordinated Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures the Series 2003 Subordinated Bonds, Series 2004

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

**WHEREAS**, pursuant to the Eighth Supplemental Indenture of Trust, dated April 24, 2008 (the “**Eighth Supplemental Indenture**”), between the Authority and the Trustee, the Authority: (i) issued its Public Utility Subordinated Lien Revenue Refunding Bonds, Series 2008, in the aggregate principal amount of \$290,375,000 to (a) currently refund all of the outstanding Series 2004 Subordinated Bonds and a portion of the Series 2007B Subordinated Bonds, and (b) pay issuance costs of the Series 2008 Subordinated Bonds, (ii) designated the Series 2008 Subordinated Bonds as Subordinate Debt for purposes of the Indenture, and (iii) secured the Series 2008 Subordinated Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future; and

**WHEREAS**, pursuant to the Ninth Supplemental Indenture of Trust, dated December 19, 2008 (the “**Ninth Supplemental Indenture**”), between the Authority and the Trustee, the Authority agreed to confer on the Holders of the Series 2003 Subordinated Bonds additional rights related to the Reserve Credit Facility (as defined therein) and to cure any ambiguity or omission in the Indenture regarding the obligations of the Authority as a consequence of a downgrade of the Reserve Policy related to the Series 2003 Subordinated Bonds, or in the event that the Reserve Policy were to cease to be in effect; and

**WHEREAS**, pursuant to the Tenth Supplemental Indenture of Trust, dated February 12, 2009 (the “**Tenth Supplemental Indenture**”), between the Authority and the Trustee, the Authority (i) issued its Public Utility Senior Lien Revenue Bonds, Series 2009A, in the aggregate principal amount of \$300,000,000 to finance certain Costs of the System and retire Series A-B Notes, (ii) designated the Series 2009A Senior Lien Bonds as Senior Debt for purposes of the Indenture, and (iii) secured the Series 2009A Senior Lien Bonds by a pledge of Net Revenues on a parity with the pledge of Net Revenues that secures the other Senior Debt, including, without limitation, other Senior Debt that the Authority may issue from time to time in the future; and

**WHEREAS**, pursuant to the Eleventh Supplemental Indenture of Trust, dated June 2, 2010 (the “**Eleventh Supplemental Indenture**”), between the Authority and the Trustee, the Authority: (i) issued its Commercial Paper Notes defined therein as the Series A-B-C Notes, (ii) designated the Series A-B-C Notes as Subordinate Debt for purposes of the Indenture, and (iii) made provision for the securing of the Series A-B-C Notes and of the Reimbursement Obligations to the Bank that provided the Letters of Credit (all as defined therein) that secure the Series A-B-C Notes; and

**WHEREAS**, pursuant to the Twelfth Supplemental Indenture of Trust, dated October 27, 2010 (the “**Twelfth Supplemental Indenture**”), between the Authority and the Trustee, the Authority (i) issued its Public Utility Subordinate Lien Revenue Bonds, Series 2010A (Federally Taxable – Issuer Subsidy – Build America Bonds) in the aggregate principal amount of \$300,000,000 to finance certain Costs of the System, and fund capitalized interest on a portion of the Series 2010A Subordinate Bonds, subject to specified limitations, (ii) designated the Series

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2010A Subordinate Bonds as Subordinate Debt for purposes of the Indenture, (iii) secured the Series 2010A Subordinate Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future, and (iv) included provisions in the Indenture related to potential Direct Payments (as defined therein) received or expected to be received by the Authority, including certain provisions requiring the consent of the holders of a majority of Outstanding Bonds; and

**WHEREAS**, pursuant to the Thirteenth Supplemental Indenture of Trust, dated March 22, 2012 (the “**Thirteenth Supplemental Indenture**”), between the Authority and the Trustee, the Authority: (A) (i) issued its Public Utility Subordinate Lien Revenue Bonds, Series 2012A in the aggregate principal of \$177,430,000 to finance certain Costs of the System and pay certain costs of issuance, (ii) designated the Series 2012A Subordinate Bonds as Subordinate Debt for purposes of the Indenture, and (iii) secured the Series 2012A Subordinate Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future, (B) (i) issued its Public Utility Subordinate Lien Multimodal Revenue Bonds, Series 2012B in the aggregate principal amount of \$100,000,000 to finance certain Costs of the System, fund capitalized interest on a portion of the Series 2012B Subordinate Bonds subject to specified limitations, and pay certain costs of issuance, (ii) designated the Series 2012B Subordinate Bonds as Subordinate Debt for purposes of the Indenture, and (iii) secured the Series 2012B Subordinate Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future, and (C) (i) issued its Public Utility Subordinate Lien Revenue Refunding Bonds, Series 2012C in the aggregate principal amount of \$163,215,000, and applied the proceeds thereof, together with any other funds of the Authority, to advance refund the Refunded Bonds (as defined in the Thirteenth Supplemental Indenture) and caused them to be deemed paid and no longer Outstanding for purposes of the Indenture, and paid certain costs of issuance, (ii) designated the Series 2012C Subordinate Bonds as Subordinate Debt for purposes of the Indenture, and (iii) secured the Series 2012C Subordinate Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future; and

**WHEREAS**, pursuant to the Fourteenth Supplemental Indenture of Trust, dated August 1, 2013 (the “**Fourteenth Supplemental Indenture**”), between the Authority and the Trustee, the Authority: (i) issued its Public Utility Subordinated Lien Revenue Refunding Bonds, Series 2013, in the aggregate principal amount of \$300,000,000 to (a) finance certain Costs of the System, and (b) pay issuance costs of the Series 2013A Subordinate Bonds, (ii) designated the Series 2013A Subordinate Bonds as Subordinate Debt for purposes of the Indenture, and (iii) secured the Series 2013A Subordinate Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net

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

**WHEREAS**, pursuant to the Fifteenth Supplemental Indenture of Trust, dated July \_\_, 2014 (the “**Fifteenth Supplemental Indenture**”), between the Authority and the Trustee, the Authority (i) issued its Public Utility Senior Lien Revenue Bonds, Series 2014A, in the aggregate principal amount of \$\_\_\_\_\_ to finance certain Costs of the System , (ii) designated the Series 2014A Senior Lien Bonds as Senior Debt for purposes of the Indenture, and (iii) secured the Series 2014A Senior Lien Bonds by a pledge of Net Revenues on a parity with the pledge of Net Revenues that secures the other Senior Debt, including, without limitation, other Senior Debt that the Authority may issue from time to time in the future; and

**WHEREAS**, the Authority now intends to: (i) issue Public Utility Subordinate Lien Multimodal Revenue Bonds, Series 2014B (the “**Series 2014B Subordinate Bonds**”) to finance certain Costs of the System and pay certain costs of issuance, (ii) designate the Series 2014B Subordinate Bonds as Subordinate Debt for purposes of the Indenture, (iii) secure the Series 2014B Subordinate Bonds by a pledge of Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures other Subordinate Debt, including, without limitation, other Subordinate Debt that the Authority may issue from time to time in the future;

**NOW THEREFORE**, in consideration of the premises and the mutual covenants and agreements hereinafter contained, the parties hereto agree, as follows:

## **ARTICLE I**

### **SIXTEENTH SUPPLEMENTAL INDENTURE**

#### **Section 101. Authorization of Sixteenth Supplemental Indenture.**

This Sixteenth Supplemental Indenture is authorized and executed by the Authority and delivered to the Trustee pursuant to and in accordance with Articles III and X of the Master Indenture. All terms, covenants, conditions and agreements of the Indenture shall apply with full force and effect to the Series 2014B Subordinate Bonds as Subordinate Debt and to the Holders thereof as Holders of Subordinate Debt, except as otherwise provided in this Sixteenth Supplemental Indenture.

#### **Section 102. Definitions.**

Except as otherwise defined in this Sixteenth Supplemental Indenture, capitalized words and terms defined in the Master Indenture as amended by the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, the Fifth Supplemental Indenture, the Sixth Supplemental Indenture, the Seventh Supplemental Indenture, the Eighth Supplemental Indenture, the Ninth Supplemental Indenture, the Tenth Supplemental Indenture, the Eleventh Supplemental Indenture, the Twelfth Supplemental Indenture, the Thirteenth Supplemental Indenture, the Fourteenth Supplemental Indenture and the Fifteenth Supplemental Indenture, and in the Series 2014B Resolution, are

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used in this Sixteenth Supplemental Indenture with the meanings assigned to them therein. In addition, the following words and terms as used in this Sixteenth Supplemental Indenture have the following meanings, unless the context or use clearly indicates another or different intent or meaning:

(a) Generally Applicable Definitions

“Book-entry form” or “book-entry system” means a form or system under which the physical Series 2014B Subordinate Bond certificates in fully registered form are issued only to a Depository or its nominee as Holder, with the certificated Series 2014B Subordinate Bonds held by and “immobilized” in the custody of the Depository, and the book-entry system, maintained by and the responsibility of the Depository and not maintained by or the responsibility of the Authority or the Trustee, is the record that identifies, and records the transfer of the interests of, the owners of beneficial, book-entry interests in the Series 2014B Subordinate Bonds.

“Depository” means any securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a book-entry system to record ownership of book-entry interests in Series 2014B Subordinate Bonds, and to effect transfers of book-entry interests in Series 2014B Subordinate Bonds, and includes and means initially The Depository Trust Company (a limited purpose trust company), New York, New York.

“Interest Payment Dates” means the “Interest Payment Dates” as defined under Section 102(b) below.

“Series 2014B Construction Account” means the Series 2014B Construction Account established by this Sixteenth Supplemental Indenture in the Construction Fund.

“Series 2014B Costs of Issuance Subaccount” means the Series 2014B Costs of Issuance Subaccount established by this Sixteenth Supplemental Indenture in the Series 2014B Construction Account of the Construction Fund.

“Series 2014B Rebate Fund” means the Series 2014B Rebate Fund established by this Sixteenth Supplemental Indenture.

“Series 2014B Resolution” means Resolution No. \_\_\_\_\_, adopted by the Authority’s Board on July 3, 2014, authorizing the Series 2014B Subordinate Bonds.

“Series 2014B Subordinate Bond Event of Default” means any of the events defined as such in Section 903 of this Sixteenth Supplemental Indenture.

“Series 2014B Subordinate Bondholder” or “holder of Series 2014B Subordinate Bonds” means the registered owner of a Series 2014B Subordinate Bond.

“Series 2014B Subordinate Bonds Interest Subaccount” means the Series 2014B Subordinate Bonds Interest Subaccount established by this Sixteenth Supplemental Indenture in the Subordinate Interest Account in the Subordinate Bond Fund.

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“Series 2014B Subordinate Bonds Principal Subaccount” means the Series 2014B Subordinate Bonds Principal Subaccount established by this Sixteenth Supplemental Indenture in the Subordinate Principal Account in the Subordinate Bond Fund.

“Series 2014B Subordinate Debt Service Reserve Requirement” means [zero.]

“Sixteenth Supplemental Indenture” means this Sixteenth Supplemental Indenture of Trust, dated July \_\_, 2014, between the Authority and the Trustee, which supplements and amends the Master Indenture, as previously supplemented and amended by the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, the Fifth Supplemental Indenture, the Sixth Supplemental Indenture, the Seventh Supplemental Indenture, the Eighth Supplemental Indenture, the Ninth Supplemental Indenture, the Tenth Supplemental Indenture, the Eleventh Supplemental Indenture, the Twelfth Supplemental Indenture, the Thirteenth Supplemental Indenture, the Fourteenth Supplemental Indenture and the Fifteenth Supplemental Indenture, and in the Series 2014B Resolution, are used in this Sixteenth Supplemental Indenture with the meanings assigned to them therein.

“Variable Rate Series 2014B Subordinate Bonds” means, collectively, each series or subseries of the Series 2014B Subordinate Bonds designated as such in the applicable Certificate of Award pursuant to the Series 2014B Resolution and constituting Variable Rate Indebtedness under the Indenture.

(b) Definitions Applicable to Variable Rate Series 2014B Subordinate Bonds

“Applicable Spread” means the number of basis points or schedule of basis points determined in accordance with Section 403(j) that, when added to the SIFMA Index or the LIBOR Index, as the case may be, would equal the minimum interest rate per annum that would enable the Remarketing Agent to sell the Variable Rate Series 2014B Subordinate Bonds on such date at a price equal to the principal amount thereof (but subject to the provisions of the final sentence of Section 403(j)), plus accrued interest, if any, thereon.

“Authority Purchase Account” means the account of that name that may be established in the Purchase Fund pursuant to Section 407.

“Authorized Denominations” means (i) with respect to Fixed Rate Bonds, \$5,000 and integral multiples thereof, (ii) with respect to Daily Rate Bonds, Weekly Rate Bonds, Short-Term Rate Bonds and Long-Term Rate Bonds, \$100,000 and integral multiples of \$5,000 in excess thereof, and (iii) with respect to Index Rate Bonds, \$5,000 or \$100,000, as may be specified in the Certificate of Award or otherwise in writing by an Authorized Official.

“Business Day” means a day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks located in New York, New York or the cities in which the Designated Office of the Trustee, the Tender Agent, the Remarketing Agent or the Credit Facility Provider are located, are required or authorized by law or executive order to close, and (iii) a day on which the New York Stock Exchange is closed.

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“Calculation Agent” means, the Trustee or any other Person appointed by the Authority to serve as calculation agent for the Series 2014B Subordinate Bonds.

“Closing Date” means July \_\_, 2014, being the date of delivery of and payment for all of the Variable Rate Series 2014B Subordinate Bonds.

“Computation Date” means (i) for the Initial Period, the Closing Date, and (ii) during each subsequent Index Rate Period, each Wednesday immediately preceding an Index Interest Period.

“Conversion Date” means a day on which the Variable Rate Series 2014B Subordinate Bonds are converted from one Rate Period to another Rate Period, in accordance with this Sixteenth Supplemental Indenture.

“Credit Facility” means initially, the Standby Bond Purchase Agreement by and between the Authority and TD Bank, and thereafter a letter of credit, liquidity facility or other credit enhancement instrument delivered by a Credit Facility Provider to the Trustee to secure the payment of the principal of and interest on, and any Purchase Price of, all or some of the Variable Rate Series 2014B Subordinate Bonds, or to provide liquidity for the purchase of tendered Variable Rate Series 2014B Subordinate Bonds. The term “Credit Facility” includes any Substitute Credit Facility.

“Credit Facility Account” means the account by that name that may be established in the Subordinate Bond Fund pursuant to Section 701.

“Credit Facility Provider” means initially TD Bank, and thereafter a bank, trust company, insurance company or other financial services company, or the Authority (if the Authority is providing liquidity for any Variable Rate Series 2014B Subordinate Bonds itself), issuing a Credit Facility then in effect in its capacity as provider of that Credit Facility.

“Credit Facility Provider Bonds” means Variable Rate Series 2014B Subordinate Bonds purchased by or on behalf of, or pledged to, a Credit Facility Provider pursuant to a Credit Facility and/or Reimbursement Agreement and the terms hereof but excluding Variable Rate Series 2014B Subordinate Bonds no longer considered Credit Facility Provider Bonds pursuant to the terms of a Credit Facility and/or Reimbursement Agreement.

“Credit Facility Provider Rate” means the interest rate(s) applicable from time to time on Credit Facility Provider Bonds as determined in accordance with the Credit Facility and/or Reimbursement Agreement; provided that no Credit Facility Provider Rate shall exceed the Maximum Rate.

“Credit Facility Purchase Account” means the account by that name that may be established in the Purchase Fund pursuant to Section 407.

“Credit Facility Request” means the submission by the Trustee to the Credit Facility Provider of a properly presented and conforming request or draw in accordance with the terms of the Credit Facility to provide funds to pay the Purchase Price of or Debt Service Charges on the Variable Rate Series 2014B Subordinate Bonds.



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“Daily Interest Period” means each Interest Period described in Section 403(c) during which the Variable Rate Series 2014B Subordinate Bonds bear interest at a particular Daily Rate.

“Daily Rate” means the per annum interest rate for the Variable Rate Series 2014B Subordinate Bonds during a Daily Rate Period determined on a daily basis as provided in Section 403(c).

“Daily Rate Bonds” means Variable Rate Series 2014B Subordinate Bonds bearing interest at a Daily Rate.

“Daily Rate Period” means the Rate Period during which the Daily Rates are in effect for the Variable Rate Series 2014B Subordinate Bonds.

“Designated Office” means with respect to any entity performing functions under the Indenture, the office or offices of that entity or its affiliate at which those functions are performed, as designated in writing to the Authority, the Trustee, the Tender Agent, any Credit Facility Provider and the Remarketing Agent. The office initially designated by the Trustee for purposes of receiving notices under the Indenture is its Columbia, Maryland corporate trust office located at 9062 Old Annapolis Road, Columbia, Maryland 21045. The office initially designated by the Trustee for the purpose of presentation and surrender of Variable Rate Series 2014B Subordinate Bonds is its Columbia, Maryland corporate trust office located at 9062 Old Annapolis Road, Columbia, Maryland 21045. The Designated Office for any Credit Facility Provider is the office at which Credit Facility Requests are to be submitted by the Trustee, in accordance with the Credit Facility.

“Electronic Means” means facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

“Eligible Account” means an account that is maintained with either (i) a federal or state-chartered depository institution or trust company that has a short-term debt rating assigned by a Rating Agency of at least A-2 (or, if it does not have a short-term debt rating, has a long-term debt rating assigned by the Rating Agency of at least BBB+); or (ii) the corporate trust department of a federal depository institution or state-chartered depository institution that, in either case, has corporate trust powers and is acting in its fiduciary capacity.

“Expiration Date” means, with respect to any Credit Facility, the date upon which the Credit Facility is stated to expire (taking into account any extensions of the Expiration Date) in accordance with its terms.

“Favorable Opinion of Bond Counsel” means an opinion of Bond Counsel addressed to the Authority, the Remarketing Agent, the Credit Facility Provider and the Trustee, to the effect that the proposed action to be taken regarding the Variable Rate Series 2014B Subordinate Bonds is authorized or permitted by this Sixteenth Supplemental Indenture and will not adversely affect the exclusion of interest on the Variable Rate Series 2014B Subordinate Bonds from gross income for purposes of federal income taxation under Section 103 of the Code. If a Favorable Opinion of Bond counsel is delivered in connection with the conversion from one Rate Period to another Rate Period, the opinion with respect to the exclusion of interest from gross

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income for federal income tax purposes may be limited to interest payable on or prior to the Conversion Date.

“Fixed Rate” means the interest rate or rates to maturity established in accordance with Section 403(g).

“Fixed Rate Bonds” means Variable Rate Series 2014B Subordinate Bonds bearing interest at a Fixed Rate.

“Fixed Rate Period” means the period of time, which shall end at the Maturity Date, during which the Variable Rate Series 2014B Subordinate Bonds bear interest at a Fixed Rate.

“Hard Tender Index Rate Bonds” means Index Rate Bonds that are specified in the Certificate of Award as such for purposes of Section 407(e) for the Initial Period or in the applicable Notice of Conversion for any Subsequent Index Rate Period.

“Index Interest Period” means, during any Index Rate Period, each Interest Period during which the Variable Rate Series 2014B Subordinate Bonds bear interest at a particular Index Rate under Section 403(i) or (j).

“Index Rate” means the SIFMA Index Rate or the LIBOR Index Rate, as the case may be.

“Index Rate Bonds” means any Variable Rate Series 2014B Subordinate Bonds bearing interest at an Index Rate.

“Index Rate Bonds Purchase Date” means the date on which the Index Rate Bonds shall be required to be tendered for purchase in accordance with Section 408(a)(vi).

“Index Rate Period” means the Initial Period and any other Rate Period during which the Variable Rate Series 2014B Subordinate Bonds bear interest at an Index Rate. For purposes of this definition, a LIBOR Index Rate Period and a SIFMA Index Rate Period shall be deemed to be different Index Rate Periods.

“Initial Period” means the initial Weekly Rate Period commencing on the Issue Date and ending on the first to occur of (i) the Conversion Date next succeeding the Issue Date, or (iii) the Maturity Date.

“Interest Payment Date” means (i) when the Variable Rate Series 2014B Subordinate Bonds bear interest at a Daily Rate, a Weekly Rate or an Index Rate, the first Business Day of each calendar month commencing, during the Initial Period, on [August 1, 2014]; (ii) when the Variable Rate Series 2014B Subordinate Bonds bear interest at a Fixed Rate or Long-Term Rate, each April 1 and October 1 or such other date or dates as are specified in the applicable notice of conversion; (iii) when the Variable Rate Series 2014B Subordinate Bonds bear interest at a Short-Term Rate, the last day of the Short-Term Rate Period; (iv) with respect to Credit Facility Provider Bonds, the interest payment dates set forth in the Credit Facility and/or Reimbursement Agreement; provided (unless otherwise provided in the Reimbursement Agreement with respect to Credit Facility Provider Bonds) that, if any such day is not a Business Day, any payment due

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on such date may be made on the next Business Day, without additional interest and with the same force and effect as if made on the specified date for such payment; and (v) each Conversion Date.

“Interest Period” means a (i) Daily Interest Period, (ii) a Weekly Interest Period, (iii) an Index Interest Period, (iv) a Short-Term Interest Period, (v) a Long-Term Interest Period, (vi) a SIFMA Index Interest Period, (vii) a LIBOR Index Interest Period or (viii) a Fixed Interest Period.

“Issue Date” means July \_\_, 2014.

“LIBOR Index” means, for any day, the London interbank offered rate for U.S. dollar deposits for a one month period, as reported on Reuters Screen LIBOR01 Page or any successor thereto, which shall be that one-month LIBOR rate in effect two New York Banking Days prior to the LIBOR Index Reset Date, such rate rounded up to the nearest one-sixteenth of one percent and such rate to be reset monthly on each LIBOR Index Reset Date.

“LIBOR Index Rate” means a per annum rate of interest equal to the sum of the Applicable Spread plus the LIBOR Index.

“LIBOR Index Rate Period” means each Subsequent Index Interest Period during which the Variable Rate Series 2014B Subordinate Bonds bear interest at the LIBOR Index Rate, from and including the Conversion Date to but excluding the earlier of (i) the immediately succeeding Index Rate Bonds Purchase Date and (ii) the maturity or redemption date of the Variable Rate Series 2014B Bonds.

“LIBOR Index Reset Date” means the first Business Day of each month; provided, however, that with respect to determining the LIBOR Index for purposes of the Closing Date, the LIBOR Rate shall be the LIBOR Rate in effect two New York Banking Days prior to the Closing Date.

“Long-Term Interest Period” means each Interest Period described in Section 403(f) during which Variable Rate Series 2014B Subordinate Bonds accrue interest at a particular Long-Term Rate.

“Long-Term Rate” means the per annum interest rate to be determined on the Variable Rate Series 2014B Subordinate Bonds for a term of at least 12 months pursuant to Section 403(f).

“Long-Term Rate Bonds” means any Variable Rate Series 2014B Subordinate Bonds bearing interest at a Long-Term Rate.

“Long-Term Rate Period” means the Rate Period during which Long-Term Rates are in effect for the Variable Rate Series 2014B Subordinate Bonds.

“Mandatory Sinking Fund Redemption Requirements” means the mandatory redemption requirements set forth in Section 501(b).

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“Maturity Dates” means, for the Variable Rate Series 2014B Subordinate Bonds designated as SubSeries 2014B-1, inclusive, and for the Variable Rate Series 2014B Subordinate Bonds designated as SubSeries 2014B-2, all subject to prior redemption as provided in Article V.

“Maximum Rate” means the least of (i) the maximum rate permitted by law, (ii) 12% per annum, and (iii) solely with respect to Variable Rate Series 2014B Subordinate Bonds that are not Credit Facility Provider Bonds, the maximum rate utilized to determine the amount available under any Credit Facility then in effect.

“New York Banking Day” means any date (other than a Saturday or Sunday) on which commercial banks are open for business in New York, New York.

“Notice of Conversion” means any notice of conversion given by the Authority pursuant to Section 404(a)(i).

“Official’s Certificate” means a certificate signed by an Authorized Official.

“Participants” means those financial institutions for whom the Depository effects book-entry transfers and pledges of securities deposited with the Depository, as such listing of Participants exists at the time of such reference.

“Payment Date” means an Interest Payment Date or a Principal Payment Date.

“Payment Default” means a failure by the Authority to pay principal of or interest on Variable Rate Series 2014B Subordinate Bonds when due.

“Penalty Rate” means, for purposes of Section 407(e) with respect to Soft Tender Index Rate Bonds after they are tendered for purchase but not purchased, twelve percent (12%) per annum .

“Prevailing Market Conditions” means, to the extent relevant (in the professional judgment of the Remarketing Agent) at the time of establishment of a rate or rates for Variable Rate Series 2014B Subordinate Bonds as provided in Section 403, (i) interest rates on comparable securities then being issued and traded, (ii) other financial market rates and indices that may have a bearing on rates of interest, (iii) general financial market conditions (including then current forward supply figures) that may have a bearing on rates of interest, and (iv) the financial condition, results of operation and credit standing of the Authority and the Credit Facility Provider to the extent such standing has a bearing on rates of interest.

“Principal Payment Date” means each date on which principal of a Variable Rate Series 2014B Subordinate Bond is due and payable, whether at maturity or upon redemption.

“Purchase Date” means each date on which Variable Rate Series 2014B Subordinate Bonds are subject to optional or mandatory purchase pursuant to Article IV.

“Purchase Fund” means the fund by that name established pursuant to Section 407 and held by the Tender Agent.

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“Purchase Price” means, with respect to a Variable Rate Series 2014B Subordinate Bond subject to purchase on a Purchase Date, an amount equal to 100% of the principal amount thereof plus (if such Purchase Date is not an Interest Payment Date therefor) accrued and unpaid interest thereon to such Purchase Date.

“Rate Period” means (i) a Daily Rate Period (comprised of separate Daily Interest Periods), (ii) a Weekly Rate Period (comprised of separate Weekly Interest Periods), (iii) a Short-Term Rate Period (comprised of separate Short-Term Interest Periods), (iv) a Long-Term Rate Period (comprised of separate Long-Term Interest Periods), (v) a Fixed Rate Period, (vi) an Index Rate Period (comprised of separate Index Interest Periods) or (vii) a Subsequent Index Rate Period (comprised of separate Subsequent Index Interest Periods).

“Regular Record Date” means (i) with respect to each Interest Payment Date for Daily Rate Bonds, Weekly Rate Bonds, Index Rate Bonds or Short-Term Rate Bonds, the close of business on the Business Day immediately preceding that Interest Payment Date, and (ii) with respect to each Interest Payment Date for Fixed Rate Bonds or Long-Term Rate Bonds, the close of business on the 15th day of the calendar month next preceding such Interest Payment Date.

“Reimbursement Agreement” means any reimbursement agreement between the Authority and a Credit Facility Provider setting forth the obligations of the Authority to such Credit Facility Provider arising out of any payments under a Credit Facility and which provides that it shall be deemed to be a Reimbursement Agreement for the purpose of this Sixteenth Supplemental Indenture.

“Reimbursement Obligations” means the Authority’s payment obligations pursuant to a Reimbursement Agreement.

“Remarketing Proceeds Account” means the account of that name established in the Purchase Fund pursuant to Section 407.

“Short-Term Interest Period” means each Interest Period determined as provided in Section 403(e) during which the Variable Rate Series 2014B Subordinate Bonds bear interest at a particular Short-Term Rate.

“Short-Term Rate” means the per annum interest rate for the Variable Rate Series 2014B Subordinate Bonds during a Short-Term Rate Period determined on a periodic basis as provided in Section 403(e).

“Short-Term Rate Bonds” means any Variable Rate Series 2014B Subordinate Bonds bearing interest at a Short-Term Rate.

“Short-Term Rate Period” means the Rate Period during which Short-Term Rates are in effect for the Variable Rate Series 2014B Subordinate Bonds.

“SIFMA Index” means, for any Computation Date, the level of the index which is issued weekly and which is compiled from the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data which meet specific criteria established from time to time by the Securities Industry and Financial Markets Association and

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issued on Wednesday of each week, or if any Wednesday is not a Business Day, the next preceding Business Day. If the SIFMA Index is no longer published, then “SIFMA Index” shall mean the Standard & Poor’s Weekly High Grade Index. If the Standard & Poor’s Weekly High Grade Index is no longer published, then “SIFMA Index” shall mean the prevailing rate determined by the Calculation Agent for tax-exempt state and local government bonds meeting criteria determined in good faith by the Calculation Agent to be comparable under the circumstances to the criteria used by the Securities Industry and Financial Markets Association to determine the SIFMA Index immediately prior to the date on which the Securities and Financial Markets Association ceased publication of the SIFMA Index.

“SIFMA Index Rate” means a per annum rate of interest equal to the sum of the Applicable Spread *plus* the relevant SIFMA Index.

“SIFMA Index Rate Period” means (a) the Initial Period and (b) each Subsequent Index Interest Period during which the Variable Rate Series 2014B Subordinate Bonds bear interest at the SIFMA Index Rate, from and including the Conversion Date to but excluding the earlier of (i) the immediately succeeding Index Rate Bonds Purchase Date and (ii) the maturity or redemption date of the Variable Rate Series 2014B Bonds.

“SIFMA Index Reset Date” means Thursday of each week.

“Soft Tender Index Rate Bonds” means Index Rate Bonds that are specified in the Certificate of Award as such for purposes of Section 407 (e) for the Initial Period or in the applicable Notice of Conversion for any Subsequent Index Rate Period.

“Subsequent Index Interest Period” means, during any Subsequent Rate Period, each period determined as provided in Section 403(j) during which the Variable Rate Series 2014B Subordinate Bonds bear interest at a particular Index Rate.

“Subsequent Index Rate Period” means any Rate Period during which the Variable Rate Series 2014B Subordinate Bonds bear interest at the Index Rate pursuant to Section 403(j).

“Substitute Credit Facility” means a letter of credit, standby bond purchase agreement or other similar agreement replacing a Credit Facility in accordance with Section 413.

“Substitution Date” means a date on which a Substitute Credit Facility is accepted by the Trustee and becomes effective with respect to the Variable Rate Series 2014B Subordinate Bonds, or a date on which an existing Credit Facility Provider assigns all or a portion of its rights and/or obligations to an assignee Credit Facility Provider (other than a participant), in each case, in accordance with Section 413(b).

“Tender Agent” means initially the Trustee, and any successor Tender Agent as determined or designated under or pursuant to this Sixteenth Supplemental Indenture.

“Undelivered Bond” means any Variable Rate Series 2014B Subordinate Bond that is subject to purchase pursuant to Section 406 or 408 on a Purchase Date and that is not tendered and delivered for purchase on that Purchase Date but as to which the Tender Agent holds in the

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Purchase Fund sufficient funds to pay the Purchase Price of that Variable Rate Series 2014B Subordinate Bond.

“Undelivered Bond Payment Account” means the account by that name in the Purchase Fund established pursuant to Section 407.

“Weekly Interest Period” means each period described in Section 403(d) during which the Variable Rate Series 2014B Subordinate Bonds bear interest at a particular Weekly Rate.

“Weekly Rate” means the per annum interest rate for the Variable Rate Series 2014B Subordinate Bonds during a Weekly Interest Period determined on a weekly basis as provided in Section 403(d).

“Weekly Rate Bonds” means Variable Rate Series 2014B Subordinate Bonds bearing interest at a Weekly Rate.

“Weekly Rate Period” means the period during which Weekly Rates are in effect for the Variable Rate Series 2014B Subordinate Bonds.

“Written Request” means a request in writing signed by an Authorized Official.

**Section 103. Reference to Articles and Sections.**

Unless otherwise indicated, all references herein to particular articles or sections are references to articles or sections of this Sixteenth Supplemental Indenture.

**ARTICLE II**

**AUTHORIZATION OF SERIES 2014B SUBORDINATE BONDS**

**Section 201. Authorization of Series 2014B Subordinate Bonds.**

Pursuant to Article III of the Master Indenture and, specifically, Section 305 thereof, and the Series 2014B Resolution, the Authority is authorized to issue:

(a) Series 2014B Subordinate Bonds in an aggregate principal amount of \$\_\_\_\_\_, designated “Public Utility Subordinate Lien Multimodal Revenue Bonds, Series 2014B,” consisting of two subseries designated as (a) “Public Utility Subordinate Lien Multimodal Revenue Bonds, Series 2014B-1” in the aggregate principal amount of \$\_\_\_\_\_ (the “**SubSeries 2014B-1 Subordinate Bonds**”), and (b) “Public Utility Subordinate Lien Multimodal Revenue Bonds, Series 2014B-2” in the aggregate principal amount of \$\_\_\_\_\_ (the “**SubSeries 2014B-2 Subordinate Bonds**”), each issued for the purpose of: (i) financing certain Costs of the System, [including, without limitation, capitalized interest on a portion of the Series 2014B Subordinate Bonds], and (ii) paying issuance costs of the Series 2014B Subordinate Bonds; and

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The Series 2014B Subordinate Bonds are issued as Subordinate Debt pursuant to the Indenture. Under the Series 2014B Resolution, the Series 2014B Subordinate Bonds are designated as Variable Rate Series 2014B Subordinate Bonds.

### ARTICLE III

#### **Section 301. Delivery of Series 2014B Subordinate Bonds.**

The Trustee shall authenticate and deliver the Series 2014B Subordinate Bonds when there have been filed with or delivered to it the following items:

- (a) An original executed counterpart of this Sixteenth Supplemental Indenture;
- (b) A certified copy of applicable resolution(s) of the Board of Directors of the Authority and related Certificate of Award: (i) authorizing the execution and delivery of the Sixteenth Supplemental Indenture, and (ii) authorizing the issuance, sale, award, execution and delivery of the Series 2014B Subordinate Bonds.
- (c) A certificate signed by an Authorized Representative of the Authority and dated the date of such issuance, to the effect that:
  - (1) Either: (A) upon and immediately following such issuance, no Event of Default has occurred which has not been cured or waived, and no event or condition exists which, with the giving of notice or lapse of time or both, would become an Event of Default, or (B) if any such event or condition is happening or existing, specifying such event or condition, stating that the Authority will act with due diligence to correct such event or condition after the issuance of the Series 2014B Subordinate Bonds, and describing in reasonable detail the actions to be taken by the Authority toward such correction; and
  - (2) All required approvals, limitations, conditions and provisions precedent to the issuance of the Series 2014B Subordinate Bonds have been obtained, observed, met and satisfied.
- (d) An Opinion or Opinions of Counsel, subject to customary exceptions and qualifications, substantially to the effect that this Sixteenth Supplemental Indenture has been duly authorized, executed and delivered to the Trustee and is a valid, binding and enforceable obligation of the Authority.
- (e) An opinion or opinions of Bond Counsel, subject to customary exceptions and qualifications, substantially to the effect that the issuance of the Series 2014B Subordinate Bonds has been duly authorized, and that the Series 2014B Subordinate Bonds are valid and binding limited obligations of the Authority.
- (f) A certificate of an Authorized Representative of the Authority, stating that rates, fees and charges are in effect or scheduled to go into effect to meet the Rate Covenant immediately after the issuance of the Series 2014B Subordinate Bonds.



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(g) A request and authorization of the Authority, signed by an Authorized Representative of the Authority, to the Trustee to authenticate and deliver such Bonds to the purchaser upon payment to the Trustee in immediately available funds for the account of the Authority of a specified sum plus accrued interest to the date of delivery.

#### ARTICLE IV

##### DETAILS AND FORM OF VARIABLE RATE SERIES 2014B SUBORDINATE BONDS

###### **Section 401. Issuance and Delivery of Variable Rate Series 2014B Subordinate Bonds, Principal Maturity and Initial Interest Rate.**

The Series 2014B Subordinate Bonds shall be designated “Public Utility Subordinate Lien Multimodal Revenue Bonds, Series 2014B.” The Variable Rate Series 2014B Subordinate Bonds shall be numbered in such manner and carry such other designations as determined by the Authority in order to distinguish each bond from any other bond and identify the interest payment and tender option provisions applicable thereto, shall be dated as of their date of original authentication and delivery, and shall bear interest from the most recent Interest Payment Date for which interest has been paid or duly provided for or, if no interest has been paid or duly provided for, from their date of original authentication and delivery. The Variable Rate Series 2014B Subordinate Bonds of the same maturity may bear interest at different interest rates.

The SubSeries 2014B-1 Subordinate Bonds and SubSeries 2014B-2 Subordinate Bonds shall mature on their respective Maturity Dates, subject to prior redemption as set forth herein.

The interest on the Variable Rate Series 2014B Subordinate Bonds shall be payable on the Interest Payment Dates applicable to the Rate Period then in effect. Interest on the Variable Rate Series 2014B Subordinate Bonds shall be payable by check or draft mailed to the registered owners at their addresses as they appear on the fifteenth day of the month preceding the Interest Payment Date on the registration books kept by the Trustee; provided, however, if the Variable Rate Series 2014B Subordinate Bonds are registered in the name of a Depository or its nominee as registered owner or at the option of a registered owner of at least \$1,000,000 of Variable Rate Series 2014B Subordinate Bonds, payment shall be made by wire transfer pursuant to the wire instructions received by the Trustee with respect to each such payment from such registered owner. Principal, premium, if any, and interest shall be payable in lawful money of the United States of America.

The Variable Rate Series 2014B Subordinate Bonds shall be issued in Authorized Denominations.

During the Initial Period, the Variable Rate Series 2014B Subordinate Bonds shall bear interest at the lesser of (i) the Weekly Rate, and (ii) the Maximum Rate.

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In the event the Variable Rate Series 2014B Subordinate Bonds are designated Soft Tender Index Rate Bonds and are mandatorily tendered pursuant to Section 408(a)(v) or (vi) and the Authority fails to pay the Purchase Price, the Variable Rate Series 2014B Subordinate Bonds shall bear interest at the Penalty Rate unless and until the Purchase Price is paid or the Variable Rate Series 2014B Subordinate Bonds otherwise cease to be Outstanding; provided, however, that the interest rate on the Variable Rate Series 2014B Subordinate Bonds shall at no time exceed the Maximum Rate.

The Variable Rate Series 2014B Subordinate Bonds are subject to optional redemption, purchase in lieu of optional redemption, and mandatory redemption through Mandatory Sinking Fund Requirements as provided in Article V.

#### **Section 402. Depository Provisions.**

The depository provisions of Section 304 applicable to Fixed Rate Series 2014B Subordinate Bonds shall also apply to Variable Rate Series 2014B Subordinate Bonds. In addition, notwithstanding any other provision of this Sixteenth Supplemental Indenture or the Variable Rate Series 2014B Subordinate Bonds, so long as the Variable Rate Series 2014B Subordinate Bonds are in a Book Entry System and the Depository or its nominee is the Holder of the Variable Rate Series 2014B Subordinate Bonds:

(i) Presentation of Variable Rate Series 2014B Subordinate Bonds to the Trustee at redemption or at maturity, or delivery of Variable Rate Series 2014B Subordinate Bonds to the Tender Agent in connection with a purchase of tendered Variable Rate Series 2014B Subordinate Bonds, shall be deemed made to the Trustee when the right to exercise ownership rights in the Variable Rate Series 2014B Subordinate Bonds through the Depository or the Depository's participants is transferred by the Depository on its books.

(ii) Notice of a tender for purchase pursuant to Section 406 hereof shall be given by the beneficial owner of the Variable Rate Series 2014B Subordinate Bonds exercising ownership rights through the Depository or the Depository's participants by telephonic or written notice (confirmed in writing) to the Tender Agent at the times set forth in that Section.

(iii) The Depository may present notices, approvals, waivers, votes or other communications required or permitted to be made by Holders under this Sixteenth Supplemental Indenture on a fractionalized basis on behalf of some or all of those persons entitled to exercise ownership rights in the Variable Rate Series 2014B Subordinate Bonds through the Depository or its participants.

(iv) Variable Rate Series 2014B Subordinate Bonds purchased by the Authority shall not be registered in the name of the Authority on the Register maintained by the Trustee and shall not be physically held by any party other than the Depository.

(v) Variable Rate Series 2014B Subordinate Bonds or any portion thereof shall not be transferable or exchangeable except:

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(A) To any successor of the Depository;

(B) To any new Depository not objected to by the Trustee, upon (i) the resignation of then current Depository or its successor from its functions as Depository or (ii) termination of the use of the Depository by direction of the Authority;

(C) To any Persons who are the assigns of the Depository or its nominee, upon (i) the resignation of the Depository from its functions as Depository hereunder or (ii) termination by the Authority of use of the Depository.

Subject to any arrangements made by the Trustee with a Depository with respect to the Variable Rate Series 2014B Subordinate Bonds held in a Book Entry System, which arrangements are hereby authorized subject to the approval of an Authorized Official of the Authority, principal of, premium, if any, and interest shall be payable on any Variable Rate Series 2014B Subordinate Bond as provided in this Sixteenth Supplemental Indenture.

**Section 403. Determination of Interest Rates.**

(a) General.

(i) The Variable Rate Series 2014B Subordinate Bonds may bear interest at any time in any Rate Period, and different subseries may bear interest in different Rate Periods.

(ii) The amount of interest payable with respect to Variable Rate Series 2014B Subordinate Bonds on any Interest Payment Date shall be computed (A) during a Daily Interest Period, Weekly Interest Period, Short-Term Interest Period or Index Rate Period, on the basis of a 365- or 366-day year for the number of days actually elapsed, and (B) during a Fixed Rate Period and any Long-Term Interest Periods, on the basis of a 360-day year of twelve 30-day months. Interest payable on each Interest Payment Date shall be the interest accrued and unpaid from and including the immediately preceding Interest Payment Date to and including the day preceding such Interest Payment Date. Notwithstanding the foregoing, the amount of interest payable with respect to Credit Facility Provider Bonds shall be calculated as provided in the Reimbursement Agreement.

(iii) All determinations of interest rates, amounts of interest payable on the Variable Rate Series 2014B Subordinate Bonds and Rate Periods pursuant to this Sixteenth Supplemental Indenture shall be conclusive and binding upon the Authority, the Trustee, the Tender Agent, the Credit Facility Provider and the Holders of the Variable Rate Series 2014B Subordinate Bonds to which such rates are applicable. The Authority, the Trustee, the Tender Agent, the Remarketing Agent and the Credit Facility Provider shall not be liable to any Holder for failure to give any notice specified in this Section or for the failure of any Holder to receive any such notice.

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(b) Determination by Remarketing Agent.

(i) The interest rate for Daily Rate Bonds, Weekly Rate Bonds, Short-Term Rate Bonds, Long-Term Rate Bonds and, if engaged as Remarketing Agent in connection with the conversion to Fixed Rate Bonds, the Fixed Rate(s), for each Rate Period shall be determined by a Remarketing Agent, to be appointed by the Authority, as the lowest rate of interest that, in the judgment of the Remarketing Agent, would cause the Variable Rate Series 2014B Subordinate Bonds to be sold at a price as of the date of determination equal to the principal amount thereof, taking into account Prevailing Market Conditions, provided that in no event will the interest rate on any Variable Rate Series 2014B Subordinate Bonds exceed the Maximum Rate.

(ii) In the event the Remarketing Agent fails for any reason to determine the interest rate for any Rate Period:

(A) If the applicable Variable Rate Series 2014B Subordinate Bonds are bearing interest at a Daily Rate, Weekly Rate or Short-Term Rate, the applicable Variable Rate Series 2014B Subordinate Bonds shall bear interest at a rate equal to the prior week's rate, unless there is a failure by the Remarketing Agent to set the rate for two consecutive Weekly Rate Periods or seven consecutive Daily Rate Periods, in which case the applicable Variable Rate Series 2014B Subordinate Bonds shall bear interest at 105% of the SIFMA Index, until the Trustee is notified of a new Daily Rate, Weekly Rate or Short-Term Rate, as appropriate, determined by the Remarketing Agent.

(B) If the applicable Variable Rate Series 2014B Subordinate Bonds are bearing interest at a Long-Term Rate (1) the Rate Period shall be converted to a Weekly Rate Period and shall bear interest at a rate equal to 105% of the SIFMA Index, but only if the Authority furnishes to the Trustee a Favorable Opinion of Bond Counsel or (2) if the opinion described in clause (1) is not furnished, the Rate Period will remain in the Long-Term Rate Period and the applicable Variable Rate Series 2014B Subordinate Bonds shall bear interest at a rate equal to the "Revenue Bond Index" as published in The Bond Buyer as of a recent date or, if such index is no longer published, then a comparable index selected by the Authority and acceptable to the Trustee.

(iii) Notice of the interest rate for each Daily Rate Bond, Weekly Rate Bond, Short-Term Rate Bond, Long-Term Rate Bond and, if engaged as Remarketing Agent in connection with the conversion to Fixed Rate Bonds, the Fixed Rate(s), shall be communicated by the Remarketing Agent to the Authority, the Trustee and any Credit Facility Provider by Electronic Means, (a) in the case of Daily Rate Bonds on the date such interest rate is determined by 10:30 a.m., New York City time, and (b) in the case of Weekly Rate Bonds, Short-Term Rate Bonds, Long-Term Rate Bonds or Fixed Rate Bonds, not later than 5:00 p.m., New York City time, on the date such interest rate is determined, and shall be available to Holders after such time, from the Remarketing Agent at its Designated Office and shall also be communicated by the Remarketing Agent to any Holder upon request.

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(c) Daily Rates.

(i) Whenever the Variable Rate Series 2014B Subordinate Bonds are to bear interest accruing at a Daily Rate, Daily Interest Periods shall commence on each Business Day and shall extend to, but not include, the next succeeding Business Day.

(ii) The interest rate for each Daily Interest Period shall be effective from and including the commencement date thereof and shall remain in effect to, but not including, the next succeeding Business Day.

(iii) Each such interest rate shall be determined by the Remarketing Agent no later than 10:00 a.m., New York City time, on the commencement date of the Daily Interest Period to which it relates.

(d) Weekly Rates.

(i) Whenever the Variable Rate Series 2014B Subordinate Bonds are to bear interest accruing at a Weekly Rate, Weekly Interest Periods shall commence on Thursday of each week and end on Wednesday of the following week; provided, however, that (A) in the case of a conversion to a Weekly Rate Period, the initial Weekly Interest Period for the Variable Rate Series 2014B Subordinate Bonds shall commence on the Conversion Date and end on the next succeeding Wednesday and (B) in the case of a conversion from a Weekly Rate to a Daily Rate, the last Weekly Interest Period prior to conversion shall end on the last day immediately preceding the Conversion Date.

(ii) The interest rate for each Weekly Interest Period shall be effective from and including the commencement date of such period and shall remain in effect through and including the last day thereof.

(iii) Each such interest rate shall be determined by the Remarketing Agent by 5:00 p.m., New York City time, on the Business Day immediately preceding the commencement date of the Weekly Interest Period to which it relates.

(e) Short-Term Rates. Short-Term Rates on, and Short-Term Interest Periods for, Short-Term Rate Bonds shall be determined as follows:

(i) Each Short-Term Interest Period shall be determined by the Remarketing Agent on the first Business Day of that Short-Term Interest Period as that Short-Term Interest Period which will, in the judgment of the Remarketing Agent, produce the greatest likelihood of the lowest net interest cost; provided that each Short-Term Interest Period (A) shall be from 1 to 270 days in length but shall not exceed the number of days of interest coverage provided by the Credit Facility minus five days, shall not extend beyond the date that is five days before the Expiration Date of the Credit Facility and shall not exceed the remaining number of days prior to the Conversion Date if the Remarketing Agent has given or received notice of any conversion to a different Rate Period, (B) shall commence on a Business Day (except in the case of a conversion to a Short-Term Rate Period, the initial Short-Term Interest Period shall commence on the Conversion Date), shall end on a day preceding a Business Day, and (C) in any event

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shall end no later than the day preceding the Maturity Date. The Remarketing Agent may, in the reasonable exercise of its judgment, determine a Short-Term Interest Period that results in a Short-Term Rate on the Variable Rate Series 2014B Subordinate Bonds that is higher than would be borne by the Variable Rate Series 2014B Subordinate Bonds with a shorter Short-Term Interest Period in order to increase the likelihood of achieving the lowest net interest cost during the term of the Variable Rate Series 2014B Subordinate Bonds by assuring the effectiveness of such Short-Term Rate for a longer Short-Term Interest Period. The determination of a Short-Term Interest Period by the Remarketing Agent shall be based upon the relative market yields of the Variable Rate Series 2014B Subordinate Bonds and other securities that bear interest at a variable rate or at fixed rates that, in the reasonable exercise of the judgment of the Remarketing Agent are otherwise comparable to the Variable Rate Series 2014B Subordinate Bonds, or any fact or circumstance relating to the Variable Rate Series 2014B Subordinate Bonds or affecting the market for the Variable Rate Series 2014B Subordinate Bonds or affecting such other comparable securities in a manner that, in the reasonable exercise of the judgment of the Remarketing Agent, will affect the market for the Variable Rate Series 2014B Subordinate Bonds. The Remarketing Agent in its discretion, may consider such information and resources as it deems appropriate in making the determinations described in this paragraph, including consultations with the Authority, but the Remarketing Agent's determination of the Short-Term Interest Period will be based solely upon the reasonable exercise of the Remarketing Agent's judgment.

(ii) The interest rate for each Short-Term Interest Period shall be effective from and including the commencement date of that Short-Term Interest Period and shall remain in effect through and including the last day thereof.

(iii) All Short-Term Rate Bonds of a subseries of the Variable Rate Series 2014B Subordinate Bonds shall bear interest accruing at the same Short-Term Rate, and for the same Short-Term Interest Period.

(iv) Each such interest rate shall be determined by the Remarketing Agent by 4:00 p.m., New York City time, on the Business Day immediately preceding the commencement date of the Short-Term Interest Period to which it relates.

(f) Long-Term Rates. A Long-Term Rate for Long-Term Rate Bonds shall be determined for each Long-Term Interest Period as follows:

(i) Long-Term Interest Periods shall commence on a Conversion Date and subsequently on an Interest Payment Date which is at least 12 calendar months after the Conversion Date to a Long-Term Rate Period, and end on the day preceding either the commencement date of the following Long-Term Interest Period or the Conversion Date on which a different Rate Period shall become effective or the Maturity Date.

(ii) The Long-Term Rate for each Long-Term Interest Period shall be effective from and including the commencement date thereof and remain in effect to and including the last day thereof. Each such Long-Term Rate shall be determined on the Business Day immediately preceding the commencement date of such period.

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(iii) Long-Term Interest Periods shall not extend to a date beyond the fifth day next preceding the Expiration Date of the Credit Facility.

(iv) The term of each Long-Term Interest Period shall be specified in writing by the Authority to the Remarketing Agent, the Trustee, the Tender Agent and the Credit Facility Provider at least 20 days before its commencement.

(g) Fixed Rate. The Fixed Rate shall be determined as set forth in this subsection (g). Variable Rate Series 2014B Subordinate Bonds bearing interest at a Fixed Rate may not be converted to any other type of Rate Period pursuant to Section 404.

The Fixed Rate Period shall commence on a Conversion Date and shall extend to the earlier of the date of redemption or the Maturity Date. The Fixed Rate shall be determined (1) by the Remarketing Agent, if the Remarketing Agent is engaged in connection with the conversion to Fixed Rate Bonds, not later than 12:00 noon, New York City time, on the Business Day prior to the Conversion Date; or (2) set in the firm underwriting or purchase contract described in Section 404(b)(iv). Such determination shall be conclusive and binding on the Authority, the Trustee, any Credit Facility Provider and the Holders of the Variable Rate Series 2014B Subordinate Bonds to which such rate shall be applicable.

In determining the amount of interest and principal that shall be payable on the Payment Dates, the Remarketing Agent or the firm of underwriters or recognized institutional investors (the "Firm") underwriting or purchasing the Variable Rate Series 2014B Subordinate Bonds then being converted, as applicable, shall use the following guidelines:

(i) The interest rate on each Variable Rate Series 2014B Subordinate Bond then being converted shall be the lowest interest rate that will enable such Variable Rate Series 2014B Subordinate Bond, upon conversion, to be remarketed at par (plus any accrued interest), taking into account (A) any market premium determined by the Authorized Official to be necessary to fund fees and expenses relating to the conversion and remarketing of the Variable Rate Series 2014B Subordinate Bonds, including fees and expenses relating to a Credit Facility, any deposit to the Debt Service Reserve Fund and any amount owed upon termination of any Hedge Agreement, (B) the principal amortization schedule for the Variable Rate Series 2014B Subordinate Bonds, and (C) current market conditions for bonds that have similar tax status and a comparable credit rating; and

(ii) If a Favorable Opinion of Bond Counsel has been obtained, the schedule of principal payments of the Variable Rate Series 2014B Subordinate Bonds may be modified based on a Mandatory Sinking Fund Requirements schedule agreed to by the Authority and the firm that agrees to underwrite or purchase the Variable Rate Series 2014B Subordinate Bonds being converted, in accordance with Section 404(b)(iv), and delivered to the Trustee. If a Favorable Opinion of Bond Counsel is not received, all Variable Rate Series 2014B Subordinate Bonds shall mature on the Maturity Date and shall be subject to mandatory sinking fund redemption (or serial maturities pursuant to subparagraph (iii) below) on the dates and in the respective principal amounts established at the time of original delivery of the Variable Rate Series 2014B Subordinate Bonds.

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(iii) The foregoing subparagraphs (i) and (ii) notwithstanding, upon provision of a Favorable Opinion of Bond Counsel, Variable Rate Series 2014B Subordinate Bonds may be scheduled to mature serially on January 1 in the years and respective principal amounts agreed to by the Authority and the Firm and delivered to the Trustee, and the Remarketing Agent may establish more than one Fixed Rate to apply to the Variable Rate Series 2014B Subordinate Bonds being converted to Fixed Rate Bonds, in accordance with this Section, taking into account the scheduled mandatory redemption dates or serial maturity dates to be assigned to the Variable Rate Series 2014B Subordinate Bonds.

(h) Credit Facility Provider Bonds. Notwithstanding the above provisions of this Section, Credit Facility Provider Bonds shall bear interest at the Credit Facility Provider Rate and shall be payable at the times and by such means as provided in the Reimbursement Agreement. The Trustee shall register on its books and records the Credit Facility Provider as the Holder or the pledgee of such Credit Facility Provider Bonds, as directed by such Credit Facility Provider. The Credit Facility Provider Rate shall be supplied in writing to the Trustee by the Credit Facility Provider. If the Remarketing Agent has notified the Holder of any Credit Facility Provider Bonds that it has located a purchaser for some or all of that Holder's Credit Facility Provider Bonds, then, subject to Section 410, that Holder must deliver those Credit Facility Provider Bonds to the Tender Agent for purchase. Upon such delivery and receipt of the Purchase Price by that Holder, and provided no Event of Default has occurred and is continuing under the Reimbursement Agreement, the Tender Agent shall notify the Trustee that the Variable Rate Series 2014B Subordinate Bonds so purchased are no longer "Credit Facility Provider Bonds" and the Trustee shall note on the registration books for the Variable Rate Series 2014B Subordinate Bonds that those Variable Rate Series 2014B Subordinate Bonds are not Credit Facility Provider Bonds. Notwithstanding anything herein to the contrary, only the Credit Facility Provider or any Holder of Credit Facility Provider Bonds may receive interest on any Variable Rate Series 2014B Subordinate Bonds at the Credit Facility Provider Rate.

For all purposes of the Indenture, payments of principal and interest on the Credit Facility Provider Bonds are secured in the same manner as payments of principal and interest on the Variable Rate Series 2014B Subordinate Bonds. Amounts owed by the Authority to a Credit Facility Provider (including, without limitation, reimbursement obligations) shall be included in the calculation of "Annual Debt Service" under the Indenture if and to the extent required by the Indenture's definition of "Annual Debt Service."

(i) [Reserved].

(j) Index Rates. During any Index Rate Period, a Remarketing Agent shall determine the Applicable Spread that will be used in determining the Index Rate for each Index Interest Period as follows: (i) the Applicable Spread shall be the number of basis points or schedule of basis points as determined by the Remarketing Agent that, when added to the SIFMA Index or the LIBOR Index, as the case may be, would equal the minimum interest rate per annum that would enable the Remarketing Agent to sell the applicable Variable Rate Series 2014B Subordinate Bonds on the first day of such Subsequent Rate Period at a price equal to the principal amount thereof (but subject to the final sentence of this Section 403(j)), plus accrued interest, if any, thereon. The Remarketing Agent shall determine the Applicable Spread for any such Index Rate Period not later than the day preceding the commencement of such Index Rate



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Period and shall notify the Trustee, the Calculation Agent and the Authority thereof by telephone or such other manner as may be appropriate by not later than 2:00 P.M. New York City time on such date, which notice shall be promptly confirmed in writing. If at any time that the Remarketing Agent is required to determine the Applicable Spread, the Remarketing Agent recommends in writing to the Authority that the Variable Rate Series 2014B Subordinate Bonds may be remarketed at a specified discount from their principal amount that would enable the Authority to achieve a lower net interest cost than if such Variable Rate Series 2014B Subordinate Bonds were remarketed at their principal amount, and if the Authority accepts that recommendation in writing signed by an Authorized Official, then the Remarketing Agent shall determine the Applicable Spread based upon the minimum interest rate per annum that would enable the Remarketing Agent to sell the applicable Variable Rate Series 2014B Subordinate Bonds at the agreed upon discounted price.

(k) Index Rates – General. During any Index Rate Period, the Calculation Agent shall determine the Index Rate on each Computation Date, and such rate shall become effective on the SIFMA Index Reset Date or LIBOR Index Reset Date, as the case may be, next succeeding the Computation Date; provided that in no event will the Index Rate exceed the Maximum Rate. The Calculation Agent shall (i) upon determining the Index Rate for each week, notify the Authority and the Trustee of such Index Rate by Electronic Means as promptly as practicable, and (ii) no later than the day preceding each Interest Payment Date, provide the Authority and the Trustee with a report that shows all the reset rates for the preceding month. The determination of the Index Rate (absent manifest error) shall be conclusive and binding upon the Authority and the Holders of the Variable Rate Series 2014B Subordinate Bonds. If for any reason the Index Rate shall not be established, the Variable Rate Series 2014B Subordinate Bonds shall bear interest at the Index Rate last in effect until such time as a new Index Rate shall be established pursuant to this Sixteenth Supplemental Indenture.

#### **Section 404. Conversions Between Rate Periods.**

(a) Notice of Conversion. The Authority may, with the prior written consent of the Credit Facility Provider, if any, if the same Credit Facility will secure the Variable Rate Series 2014B Subordinate Bonds before and after the conversion, elect to convert all or some of the Variable Rate Series 2014B Subordinate Bonds from one Rate Period to another Rate Period (other than from a Fixed Rate Period) as follows:

(i) Notices by Authority. The Authority shall give written notice of any proposed conversion of some or all Variable Rate Series 2014B Subordinate Bonds to the Trustee, and during an Index Rate Period to the Calculation Agent, not fewer than seven Business Days (14 Business Days in the case of a proposed conversion to a Short-Term Rate Period) prior to the date the notice to affected Holders must be given pursuant to Section 404(2)(ii).

(ii) Notices by Trustee. Upon receipt of the notice specified in Section 404(a)(i), the Trustee shall promptly give written notice of the proposed conversion, via Electronic Means or by written notice, to the Tender Agent, the Remarketing Agent, any Credit Facility Provider and any Rating Agency. The Trustee shall give notice (which may be combined, where applicable, with any notice required by

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Section 408(d) by first-class mail of the proposed conversion to the affected Holders of the Variable Rate Series 2014B Subordinate Bonds not less than 10 days before the proposed Conversion Date. Such notice shall state:

(A) the proposed Conversion Date and the proposed Rate Period to be effective on such date;

(B) that all or a specified portion of the Variable Rate Series 2014B Subordinate Bonds will be subject to mandatory tender for purchase on the Conversion Date and, if less than all;

(C) the conditions, if any, to the conversion pursuant to subsection (b), and the consequences of such conditions not being fulfilled pursuant to subsection (c);

(D) if the Variable Rate Series 2014B Subordinate Bonds are in certificated form, information with respect to required delivery of the Variable Rate Series 2014B Subordinate Bond certificates and payment of the Purchase Price;

(E) the new Interest Payment Dates and Regular Record Dates.

(b) Conditions to Conversion. No conversion of Rate Periods will become effective unless the prior written consent of the Credit Facility Provider, if any, if the same Credit Facility will secure the Variable Rate Series 2014B Subordinate Bonds before and after the conversion, is obtained, and:

(i) If the conversion is from a Short-Term Rate Period, the Trustee has received, prior to the date on which notice of conversion is required to be given to Holders, written confirmation from the Remarketing Agent that it has not established and will not establish any Short-Term Interest Periods extending beyond the day before the Conversion Date; and

(ii) If the conversion is either (A) from a Short-Term Rate Period, a Weekly Rate Period or a Daily Rate Period to a Long-Term Rate Period or a Fixed Rate Period, or (B) from a Long-Term Rate Period to a Short-Term Rate Period, a Weekly Rate Period or a Daily Rate Period, the Authority shall have provided to the Trustee, and the Remarketing Agent, no later than one day before the Conversion Date, a Favorable Opinion of Bond Counsel, which opinion shall be confirmed in writing on the Conversion Date; and

(iii) Any Credit Facility to be held by the Trustee after the Conversion Date shall be in an amount equal to the aggregate principal amount of all of the Outstanding Variable Rate Series 2014B Subordinate Bonds, plus an amount for payment of interest equal to at least (a) 34 days' interest (183 days' interest if the conversion is to Long-Term Rate Bonds or, if the conversion is to Short-Term Rate Bonds, the maximum number of days of a Short-Term Interest Period, as provided in Section 403(e)(i) plus five days), plus in the case of a Credit Facility that does not automatically reinstate coverage for

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interest following a drawing to pay interest on the Variable Rate Series 2014B Subordinate Bonds, the number of days during which the Variable Rate Series 2014B Subordinate Bonds may continue to bear interest until purchased upon mandatory tender under Section 408(a)(iv) following a drawing in which the Credit Facility Provider may notify the Trustee that interest coverage has not reinstated or (b) in the event that a rating will be maintained on the Variable Rate Series 2014B Subordinate Bonds, then such other number of days of interest as may be required by any Rating Agency; and

(iv) If an Index Rate is in effect prior to the Conversion, the Conversion Date must be on a date that would otherwise be an Interest Payment Date; and

(v) If the conversion is to a Fixed Rate Period, the Authority's written notice pursuant to Section 404(a)(i) shall also be provided to the Remarketing Agent and shall also specify the Conversion Date on which the Fixed Rate Period is to commence, and the Authority shall deliver with such notice any Favorable Opinion of Bond Counsel required pursuant to Section 403(g) and a firm underwriting or purchase contract from a firm, which can be the Remarketing Agent, to underwrite or purchase all of the Variable Rate Series 2014B Subordinate Bonds at a price of 100% of the principal amount thereof at an agreed upon interest rate which such firm certifies is the lowest rate that will permit the Variable Rate Series 2014B Subordinate Bonds to be sold at par on the first day of the Fixed Rate Period and containing a Mandatory Sinking Fund Requirements schedule prepared in accordance with Section 403(g). Upon receipt by the Trustee of such notice from the Authority, the Trustee shall promptly cause the same information contained in such notice to be delivered to the Tender Agent, any Credit Facility Provider and any Rating Agency. A conversion to the Fixed Interest Rate shall not occur unless the Authority shall also file with the Trustee any Favorable Opinion of Bond Counsel to the same effect dated the Conversion Date; and

(vi) The conversion shall not occur unless the Conversion Date is a date on which the Variable Rate Series 2014B Subordinate Bonds being converted could be redeemed without premium pursuant to Section 501(a); and

(vii) If the conversion is to a Short-Term Rate Period, (A) the Authority must engage, at its expense, a commercial paper trustee and paying agent (the "Issuing Agent"), which may or may not be the Trustee and which shall be reasonably acceptable to the Trustee, any Credit Facility Provider and the Tender Agent, having access to the Depository's electronic money market issuing and payment system and otherwise eligible to serve as an issuing and paying agent under the Depository's policies and procedures for the issuance and payment of commercial paper; and (B) the Remarketing Agent must arrange for the execution and delivery to the Depository of its required letter of representation for the eligibility of the Variable Rate Series 2014B Subordinate Bonds in the Short-Term Rate Period in the Depository's book entry system and the provision of any needed CUSIP numbers; and (C) the Authority shall take all other action needed to comply with the Depository's requirements applicable to the issuance and payment of the Variable Rate Series 2014B Subordinate Bonds while in the Short-Term Rate Period; and (D) the Authority shall enter into any amendment of this Sixteenth Supplemental Indenture permitted under the Indenture that is needed to comply with the Depository's

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or any Rating Agency's requirements concerning the issuance and payment of the Variable Rate Series 2014B Subordinate Bonds in the Short-Term Rate Period.

(c) Failure of Conditions to Conversion. In the event any condition precedent to a conversion is not fulfilled, (i) the Conversion Date shall not occur, (ii) the mandatory tender pursuant to Section 408(a)(i) shall not occur and (iii) the Variable Rate Series 2014B Subordinate Bonds shall continue in the then existing Rate Period with the length of the Rate Period and the interest rate being determined in accordance with Section 403. Notice of withdrawal of a conversion notice shall be given by the Authority to the Trustee, the Remarketing Agent, the Tender Agent and any Credit Facility Provider by telephone, promptly confirmed in writing, and shall thereafter be promptly given to the Holders by the Trustee via Electronic Means or by first-class mail. No failure or cancellation of conversion pursuant to this subsection (c) shall constitute an Event of Default.

#### **Section 405. Tender Agent.**

The Trustee is the initial Tender Agent. There shall be a Tender Agent for the Variable Rate Series 2014B Subordinate Bonds as provided in this Section at all times that any Variable Rate Series 2014B Subordinate Bonds are Daily Rate Bonds, Weekly Rate Bonds, Short-Term Rate Bonds, Index Rate Bonds or Long-Term Rate Bonds. The Tender Agent shall be appointed by the Authority and shall be a commercial bank, national association or trust company organized and doing business under the laws of the United States of America or of any state thereof, authorized to exercise corporate trust powers in the State, subject to supervision or examination by federal or state authority, and authorized to perform all of the duties imposed upon it by this Sixteenth Supplemental Indenture, and having a combined capital and surplus of at least \$75,000,000. If such corporation or association publishes reports of condition at least annually, pursuant to law or to the requirements of such supervising or examining Authority, then for the purposes of this Section, the combined capital and surplus of such corporation or association shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Tender Agent shall perform the duties imposed upon the Tender Agent by this Sixteenth Supplemental Indenture, but only upon the terms and conditions set forth herein, including the following:

(a) hold all Variable Rate Series 2014B Subordinate Bonds delivered to it hereunder in trust for the benefit of the respective Holders which shall have so delivered such Variable Rate Series 2014B Subordinate Bonds until moneys representing the Purchase Price of such Variable Rate Series 2014B Subordinate Bonds shall have been delivered to or for the account of or to the order of such Holders;

(b) hold all moneys delivered to it hereunder for the purchase of Variable Rate Series 2014B Subordinate Bonds in trust solely for the benefit of the Person which shall have so delivered such moneys until the Variable Rate Series 2014B Subordinate Bonds purchased with such moneys shall have been delivered to or for the account of such Person;

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(c) hold all moneys, other than proceeds of payments under a Credit Facility, delivered to it hereunder for the purchase of Variable Rate Series 2014B Subordinate Bonds as agent of, and in escrow for the exclusive benefit of, the Person which shall have so delivered such moneys until the Variable Rate Series 2014B Subordinate Bonds purchased with such moneys shall have been delivered to or for the account of such Person;

(d) hold all moneys delivered to it hereunder from payments under a Credit Facility for the purchase of Variable Rate Series 2014B Subordinate Bonds as agent of, and in escrow for the exclusive benefit of, the Holders who shall deliver Variable Rate Series 2014B Subordinate Bonds to it for purchase until the Variable Rate Series 2014B Subordinate Bonds purchased with such moneys shall have been delivered to or for the account of the Credit Facility Provider;

(e) keep such books and records as shall be consistent with customary corporate trust industry practice that shall accurately reflect the transactions hereunder and to make such books and records available for inspection by the Authority, the Trustee, the Remarketing Agent and the Credit Facility Provider during normal business hours upon reasonable prior written notice;

(f) hold all Credit Facility Provider Bonds delivered to it hereunder as agent of, and in escrow for the benefit of, the Credit Facility Provider;

(g) deliver any notices required by this Sixteenth Supplemental Indenture to be delivered by the Tender Agent; and

(h) perform all other duties of the Tender Agent under this Sixteenth Supplemental Indenture.

The Tender Agent shall be entitled to reasonable compensation for its services as Tender Agent as agreed upon with the Authority.

The Tender Agent at any time may resign and be discharged of the duties and obligations imposed upon the Tender Agent by this Sixteenth Supplemental Indenture, by giving written notice thereof to the Authority, the Trustee, the Remarketing Agent and the Credit Facility Provider at least 30 days prior to the effective date of such resignation. The Tender Agent shall resign at any time that it shall cease to be eligible in accordance with the provisions of this Section, effective upon the appointment of and acceptance of such appointment by a successor Tender Agent.

The Tender Agent may be removed at any time by the Authority by an instrument in writing delivered to the Tender Agent, the Trustee, the Remarketing Agent and the Credit Facility Provider.

If the Tender Agent shall resign, be removed or become incapable of acting for any cause, the Authority shall promptly appoint a successor Tender Agent by an instrument in writing delivered to the Trustee, the Remarketing Agent, the Credit Facility Provider, and the retiring Tender Agent. Every such successor Tender Agent appointed pursuant to the provisions of this Section shall meet the eligibility requirements of this Section. No successor Tender Agent shall accept its appointment unless at the time of such acceptance such successor Tender Agent shall be qualified and eligible under this Article.

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Every successor Tender Agent appointed hereunder shall execute and deliver to the Authority, the Trustee, the Remarketing Agent, any Credit Facility Provider, and the retiring Tender Agent an instrument accepting such appointment, designating its Designated Office and accepting the duties and obligations imposed upon it hereunder. No resignation or removal of the Tender Agent and no appointment of a successor Tender Agent pursuant to this Section shall become effective until the acceptance of appointment by the successor Tender Agent hereunder.

The Trustee shall give notice of each resignation and each removal of the Tender Agent and each appointment of a successor Tender Agent by mailing written notice of such event by first-class mail, within 30 days of the resignation or removal of the Tender Agent or the appointment of a successor Tender Agent, to the Authority, any Credit Facility Provider, the Remarketing Agent, each Rating Agency and the Holders as their names and addresses appear in the Bond Register maintained by the Trustee. Each notice shall include the name of the successor Tender Agent and the address of its Designated Office.

In the event of the resignation or removal of the Tender Agent, and the appointment of a successor Tender Agent, the retiring Tender Agent shall pay over, assign and deliver any moneys and Variable Rate Series 2014B Subordinate Bonds held by it in such capacity to its successor.

In the event that the Tender Agent shall resign or be removed, or be dissolved, or if the property or affairs of the Tender Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, and the Authority shall not have appointed a successor as Tender Agent, the Trustee shall ipso facto be deemed to be the Tender Agent for all purposes of this Sixteenth Supplemental Indenture until the appointment by the Authority of the successor Tender Agent.

Any corporation or association into which the Tender Agent in its individual capacity may be merged or converted or with which it may be consolidated, or any merger, conversion or consolidation to which the Tender Agent in its individual capacity shall be a party, or any corporation or association to which all or substantially all the corporate trust business of the Tender Agent in its individual capacity may be sold or otherwise transferred, shall be the Tender Agent under this Sixteenth Supplemental Indenture without further act; provided, that the Tender Agent shall promptly give notice of such action to the Authority, and the Authority shall have 45 days to exercise an option to appoint a successor Tender Agent by an instrument in writing delivered to the Trustee, the Remarketing Agent, the Credit Facility Provider, and the then current Tender Agent. Every such successor Tender Agent appointed pursuant to the provisions of this Section shall meet the eligibility requirements of this Section. No successor Tender Agent shall accept its appointment unless at the time of such acceptance such successor Tender Agent shall be qualified and eligible under this Article.

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**Section 406. Optional Tenders of Variable Rate Series 2014B Subordinate Bonds in Certain Rate Periods.**

(a) Holders of Daily Rate Bonds or Weekly Rate Bonds may elect to have their Variable Rate Series 2014B Subordinate Bonds (other than Credit Facility Provider Bonds or Variable Rate Series 2014B Subordinate Bonds owned by or for the benefit of the Authority), or portions thereof in Authorized Denominations, purchased at the applicable Purchase Price on the following Purchase Dates and, upon the giving of the following Electronic Means or written notices meeting the further requirements set forth in subsection (b) below, provided, however, that so long as the Variable Rate Series 2014B Subordinate Bonds are in book entry form the provisions set forth in Section 402 and the procedures established by the Depository generally for tenders of Variable Rate Series 2014B Subordinate Bonds shall apply with respect to notice of tenders, delivery of Variable Rate Series 2014B Subordinate Bonds, payment of Purchase Price and related matters. If less than all of the Variable Rate Series 2014B Subordinate Bonds of a Holder are tendered for purchase the amount retained by that Holder must be in an Authorized Denomination.

(i) Daily Rate Bonds (other than Credit Facility Provider Bonds or Variable Rate Series 2014B Subordinate Bonds owned by or for the benefit of the Authority) may be tendered for purchase at the Purchase Price payable in immediately available funds on any Business Day upon Electronic Means or written notice of tender to the Tender Agent and the Remarketing Agent not later than 11:00 a.m., New York City time, on the designated Purchase Date.

(ii) Weekly Rate Bonds (other than Credit Facility Provider Bonds or Variable Rate Series 2014B Subordinate Bonds owned by or for the benefit of the Authority) may be tendered for purchase at the Purchase Price payable in immediately available funds on any Business Day upon delivery of a written or Electronic Means notice of tender to the Tender Agent not later than 5:00 p.m., New York City time, on a Business Day not fewer than seven days prior to the designated Purchase Date.

(b) Each notice of tender for Daily Rate Bonds and Weekly Rate Bonds:

(i) shall, in case of a written notice, be delivered to the Tender Agent at its Designated Office and, with respect to Daily Rate Bonds, to the Remarketing Agent at its Designated Office, and be in form satisfactory to the Tender Agent;

(ii) shall state, whether delivered in writing or by Electronic Means, (A) the principal amount of the Daily Rate Bond or Weekly Rate Bond to which the notice relates and the CUSIP number of that Bond, (B) that the Holder irrevocably demands purchase of that Variable Rate Series 2014B Subordinate Bond or a specified portion thereof in an Authorized Denomination, (C) the Purchase Date on which that Variable Rate Series 2014B Subordinate Bond or portion thereof is to be purchased and (D) payment instructions with respect to the Purchase Price; and

(iii) shall automatically constitute, whether delivered in writing or by Electronic Means, (A) an irrevocable offer to sell the Variable Rate Series 2014B

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Subordinate Bond (or portion thereof) to which such notice relates on the Purchase Date to any purchaser selected by the Remarketing Agent (or to the Credit Facility Provider in the case of purchases made with funds paid under the Credit Facility), at a price equal to the Purchase Price, (B) an irrevocable authorization and instruction to the Tender Agent to effect transfer of such Variable Rate Series 2014B Subordinate Bond (or portion thereof) upon receipt by the Tender Agent of funds sufficient to pay the Purchase Price on the Purchase Date, (C) an irrevocable authorization and instruction to the Tender Agent to effect the exchange of the Variable Rate Series 2014B Subordinate Bond to be purchased in whole or in part for other Variable Rate Series 2014B Subordinate Bonds in an equal aggregate principal amount so as to facilitate the sale of that Variable Rate Series 2014B Subordinate Bond (or portion thereof to be purchased), (D) an acknowledgment that such Holder will have no further rights with respect to that Variable Rate Series 2014B Subordinate Bond (or portion thereof) upon deposit of an amount equal to the Purchase Price thereof with the Tender Agent on the Purchase Date, except for the right of such Holder to receive the Purchase Price upon surrender of that Variable Rate Series 2014B Subordinate Bond to the Tender Agent, and (E) an agreement of such Holder to deliver such Daily Rate Bonds or Weekly Rate Bonds, with all necessary endorsements for transfer and signature guarantees, to the Tender Agent at its Designated Office not later than 1:00 p.m., New York City time, on the Purchase Date.

The determination of the Tender Agent as to whether a notice of tender has been properly delivered pursuant to the foregoing shall be conclusive and binding upon the Holder. The Tender Agent may waive any irregularity or nonconformity in any notice of tender.

(c) Notwithstanding anything to the contrary herein, all Daily Rate Bonds or Weekly Rate Bonds as to which a written notice specifying the Purchase Date has been delivered pursuant to this Section (and which have not been tendered to the Tender Agent) shall be deemed tendered on the Purchase Date specified. From and after the specified Purchase Date of a Variable Rate Series 2014B Subordinate Bond tendered to the Tender Agent or deemed tendered pursuant to this Section, the former Holder of such Variable Rate Series 2014B Subordinate Bond shall be entitled solely to the payment of the applicable Purchase Price of the Variable Rate Series 2014B Subordinate Bond tendered or deemed tendered which Purchase Price shall be payable only as set forth in Section 407(d).

(d) The Tender Agent shall promptly return any notice of tender delivered pursuant to this Section (together with the Variable Rate Series 2014B Subordinate Bonds submitted therewith) that is incomplete or improperly completed or not delivered within the times required by this Section to the Person or Persons submitting such notice and Variable Rate Series 2014B Subordinate Bonds upon surrender of the receipt, if any, issued therefor.

(e) Notwithstanding the foregoing, if the Variable Rate Series 2014B Subordinate Bonds are held in a book-entry form at the Depository, the right to optionally tender Daily Rate Bonds or Weekly Rate Bonds may be exercised by the beneficial owners of those Variable Rate Series 2014B Subordinate Bonds. Such right shall be exercised by delivery by a beneficial owner to the Tender Agent no later than the times specified in subsection (a) of the notice described in subsection (b) stating that such beneficial owner will cause its beneficial interest (or portion thereof in an Authorized Denomination) to be tendered, the amount of such interest to be



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tendered, the date on which such interest will be tendered and the identity of the Participant through which the beneficial owner maintains its interest. Upon delivery of such notice, the beneficial owner must make arrangements to have its beneficial ownership interest in the Variable Rate Series 2014B Subordinate Bonds being tendered to the Tender Agent to be transferred on the records of the Depository to the Tender Agent at or prior to 1:00 p.m., New York City time, on the Purchase Date.

**Section 407. Purchase Fund; Purchase of Variable Rate Series 2014B Subordinate Bonds by Tender Agent; Procedures and Consequences Related to Inadequate Funds for Purchase Upon Tender.**

(a) The Tender Agent shall establish a special trust fund for the Variable Rate Series 2014B Subordinate Bonds to be designated the Purchase Fund. Within the Purchase Fund, the Tender Agent shall establish four separate accounts to be designated the Remarketing Proceeds Account, the Credit Facility Purchase Account, the Authority Purchase Account and the Undelivered Bond Payment Account, each of which shall be an Eligible Account. Only the Tender Agent shall have any right of withdrawal from the Purchase Fund; and the Purchase Fund and such right of withdrawal shall be for the sole and exclusive benefit of the Holders of the Variable Rate Series 2014B Subordinate Bonds subject to purchase on Purchase Dates (and the Credit Facility Provider to the extent provided in subsection (e)); and the Authority and the Holders of Variable Rate Series 2014B Subordinate Bonds not subject to purchase shall have no legal, beneficial or equitable interest in the Purchase Fund. Amounts on deposit in the Purchase Fund shall be held uninvested and without bearing interest. Amounts in a particular account of a Purchase Fund shall not be commingled with amounts in any other account of that Purchase Fund. Any moneys received by the Tender Agent by reason of the remarketing by the Remarketing Agent of any Variable Rate Series 2014B Subordinate Bonds subject to purchase on a Purchase Date shall be deposited by the Tender Agent in the Remarketing Proceeds Account and applied by the Tender Agent in accordance with subsections (d) and (e). Any moneys received by the Tender Agent representing amounts paid by the Credit Facility Provider under the Credit Facility for the purchase of a Variable Rate Series 2014B Subordinate Bond subject to purchase on a Purchase Date shall be deposited by the Tender Agent in the Credit Facility Purchase Account and applied by the Tender Agent in accordance with subsections (d) and (e). Any moneys received by the Tender Agent representing amounts paid by the Authority for the purchase of a Variable Rate Series 2014B Subordinate Bond subject to purchase on a Purchase Date shall be deposited by the Tender Agent in the Authority Purchase Account of the Purchase Fund and applied by the Tender Agent in accordance with subsections (d) and (e). Moneys shall be transferred to the Undelivered Bond Payment Account from the other accounts of the Purchase Fund or to the Credit Facility Provider in accordance with subsection (e); and moneys shall be applied from the Undelivered Bond Payment Account in accordance with subsection (f).

(b) Upon receipt of notice, in writing or by any Electronic Means, of tender relating to Daily Rate Bonds, the Tender Agent shall immediately notify the Remarketing Agent, the Authority, the Trustee and any Credit Facility Provider by telephonic notice of the amount of the Variable Rate Series 2014B Subordinate Bonds to be tendered pursuant to such notice. The Tender Agent shall confirm such telephonic notice by Electronic Means by 11:15 a.m., New York City time, on the Purchase Date, with the Tender Agent including in such telephonic notice

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and the confirmation thereof the amount of the Purchase Price of the Variable Rate Series 2014B Subordinate Bonds and the portion, if any, thereof representing accrued and unpaid interest on such Bonds to the Purchase Date. Upon receipt of notice, in writing or by any Electronic Means, of tender relating to Weekly Rate Bonds, the Tender Agent shall, not later than 5:00 p.m., New York City time, on the next Business Day, send notice of such tender to the Authority, the Remarketing Agent, the Trustee and any Credit Facility Provider by Electronic Means, with the Tender Agent including in such notice the amount of the Purchase Price of the Variable Rate Series 2014B Subordinate Bonds and the portion, if any, thereof representing accrued and unpaid interest on the Variable Rate Series 2014B Subordinate Bonds to the Purchase Date. Simultaneously with giving notice pursuant to Section 408(d) of any mandatory tender of the Variable Rate Series 2014B Subordinate Bonds pursuant to Section 408(a), the Trustee shall give notice by telephone or Electronic Means, promptly confirmed in writing, to the Tender Agent, the Remarketing Agent, any Credit Facility Provider and the Authority specifying the Purchase Date, the aggregate principal amount and Purchase Price of the Variable Rate Series 2014B Subordinate Bonds subject to mandatory tender on such Purchase Date, and the portion, if any, of such Purchase Price representing accrued and unpaid interest on such Variable Rate Series 2014B Subordinate Bonds to such Purchase Date.

(c) Not later than 11:30 a.m., New York City time, on each Purchase Date, the Remarketing Agent shall notify the Trustee, the Tender Agent and any Credit Facility Provider by Electronic Means of (i) the Purchase Price of the Variable Rate Series 2014B Subordinate Bonds to be sold by the Remarketing Agent and (ii) the Purchase Price of the Variable Rate Series 2014B Subordinate Bonds tendered for purchase which will not be sold by the Remarketing Agent, and the Tender Agent shall then determine the amount, if any, by which the Purchase Price of the Variable Rate Series 2014B Subordinate Bonds to be purchased on such Purchase Date exceeds the amount of the proceeds of the remarketing of such Variable Rate Series 2014B Subordinate Bonds by the Remarketing Agent on deposit in the Remarketing Proceeds Account at such time and shall immediately give telephonic or Electronic Means notice of that amount to the Trustee, the Authority and any Credit Facility Provider, which notice shall be promptly confirmed in writing; and

(i) if a Credit Facility is in effect on such Purchase Date, then, except with respect to Credit Facility Provider Bonds held pursuant to Section 411(b) and Variable Rate Series 2014B Subordinate Bonds held by the Authority, (A) the Trustee shall submit in accordance with the terms of the Credit Facility and by such time as is required to receive funds on the Purchase Date for the payment of the Purchase Price, a Credit Facility Request to the Credit Facility Provider requesting the purchase by that Credit Facility Provider under the Credit Facility, or the funding by the Credit Facility Provider under the Credit Facility of moneys for the purchase, of the Variable Rate Series 2014B Subordinate Bonds at a Purchase Price equal to the amount of the excess of the aggregate Purchase Price over any amounts on hand for payment to tendering Bondholders, and (B) not later than 2:30 p.m., New York City time, on such Purchase Date, the Trustee shall transfer to the Tender Agent and the Tender Agent shall deposit the proceeds of the Credit Facility Request received by the Trustee in the Credit Facility Purchase Account; or

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(ii) if no Credit Facility is in effect on such Purchase Date, then (A) not later than 12:30 p.m., New York City time, on such Purchase Date, the Tender Agent shall notify the Authority of the amount of the excess of the aggregate Purchase Price over any amounts on hand for payment to tendering Bondholders, which shall thereupon be payable by the Authority to the Tender Agent for the purpose of causing the Tender Agent to purchase such Bonds on behalf of the Authority, and (B) not later than 2:30 p.m., New York City time, on such Purchase Date, the Tender Agent shall deposit the amount, if any, received by the Tender Agent from the Authority for such purpose in the Authority Purchase Account.

(d) Not later than 3:00 p.m., New York City time, on each Purchase Date, the Tender Agent shall disburse the Purchase Price of the Variable Rate Series 2014B Subordinate Bonds to be purchased on such Purchase Date to the Holders thereof (upon surrender thereof for payment of such Purchase Price), from the following sources and in the following order of priority:

(i) Moneys on deposit in the Remarketing Proceeds Account (representing the proceeds of the remarketing by the Remarketing Agent of such Variable Rate Series 2014B Subordinate Bonds); and

(ii) If a Credit Facility is in effect on such Purchase Date, moneys on deposit in the Credit Facility Purchase Account (representing the proceeds of a Credit Facility Request); and

(iii) Moneys on deposit in the Authority Purchase Account (representing amounts paid by the Authority to the Tender Agent for the purchase of such Variable Rate Series 2014B Subordinate Bonds). If a Credit Facility is in effect for the Variable Rate Series 2014B Subordinate Bonds, the Authority has no obligation to deposit moneys in the Authority Purchase Account and has no obligation to purchase tendered Variable Rate Series 2014B Subordinate Bonds that are not remarketed.

(e) If the funds available from the sources specified in the preceding clause (d) for the purchase of the Variable Rate Series 2014B Subordinate Bonds subject to purchase on a Purchase Date are insufficient to purchase all of the Variable Rate Series 2014B Subordinate Bonds subject to purchase on such Purchase Date (including Undelivered Bonds), then, no purchase of any of those Variable Rate Series 2014B Subordinate Bonds shall occur on such Purchase Date, and on such Purchase Date, the Tender Agent shall (i) return to the Holders all of such Variable Rate Series 2014B Subordinate Bonds that were tendered, (ii) return all moneys received by the Tender Agent for the purchase of such Variable Rate Series 2014B Subordinate Bonds to the respective Persons that provided such moneys (in the respective amounts in which such moneys were so provided), and (iii) notify the Trustee of the foregoing. If a Credit Facility is in effect with respect to such Variable Rate Series 2014B Subordinate Bonds, and if the Credit Facility Provider is not in default thereunder, then the failure to purchase the Variable Rate Series 2014B Subordinate Bonds shall constitute an Event of Default under Section 903 (e). Otherwise, (i) if such Variable Rate Series 2014B Subordinate Bonds shall have been designated Hard Tender Index Rate Bonds, then the failure to purchase the Variable Rate Series 2014B Subordinate Bonds shall constitute an Event of Default under Section 903(e), but (ii) if such Variable Rate Series 2014B Subordinate Bonds shall have been designated Soft Tender Index

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Rate Bonds, then the failure to purchase the Variable Rate Series 2014B Subordinate Bonds shall not constitute an Event of Default under Section 903(e), and the Variable Rate Series 2014B Subordinate Bonds shall bear interest at the Penalty Rate from and after the Purchase Date and until the Purchase Price for all such Variable Rate Series 2014B Subordinate Bonds shall have been paid in full or until they otherwise cease to be Outstanding.

(f) Any moneys remaining in the Remarketing Proceeds Account, the Credit Facility Purchase Account or the Authority Purchase Account and representing (but not exceeding) the Purchase Price of the Variable Rate Series 2014B Subordinate Bonds subject to purchase on the Purchase Date but not tendered and delivered for purchase on the Purchase Date (following the payments described in subsection (d)) shall be transferred by the Tender Agent to the Undelivered Bond Payment Account not later than 3:30 p.m., New York City time, on the Purchase Date (and retained therein, subject to subsection (a), for application in accordance with subsection (f)). Any moneys remaining in the Remarketing Proceeds Account, the Credit Facility Purchase Account and the Authority Purchase Account on a Purchase Date (after the payments described in subsection (d) and the transfer described in the preceding sentence of this subsection (e)) shall be wire transferred by the Tender Agent, in immediately available funds, prior to the close of business on such Purchase Date, to the Credit Facility Provider, to the extent of any amounts owed to the Credit Facility Provider in respect of a Credit Facility Request, and then to the Authority.

(g) Moneys transferred to the Undelivered Bond Payment Account of the Purchase Fund on any Purchase Date shall be applied, on or after such Purchase Date, by the Tender Agent to pay the Purchase Price of the Undelivered Bonds in respect of which they were so transferred, upon the surrender of such Variable Rate Series 2014B Subordinate Bonds to the Tender Agent for such purpose.

(h) Notwithstanding the foregoing, in the event that the Variable Rate Series 2014B Subordinate Bonds are converted to a Fixed Rate and remarketed at a premium over par, remarketing proceeds received by the Tender Agent in excess of the amount required to pay the Purchase Price of the Variable Rate Series 2014B Subordinate Bonds tendered for purchase shall be delivered by the Tender Agent to the Trustee for deposit in a separate account in the custody of the Trustee. Such excess remarketing proceeds shall be disbursed by the Trustee in accordance with the written directions of an Authorized Official to pay fees and expenses relating to the conversion and remarketing, including any fees and expenses relating to any Credit Facility, to make any required deposit to the Debt Service Reserve Fund, to pay any amount owed upon early termination of any Hedge Agreement and otherwise to apply consistently with the Indenture.

**Section 408. Mandatory Tender and Purchase of Variable Rate Series 2014B Subordinate Bonds.**

(a) All the Variable Rate Series 2014B Subordinate Bonds shall be subject to mandatory tender for purchase by the Tender Agent at the Purchase Price, as follows:

(i) Short-Term and Long-Term Rate Bonds. Each Short-Term Rate Bond shall be subject to mandatory tender for purchase by the Tender Agent on the first day

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following the last day of each Short-Term Interest Period applicable to such Short-Term Rate Bond, and each Long-Term Rate Bond shall be subject to mandatory tender for purchase on the first day following the last day of each Long-Term Interest Period.

(ii) Conversion of Modes. Each subseries of the Variable Rate Series 2014B Subordinate Bonds shall be subject to mandatory tender for purchase by the Tender Agent on each Conversion Date for such subseries.

(iii) Expiration of a Credit Facility or Replacement of a Credit Facility With a Substitute Credit Facility. Variable Rate Series 2014B Subordinate Bonds requiring the maintenance of a Credit Facility are subject to mandatory tender for purchase by the Tender Agent (1) on a Business Day selected by the Trustee which shall be at least five days prior to the Expiration Date of the Credit Facility; and (2) on each Substitution Date, which shall be at least five days prior to the Expiration Date of the Credit Facility being replaced. Payment of the Purchase Price shall be made from proceeds of remarketing or a draw of moneys upon the Credit Facility that is expiring or being replaced.

(iv) Notice by the Credit Facility Provider. While a Credit Facility is in effect, the Variable Rate Series 2014B Subordinate Bonds are subject to mandatory tender for purchase by the Tender Agent (a) on a Business Day selected by the Trustee that is not more than one Business Day after the Trustee's receipt of notification from that Credit Facility Provider of that Credit Facility Provider's decision to exercise its right of mandatory tender as a result of the occurrence of certain events of default or termination under the Reimbursement Agreement, and (b) on the date designated by the Trustee following receipt by the Trustee of notice from the Credit Facility Provider that the Credit Facility Provider is not reinstating the Credit Facility following a draw, which date shall be a Business Day and shall be not more than one Business Day after the Trustee receives notice of non-reinstatement from the Credit Facility Provider.

(v) Index Rate Bonds Purchase Dates. Variable Rate Series 2014B Subordinate Bonds that are converted to Index Rate Bonds (regardless of whether they are then currently Index Rate Bonds) for any Index Rate Period shall be subject to mandatory tender (A) on the Index Rate Bonds Purchase Date specified in the applicable Notice of Conversion, which shall also specify if such Variable Rate Series 2014B Subordinate Bonds shall be Hard Tender Index Rate Bonds or Soft Tender Index Rate Bonds, and (B) at the option of the Authority on any Business Day on or after a date specified in the applicable Notice of Conversion.

(b) Variable Rate Series 2014B Subordinate Bonds to be purchased pursuant to subsection (a) shall be delivered by the Holders thereof to the Tender Agent (together with necessary assignments and endorsements) at or prior to 1:00 p.m., New York City time, on the applicable Purchase Date.

(c) Any Variable Rate Series 2014B Subordinate Bonds to be purchased by the Tender Agent pursuant to this Section that are not delivered for purchase on or prior to the Purchase Date, for which there has been irrevocably deposited in trust with the Tender Agent an amount sufficient to pay the Purchase Price of such Variable Rate Series 2014B Subordinate

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Bonds, shall be deemed to have been delivered to the Tender Agent for purchase, and the Holders of such Variable Rate Series 2014B Subordinate Bonds shall not be entitled to any payment (including any interest to accrue on or after the Purchase Date) other than the respective Purchase Prices of such Variable Rate Series 2014B Subordinate Bonds, and such Variable Rate Series 2014B Subordinate Bonds shall not be entitled to any benefits of the Indenture, except for payment of such Purchase Price out of the moneys deposited for such payment as aforesaid.

(d) In addition to any other requirements set forth in this Sixteenth Supplemental Indenture, notices of mandatory tender shall be mailed to Holders and shall:

(i) specify the proposed Purchase Date and the event which gives rise to the proposed Purchase Date;

(ii) state that such Variable Rate Series 2014B Subordinate Bonds shall be subject to mandatory tender for purchase on such Purchase Date;

(iii) state that Holders may not elect to retain the Variable Rate Series 2014B Subordinate Bonds subject to mandatory tender;

(iv) state that all of the Variable Rate Series 2014B Subordinate Bonds subject to mandatory tender shall be required to be delivered to the Designated Office of the Tender Agent at or before 1:00 p.m., New York City time, on the Purchase Date;

(v) state that if the Holder of any Variable Rate Series 2014B Subordinate Bonds subject to mandatory tender fails to deliver such Variable Rate Series 2014B Subordinate Bonds to the Tender Agent for purchase on the Purchase Date, and if the Tender Agent is in receipt of funds sufficient to pay the Purchase Price thereof, such Variable Rate Series 2014B Subordinate Bonds shall nevertheless be deemed purchased on the Purchase Date and ownership of such Variable Rate Series 2014B Subordinate Bonds shall be transferred to the purchaser thereof;

(vi) state that any Holder that fails to deliver such Variable Rate Series 2014B Subordinate Bonds for purchase shall have no further rights thereunder or under the Indenture except the right to receive the Purchase Price thereof upon presentation and surrender of such Variable Rate Series 2014B Subordinate Bonds to the Tender Agent and that the Trustee will place a stop transfer against the Variable Rate Series 2014B Subordinate Bonds subject to mandatory tender registered in the name of such Holder(s) on the registration books;

(vii) in the case of mandatory tender upon any proposed conversion of Variable Rate Series 2014B Subordinate Bonds, state that such conversion and such mandatory tender will not occur if certain events and conditions specified in Section 404(b) do not occur or are not satisfied and summarize those events and conditions; and

(viii) in the case of mandatory tender on a Substitution Date, state the information required by Section 412(d).

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(e) Notice of mandatory tender of Variable Rate Series 2014B Subordinate Bonds shall be given by the Trustee via Electronic Means or by first-class mail, to the Holders of the Variable Rate Series 2014B Subordinate Bonds (at their addresses as they appear on the Register as of the date of such notice), and to the Authority, any Remarketing Agent, the Tender Agent and any Credit Facility Provider, as follows. If the mandatory tender is by reason of the events described in clauses (ii), (iii) or (v) of subsection (a), that notice shall be given no fewer than 10 days prior to the Purchase Date. If the mandatory tender is by reason of the events described in clause (iv) or clause (v) of subsection (a), that notice shall be given immediately. No notice of mandatory tender is required to be given when the tender is by reason of clause (i) of subsection (a).

(f) Failure to mail such notice or any defect therein shall not affect the rights or obligations of Holders and the Trustee shall not be liable to any Holder by reason of its failure to mail such notice or any defect therein.

(g) If, following the giving of notice of mandatory tender of Variable Rate Series 2014B Subordinate Bonds, an event occurs which, in accordance with the terms of this Sixteenth Supplemental Indenture, causes such mandatory tender not to occur, then (i) the Trustee shall so notify the Holders of the Variable Rate Series 2014B Subordinate Bonds (at their addresses as they appear on the Bond Register on the date of such notice), via Electronic Means or by first-class mail, as soon as may be practicable after the Purchase Date, and (ii) the Tender Agent shall return to their Holders any of the Variable Rate Series 2014B Subordinate Bonds tendered to the Tender Agent in connection with such mandatory tender of the Variable Rate Series 2014B Subordinate Bonds.

#### **Section 409. The Remarketing Agent.**

(a) Each Remarketing Agent shall perform the duties of the Remarketing Agent pursuant to the Remarketing Agreement and this Sixteenth Supplemental Indenture. Successor Remarketing Agents may be appointed from time to time by the Authority with the prior written consent of the Credit Facility Provider (which consent shall not be unreasonably withheld). The Remarketing Agents shall be corporations or other legal entities organized and doing business under the laws of the United States of America or of any state thereof, authorized under such laws to perform all duties imposed upon the Remarketing Agents by this Sixteenth Supplemental Indenture, and shall be either (a) a member of the National Association of Securities Dealers, Inc. and registered as a Municipal Securities Dealer under the Securities Exchange Act of 1934, as amended, or (b) a national banking association, commercial bank or trust company. So long as the Variable Rate Series 2014B Subordinate Bonds are held in book-entry form at the Depository, each Remarketing Agent must be a Participant in the Depository with respect to the Variable Rate Series 2014B Subordinate Bonds.

(b) Each Remarketing Agent appointed in accordance with this Sixteenth Supplemental Indenture shall designate its Designated Office and signify its acceptance of the duties and obligations imposed upon it as described herein by a written instrument of acceptance delivered to the Authority, the Trustee, the Tender Agent and any Credit Facility Provider, or by executing and delivering a Remarketing Agreement, in either case under which the Remarketing Agent will agree, particularly:

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(i) to hold all moneys delivered to it hereunder for the purchase of the Variable Rate Series 2014B Subordinate Bonds in trust for the exclusive benefit of the Person or Persons that shall have so delivered such moneys until the Variable Rate Series 2014B Subordinate Bonds purchased with such moneys shall have been delivered to or for the account of such Person or Persons;

(ii) to keep such books and records as shall be consistent with prudent industry practice and to make such books and records available for inspection by the Authority, the Trustee, the Tender Agent and the Authority at all reasonable times;

(iii) to determine (A) the Daily Rates, Weekly Rates, Short-Term Rates and Long-Term Rates, and, pursuant to Section 403(j), during any Subsequent Index Rate Period, the Applicable Spread that will be used in determining the Index Rate for each Subsequent Index Interest Period, (B) if engaged as Remarketing Agent in connection with the conversion to Fixed Rate Bonds, the Fixed Rate(s), and give notice of such rates in accordance with Article IV;

(iv) to remarket Daily Rate Bonds, Weekly Rate Bonds, Short-Term Rate Bonds and Long-Term Rate Bonds at rates no higher than the rate of interest available under the Credit Facility, if a Credit Facility secures the Variable Rate Series 2014B Subordinate Bonds, and to remarket Short-Term Rate Bonds and Long-Term Rate Bonds for Short-Term Periods or Long-Term Rate Periods, as appropriate, no longer than interest is available under the Credit Facility if a Credit Facility secures the Variable Rate Series 2014B Subordinate Bonds all in accordance with Section 413;

(v) to offer for sale and use its best efforts to find purchasers for the Variable Rate Series 2014B Subordinate Bonds tendered for purchase, any such sale to be made in accordance with the terms of this Sixteenth Supplemental Indenture;

(vi) to deliver to the Tender Agent all of the Variable Rate Series 2014B Subordinate Bonds held by it in accordance with the terms of this Sixteenth Supplemental Indenture and the Remarketing Agreement; and

(vii) to perform such other duties and responsibilities (including with respect to Credit Facility Bonds) as are provided in this Sixteenth Supplemental Indenture to be performed by a Remarketing Agent.

Notwithstanding the foregoing, a Remarketing Agent may be engaged for only certain types of Rate Periods, and in that event the Remarketing Agent shall not be required to perform the duties of the Remarketing Agent for any other type of Rate Period.

(c) A Remarketing Agent may at any time resign and be discharged of the duties and obligations described in this Sixteenth Supplemental Indenture by giving at least 60 days' notice to the Authority, the Trustee, the Tender Agent, any Credit Facility Provider and each Rating Agency. A Remarketing Agent may be removed at any time upon the Written Request of the Authority and upon written notice to the Remarketing Agent, the Tender Agent, the Trustee and any Credit Facility Provider; provided, however, that no such removal shall be or become



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effective unless and until a successor Remarketing Agent shall have been appointed and accepted such appointment in accordance with subsection (a).

(d) If and so long as no successor Remarketing Agent is appointed by the Authority after the office of a Remarketing Agent becomes vacant, the Tender Agent or Trustee, at the expense of the Authority, may petition a court to appoint a successor Remarketing Agent.

(e) A Remarketing Agent may in good faith hold the Variable Rate Series 2014B Subordinate Bonds or any other form of indebtedness issued by the Authority; own, accept or negotiate any drafts, bills of exchange, acceptances or obligations thereof, and make disbursements therefor and enter into any commercial or business arrangement therewith; all without any liability on the part of the Remarketing Agent for any real or apparent conflict of interest by reason of any such actions.

**Section 410. Sale of Variable Rate Series 2014B Subordinate Bonds by Remarketing Agent.**

(a) Upon the receipt by a Remarketing Agent of (i) notice of tender of Daily Rate Bonds or Weekly Rate Bonds pursuant to Section 406, or (ii) notice of mandatory tender of the Variable Rate Series 2014B Subordinate Bonds pursuant to Section 408, the Remarketing Agent shall offer for sale and use its best efforts to solicit purchases of Variable Rate Series 2014B Subordinate Bonds subject to purchase on the Purchase Date at a price equal to the applicable purchase price.

(b) A Remarketing Agent shall direct that the proceeds of all purchases of the Variable Rate Series 2014B Subordinate Bonds solicited and arranged by the Remarketing Agent be paid to the Tender Agent (for deposit in the Remarketing Proceeds Account), at or prior to 12:00 p.m., New York City time, on the Purchase Date, in immediately available funds (and, promptly upon receipt thereof, the Tender Agent shall deposit such proceeds in the Remarketing Proceeds Account).

(c) [Reserved].

(d) A Remarketing Agent shall offer for sale and use its best efforts to arrange for the sale and remarketing of all Credit Facility Provider Bonds, prior to the sale and remarketing of any Variable Rate Series 2014B Subordinate Bonds, at a price equal to 100% of the principal amount thereof plus accrued and unpaid interest thereon (at the rate that would be borne by such Credit Facility Provider Bonds if such Credit Facility Provider Bonds were not Credit Facility Provider Bonds). In connection with each remarketing of Credit Facility Provider Bonds by the Remarketing Agent:

(i) The Remarketing Agent shall (A) provide to the Authority, the Credit Facility Provider, the Trustee and the Tender Agent not less than one Business Day's prior notice of such remarketing, and (B) pay, or cause to be paid to the Credit Facility Provider, by wire transfer of immediately available funds, the proceeds of such remarketing;

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(ii) The Trustee shall (A) in consultation with the Credit Facility Provider, calculate the Credit Facility Provider Bonds Purchase Price, (B) in consultation with the Remarketing Agent, determine the amount of remarketing proceeds paid to the Credit Facility Provider by the Remarketing Agent, and (C) pay to the Credit Facility Provider, from moneys in the Debt Service Fund and by wire transfer of immediately available funds, the balance of the Credit Facility Provider Bonds Purchase Price owed to the Credit Facility Provider (representing the difference between the accrued interest on the Credit Facility Provider Bonds paid by the purchaser of the Credit Facility Provider Bonds and the accrued interest on those Credit Facility Provider Bonds at the Credit Facility Provider Rate);

(iii) The Trustee shall confirm with the Credit Facility Provider the receipt by that Credit Facility Provider of the Credit Facility Provider Bonds Purchase Price, the reinstatement of the Credit Facility in respect of such Credit Facility Provider Bonds and the authorization of that Credit Facility Provider to release such Credit Facility Provider Bonds; and

(iv) After, and only after, receipt by the Trustee of confirmation by the Credit Facility Provider of the reinstatement of the Credit Facility to cover such Credit Facility Provider Bonds following remarketing thereof and authorization by that Credit Facility Provider of such transfer or such authentication and delivery, the Trustee shall (A) while a book-entry system is in effect with respect to the Variable Rate Series 2014B Subordinate Bonds, cause the ownership interest in such Credit Facility Provider Bonds to be transferred to or for the benefit of such purchaser or purchasers as are specified by the Remarketing Agent for such purpose, and (B) while a book-entry system is not in effect with the Depository with respect to the Variable Rate Series 2014B Subordinate Bonds, authenticate other Variable Rate Series 2014B Subordinate Bonds in lieu of such Credit Facility Provider Bonds and to deliver the same to or upon the instruction of the Remarketing Agent.

(e) A Remarketing Agent shall offer for sale and use its best efforts to arrange for the sale and remarketing of (i) all Variable Rate Series 2014B Subordinate Bonds subject to purchase on a Purchase Date that are purchased with moneys provided by the Authority to the Tender Agent for such purpose (as described in Section 407(c)(ii)), and (ii) all of the Variable Rate Series 2014B Subordinate Bonds that are purchased by the Authority pursuant to the Credit Facility and not surrendered by the Authority for cancellation.

**Section 411. Delivery of Purchased Variable Rate Series 2014B Subordinate Bonds.**

(a) Upon application of the moneys described in Section 407(d)(ii) to the purchase of Variable Rate Series 2014B Subordinate Bonds on a Purchase Date pursuant to Section 407(d)(ii) (and/or to the transfer thereof to the Undelivered Bond Payment Account on a Purchase Date pursuant to Section 407(e)), the Tender Agent shall cause the Trustee to register the transfer of Variable Rate Series 2014B Subordinate Bonds purchased therewith in the names of the purchasers thereof in accordance with information provided by the Remarketing Agent for

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such purpose and to have such transferred Variable Rate Series 2014B Subordinate Bonds available for delivery against payment therefor.

(b) Upon application of the moneys described in Section 407(d)(ii) to the purchase of Variable Rate Series 2014B Subordinate Bonds on a Purchase Date pursuant to Section 407(d)(ii) (and/or to the transfer thereof to the Undelivered Bond Payment Account on a Purchase Date pursuant to Section 407(e)), (i) the Variable Rate Series 2014B Subordinate Bonds purchased (or, in the case of such transfer, provided to be purchased) with such moneys shall constitute Credit Facility Provider Bonds (unless and until such Variable Rate Series 2014B Subordinate Bonds cease to be Credit Facility Provider Bonds as described in the definition thereof), and (ii) if a book-entry system is in effect with the Depository with respect to the Variable Rate Series 2014B Subordinate Bonds, the ownership interest in such Credit Facility Provider Bonds shall be transferred on the books of the Depository to or for the account of the Tender Agent or a Participant acting on behalf of the Tender Agent and the Tender Agent shall, and shall cause such Participant to, mark its own books and records to reflect the beneficial ownership of such Credit Facility Provider Bonds by the Credit Facility Provider, and (iii) if a book-entry system is not in effect with the Depository with respect to the Variable Rate Series 2014B Subordinate Bonds, such Bonds shall be delivered by the Tender Agent to the Trustee for registration of transfer and shall be registered by the Trustee in the name of the Credit Facility Provider, or any nominee of the Credit Facility Provider, and delivered by the Trustee to the Tender Agent and held by the Tender Agent as the custodian of the Credit Facility Provider. The Tender Agent shall release and redeliver or transfer Credit Facility Provider Bonds (being remarketed by the Remarketing Agent) as provided in Section 410(d). Any other disposition of Credit Facility Provider Bonds shall be made only at the written direction or with the prior written consent of the Credit Facility Provider, subject to receipt by the Trustee of confirmation by the Credit Facility Provider of the reinstatement of the Credit Facility to cover such Credit Facility Provider Bonds.

(c) Upon the application of moneys described in Section 407(d)(iii) to the purchase of Variable Rate Series 2014B Subordinate Bonds on a Purchase Date pursuant to Section 407(d)(iii) (and/or to the transfer thereof to the Undelivered Bond Payment Account on a Purchase Date pursuant to Section 407(e), the Variable Rate Series 2014B Subordinate Bonds purchased (or, in the case of such transfer, provided to be purchased) with such moneys shall be registered in the name of the Authority and shall, at the direction of the Authority, be delivered to the Trustee for cancellation (and canceled by the Trustee) or delivered to the Tender Agent for the account of the Authority and remarketed in accordance with Section 410(e).

(d) Any Variable Rate Series 2014B Subordinate Bonds canceled by the Trustee pursuant to this Section and any Variable Rate Series 2014B Subordinate Bonds surrendered by the Authority to the Trustee for cancellation shall be allocated to the next succeeding scheduled mandatory redemption obligation pursuant to Section 501(b) then as a credit against such future scheduled mandatory redemption obligation pursuant to Section 501(c) as the Authority may specify in a Written Request; provided, however, that there shall be first redeemed any Outstanding Credit Facility Provider Bonds. Prior to the Expiration Date, the Trustee shall notify the Credit Facility Provider of the aggregate principal amount of the Variable Rate Series 2014B Subordinate Bonds so canceled and shall submit to the Credit Facility Provider such documents, if any, as are required in accordance with the terms of the Credit Facility to cause the

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amounts available under the Credit Facility to be reduced in respect of such Variable Rate Series 2014B Subordinate Bonds so canceled.

**Section 412. Credit Facility.**

(a) The Trustee shall make Credit Facility Requests in accordance with Sections 407(c). The Trustee shall only draw upon a Credit Facility when that Credit Facility is in a stated amount not less than (i) the aggregate principal amount of the Variable Rate Series 2014B Subordinate Bonds, plus (ii) such number of days of interest as may accrue prior to any Interest Payment Date based on the Rate Period then in effect, and the Trustee shall not draw upon a Credit Facility that by its terms is not available during the Rate Period.

(b) The Trustee shall not terminate or reduce the amounts available under a Credit Facility except by reason of the redemption, cancellation and/or defeasance of the Variable Rate Series 2014B Subordinate Bonds.

(c) The Authority shall maintain a Credit Facility for the Variable Rate Series 2014B Subordinate Bonds in effect in accordance with Section 413 herein at all times it is required to do so by this Section.

(d) The Authority may furnish a Substitute Credit Facility in substitution for any then existing Credit Facility for the Variable Rate Series 2014B Subordinate Bonds upon satisfaction of the conditions set forth in Section 413. The Trustee shall give notice to the Holders of the Variable Rate Series 2014B Subordinate Bonds (at their addresses as they appear on the registration books of the Trustee as of the date of such notice), via Electronic Means or by first-class mail, of the proposed substitution of a Substitute Credit Facility for the Credit Facility then in effect for the Variable Rate Series 2014B Subordinate Bonds and the related Substitution Date (stating the issuer or issuers and the term of such Substitute Credit Facility) at least 10 days prior to such Substitution Date. Such notice shall also constitute the notice of mandatory tender of the Variable Rate Series 2014B Subordinate Bonds on the related Substitution Date; provided, however, that, if the Substitution Date is more than 15 days prior to the Expiration Date of the Credit Facility being replaced, in addition to the information required by Section 408(d), such notice may state that such mandatory tender of the Variable Rate Series 2014B Subordinate Bonds will not occur if, on or prior to the proposed Substitution Date, the Trustee does not receive such Substitute Credit Facility, together with the supporting substitution documents. If, by reason of the conditions to such mandatory tender of the Variable Rate Series 2014B Subordinate Bonds (as stated in such notice), there is no mandatory tender of the Variable Rate Series 2014B Subordinate Bonds on the proposed Substitution Date, (i) the Tender Agent shall so notify the Trustee, (ii) the Trustee shall so notify the Holders of the Variable Rate Series 2014B Subordinate Bonds (at their addresses as they appear on the registration books of the Trustee as of the date of such notice) via Electronic Means or by first-class mail, and (iii) the Tender Agent shall return to their Holders any of the Variable Rate Series 2014B Subordinate Bonds tendered to the Tender Agent in connection with such mandatory tender of the Variable Rate Series 2014B Subordinate Bonds.

(e) No Credit Facility is required if the requirements of Section 413 are met for the expiration of any Credit Facility without substitution of a Substitute Credit Facility.

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**Section 413. Substitute Credit Facility.**

(a) During any time that Variable Rate Series 2014B Subordinate Bonds are Daily Rate Bonds or Weekly Rate Bonds, the Authority shall maintain a Credit Facility for the Variable Rate Series 2014B Subordinate Bonds under which the Credit Facility Provider is required to purchase or provide funds for the purchase of the Variable Rate Series 2014B Subordinate Bonds tendered for purchase in accordance with this Sixteenth Supplemental Indenture. The Credit Facility shall be issued by a bank, trust company, national banking association, insurance company or other financial services company or entity or the Authority, in an amount not less than (i) the aggregate principal amount of all Outstanding Variable Rate Series 2014B Subordinate Bonds, plus (ii) an amount equal to at least 34 days' interest on all Outstanding Variable Rate Series 2014B Subordinate Bonds at the Maximum Rate, plus (iii) in the case of a Credit Facility that does not automatically reinstate coverage for interest following a drawing to pay interest on the Variable Rate Series 2014B Subordinate Bonds, the number of days during which the Variable Rate Series 2014B Subordinate Bonds may continue to bear interest until purchased upon mandatory tender under Section 408(a)(iv) following a drawing in which the Credit Facility Provider may notify the Trustee that interest coverage has not reinstated. The Authority will not voluntarily terminate a Credit Facility while Variable Rate Series 2014B Subordinate Bonds are Daily Rate Bonds or Weekly Rate Bonds without at least 60 days' prior written notice to the Trustee and without providing for a Substitute Credit Facility (including the Authority providing its own Credit Facility) prior to the effective date of such termination.

(b) At any time the Authority may furnish a Substitute Credit Facility subject to the following limitations and the other limitations set forth in this Section:

(i) The principal amount of the Substitute Credit Facility must be not less than that required by Section 413(a).

(ii) The term of the Substitute Credit Facility must be at least 90 days.

(iii) On or prior to the effective date of a Substitute Credit Facility, the Authority shall furnish to the Trustee an Opinion or Opinions of Counsel acceptable to the Trustee to the effect that the Credit Facility has been duly authorized, executed and delivered by the Credit Facility Provider and is a valid and binding obligation of the Credit Facility Provider enforceable in accordance with its terms (subject as to enforceability to standard exceptions respecting bankruptcy, insolvency and similar laws and principles of equity) and that the exemption of the Variable Rate Series 2014B Subordinate Bonds (or any securities evidenced thereby) from the registration requirements of the Securities Act of 1933, as amended, and the exemption of the Indenture from qualification under the Trust Indenture Act of 1939, as amended, shall not be impaired by such Substitute Credit Facility or that the registration or qualification requirements of such acts have been satisfied.

(iv) The Authority shall give written notice to the Trustee, the Tender Agent, the Credit Facility Provider, the Remarketing Agent and each Rating Agency, not less than 30 days prior to the Substitution Date and not less than 30 days prior to the

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Expiration Date of a Credit Facility then in effect, specifying that the Authority intends to replace the Credit Facility with a Substitute Credit Facility on or before the Expiration Date of the Credit Facility then in effect.

(v) The Authority shall cause to be delivered to the Trustee not less than 30 days prior to the Expiration Date of an existing Credit Facility a commitment by the Credit Facility Provider that will issue the Substitute Credit Facility. If the Substitution Date for that Substitute Credit Facility is less than 15 days prior to the Expiration Date for the existing Credit Facility, the Authority shall provide the Substitute Credit Facility or an irrevocable commitment therefor together with the opinion described in Section 413(b)(iii) not later than 15 days prior to the Expiration Date.

(vi) If there are outstanding any Credit Facility Provider Bonds, the Substitute Credit Facility must provide for the purchase of those Bonds.

(c) The Authority may provide its own Credit Facility for the Variable Rate Series 2014B Subordinate Bonds if the Authority has agreed to pay the Purchase Price of any tendered Variable Rate Series 2014B Subordinate Bonds itself. As a result, any references herein to the Credit Facility Provider of the Variable Rate Series 2014B Subordinate Bonds or to the Credit Facility of the Variable Rate Series 2014B Subordinate Bonds shall be ignored or shall be construed as referencing the Authority for as long as the Authority has agreed to pay the Purchase Price of any tendered Variable Rate Series 2014B Subordinate Bonds itself. References to a Credit Facility Request or a “draw” or “drawing” (or a similar term) on the Credit Facility, for example, shall be construed in the absence of a Credit Facility to be a notice to the Authority of the need to provide funds for the purchase of the Variable Rate Series 2014B Subordinate Bonds. If the Authority provides its own Credit Facility, then the Variable Rate Series 2014B Subordinate Bonds are subject to mandatory tender under the same terms as that of providing a Substitute Credit Facility herein.

(d) In the case of mandatory tender because of the delivery of a Substitute Credit Facility in substitution for the existing Credit Facility, the Trustee shall submit any necessary Credit Facility Request to the existing Credit Facility Provider on and prior to the Substitution Date and shall not draw upon the Substitute Credit Facility that will become effective on or after such Substitution Date, and the Trustee shall not surrender the existing Credit Facility until the Purchase Price of the Variable Rate Series 2014B Subordinate Bonds has been paid in full.

**Section 414. Subrogation Rights of Credit Facility Provider; Credit Facility Provider Bonds; Fees.**

(a) To the extent that proceeds of a Credit Facility Request are used to pay principal of or interest on the Variable Rate Series 2014B Subordinate Bonds (“Debt Service Charges”), and the amount of such Credit Facility Request is not subsequently reimbursed to such Credit Facility Provider pursuant to the provisions of the Reimbursement Agreement, as long as the amount of such Credit Facility Request has not been reimbursed the Credit Facility Provider shall be subrogated to and assigned the rights of and be deemed a subrogee and assignee of the rights of the Holders of those Variable Rate Series 2014B Subordinate Bonds to receive such Debt Service Charges. For purposes of the subrogation and assignment rights of a Credit Facility

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Provider hereunder, (a) any reference to the Holders of those Variable Rate Series 2014B Subordinate Bonds shall mean the Credit Facility Provider, (b) any Debt Service Charges on the Variable Rate Series 2014B Subordinate Bonds paid with proceeds of the Credit Facility shall be deemed to be unpaid Debt Service Charges payable under and secured as Subordinate Debt by the lien of the Indenture, and (c) the Credit Facility Provider may exercise any rights it would have as Holder of the Variable Rate Series 2014B Subordinate Bonds. The subrogation rights granted to such Credit Facility Provider in this Sixteenth Supplemental Indenture are not intended to be exclusive of any other remedy or remedies available to a Credit Facility Provider, and such subrogation rights shall be cumulative and in addition to every other remedy given under the Indenture, under the Reimbursement Agreement or under any other agreement or instrument with respect to the reimbursement of moneys paid by a Credit Facility Provider under a Credit Facility or with respect to security for the Reimbursement Obligations, and every other remedy now or hereafter existing at law or in equity. The Trustee, at the expense of the Authority, shall register in the name of the Credit Facility Provider the ownership of that portion of the Variable Rate Series 2014B Subordinate Bonds the principal of which was paid by such Credit Facility Provider from the proceeds of a Credit Facility Request that has not been reimbursed by the Authority in accordance with the Reimbursement Agreement. The Trustee also shall take such action, at the expense of the Authority, as is reasonably necessary to evidence the Credit Facility Provider as the subrogee and assignee of the Holders of the Variable Rate Series 2014B Subordinate Bonds for which interest payments have been made by the Credit Facility Provider from the proceeds of a Credit Facility Request that has not been reimbursed by the Authority in accordance with the Reimbursement Agreement.

(b) To the extent that proceeds of a Credit Facility Request are used to pay the Purchase Price of the Variable Rate Series 2014B Subordinate Bonds and the amount of such Credit Facility Request is not subsequently reimbursed to the Credit Facility Provider pursuant to the provisions of the Reimbursement Agreement, those Variable Rate Series 2014B Subordinate Bonds shall be Credit Facility Provider Bonds, and the transfer and assignment of property to the Trustee pursuant to the granting clauses hereof and in the Indenture, and all covenants, agreement and other obligations of the Trustee to the Holders shall continue to exist and shall run to the benefit of the Credit Facility Provider, and such Credit Facility Provider Bonds shall bear interest and be payable and secured as provided in this Sixteenth Supplemental Indenture and in the Reimbursement Agreement.

(c) Except as provided in subsections (a) and (b) above, all fees, expenses and other amounts payable by the Authority to the Credit Facility Provider under the Reimbursement Agreement shall be treated as Operating Expenses under the Indenture payable from the Revenue Fund.

**Section 415. Credit Facility Provider Deemed Holder of Variable Rate Series 2014B Subordinate Bonds.**

Notwithstanding any provision to the contrary in this Sixteenth Supplemental Indenture, and provided that (a) the Credit Facility Provider is and remains solvent and not a party to any proceeding for the rehabilitation, liquidation, conservation or dissolution of the Credit Facility Provider, (b) the Credit Facility is in full force and effect, and (c) the Credit Facility Provider shall have made and be continuing to make all payments pursuant to Credit Facility Requests,

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then the Credit Facility Provider shall be deemed to be the Holder of all the Variable Rate Series 2014B Subordinate Bonds and may act in the place of the Holders of the Variable Rate Series 2014B Subordinate Bonds for purposes of making requests and giving directions and consents to the Trustee and exercising any and all other rights which the holders of those Variable Rate Series 2014B Subordinate Bonds would have the power and authority to make, give, or exercise as Holders of Subordinate Debt under Article IX hereof as a result of the occurrence and continuation of an Event of Default, and making or giving any other consent, direction, or approval permitted or required under the Indenture to be made or given by Holders of the Variable Rate Series 2014B Subordinate Bonds.

#### **Section 416. Trustee Provisions.**

(a) While any Credit Facility is in effect, the Trustee may seek indemnification pursuant to the Indenture before suffering, taking or omitting any action under the Indenture unless such action is directly related to (i) paying the Purchase Price of or Debt Service Charges on the Variable Rate Series 2014B Subordinate Bonds when due, (ii) submitting Credit Facility Requests, or (iii) exercising its obligations in connection with a mandatory tender of the Variable Rate Series 2014B Subordinate Bonds under Section 408, and (iv) exercising its obligations in connection with the redemption of Variable Rate Series 2014B Subordinate Bonds. The Trustee may not use the proceeds from a Credit Facility Request or remarketing proceeds to pay any fees or costs of the Trustee.

(b) Upon resignation by or removal of the Trustee in accordance with Sections 1106 or 1107 of the Master Indenture, the Trustee shall transfer any Credit Facility to the successor Trustee. Such resignation or removal shall not take effect until the appointment of a successor Trustee and acceptance by the successor Trustee of such trusts as required by Article XI of the Master Indenture and transfer to the successor Trustee of any Credit Facility then outstanding.

(c) While a Credit Facility is in effect with respect to the Variable Rate Series 2014B Subordinate Bonds, the Trustee shall act as Tender Agent for the Variable Rate Series 2014B Subordinate Bonds.

#### **Section 417. Modification of Dates and Times.**

Notwithstanding any other provision of this Sixteenth Supplemental Indenture, and with respect to this Article IV, the dates and times by which notices are to be given and draws, transfers, disbursements and deposits are to be made may be modified upon written approval by the Trustee of a letter of instructions from the Authority, any Credit Facility Provider and the Remarketing Agent setting forth the preferred dates and times and written confirmation from each of the Rating Agencies that have rated the Variable Rate Series 2014B Subordinate Bonds that such changes will not affect the rating(s) on the Variable Rate Series 2014B Subordinate Bonds.

#### **Section 418. Particular Defeasance Provisions.**

(a) If the Variable Rate Series 2014B Subordinate Bonds are to be deemed paid or discharged pursuant to Article XII of the Master Indenture, and the Rate Period for the Variable Rate Series 2014B Subordinate Bonds ends prior to the maturity or redemption date to which



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provision for payment of Debt Services Charges is to be made, then for purposes of calculating those Debt Service Charges, interest on the Variable Rate Series 2014B Subordinate Bonds shall be calculated at the Maximum Rate for each day after the end of the Rate Period and prior to such maturity or redemption date.

(b) If and to the extent that payment of Debt Service Charges on Variable Rate Series 2014B Subordinate Bonds has been made from a draw on the Credit Facility then, so long as the Authority owes any amounts to the Credit Facility Provider pursuant to the Reimbursement Agreement (as certified in writing by the Credit Facility Provider to the Trustee): (a) the lien of the Indenture shall not be discharged; (b) the Credit Facility Provider shall be subrogated to the extent of such amounts owed by the Authority to that Credit Facility Provider to all rights of the Holders of the Variable Rate Series 2014B Subordinate Bonds to enforce the payment of the Variable Rate Series 2014B Subordinate Bonds from the Net Revenues and all other rights of the Holders under the Variable Rate Series 2014B Subordinate Bonds and the Indenture; (c) the Credit Facility Provider shall be entitled in its own right upon payment in full of Debt Service Charges on the Variable Rate Series 2014B Subordinate Bonds to exercise all rights of enforcement and remedies set forth in Article IX of this Sixteenth Supplemental Indenture of the Master Indenture; (d) the Holders will be deemed paid to the extent of money drawn by the Trustee under the Credit Facility; and (e) the Trustee shall sign, execute and deliver all documents or instruments and do all things that may be reasonably required by the Credit Facility Provider to effect the Credit Facility Provider's subrogation of rights of enforcement and remedies set forth in Article IX of this Sixteenth Supplemental Indenture in accordance with the intent of this Section.

## ARTICLE V

### REDEMPTION OF VARIABLE RATE SERIES 2014B SUBORDINATE BONDS

#### Section 501. Redemption of the Variable Rate Series 2014B Subordinate Bonds.

The Variable Rate Series 2014B Subordinate Bonds shall be subject to redemption in Authorized Denominations prior to maturity under the circumstances, in the manner and subject to the conditions provided in this Section and in the form of the Variable Rate Series 2014B Subordinate Bonds.

(a) Optional Redemption. The Variable Rate Series 2014B Subordinate Bonds are subject to redemption and payment prior to maturity, in whole or in part, at the option of the Authority, upon written direction from the Authorized Official to the Trustee, as follows:

(i) Daily Rate Bonds and Weekly Rate Bonds are subject to optional redemption on any date at the redemption price of 100% of the principal amount thereof, plus accrued interest to the redemption date.

(ii) Short-Term Rate Bonds are subject to optional redemption on any Interest Payment Date at the redemption price of 100% of the principal amount thereof, plus accrued interest to the redemption date.

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(iii) Long-Term Rate Bonds are subject to optional redemption on the day after the end of each Long-Term Interest Period at a redemption price equal to 100% of the principal amount redeemed, plus interest accrued to the redemption date.

(iv) Index Rate Bonds are subject to optional redemption, in whole or in part, at a redemption price equal to the principal amount of the Index Rate Bonds to be redeemed plus interest accrued to, but not including, the redemption date on any date or dates specified in the applicable Notice of Conversion as an optional redemption date.

(v) Fixed Rate Bonds are subject to optional redemption at any time on and after the no-call period shown below, at the respective redemption prices set out below, plus accrued interest thereon to the redemption date (unless an alternate optional redemption schedule is determined pursuant to this subparagraph (v)):

<b>Period to Final Maturity</b>	<b>No Call Period</b>	<b>Redemption Price</b>
Greater than or equal to 11 Years	8 years	100%
Greater than or equal to 8 years and less than 11 years	6 years	100%
Greater than or equal to 4 years and less than 8 years	3 years	100%
Less than 4 years	No optional redemption	N/A

Notwithstanding the foregoing, if before the first day of a Fixed Rate Period an alternate optional redemption schedule is delivered by the Authority to the Trustee setting forth redemption dates and redemption prices during that Fixed Rate Period together with a certificate of the Remarketing Agent certifying that the redemption terms set forth therein are advantageous for the Remarketing Agent to remarket those Bonds for that period and a Favorable Opinion of Bond Counsel, then the Variable Rate Series 2014B Subordinate Bonds shall be subject to redemption during that period in accordance with that optional redemption schedule rather than the schedule set forth above, provided that ten (10) years shall be the longest period that any Variable Rate Series 2014B Subordinate Bonds shall not be subject to optional redemption.

If a Credit Facility in the form of a direct pay bank letter of credit is in effect for the Variable Rate Series 2014B Subordinate Bonds, the Trustee shall call the Variable Rate Series 2014B Subordinate Bonds for optional redemption only if the Trustee, prior to the mailing of the notice of redemption as provided in Section 502, is entitled to draw on that Credit Facility in an aggregate amount sufficient to pay the redemption price of the Variable Rate Series 2014B Subordinate Bonds called for redemption, plus accrued and unpaid interest.

(b) Mandatory Sinking Fund Redemption Requirements of Variable Rate Series 2014B Subordinate Bonds. The Variable Rate Series 2014B Subordinate Bonds shall be redeemed by the Authority on October 1 (or, if the Variable Rate Series 2014B Subordinate

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Bonds are Daily Rate Bonds or Weekly Rate Bonds and that date is not an Interest Payment Date, on the Interest Payment Date immediately succeeding that date) in the years and the amounts set forth below (the Mandatory Sinking Fund Redemption Requirements) at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date, without premium (subject to any adjustment in connection with a conversion of the interest rate to a Fixed Rate in accordance with this Sixteenth Supplemental Indenture).

**Mandatory Sinking Fund Redemption Requirements  
for SubSeries 2014B-1 Subordinate Bonds**

<u>Year</u>	<u>Amount</u>
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The remaining principal amount of the SubSeries 2014B-1 Subordinate Bonds (\$\_\_\_\_\_ ) is payable on their Maturity Date.

**Mandatory Sinking Fund Redemption Requirements  
for SubSeries 2014B-2 Subordinate Bonds**

<u>Year</u>	<u>Amount</u>
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The remaining principal amount of the SubSeries 2014B-2 Subordinate Bonds (\$\_\_\_\_\_ ) is payable on their Maturity Date.

(c) Credits Against Scheduled Mandatory Sinking Fund Redemption Requirements. At the option of the Authority, to be exercised by delivery of a certificate of the Authorized Official to the Trustee on or before the 45th day next preceding any scheduled mandatory redemption date, the Authority may (1) deliver to the Trustee for cancellation Variable Rate Series 2014B Subordinate Bonds subject to scheduled mandatory redemption on that date or portions thereof in Authorized Denominations or (2) specify a principal amount of Variable Rate Series 2014B Subordinate Bonds or portions thereof in Authorized Denominations which prior to that date have been purchased or redeemed (otherwise than pursuant to this Section) and canceled by the Trustee at the request of the Authority and not theretofore applied as a credit against any scheduled mandatory redemption payment of Variable Rate Series 2014B Subordinate Bonds. Each Variable Rate Series 2014B Subordinate Bond or portion thereof so delivered or previously redeemed shall be credited by the Trustee at the principal amount thereof against the obligation of the Authority to redeem Variable Rate Series 2014B Subordinate Bonds on the scheduled mandatory redemption date or dates designated in writing to the Trustee by the Authorized Official occurring at least 45 days after delivery of such designation to the Trustee,

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provided that if no such designation is made, such credit shall not be credited against such obligation.

(d) Special Mandatory Redemption of Credit Facility Provider Bonds. Credit Facility Provider Bonds shall be subject to special mandatory redemption upon the written direction to the Trustee from the Credit Facility Provider on the date and in the amount set forth in the Reimbursement Agreement with respect to any required principal amortization of Credit Facility Provider Bonds or upon an event of default under the Reimbursement Agreement.

#### **Section 502. Notice of Redemption.**

The Trustee shall cause notice of any redemption of Variable Rate Series 2014B Subordinate Bonds to be (i) mailed to the Holders of all Variable Rate Series 2014B Subordinate Bonds to be redeemed at the registered addresses appearing in the Register, (ii) transmitted by Electronic Means to each Depository and to the Electronic Municipal Market Access system of the Municipal Securities Rulemaking Board; provided however, failure to deliver notice as described in (ii) shall not affect the validity of the redemption of any Variable Rate Series 2014B Subordinate Bond. Each such notice shall (i) be sent not more than 45 nor fewer than 15 calendar days (30 days for Long-Term Rate Bonds or Fixed Rate Bonds) prior to the date fixed for redemption, (ii) identify the Bonds to be redeemed (specifying the CUSIP numbers, if any, assigned to the Variable Rate Series 2014B Subordinate Bonds), (iii) specify the redemption date and the redemption price, (iv) set forth the name, address and telephone number of the person from whom information pertaining to the redemption may be obtained, and (v) state that on the redemption date the Variable Rate Series 2014B Subordinate Bonds called for redemption will be payable at the Designated Office of the Trustee, that from that date interest will cease to accrue, and that no representation is made as to the accuracy or correctness of the CUSIP numbers printed therein or on the Variable Rate Series 2014B Subordinate Bonds. No defect affecting any Variable Rate Series 2014B Subordinate Bond, whether in the notice of redemption or the delivery thereof (including any failure to mail such notice), shall affect the validity of the redemption proceedings for any other Variable Rate Series 2014B Subordinate Bonds.

If at the time of mailing of notice of an optional redemption of Variable Rate Series 2014B Subordinate Bonds there has not been deposited with the Trustee moneys sufficient to redeem all Variable Rate Series 2014B Subordinate Bonds called for such redemption, then such notice shall state that the redemption is conditional upon the deposit of moneys sufficient for the redemption with the Trustee and satisfaction of such requirements not later than the opening of business on the redemption date, and such notice will be of no effect and such Variable Rate Series 2014B Subordinate Bonds shall not be redeemed unless such moneys or such Direct Obligations are so deposited.

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

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**Section 503. Partial Redemption.**

If fewer than all of the Variable Rate Series 2014B Subordinate Bonds that are stated to mature on different dates are called for redemption at one time, those Variable Rate Series 2014B Subordinate Bonds that are called shall be designated by the Authority; provided, that there shall be first redeemed any Credit Facility Provider Bonds. If fewer than all of the Variable Rate Series 2014B Subordinate Bonds of a single maturity are to be redeemed, the selection of the Variable Rate Series 2014B Subordinate Bonds to be redeemed, or portions thereof in amounts of \$5,000 or any integral multiple thereof, so long as the Variable Rate Series 2014B Subordinate Bonds remain in book-entry form, shall be made by the Depository (or any successor Depository) in accordance with the Depository's procedures and otherwise will be made as specified by and selected at the sole discretion of the Authority. In the case of a partial redemption of the Variable Rate Series 2014B Subordinate Bonds by lot when the Variable Rate Series 2014B Subordinate Bonds of Authorized Denominations greater than \$5,000 are then outstanding, each \$5,000 unit of principal thereof shall be treated as though it were a separate Variable Rate Series 2014B Subordinate Bond of the denomination of \$5,000.

If it is determined that one or more, but not all of the \$5,000 units of principal amount represented by a Variable Rate Series 2014B Subordinate Bond are to be called for redemption, then upon notice of redemption of a \$5,000 unit or units the Holder of that Variable Rate Series 2014B Subordinate Bond may, but is not required to surrender the Variable Rate Series 2014B Subordinate Bond to the Trustee (a) for payment of the redemption price of the \$5,000 unit or units called for redemption (including without limitation, the interest accrued to the date fixed for redemption and any premium), and (b) for issuance, without charge to the Holder thereof, of a new Variable Rate Series 2014B Subordinate Bond or Bonds, of any authorized denomination or denominations in an aggregate principal amount equal to the unmatured and unredeemed portion of, and bearing interest at the same rate and maturing on the same date or dates as, the Variable Rate Series 2014B Subordinate Bond surrendered.

**Section 504. Payment of Redeemed Variable Rate Series 2014B Subordinate Bonds.**

Notice having been mailed in the manner provided in Section 502, and moneys having been deposited with the Trustee sufficient to pay the redemption price, the Variable Rate Series 2014B Subordinate Bonds and portions thereof called for redemption shall become due and payable on the redemption date, and upon presentation and surrender thereof at the place or places specified in that notice, shall be paid at the redemption price, plus interest accrued to the redemption date.

If the moneys for the redemption of all of the Variable Rate Series 2014B Subordinate Bonds and portions thereof to be redeemed, together with interest accrued thereon to the redemption date, is held by the Trustee on the redemption date, so as to be available therefor on that date and if notice of redemption has been deposited in the mail as aforesaid, then from and after the redemption date those Variable Rate Series 2014B Subordinate Bonds and portions thereof called for redemption shall cease to bear interest and no longer shall be considered to be Outstanding under the Indenture. If those moneys shall not be so available on the redemption date, or that notice shall not have been deposited in the mail as aforesaid, those Variable Rate

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Series 2014B Subordinate Bonds and portions thereof shall continue to bear interest, until they are paid, at the same rate as they would have borne had they not been called for redemption.

All moneys held by the Trustee for the redemption of particular Variable Rate Series 2014B Subordinate Bonds shall be held in trust for the account of the Holders thereof and shall be paid to them, respectively, upon presentation and surrender of those Variable Rate Series 2014B Subordinate Bonds.

**Section 505. Purchase in Lieu of Redemption.**

By their acceptance of the Variable Rate Series 2014B Subordinate Bonds, the Holders irrevocably grant to the Authority the option to purchase any Variable Rate Series 2014B Subordinate Bond which is redeemable by optional redemption on any date on which the Variable Rate Series 2014B Subordinate Bond is redeemable at a purchase price no less than the redemption price to be paid to Holders upon optional redemption. The Authority may exercise such option by delivering written direction to the Trustee in time for the Trustee thereupon to give the Holders of the Variable Rate Series 2014B Subordinate Bonds to be purchased notice of such purchase in the manner specified in the Indenture as though such purchase were a redemption, and the Trustee shall thereupon do so, and the purchase of such Variable Rate Series 2014B Subordinate Bonds shall be mandatory and enforceable against the Holders. On the date fixed for purchase pursuant to any exercise of such option, the Authority shall pay the purchase price of the Variable Rate Series 2014B Subordinate Bonds then being purchased to the Trustee in immediately available funds, and the Trustee shall pay the same to the Holders of such Variable Rate Series 2014B Subordinate Bonds against delivery. Following such purchase, the Trustee shall cause such Variable Rate Series 2014B Subordinate Bonds to be registered in the name of the Authority or its nominee and shall deliver them to the Authority or its nominee. In the case of the purchase of less than all of the Variable Rate Series 2014B Subordinate Bonds, the particular Variable Rate Series 2014B Subordinate Bonds to be purchased shall be selected in accordance with the provisions of the Master Indenture as though such purchase were a redemption; or in such other manner as the Authority shall direct, provided such selection method is described in the Written Request to the Trustee. No purchase of Variable Rate Series 2014B Subordinate Bonds pursuant to this paragraph shall operate to extinguish the indebtedness evidenced by the purchased Variable Rate Series 2014B Subordinate Bonds. Notwithstanding the foregoing, no purchase shall be made pursuant to the provisions of this paragraph unless the Authority shall have delivered to the Trustee concurrently therewith a Favorable Opinion of Bond Counsel with respect to such purchase.

**ARTICLE VI**

**APPLICATION OF PROCEEDS OF SERIES 2014B SUBORDINATE BONDS**

(a) The net proceeds of the SubSeries 2014B-1 Subordinate Bonds in the amount of \$\_\_\_\_\_, which represents the par amount of the Series 2014B Subordinate Bonds (\$\_\_\_\_\_), minus the underwriters' discount (\$\_\_\_\_\_), at the request and direction of the Authority shall be applied as follows:

(1) \$\_\_\_\_\_ shall be deposited in the Series 2014B Construction Account of the Construction Fund and used to pay Costs of the System, including, without limitation, \$\_\_\_\_\_ of such amount to pay capitalized interest.

(2) \$\_\_\_\_\_ shall be deposited in the Series 2014B Costs of Issuance Subaccount of the Series 2014B Construction Account of the Construction Fund and used to pay costs of issuance.

(b) The net proceeds of the SubSeries 2014B-2 Subordinate Bonds in the amount of \$\_\_\_\_\_, which represents the par amount of the Series 2014B Subordinate Bonds (\$\_\_\_\_\_), minus the underwriters' discount (\$\_\_\_\_\_), at the request and direction of the Authority shall be applied as follows:

(1) \$\_\_\_\_\_ shall be deposited in the Series 2014B Construction Account of the Construction Fund and used to pay Costs of the System.

(2) \$\_\_\_\_\_ shall be deposited in the Series 2014B Costs of Issuance Subaccount of the Series 2014B Construction Account of the Construction Fund and used to pay costs of issuance.

**ARTICLE VII**

**FUNDS AND ACCOUNTS**

**Section 701. Series 2014B Construction Account.**

In the Construction Fund, there shall be established a Series 2014B Construction Account and, within that Account, a Series 2014B Costs of Issuance Subaccount. The portions of the proceeds of the Series 2014B Subordinate Bonds specified in Section 601(a)(2), (b)(2), (c)(2) and (d)(2) shall be deposited in the Series 2014B Costs of Issuance Subaccount and used to pay costs of issuance related to the Series 2014B Subordinate Bonds. When all costs of issuance have been paid or moneys have been reserved to pay all remaining unpaid costs of issuance, the balance of any Series 2014B Subordinate Bond proceeds remaining in excess of the amount to be reserved for payment of unpaid costs of issuance shall, as directed by the Authority, either (i) be deposited in the Series 2014B Construction Account of the Construction Fund and used to pay Costs of the System, or (ii) be deposited in the Subordinate Bond Fund to be used solely to pay principal of and interest on the Series 2014B Subordinate Bonds, in either case subject to the condition of a Favorable Opinion of Bond Counsel.

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In connection with the Authority's causing a Credit Facility to be delivered to the Trustee, the Trustee shall establish a Credit Facility Account for the purpose of receiving and disbursing such funds as are required to be paid to the Credit Facility Provider other than from the Series 2014B Subordinate Bonds Interest Subaccount or the 2012 Subordinate Bonds Principal Subaccount.

**Section 702. Series 2014B Subordinate Bonds Subaccounts in the Subordinate Interest Account and Subordinate Principal Account.**

(a) Within the Subordinate Interest Account there shall be established a "Series 2014B Subordinate Bonds Interest Subaccount." Within the Subordinate Principal Account there shall be established a "Series 2014B Subordinate Bonds Principal Subaccount."

(b) In accordance with Section 604(e) of the Master Indenture, Net Revenues shall be deposited in the Series 2014B Subordinate Bond Interest Subaccount (i) on or prior to the last Business Day of each of the six months prior to any month in which an Interest Payment Date occurs for any Series 2014B Subordinate Bond that bears interest payable semi-annually, in an amount equal to one-sixth (1/6) of the interest due and payable on such Series 2014B Subordinate Bonds on such Interest Payment Date; and (ii) on or prior to the last Business Day of each of the six months prior to any month in which an Interest Payment Date occurs for any Series 2014B Subordinate Bond that bears interest more frequently than semi-annually, in an amount equal to the interest due and payable on such Series 2014B Subordinate Bonds on such Interest Payment Date.

(c) In accordance with Section 604(e) of the Master Indenture, Net Revenues shall be deposited in the Series 2014B Subordinate Bonds Principal Subaccount (i) on or prior to the last Business Day of each of the twelve months prior to any month in which principal of Series 2014B Subordinate Bonds is payable on their stated maturity date or pursuant to mandatory redemption requirements, in an amount equal to one-twelfth (1/12) of the principal amount scheduled to be due and payable on the Series 2014B Subordinate Bonds in such month; and (ii) on or prior to the last Business Day of each month prior to any month in which principal of Series 2014B Subordinate Bonds is payable on their stated maturity date or pursuant to mandatory redemption requirements, any amount that may be required to supplement the amounts deposited therein pursuant to the preceding clause (i) to cause the balance in the Series 2014B Subordinate Bonds Principal Subaccount to suffice for the payment of the principal due on that maturity or mandatory redemption date.

**ARTICLE VIII**

**SECURITY FOR SERIES 2014B SUBORDINATE BONDS**

**Section 801. Security for Series 2014B Subordinate Bonds.**

The Series 2014B Subordinate Bonds shall be secured as Subordinate Debt under the Indenture, including, without limitation, by a pledge of: (i) Net Revenues subordinate to the pledge of Net Revenues that secures Senior Debt and on a parity with the pledge of Net Revenues that secures Subordinate Debt, including, without limitation, any other Subordinate



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Debt that the Authority may issue in the future, without preference, priority or distinction of any Series 2014B Subordinate Bond over any other Series 2014B Subordinate Bond or of any Subordinate Debt over any other Subordinate Debt, as provided in the Indenture; and (ii) the moneys and Permitted Investments in the Subordinate Bond Fund on a parity with the pledge of Net Revenues that secures other Subordinate Debt, including, without limitation, any other Subordinate Debt that the Authority may issue in the future, without preference, priority or distinction of any Series 2014B Subordinate Bond over any other Series 2014B Subordinate Bond or of any Subordinate Debt over any other Subordinate Debt, as provided in the Indenture.

## **ARTICLE IX**

### **DEFAULTS AND REMEDIES**

#### **Section 901. Application of Article IX and Other Remedies Provisions of the Master Indenture.**

The Series 2014B Subordinate Bonds do not constitute “Bonds” under the Master Indenture. Accordingly, the provision of Article IX of the Master Indenture that confer certain rights upon the Holders of Bonds or a specified percentage thereof do not apply to the Series 2014B Subordinate Bonds or to the Series 2014B Subordinate Bondholders. Pursuant to Section 305 of the Master Indenture, the Series 2014B Subordinate Bonds, as Subordinate Debt, may not be accelerated if any Senior Debt is outstanding.

#### **Section 902. Rights of Series 2014B Subordinate Bondholders Upon Occurrence of Events of Default.**

In addition to and in furtherance and implementation of the rights that Series 2014B Subordinate Bondholders have under the penultimate paragraph of Section 906 of the Master Indenture, Sections 903 through 911, inclusive, of this Sixteenth Supplemental Indenture shall apply to the Series 2014B Subordinate Bonds.

#### **Section 903. Events of Default.**

Each of the following events shall be a Series 2014B Subordinate Bond Event of Default:

- (a) Default in the due and punctual payment of the principal of or premium, if any, on any Series 2014B Subordinate Bond (whether at maturity or call for redemption);
- (b) Default in the due and punctual payment of the interest on any Series 2014B Subordinate Bond;
- (c) Failure of the Authority to make the deposits required by subsection (e) or subsection (f) of Section 604 of the Master Indenture at the time and in the amount required from Net Revenues available for such deposit under the Indenture; or
- (d) Failure of the Trustee to apply moneys in accordance with the penultimate paragraph of Section 906 of the Master Indenture.

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(e) Default in the due and punctual payment of the Purchase Price of any Series 2014B Subordinate Bond, unless there is a Credit Facility in place which has not defaulted.

**Section 904. Remedies of Series 2014B Subordinate Bondholders.**

Upon the occurrence and continuation of a Series 2014B Subordinate Bond Event of Default, the Trustee may, and if requested by the holders of not less than 25% in aggregate principal amount of outstanding Series 2014B Subordinate Bonds and if indemnified to its reasonable satisfaction, shall proceed to protect and enforce their rights by mandamus or other suit, action or proceeding at law or in equity, including an action for specific performance.

No remedy conferred by this Indenture upon or reserved to the Trustee and Series 2014B Subordinate Bondholders is intended to be exclusive of any other remedy, but each such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee and Series 2014B Subordinate Bondholders hereunder or now or hereafter existing at law, in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or Series 2014B Subordinate Bond Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Series 2014B Subordinate Bond Event of Default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or Series 2014B Subordinate Bond Event of Default hereunder by the Trustee or Series 2014B Subordinate Bondholders shall extend to or shall affect any subsequent Series 2014B Subordinate Bond Event of Default or shall impair any rights or remedies consequent thereon.

The Authority agrees that the Trustee in its name or in the name of the Authority may, in the manner and to the extent provided herein, enforce all rights of the Trustee and of the Authority and all obligations of the Credit Facility Provider (including the obligation of the Credit Facility Provider to honor drafts duly presented in accordance with the terms and conditions of the Credit Facility) under and pursuant to the Credit Facility, for the benefit of the Series 2014B Subordinate Bondholders. The Trustee agrees to assume and perform the duties and obligations contemplated under the Credit Facility to be assumed and performed by the Trustee.

If a Credit Facility is in effect, and if the provider thereof has failed to honor its payment obligations under the Credit Facility, twenty five percent (25%) of the Series 2014B Subordinate Bondholders enhanced by such Credit Facility (excluding Series 2014B Subordinate Bonds owned by the Authority and Bank Bonds), shall have the right at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Credit Facility, or any other proceedings thereunder; provided that such direction shall be in accordance with applicable law.

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In the event the Credit Facility Provider wrongfully dishonors a conforming drawing for any payment with respect to the Series 2014B Subordinate Bonds or the Credit Facility Provider repudiates such obligation, the Trustee agrees to take all reasonable steps to enforce the obligation of the Credit Facility Provider to honor drafts duly presented in accordance with the terms and conditions of the Credit Facility for the benefit of the Series 2014B Subordinate Bondholders.

**Section 905. Right of Series 2014B Subordinate Bondholders to Direct Proceedings.**

The holders of a majority in aggregate principal amount of Series 2014B Subordinate Bonds then outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of this Sixteenth Supplemental Indenture or any other proceedings hereunder, provided, however, that such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture.

**Section 906. Application of Moneys.**

All moneys received by the Trustee pursuant to any right given or action taken under the provisions of this Article shall, after payment of the cost and expenses of the proceedings resulting in the collection of such moneys, the expenses, liabilities and advances incurred or reasonably anticipated to be made by the Trustee, and its fees and the expenses of the Authority in carrying out this Sixteenth Supplemental Indenture, be deposited in the Series 2014B Subordinate Bonds Interest Subaccount or the Series 2014B Subordinate Bonds Principal Subaccount, as the case may be, and applied as follows and for no other purpose:

- (a) All such moneys shall be applied:

First - To the payment to the persons entitled thereto of all installments of interest then due on the Series 2014B Subordinate Bonds, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Series 2014B Subordinate Bonds; and

Second - To the payment to the persons entitled thereto of the unpaid principal of and premium, if any, on any of the Series 2014B Subordinate Bonds which shall have become due (other than Series 2014B Subordinate Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates, and, if the amount available shall not be sufficient to pay in full Series 2014B Subordinate Bonds due on any particular date, then to the payment of such principal and premium, if any, ratably, according to the amount of such principal due on such date, to the persons entitled thereto, without any discrimination or preference.

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For purposes of paragraphs First and Second above, the interest component of any Purchase Price payable by the Authority shall be treated as interest, and the principal component of any Purchase Price payable by the Authority shall be treated as principal.

(b) Whenever moneys are to be applied pursuant to the provisions of this Section, such moneys shall be applied at such times and from time to time as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such moneys, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable) on which such application is to be made and on such date interest shall cease to accrue on the amounts of principal to be paid. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date.

#### **Section 907. Remedies Vested in Trustee.**

All rights of action (including the right to file proof of claims) under this Sixteenth Supplemental Indenture or under any of the Series 2014B Subordinate Bonds may be enforced by the Trustee without the possession of any of the Series 2014B Subordinate Bonds or the production thereof in any trial or other proceeding relating thereto and any such suit or proceeding instituted by the Trustee may be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any Series 2014B Subordinate Bondholders, and any recovery of judgment shall be for the equal benefit of the Series 2014B Subordinate Bondholders.

#### **Section 908. Limitation on Suits.**

Except to enforce the rights given under Sections 904 and 905 of this Sixteenth Supplemental Indenture, no Series 2014B Subordinate Bondholder shall have any right to institute any action, suit or proceeding at law or in equity for the enforcement of the Indenture or for the execution of any trust thereof or any other remedy hereunder, unless: (a) a Series 2014B Subordinate Bond Event of Default has occurred and is continuing and the Holders of 25% in aggregate principal amount of Series 2014B Subordinate Bonds then outstanding have made written request to the Trustee and offered it reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name, (b) such requesting Series 2014B Subordinate Bondholders have offered to the Trustee indemnity as provided in Section 1101(1) of the Master Indenture, (c) the Trustee has thereafter failed or refused to exercise the powers hereinbefore granted, or to institute such action, suit or proceeding in its own name, (d) no direction inconsistent with such written request has been given to the Trustee by the holders of a majority in aggregate principal amount of Series 2014B Subordinate Bonds then outstanding, and (e) notice of such action, suit or proceeding is given to the Trustee; it being understood and intended that no one or more Series 2014B Subordinate Bondholders shall have any right in any manner whatsoever to affect, disturb or prejudice the Indenture by its or their action or to enforce any rights hereunder except in the manner herein provided, and that all proceedings at law or in equity shall be instituted and maintained in the manner herein provided and for the equal benefit of all Series 2014B Subordinate Bondholders then outstanding. The notification, request and offer of indemnity set forth above, at the option

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of the Trustee, shall be conditions precedent to the execution of the powers and trusts of this Sixteenth Supplemental Indenture and to any action or cause of action for the enforcement of this Sixteenth Supplemental Indenture or for any other remedy hereunder.

**Section 909. Termination of Proceedings.**

In case the Trustee shall have proceeded to enforce any right under this Sixteenth Supplemental Indenture and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee, then and in every such case the Authority and the Trustee shall be restored to their former positions and rights hereunder, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

**Section 910. Waivers of Events of Default.**

Subject to the Indenture (including, without limitation, Section 1101 of the Master Indenture), the Trustee may in its discretion waive any Series 2014B Subordinate Bond Event of Default hereunder or any action taken pursuant to any Series 2014B Subordinate Bond Event of Default, and shall do so at the written request of the holders of: (a) a majority in aggregate principal amount of Series 2014B Subordinate Bonds then outstanding in respect of which default in the payment of principal and/or premium, if any, and/or interest exists, or (b) a majority in aggregate principal amount of Series 2014B Subordinate Bonds then outstanding in the case of any other Series 2014B Subordinate Bond Event of Default; provided, however, that there shall not be waived without the written consent of all then Outstanding Series 2014B Subordinate Bondholders (A) any Series 2014B Subordinate Bond Event of Default in the payment of the principal of any Outstanding Series 2014B Subordinate Bonds (whether at maturity or by mandatory redemption or as part of the Purchase Price payable upon mandatory tender), or (B) any default in the payment when due of the interest on any such Series 2014B Subordinate Bonds unless, prior to such waiver or rescission,

(i) there shall have been paid or provided for all arrears of interest with interest, to the extent permitted by law, at the rate borne by the Series 2014B Subordinate Bonds on overdue installments of interest, all arrears of principal and premium, if any, and all expenses of the Trustee in connection with such default, and

(ii) in case of any such waiver or rescission or in the case of any discontinuance, abandonment or adverse determination of any proceeding taken by the Trustee on account of any such default, the Authority, the Trustee, and the Series 2014B Subordinate Bondholders shall be restored to their former positions and rights hereunder respectively.

No such waiver or rescission relating to the Series 2014B Subordinate Bonds shall extend to any subsequent or other default or impair any right consequent thereon.

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**Section 911. Non-Impairment of Authority's Obligation to Pay Principal, Premium and Interest.**

Nothing in this Sixteenth Supplemental Indenture shall, however, affect or impair the obligation of the Authority to pay the principal of, premium, if any, and interest on each of the Series 2014B Subordinate Bonds to the respective Holders thereof at the time and place, from the source and in the manner specified in the Indenture

**ARTICLE X**

**MISCELLANEOUS**

**Section 1001. Limitation of Rights.**

With the exception of rights herein expressly conferred, nothing expressed or mentioned in or to be implied from this Sixteenth Supplemental Indenture or the Series 2014B Subordinate Bonds is intended or shall be construed to give to any person other than the parties hereto, the Series 2014B Subordinate Bondholders any legal or equitable right, remedy or claim under or in respect to this Sixteenth Supplemental Indenture or any covenants, conditions and agreements herein contained since this Sixteenth Supplemental Indenture and all of the covenants, conditions and agreements hereof are intended to be and are for the sole and exclusive benefit of the parties hereto, the Series 2014B Subordinate Bondholders as herein provided.

**Section 1002. Severability.**

If any provision of this Sixteenth Supplemental Indenture shall be held invalid by any court of competent jurisdiction, such holding shall not invalidate any other provision hereof, and this Sixteenth Supplemental Indenture shall be construed and enforced as if such illegal provision had not been contained herein.

**Section 1003. Successors and Assigns.**

This Sixteenth Supplemental Indenture shall be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

**Section 1004. Limitations on Liability.**

No covenant, agreement or obligation contained herein shall be deemed to be a covenant, agreement or obligation of any present or future member of the Board of Directors of the Authority or officer, employee or agent of the Authority in his or her individual capacity, and neither the members of the Board of Directors of the Authority nor any officer of the Authority executing the Series 2014B Subordinate Bonds shall be liable personally on the Series 2014B Subordinate Bonds or be subject to any personal liability or accountability by reason of the issuance thereof. No member of the Board of Directors of the Authority or officer, employee, agent or advisor of the Authority shall incur any personal liability with respect to any other action taken by him or her pursuant to this Sixteenth Supplemental Indenture or the Indenture or any other document authorized by the Indenture, provided such member, officer, employee, agent or advisor acts in good faith.

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**Section 1005. Applicable Law.**

This Sixteenth Supplemental Indenture shall be governed by the applicable laws of the District of Columbia.

**Section 1006. Counterparts.**

This Sixteenth Supplemental Indenture may be executed in several counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

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**IN WITNESS WHEREOF**, the Authority and the Trustee have caused this Sixteenth Supplemental Indenture to be executed in their respective corporate names as of the date first above written.

**DISTRICT OF COLUMBIA WATER  
AND SEWER AUTHORITY**

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

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

By \_\_\_\_\_  
Its \_\_\_\_\_



**EXHIBIT A**  
**[FORM OF BONDS]**

A-1

M&A draft 6/17/14

BOND PURCHASE AGREEMENT

**\$000,000,000**

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY  
Public Utility Senior Lien Revenue Bonds, Series 2014A  
(Federally Taxable)**

July \_\_, 2014

District of Columbia Water and Sewer Authority  
5000 Overlook Avenue, S.W.  
Washington, D.C. 20032

Ladies and Gentlemen:

Goldman, Sachs & Co. as representative of the underwriters (the “Representative”) on behalf of itself and Barclays Capital Inc. (collectively, the “Underwriters”) offers to enter into this bond purchase agreement (this “Agreement”) with the District of Columbia Water and Sewer Authority (the “Authority”). The offer made hereby is subject to acceptance thereof by execution of this Agreement and its delivery to the Representative, on behalf of the Underwriters, at or prior to 5:00 p.m., New York, New York Time, on the date hereof, or on such other date as may be agreed upon by the Underwriters. Upon such acceptance, this Agreement shall be in full force and effect in accordance with its terms and shall be binding upon the Authority and the Underwriters. If this offer is not so accepted, it is subject to withdrawal by the Representative on behalf of the Underwriters upon written notice delivered to the Authority at any time prior to acceptance. Terms used but not defined herein are defined in the Indenture identified below.

1. **Purchase and Sale of Bonds.** On the terms and conditions and on the basis of the representations, warranties, covenants and agreements set forth herein, the Representative, on behalf of the Underwriters, hereby agrees to purchase from the Authority for offering to the public, and the Authority hereby agrees to sell and deliver to the Underwriters for such purpose, all (but not less than all) of \$000,000,000 aggregate principal amount of the District of Columbia Water and Sewer Authority Public Utility Senior Lien Revenue Bonds, Series 2014A (the “Bonds”). The proceeds of the Bonds will be used to (i) pay a portion of the costs of certain capital improvements to the System (as defined herein) and (ii) pay costs of issuing the Bonds. The purchase price of the Bonds will be \$\_\_\_\_\_ (the par amount of the Bonds, plus net original issue premium of \$\_\_\_\_\_,(less original issue discount of \$\_\_\_\_) less the Underwriters’ discount of \$\_\_\_\_\_). The Bonds will mature on the dates and in the amounts and will bear interest and will be subject to redemption prior to maturity as set forth on Exhibit A hereto.

2. **Bond Authorization.** The Bonds shall be issued under and pursuant to provisions of the laws of the United States of America and the District of Columbia (the “District”), including particularly, an act of the Council of the District entitled the “Water and Sewer Authority Establishment and Department of Public Works Reorganization Act of 1996,” as amended, codified at District of Columbia Official Code Ann. Sections 34-2201.01 *et seq.*, and the acts amendatory thereof and supplemental thereto (the “Act”), and an act of the United States Congress entitled the “District of Columbia Water and Sewer Authority Act of 1996” (Public Law 104-184), as amended (the “Federal Act”), and all proceedings necessary to authorize and provide for the issuance of the Bonds, including a resolution adopted by the Board of Directors of the Authority, dated July \_\_, 2014 (the “Resolution”), and the Master Indenture of Trust, dated as of April 1, 1998 (the “Master Indenture”), between the Authority and Wells Fargo Bank, N.A., as trustee (the “Trustee”), as amended and supplemented, including by the Fifteenth Supplemental Indenture of Trust, dated as of the Closing Date (as defined below) (the “Fifteenth Supplemental Indenture,” and together with the Master Indenture as previously amended and supplemented, the “Indenture”), between the Authority and the Trustee, substantially in the forms previously delivered to us.

3. **Closing.** At 10:00 a.m. New York City Time on \_\_\_\_\_, 2014, or at such other time and date as may be mutually agreed upon by the Authority and the Underwriters (the “Closing Date”), the Authority will, subject to the terms and conditions hereof, deliver the Bonds to the Underwriters in definitive form, duly executed and authenticated, together with the other documents hereinafter required, and, subject to the terms and conditions hereof, the Underwriters will accept such delivery and pay the purchase price of the Bonds as set forth in Section 1 hereof in federal funds to the order of the Authority (the “Closing”). Delivery of the Bonds will be made through the facilities of The Depository Trust Company, New York, New York. The Closing will occur at the offices of Squire Patton Boggs (US) LLP, Washington, D.C., or such other place as may be mutually agreed on by the Authority and the Underwriters.

4. **Public Offering of the Bonds.** It is a condition of the Authority’s obligation to sell and deliver the Bonds to the Underwriters, and of the obligation of the Underwriters to purchase and accept delivery of the Bonds, that the entire principal amount of the Bonds is sold and delivered by the Authority and accepted and paid for by the Underwriters at the Closing. The Underwriters intend to make an initial public offering of all of the Bonds at the initial public offering prices set forth on the cover page of the Offering Memorandum. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the initial public offering prices.

5. **Preliminary and Final Offering Memorandum.** The Authority ratifies and consents to the legally permissible use by the Underwriters, prior to the date hereof, of the Preliminary Offering Memorandum, dated July , 2014, relating to the Bonds (the “Preliminary Offering Memorandum”) in connection with the public offering of the Bonds. The form of the final Offering Memorandum of the Authority relating to the Bonds, dated July , 2014, including the cover page and Appendices thereto, and any revisions, amendments or supplements thereto (the “Offering Memorandum”) is attached hereto as Exhibit B. The Authority authorizes, approves, ratifies and confirms the distribution of the Offering Memorandum in paper and electronic format by the Underwriters in connection with the public offering and sale of the Bonds.

The Authority agrees to provide to the Underwriters, at such addresses as the Underwriters specify, as many copies of the Offering Memorandum as the Underwriters reasonably request as necessary to comply with Rule G-32 and all other applicable rules of the Municipal Securities Rulemaking Board (the "MSRB"). The Authority agrees to deliver the Offering Memorandum within seven (7) business days after the date hereof and in sufficient time to accompany any confirmation that requests payment from any customer and to permit the Underwriters to comply with the requirements of Rule 15c2-12 (defined below), and in any event, no later than \_\_\_\_\_, 2014. The Offering Memorandum may be revised, amended, changed or supplemented by the Authority after the execution of this Agreement only with the permission of the Underwriters.

If, during the period from the date hereof to and including the date which is 25 days after the "end of the underwriting period" (as hereinafter defined), there shall exist any event, including, but not limited to, any material adverse change in the financial condition, results of operation or condition, financial or otherwise, of the Authority, and of which the Authority has knowledge, which, in the opinion of the Underwriters and counsel to the Underwriters or in the opinion of the Authority, requires a supplement or amendment to the Offering Memorandum so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, when it is delivered to a potential investor, the Authority will supplement or amend or cause to be supplemented or amended the Offering Memorandum in a form and in a manner approved by the Underwriters and the Authority and will furnish to the Underwriters such supplement or amendment in sufficient quantity to permit the Underwriters to comply with the requirements of Rule 15c2-12 ("Rule 15c2-12") promulgated by the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended.

For the purpose of the preceding paragraph, the Authority may assume that the "end of the underwriting period" (in accordance with and as defined in Rule 15c2-12) means the Closing Date unless the Representative advises the Authority in writing on the Closing Date that there remains an unsold balance of the Bonds, in which case the "end of the underwriting period" means the date as of which the Representative notifies the Authority that the Underwriters, directly or as a syndicate, no longer retain an unsold balance of the Bonds for sale to the public. The deemed end of the underwriting period, in order to allow the Underwriters to comply with Rule 15c2-12, shall be extended for additional periods of 30 days each upon receipt of written notification from the Underwriters that any Bonds remain unsold however, in no event shall the "end of the underwriting period" extend beyond the date sixty (60) days from the Closing Date. The Representative agrees to provide to the Authority written notification that none of the Bonds remain unsold which will be deemed the end of the underwriting period.

The Representative hereby agrees to deliver a copy of the printed paper form of the Offering Memorandum to the MSRB in an electronic format prescribed by the MSRB for its Electronic Municipal Market Access ("*EMMA*") website at [www.emma.msrb.org](http://www.emma.msrb.org) within one (1) business day of receipt of the executed final Offering Memorandum by the Underwriters.

6. **Representations, Warranties and Covenants of the Authority.** The Authority hereby represents, warrants, covenants and agrees as follows:

a. The Authority is, and at the Closing Date will be, a duly organized and validly existing corporate body and independent authority of the District established under the laws of the United States and the District, including the Act and the Federal Act, with the full legal right, power and authority to (i) adopt the Resolution, (ii) execute, deliver and perform its obligations under this Agreement, the Indenture, the Certificate of Award of the Authority establishing the purchase price, maturities, interest rates, redemption provisions and other terms of the Bonds, dated the date hereof (the "Certificate of Award"), and the Continuing Disclosure Agreement of the Authority dated as of the Closing Date (the "Continuing Disclosure Agreement," and together with this Agreement and the Indenture, the "Bond Documents"); (iii) perform its obligations under the Water Sales Agreement, dated as of July 31, 1997, between the Authority and the United States of America, acting through the Secretary of the Army (the "Water Sales Agreement") and the Blue Plains Intermunicipal Agreement of 2012 between the District, Fairfax County, Virginia, Montgomery County, Maryland, Prince George's County, Maryland and the Washington Suburban Sanitary Commission (the "IMA," and together with the Water Sales Agreement, the "System Agreements"), (iv) sell, issue and deliver the Bonds to the Underwriters as provided herein, and (v) carry out and consummate the transactions contemplated by the Resolution, the Bond Documents, the Preliminary Offering Memorandum, the Offering Memorandum and the System Agreements; and the Authority has complied, and at the Closing Date will be in compliance, in all respects, with the Act and the Federal Act and with the obligations on its part in connection with the issuance of the Bonds contained in the Bonds, the Resolution, the Indenture, the Preliminary Offering Memorandum, the Offering Memorandum and this Agreement.

b. The Authority (i) has duly and validly adopted the Resolution, (ii) has authorized the execution and delivery of the Bond Documents, (iii) is authorized to execute, issue, sell and deliver the Bonds in book-entry form, (iv) is authorized to appoint, and has appointed, Wells Fargo Bank, N.A., as Trustee (the "Trustee"), (v) is authorized to apply and will apply the proceeds of the Bonds as provided in and subject to all of the terms and provisions of the Resolution, including the payment or reimbursement of the Authority expenses incurred in connection with the negotiation, marketing, issuance and delivery of the Bonds to the extent required by Section 14 and (vi) has taken or will take on or before the Closing Date, all action necessary or appropriate for (a) execution, issuance, sale and delivery of the Bonds in book-entry form to the Underwriters, (b) approval, execution and delivery of and the performance by the Authority of its obligations contained in the Bonds and the Bond Documents, (c) the approval, distribution and use of the Preliminary Offering Memorandum and the approval, execution, distribution and use of the Offering Memorandum for use by the Underwriters in connection with the public offering of the Bonds and (d) the consummation by it of all other transactions described in the Offering Memorandum, the Bond Documents and any and all such other agreements and documents as may be required to be executed, delivered and/or received by the Authority in order to carry out, give effect to, and consummate the transactions described herein and in the Offering Memorandum.

c. The adoption of the Resolution, the execution and delivery of the Bond Documents, the execution, issuance, sale and delivery of the Bonds in book-entry form and the performance by the Authority of its obligations hereunder and thereunder, and the performance by the Authority of its obligations under the System Agreements (collectively, the "Authority Undertakings") are within the corporate powers of the Authority and are not in conflict with and

will not constitute a breach, default or result in a violation of (i) the Act, (ii) any federal constitutional or federal or District statutory provision, including the Federal Act, (iii) any agreement or other instrument to which the Authority is a party, or (iv) any order, rule, regulation, decree or ordinance of any court of competent jurisdiction, government or governmental authority having jurisdiction over the Authority or its property.

d. The District has authorized the Authority to use all of the property and assets of the water distribution and wastewater collection, treatment and disposal systems of the Authority (the “System”), uninterrupted by the District, for as long as any revenue bonds of the Authority, including the Bonds, remain outstanding. The Authority has the full legal right, power and authority to operate the System and to collect and pledge the Revenues therefrom in accordance with the Indenture.

e. The Resolution or other appropriate actions adopted or taken by the Authority establishing the rates and charges for services of the System described in the Preliminary Offering Memorandum and the Offering Memorandum have been duly adopted or taken and are in full force and effect.

f. The System Agreements and all other agreements, permits, licenses, consents, approvals, actions, consent decrees and settlement orders material to the operation and management of the System, including the collection of the Revenues therefrom as described in the Preliminary Offering Memorandum and the Offering Memorandum, are in full force and effect as of the date hereof and will be on the Closing Date, and the Authority is not and will not be in default thereunder or in breach thereof. The System Agreements have been duly authorized, executed and delivered by the Authority and constitute valid and binding obligations of the Authority enforceable in accordance with their respective terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors’ rights generally and subject, as to enforceability, to general principles of equity.

g. The Bonds, when issued, delivered to the Underwriters and paid for, in accordance with the Act, the Resolution, the Indenture and this Agreement, will have been duly authorized, executed, issued and delivered by the Authority and will constitute valid and binding obligations of the Authority, enforceable against the Authority in accordance with their terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors’ rights generally and subject, as to enforceability, to general principles of equity. The Bonds are not a pledge of and do not involve the faith and credit or the taxing power of the District and the District shall not be liable thereon. The Bonds and the Resolution conform to the descriptions thereof contained in the Preliminary Offering Memorandum and the Offering Memorandum and the proceeds of the sale of the Bonds will be applied as described in the Preliminary Offering Memorandum and the Offering Memorandum.

h. The Authority is not currently failing to comply and except as disclosed in the Preliminary Offering Memorandum and the Offering Memorandum, has not failed to comply during the past five years with any continuing disclosure obligation pursuant to Rule 15c2-12. The Authority has voluntarily agreed to deliver to the Underwriters a Continuing Disclosure Agreement with respect to the Bonds that complies with the requirements of Rule 15c2-12.

i. This Agreement constitutes, and, upon execution and delivery by the Authority and the other parties thereto, each of the other Bond Documents will constitute, the valid, binding and enforceable obligation of the Authority in accordance with their respective terms, subject to applicable bankruptcy, insolvency, and similar laws affecting creditors' rights generally and subject, as to enforceability, to general principles of equity.

j. The Authority is not in material breach of or material default under any applicable constitutional provision or law of the United States, the District or any applicable judgment or decree, or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which it is a party or to which it or any of its property or assets is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or event of default under any such instrument; and the execution and delivery of the Bonds, this Agreement and the other Bond Documents and the adoption of the Resolution, and compliance with the provisions contained therein and herein, and in the System Agreements, do not conflict with or constitute a breach of or default under any constitutional provision, law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement, or other instrument to which it is a party or any of its property or assets are otherwise subject, nor will any such execution, delivery, adoption, or compliance result in the creation or imposition of any lien, charge, or other security interest or encumbrance of any nature whatsoever upon any of its property or assets or under the terms of any such law, regulation or instrument, except as provided by the Bonds.

k. All authorizations, approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board, agency or commission having jurisdiction of the matter have been duly obtained or, with respect to the issuance of the Bonds, will be obtained prior to the issuance of the Bonds, which are required for the due authorization by or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the Authority of its obligations in connection with the issuance of the Bonds and under this Agreement, except for such approvals, consents and orders as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Bonds.

l. Except as otherwise described in the Preliminary Offering Memorandum and the Offering Memorandum, there is no litigation, action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, pending or, to the best knowledge of the Authority, threatened against the Authority (i) affecting or seeking to prohibit, restrain or enjoin the issuance, sale or delivery of the Bonds, the use of the Preliminary Offering Memorandum or the Offering Memorandum or the collection of the Revenues pledged to the payment of the principal of and interest on the Bonds, (ii) in any way contesting or affecting any authority for the issuance of the Bonds or the validity, enforceability, due authorization, execution or delivery of the Bonds, including this Agreement or the other Bond Documents, or the validity or enforceability of the System Agreements, nor, to the best knowledge of the Authority, is there any basis therefor, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Bonds or the Bond Documents, (iii) questioning the tax-exempt status of the Bonds under the laws of the District, (iv) affecting or in any way contesting the corporate existence or powers of the Authority or the titles of the officers of the Authority to their respective offices, (v) which may

result in any material adverse change in the business or the financial condition or the financial prospects of the Authority or (vi) asserting that the Preliminary Offering Memorandum or the Offering Memorandum or any supplement thereto contains any untrue statement of a material fact or omits any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

m. The Authority will furnish such information, execute such instruments and take such other action in cooperation with the Underwriters as the Underwriters may reasonably request in order to (i) qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriters may designate, (ii) determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions, and (iii) continue such qualifications in effect so long as required for the distribution of the Bonds and will advise the Representative promptly of receipt by the Authority of any written notification with respect to the suspension of the qualification of the Bonds for sale in any jurisdiction or the initiation or threat of any proceeding for that purpose; provided, however, that the Authority will not be required to execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction.

n. The audited balance sheets of the Authority for the years ended September 30, 2013 and September 30, 2012, and the related statements of revenues, expenditures and changes in net assets and cash flows for the fiscal year ended on such date, as set forth in the Preliminary Offering Memorandum and the Offering Memorandum, are true, complete and correct and fairly present the financial condition of the Authority as of such date and the results of its operations for such fiscal year. There has been no material adverse change in the financial condition of the Authority since September 30, 2013, except as described in the Preliminary Offering Memorandum and the Offering Memorandum. The financial statements of, and other financial information of the Authority in the Preliminary Offering Memorandum and in the Offering Memorandum fairly present the financial position and results of the Authority as of the dates and for the periods therein set forth, and except as noted in the Preliminary Offering Memorandum and in the Offering Memorandum, the other historical financial information set forth in the Preliminary Offering Memorandum and in the Offering Memorandum has been presented on a basis consistent with that of the Authority's audited financial statements included in the Preliminary Offering Memorandum and in the Offering Memorandum.

o. The Authority has duly authorized, approved and delivered the Preliminary Offering Memorandum and the Offering Memorandum to the Underwriters.

p. The Preliminary Offering Memorandum, as of its date and as of the date of this Agreement, did not and does not, and the Offering Memorandum, at the time of the Authority's acceptance hereof and (unless the Offering Memorandum is amended or supplemented pursuant to this Agreement) at all times subsequent thereto during the period up to and including the Closing Date, did not and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. If between the date of the Offering Memorandum and the Closing Date any event shall occur or any pre-existing fact or condition shall become known to the Authority that might or would cause the Offering Memorandum, as



then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the Authority shall promptly notify the Underwriters thereof, and if in the reasonable opinion of the Underwriters, such event, fact or condition requires the preparation and publication of a supplement or amendment to the Offering Memorandum, the Authority will at its expense supplement or amend the Offering Memorandum in a form and in a manner approved by the Underwriters, which approval shall not be unreasonably withheld. If the Offering Memorandum is supplemented or amended as aforesaid, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such paragraph) at all times subsequent thereto during the underwriting period, as defined in Section 5, the Offering Memorandum as so supplemented or amended will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which made, not misleading.

q. The obligation of the Authority to know or provide information within the knowledge of the Authority is limited to providing information that is in the actual knowledge of, or reasonably should have been in the actual knowledge of, the key staff members of the Authority listed in the Offering Memorandum under the caption "Senior Management" or their respective successors.

r. The Authority undertakes that, for a period beginning with the day on which the Bonds are delivered to the Underwriters and ending on the 25th day following the end of the underwriting period, as defined in Section 5, it will apprise the Underwriters of all material developments, if any, occurring with respect to the Authority, and if requested by the Underwriters, at the Authority's expense, prepare a supplement to the Offering Memorandum in respect of any such material event.

s. The Authority has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that the Authority is a bond issuer whose arbitrage certificates may not be relied upon.

t. Any certificate signed by an authorized delegate of the Authority in connection with the transactions described in this Agreement will be deemed a representation, warranty, covenant and agreement by the Authority to the Underwriters as to the statements made therein.

u. Prior to the Closing, the Authority will not take any action within or under its control that will cause any adverse change of a material nature in the Authority's financial position, or its results of operations or condition, financial or otherwise.

v. Other than the District of Columbia Water and Sewer Authority Public Utility Subordinate Lien Multimodal Revenue Bonds, Series 2014B, the Authority will not, prior to the Closing, offer or issue any bonds, notes or other obligations for borrowed money or incur any material liabilities, direct or contingent, except in the ordinary course of business, without the prior approval of the Representative.

w. The Bonds and the Fifteenth Supplemental Indenture conform to the descriptions thereof contained in the Preliminary Offering Memorandum and the Offering Memorandum under the caption “THE SERIES 2014A BONDS” and in Appendix C “GLOSSARY AND SUMMARY OF THE INDENTURE.”

7. **Representations of Underwriters.** (a) The Underwriters represent and warrant that they will offer the Bonds only pursuant to the Offering Memorandum and the Underwriters agree to make a public offering of the Bonds at the initial offering prices or yields set forth in the Offering Memorandum as the Underwriters may deem necessary or desirable in connection with the offering and sale of the Bonds and to sell the Bonds to dealers (including dealer banks and dealers depositing Bonds into investment trusts) and others at prices lower than the public offering prices. The Underwriters agree to deliver a final Offering Memorandum to all purchasers of the Bonds in accordance with all applicable legal requirements.

(b) The Underwriters hereby certify that at the time of the execution of this Agreement (the “Sale Date”), based upon prevailing market conditions, they do not have any reason to believe that the Bonds will be first sold to the public (excluding such bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at prices greater than or yields lower than the prices or yields set forth in an exhibit to this Agreement. At the Closing, the Representative shall deliver to the Authority the publicly available trading activity with respect to the Bonds up to the Closing Date and a certificate to the effect that (a) the Bonds have been the subject of a bona fide initial offering to the public as herein provided on the Sale Date and (b) either (i) the Underwriters first sold not less than 10% of each maturity of the Bonds to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at yields not lower than the yields provided in the Offering Memorandum on the Sale Date, or (ii) the Underwriters first sold not less than 10% of each maturity of the Bonds to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at yields not lower than the yields provided in the Offering Memorandum on the Sale Date.

8. **Rights to Cancellation by Underwriters.** The Underwriters will have the right to cancel their obligation to purchase, accept delivery of and to pay for the Bonds if between the date hereof and the Closing Date, the market price or marketability of the Bonds or the ability of the Underwriters to enforce contracts for the sale of the Bonds shall be materially adversely affected in the reasonable judgment of the Representative, on behalf of the Underwriters, by the occurrence of any of the following: (a) legislation has been enacted by or introduced in Congress or a decision by a federal court of the United States or the United States Tax Court has been rendered, or a ruling, regulation or official statement by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency has been made or proposed to be made with respect to federal taxation on revenues or other income to be derived from the operation of the Authority, or other actions or events have occurred which have the purpose or effect, directly or indirectly, of materially adversely affecting the federal income tax consequences of any of the transactions contemplated in connection herewith, or (b) legislation has been enacted, or actively considered for enactment with an effective date being prior to the date of the issuance of the Bonds, or a decision by a court of the United States has been rendered, or a ruling or regulation by the SEC or another governmental agency having jurisdiction of the subject matter has been made, the effect of which is that the Bonds are not

exempt from the registration or other requirements of the Securities Act of 1933, as amended and as then in effect (the “1933 Securities Act”), or that the Indenture is not exempt from the qualification or other requirements of the Trust Indenture Act of 1939, as amended and as then in effect (the “Trust Indenture Act”), or (c) a stop order, ruling or regulation by the SEC has been issued or made, the effect of which is that the issuance, offering or sale of the Bonds as contemplated hereby or by the Offering Memorandum is or would be in violation of any provision of the 1933 Securities Act, or of the Securities Exchange Act of 1934, as amended and as then in effect, or of the Trust Indenture Act, or (d) there exists any event which in the reasonable judgment of the Underwriters either (i) makes untrue or incorrect any statement or information of a material fact contained in the Offering Memorandum or (ii) is not reflected in the Offering Memorandum but should be reflected therein in order to make the statements and information contained therein, in light of the circumstances under which they were made, not misleading, and, in either such event the Authority refuses to permit the Offering Memorandum to be supplemented to correct or supply such statement or information, or the statement or information as supplemented is such as in the reasonable judgment of the Underwriters would materially adversely affect the market for the Bonds or the sale, at the contemplated offering price, by the Underwriters of the Bonds, or (e) there has occurred any new outbreak of hostilities (including, without limitation, an act of terrorism) or escalation of hostilities existing prior to the date hereof or any other extraordinary event, material national or international calamity or crisis, including a financial crisis, not existing on the date hereof, or (f) any new restriction on transactions in securities materially affecting the market for securities (including the imposition of any limitation on interest rates or the establishment of minimum or maximum prices) or any material increase of restrictions now in force (including the extension of credit by, or a charge to the net capital requirements of, Underwriters) shall have been established by the New York Stock Exchange, the SEC, any other federal agency of the Congress of the United States, or by Executive Order, or (g) there is in force a general suspension of trading in securities on the New York Stock Exchange or any other national securities exchange or (h) a general banking moratorium has been declared by Federal, District or New York authorities, or (i) there has occurred since the date hereof any material adverse change in the affairs of the Authority from that reflected in the financial information and data of the Authority included in or as an appendix to the Offering Memorandum, other than as previously disclosed to the Underwriters, or (j) a material disruption in securities settlement, payment or clearance services shall have occurred, or (k) there shall have occurred any downgrading or published negative credit watch or similar published information from a rating agency that on the date hereof has published a rating (or has been asked to furnish a rating on the Bonds) on any of the Authority’s debt obligations, which action reflects a change or possible change in the ratings accorded any such obligations of the Authority (including any rating to be accorded to the Bonds) or (l) there shall have occurred any downgrading or published negative credit watch or similar published information from a rating agency that at the date of this Agreement has published a rating (or has been asked to furnish a rating on the Bonds) on any of the Authority’s debt obligations, which action reflects a change or possible change, in the ratings accorded any such obligations of the Authority (including any rating to be accorded the Bonds).

9. **Conditions to Obligations of Underwriters at Closing.** The Underwriters have entered into this Agreement in reliance on the representations, warranties, covenants and agreements of the Authority contained herein, and in reliance on the representations, warranties, covenants and agreements to be contained in the documents and instruments to be delivered at

the Closing and on the performance by the Authority of its obligations hereunder, as of the Closing Date. Accordingly, the Underwriters' obligations under this Agreement to purchase, to accept delivery of and to pay for the Bonds are conditioned on the performance by the Authority of its obligations to be performed hereunder and the delivery of such documents and instruments enumerated herein in form and substance reasonably satisfactory to the Underwriters and Orrick, Herrington & Suttcliffe LLP, and McKenzie & Associates, co-counsel to the Underwriters, at or before the Closing, and are also subject to the following additional conditions:

a. The representations, warranties, covenants and agreements of the Authority contained herein are true, complete and correct on the date hereof and on and as of the Closing Date, as if made on the Closing Date;

b. The provisions of the Act and the Federal Act, as in effect on the date of this Agreement, shall be in full force and effect and shall not have been amended, except as to amendments which, in the reasonable opinion of the Underwriters, are not adverse to the interest of the Underwriters or the Bondholders;

c. At the time of the Closing, the Resolution is in full force and effect in accordance with its terms and has not been amended, modified or supplemented, and the Offering Memorandum has not been supplemented or amended, except in any such case as may have been agreed to by the Underwriters;

d. At the time of the Closing, all official action of the Authority relating to the Bonds, the Bond Documents and the System Documents are in full force and effect in accordance with their respective terms and have not been amended, modified or supplemented, except in each case as may have been agreed to by the Underwriters;

e. At the time of the Closing the Authority will perform or will have performed all of its obligations required under or specified in this Agreement, the Resolution and the Indenture, or contemplated by the Resolution, the Indenture or the Offering Memorandum, to be performed prior to the Closing; and

f. At or before the Closing, the Underwriters will have received true and correct copies of each of the following documents:

i. A certified copy of the Resolution;

ii. The Offering Memorandum and each supplement or amendment, if any, thereto, executed by the Authority;

iii. Counterparts of each of the fully executed Bond Documents and the System Agreements;

iv. The approving opinion of Co-Bond Counsel in substantially the form attached to Preliminary Offering Memorandum and the Offering Memorandum as Appendix F and a supplemental opinion, dated the Closing Date, in form and substance satisfactory to the Underwriters, and reliance letters with respect to such opinions addressed to Wells Fargo Bank, N.A., as Trustee;

v. An opinion, dated the Closing Date, of the General Counsel to the Authority, substantially in the form of Exhibit B hereto;

vi. An opinion, dated the Closing Date, of Orrick, Herrington & Sutcliffe LLP and McKenzie & Associates, co-counsel to the Underwriters, substantially in the form of Exhibit C hereto;

vii. An opinion, dated the Closing Date, of Squire Patton Boggs (US) LLP, and Leftwich & Ludaway, LLC, in their capacity as disclosure counsel to the Authority, in form and substance satisfactory to the Underwriters;

viii. An opinion, dated the Closing Date, of counsel to the Trustee, in a form approved by the Underwriters and their counsel;

ix. A manually signed Financial Feasibility Opinion Letter dated July 2014 of Amawalk Consulting Group LLC (the “Financial Feasibility Consultant”), regarding the financial feasibility of the issuance of the Bonds in substantially the form attached to the Preliminary Offering Memorandum and the final Offering Memorandum as Appendix A and a certificate of the Financial Feasibility Consultant with respect to the issuance and sale of the Bonds, permitting the use of such letter and references to said firm in the Preliminary Offering Memorandum and the Offering Memorandum in form and substance satisfactory to the Underwriters;

x. The opinion of the Independent Engineer (the “Independent Engineer”) dated May 2, 2014 in substantially the form attached to the Preliminary Offering Memorandum and the final Offering Memorandum as Appendix H and a certificate of the Independent Engineer, permitting the use of such opinion and references thereto in the Preliminary Offering Memorandum and the Offering Memorandum;

xi. [Evidence of the completion of Internal Revenue Service Form 8038-G with respect to the issuance of the Bonds;]

xii. One or more certificates of the Authority, dated the Closing Date, (A) to the effect that the representations, warranties, covenants and agreements of the Authority herein are true and correct on and as of the Closing Date as if made on the Closing Date, and that the Authority has performed all obligations to be performed hereunder as of the Closing Date; (B) to the effect that the Bond Documents, the Bonds and the System Agreements have not been modified, amended or repealed after the date hereof without the written consent of the Underwriters; (C) to the effect that no material change has occurred with respect to the System from the period from the date of this Agreement through the Closing Date;

xiii. Evidence that Moody’s Investors Service, Inc. (“Moody’s”), Standard & Poor’s Ratings Services (“S&P”) and Fitch Ratings (“Fitch”) have issued ratings on the Bonds of “ ”, “ ” and “ ” respectively; and

xiv. Such additional legal opinions, certificates, instruments and other documents as the Underwriters may reasonably request to evidence the truth and

accuracy, as of the Closing Date, of the Authority's representations, warranties, covenants and agreements contained herein and of the statements and information contained in the Offering Memorandum and the due performance or satisfaction by the Authority on or prior to the Closing Date of all the agreements then to be performed and conditions then to be satisfied by it.

All the opinions, letters, certificates, instruments and other documents mentioned above or elsewhere in this Agreement will be deemed to be in compliance with the provisions hereof if, but only if, they are in form and substance satisfactory to the Underwriters.

10. **Obligations Upon Cancellation.** If the Authority is unable to satisfy the conditions to the obligations of the Underwriters to purchase, to accept the delivery of and to pay for the Bonds contained in this Agreement, or if the obligations of the Underwriters to purchase, to accept delivery of and to pay for the Bonds is terminated for any reason permitted by this Agreement, this Agreement will terminate and neither the Underwriters nor the Authority will be under any further obligation hereunder, except that the Authority and the Underwriters shall pay their respective expenses as set forth in Section 14.

11. **Certain Information Provided by Underwriters.** The Underwriters confirm and the Authority acknowledges that the statements with respect to the public offering of the Bonds by the Underwriters set forth on the cover page of the Offering Memorandum, the legend concerning over-allotments in the Offering Memorandum and the text under the caption "UNDERWRITING" in the Offering Memorandum constitute the only information concerning the Underwriters furnished in writing to the Authority by or on behalf of the Underwriters for inclusion in the Offering Memorandum.

12. **No Advisory or Fiduciary Role.** The Authority acknowledges and agrees that: (i) the transactions contemplated by this Agreement are arm's length, commercial transactions between the Authority and the Underwriters in which the Underwriters are acting solely as principals, and are not acting as an agent, a municipal advisor, financial advisor or fiduciary to the Authority; (ii) the Underwriters have not assumed any advisory or fiduciary responsibility to the Authority with respect to the transactions contemplated hereby and the discussions, conferences, negotiations, undertakings and procedures leading thereto (irrespective of whether the Underwriters or their affiliates have provided other services or are currently providing other services to the Authority on other matters); (iii) the only obligations the Underwriters have to the Authority with respect to the transaction contemplated hereby expressly are set forth in this Agreement; (iv) the Authority has consulted its own financial and/or municipal, legal, accounting, tax, and other advisors, as applicable, to the extent it has deemed appropriate; and (v) this Agreement expresses the entire relationship between the parties hereto.

13. **Indemnification.** The Authority agrees, to the extent permitted by law (including without limitation the Anti-Deficiency Act codified at 31 U.S.C. Sec. 1341), to indemnify and hold harmless the Underwriters, any officer or employee thereof, each and any purchaser of Bonds whose name is set forth in a contract of purchase between any such purchaser or purchasers and the Authority providing for the sale of Bonds by the Authority and each person, if any who controls any such purchaser within the meaning of Section 15 of the Securities Act of 1933, as amended (all such parties being herein collectively called the

“Indemnified Parties”) against any and all losses, claims, damages, liabilities or expenses whatsoever, joint or several, insofar as such losses, claims, damages, liabilities or expenses (or actions in respect thereof) are caused by, arise out of or are based upon any untrue statement or misleading statement or alleged untrue statement or alleged misleading statement of a material fact relating to the Authority, provided or certified by the Authority or any agent thereof and contained in an official statement or other offering document, or any amendment thereof or supplement thereto, of the Authority approved by an authorized officer of the Authority relating to the Bonds offered for sale thereby, under the captions INTRODUCTION, THE SERIES 2014A BONDS (other than under the sub-heading “Book-Entry Only System), PLAN OF FINANCE, SOURCES AND USES OF FUNDS, SECURITY FOR THE SERIES 2014A BONDS, DEBT SERVICE REQUIREMENTS, THE AUTHORITY, THE SYSTEM, CAPITAL IMPROVEMENT PROGRAM, CUSTOMER BASE, RATES AND CHARGES, FINANCIAL OPERATIONS and LITIGATION (as it relates to the Authority) or caused by, arising out of or based upon any omission or alleged omission from such an official statement or other offering document, or any amendment thereof or supplement thereto, of any material fact relating to the Authority necessary in order to make the statements made therein in the light of the circumstances under which they were made not misleading.

14. **Expenses.** The Authority will pay all costs of issuance of the Bonds including, but not limited to (a) the cost of preparation and posting of the Preliminary Offering Memorandum and the cost of preparation, posting, printing and delivery of the Offering Memorandum, including the number of copies the Underwriters deem reasonable; (b) any cost of preparation of the Bonds; (c) the fees and disbursements of Co-Bond Counsel; (d) the fees and disbursements of any accountants, consultants, financial advisors or additional legal counsel retained in connection with the issuance of the Bonds, including the Independent Engineer and the Financial Feasibility Consultant; (e) fees for Bond ratings and CUSIP numbers; (f) the expenses of travel, lodging and meals for Authority representatives in connection with the negotiation, marketing, issuance and delivery of the Bonds; (g) all advertising expenses in connection with the public offering of the Bonds, including investor meetings; (h) the costs of filing fees required by any of the Blue Sky laws; and (i) all out-of-pocket and computer costs associated with the issuance of the Bonds. The Authority shall reimburse the Underwriters for the fees and expenses of Underwriters’ counsel, any expense advanced or incurred by the Underwriters for which the Authority is responsible hereunder including (f) above and other reasonable expenses incurred in connection with the performance of Underwriters’ obligations hereunder (reimbursement may be included in the expense component of the Underwriters’ discount, which the Underwriters acknowledge includes their expenses as set forth in Section 1).

15. **Notices.** Any notice or other communication to be given to the Authority under this Agreement may be given by delivering the same in writing to the address shown on the first page of this Agreement to the attention of the Chief Financial Officer, and any notice or other communication to be given to the Representative under this Agreement may be given by delivering the same in writing to Goldman, Sachs & Co. 200 West Street, 32<sup>nd</sup> floor, New York, NY 10282-2198, Attention: \_\_\_\_\_, Managing Director.

16. **Parties in Interest; Survival of Representations and Warranties.** This Agreement, when accepted in accordance with the provisions hereof, shall constitute the entire agreement between the Authority and the Underwriters and is made solely for the benefit of the

Authority and the Underwriters (including the successors or assigns of the Authority or the Underwriters) and no other person will acquire or have any right hereunder or by virtue hereof. All of the Authority's and Underwriters' representations, warranties, covenants and agreements contained in this Agreement will remain operative and full force and effect regardless of (a) any investigations made by or on behalf of the Underwriters; or (b) delivery of and payment for the Bonds pursuant to this Agreement.

17. **Effective Date.** This Agreement will become effective upon its acceptance by the Authority, as evidenced by the execution hereof by the appropriate official of the Authority, and will be valid and enforceable at the time of such acceptance.

18. **Execution in Counterparts.** This Agreement may be executed in counterparts each of which shall be regarded as an original and all of which shall constitute one and the same document.

19. **Finder.** The Authority represents and warrants that no finder or other agent of a finder has been employed or consulted by it in connection with this transaction.



20. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the District of Columbia.

GOLDMAN, SACHS & CO.  
BARCLAYS CAPITAL INC.

By: GOLDMAN, SACHS & CO., as Representative

By: \_\_\_\_\_

Managing Director

[SIGNATURE PAGE TO SERIES 2014A BOND PURCHASE AGREEMENT]

Accepted: July \_\_, 2014

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

By \_\_\_\_\_

Name: Mark Kim

Title: Chief Financial Officer

[SIGNATURE PAGE TO SERIES 2014A BOND PURCHASE AGREEMENT]

EXHIBIT A-1

**\$000,000,000**  
**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**  
**Public Utility Senior Lien Revenue Bonds, Series 2014A**  
**(Federally Taxable)**

**Term Bonds**

**\$000,000,000 \_\_% Term Bonds due October 1, \_\_\_\_ Priced to Yield \_\_\_\_%**

The Bonds shall be subject to optional redemption from any source, in whole or in part on any date, in such order of maturities as shall be determined by the Authority (and by lot within a maturity), at a redemption price of 100% of the principal amount thereof, plus the Make-Whole Premium (as defined in the Fifteenth Supplemental Indenture), if any, plus accrued interest to the date fixed for redemption.

TERMS OF REDEMPTION

MANDATORY SINKING FUND REDEMPTION

The \$000,000,000 Term Bonds maturing on October 1, \_\_\_\_ shall be subject to mandatory sinking fund redemption as follows:

<u>Year</u>	<u>Principal Amount</u>
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\* Final maturity

EXHIBIT B

FORM OF AUTHORITY'S GENERAL COUNSEL OPINION

August 1, 2014

District of Columbia Water and Sewer Authority  
5000 Overlook Avenue, S.W.  
Washington, DC 20032

**\$000,000,000**  
**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**  
**Public Utility Senior Lien Revenue Bonds, Series 2014A**

Ladies and Gentlemen:

I am General Counsel to the District of Columbia Water and Sewer Authority (the "Authority") and in connection with the issuance by the Authority of its District of Columbia Water and Sewer Authority \$000,000,000 Public Utility Senior Lien Revenue Bonds, Series 2014A (the "Series 2014A Bonds" ). I have reviewed an executed copy of the Bond Purchase Agreement, dated July 23, 2014, between the Authority and Barclays Capital Inc., as Representative on behalf of the Underwriters, with respect to the Series 2014A Bonds (the "Bond Purchase Agreement") and the Preliminary Offering Memorandum, dated July , 2014 (the "Preliminary Offering Memorandum") and the Offering Memorandum, dated July , 2014, being distributed in connection with the issuance of the Series 2014A Bonds (the "Offering Memorandum"). Capitalized terms used and not defined herein shall have the respective meanings given to such terms in the Bond Purchase Agreement.

I have also examined an act of the Council of the District of Columbia entitled the "Water and Sewer Authority Establishment and Department of Public Works Reorganization Act of 1996," codified, as amended, at District of Columbia Official Code Ann. Sections 34-2201.01 *et seq.*, and the acts amendatory thereof and supplemental thereto (the "Act"), and an act of the United States Congress entitled the "District of Columbia Water and Sewer Authority Act of 1996" (Public Law 104-184), as amended (the "Federal Act"), certified copies of proceedings of the Authority authorizing the issuance of the Series 2014A Bonds, including the Resolution and such other proceedings as I have considered necessary or advisable to render the following opinions.

In rendering the following opinions, I have relied on representations of the Authority as to matters of fact without independent investigation or verification and, as to matters of law, the

representations of Co-Bond Counsel without independent research or verification and have assumed the genuineness of all signatures, the authenticity of all documents tendered to me as originals and the conformity to original documents of all documents submitted to me as certified or photostatic copies.

Based upon review of the materials described above and subject to the recitals and qualifications herein contained, to the best of my knowledge, information and belief, it is my opinion that:

1. The Authority is a body corporate duly created, organized and validly existing as an independent authority of the District under the Act and under the Federal Act (the Act and the Federal Act being sometimes hereinafter referred to as, the “Acts”). The Authority has the full legal right, power and authority to (i) adopt the Resolution, (ii) issue the Series 2014A Bonds, (iii) execute, deliver and perform its obligations under the Bond Documents, and (iv) perform its obligations under the System Agreements.

2. The Federal Act was duly enacted by Congress and the Act was duly enacted by the Council of the District of Columbia. The Acts remain in full force and effect. The Act transferred all assets and liabilities of the Water and Sewer Utility Administration (“WASUA”) as indicated on the balance sheet prepared by WASUA, effective April 17, 1996, on an interim basis for the exclusive use and possession of the Authority for so long as any revenue bonds of the Authority, including the Bonds, remain outstanding.

3. The Resolution was adopted by the Authority and has not been amended since the date of the adoption thereof and remains in full force and effect as the date hereof.

4. (i) The adoption of the Resolution, the issuance of the Series 2014A Bonds, the execution and delivery of the Bond Documents and the performance of the Authority’s obligations thereunder, and (ii) the performance of the Authority’s obligations under the System Agreements, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the Authority, a breach of or default under any agreement or other instrument to which the Authority is a party, or any existing law, administrative regulation, court order, settlement order or consent decree to which the Authority is subject.

5. Except as otherwise described in the Preliminary Offering Memorandum and the Offering Memorandum, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, pending or, to the best of my knowledge, threatened against the Authority (i) seeking to prohibit, restrain or enjoin the issuance, sale or delivery of the Series 2014A Bonds, the use of the Offering Memorandum or the collection of the revenues pledged to the payment of the principal of and interest on the Series 2014A Bonds, (ii) in any way contesting or affecting any authority for the issuance of the Series 2014A Bonds or the validity, enforceability, due authorization, execution or delivery of the Series 2014A Bonds, including the Bond Purchase Agreement or the other Bond Documents, or the validity or enforceability of the System Agreements, (iii) questioning the tax-exempt status of the Series 2014A Bonds under the laws of the District, (iv) in any way contesting the

corporate existence or powers of the Authority or the titles of the officers of the Authority to their respective offices, (v) which may result in any material adverse change in the business or the financial condition or the financial prospects of the Authority or (vi) asserting that the Preliminary Offering Memorandum or the Offering Memorandum contains any untrue statement of a material fact or omits any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

6. The statements and information contained in the Preliminary Offering Memorandum and the Offering Memorandum under the caption entitled "LITIGATION," are true, correct and complete in all material respects, and the information under such caption does not contain any untrue statement of a material fact and does not omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading in any material respect.

7. Pursuant to the Acts, the Authority has the full legal right, power and authority to operate the System and to collect and pledge the Revenues therefrom in accordance with the Indenture.

8. The Authority has approved the form of the Preliminary Offering Memorandum and the Offering Memorandum, the execution of the Offering Memorandum and the delivery of the Offering Memorandum to the purchasers of the Series 2014A Bonds.

9. The Authority has obtained the consents, approvals, authorizations or other orders required for the consummation of the transactions contemplated by the Bond Purchase Agreement, including the issuance of the Series 2014A Bonds.

This opinion and all documents which relate to this opinion are to be construed in accordance with the laws of the District and the United States of America. This opinion is rendered solely for the use of the Authority and may not be relied on by any other person.

Very truly yours,

General Counsel

EXHIBIT C

FORM OF OPINION OF UNDERWRITERS' COUNSEL

August 1, 2014

**\$000,000,000**

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY  
Public Utility Senior Lien Revenue Bonds, Series 2014A**

Goldman, Sachs & Co., as Representative  
New York, NY

Ladies and Gentlemen:

We have acted as counsel for you as the representative (the "Representative") acting on behalf of yourself and other underwriters (the "Underwriters") in connection with your purchase from the District of Columbia Water and Sewer Authority (the "Authority") of its \$000,000,000 aggregate principal amount of the District of Columbia Water and Sewer Authority Public Utility Senior Lien Revenue Bonds, Series 2014A (the "Bonds"), pursuant to the Bond Purchase Agreement, dated July 23, 2014 (the "Purchase Agreement"), between you and the Authority. The Bonds are to be issued pursuant to the Master Indenture of Trust, dated as of April 1, 1998 (the "Master Indenture"), as amended and supplemented to the date of delivery of the Bonds (the "Indenture"), including by the Fifteenth Supplemental Indenture of Trust, to be dated the date of issuance and delivery of the Bonds (the "Fifteenth Supplemental Indenture"), each by and between the Authority and Wells Fargo Bank, N.A., as trustee (the "Trustee"). The proceeds of the Bonds will be used to finance certain Costs of the System and (ii) pay costs of issuing the Bonds. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Purchase Agreement.

In that connection, we have reviewed the Indenture, the Preliminary Offering Memorandum of the Authority dated July , 2014 (the "Preliminary Offering Memorandum") and the Offering Memorandum of the Authority, dated July , 2014, with respect to the Bonds (the "Offering Memorandum"), the Continuing Disclosure Agreement, dated \_\_\_\_\_, 2014 (the "Continuing Disclosure Agreement"), the Purchase Agreement, certificates of the Authority, the Trustee and others, the opinions referred to in paragraph 10(f) (vi) of the Purchase Agreement, and such records and documents, and we have made such investigations of law, as we have deemed appropriate as a basis for the opinions and conclusions hereinafter expressed. We do not assume any responsibility for any electronic version of the Offering Memorandum and assume that any such version is identical in all respects to the printed version.

In arriving at the opinions and conclusions hereinafter expressed, we are not expressing any opinion or view on, and with your permission are assuming and relying on, the validity, accuracy and sufficiency of the records, documents, certificates and opinions referred to above,



including the accuracy of all factual matters represented and legal conclusions contained therein, including (without limitation) any representations and legal conclusions regarding the due authorization, issuance, delivery, validity and enforceability of the Bonds, and any laws, documents and instruments that may be related to the issuance, payment or security of the Bonds. We have assumed that all records, documents, certificates and opinions that we have reviewed, and the signatures thereto, are genuine.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions or conclusions:

1. The Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

2. We are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of any of the statements contained in the Preliminary Offering Memorandum and the Offering Memorandum and make no representation that we have independently verified the accuracy, completeness or fairness of any such statements. In our capacity as your counsel, to assist you with your responsibility with respect to the Preliminary Offering Memorandum and the Offering Memorandum, we participated in conferences with your representatives and representatives of the Authority, Squire Patton Boggs (US) LLP, and Leftwich & Ludaway, LLC, as co-bond counsel and as co-disclosure counsel, accountants, feasibility consultants and others, during which the contents of the Offering Memorandum and related matters were discussed. Based on our participation in the above-mentioned conferences (which did not extend beyond the date of the Offering Memorandum), and in reliance thereon, on oral and written statements and representations of the Authority and others and on the records, documents, certificates, opinions and matters herein mentioned (as set forth above), we advise you as a matter of fact and not opinion that, during the course of our representation of you on this matter, no facts came to the attention of the attorneys in our firm rendering legal services to you in connection with the Preliminary Offering Memorandum and the Offering Memorandum which caused us to believe that the Preliminary Offering Memorandum and the Offering Memorandum as of their dates and as of the date hereof (except for any CUSIP numbers, financial, accounting, statistical or economic, engineering or demographic data or forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, any information about litigation to which the Authority is a party, any management discussion and analysis, Appendices to the Preliminary Offering Memorandum and the Offering Memorandum, or any information about book-entry, DTC, ratings, rating agencies, and tax exemption of the Bonds, which we expressly exclude from the scope of this paragraph and as to which we express no opinion or view) contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. No responsibility is undertaken or view expressed with respect to any other disclosure document, materials or activity, or as to any information from another document or source referred to by or incorporated by reference in the Preliminary Offering Memorandum and the Offering Memorandum.

We are furnishing this letter to you pursuant to paragraph 10(f) (vi) of the Purchase Agreement solely for your benefit as the Representative. Our engagement with respect to this

matter has terminated as of the date hereof, and we disclaim any obligation to update this letter. This letter is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person. This letter is not intended to, and may not, be relied upon by owners of Bonds or by any other party to whom it is not specifically addressed.

Very truly yours,

M&A draft 6/17/14

REMARKETING AGREEMENT

Between

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

Issuer

and

**MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED**

Remarketing Agent

Dated as of \_\_\_\_\_, 2014

Relating to

Public Utility Subordinate Lien Multimodal Revenue Bonds, Series 2014B

\_\_\_\_\_  
\_\_\_\_\_

This REMARKETING AGREEMENT, dated as of \_\_\_\_\_, 2014 (the “Agreement”), between the District of Columbia Water and Sewer Authority (the “Issuer”) and MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED (“Merrill Lynch” or the “Remarketing Agent”).

W I T N E S S E T H:

WHEREAS, the Issuer has issued \$000,000,000 aggregate principal amount of the District of Columbia Water and Sewer Authority Public Utility Subordinate Lien Multimodal Revenue Bonds, Series 2014B (the “Bonds”) under and pursuant to provisions of the laws of the United States of America and the District of Columbia (the “District”), including particularly, an act of the Council of the District entitled the “Water and Sewer Authority Establishment and Department of Public Works Reorganization Act of 1996,” as amended, codified at District of Columbia Official Code Ann. Sections 34-2201.01 *et seq.*, and the acts amendatory thereof and supplemental thereto (the “Act”), and an act of the United States Congress entitled the “District of Columbia Water and Sewer Authority Act of 1996” (Public Law 104-184), as amended (the “Federal Act”), and all proceedings necessary to authorize and provide for the issuance of the Bonds, including a resolution adopted by the Board of Directors of the Authority, dated July \_\_, 2014 (the “Resolution”), and the Master Indenture of Trust, dated as of April 1, 1998 (the “Master Indenture”), between the Authority and Wells Fargo Bank, N.A., as trustee (the “Trustee”), as amended and supplemented, including by the Sixteenth Supplemental Indenture of Trust, dated as of the Closing Date (as defined below) (the “Sixteenth Supplemental Indenture,” and together with the Master Indenture as previously amended and supplemented, the “Indenture”);

WHEREAS, the Bonds and the Indenture provide among other things, that the owners of the Bonds (the “Owners”), may elect (or may be required) in certain instances to tender their Bonds for purchase upon the terms and conditions contained in the Bonds and the Indenture;

WHEREAS, the Indenture provides for the appointment of a remarketing agent to perform certain duties, including the use of its best efforts to remarket any Bonds tendered for purchase by the Owners; and

WHEREAS, Merrill Lynch has agreed to accept the duties and responsibilities of the remarketing agent under the Indenture and this Agreement;

NOW, THEREFORE, for and in consideration of the mutual covenants made herein and other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

Section 1. Definitions. Unless otherwise defined herein, all capitalized terms shall have the meanings ascribed to them in the Indenture.

“MSRB” shall mean: the Municipal Securities Rulemaking Board.

“Rule G-34 Documents” shall mean: (i) the letter of credit agreement, reimbursement agreement, standby bond purchase agreement loan agreement, guaranty agreement or any other document establishing an obligation to provide credit and/or liquidity support with respect to the Bonds; (ii) the indenture, bond resolution, and any supplemental or series indenture(s) or resolution(s) or any other authorizing document under which the Bonds were issued; (iii) any amendments, extensions, renewals, replacements or terminations thereof; and (iv) any other document required to comply with MSRB Rule G-34(c), as it may be amended from time to time; and, in each case where required to be delivered, such delivery shall be by electronic means in a word-searchable PDF file (or in such other form as the Remarketing Agent shall notify the Issuer/Borrower in writing) labeled with the following information: (a) CUSIP number; (b) name of issuer; (c) name of transaction; (d) name of document; and (e) whether the document is an execution version or a redacted version.

“SHORT System” shall mean: the MSRB’s Short-term Obligation Rate Transparency System.

Section 2. Appointment of Remarketing Agent. Subject to the terms and conditions contained herein, the Issuer hereby appoints Merrill Lynch, as exclusive Remarketing Agent, and Merrill Lynch hereby accepts such appointment.

Section 3. Responsibilities of Remarketing Agent. Subject to the terms and conditions set forth in this Agreement, Merrill Lynch agrees to perform the duties of Remarketing Agent set forth in the Indenture. It is understood that in undertaking to perform such duties, and in the performance thereof, it is the intention of the parties that the Remarketing Agent will act solely as an agent and not as a principal except as expressly provided in Section 13. The Remarketing Agent shall not be liable for any action taken or omitted to be taken pursuant to this Agreement, except for its own negligence or willful misconduct.

(a) Determination of Interest Rates. The Remarketing Agent shall determine the interest rates on the Bonds in the manner and at the times specified therefor in the Indenture.

(b) Remarketing of Tendered Bonds.

(i) The Remarketing Agent shall use its best efforts to remarket Bonds to be purchased as described in the Indenture.

(ii) The Remarketing Agent

(A) will suspend its remarketing efforts upon the receipt of notice of the occurrence of an event of default under either the Indenture or the Reimbursement Agreement, which suspension will continue for so long as such event of default shall continue (the Remarketing Agent being under no obligation to determine when such event of default shall cease); and

(B) may suspend its remarketing efforts immediately upon the occurrence of any of the following events, which suspension will continue so long as the situation continues to exist:

(1) there shall hereafter be placed into effect a general suspension of trading on the New York Stock Exchange or minimum or maximum prices for trading shall have been fixed and be in force, or maximum ranges for prices for securities shall have been required and be in force on the New York Stock Exchange, whether by virtue of a determination by that Exchange or by order of the Securities and Exchange Commission or any other governmental authority having jurisdiction;

(2) a general moratorium on commercial banking activities in New York is declared by either federal or New York State authorities;

(3) there shall have occurred any new outbreak of hostilities or any material escalation in any present hostilities or other new national or international calamity, crisis or terrorist activity, the effect of such outbreak, escalation, calamity, crisis or terrorist activity on the financial markets of the United States being such, in the judgment of the Remarketing Agent, as to substantially adversely affect the marketability of the Bonds;

(4) legislation shall be introduced by committee, by amendment or otherwise, in, or be enacted by, the House of Representatives or the Senate of the Congress of the United States, or a decision by a court of the United States shall be rendered, or a stop order, ruling, regulation or official statement by, or on behalf of, the United States Securities and Exchange Commission or other governmental agency having jurisdiction of the subject matter shall be made or proposed, to the effect that the offering or sale of obligations of the general character of the Bonds, as contemplated hereby, is or would be in violation of any provision of the Securities Act of 1933, as amended (the "Securities Act") and as then in effect, or the Securities Exchange Act of 1934, as amended (the "Exchange Act") and as then in effect, or the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act") and as then in effect, or with the purpose or effect of otherwise prohibiting the offering or sale of obligations of the general character of the Bonds, or the Bonds, as contemplated hereby;

(5) any event shall occur or information shall become known, which, in the Remarketing Agent's reasonable opinion, makes untrue, incorrect or misleading in any material respect any statement or information contained in the disclosure documents provided to the Remarketing Agent in connection with the performance of its duties hereunder, whether provided pursuant to Section 5 or otherwise, or causes such documents to contain an untrue, incorrect or misleading statement of a material fact or to

omit to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading;

(6) any governmental authority shall impose, as to the Bonds, or obligations of the general character of the Bonds, any material restrictions not now in force, or increase materially those now in force;

(7) any of the representations and warranties of the Issuer made hereunder shall not have been true and correct on the date made;

(8) the Issuer fails to observe any of the covenants or agreements made herein;

(9) any of the rating agencies then rating the Bonds or the Bank shall downgrade the ratings assigned to either the Bonds or the Bank so that the Bonds are not "Eligible Securities" as defined under Rule 2a-7 of the Investment Company Act of 1940, as amended;

(10) legislation shall have been enacted by the Congress of the United States, or shall have been reported out of committee of either body or be pending in committee of either body, or a decision shall have been rendered by a court of the United States, the Tax Court of the United States or a court of the State of Oklahoma, or a ruling shall have been made or a regulation or temporary regulation shall have been issued by the Treasury Department of the United States or the Internal Revenue Service or other federal authority, with respect to federal taxation upon revenues or other income of the general character to be derived by the Authority or the Obligated Group, or upon interest received on obligations of the general character of the Bonds, which, in the reasonable judgment of the Remarketing Agent, materially adversely affects the market for the Bonds;

(11) in the reasonable judgment of the Remarketing Agent, the market price or marketability of the Bonds or the ability of the Remarketing Agent to enforce contracts for the sale of Bonds shall have been materially adversely affected by an amendment of or supplement to the Official Statement, notwithstanding the Remarketing Agent's approval of such amendment or supplement prior to its distribution; or

(12) an actual or imminent default or a moratorium in respect of payment of any U.S. Treasury bills, bonds or notes the effect of which in either Remarketing Agent's judgment makes it

impractical to market the Bonds or to enforce contracts for the sale of the Bonds.

Section 4. Resignation and Removal of Remarketing Agent; Termination Events. The Remarketing Agent may at any time resign and be discharged of its duties and obligations hereunder upon providing the Trustee, the Issuer, the Paying Agent and the Bank with sixty (60) days' prior written notice. The Remarketing Agent may be removed at any time, at the direction of the Trustee, the Paying Agent, the Issuer and the Bank upon thirty (30) days' prior written notice to the Remarketing Agent; provided, however, that if the ratings on the Bonds fall below A by Standard & Poor's, a division of McGraw-Hill Companies, or Fitch or A2 by Moody's Investors Service. Upon removal or resignation of the Remarketing Agent, the Issuer shall promptly cause the Paying Agent to give notice thereof by mail to all Bondholders and to any rating agency which has assigned a rating to the Bonds. The Remarketing Agent shall assign and deliver this Agreement to its successor, if any.

In addition to its ability to suspend its remarketing efforts as set forth above under Section 3(b)(ii)(B)(9), the Remarketing Agent may, upon notice to the Issuer, cease offering and selling the Bonds with immediate effect if any of the rating agencies then rating the Bonds or the Bank shall downgrade the ratings assigned to either the Bonds or the Bank so that the Bonds are not "Eligible Securities" as defined under Rule 2a-7 of the Investment Company Act of 1940, as amended. The Remarketing Agent shall also have the right to immediately terminate this Agreement if there is a down-rating below \_\_\_ or withdrawal of the rating on the Bonds, a down-rating below \_\_\_ of the Borrower, a down-rating below \_\_\_ of the Liquidity Facility Provider or a down-rating below \_\_\_ of any credit enhancer insuring the Bonds,

Following termination, the provisions of Sections 6 and 7 hereof will continue in effect as to transactions prior to the date of termination, and each party will pay the other party any amounts owing at the time of termination.

Section 5. Disclosure Materials.

(a) General. If the Remarketing Agent determines that it is necessary or desirable to use an official statement or other disclosure document in connection with its remarketing of the Bonds, the Remarketing Agent will notify the Issuer which will provide the Remarketing Agent with a disclosure document in respect of the Bonds satisfactory to the Remarketing Agent and its counsel. The Issuer will supply the Remarketing Agent with such number of copies of the disclosure document as the Remarketing Agent requests from time to time and the Issuer will amend the document (and all documents incorporated by reference) so that at all times the document will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. In connection with the use of any disclosure document by the Remarketing Agent in its remarketing of the Bonds, the Issuer will furnish to the Remarketing Agent such certificates, accountants' letters and opinions of counsel as the Remarketing Agent reasonably requests.

(b) Compliance with Rule 15c2-12. In the event the Remarketing Agent is asked to remarket the Bonds in any situation which requires compliance with Rule 15c2-12 of the Exchange Act (the "Rule"),



(i) the Issuer will provide the Remarketing Agent with an official statement or other disclosure document in connection with its remarketing of the Bonds which the Issuer deems final as of its date (exclusive of pricing and other sales information), prior to the date the Remarketing Agent bids for, offers or sells any Bonds;

(ii) the Issuer will provide the Remarketing Agent with such number of copies of any preliminary official statement or other disclosure document prepared in connection therewith, as the Remarketing Agent may need to supply at least one copy thereof to each potential customer who requests it; and

(iii) the Issuer shall provide the Remarketing Agent within seven (7) Business Days after the interest rate is determined or by the time “money confirmations” are to be sent to customers, whichever is earlier, with a number of copies of the final official statement or other disclosure document adequate to provide at least one copy of such final official statement or disclosure document to any customer or any potential customer for a period commencing on the date such final official statement or disclosure document is available and extending for the underwriting period as defined in the Rule (the “Underwriting Period”) and, thereafter, for as long as may be required by the Rule. During the Underwriting Period, the Issuer agrees to update, by written supplement or amendment or otherwise, the final official statement or disclosure document such that at all times during such period the final official statement or disclosure document will not contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

Section 6. Indemnification and Contribution.

(a) The Issuer will indemnify and hold harmless the Remarketing Agent and each of its directors, officers and employees and each person who controls the Remarketing Agent within the meaning of Section 15 of the Securities Act, against any and all losses, claims, damages or liabilities, joint or several, to which any such indemnified party may become subject under any statute or at law or in equity or otherwise, and will reimburse any such indemnified party for any legal or other expenses incurred by it in connection with investigating any claims against it and defending any actions, insofar as such losses, claims, damages, liabilities or actions arise out of or are based upon (i) an allegation or determination that the Bonds should have been registered under the Securities Act or the Indenture should have been qualified under the Trust Indenture Act, or (ii) any untrue statement or alleged untrue statement of a material fact contained in any disclosure documents furnished pursuant to Section 5 hereof or the omission or alleged omission to state therein a material fact necessary to make the statements therein not misleading, but the Issuer will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made in the document in reliance upon and in conformity with written information furnished to the Issuer by the Remarketing Agent specifically for use in connection with the preparation of the documents. This indemnity agreement will not limit any other liability to any such indemnified party the Issuer otherwise may have; provided that in no event will the Issuer be obligated for double indemnification.

(b) An indemnified party shall, promptly after receipt of notice of the commencement of any action against such indemnified party in respect of which indemnification may be sought against an indemnifying party, notify the indemnifying party in writing of the commencement of the action. Failure of the indemnified party to give such notice will not relieve the indemnifying party from any liability it may have to such indemnified party. If such an action is brought against an indemnified party and such indemnified party notifies the indemnifying party of its commencement, the indemnifying party may, or if so requested by such indemnified party will, participate in or assume its defense, with counsel reasonably satisfactory to the indemnified party and, after notice from the indemnifying party to such indemnified party of an election to assume the defense, the indemnifying party will not be liable to the indemnified party under this Section for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense other than reasonable costs of investigation. Until the indemnifying party assumes the defense of any such action at the request of such indemnified party, the indemnified party may participate at its own expense in the defense of such action. If the indemnifying party does not retain counsel to take charge of the defense or if the indemnified party reasonably concludes that there may be defenses available to it different from or in addition to those available to the indemnifying party (in which case the indemnifying party will not have the right to assume the defense of such action on behalf of such indemnified party), legal and other expenses reasonably incurred by the indemnified party shall be borne by the indemnifying party. Any obligation under this Section of an indemnifying party to reimburse an indemnified party for expenses shall be payable in reasonable amounts and at reasonable periodic intervals not more often than monthly as required by the indemnified party, but if the indemnified party is later determined not to be entitled to indemnification under this Section or otherwise, the indemnified party will promptly return any moneys paid pursuant to this sentence. No party will be liable with respect to any settlement effected without its consent.

(c) In order to provide for just and equitable contribution in circumstances in which the indemnification provided for in Section 6(a) hereof is due in accordance with its terms but, for any reason, is held by a court to be unavailable on grounds of policy or otherwise, the Issuer and the Remarketing Agent will contribute to the total losses, claims, damages and liabilities (including legal or other expenses of investigation or defense) to which the Issuer and the Remarketing Agent may be subject in such proportion so that the Remarketing Agent is responsible for that portion represented by the percentage that the fee to be paid to the Remarketing Agent pursuant to Section 7 hereof bears to the principal amount of the Bonds under this Agreement and the Issuer is responsible for the balance. In no case, however, will the Remarketing Agent be responsible for any amount in excess of the fee applicable to the Bonds remarketed by the Remarketing Agent under this Agreement and no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this paragraph, each person who controls the Remarketing Agent within the meaning of the Securities Act shall have the same rights to contribution as the Remarketing Agent, and each person who controls the Issuer within the meaning of the Securities Act and each officer and each director of the Issuer will have the same rights to contribution as the Issuer, subject to the foregoing sentence. Any party entitled to contribution will, promptly after receipt of notice of commencement of any action, suit or proceeding against such party in respect of which a claim for contribution may be made against another party or

parties under this paragraph, notify each party from whom contribution may be sought, but the failure to give such notice will not relieve the party from whom contribution may be sought from any obligation it may have to the party entitled to contribution.

Section 7. Fees and Expenses. For the Remarketing Agent's services under this Agreement and the Indenture, the Issuer will pay the Remarketing Agent an annual fee of \_\_\_ of \_ % of the average aggregate principal amount of Bonds outstanding for the immediately preceding quarter. The Issuer will pay the fee quarterly in arrears commencing \_\_\_\_\_,\_\_\_\_, and on each \_\_\_\_\_ 1, \_\_\_\_\_ 1, \_\_\_\_\_ 1, and \_\_\_\_\_ 1, thereafter. When Bonds are remarketed in connection with the conversion of the interest rate to a Term Rate or a Fixed Rate, the Issuer and the Remarketing Agent will agree on a fee.

The Issuer will pay all expenses of delivering remarketed Bonds and reimburse the Remarketing Agent for all direct, out-of-pocket expenses incurred by it as Remarketing Agent, including reasonable counsel fees and disbursements.

Section 8. Representations, Warranties, Covenants and Agreements of the Remarketing Agent. The Remarketing Agent, by its acceptance hereof, represents, warrants and covenants and agrees with the Issuer as follows:

(a) the Remarketing Agent is a member of the Financial Industry Regulatory Authority (FINRA) and otherwise meets the requirements for the Remarketing Agent set forth in the Indenture;

(b) the Remarketing Agent has been duly incorporated, is validly existing and is in good standing under the laws of the State of Delaware, and is authorized by law to perform all the duties and obligations imposed upon it as Remarketing Agent by this Agreement and the Indenture; and

(c) the Remarketing Agent has full power and authority to take all actions required or permitted to be taken by the Remarketing Agent by or under, and to perform and observe the covenants and agreements on its part contained in, this Agreement and the Indenture.

Section 9. Representations, Warranties, Covenants and Agreements of the Issuer. The Issuer, by its acceptance hereof, represents, warrants, covenants, and agrees with the Remarketing Agent that:

(a) The Authority is, and at the Closing Date will be, a duly organized and validly existing corporate body and independent authority of the District established under the laws of the United States and the District;

(b) it has full power and authority to take all actions required or permitted to be taken by the Issuer by or under, and to perform and observe the covenants and agreements on its part contained in, this Agreement and any other instrument or agreement relating thereto to which the Issuer is a party;

(c) it has, on or before the date hereof, duly taken all action necessary to be taken by it prior to such date to authorize (i) the execution, delivery and performance of this Agreement, the Reimbursement Agreement and any other instrument or agreement to which the Issuer is a party and which has been or will be executed in connection with the transactions contemplated by the foregoing documents; and (ii) the carrying out, giving effect to, consummation and performance of the transactions and obligations contemplated by the foregoing agreements and by the Official Statement; and

(d) it will promptly notify the Remarketing Agent by Electronic Means of any material adverse changes that may affect the remarketing of the Bonds or any fact or circumstance which may constitute, or with the passage of time will constitute, an event of default under the Indenture or the Reimbursement Agreement.

Section 10. Compliance with MSRB Rule G-34(c).

(a) The Issuer agrees that it shall provide the following to the Remarketing Agent to assist in complying with its obligations under MSRB Rule G-34(c):

(i) on the effective date of this Remarketing Agreement, a copy of each executed and currently effective Rule G-34 Document;

(ii) no later than ten (10) Business Days prior to the proposed date of any amendment, extension or renewal, replacement or termination of any of the then current Rule G-34 Documents, written notice that such document is proposed to be amended, extended, renewed, replaced or terminated, as the case may be, and the expected date of execution and delivery of such amendment, extension, renewal, replacement or termination, as the case may be;

(iii) within one (1) Business Day after the execution and delivery of any amendment, extension, renewal, replacement or termination, as the case may be, of any of the then current Rule G-34 Documents, a copy thereof; and

(iv) no later than three (3) Business Days after receiving a request from the Remarketing Agent for any Rule G-34 Document, a copy thereof.

In each instance that Rule G-34 Documents are delivered to the Remarketing Agent pursuant to this Section 10(a), the Issuer shall provide: (A) a clean final execution copy of each relevant document; and (B) in any such document where any redactions are made, (x) a redacted final execution copy of document, and (y) a file containing a list showing all redactions that have been made to such document.

(b) If the Issuer determines that any information in the Rule G-34 Documents is confidential or proprietary, the Issuer shall discuss such information and the potential redaction thereof with the Remarketing Agent and its counsel to ensure compliance with MSRB Rule G-34(c).

(c) In the event that the Issuer does not provide the Remarketing Agent with a copy of a document described in Section 10(a) above, the Issuer acknowledges that the Remarketing Agent may file a notice with the SHORT System that such document will not be provided at such times as specified by the MSRB and in the SHORT System users manual.

(d) The Issuer will hold harmless the Remarketing Agent with respect to any confidential or proprietary information that is made public when the Remarketing Agent files the Rule G-34 Documents with the SHORT System.

(e) If there are any additional regulatory requirements, amendments or modifications to the securities laws with which the Remarketing Agent must comply, the Issuer shall take all steps reasonably requested by the Remarketing Agent or its counsel necessary to comply with such additional requirements.

(f) The Issuer shall reimburse the Remarketing Agent for any costs incurred in connection with compliance with MSRB Rule G-34(c) including, but not limited to, fees charged by trustees or other parties supplying missing documents.

Section 11. Term of Agreement. This Agreement shall become effective on the date hereof and shall continue in full force and effect until the payment in full of the Bonds or the earlier conversion of all Bonds to the Fixed Rate Mode, subject to the right of termination as provided herein.

Section 12. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to agreements made and to be performed in said State. The parties all agree that all actions and proceedings arising out of this Agreement or any of the transactions contemplated hereby shall be brought exclusively in the County of New York and, in connection with any such action or proceeding, submit to the exclusive jurisdiction of, and venue in, federal or state courts located in such County.

Section 13. Dealing in Bonds by the Remarketing Agent.

(a) The Remarketing Agent, in its individual capacity, may in good faith buy, sell, own, hold and deal in any of the Bonds, including, without limitation, any Bonds offered and sold by the Remarketing Agent pursuant to this Agreement, and may join in any action which any Owner may be entitled to take with like effect as if it did not act in any capacity hereunder. The Remarketing Agent may sell any of such Bonds at prices above or below par, at any time. The Remarketing Agent, in its individual capacity, either as principal or agent, may also engage in or be interested in any financial or other transaction with the Issuer and may act as depository, trustee, or agent for any committee or body of Owners or other obligations of the Issuer as freely as if it did not act in any capacity hereunder.

(b) Nothing in this Agreement shall be deemed to constitute the Remarketing Agent an underwriter of the Bonds or to obligate the Remarketing Agent to purchase any Bonds at any time.

(c) The Issuer acknowledges and agrees that: (i) the transactions contemplated by this Agreement are arm's length, commercial transactions between the Issuer and the Remarketing Agent in which the Remarketing Agent is acting solely as a principal and is not acting as a municipal advisor, financial advisor or fiduciary to the Issuer and that the Remarketing Agent has financial and other interests that differ from those of the Issuer; (ii) the Remarketing Agent has not assumed any advisory or fiduciary responsibility to the Issuer with respect to the transactions contemplated hereby and the discussions, undertakings and procedures leading thereto (irrespective of whether the Remarketing Agent has provided other services or is currently providing other services to the Issuer on other matters); (iii) the only obligations the Remarketing Agent has to the Issuer with respect to the transactions contemplated hereby expressly are set forth in this Agreement; and (iv) the Issuer has consulted its own legal, accounting, tax, financial and other advisors, as applicable, to the extent it has deemed appropriate. If the Issuer would like a municipal advisor in this transaction that has legal fiduciary duties to the Issuer, then the Issuer is free to engage a municipal advisor to serve in that capacity.

Section 14. Intention of Parties. It is the express intention of the parties hereto that any purchase, sale or transfer of any Bonds, as herein provided, shall not constitute or be construed to be the extinguishment of any Bonds or the indebtedness represented thereby or the reissuance of any Bonds.

Section 15. Waiver of Trial by Jury. Each of the parties hereto also irrevocably waives all right to trial by jury in any action, proceeding or counterclaim arising out of this Agreement or the transactions contemplated hereby.

Section 16. Miscellaneous.

(a) Except as otherwise specifically provided in this Agreement, all notices, demands and formal actions under this Agreement shall be in writing and either (i) hand-delivered, (ii) sent by electronic means, or (iii) mailed by registered or certified mail, return receipt requested, postage prepaid, to:

The Remarketing Agent:

Merrill Lynch, Pierce, Fenner &  
Smith Incorporated

One Bryant Park  
Ninth Floor  
New York, New York 10036

Attention: Municipal Markets Department

Telephone: (212) 449-5101

Telecopy: (646) 736-6960

Email: [mona\\_payton@baml.com](mailto:mona_payton@baml.com)

The Liquidity Provider: TD Bank, N.A.  
2070 Chain Bridge Road, Suite 145  
Vienna, Virginia 22182

Attention: Christopher Arabia, Senior Vice President  
Telephone: 703.663.4975  
Telecopy: 703.663.4367

The Issuer: District of Columbia Water and Sewer Authority  
5000 Overlook Avenue, S.W.  
Washington, D.C. 20032  
Attention: Chief Financial Officer  
Telephone: 202.787.2000  
Telecopy: 202.\_\_\_\_.\_\_\_\_

Tender Agent and Trustee: Wells Fargo Bank, N.A.  
Corporate Trust Services  
123 S. Broad Street, Suite 1500  
MAC: Y1379-157  
Philadelphia, Pennsylvania 19109  
Attention: Joseph C. Progar  
Telephone: 215.670.6555  
Telecopy: 215.\_\_\_\_.\_\_\_\_

The Remarketing Agent, the Issuer, the Trustee, the Paying Agent, ML Credit and the Bank may, by notice given under this Agreement, designate other addresses to which subsequent notices, requests, reports or other communications shall be directed.

(b) This Agreement shall inure to the benefit of and be binding only upon the parties hereto and their respective successors and assigns. The terms “successors” and “assigns” shall not include any purchase of any of the Bonds merely because of such purchase. Neither the Bank nor any Owner or other third party shall have any rights or privileges hereunder.

(c) All of the representations and warranties of the Issuer and the Remarketing Agent in this Agreement shall remain operative and in full force and effect, regardless of (i) any investigation made by or on behalf of the Remarketing Agent or the Issuer, (ii) the offering and sale of and any payment for any Bonds hereunder or (iii) the termination or cancellation of this Agreement.

(d) This Agreement and each provision hereof may be amended, changed, waived, discharged or terminated only by an instrument in writing signed by the parties hereto.

(e) Nothing herein shall be construed to make any party an employee of the other or to establish any fiduciary relationship between the parties except as expressly provided herein.

(f) If any provision of this Agreement shall be held or deemed to be or shall, in fact, be invalid, inoperative or unenforceable for any reason, such circumstances shall not have the effect of rendering any other provision or provisions of this Agreement invalid, inoperative or unenforceable to any extent whatsoever.

(g) This Agreement may be executed in several counterparts, each of which shall be regarded as an original and all of which shall constitute one and the same document.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

By: \_\_\_\_\_  
Chief Financial Officer

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED

By: \_\_\_\_\_  
Managing Director



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STANDBY BOND PURCHASE AGREEMENT

among

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY,  
as Issuer

WELLS FARGO BANK, N.A.,  
as Trustee and as Tender Agent,

and

TD BANK, N.A.,  
as Liquidity Provider

Dated July \_\_, 2014

\$ \_\_\_\_\_  
DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY  
PUBLIC UTILITY SUBORDINATE LIEN MULTIMODAL REVENUE BONDS,  
SERIES 2014B

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**EXHIBITS:**

- EXHIBIT A -- NOTICE OF LIQUIDITY PROVIDER PURCHASE (Optional Tender)
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- EXHIBIT C -- FORM OF REQUEST FOR EXTENSION
- EXHIBIT D -- NOTICE OF EXTENSION
- EXHIBIT E -- FORM OF BANK BOND CUSTODY AGREEMENT

## STANDBY BOND PURCHASE AGREEMENT

THIS STANDBY BOND PURCHASE AGREEMENT, dated July \_\_, 2014 (the “*Agreement*”), is by and among the DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY (the “*Issuer*”), an independent authority of the District of Columbia, WELLS FARGO BANK, N.A., as Trustee and as Tender Agent (collectively, the “*Trustee*”) and TD BANK, N.A. (the “*Liquidity Provider*”).

### WITNESSETH:

WHEREAS, the Issuer and the Trustee entered into a Master Indenture of Trust dated as of April 1, 1998 (the “*Master Indenture*”) to provide for financing or refinancing the acquisition, construction, operation, maintenance and extension of the System (as defined in the Master Indenture) by the issuance of bonds, notes and other obligations by the Issuer;

WHEREAS, the Issuer now intends to issue \$\_\_\_\_\_ of its Public Utility Subordinate Lien Multimodal Revenue Bonds, Series 2014B (the “*2014B Bonds*”) pursuant to the Master Indenture and the Sixteenth Supplemental Indenture of Trust dated July \_\_, 2014 (the “*Sixteenth Supplement*” and, together with the Master Indenture, as heretofore supplemented and amended, the “*Indenture*”) to finance certain costs of the System and to pay certain costs of issuance;

WHEREAS, the Issuer desires to enhance the liquidity of the 2014B Bonds by providing for the purchase of the 2014B Bonds which are not remarketed upon certain tenders by the holders thereof or otherwise required to be purchased on or prior to the last day of the Facility Period (defined herein) as provided herein through purchases of 2014B Bonds by the Liquidity Provider;

WHEREAS, the Liquidity Provider is willing, upon the occurrence of certain events, to purchase 2014B Bonds tendered by the holders thereof, upon the terms and conditions set forth in this Agreement and the Fee Agreement (defined herein); and

WHEREAS, in reliance upon the provisions hereof, the Liquidity Provider is willing to enter into this Agreement with the Issuer and the Trustee.

NOW, THEREFORE, the parties hereto agree as follows:

### ARTICLE I

#### DEFINITIONS

**Section 1.1. Specific Terms.** As used herein, the following terms have the meanings indicated below or in the referenced Section of this Agreement, unless the context clearly indicates otherwise:

“*2014B Bonds*” has the meaning set forth in the recitals hereof.

“*Accounts*” means all funds and accounts held by the Issuer and/or the Trustee under the Indenture as security for the 2014B Bonds.

“*Affiliate*” means with respect to a Person, any Person (whether not-for-profit or for-profit), which “controls,” or is “controlled” by, or is under common “control” with such Person. For purposes of this definition, a Person “controls” another Person when the first Person possesses or exercises directly, or indirectly through one or more other affiliates or related entities, the power to direct the management and policies of the other Person, whether through the ownership of voting rights, membership, the power to appoint members, trustees or directors, by contract, or otherwise.

“*Agreement*” means this Standby Bond Purchase Agreement dated July \_\_, 2014, as amended or supplemented.

“*Amortization End Date*” means, with respect to any Bank Bond, the fifth anniversary of the Amortization Start Date, but in any event not later than the earlier of (a) fifth anniversary of the last day of the Facility Period and (b) the Maturity Date of the applicable series of 2014B Bonds.

“*Amortization Payment Date*” means, with respect to any Bank Bond, (a) the first Business Day of the third full month following the Purchase Date on which such 2014B Bonds became Bank Bonds and each first Business Day of each sixth (6<sup>th</sup>) month thereafter occurring prior to the related Amortization End Date, and (b) the Amortization End Date.

“*Amortization Start Date*” means the Purchase Date.

“*Anti-Terrorism Law*” shall mean any law relating to terrorism or money laundering including Executive Order No. 13224 and the USA Patriot Act.

“*Authorized Denomination*” means any denomination of at least \$100,000 and in integral multiples of \$5,000 in excess of \$100,000 or such other authorized denomination permitted by the Indenture.

“*Available Commitment*” means on any day the sum of the Available Interest Commitment and the Available Principal Commitment on such day.

“*Available Interest Commitment*” initially means \$\_\_\_\_\_, which initial amount equals 34 days’ interest on the initial amount of the Available Principal Commitment based upon an assumed rate of interest of 12% per annum (based on actual days elapsed in a year of 365/366 days, as applicable), and thereafter means such initial amount adjusted from time to time as follows: (a) downward by an amount that bears the same proportion to such initial amount as the amount of any reduction in the Available Principal Commitment, in accordance with clause (a), (b) or (c) of the definition herein of Available Principal Commitment, bears to the initial Available Principal Commitment and (b) upward by an amount that bears the same proportion to such initial amount as the amount of any increase in the Available Principal Commitment, in accordance with clause (d) of the definition herein of Available Principal Commitment, bears to the initial Available Principal Commitment. Any adjustments to the Available Interest

Commitment pursuant to clauses (a) or (b) hereof shall occur simultaneously with the occurrence of the events described in such clauses.

“*Available Principal Commitment*” means, initially, the aggregate principal amount of the Bonds Outstanding, \$\_\_\_\_\_, and thereafter means such initial amount adjusted from time to time as follows: (a) downward by the amount of any mandatory reduction of the Available Principal Commitment pursuant to Section 2.4(a) or (b) hereof; (b) downward by the principal amount of any 2014B Bonds for the purchase of which funds are made available by the Liquidity Provider to purchase 2014B Bonds pursuant to Section 2.1 hereof; (c) downward by the principal amount of any 2014B Bonds of which the interest rate borne by such 2014B Bonds has been converted to other than a Daily Rate or a Weekly Rate; and (d) upward by the principal amount of any 2014B Bonds theretofore purchased by the Liquidity Provider pursuant to Section 2.1 hereof which are remarketed by the Remarketing Agent and for which the Liquidity Provider has received immediately available funds equal to the principal amount thereof and accrued interest thereon (or deemed to be remarketed pursuant to Section 2.5(c) hereof); *provided, however*, that the sum of (i) the Available Principal Commitment plus (ii) the aggregate principal amount of Bank Bonds shall never exceed \$\_\_\_\_\_. Any adjustments to the Available Principal Commitment pursuant to clauses (a), (b), (c) or (d) hereof shall occur simultaneously with the occurrence of the events described in such clauses.

“*Bank Bond Custodian*” means Wells Fargo Bank, N.A., or any successor thereto appointed pursuant to the terms of the Bank Bond Custody Agreement.

“*Bank Bond Custody Agreement*” means the Bank Bond Custody Agreement dated as of even date herewith between the Liquidity Provider and the Bank Bond Custodian, substantially in the form of Exhibit E hereto, as amended from time to time.

“*Bank Bondholder*” means the Liquidity Provider (but only in its capacity as owner (which as used herein shall mean beneficial owner if at the relevant time Bank Bonds are Book-Entry Bonds) of Bank Bonds pursuant to this Agreement) and any other Person to whom the Liquidity Provider has sold Bank Bonds pursuant to Section 2.5(a) hereof.

“*Bank Bond*” means each 2014B Bond purchased with funds provided hereunder by the Liquidity Provider, until remarketed or deemed to be remarketed in accordance with Section 2.5(c) hereof.

“*Bank Rate*” shall have the meaning set forth in the Fee Agreement.

“*Bond Counsel*” means Squire Sanders (US) LLP (or another nationally recognized bond counsel selected by the Issuer).

“*Bondholders*” has the meaning set forth in the Indenture.

“*Bond Register*” means the registration books maintained by the Trustee in accordance with the Indenture.



“*Book-Entry Bonds*” mean the 2014B Bonds so long as the book-entry system with DTC and its participants (or any successor book-entry system) is used for determining beneficial ownership of the 2014B Bonds.

“*Business Day*” has the meaning set forth in the Sixteenth Supplement.

“*Change in Law*” means the adoption, after the Effective Date (except as otherwise provided in Section 2.9(a)), of any of the following: (the adoption or taking effect of any law, including, without limitation Risk-Based Capital Guidelines, (b) any change in any law or in the administration, interpretation, implementation or application thereof by any Governmental Agency or (c) the making or issuance of any request, rule, ruling, guideline, regulation or directive (whether or not having the force of law) by any Governmental Agency.

“*Code*” means the Internal Revenue Code of 1986, as amended.

“*Conversion Date*” means the date on which all of the 2014B Bonds have been converted to bear interest at a rate other than the Daily Rate or the Weekly Rate.

“*Debt*” of any Person means at any date, without duplication, (i) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (including, as to the Issuer, the principal, premium and interest, when due, on the 2014B Bonds), (ii) all non-contingent obligations of such Person to reimburse any bank or other Person in respect of amounts paid under a letter of credit or similar instrument if such amounts were in respect of borrowed money the payment of which has not been accelerated, (iii) any final nonappealable judgment or order for the payment of money rendered against such Person which is not satisfied or stayed within 60 days and (iv) any obligation with respect to Debt of others guaranteed by such Person but only to the extent that such Person has not raised defenses under contract law with respect to such guarantee.

“*Default*” means any occurrence, circumstance or event, or any combination thereof, which, with the lapse of time and/or giving of notice, would constitute an Event of Default.

“*Default Rate*” shall have the meaning set forth in the Fee Agreement.

“*Default Tender*” means a mandatory tender of the 2014B Bonds as a result of the Liquidity Provider’s delivery of a Notice of Termination Date to the Tender Agent pursuant to Section 8.11(b).

“*Differential Interest Amount*” means, with respect to any Bank Bond, the excess of (a) interest which has accrued and could actually be paid on such Bank Bonds at the Bank Rate (subject to the Maximum Rate), as determined in accordance with Sections 2.2(a) and 3.1 hereof, up to but excluding the Business Day on which such Bank Bonds are purchased from the Bank Bondholders (or the Bank Bondholders elect not to sell the Bank Bonds) pursuant to Section 2.5(c) hereof, over (b) the interest accrued on such Bonds received by the Bank Bondholders as part of the Sale Price.

“*Dodd-Frank Act*” means the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as enacted by the United States Congress, and signed into law on July 21, 2010, and all statutes, rules, guidelines or directives promulgated thereunder.

“*Dollars,*” “*US\$,*” and “*U.S. Dollars*” means the lawful currency of the United States of America.

“*DTC*” means The Depository Trust Company.

“*Effective Date*” has the meaning set forth in the introductory paragraph of Article IV hereof.

“*Eligible Bonds*” has the meaning set forth in Section 2.1 hereof.

“*Environmental Laws*” has the meaning set forth in Section 5.17 hereof.

“*Event of Default*” has the meaning set forth in Article VIII hereof.

“*Excess Bank Bond Interest*” has the meaning set forth in Section 2.2(a) hereof.

“*Excluded Taxes*” means, with respect to the Liquidity Provider, (a) taxes imposed on or measured by its overall net income (however denominated), and franchise taxes imposed on it (in lieu of net income taxes), by the jurisdiction (or any political subdivision thereof) under the laws of which the Liquidity Provider is organized or in which its principal office is located, and (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Issuer is located.

“*Executive Order No. 13224*” means the Executive Order No. 13224 on Terrorist Financing, effective September 24, 2001, as the same has been, or shall hereafter be, renewed, extended, amended or replaced.

“*Expiration Date*” means 5:00 p.m. (Eastern United States time) on July \_\_, 2017, as such date may be extended pursuant to the terms hereof or, if such date (as it may be extended) is not a Business Day, the Business Day immediately prior to such date.

“*Facility Fee*” shall have the meaning specified in the Fee Agreement.

“*Facility Period*” means the period from the Effective Date hereof to and including the earliest of (a) the Expiration Date, (b) the first date on which no 2014B Bonds are Outstanding, (c) 5:00 p.m. (New York City time) on the Conversion Date, (d) 5:00 p.m. (New York City time) on the thirtieth (30<sup>th</sup>) day following the date on which a Notice of Termination Date is received by the Issuer and the Trustee, or if such thirtieth (30<sup>th</sup>) day is not a Business Day, the next succeeding Business Day, and (e) the date on which the Available Commitment has been reduced to zero or terminated in its entirety pursuant to Section 2.4, Section 2.11 or Section 8.11 hereof.

“*Fee Agreement*” means the Agreement Regarding Rates and Fees dated as of the Effective Date between the Issuer and the Liquidity Provider, as the same may be amended, modified or supplemented from time to time in accordance with its terms.

“*Fitch*” means Fitch Ratings, or any successor thereto.

“*GAAP*” means generally accepted accounting principles in the United States as in effect from time to time, applied by the Issuer on a basis consistent with the Issuer’s most recent financial statements furnished to the Liquidity Provider pursuant to Section 7.3(a) hereof.

“*Governmental Agency*” means any national, state or local government (whether domestic or foreign), any political subdivision thereof or any other governmental, quasi-governmental, judicial, public or statutory instrumentality, authority, body, agency, bureau or entity (including any zoning authority, the Federal Deposit Insurance Corporation or the Federal Reserve Board, any central bank or any comparable authority), or any arbitrator with authority to bind a party at law.

“*Indenture*” has the meaning given such term in the recitals hereof.

“*Interest Component*” has the meaning set forth in Section 2.1 hereof.

“*Interest Payment Date*,” with respect to interest on the 2014B Bonds, has the meaning assigned in the Sixteenth Supplement with respect to the 2014B Bonds, and with respect to interest payable on Bank Bonds, means the first Business Day of each calendar month and each other interest payment date described in Section 3.1 hereof, and, also with respect to interest on 2014B Bonds, the stated maturity date, the date of any redemption, any Conversion Date or any Purchase Date.

“*Issuer*” means the District of Columbia Water and Sewer Authority, an independent authority of the District of Columbia, and its successors.

“*Lien*” on any asset means any mortgage, deed of trust, lien, pledge, charge, security interest, hypothecation, assignment, deposit arrangement or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected or effective under applicable law, as well as the interest of a vendor or lessor under any conditional sale agreement, capital or finance lease or other title retention agreement relating to such asset.

“*Liquidity Provider*” has the meaning set forth in the introductory paragraph hereof.

“*Mandatory Purchase*” means the mandatory purchase of all or a portion of the 2014B Bonds, pursuant to the applicable sections of the Sixteenth Supplement, at a price equal to the principal amount thereof plus, if the date of Mandatory Purchase is other than an Interest Payment Date for the 2014B Bonds, accrued interest.

“*Master Indenture*” has the meaning set forth in the Recitals hereof.

“*Maximum Rate*” means, with respect to Bank Bonds, the maximum non-usurious lawful rate of interest permitted by applicable law.

“*Moody’s*” means Moody’s Investors Service, Inc., or any successor thereto.

“*Notice of Liquidity Provider Purchase*” means (a) in the case of a purchase of 2014B Bonds by the Liquidity Provider as a result of an optional tender, a notice in the form of Exhibit A attached hereto and incorporated herein by this reference, or (b) in the case of a purchase of 2014B Bonds by the Liquidity Provider as a result of a Mandatory Purchase, a notice in the form of Exhibit B attached hereto and incorporated herein by this reference.

“*Notice of Termination Date*” has the meaning set forth in Section 8.11(b) hereof.

“*Official Statement*” means any Official Statement or other offering or remarketing document issued or to be issued with respect to the 2014B Bonds or any subseries thereof while the Liquidity Facility is still in effect, as such Official Statement or other offering or remarketing document may be amended, updated, modified or supplemented.

“*Operating Expenses*” has the meaning given such term in the Master Indenture.

“*Optional Tender*” means a tender of the 2014B Bonds for purchase at the option of a Bondholder pursuant to Section 406 of the Sixteenth Supplement.

“*Other Taxes*” has the meaning set forth in Section 2.8(a) hereof.

“*Outstanding*” has the meaning set forth in the Indenture.

“*Payment Date*” means, with respect to any Bank Bond, the earliest to occur of (a) the Amortization End Date, (b) 5:00 p.m. (Eastern United States time) on the Conversion Date applicable to such Bank Bond, (c) the date on which the 2014B Bonds are paid in full, (d) the effective date of an Substitute Credit Facility, (e) the fifth anniversary of the Expiration Date, as it may be extended pursuant to the terms hereof, (f) the effective date that any such Bank Bonds are remarketed or otherwise paid in full, or (g) the termination of this Agreement prior to the Expiration Date.

“*Payment Office*” means the account of the Liquidity Provider set forth in Section 2.10(a) hereof.

“*Person*” means an individual, a corporation, a partnership, a limited liability company, an association, a trust or any other entity or organization, including a governmental or political subdivision or an agency or instrumentality thereof.

“*Purchase Date*” has the meaning set forth in Section 2.3 hereof.

“*Purchase Notice*” has the meaning set forth in Section 2.5(b) hereof.

“*Purchase Price*” means, with respect to any Eligible Bond on any Purchase Date therefor, the unpaid principal amount thereof plus accrued interest thereon from and including the Interest Payment Date next preceding such Purchase Date to but excluding the Purchase Date thereof, in each case without premium; *provided* that accrued interest will not be included in the Purchase Price if the applicable Purchase Date is an Interest Payment Date; *provided further* the

aggregate amount of Purchase Price constituting the Interest Component shall not exceed the amount specified in Section 2.1 hereof.

“*Purchaser*” has the meaning set forth in Section 2.5(b) hereof.

“*Rating Agencies*” means Moody’s, Fitch and S&P; “*Rating Agency*” means any one of Fitch, Moody’s or S&P.

“*Rating Downgrade Event*” means the occurrence of either of the following: (a) the date on which the long-term debt of the Issuer is not rated at least Baa1 (in the case of Moody’s) and BBB+ (in the case of S&P and Fitch) by at least two of the Rating Agencies or (b) the date on which a rating on the long-term debt of the Issuer is cancelled, withdrawn or suspended by any one Rating Agency.

“*Related Documents*” means this Agreement, the Fee Agreement, the 2014B Bonds, the Bank Bond Custody Agreement, the Indenture, any Official Statement, and the Remarketing Agreement, as the same may be amended or modified from time to time in accordance with their respective terms and the terms hereof.

“*Remarketing Agent*” means each or any remarketing agent, as the context may require, at the time serving as such under a Remarketing Agreement with respect to the 2014B Bonds.

“*Remarketing Agreement*” means an agreement of that name between the Issuer and the Remarketing Agent.

“*Risk-Based Capital Guidelines*” means (a) the risk-based capital guidelines in effect in the United States of America on the Effective Date, including transition rules, and (b) the corresponding capital regulations promulgated by regulatory authorities outside the United States of America including transition rules, and any amendment to such regulations adopted prior to the Effective Date.

“*S&P*” means Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc., its successors and assigns.

“*Sale Date*” has the meaning set forth in Section 2.5(b) hereof.

“*Sale Price*” has the meaning set forth in Section 2.5(b) hereof.

“*Security*” means the pledge of the Net Revenues, the funds and Accounts and all other collateral set forth therein by the Issuer pursuant to the Indenture.

“*Security Instruments*” means, collectively, the Indenture, the Sixteenth Supplement, and any and all other agreements or instruments now or hereafter executed and delivered by the Issuer or any other Person in connection with, or as security for, the payment obligations under or performance of this Agreement and the Fee Agreement, as such agreements may be amended, modified or supplemented from time to time in accordance with their respective terms.

“*Sixteenth Supplement*” has the meaning set forth in the Recitals hereof.

“*Suspension Event*” has the meaning set forth in Section 8.11(c) hereof.

“*Swap Contract*” means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a “*Master Agreement*”), including any such obligations or liabilities under any Master Agreement.

“*Taxes*” has the meaning set forth in Section 2.8 hereof.

“*Tender Agent*” means Wells Fargo Bank, N.A., in its capacity as Tender Agent under the Indenture and any successor tender agent appointed for the Bonds.

“*Termination Event*” means the occurrence of an Event of Default specified in clause (i) and clause (iii) of Section 8.1 (“*Payments*”), clause (i), clause (iv), and clause (v) of Section 8.6 (“*Insolvency*”), Section 8.7 (“*Acceleration of Maturity*”), Section 8.8 (“*Invalidity*”), Section 8.9 (“*Rating Downgrade Event*”), or Section 8.10 (“*Judgments*”) hereof, each of which shall result in the immediate termination of the Available Commitment and the Liquidity Provider’s obligation to purchase 2014B Bonds hereunder pursuant to the provisions of Section 8.11(a) hereof.

“*Termination Fee*” shall have the meaning specified in the Fee Agreement.

“*Trustee*” means Wells Fargo Bank, N.A., acting hereunder not in its individual capacity but solely as Trustee under the Indenture and any successor trustee appointed for the 2014B Bonds.

“*Trust Estate*” has the meaning set forth in Section 5.9 hereof.

“*USA Patriot Act*” means the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Public Law 107-56, as the same has been, or shall hereafter be, renewed, extended, amended or replaced.

“*Written*” or “*in writing*” means any form of written communication or a communication by means of telecopier device.

**Section 1.2. Incorporation of Certain Definitions by Reference.** Each capitalized term used herein and not defined herein shall have the meaning provided therefor in the 2014B Bonds and the Indenture, unless the context otherwise requires.

**Section 1.3. Accounting Matters.** All accounting terms used herein without definition shall be interpreted in accordance with generally accepted accounting principles, and except as otherwise expressly provided herein all accounting determinations required to be made pursuant to this Agreement shall be made in accordance with GAAP.

**Section 1.4. Interpretation.** All words used herein shall be construed to be of such gender or number as the circumstances require. Reference to any document means such document as amended or supplemented from time to time as permitted pursuant to its terms and the terms hereof. Reference herein to any Article or Section shall be deemed to be a reference to the corresponding Article or Section of this Agreement unless otherwise specified.

**Section 1.5. Agreement Deemed “Reimbursement Agreement.”** This agreement is deemed to be a “Reimbursement Agreement” as defined in and for the purpose of the Sixteenth Supplement.

## ARTICLE II

### THE COMMITMENT; FEES

**Section 2.1. Commitment to Purchase 2014B Bonds.** Subject to the terms and conditions of this Agreement, the Liquidity Provider hereby agrees from time to time during the Facility Period to purchase, at the Purchase Price, with immediately available funds, 2014B Bonds that bear interest at a Daily Rate or a Weekly Rate and which are not Bank Bonds or 2014B Bonds owned by or held on behalf of, for the benefit of or for the account of, the Issuer or any Affiliate of the Issuer (herein referred to as “*Eligible Bonds*”) which are tendered pursuant to (i) an Optional Tender or (ii) a Mandatory Purchase and which, in either case, the Remarketing Agent has been unable to remarket or for which remarketing proceeds have not been received by the Remarketing Agent or the Tender Agent by the specified time set forth in the Sixteenth Supplement up to the amount of the Available Commitment. The Liquidity Provider will pay said Purchase Price with its own funds and not with any funds of the Issuer. The aggregate principal amount (or portion thereof) of any 2014B Bond purchased on any Purchase Date shall be in an Authorized Denomination, and in any case (x) the aggregate principal amount of all 2014B Bonds purchased on any Purchase Date shall not exceed the Available Principal Commitment (calculated without giving effect to any purchase of 2014B Bonds by the Liquidity Provider on such date) at 10:00 a.m. (Eastern United States time) on such date, and (y) the maximum amount of the Purchase Price of such 2014B Bonds representing the principal amount of Eligible Bonds purchased on such Purchase Date which the Liquidity Provider agrees to provide hereunder shall be the Available Principal Commitment, as such amount may be reduced pursuant hereto. The aggregate amount of the Purchase Price comprising interest on 2014B Bonds (the “*Interest Component*”) purchased on any Purchase Date shall not exceed the lesser of (i) the Available Interest Commitment on such date and (ii) the actual aggregate amount of interest accrued on each such 2014B Bond to such Purchase Date; *provided* that if the applicable Purchase Date is an Interest Payment Date, the amount described in this clause (ii) shall be

reduced by the amount of interest payable on each such Eligible Bond on such Interest Payment Date.

**Section 2.2. Bank Bonds.** Any 2014B Bonds purchased by the Liquidity Provider pursuant to Section 2.1 hereof shall thereupon constitute Bank Bonds and have all of the characteristics of Bank Bonds as set forth herein and of Credit Facility Provider Bonds as set forth in the Sixteenth Supplement. All Bank Bonds shall bear interest at the Bank Rate as described below:

(a) Subject to the provisions of Section 2.2(c) hereof, all Bank Bonds shall bear interest at the Bank Rate; *provided, however*, at no time shall Bank Bonds bear interest in excess of the Maximum Rate. In the event that Bank Bonds would bear interest at a rate in excess of the Maximum Rate for any period, the Liquidity Provider shall receive interest on account of such Bank Bonds only at the Maximum Rate for such period (the difference between the interest payable to the Liquidity Provider if such Bank Bonds had continuously borne interest at the Bank Rate, and the interest actually paid to the Liquidity Provider at the Maximum Rate is hereinafter referred to as the “*Excess Bank Bond Interest*”). Notwithstanding any subsequent reduction in the Bank Rate, such Bank Bonds shall bear interest, from and after the date on which any Excess Bank Bond Interest is accrued, at the Maximum Rate until the earlier of (i) the date on which the interest paid to the Liquidity Provider on such Bank Bonds in excess of the Bank Rate, equals such Excess Bank Bond Interest and (ii) the date such Bank Bonds are redeemed or remarketed pursuant to the Indenture (but in any event, no later than the last day of the Facility Period when all Excess Bank Bond Interest shall become due and payable). The Issuer shall pay to the Liquidity Provider or the Bank Bondholder, as applicable, accrued interest, including any accrued but unpaid Excess Bank Bond Interest, on such Bank Bonds as provided in Section 3.1 hereof.

(b) Notwithstanding anything herein or in the Indenture to the contrary, all amounts owed to the Liquidity Provider with respect to Bank Bonds shall become immediately due and payable on the Payment Date if not repaid or otherwise declared due and payable prior to such date in accordance with the terms of the Indenture or of this Agreement.

(c) The Issuer agrees to pay to the Liquidity Provider, on demand, interest at the Default Rate on any and all amounts owed by the Issuer under this Agreement or under the Bank Bonds from and after the occurrence of an Event of Default until paid in full.

(d) Interest on Bank Bonds shall be calculated on the basis of a year of 365 days and the actual number of days elapsed.

**Section 2.3. Method of Purchasing.**

(a) The Tender Agent shall notify the Liquidity Provider in writing by not later than 4:00 p.m. (New York City time), on the Business Day immediately prior to the Purchase Date, of the maximum amount which could be payable on such Purchase Date to pay the Purchase Price of tendered 2014B Bonds; *provided* that any failure by the Tender Agent to provide such notice shall not affect or limit the obligations of the Liquidity Provider under this Agreement. The Tender Agent shall give notice by telecopier promptly confirmed by a written notice in the form of Exhibit A or Exhibit B, as applicable, to the Liquidity Provider, pursuant to an Optional



Tender or a Mandatory Purchase, no later than 12:00 noon (New York City time) on the Business Day on which 2014B Bonds are subject to an Optional Tender or Mandatory Purchase. If the Liquidity Provider receives notice in the form of Exhibit A or Exhibit B, as applicable, as provided in the immediately preceding sentence, and subject, in each case, to the satisfaction of the conditions set forth in Article VI hereof, the Liquidity Provider will transfer to the Tender Agent not later than 2:00 p.m. (New York City time) on such date (a “*Purchase Date*”) (or not later than 2:00 p.m. (New York City time) on the next Business Day if the Liquidity Provider receives such notice after 12:00 noon (New York City time)), in immediately available funds, an amount equal to the aggregate Purchase Price of all or such portion of such Eligible Bonds as requested from the Tender Agent. The Liquidity Provider shall not have any responsibility for, or incur any liability in respect of, any act, or any failure to act, by the Tender Agent which results in the failure of the Tender Agent to effect the purchase of 2014B Bonds for the account of the Liquidity Provider with such funds provided pursuant to this Section 2.3(a) or otherwise. Prior to the sale of any Bank Bond by the Liquidity Provider as provided in Section 2.5(a) hereof, the Liquidity Provider agrees to give all notices in the manner and by the time required by DTC to exclude such Bank Bond from Mandatory Purchases of 2014B Bonds. The Interest Component of the Purchase Price paid for such 2014B Bonds shall be paid to the Liquidity Provider as provided in Section 3.1 hereof.

So long as the 2014B Bonds are issued in book-entry form and held by the Tender Agent as custodian of DTC as part of DTC’s fast automated transfer program (“*FAST Eligible Bonds*”), concurrently with the Tender Agent’s receipt of the purchase price for each purchase of 2014B Bonds by the Liquidity Provider hereunder, the Tender Agent, as a participant of DTC (or any other successor securities depository) or an eligible transfer agent, shall make a direct registration electronic book-entry (A) crediting the DTC account designated by the Liquidity Provider as its account in which to hold Bank Bonds purchased by it (each, the “*Bank Book-Entry Account*”) by the principal amount of the 2014B Bonds purchased hereunder by the Liquidity Provider using the Bank Bond CUSIP number for such 2014B Bonds set forth below; and (B) debiting the book-entry account of DTC for the 2014B Bonds (thereby reducing the principal balance of the global certificate representing the 2014B Bonds) (the “*DTC Book-Entry Account*”) by the principal amount of the 2014B Bonds purchased hereunder by the Liquidity Provider. The CUSIP number for the 2014B Bonds that are Bank Bonds is as follows:

<u>Name of Bonds</u>	<u>Bank Bond CUSIP Number</u>
2014B Bonds	_____

So long as the 2014B Bonds are FAST Eligible Bonds, upon a remarketing of Bank Bonds in accordance with the terms of this Agreement and the Tender Agent’s receipt from the Remarketing Agent and/or the Issuer of the amounts set forth in Section 2.5(b), the Tender Agent, as a participant of DTC (or any other successor securities depository) or an eligible transfer agent, shall make a direct registration electronic book-entry in its records (A) debiting the Bank Book-Entry Account of the Liquidity Provider by the principal amount of the 2014B Bonds so remarketed; and (B) crediting the DTC Book-Entry Account for such 2014B Bonds (thereby increasing the principal balance of the global certificate representing such 2014B Bonds) by the principal amount of the 2014B Bonds so remarketed. The Tender Agent acknowledges that it is familiar with the procedures and requirements set forth in Notice

B#3381-08 from The Depository Trust Company, dated April 4, 2008, respecting “Variable Rate Demand Obligations (“VRDO”) Failed Remarketings and Issuance of Bank Bonds”, as amended by DTC Notice B#3488-08, dated May 15, 2008, and agrees that, with respect to any and all Bank Bonds, it will follow the procedures and requirements set forth in such notice, as the same may be amended from time to time. To the extent that, following any amendment of such notice, the procedures and requirements therein should become inconsistent with any aspect of the preceding provisions, the Tender Agent, the Issuer and the Liquidity Provider shall promptly negotiate in good faith and agree upon amendments of the preceding provisions so as to eliminate such inconsistency.

If the 2014B Bonds are no longer FAST Eligible Bonds, concurrently with the receipt of the purchase price for each purchase of 2014B Bonds by the Liquidity Provider hereunder, the Tender Agent shall cause each Bank Bond to be registered in the name of the Liquidity Provider and shall be held by the Tender Agent as the agent, bailee and custodian (in such capacity, the “*Custodian*”) of the Liquidity Provider for the exclusive benefit of the Liquidity Provider. The Custodian acknowledges and agrees that it is acting and will act with respect to Bank Bonds at the direction of the Liquidity Provider for the exclusive benefit of the Liquidity Provider and is not and shall not at any time be subject in any manner or to any extent to the direction or control of the Issuer or any other Person with respect to the Bank Bonds. The Custodian agrees to act in strict accordance with this Agreement and in accordance with any lawful written instructions delivered to the Custodian from time to time pursuant hereto by the Liquidity Provider. Under no circumstances shall the Custodian deliver possession of the 2014B Bonds to, or cause 2014B Bonds to be registered in the name of, the Issuer, the Remarketing Agent or any Person other than the Liquidity Provider except in accordance with the express terms of this Agreement or otherwise upon the written instructions of the Liquidity Provider. If, while this Agreement is in effect, the Custodian shall become entitled to receive or shall receive any payment in respect of any Bank Bonds held for the Liquidity Provider, the Custodian agrees to accept the same as the Liquidity Provider’s agent and to hold the same in trust on behalf of the Liquidity Provider and to deliver the same forthwith to the Liquidity Provider’s Payment Office. Upon the remarketing of any Bank Bonds and the Tender Agent’s receipt from the Remarketing Agent and/or the Issuer of the amounts set forth in Section 2.5(b), the Custodian shall release Bank Bonds in a principal amount equal to the principal amount so remarketed to the Remarketing Agent or the Issuer, as the case may be, in accordance with the terms of the Indenture. The Custodian may rely and shall be protected in acting upon any document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Custodian shall not be liable for any error in judgment made in good faith by its responsible officers, employees and agents unless the Custodian, its responsible officers, employees or agents were negligent or engaged in willful misconduct. Anything herein to the contrary notwithstanding, the Custodian shall have no liability hereunder for any act or omission except as shall result from its gross negligence or willful misconduct. Except as provided above, without the prior written consent of the Liquidity Provider, the Custodian agrees that it will not sell, assign, transfer, exchange or otherwise dispose of, or grant any option with respect to, Bank Bonds, and will not create, incur or permit to exist any pledge, lien, mortgage, hypothecation, security interest, charge, option or any other encumbrance or take any other action with respect to the Bank Bonds, or any interest therein, or any proceeds thereof. The Custodian shall deliver to the Liquidity Provider at the Liquidity Provider’s request such information as may be in the possession of the Custodian with respect to such Bank Bonds. If the Custodian is holding Bank

Bonds, the Custodian, at its own expense, shall maintain and keep in full force and effect: fidelity insurance; theft of documents insurance; forgery insurance; and errors and omissions insurance (which may be maintained by self-insurance). All such insurance shall be in amounts, with standard coverage and subject to deductibles that are customary for insurance typically maintained by a bank or other financial institution acting as custodian.

Notwithstanding anything in this Section to the contrary, so long as the Bank Bond Custody Agreement is in effect, the Custodian shall be the Bank Bond Custodian.

(b) In the event that any funds paid by the Liquidity Provider to the Tender Agent pursuant to Section 2.3(a) hereof shall not be required to be applied to purchase 2014B Bonds as provided herein, such funds shall be held and be returned to the Liquidity Provider as soon as practicable by the Tender Agent and until so returned shall be held in trust by the Tender Agent for the account of the Liquidity Provider. In the event that such funds are not returned to the Liquidity Provider in immediately available funds as provided in Section 2.10(a) hereof by 4:00 p.m. (New York City time) on the same day on which such funds were advanced, the Tender Agent shall pay or cause to be paid to the Liquidity Provider interest on such funds, payable on demand and in any event on the date on which such funds are returned, at a rate equal to the Bank Rate.

#### **Section 2.4. Reduction or Termination of Available Commitment.**

(a) *Mandatory Reductions of Available Commitment.* Upon receipt by the Liquidity Provider of notice of (i) any redemption, repayment, prepayment, defeasance or other payment of all or any portion of the principal amount of the 2014B Bonds (other than payment of the Purchase Price pursuant to a remarketing) or (ii) the Conversion Date, the aggregate Available Principal Commitment shall be reduced by the principal amount of the 2014B Bonds so redeemed, repaid or otherwise paid or so converted, as the case may be. The Issuer shall cause written notice of such redemption, repayment, prepayment, defeasance or other payment to be promptly delivered to the Liquidity Provider, the Trustee and the Tender Agent.

(b) *Automatic Termination.* With respect to all Outstanding 2014B Bonds, the Available Commitment shall automatically terminate at 5:00 p.m. (New York City time) on the date on which a Substitute Credit Facility has become effective with respect to such Outstanding 2014B Bonds.

#### **Section 2.5. Sale of Bank Bonds.**

(a) *Right to Sell Bank Bonds.* The Liquidity Provider expressly reserves the right to sell, at any time, Bank Bonds subject, however, to the express terms of this Agreement. The Liquidity Provider agrees that such sales (other than sales made pursuant to Section 2.5(c) hereof) will be made only to institutional investors or other entities or individuals which customarily purchase commercial paper or tax-exempt securities in large denominations. The Liquidity Provider agrees to notify the Issuer, the Trustee, the Tender Agent and the Remarketing Agent promptly of any such sale (other than a sale made pursuant to Section 2.5(c) hereof) and, if such Bank Bond is a Book-Entry Bond, specifying the account at DTC to which such Bank Bond is credited; and to notify the transferee in writing that such 2014B Bond is no

longer an Eligible Bond so long as it remains a Bank Bond and that there may not be a short-term investment rating assigned to such 2014B Bond so long as it remains a Bank Bond. The Bank Bondholder purchasing a Bank Bond from the Liquidity Provider shall be deemed to have agreed (i) not to sell such Bank Bond to any Person except the Liquidity Provider or a Purchaser identified by the Remarketing Agent pursuant to Section 2.5(b) and (ii) if such Bank Bond is a Book-Entry Bond, to give all notices in the manner and by the time required by DTC to exclude such Bank Bond from Mandatory Purchases of 2014B Bonds while it remains a Bank Bond. Prior to selling a Bank Bond to a Bank Bondholder, the Liquidity Provider shall obtain a written acknowledgment from the Bank Bondholder stating that the Bank Bondholder has no right to tender such Bank Bond except as provided herein.

(b) *Purchase Notices.* Prior to 12:00 noon (New York City time) on any Business Day on which a Bank Bondholder holds Bank Bonds, unless the Liquidity Provider has delivered a Notice of Termination Date, the Remarketing Agent may deliver a notice (a “*Purchase Notice*”) to a Bank Bondholder as registered on the Bond Register and to the Liquidity Provider, stating that it has located a purchaser (the “*Purchaser*”) for some or all of the Bank Bonds and that such Purchaser desires to purchase on the Business Day following the Business Day on which a Bank Bondholder has received, prior to 12:00 noon (New York City time), such Purchase Notice (a “*Sale Date*”), an Authorized Denomination of such 2014B Bonds at a price equal to the principal amount thereof (the “*Sale Price*”) and any accrued interest thereon to be paid by the Issuer on the Sale Date as provided in Section 3.1(a)(iv)(E) hereof.

(c) *Sale of Bank Bonds.* A Bank Bondholder shall decide whether to sell the Bank Bonds to any Purchaser and shall give notice of such decision to the Tender Agent and the Remarketing Agent by 2:00 p.m. (New York City time), on the Business Day preceding the Sale Date. In the event such notice is not timely delivered by a Bank Bondholder, the Bank Bondholder shall be deemed to have determined to sell the Bank Bonds to a Purchaser on the Sale Date (subject to receipt by it of the funds called for by the next following sentence). If a Bank Bondholder determines or is deemed to have determined to sell the Bank Bonds to a Purchaser, the Bank Bondholder shall deliver such Bank Bonds to the Tender Agent (or, in the case of Bank Bonds which are Book-Entry Bonds, shall cause the beneficial ownership thereof to be credited to the account of the Remarketing Agent at DTC) by 10:00 a.m. (Eastern United States time) on the Sale Date against receipt of the Sale Price therefore in immediately available funds or at the Bank Bondholder’s address listed in the Bond Register, and such 2014B Bonds shall thereupon no longer be considered Bank Bonds. When Bank Bonds are purchased in accordance with this Section 2.5(c), the Tender Agent shall, upon receipt of such Bank Bonds and upon receipt by the Bank Bondholder of the Sale Price, notify the Issuer that such 2014B Bonds are no longer Bank Bonds. On the Sale Date, the Differential Interest Amount of such 2014B Bonds shall be paid to the Liquidity Provider as provided in Section 3.1 hereof. Any sale of a Bank Bond pursuant to this Section shall be without recourse to the seller and without representation or warranty of any kind. If a Bank Bondholder notifies the Tender Agent and the Remarketing Agent, as provided in the first sentence of this Section 2.5(c), that it will not sell its Bank Bonds, the Tender Agent shall notify the Issuer, the Remarketing Agent and the Bank Bondholder that as of the Sale Date such Bond or Bonds shall no longer constitute Bank Bonds and such 2014B Bonds shall be deemed to have been remarketed and the applicable Available Commitment shall be appropriately increased and such 2014B Bonds shall bear interest at the same rate as 2014B Bonds that are not Bank Bonds.

**Section 2.6. Rights of Bank Bondholders.** Upon purchasing Bank Bonds, Bank Bondholders shall be entitled to and, where necessary, shall be deemed assigned all rights and privileges accorded Bondholders, and any additional rights and privileges as to payment of interest and redemption that are provided by this Agreement with respect to Bank Bonds. Upon purchasing Bank Bonds, Bank Bondholders shall be recognized by the Issuer and the Tender Agent as the true and lawful owners (or, in the case of Book-Entry Bonds, beneficial owners) of such Bank Bonds, free from any claims, liens, security interests, equitable interests and other interests of the Issuer, except as such interests might exist under the terms of the Bank Bonds with respect to all owners (or, in the case of Book-Entry Bonds, beneficial owners) of the **2014B** Bonds.

**Section 2.7. Fees and Payments.** The Issuer agrees to pay fees to the Liquidity Provider in an amount and at such times provided in the Fee Agreement. Any amounts due and payable under the Fee Agreement shall be considered due and payable hereunder for all purposes of this Agreement as if set forth herein in full.

**Section 2.8. Net of Taxes.**

(a) *Taxes.* Any and all payments to the Liquidity Provider by the Issuer hereunder shall be made free and clear of and without deduction for any and all taxes, levies, imposts, deductions, charges, withholdings or liabilities imposed thereon, excluding, however, taxes imposed on or measured by the net income or capital of the Liquidity Provider by any jurisdiction or any political subdivision or taxing authority thereof or therein solely as a result of a connection between the Liquidity Provider and such jurisdiction or political subdivision (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as “*Taxes*”). If the Issuer shall be required by law to withhold or deduct any Taxes imposed by the United States or any political subdivision thereof from or in respect of any sum payable hereunder to the Liquidity Provider, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.8), the Liquidity Provider receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Issuer shall make such deductions and (iii) the Issuer shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law. If the Issuer shall make any payment under this Section 2.8 to or for the benefit of the Liquidity Provider with respect to Taxes and if the Liquidity Provider shall claim any credit or deduction for such Taxes against any other taxes payable by the Liquidity Provider to any taxing jurisdiction in the United States then the Liquidity Provider shall pay to the Issuer an amount equal to the amount by which such other taxes are actually reduced; *provided* that the aggregate amount payable by the Liquidity Provider pursuant to this sentence shall not exceed the aggregate amount previously paid by the Issuer with respect to such Taxes. In addition, the Issuer agrees to pay any present or future stamp, recording or documentary taxes and any other excise or property taxes, charges or similar levies that arise under the laws of the United States of America or any state in which the Liquidity Provider owes taxes from any payment made hereunder or from the execution or delivery or otherwise with respect to this Agreement (hereinafter referred to as “*Other Taxes*”). The Liquidity Provider shall provide to the Issuer within a reasonable time a copy of any written notification it receives with respect to Other Taxes owing by the Issuer to the Liquidity Provider hereunder *provided* that the Liquidity Provider’s failure to send such notice shall not relieve the Issuer of its obligation to pay such amounts hereunder.

(b) *Indemnity.* The Issuer shall, to the fullest extent permitted by law, indemnify the Liquidity Provider for the full amount of Taxes and Other Taxes including any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 2.8 paid by the Liquidity Provider or any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. The Liquidity Provider agrees to give notice to the Issuer of the assertion of any claim against the Liquidity Provider relating to such Taxes or Other Taxes as promptly as is practicable after being notified of such assertion; *provided* that the Liquidity Provider's failure to notify the Issuer promptly of such assertion shall not relieve the Issuer of its obligation under this Section 2.8. Payments by the Issuer pursuant to this indemnification shall be made within thirty (30) days from the date the Liquidity Provider makes written demand therefor, which demand shall be accompanied by a certificate describing in reasonable detail the basis thereof. The Liquidity Provider agrees to repay to the Issuer any refund (including that portion of any interest that was included as part of such refund) with respect to Taxes or Other Taxes paid by the Issuer pursuant to this Section 2.8 received by the Liquidity Provider for Taxes or Other Taxes that were paid by the Issuer pursuant to this Section 2.8 and to contest, with the cooperation and at the expense of the Issuer, any such Taxes or Other Taxes which the Liquidity Provider or the Issuer reasonably believes not to have been properly assessed.

(c) *Notice.* Within thirty (30) days after the date of any payment of Taxes by the Issuer, the Issuer shall furnish to the Liquidity Provider, the original or a certified copy of a receipt evidencing payment thereof. This issuer shall compensate the Liquidity Provider for all reasonable losses and expenses sustained by the Facility Provider as a result of any failure by the Issuer to so furnish such copy of such receipt.

(d) *Survival of Obligations.* The obligations of the Issuer under this Section 2.8 shall survive the termination of this Agreement.

**Section 2.9. Increased Costs.**

(a) *Increased Costs Generally.* If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, liquidity ratio, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or advances, loans or other credit extended or participated in by, the Liquidity Provider;

(ii) subject to the Liquidity Provider any tax of any kind whatsoever with respect to this Agreement or the 2014B Bonds, or change the basis of taxation of payments to the Liquidity Provider in respect thereof (except for Taxes or Other Taxes covered by Section 2.8 and the imposition of, or any change in the rate of any Excluded Taxes payable by the Liquidity Provider); or

(iii) impose on the Liquidity Provider any other condition, cost or expense affecting this Agreement or the 2014B Bonds;

and the result of any of the foregoing shall be to increase the cost to the Liquidity Provider of maintaining its commitment hereunder, or to reduce the amount of any payment (whether of

principal, interest or any other amount) receivable by the Liquidity Provider then, upon written request of the Liquidity Provider as set forth in subsection (c) below, the Issuer shall promptly pay to the Liquidity Provider, such additional amount or amounts as will compensate the Liquidity Provider for such additional costs incurred or reduction suffered. Notwithstanding the foregoing, for purposes of this Agreement (i) all requests, rules, guidelines or directives in connection with the Dodd-Frank Act shall be deemed to be a Change in Law, regardless of the date enacted, adopted or issued, and (ii) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Regulations and Supervisory Practices (or any successor or similar authority) or any Governmental Agency shall be deemed a Change in Law regardless of the date enacted, adopted or issued.

(b) *Capital Requirements.* If the Liquidity Provider determines that any Change in Law affecting the Liquidity Provider or its parent or holding company, if any, regarding capital requirements, has or would have the effect of reducing the rate of return on the Liquidity Provider or its parent or holding company holding, if any, as a consequence of this Agreement, or ownership of the 2014B Bonds, to a level below that which the Liquidity Provider or its parent or holding company could have achieved but for such Change in Law (taking into consideration the Liquidity Provider policies and the policies of the Liquidity Provider's parent or holding company with respect to capital adequacy), then from time to time upon written request of the Liquidity Provider as set forth in subsection (c) below, the Issuer shall promptly pay to the Liquidity Provider such additional amount or amounts as will compensate the Liquidity Provider or its parent or holding company for any such reduction suffered.

(c) *Certificates for Reimbursement.* A certificate of the Liquidity Provider setting forth the amount or amounts necessary to compensate the Liquidity Provider or its parent or holding company, as the case may be, as specified in subsection (a) or (b) above and delivered to the Issuer, shall be conclusive absent manifest error. The Issuer shall pay the Liquidity Provider the amount shown as due on any such certificate within ten (10) days after receipt thereof.

(d) *Delay in Requests.* Failure or delay on the part of the Liquidity Provider to demand compensation pursuant to this Section shall not constitute a waiver of the Liquidity Provider's right to demand such compensation.

(e) *Survival.* Without prejudice to the survival of any other agreement of the Issuer hereunder, the agreements and obligations of the Issuer in this Section shall survive the termination of this Agreement and the payment in full of the 2014B Bonds and the obligations of the Issuer thereunder and hereunder.

#### **Section 2.10. Computations: Payments.**

(a) Except as otherwise provided herein, interest and fees and other amounts payable to or to the order of the Liquidity Provider hereunder shall be computed on the basis of a year of 365 and actual days elapsed, and interest on Bank Bonds shall be computed on the basis of a year comprised of 365 and actual days elapsed. Any payments (other than those described in Section 2.3(b)) hereof received by, or as directed by, the Liquidity Provider later than 2:00 p.m. (New York City time) on any day shall be deemed to have been paid on the next succeeding Business Day and interest shall accrue thereon until such next Business Day at the rate

applicable thereto. All payments to the Liquidity Provider hereunder shall be made in Dollars and in immediately available and freely transferable funds at the place of payment without counterclaim, set-off, condition or qualification, and free and clear of and without deduction or withholding for or by reason or any present or future taxes, levies, imposts, deductions or charges of any nature whatsoever. In the event that the Issuer is compelled by law to make any such deduction or withholding, the Issuer shall nevertheless pay to the Liquidity Provider such amounts as will result in the receipt by the Liquidity Provider of the sum it would have received had no such deduction or withholding been required to be made. If requested, the Liquidity Provider shall from time to time provide the Issuer, the Tender Agent and the Internal Revenue Service of the United States (to the extent such information and forms may be lawfully provided by the Liquidity Provider) with such information and forms as may be required by Treasury Regulations Section 1.1411 or any other such information and forms as may be necessary to establish that the Issuer is not subject to any withholding obligation under Section 1442 or other comparable provisions of the Code. Unless the Liquidity Provider shall otherwise direct, all payments to the Liquidity Provider hereunder shall be made by means of wire transfer of funds through the Federal Reserve Wire System to the account of TD Bank, N.A., ABA Number: 031101266; Account Number: \_\_\_\_\_; Account Name: \_\_\_\_\_, Further Credit: \_\_\_\_\_, Attn: \_\_\_\_\_, Acct. Reference: \_\_\_\_\_, or such other account as the Liquidity Provider may specify in writing from time to time.

(b) The Issuer agrees to pay to the Liquidity Provider on each Purchase Date or Sale Date, as applicable, an amount equal to any charge imposed on the Liquidity Provider pursuant to the Indenture in connection with the transfer or exchange of 2014B Bonds. The Issuer agrees to cause the Bond Registrar to give the Liquidity Provider timely notice of each such charge, including the amount thereof.

(c) Payments made to the Liquidity Provider under this Agreement shall first be applied to any fees, costs, charges or expenses payable to the Liquidity Provider hereunder, next to any past due interest, next to any current interest due, and then to outstanding principal.

(d) Any amounts due and payable and remaining unpaid under this Agreement shall accrue interest at the Default Rate until paid, anything to the contrary herein notwithstanding.

**Section 2.11. Voluntary Termination.** The Issuer may, with notice to the Trustee, terminate this Agreement with respect to all Outstanding 2014B Bonds upon (a) providing the Liquidity Provider (with a copy to the Trustee) with thirty (30) days' prior written notice (except that no prior notice shall be required in connection with a termination following the default by the Liquidity Provider in honoring its payment obligations hereunder) and (b) paying to the Liquidity Provider the Termination Fee, if any, and all other costs, fees and payments due hereunder and under the Fee Agreement; and (c) paying to the Liquidity Provider all principal and accrued interest owing on any Bank Bonds.



## ARTICLE III

### BANK BONDS

#### Section 3.1. Maturity; Payment.

(a) Notwithstanding anything to the contrary contained in the Bonds, the Issuer agrees that, with respect to any Bank Bond,

(i) the Issuer shall pay or cause to be paid such Bank Bond in full no later than the Payment Date, if not earlier required to be paid under this Agreement;

(ii) the Interest Component, if any, included in the Purchase Price for such Bank Bond shall be due and payable on the earlier of (A) the Interest Payment Date next following the Purchase Date on which such 2014B Bond became a Bank Bond or (B) the date on which such Bank Bond is remarketed or otherwise paid in full;

(iii) the interest on the unpaid amount of each such 2014B Bond from and including the applicable Purchase Date shall be computed as determined pursuant to Section 2.2 hereof, and

(iv) interest payable pursuant to clause (iii) shall be payable (A) monthly, in arrears, on the first Business Day of each calendar month, (B) upon redemption (to the extent of the interest accrued on the amount being redeemed), (C) on the Payment Date (whether by acceleration or otherwise), (D) after the Payment Date monthly, in arrears, on the first Business Day of each calendar month or on demand, and (E) in the case of any Differential Interest Amount with respect to a Bank Bond, by the Issuer on the applicable Sale Date, *provided* that whenever the Bank Rate is the Default Rate interest shall also be payable monthly, in arrears, on the first Business Day of each calendar month or on demand. In the event any Bank Bond is remarketed or otherwise transferred by the Liquidity Provider before payment in full of the Differential Interest Amount with respect thereto, the provisions of this Section 3.1 shall continue to apply to such indebtedness until all sums for all periods during which the same was a Bank Bond are paid.

(b) Notwithstanding anything to the contrary contained in the 2014B Bonds, the Indenture or herein, the Issuer agrees to cause the mandatory redemption of Bank Bonds Outstanding on the last day of the Facility Period, *provided*, that, so long as no Event of Default has occurred and is continuing, the Issuer may cause such mandatory redemption in equal principal installments (the "Installments") sufficient to amortize the principal amount of such Bank Bonds in ten (10) equal consecutive monthly installments payable on the initial Amortization Payment Date and on each of the next nine (9) Succeeding Amortization Payment Dates; *provided, further*, that in any event all of the then-unpaid principal balance of Bank Bonds shall be redeemed on the earlier of the Amortization End Date or the occurrence of an Event of Default.

Upon providing the Liquidity Provider (with a copy to the Trustee) with thirty (30) days' prior written notice, the Issuer may voluntarily prepay amounts due under this Section 3.1(b);

*provided, however*, that notwithstanding anything in the 2014B Bonds or the Indenture to the contrary, such prepayments, if any, shall be applied to Installments in inverse order of maturity.

(c) On any date on which Excess Bank Bond Interest is due and payable, the Liquidity Provider shall notify the Issuer and the Trustee as to the amount of such Excess Bank Bond Interest due on such date, provided that the failure of the Liquidity Provider to so notify the Issuer or the Trustee shall not affect the accrual of the obligation of the Issuer to pay such Excess Bank Bond Interest. In the event any Bank Bond is remarketed or otherwise transferred by the Liquidity Provider before payment in full of the amounts payable by the Issuer with respect thereto, including Excess Bank Bond Interest, the provisions of this Section 3.1 shall continue to apply to such indebtedness until all sums for all periods during which the same was a Bank Bond are paid.

#### ARTICLE IV

#### CONDITIONS PRECEDENT TO EFFECTIVENESS

This Agreement shall become effective on the date (the “*Effective Date*”) on which the following conditions are fulfilled to the satisfaction of the Liquidity Provider. The execution and delivery of this Agreement by the Liquidity Provider shall constitute the Liquidity Provider’s acknowledgment that such conditions have been satisfied or waived.

**Section 4.1. Representations.** On the Effective Date (and after giving effect to the terms hereof), (a) there shall exist no Event of Default or Default, (b) all representations and warranties made by the Issuer herein or in any of the Related Documents to which it is a party shall be true and correct with the same effect as though such representations and warranties had been made at and as of such time, (c) except as described in any documents provided by the Issuer to the Liquidity Provider and approved by the Liquidity Provider prior to the Effective Date, no material adverse change shall have occurred in the financial condition, operations or prospects of the Issuer between the date of the Issuer’s most recent audited financial statements and the Effective Date, and no transactions or obligations having, in the sole discretion of the Liquidity Provider, a material adverse effect on the condition (financial or otherwise) or operations of the Issuer, whether or not arising from transactions in the ordinary course of the Issuer’s business, shall have been entered into by the Issuer subsequent to the date of the Issuer’s most recent audited financial statements delivered to the Liquidity Provider, (d) except as described in any documents provided by the Issuer to the Liquidity Provider and approved by the Liquidity Provider prior to the Effective Date, no transaction or event shall have occurred and no change shall have occurred in the condition (financial or otherwise) or operations of the Issuer between the date of the Issuer’s most recent audited financial statements and the Effective Date which in the sole discretion of the Liquidity Provider, materially adversely affects the security for any of the Bonds, or the Issuer’s ability to repay when due its obligations under this Agreement, any of the Bonds and the Related Documents, and (e) in the sole discretion of the Liquidity Provider, no change in any law, rule or regulation (or their interpretation or administration) materially adversely affects the transactions contemplated by this Agreement.

**Section 4.2. Other Documents.**

(a) On the Effective Date, the Liquidity Provider shall have received executed originals or certified copies of each of the following documents, which documents shall be in full force and effect on the Effective Date and in form and substance reasonably satisfactory to the Liquidity Provider and its counsel:

- (i) this Agreement;
- (ii) the Fee Agreement;
- (iii) the Master Indenture;
- (iv) the Sixteenth Supplement;
- (v) each of the Remarketing Agreements between the Issuer and a Remarketing Agent approved by the Liquidity Provider (such approval not to be unreasonably withheld);
- (vi) the Official Statement; and
- (vii) the Bank Bond Custody Agreement.

(b) All filings, recordings, re-filings and re-recordings shall have been made, notices given, all filing fees, taxes and expenses in connection therewith shall have been paid and all such action shall have been taken, which are necessary or advisable on the Effective Date to grant to the Trustee a duly perfected security interest in the Net Revenues for the benefit of the Bondholders, if required.

**Section 4.3. Legal Opinions.** The Liquidity Provider shall have received legal opinions or reliance letters authorizing the Liquidity Provider to rely on legal opinions, in form and substance satisfactory to the Liquidity Provider and its counsel, addressed to the Liquidity Provider and the Issuer and dated the Effective Date, of:

- (i) Counsel to the Issuer;
- (ii) Bond Counsel;
- (iii) Counsel to each Remarketing Agent; and
- (iv) Counsel to the Liquidity Provider, as to such matters as the Issuer and Bond Counsel may reasonably request.

**Section 4.4. Bank Bond Custody Agreement.** On the Effective Date, the Bank Bond Custody Agreement shall have been duly executed and delivered by the Bank Bond Custodian and shall be in force and effect.

**Section 4.5. Supporting Documents of the Issuer.** There shall have been delivered to the Liquidity Provider such information and copies of documents, approvals (if any) and records

certified, where appropriate, of corporate and legal proceedings as the Liquidity Provider may have requested relating to the Issuer's entering into and performing this Agreement and the other Related Documents to which it is a party, and the transactions contemplated hereby and thereby. Such documents shall, in any event, include:

(a) A certificate of the Issuer, in form and substance satisfactory to the Liquidity Provider and its counsel, executed by an executive officer of the Issuer, dated the Effective Date, to the effect that the conditions set forth in Sections 4.1, 4.2 and 4.8 hereof have been satisfied as of such date and that all actions required to be taken, all consents required to be obtained, and all resolutions required to be adopted by (which resolutions shall be attached to such certificate), the Issuer under applicable law have been done, obtained and adopted; and

(b) An incumbency certificate with respect to the officers or agents of the Issuer who are authorized to execute any documents or instruments on behalf of the Issuer under this Agreement and the other Related Documents to which the Issuer is a party.

**Section 4.6. Supporting Documents of the Tender Agent, Trustee and Remarketing Agents.** There shall have been delivered to the Liquidity Provider incumbency certificates with respect to the officers or agents of the Tender Agent, the Trustee and each of the Remarketing Agents who are authorized to execute the respective Related Documents to which the Trustee, the Tender Agent or either Remarketing Agent is a party.

**Section 4.7. Other Supporting Documents.** There shall have been delivered to the Liquidity Provider such information and copies of documents, approvals (if any) and records (certified, where appropriate) of corporate and legal proceedings as the Liquidity Provider may have requested relating to the entering into and performance by each of the parties (other than the Liquidity Provider) thereto, of each of the Related Documents or the transactions contemplated thereby or the tax exempt status of the 2014B Bonds.

**Section 4.8. Payment of Fees and Expenses.** Payment of the Facility Fee as set forth in the Fee Agreement and the fees and expenses and all other amounts (including attorneys' fees and expenses) payable on the Effective Date pursuant to Section 11.2 hereof shall have been received.

**Section 4.9. Rating.** The Liquidity Provider shall have received satisfactory evidence that the Bonds shall have been assigned long-term ratings of at least "A1" by Moody's (if rated by Moody's), "A+" by S&P (if rated by S&P) and "A+" by Fitch (if rated by Fitch), and short-term ratings of at least "\_\_\_\_" by Moody's (if rated by Moody's), "\_\_\_\_" by S&P (if rated by S&P) and "\_\_\_\_" by Fitch (if rated by Fitch).

**Section 4.10. Other Documents.** The Liquidity Provider shall have received such other documents, instruments, approvals (and, if requested by the Liquidity Provider, certified duplicates or executed copies thereof) or opinions as the Liquidity Provider may reasonably request.

## ARTICLE V

### REPRESENTATIONS AND WARRANTIES

To induce the Liquidity Provider to enter into this Agreement and to purchase 2014B Bonds as provided herein, the Issuer makes the following representations and warranties to, and agreements with the Liquidity Provider (which representations, warranties and agreements shall survive the execution and delivery of this Agreement and any purchases of 2014B Bonds by the Liquidity Provider):

**Section 5.1. Status.** The Issuer is duly organized and validly existing as an independent authority of the government of the District of Columbia, with all requisite power and authority to execute and deliver, and to perform its obligations under this Agreement and the Related Documents to which it is a party and to issue, execute and deliver the 2014B Bonds.

**Section 5.2. Power and Authority.** The Issuer has the requisite power and authority to execute and deliver, and to perform its obligations under, this Agreement and the other Related Documents to which it is or will be a party and has taken all necessary action to authorize the execution, delivery and performance of this Agreement and the other Related Documents to which it is or will be a party.

**Section 5.3. Enforceability.** Assuming due authorization, execution and delivery by each of the other parties thereto, each of this Agreement and the Related Documents to which the Issuer is a party constitutes, and the 2014B Bonds when issued will constitute, the legal, valid and binding obligation of the Issuer enforceable against the Issuer in accordance with its respective terms, except as such enforceability may be limited by the Issuer's bankruptcy, moratorium, insolvency or similar laws or equitable principles relating to or limiting the rights of creditors generally. Each of the Related Documents is or will be on the Effective Date in full force and effect.

**Section 5.4. No Conflict.** The execution and delivery of this Agreement and the Related Documents and the performance by the Issuer of its obligations thereunder do not and will not violate any constitutional provision or any law or any regulation, order, writ, injunction or decree of any court or governmental body, agency or other instrumentality applicable to the Issuer, or result in a breach of any of the terms, conditions or provisions of, or constitute a default under, or result in the creation or imposition of any lien (other than the lien of the Indenture) upon any of the assets of the Issuer pursuant to the terms of, any ordinance, resolution, mortgage, indenture, agreement or instrument to which the Issuer is a party or by which it or any of its properties is bound.

**Section 5.5. Consents.** All consents, licenses, approvals, validations and authorizations of, and registrations, validations or declarations by or with, any court or any Governmental Agency, bureau or agency required to be obtained in connection with the execution, delivery, performance, validity or enforceability of this Agreement and the other Related Documents (including the 2014B Bonds) have been obtained and are in full force and effect.

**Section 5.6. No Litigation.** Except as disclosed in the Official Statement, there is no action, suit, proceeding, inquiry or investigation before or by any court, public board or body pending or, to the best knowledge of the Issuer, threatened against or affecting the Issuer or the System wherein an unfavorable decision, ruling or finding would have a material adverse effect on the properties, business, condition (financial or other), results of operations or prospects of the Issuer, the System or the transactions contemplated by this Agreement, the Bank Note or the other Related Documents, or which would adversely affect the validity or enforceability of, or the authority or ability of the Issuer to perform its obligations under, this Agreement or any other Related Document to which it is a party.

**Section 5.7. Default.** No Event of Default or Default has occurred and is continuing.

**Section 5.8. Disclosure.** No representation, warranty or other statement made by the Issuer in or pursuant to this Agreement or any Related Document or any other document or financial statement provided by the Issuer to the Liquidity Provider in connection with this Agreement or any other Related Document, contains any untrue statement of a material fact or omits (as of the date made or furnished) any material fact necessary to make the statements herein or therein not misleading in light of the circumstances under which they are made. There is no fact known to the Issuer which the Issuer has not disclosed to the Liquidity Provider in writing which materially adversely affects or, so far as the Issuer can now reasonably foresee, is likely to materially adversely affect the ability (financial or otherwise) of the Issuer to perform its obligations hereunder or under the Related Documents. The Official Statement prepared with respect to the Bonds and the transactions herein contemplated, true copies of which have heretofore been delivered to the Liquidity Provider, does not contain, and such Official Statement (including any amendments or supplements prepared subsequent to its date) (a true copy of which, in each case, shall be furnished to the Liquidity Provider prior to the distribution thereof) will not contain, any untrue statement of a material fact and such Official Statement does not omit, and will not omit, to state a material fact necessary to make the statements therein, in the light of the circumstances under which made, not misleading, except no representation is made as to information furnished in writing by the Liquidity Provider expressly for inclusion therein.

**Section 5.9. 2014B Bonds; Parity Indebtedness.** Each 2014B Bond has been duly issued under the Indenture and each such 2014B Bond is entitled to the benefits thereof. The 2014B Bonds and the lien securing the 2014B Bonds are each on a parity with all Subordinate Debt. There is no Lien on the moneys, investments, property and certain rights of the Issuer thereto granted, pursuant to the Indenture, as security for the holders of Senior Debt and, on a subordinate basis, Subordinate Debt (the "Trust Estate") other than the Liens created by or pursuant to the Indenture, including the Sixteenth Supplement. The Indenture does not permit the issuance of any Debt secured by the Trust Estate to rank senior to the 2014B Bonds, other than Senior Debt issued and to be issued under the Indenture. No filing, registering, recording or publication of the Indenture, including the Sixteenth Supplement or any other instrument is required to establish the pledge under the Indenture or to perfect, protect or maintain the Lien created thereby on the Trust Estate, including the Net Revenues, to secure the 2014B Bonds.

**Section 5.10. Assignment of 2014B Bonds.** The Bank Bonds purchased pursuant to Article II hereof will be transferred to the Liquidity Provider free and clear of all liens, security interests or

claims of any Person other than the Liquidity Provider, except for consensual liens or other security interests as may be created by the Liquidity Provider.

**Section 5.11. Incorporation of Representations and Warranties.** The Issuer hereby makes to the Liquidity Provider the same representations and warranties as were made by it in the Related Documents, which representations and warranties, together with the related definitions of terms contained therein, are hereby incorporated by reference with the same effect as if each and every such representation and warranty and definition were set forth herein in its entirety.

**Section 5.12. Financial Statements.** As of the date hereof, the audited balance sheets of the Issuer as of September 30, 2013 and the related statements of revenues, expenses and changes in retained earnings, and cash flows, of the Issuer for the Issuer's fiscal year then ended, and the accompanying footnotes thereon, dated September 30, 2013, of Thompson, Cobb, Bazilio & Associates, PC, independent certified public accountants, copies of which have been delivered to the Liquidity Provider, are complete and correct and fairly present the financial condition of the Issuer as at such dates, for the periods covered by such statements, all in conformity with generally accepted accounting principles consistently applied. Since September 30, 2013, there has been no material adverse change in the condition (financial or otherwise), business or operations of the Issuer.

**Section 5.13. No Proposed Legal Changes.** There is no amendment, or to the knowledge of the Issuer, proposed amendment certified for placement on a statewide ballot within the District of Columbia or any District of Columbia law, or any legislation that has passed either house of the United States Congress, or any published judicial decision interpreting any of the foregoing, the effect of which is to materially adversely affect the 2014B Bonds or the Issuer's ability to perform its obligations under this Agreement, the 2014B Bonds, and the other Related Documents.

**Section 5.14. No Sovereign Immunity.** The defense of sovereign immunity is not available to the Issuer in any proceeding by the Liquidity Provider to enforce any of the obligations of the Issuer under this Agreement, the Fee Agreement or any other Related Document and, to the fullest extent permitted by law, the Issuer consents to the initiation of any such proceeding in any federal or state court of competent jurisdiction located in the State of New York or the District of Columbia and agrees not to assert the defense of sovereign immunity in any such proceeding.

**Section 5.15. Margin Stock.** No portion of the proceeds of any 2014B Bonds will be used by the Issuer (or the Trustee or Paying Agent or any other Person on behalf of the Issuer) for the purpose of "purchasing" or "carrying" any margin stock or used in any manner which might cause the borrowing or the application of such proceeds to violate Regulation U issued by the Board of Governors of the Federal Reserve System or any other regulation of said Board of Governors or to violate the Securities Exchange Act of 1934, as amended, in each case as in effect on the date or dates of such use of proceeds.

**Section 5.16. Permitted Investments.** The Issuer has neither made any investment nor entered into any agreements for the purpose of effecting any investment which are not permitted to be made by it pursuant to its investment guidelines, the Indenture or any other Related Document.

**Section 5.17. Environmental Laws.** Except as disclosed in writing to the Liquidity Provider, the Issuer has not received notice to the effect that the operations of the System are not in compliance with any of the requirements of applicable federal, state or local environmental, health and safety statutes and regulations or are the subject of any governmental investigation evaluating whether any remedial action is needed to respond to a release of any toxic or hazardous waste or substance into the environment (“*Environmental Laws*”).

**Section 5.18. Issuance of Bonds.** Subject to approval by its Board and obtaining statutory approvals, the Issuer has the legal authority to issue bonds or other obligations at such times and in such aggregate principal amounts, or make available funds through a Substitute Credit Facility or otherwise, so as to (i) retire or redeem the 2014B Bonds at or prior to the end of the Facility Period and (ii) repay all outstanding obligations due hereunder and under the Fee Agreement prior to the end of the Facility Period.

**Section 5.19. The Trustee and Tender Agent and the Remarketing Agent.** Wells Fargo Bank, N.A. (or a successor or assign approved in writing by the Liquidity Provider) is the duly appointed and acting Trustee, Tender Agent and Bank Bond Custodian. The Person set forth below is the duly appointed and acting Remarketing Agent as to the applicable subseries of 2014B Bonds referenced below:

<u>Name of SubSeries</u>	<u>Remarketing Agent</u>
SubSeries 2014B-1 Subordinate Bonds	Bank of America Merrill Lynch
SubSeries 2014B-2 Subordinate Bonds	Loop Capital Markets, LLC

## ARTICLE VI

### CONDITIONS PRECEDENT TO PURCHASE

**Section 6.1. Conditions.** The obligation of the Liquidity Provider to purchase 2014B Bonds hereunder on any date is subject to the satisfaction of the following conditions, unless waived in writing by the Liquidity Provider:

(a) No Termination Event or Suspension Event shall have occurred; and

(b) The Liquidity Provider shall have timely received the Notice of Liquidity Provider Purchase(s), in the form of Exhibit A or Exhibit B, as provided in Section 2.3 hereof.

Each notification delivered pursuant to clause (b) of Section 6.1 hereof shall constitute a representation and warranty by the Issuer on each Purchase Date that, to its knowledge, the condition described in clause (a) of Section 6.1 has been satisfied on the Purchase Date.

## ARTICLE VII

### COVENANTS

The Issuer covenants and agrees that, so long as any of the Bonds shall be Outstanding or any amounts remain unpaid hereunder:



**Section 7.1. Payment Obligations.** The Issuer shall promptly pay or cause to be paid all amounts payable by it hereunder and under the Related Documents according to the terms hereof or thereof and shall duly perform each of its obligations under this Agreement and the other Related Documents to which it is a party. All payments of principal, interest and any other sums due hereunder shall be made in the amounts required hereunder without any reduction or setoff, notwithstanding the assertion of any right of recoupment or setoff or of any counterclaim by the Issuer.

**Section 7.2. Related Documents.**

(a) The Issuer agrees that it will perform and comply with each and every covenant and agreement required to be performed or observed by it in each Related Document to which it is a party and in each case such provisions, together with the related definitions of terms contained therein, are hereby incorporated by reference herein with the same effect as if each and every such provision were set forth herein in its entirety.

(b) The Issuer shall not amend, supplement or otherwise modify (or permit any of the foregoing), or request or agree to any consent or waiver under, or effect or permit the cancellation, acceleration or termination of, or (except as otherwise permitted under the Related Documents) release or permit the release of any collateral held under any of the Related Documents which is not otherwise contemplated by, or permitted pursuant to the terms of, any of the Related Documents, without the prior written consent of the Liquidity Provider; *provided, however,* that (i) with respect to amendments, supplements and modifications to the Related Documents which do not require consent of Bondholders pursuant to Section 1001(a) through (g) or (j) of the Indenture, such consent of the Liquidity Provider shall not be unreasonably withheld, conditioned or delayed; and (ii) the consent of the Liquidity Provider shall not be required with respect to supplements entered into solely for the purpose of providing for the issuance of a series of bonds pursuant to the Indenture.

**Section 7.3. Reporting Requirements.** The Issuer shall keep proper books of record and account in which full, true and correct entries will be made of all dealings and transactions of or in relation to affairs, operations, transactions and activities of the Issuer in accordance with generally accepted accounting principles applicable to governmental entities, consistently applied, and will furnish to the Liquidity Provider a copy of each of the following:

(a) as soon as available and in any event within one hundred eighty (180) days after the end of each fiscal year of the Issuer, a balance sheet of the Issuer as of the end of such fiscal year and the related statements of revenues, expenses, changes in retained earnings and cash flows for such fiscal year and accompanying notes thereto, all prepared in accordance with GAAP and in reasonable detail showing in comparative form the figures for the previous fiscal year, accompanied by an opinion thereon of Thompson, Cobb, Bazilio & Associates, PC, or another firm of independent public accountants of recognized national standing, selected by the Issuer, to the effect that the financial statements described herein have been prepared in accordance with GAAP and present fairly in accordance with GAAP the consolidated financial condition of the Issuer as of the close of such fiscal year and the results of their operations and cash flows for the fiscal year then ended and that an examination of such accountants in connection with such financial statements has been made in accordance with generally accepted

auditing standards and, accordingly, such examination included such tests of the accounting records and such other auditing procedures as were considered necessary in the circumstances;

(b) simultaneously with the delivery of each set of financial statements referred to in clause (a) above, a certificate of the Issuer stating that, to the best knowledge of the chief financial officer (or his/her designee) of the Issuer, there exists on the date of such certificate no Default or Event of Default or, if any Default or Event of Default then exists, setting forth the details thereof and the action which the Issuer is taking or proposes to take with respect thereto;

(c) forthwith, and in any event within five (5) Business Days any officer of the Issuer obtains knowledge thereof, written notice of the occurrence of any Default or Event of Default, together with a statement of the Issuer setting forth the details thereof and the action which the Issuer is taking or proposes to take with respect thereto;

(d) promptly after process has been served on the Issuer, notice of any action, suit or proceeding before any court or arbitrator or any governmental body, agency or official in which there is a reasonable probability of an adverse decision which could (i) materially adversely affect the business, financial position or results of operations of the Issuer or the ability of the Issuer to perform its obligations hereunder, under the Fee Agreement or under any other Related Document or (ii) draw into question the validity or enforceability of this Agreement, the Fee Agreement or any other Related Document or (iii) challenge the validity or enforceability of the security interest in and the pledge of the Trust Estate, or the priority of such pledge and Lien in favor of the 2014B Bonds over any or all other liabilities and obligations of the Issuer (except in respect of Senior Debt) as against all Persons having claims of any kind in tort, contract or otherwise, whether or not such Persons shall have notice thereof;

(e) promptly upon the availability thereof, a copy of any official statement, offering memorandum or other disclosure documents relating to the offering of any Debt secured by and payable from Net Revenues;

(f) as soon as available and in any event within thirty (30) days after adoption, a copy of the Issuer's budget (including, without limitation, annual expenses) for each fiscal year of the Issuer, prepared pursuant to Section 602 of the Master Indenture and including the budget for the System for such fiscal year, and a copy of the capital budget, and any amendments thereto, prepared pursuant to Section 811 of the Master Indenture;

(g) as soon as the forms may be made available to or filed with the Trustee, any report, recommendation, finding, audit or other document required pursuant to Sections 601, 602, 808 and 810 of the Indenture;

(h) as soon as available to the Issuer, copies of all enacted legislation which, to the best knowledge of the Issuer, relates to, in any material way, or impacts upon this Agreement, the Fee Agreement or the other Related Documents or the ability of the Issuer to perform its obligations in connection herewith or therewith; and

(i) from time to time such additional information regarding the financial position, operations, business or prospects of the Issuer and regarding the System as the Liquidity Provider may reasonably request.

As and to the extent the information required by this Section 7.3 has been properly and timely filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access System, the Issuer will be deemed to have complied with the provisions of this Section; *provided, however*, that (y) the Authority shall have delivered written notice to the Liquidity Provider of such filing and (z) the Liquidity Provider has access to the information so filed.

**Section 7.4. Compliance With Laws.** The Issuer shall comply with all laws, ordinances, orders, rules and regulations (including, without limitation, all environmental Laws) that may be applicable to it and the System, if the failure to comply could have a material adverse effect on the security for any of the 2014B Bonds, or the Issuer's ability to repay when due its obligations under this Agreement, any of the 2014B Bonds, and the Related Documents unless the same is being contested in good faith and by appropriate proceedings and such contest shall operate to stay the material adverse effect of such failure to comply.

**Section 7.5. Notices.** In addition to and not in substitution of its obligation to furnish any other notice hereunder, the Issuer will promptly furnish, or cause to be furnished, to the Liquidity Provider (i) notice of the occurrence of any Series 2014B Subordinate Bond Event of Default as defined in the Sixteenth Supplement, (ii) notice of the failure by the Remarketing Agent, the Tender Agent or the Trustee to perform any of its obligations under the Remarketing Agreement or the Indenture, (iii) notice of any proposed substitution of this Agreement, and (iv) each notice required to be given to the Liquidity Provider pursuant to the Sixteenth Supplement.

**Section 7.6. Certain Information.** The Issuer shall not include in an offering document for the 2014B Bonds any information concerning the Liquidity Provider that is not supplied in writing, or otherwise consented to, by the Liquidity Provider expressly for inclusion therein. The Issuer agrees to provide to the Liquidity Provider, in writing, all information and notices it is required to provide to the Municipal Securities Rulemaking Board (the "MSRB") in accordance with Securities and Exchange Commission Rule 1502-12, simultaneously with the providing thereof to the MSRB.

**Section 7.7. Liquidity.**

(a) The Issuer agrees to use its best efforts to obtain a Substitute Credit Facility in the event (i) the Liquidity Provider shall decide not to extend the Expiration Date pursuant to Section 11.8 hereof, (ii) the Issuer terminates this Agreement pursuant to Section 2.11 hereof, (iii) the Liquidity Provider shall furnish a Notice of Termination Date to the Tender Agent and the Trustee or (iv) a Default Tender shall have been effected with any funds made available hereunder.

(b) The Issuer agrees that, with respect to any Substitute Credit Facility, the Issuer will require, as a condition to its effectiveness, that all Bank Bonds shall be purchased, no later than the date the Substitute Credit Facility becomes effective at a price of par plus accrued interest (at the Bank Rate) through the Purchase Date. On such date any and all amounts due hereunder and due under the Indenture or the 2014B Bonds to the Liquidity Provider shall be payable in full to the Liquidity Provider.

(c) The Issuer shall not permit a Substitute Credit Facility to become effective with respect to fewer than all of the 2014B Bonds without the prior written consent of the Liquidity Provider.

**Section 7.8. Appointment of Successors and Replacements.** So long as this Agreement is in effect and the Liquidity Provider has not wrongfully failed to purchase 2014B Bonds pursuant to a properly presented Purchase Notice, the Issuer will not permit the appointment of a successor Trustee or Tender Agent or Remarketing Agent unless the Issuer has obtained the prior written consent of the Liquidity Provider, which consent shall not be unreasonably withheld. If the rating of any entity serving in any such capacity shall fall below “A2” by Moody’s or “A” by Fitch, the Issuer shall use its best efforts to replace any such entity at the request of the Liquidity Provider; *provided, however*, that the Liquidity Provider agrees not to request the replacement of the Trustee, Tender Agent or Remarketing Agent so long as no failure to perform the obligations of the Trustee, Tender Agent or the Remarketing Agent, as applicable, has occurred; *provided further, however*, that if the Remarketing Agent fails to sell 2014B Bonds for sixty (60) consecutive days, then the Issuer agrees, at the written request of the Liquidity Provider to cause the Remarketing Agent to be replaced with a Remarketing Agent reasonably satisfactory to the Liquidity Provider. The Issuer shall use all commercially reasonable efforts to have a Remarketing Agent in place at all times while this Agreement is in effect or any Bank Bonds are outstanding.

**Section 7.9. Maintenance Franchises.** The Trustee will use its best efforts to maintain, or cause to be maintained, all licenses and franchises, required by the District of Columbia or any other Governmental Agency for operation of the System and the sale of water to customers, the loss of which would have or, could reasonably be expected to result in, a material adverse effect regarding the financial position, operations, business or prospects of the Issuer or the System.

**Section 7.10. Accounting Methods and Fiscal Year.** The Issuer will not adopt, permit or consent to any change in its established fiscal year without giving the Liquidity Provider written notice thereof.

**Section 7.11. Additional Obligations.** The Issuer shall not issue any bonds, notes or similar obligations or evidence of indebtedness payable from the Net Revenues or any other amounts, accounts or other property held under the Indenture except as permitted by the Indenture.

**Section 7.12. Permitted Liens.** The Issuer shall not sell or dispose of or create any Lien on the System or create or incur or permit to exist any Lien on the Trust Estate, the Net Revenues on deposit in the Subordinate Fund or any other funds, accounts or other property held under the Indenture except as permitted by the Indenture.

**Section 7.13. Provisions to Facilitate Payments.** Subject to Section 602 of the Master Indenture, the Issuer shall cause to be included in each annual budget of the Issuer reasonable provisions for the payment of all amounts due and estimated to become due with respect to the 2014B Bonds and all obligations payable to the Liquidity Provider under this Agreement, the Fee Agreement and the other Related Documents during the fiscal year of the Issuer covered by such budget. To the extent estimates are used, such estimates shall be made by the Issuer in good faith and shall be based upon reasonable estimates of the amount of Senior Debt and Subordinate

Debt expected to be outstanding, the Revenues and Operating Expenses anticipated to be received and paid for such fiscal year, and the interest rates reasonably expected to be charged during the coming fiscal year for the remaining term of the Senior Debt and Subordinate Debt. To the extent that amounts actually due and payable to the Liquidity Provider under this Agreement, the Fee Agreement and the other Related Documents in any fiscal year exceed the amounts estimated and/or available therefrom in an annual budget of the Issuer for such Fiscal Year, the Issuer shall take, or cause to be taken, as promptly as possible, all such actions (including, without limitation, amendments of such annual budget) as may be required to permit and facilitate the expenditure of additional moneys from all sources legally available for the payment of such amounts.

**Section 7.14. Taxes and Liabilities.** The Issuer will pay, or cause to be paid, all Debt of the Issuer and the System promptly and in accordance with the terms thereof and to pay and discharge, or cause to be paid and discharged, promptly all taxes, assessments, and governmental charges or levies imposed upon it or the System, including income and profits, or upon any of its property, real, personal, or mixed, or upon any part thereof, before the same shall become in default, except for those matters which are reasonably being contested in good faith by appropriate action or proceedings or for which the Issuer has established adequate reserves in accordance with GAAP.

**Section 7.15. Redemption of Bank Bonds; Payment of Fees.**

(a) While any Bank Bonds are outstanding and in accordance with the Sixteenth Supplement, and consistent with the tax-exempt nature of the 2014B Bonds, the Issuer will to the extent obligated under Section 3.1 hereof, (i) redeem Bank Bonds from available funds, and (ii) will redeem Bank Bonds prior to the optional redemption of any other 2014B Bonds under the Sixteenth Supplement.

(b) The Issuer hereby agrees that fees and other amounts payable to the Liquidity Provider (other than principal and interest on Bank Bonds) shall constitute Operating Expenses pursuant to the Indenture and, pursuant to Section 604(c) of the Master Indenture, will be paid from the Operating Reserve Fund when due. The Issuer further agrees that to the extent sufficient funds are not available in the Operating Reserve Fund to pay such fees and other amounts when due for any reason, the Issuer will immediately pay or cause to be paid such fees and other amounts from available funds of the Issuer.

**Section 7.16. Maintenance of Existence; No Merger.**

(a) The Issuer shall use its best efforts to preserve and maintain its existence as an independent authority of the District of Columbia and to perform its obligations under this Agreement and the Related Documents.

(b) The Issuer will at all times maintain the System, or within the limits of its authority cause the same to be maintained, in good condition and working order and will operate the same, or cause the same to be operated, in an efficient and economical manner at a reasonable cost and in accordance with sound business principles. In operating and maintaining the System, the Issuer will comply with all contractual provisions and agreements entered into by

it and with all valid rules, regulations, directions or orders of any governmental, administrative or judicial body or other governmental Agency promulgating same, except for any noncompliance that, individually or in the aggregate, could not reasonably be expected to have a material adverse effect upon the Issuer's business, operations, assets or financial condition.

(c) The Issuer shall not consolidate with or merge into another Person or permit one or more other Persons to consolidate with or merge into it or acquire all or substantially all of the property and assets of any other Person if, at the time of such consolidation, merger, or acquisition the resulting or surviving entity fails to assume, by written document in form and substance satisfactory to the Liquidity Provider, all the obligations of the Issuer under this Agreement or the benefits of any related Document fail to extend to the performance by such resulting or surviving entity of the Issuer's obligations under this Agreement.

**Section 7.17. Use of Proceeds.** The Issuer shall use the proceeds of the 2014B Bonds for the purposes set forth in the Indenture.

**Section 7.18. Bank Bond Ratings.** At any time Bank Bonds are Outstanding, upon the request of the Liquidity Provider, the Issuer at its expense, (i) shall request from at least one of the Rating Agencies then-rating the 2014B Bonds, a rating specifically assigned to such Bank Bonds and shall use all reasonable efforts to obtain such rating within 30 days of such request and (ii) shall use all reasonable efforts to ensure that the CUSIP number and the rating assigned to such Bank Bonds are available electronically to the Liquidity Provider pursuant to a third-party provider of such information.

**Section 7.19. Further Assurances.** The Issuer shall execute, acknowledge where appropriate, and deliver, and cause to be executed, acknowledged where appropriate, and delivered, from time to time promptly at the reasonable request of the Liquidity Provider, all such instruments and documents as in the reasonable judgment of the Liquidity Provider are necessary to effectuate the intention of this Agreement and the other Related Documents.

**Section 7.20. Investment Guidelines.** The Issuer will:

(a) Promptly notify the Liquidity Provider in writing of any changes proposed to the Issuer's written investment policies or guidelines (the "*Investment Guidelines*") if the proposed change would increase the types of investments permitted by such Investment Guidelines.

(b) Promptly notify the Liquidity Provider in writing, after the adoption thereof by the Issuer, of any change in the Investment Guidelines, which change increases the types of investments permitted by the Investment Guidelines and of which change the Liquidity Provider was not previously notified pursuant to clause (a) above.

(c) Within ten (10) Business Days of the adoption of any resolution of the Issuer's Board amending its financing policies or financial practices or any provision or portion thereof, the Issuer will send a copy of such resolution to the Liquidity Provider.

**Section 7.21. Exempt Status.** To the extent that the interest on the 2014B Bonds is intended to be excludable from the gross income of the holders thereof for purposes of federal income taxation, the Issuer shall not take any action or omit to take any action that, if taken or omitted,

would adversely affect the excludability of interest on the 2014B Bonds from the gross income of the holders thereof for purposes of federal income taxation.

**Section 7.22. Regulation.** The Issuer covenants and agrees that no proceeds of any Purchaser Price paid by the Liquidity Provider pursuant to this Agreement shall be used, by or on behalf of the Issuer, directly or indirectly to purchase or carry any margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, as amended from time to time).

**Section 7.23. Swap Contracts.** The Issuer shall at all times require that any termination fees or settlement amounts payable in connection with any Swap Contract entered into by the Issuer on or after the Effective Date shall be subordinate to the payment of the Issuer's obligations hereunder; *provided, however*, that the foregoing shall not operate to prevent amendments and supplements to Swap Contracts entered into prior to the date hereof as long as such amendments or supplements do not operate to modify the priority of payment of any related termination fees or settlement amounts. The Issuer shall not provide any collateral to support the obligations of the Issuer under any Swap Contract other than a Lien on Net Revenues. The Issuer shall at all times require that any Lien on Net Revenues securing any Swap Contract (other than termination fees and settlement amounts) be on a parity with the Lien securing the indebtedness to which such Swap Contract relates.

**Section 7.24. ERISA.** The Issuer will comply in all material respects with Title IV of ERISA, if, when and to the extent applicable.

**Section 7.25. Waiver of Immunity.** To the fullest extent permitted by law, the Issuer hereby consents to the initiation of any proceeding that may be brought by the Liquidity Provider hereunder or in connection with the Fee Agreement in any federal or state court of competent jurisdiction located in State of New York or the District of Columbia and hereby further agrees not to assert the defense of sovereign immunity in any such proceeding.

**Section 7.26. Most Favored Covenant.** In the event that the Issuer has previously entered into or shall hereafter enter into or otherwise consent to any agreement or instrument (or any amendment, supplement or modification thereto) (each a "Relevant Agreement") under which any Person undertakes to make loans, to refinance or restructure existing Debt or to extend credit or liquidity to the Issuer or pursuant to which the Issuer and a Person agree to a Swap Contract or other similar arrangement, which Relevant Agreement (i) provides such Person with a covenant, provision or agreement which is more restrictive, as to the Issuer, or (ii) gives or grants greater rights or remedies to such Person whether as to timing of payment, priority of payment or Lien or otherwise (each, a "Favored Covenant") than, in the case of (i), are undertaken by the Issuer herein or, in the case of (ii), are given or granted to the Liquidity Provider herein, then each such Favored Covenant shall automatically be deemed to be incorporated into this Agreement and the Liquidity Provider shall have the benefits of each such Favored Covenant as if specifically set forth in this Agreement for the duration of such Relevant Agreement. If necessary, the Issuer shall promptly enter into an amendment to this Agreement to include the Favored Covenant; provided that the Liquidity Provider shall maintain the benefit of such Favored Covenant even if the Issuer fails to provide such amendment. Notwithstanding anything to the contrary contained in this Section, each party hereto agrees that no provision described in this Section shall be

deemed incorporated into this Agreement if such incorporation would cause the interest on any of the 2014B Bonds to be includable in the gross income of the owners thereof for federal tax purposes.

## ARTICLE VIII

### EVENTS OF DEFAULT

The occurrence of any of the following events shall constitute an “*Event of Default*”:

**Section 8.1. Payment.** The Issuer shall fail to pay or cause to be paid when due (i) any amounts with respect to the principal of, or interest or premium, if any, on, the 2014B Bonds (including Bank Bonds); (ii) any amounts owed to the Liquidity Provider pursuant to this Agreement; or (iii) any amount with respect to the principal of, or interest or premium, if any, on, any Senior Debt or other Subordinate Debt; or

**Section 8.2. Related Documents.** Any “event of default” shall have occurred and be continuing under any of the Related Documents (as “event of default” is defined respectively therein); or

**Section 8.3. Representations.** Any representation or warranty made or deemed to be made to the Liquidity Provider by or on behalf of the Issuer in this Agreement or in any Related Document or in any certificate or statement delivered hereunder or thereunder shall be incorrect or untrue in any material respect when made or deemed to have been made; or

**Section 8.4. Certain Covenants.** The Issuer shall fail to observe or perform any covenant or agreement of the Issuer set forth in Sections 7.2(b), 7.3(c), 7.4, 7.7(b), 7.8 (but solely with respect to the first and last sentences thereof), 7.12, 7.15, 7.16(c), 7.17, 7.21, 7.22 and 7.23 hereof; or

**Section 8.5. Other Covenants.** The Issuer shall default in the due performance or observance of any other term, covenant or agreement contained (or incorporated by reference) in this Agreement (other than those referred to in Sections 8.1, 8.2, 8.3, and 8.4 hereof) and such default shall remain unremedied for a period of thirty (30) days after the occurrence thereof; or

**Section 8.6. Insolvency.** (i) The Issuer shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its Debts, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or the Issuer shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the Issuer any case, proceeding or other action of a nature referred to in clause (i) above which (x) results in an order for such relief or in the appointment of a receiver or similar official or (y) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or (iii) there shall be commenced against the Issuer, any case, proceeding or other action seeking issuance of a warrant of attachment, execution, rehabilitation, distraint or similar process against



all or any substantial part of its assets, which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof; or (iv) the Issuer shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii) or (iii) above; or (v) the Issuer institutes a debt moratorium, debt restructuring, debt adjustment or comparable restriction is imposed on the repayment when due and payable of the principal of or interest on any debt of the Issuer or shall generally not, or shall be unable to, or so admit in writing its inability to, pay its Debts; or

**Section 8.7. Acceleration of Maturity.** Other than as set forth in Section 8.1 hereof, an event or condition shall occur which results in the acceleration of the maturity of any Senior Debt, Subordinate Debt (including the 2014B Bonds) or any other Debt payable from Net Revenues or which enables (or with the giving of notice or lapse of time, or both, would enable) the holder of such Debt or any Person acting on such holder's behalf to accelerate the maturity thereof; or

**Section 8.8. Invalidity.** Any material provision of this Agreement or any Related Document (other than the Official Statement) shall cease to be valid and binding on the Issuer or any other party thereto or shall be declared to be null and void, or the validity or enforceability thereof shall be contested by the Issuer or such other party thereto or by any Governmental Agency having jurisdiction, or any Governmental Agency having jurisdiction shall find or rule that any material provision of this Agreement or any Related Document (other than the Official Statement) is not valid or binding on the Issuer or such other party thereto, or the Issuer or such other party (in each case, through an authorized person) shall deny that it has any or further liability or obligation under any such document; or

**Section 8.9. Rating Downgrade Event.** The occurrence of any Rating Downgrade Event; or

**Section 8.10. Judgment.** One or more final judgment, decree, or order (each, a "*Final Judgment*" and collectively, the "*Final Judgments*") for the payment of money shall have been rendered against or imposed on the Issuer and shall, by order of the Governmental Agency issuing such Final Judgment, be payable from the Net Revenues and other monies pledged to the payment of Senior Debt or Subordinate Debt under the Indenture, and such Final Judgment shall not have been satisfied, stayed or bonded pending appeal within a period of sixty (60) days from the date on which it was first so rendered.

**Section 8.11. Remedies.**

(a) In the case of any Termination Event, the Available Commitment and the obligation of the Liquidity Provider to purchase Bonds shall immediately terminate without notice or demand to any Person, and thereafter the Liquidity Provider shall be under no obligation to purchase 2014B Bonds. Promptly upon such Event of Default, the Liquidity Provider shall give written notice of the same to the Issuer, the Trustee and the Remarketing Agent; *provided*, that the Liquidity Provider shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the termination of the Liquidity Provider's Available Commitment and of its obligation to purchase 2014B Bonds pursuant to this Agreement. The Issuer shall cause the Trustee to notify all Bondholders

in writing of the termination of the Available Commitment and the termination of the obligation of the Liquidity Provider to purchase the 2014B Bonds.

(b) In the case of the occurrence of any Event of Default (other than as specified in Section 8.11(a) above), the Liquidity Provider may give written notice of such Event of Default and termination of this Agreement (a “*Notice of Termination Date*”) to the Trustee, the Tender Agent, the Issuer, and the Remarketing Agent, requesting a Default Tender. The obligation of the Liquidity Provider to purchase 2014B Bonds shall terminate on the thirtieth (30<sup>th</sup>) day (or if such day is not a Business Day, the next following Business Day) after such Notice of Termination Date is received by the Tender Agent and on such date the Available Commitment shall terminate and the Liquidity Provider shall be under no obligation hereunder to purchase 2014B Bonds.

(c) Upon the occurrence and during the continuance of a Default described in clauses (ii) and (iii) of Section 8.6 (each a “*Suspension Event*” and collectively, the “*Suspension Events*”), the obligation of the Liquidity Provider to advance funds for the purchase of 2014B Bonds hereunder shall be immediately and automatically suspended, without notice, and the Liquidity Provider shall be under no further obligation hereunder to purchase Bonds, until the bankruptcy, insolvency or similar proceeding referred to therein is terminated prior to the court entering an order granting the relief sought in such proceeding. In the event such proceeding is terminated, then the obligations of the Liquidity Provider hereunder shall be automatically reinstated and the terms of this Agreement shall continue in full force and effect (unless the obligation of the Liquidity Provider to purchase 2014B Bonds hereunder shall otherwise have terminated as provided in this Section 8.11) as if there had been no such suspension. If at any time prior to the earlier of (i) the Expiration Date and (ii) the date that is one (1) year following the suspension of the obligation of the Liquidity Provider to purchase 2014B Bonds, (y) the Suspension Event is cured or ceased to be continuing and (z) the obligation of the Liquidity Provider to purchase Bonds under this Agreement has not otherwise terminated, then, upon written notice from the Trustee to the Liquidity Provider to such effect, the obligation of the Liquidity Provider to purchase 2014B Bonds under this Agreement shall be automatically reinstated. If the Suspension Event has not been cured or has not ceased to be continuing prior to the first anniversary of such occurrence and the obligation of the Liquidity Provider to purchase 2014B Bonds under this Agreement has not otherwise terminated, then the obligations of the Liquidity Provider to advance funds for the purchase of 2014B Bonds shall be terminated and thereafter the Liquidity Provider shall have no further obligations to purchase any 2014B Bonds and the Liquidity Provider will use best efforts to send written notice to the Issuer and the Trustee; *provided* that the Liquidity Provider shall not incur any liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the termination of the Available Commitment and of the obligations of the Liquidity Provider to purchase 2014B Bonds under this Agreement.

(d) Upon the occurrence of any Event of Default, the Liquidity Provider may declare all accrued and unpaid amounts payable to it hereunder to be immediately due and payable (other than payments of principal of and interest on Bank Bonds, acceleration rights with respect to which are governed by the Indenture), and the Liquidity Provider shall have all remedies provided at law or equity, including, without limitation, specific performance; *provided, however*, the Liquidity Provider agrees to purchase Bonds on the terms and conditions of this

Agreement notwithstanding the occurrence of an Event of Default which does not terminate its obligation to purchase Bonds under Section 8.11(a) or (b) hereof or suspend its obligation to purchase Bonds under Section 8.11(c).

(e) The remedies provided in Section 8.11(a), (b), (c) or (d) hereof shall only be exclusive with respect to such Events of Default to the extent they are obtained by the Liquidity Provider. If, for any reason whatsoever the Liquidity Provider is not able to obtain all such remedies, then the Liquidity Provider hereby reserves the right and shall have the right to pursue any other available remedies, whether provided by law, equity or this Agreement.

## ARTICLE IX

### OBLIGATIONS ABSOLUTE

**Section 9.1. Obligations Absolute.** The obligations of the Issuer under this Agreement shall be absolute, unconditional and irrevocable and shall be paid or performed strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including, without limitation, the following circumstances:

(a) to the extent permitted by applicable law, any lack of validity or enforceability of this Agreement or any Related Document or any other agreement or instrument delivered in connection herewith or therewith;

(b) any amendment or waiver of or any consent to departure from, the terms of any of the Related Documents;

(c) the existence of any claim, set-off, defense or other right which the Issuer may have at any time against the Tender Agent, the Trustee, the Remarketing Agent, the Liquidity Provider or any other Person, whether in connection with this Agreement, the Related Documents or any unrelated transaction; *provided, however*, that nothing herein contained shall prevent the assertion of such claim by separate suit;

(d) any statement or any other document presented other than by the Liquidity Provider under this Agreement or any of the Related Documents proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect whatsoever; or

(e) any other circumstances or happening whatsoever, whether or not similar to any of the foregoing.

## ARTICLE X

### ANTI-TERRORISM PROVISIONS

The Issuer hereby represents and warrants that:

**Section 10.1. No Violation.** The Issuer is not in violation of any Anti-Terrorism Law or engaged in or conspiring to engage in any transaction that evades or avoids, or has the purpose of

evading or avoiding, or attempts to violate, any of the prohibitions set forth in any Anti-Terrorism Law.

**Section 10.2. Not a Blocked Person.**

(a) Neither the Issuer nor any agents acting or benefiting the Issuer in any capacity in connection with this Agreement or the transactions contemplated hereunder, is any of the following (each a “*Blocked Person*”);

(i) a Person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order No. 13224;

(ii) a Person owned or controlled by, or acting for or on behalf of, any Person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order No. 13224;

(iii) a Person or entity with which the Liquidity Provider is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law;

(iv) a Person or entity that commits, threatens or conspires to commit or supports “terrorism” as defined in the Executive Order No. 13224;

(v) a Person or entity that is named on the most current list of “specially designated nationals and blocked persons” published by the United States Department of the Treasury, Office of Foreign Assets Control (“*OFAC*”) at its official website: [www.treasury.gov/ofac/downloads/t11sdn.pdf](http://www.treasury.gov/ofac/downloads/t11sdn.pdf) (or any replacement website or other replacement official publication of such list);

(vi) a Person who is affiliated with a Person listed above; or

(vii) a Person who is listed on any other list of terrorist or terrorist organizations maintained pursuant to any of the rules and regulations of OFAC or pursuant to any other applicable executive order constituting an Anti-Terrorism Law. The above-referenced lists contained in this Section are collectively referred to as the “*OFAC Lists*.”

(b) Neither the Issuer nor, to its knowledge, any agents acting or benefiting the Issuer in any capacity in connection with this Agreement or the transactions contemplated hereunder (i) conducts any business or engages in making or receiving any contribution of funds, goods or services to or for the benefit of any Blocked Person or (ii) deals in, or otherwise engages in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order No. 13224.

**Section 10.3. Executive Order No. 13224.** The Issuer and its agents shall not (i) conduct any business or engage in any transaction or dealing with any Blocked Person, including the making or receiving any contribution of funds, goods or services to or for the benefit of any Blocked Person, (ii) deal in, or otherwise engage in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order No. 13224, (iii) permit the transfer of any interest in either the Issuer or its agents to any Blocked Person or any beneficial owner of such

Blocked Person or (iv) engage in or conspire to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in the Executive Order No. 13224 or the USA Patriot Act. The Issuer acknowledges that pursuant to the requirements of the USA Patriot Act, the Liquidity Provider is required to obtain, verify and record information that identifies the Issuer, which information includes the name and address of the Issuer and other information that will allow the Liquidity Provider to identify the Issuer in accordance with the USA Patriot Act. The Issuer shall deliver to the Liquidity Provider any certification or other evidence requested from time to time by the Liquidity Provider, in its sole discretion, confirming the Issuer's compliance with this Section.

## ARTICLE XI

### MISCELLANEOUS

#### **Section 11.1. Amendments; Liability of the Liquidity Provider.**

(a) No amendment or waiver of any provision of this Agreement or other Related Document, nor consent to any departure by the Issuer therefrom, shall in any event be effective unless the same shall be in writing and signed by the Liquidity Provider, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

(b) With respect to the Liquidity Provider, to the extent permitted by law, the Issuer assumes all risks of the acts or omissions of the Tender Agent and its agents in respect of their use of this Agreement or any amounts made available by the Liquidity Provider hereunder. Neither the Liquidity Provider nor any of its officers or directors shall be liable or responsible for: (i) the use which may be made of this Agreement or any amounts made available by the Liquidity Provider hereunder or for any acts or omissions of the Trustee, the Tender Agent or the Remarketing Agent or their agents in connection therewith; (ii) the validity, sufficiency or genuineness of documents, or of any endorsement(s) thereon, even if such documents should in fact prove to be in any or all respects invalid, insufficient, fraudulent or forged; or (iii) any other circumstances whatsoever in making or failing to make payment under this Agreement, except the Issuer shall have a claim against the Liquidity Provider, and the Liquidity Provider shall be liable to the Issuer, to the extent, but only to the extent, of any direct or actual damages (for the avoidance of doubt, the Issuer shall not be entitled to any special, indirect, consequential, or punitive damages) suffered by the Issuer which the Issuer proves (as evidenced by a final decision by a court of competent jurisdiction) were caused by the Liquidity Provider's gross negligence or willful failure to make payment under this Agreement strictly in accordance with the terms hereof. In furtherance and not in limitation of the foregoing, the Liquidity Provider may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary.

(c) The Issuer assumes all risks associated with the acceptance by the Liquidity Provider of documents received by telecommunication, it being agreed that the use of telecommunication devices is for the benefit of the Issuer and that the Liquidity Provider assumes no liabilities or risks with respect thereto.

**Section 11.2. Costs and Expenses.**

(a) To the extent permitted by law, the Issuer agrees to reimburse the Liquidity Provider in respect of all reasonable out-of-pocket costs, charges and expenses (including reasonable attorneys' fees computed, to the maximum extent allowed by applicable law, without regard to any statutory presumption) arising in connection with the preparation, execution, delivery, administration and enforcement of, preservation of rights in connection with a workout, restructuring or default under an amendment or waiver with respect to, this Agreement, the 2014B Bonds and the other Related Documents and any stamp and other taxes and fees payable or determined to be payable in connection with the execution and delivery of this Agreement and any other documents or instruments that may be delivered in connection therewith.

(b) To the fullest extent permitted by law, the Issuer agrees to indemnify and hold harmless the Liquidity Provider, its officers, directors, employees and agents (each an "Indemnified Party") from and against any and all claims, damages, losses, liabilities, reasonable costs or expenses whatsoever which an Indemnified Party may incur (or which may be claimed against an Indemnified Party by any Person) by reason of or in connection with the execution and delivery of and consummation of the transactions contemplated under this Agreement and the Related Documents, including, without limitation, (i) the offering, sale, remarketing or resale of 2014B Bonds (including, without limitation, by reason of any untrue statement or alleged untrue statement contained or incorporated by reference in any preliminary official statement or official statement, or in any supplement or amendment thereof, prepared with respect to the 2014B Bonds, or the omission or alleged omission to state therein a material fact necessary to make such statements, in the light of the circumstances under which they are or were made, not misleading or the failure to deliver a preliminary official statement or an official statement to any offeree or purchaser of 2014B Bonds) and (ii) the execution and delivery of, or payment or failure to pay by any Person (other than the Liquidity Provider as and when required by the terms and provisions hereof) under, this Agreement; *provided, however*, that the Issuer shall not be required to indemnify the Liquidity Provider for any claims, damages, losses, liabilities, costs or expenses to the extent, but only to the extent, caused by (a) the willful misconduct or gross negligence of the Liquidity Provider (including without limitation, with respect to the Liquidity Provider, the Liquidity Provider's gross negligence in honoring or willful failure to honor its obligations to purchase 2014B Bonds upon the satisfaction of the applicable conditions precedent set forth herein and in accordance with the terms of this Agreement) or (b) the material inaccuracy of any information included or incorporated by reference in any official statement referred to in Section 5.8 hereof concerning the Liquidity Provider which was furnished in writing by the Liquidity Provider expressly for inclusion or incorporated by reference therein. Nothing in this Section 11.2 is intended to limit the obligations of the Issuer under the 2014B Bonds or of the Issuer to pay its obligations hereunder and under the Related Documents.

(c) The provisions of this Section 11.2 and Sections 11.1, 2.8, and 2.9 hereof shall survive the termination of this Agreement and the payment in full of the 2014B Bonds and the obligations of the Issuer hereunder. The Liquidity Provider shall notify the Issuer of any amounts which are owed to such party pursuant to this Section 11.2.

**Section 11.3. Notices.** Unless otherwise specified herein, all notices, requests, demands or other communications to or upon the respective parties hereto or referred to herein shall be

deemed to have been given (i) in the case of notice by letter, when delivered by hand or four (4) days after the same is deposited in the mails, first class postage prepaid, and (ii) in the case of notice by telecopier, when sent, receipt confirmed, addressed to them as follows or at such other address as any of the parties hereto may designate by written notice to the other parties hereto and the Remarketing Agent:

The Liquidity Provider: TD Bank, N.A.  
2070 Chain Bridge Road, Suite 145  
Vienna, Virginia 22182  
Attention: Christopher Arabia, Senior Vice President  
Telephone: 703.663.4975  
Telecopy: 703.663.4367

The Issuer: District of Columbia Water and Sewer Authority  
5000 Overlook Avenue, S.W.  
Washington, D.C. 20032  
Attention: \_\_\_\_\_  
Telephone: 202.787.\_\_\_\_  
Telecopy: 202.\_\_\_\_.\_\_\_\_

Tender Agent and Trustee: Wells Fargo Bank, N.A.  
Corporate Trust Services  
123 S. Broad Street, Suite 1500  
MAC: Y1379-157  
Philadelphia, Pennsylvania 19109  
Attention: Joseph C. Progar  
Telephone: 215.670.6555  
Telecopy: 215.\_\_\_\_.\_\_\_\_

Remarketing Agent (with respect to any Bonds): Such address as may be provided to the Liquidity Provider by the applicable Remarketing Agent in writing

**Section 11.4. Continuing Obligation; Successors and Assigns.**

(a) This Agreement is a continuing obligation and shall be binding upon and inure to the benefit of the Issuer, the Tender Agent, the Liquidity Provider, and their respective successors, endorsees and assigns, except that, as long as this Agreement is in effect and the Liquidity Provider is not in default hereunder, the Issuer may not assign or transfer its rights or obligations hereunder without the prior written consent of the Liquidity Provider. The Liquidity Provider may grant participations (to be evidenced by one or more participation agreements or certificates of participation) to any financial institution in all or any part of, or any interest (undivided or divided) in, the Liquidity Provider's rights and benefits under this Agreement, any 2014B Bonds owned by it and the other Related Documents, and to the extent of that participation such participant shall, except as set forth in the following clause (ii), have the same rights and benefits against the Issuer hereunder as it would have had if such participant were a direct party hereto; *provided* that (i) no such participation shall affect the obligations of the

Liquidity Provider to purchase 2014B Bonds as herein provided; (ii) the Issuer shall be required to deal only with the Liquidity Provider with respect to any matters under this Agreement and no such participant shall be entitled to enforce directly against the Issuer any provision hereunder; and (iii) such participant shall not be any Person registered as an investment company under the Investment Company Act of 1940, as amended, substantially all of the assets of which are invested in obligations exempt from federal income taxation under Section 103 of the Code or any similar or successor provision.

(b) The obligations of the Liquidity Provider under this Agreement or any part hereof may be assigned by the Liquidity Provider to any financial institution only with the prior written consent of the Issuer; *provided, however*, the Liquidity Provider may assign and pledge all or any portion of the amounts owing to it with respect to Bank Bonds to any Federal Reserve Bank or the United States Treasury as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any Operating Circular issued by such Federal Reserve Bank, *provided* that any payment in respect of such assigned amounts owed with respect to Bank Bonds made by Issuer to the Liquidity Provider in accordance with the terms of this Agreement shall satisfy Issuer's obligations hereunder in respect of such assigned obligation to the extent of such payment. No such assignment shall release the Liquidity Provider from its obligations hereunder.

**Section 11.5. Governing Law; Waiver of Jury Trial; Jurisdiction.**

(a) This Agreement governed by, and construed and interpreted in accordance with, the internal laws of the State of New York, without giving effect to conflict of law principles; *provided, however*, that the obligations of the Issuer hereunder shall be governed by the laws of the District of Columbia.

(b) TO THE FULLEST EXTENT PERMITTED BY LAW, THE ISSUER, THE TRUSTEE, AND THE LIQUIDITY PROVIDER WAIVE THEIR RESPECTIVE RIGHTS TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR RELATED TO THIS AGREEMENT, ANY OTHER DOCUMENT DELIVERED IN CONNECTION HERewith, OR THE TRANSACTIONS CONTEMPLATED HEREBY, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS, OR OTHERWISE. THE ISSUER, THE TRUSTEE, AND THE LIQUIDITY PROVIDER AGREE THAT ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT JURY. WITHOUT LIMITING THE FOREGOING, THE PARTIES FURTHER AGREE THAT THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY IS WAIVED BY OPERATION OF THIS SECTION AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT OR ANY OTHER DOCUMENT DELIVERED IN CONNECTION HERewith OR ANY PROVISION HEREOF OR THEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT AND ANY OTHER DOCUMENTS DELIVERED IN CONNECTION THEREWITH.

(c) The Issuer, the Trustee and the Liquidity Provider hereby agree that any suit, action or other proceeding arising out of or relating to this agreement may be brought in any



federal or state court located in the State of New York or the District of Columbia and consent to the jurisdiction of such court in any such suit, action or proceeding.

**Section 11.6. No Waivers; Amendments; Etcetera.** No delay or omission to exercise any right or power accruing upon any default, omission or failure of performance hereunder shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Liquidity Provider to exercise any remedy now or hereafter existing at law or in equity or by statute, it shall not be necessary to give any notice, other than such notice as may be herein expressly required. In the event any provision contained in this Agreement should be breached by any party and thereafter waived by the other party so empowered to act, such waiver shall be limited to the particular breach hereunder. No waiver, amendment, release or modification of this Agreement shall be established by conduct, custom or course of dealing, but solely by an instrument in writing duly executed by the parties thereunto duly authorized by this Agreement.

**Section 11.7. Source of Funds.** The Liquidity Provider agrees that all funds provided by it hereunder will be paid from funds of the Liquidity Provider and not directly or indirectly from funds or collateral on deposit with or for the account of, or pledged with or for the account of, the Liquidity Provider by the Issuer.

**Section 11.8. Term of the Agreement.**

(a) *Term.* The term of this Agreement shall be until the later of (x) the last day of the Facility Period and (y) the payment in full of the principal of and interest on all Bank Bonds and all other amounts due hereunder.

(b) *Extension of Facility Period.*

(i) Upon written request of the Issuer to the Liquidity Provider provided substantially in the form of Exhibit C hereto, made not less than 180 days prior to the then-current Expiration Date, or at such other time as is acceptable to the Liquidity Provider, the then-current Expiration Date may be extended for an additional period to be not less than one (1) year but not greater than three (3) years (unless otherwise agreed to in writing by the parties) from time to time by agreement in writing between the Liquidity Provider and the Issuer. At the time of any extension, the Liquidity Provider may, in its sole discretion as a condition to such extension, require changes in any of the terms and conditions of this Agreement, including (but not limited to) any fees payable hereunder, and the Bank Rate. If the Issuer makes any such request, the Liquidity Provider will, within sixty (60) days of such request, notify the Issuer in writing whether or not the Liquidity Provider consents to such request and, if the Liquidity Provider in its sole discretion consents to such request, the terms under which the Liquidity Provider will consent to such request. If the Liquidity Provider does not so notify the Issuer within such period of time, the Liquidity Provider shall be deemed not to have consented to such request and no liability or obligation shall be imposed on Liquidity Provider pursuant to such deemed denial. The Liquidity Provider's decision to extend the Expiration Date shall be made in its sole discretion.

(ii) If the Expiration Date is to be so extended, the Liquidity Provider shall deliver written notice of the election to extend to the Issuer, the Trustee, the Tender Agent and the Remarketing Agent, substantially in the form of Exhibit D hereto (herein referred to as a “*Notice of Extension Amendment*”) designating the date to which the Expiration Date is being extended. Such extension of the Expiration Date shall be effective, after receipt of such Notice of Extension Amendment, on the Business Day following the date of delivery of such Notice of Extension Amendment, and thereafter all references in this Agreement to the Expiration Date shall be deemed (unless this Agreement specifically provides otherwise) to be references to the date designated as such in the most recent Notice of Extension Amendment delivered to the Trustee. Any date to which the Expiration Date has been extended in accordance with this Section 11.8 may be extended in like manner. With respect to any extension of the Expiration Date expressly agreed to by the Issuer and the Liquidity Provider, the Issuer shall cooperate, and shall cause the Trustee to cooperate, with the Liquidity Provider with respect to any amendment of this Agreement or any of the other Security Instruments and any amendment to or replacement of such Letter of Credit that may be necessary or appropriate under the circumstances.

**Section 11.9. Headings.** Section headings in this Agreement (the texts of which are set forth in the Table of Contents hereof) are included herein for convenience of reference only and shall not have any effect for purposes of interpretation or construction of the terms of Agreement.

**Section 11.10. Complete and Controlling Agreement; Severability.**

(a) This Agreement and the other Related Documents to which the Liquidity Provider and the Issuer are a party completely set forth the agreements between the Liquidity Provider and the Issuer and completely supersede all prior agreements, both written and oral, between the Liquidity Provider and the Issuer relating to the matters set forth herein and in the Related Documents.

(b) The invalidity or unenforceability of any one or more phrases, sentences, clauses or sections contained in this Agreement shall not affect the validity or enforceability of the remaining portions of this Agreement, or any part thereof.

**Section 11.11. Losses Relating to Telephonic Notices.** The Issuer hereby agrees to compensate the Liquidity Provider for the loss of use of funds in the event the Liquidity Provider disburses funds hereunder (a) in any attempt to make purchases of 2014B Bonds based upon telephonic requests made by any Person or Persons which the Liquidity Provider in good faith believes to be the Trustee or its designees (but the foregoing shall not imply any standard of care against the Liquidity Provider with respect to requests made in any other manner, except as otherwise expressly agreed herein), and (b) in any amount in excess of that actually required to purchase 2014B Bonds hereunder due to the Trustee incorrectly stating such amount in its Purchase Notice (to the extent such loss of use of funds is not covered by Section 2.3 hereof). A certificate of the Liquidity Provider as to the amount of any such loss shall be conclusive, absent manifest error. The Issuer shall be entitled to payment and reimbursement by the Trustee for the amount of such loss that resulted from the negligence or misconduct of the Trustee.

**Section 11.12. Adjustment; Set Off.**

(a) The Issuer expressly agrees that to the extent the Issuer makes a payment or payments and such payment or payments, or any part thereof, are subsequently invalidated, declared to be fraudulent or preferential, set aside or are required to be repaid to a trustee, receiver, or any other party under any bankruptcy act, state or federal law, common law or equitable cause, then to the extent of such payment or repayment, the obligations to the Liquidity Provider or part thereof intended to be satisfied shall be revived and continued in full force and effect as if said payment or payments had not been made.

(b) In addition to any rights and remedies of the Liquidity Provider provided by law, the Liquidity Provider is authorized, after the occurrence and during the continuance of an Event of Default, from time to time, without notice to the Issuer to the extent permitted by law (and any such notice being expressly waived by the Issuer to the extent permitted by law) and to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final), securities and other properties at any time held, received by, or in transit to the Liquidity Provider to or for the credit or the account of the Issuer or any and all amounts owing from the Liquidity Provider to the Issuer (and right of setoff may be exercised by the Liquidity Provider against the Issuer or against any trustee in bankruptcy, debtor in possession, assignee for the benefit of creditors, receiver, or execution, judgment or attachment creditor of the Issuer, notwithstanding the fact that such right of setoff shall not have been exercised by the Liquidity Provider prior to the making, filing or issuance, or service upon the Liquidity Provider of, or of notice of, any such petition, assignment for the benefit of creditors, appointment or application for the appointment of a receiver, or issuance of execution, subpoena, order or warrant), in each case, against any obligations, whether matured or unmatured, of the Issuer to the Liquidity Provider, now or hereafter existing under this Agreement or under the Bank Bonds, irrespective, to the extent permitted by law, of whether or not the Liquidity Provider shall have made any demand hereunder. Notwithstanding anything in this Section to the contrary, any amounts held, received, or invested by the Liquidity Provider that are (i) part of the Trust Estate and subject to the lien of the Indenture or (ii) delivered to the Liquidity Provider as part of an identifiable transaction in which the Liquidity Provider and the Issuer are counterparties, such as (but not limited to) capital markets execution transactions, whether or not related to the Indenture, each shall be excepted from the provisions of this paragraph.

**Section 11.13. No Fiduciary Relationship.** The Issuer acknowledges and agrees that in no event shall the Liquidity Provider be considered to be a partner or joint venturer of the Issuer. Also, the Issuer acknowledges that it has independently evaluated the business transaction and has not relied upon, nor will it rely upon, the expertise, advice or other comments or statements of the Liquidity Provider (including agents of the Liquidity Provider), if any, in deciding to pursue such undertaking. As the Issuer is experienced in business, in no event shall the Liquidity Provider owe any fiduciary or similar obligations to it in connection with the subject transaction.

**Section 11.14. Publicity; Disclosure.**

(a) The parties hereto agree that, from and after the Effective Date, the Liquidity Provider may list the Issuer as a client or customer of the Liquidity Provider in any media, and the Liquidity Provider shall have the right, subject to the Issuer's approval (which approval shall

not be unreasonably withheld) of style, content, name and logo, to publish a “tombstone” notice or other description of the Liquidity Provider’s involvement in this transaction, which notice may be published in such print media and by such other means as the Liquidity Provider deems appropriate in its discretion. No such publicity shall constitute any endorsement by the Issuer.

(b) The Liquidity Provider may disclose to any of its affiliates and any permitted (actual or potential) assignee, transferee or participant any information about the Issuer as the Liquidity Provider considers necessary and appropriate.

**Section 11.15. Counterparts.** This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

{*SIGNATURES ON PAGES FOLLOWING*}

IN WITNESS WHEREOF, the parties hereto have caused this Standby Bond Purchase Agreement to be duly executed and delivered by their authorized representatives as of the Effective Date.

DISTRICT OF COLUMBIA WATER AND  
SEWER AUTHORITY

By: \_\_\_\_\_ (Seal)

Mark Kim  
Chief Financial Officer

WEELS FARGO BANK, N.A., as Trustee and  
as Tender Agent

By: \_\_\_\_\_ (Seal)

Name:  
Title:

TD BANK, N.A, as Liquidity Provider

By: \_\_\_\_\_ (Seal)

Name:  
Title:

**EXHIBIT A**

**NOTICE OF LIQUIDITY PROVIDER PURCHASE  
(Optional Tender)**

TD Bank, N.A.  
2070 Chain Bridge Road, Suite 145  
Vienna, Virginia 22182  
Attention: Christopher C. Arabia  
Telecopy: 703.663.4367

Ladies and Gentlemen:

The undersigned, a duly authorized officer of \_\_\_\_\_, as trustee and tender agent (the "*Tender Agent*"), hereby certifies to TD BANK, N.A., as liquidity provider (the "*Liquidity Provider*"), in accordance with the Standby Bond Purchase Agreement (the "*Standby Purchase Agreement*") dated as of July \_\_, 2014, among the District of Columbia Water and Sewer Authority, the Tender Agent and the Liquidity Provider (all capitalized terms herein having the meanings ascribed thereto in the Standby Purchase Agreement), that:

1. Notice of a tender of Eligible Bonds for purchase having a Purchase Price of \$ \_\_\_\_\_, pursuant to Section 406 of the Sixteenth Supplement, has been received of which \$ \_\_\_\_\_ constitutes principal and \$ \_\_\_\_\_ constitutes accrued interest.

2. Amounts available for the payment of the Purchase Price of such Eligible Bonds is \$ \_\_\_\_\_ of which \$ \_\_\_\_\_ is available to pay principal and of which \$ \_\_\_\_\_ is available to pay accrued interest.

3. The total principal amount requested hereby for the payment of the principal portion of the Purchase Price of Eligible Bonds is \$ \_\_\_\_\_ which amount does not exceed the Available Principal Commitment or the principal amount referred to in paragraph 1 above minus the principal amount referred to in 2 above.

4. The total amount requested hereby to pay the portion of the Purchase Price for Eligible Bonds constituting accrued interest is \$ \_\_\_\_\_, which amount does not exceed the Available Interest Commitment or the amount of interest referred to in paragraph 1 above minus the amount of interest referred to in paragraph 2 above.

5. Eligible Bonds referred to above having a Purchase Price of \$ \_\_\_\_\_ [the amount in paragraph 3 plus the amount in paragraph 4] are hereby tendered to the Liquidity Provider for purchase pursuant to the Standby Purchase Agreement on the date hereof.

6. Upon completion of purchase, the Tender Agent will [cause the Trustee to register such 2014B Bonds, or if a 2014B Bond for which notice of tender for purchase pursuant to Section 406 of the Sixteenth Supplement has been given is not delivered, issue a new 2014B Bond in replacement of the undelivered 2014B Bond, in the name of the Liquidity Provider or if directed in writing by the Liquidity Provider its nominee or designee on the Bond Register]

[cause the beneficial ownership of such 2014B Bonds to be credited to the account of the Liquidity Provider or if directed in writing by the Liquidity Provider its nominee or designee with DTC and cause the Trustee to register such 2014B Bonds in the name of the Liquidity Provider or its nominee or designee on the Bond Register] [,and will promptly deliver such 2014B Bonds to the Bank Bond Custodian or as the Liquidity Provider may otherwise direct in writing, and prior to such delivery will hold such 2014B Bonds as agent for the Liquidity Provider].

7. The Purchase Date is \_\_\_\_\_, \_\_\_\_\_.

8. The purchase price for such Eligible Bonds is to be paid to the Tender Agent as follows:

[insert wire transfer instructions]

9. To the Tender Agent's knowledge, no Termination Event or Suspension Event has occurred.

IN WITNESS WHEREOF, the Tender Agent has executed and delivered this Certificate as of the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_.

\_\_\_\_\_, as Trustee and  
Tender Agent

By: \_\_\_\_\_  
Name:  
Title:

**EXHIBIT B**

**NOTICE OF LIQUIDITY PROVIDER PURCHASE  
(Mandatory Purchase)**

TD Bank, N.A.  
2070 Chain Bridge Road, Suite 145  
Vienna, Virginia 22182  
Attention Christopher C. Arabia  
Telecopy: 703.663.4367

Ladies and Gentlemen:

The undersigned, a duly authorized officer of \_\_\_\_\_, as trustee and tender agent (the "*Tender Agent*"), hereby certifies to TD BANK, N.A., as Liquidity Provider (the "*Liquidity Provider*"), in accordance with the Standby Bond Purchase Agreement (the "*Standby Purchase Agreement*") dated as of July \_\_, 2014 among the District of Columbia Water and Sewer Authority, the Tender Agent and the Liquidity Provider (all capitalized terms herein having the meanings ascribed thereto in the Standby Purchase Agreement), that:

1. Eligible Bonds have been called for mandatory purchase having a Purchase Price of \$\_\_\_\_\_, pursuant to Section 408 of the Sixteenth Supplement, of which \$\_\_\_\_\_ constitutes principal and \$\_\_\_\_\_ constitutes accrued interest.

2. Amounts available for the payment of the Purchase Price of such Eligible Bonds is \$\_\_\_\_\_ of which \$\_\_\_\_\_ is available to pay principal and of which \$\_\_\_\_\_ is available to pay accrued interest.

3. The total principal amount requested hereby for the payment of the principal portion of the Purchase Price of Eligible Bonds is \$\_\_\_\_\_ which amount does not exceed the Available Principal Commitment or the principal amount referred to in paragraph 1 above minus the principal amount referred to in 2 above.

4. The total amount requested hereby to pay the portion of the Purchase Price for Eligible Bonds constituting accrued interest is \$\_\_\_\_\_, which amount does not exceed the Available Interest Commitment or the amount of interest referred to in paragraph 1 above minus the amount of interest referred to in paragraph 2 above.

5. Eligible Bonds referred to above having a Purchase Price of \$\_\_\_\_\_ [the amount in paragraph 3 plus the amount in paragraph 4] are hereby tendered to the Liquidity Provider for purchase pursuant to the Standby Purchase Agreement on the date hereof.

6. Upon completion of purchase, the Tender Agent will [cause the Trustee to register such 2014B Bonds or, if a 2014B Bond subject to mandatory purchase pursuant to Section 408 of the Sixteenth Supplement is not delivered, issue a new 2014B Bond in replacement of the undelivered 2014B Bond, in the name of the Liquidity Provider or if directed in writing by the Liquidity Provider its nominee or designee on the Bond Register] [cause the



beneficial ownership of such 2014B Bonds to be credited to the account of the Liquidity Provider or if directed in writing by the Liquidity Provider its nominee or designee with DTC and cause the Trustee to register such 2014B Bonds in the name of the Liquidity Provider or its nominee or designee on the Bond Register] [,and will promptly deliver such 2014B Bonds to the Bank Bond Custodian or as the Liquidity Provider may otherwise direct in writing, and prior to such delivery will hold such 2014B Bonds as agent for the Liquidity Provider].

7. The Purchase Date is \_\_\_\_\_, \_\_\_\_\_.

8. The purchase price for such 2014B Bonds is to be paid to the Tender Agent as follows:

[insert wire transfer instructions]

9. To the best of the Tender Agent's knowledge, no Termination Event or Suspension Event has occurred.

IN WITNESS WHEREOF, the Tender Agent has executed and delivered this Certificate as of the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_.

\_\_\_\_\_, as Trustee and  
Tender Agent

By: \_\_\_\_\_  
Name:

Title:

**EXHIBIT C**

**FORM OF REQUEST FOR EXTENSION**

[DATE]

TD Bank, N.A.  
2070 Chain Bridge Road, Suite 145  
Vienna, Virginia 22182  
Attention: Christopher C. Arabia  
Telecopy: 703.663.4367

**RE:** Request for Extension

Ladies and Gentlemen:

Reference is hereby made to that certain Standby Bond Purchase Agreement, dated as of July \_\_, 2014 (the “*Agreement*”), among the District of Columbia Water and Sewer Authority (the “*Issuer*”), Wells Fargo Bank, N.A., as trustee and tender agent (the “*Tender Agent*”), and TD Bank, N.A., as Liquidity Provider (the “*Liquidity Provider*”). All capitalized terms contained herein which are not specifically defined shall be deemed to have the definition set forth in the Agreement. The Issuer hereby requests, pursuant to Section 11.8 of the Agreement, that the Expiration Date for the Facility Period be extended by [IDENTIFY APPROPRIATE PERIOD NOT LESS THAN ONE YEAR BUT NOT GREATER THAN THREE YEARS].

We have enclosed along with this request the following information:

1. The outstanding principal amount of 2014B Bonds;
2. The nature of any and all Events of Default and all conditions, events and acts which with notice or lapse of time or both would become an Event of Default, or, if no such Events of Default, or conditions, events or acts exist, a statement to that effect;
3. Information that all representations and warranties of the Issuer, as set forth in the Agreement, are true and correct as of the date of such request,
4. The Rate Period (as such term is defined in the Sixteenth Supplement) to be borne by the 2014B Bonds upon such extension, and
5. Any other pertinent information previously requested by the Liquidity Provider.

{REMAINDER OF PAGE LEFT BLANK INTENTIONALLY}

The Liquidity Provider is required to notify the Tender Agent, the Trustee, and the Remarketing Agent of the Liquidity Provider's decision with respect to this request for extension within sixty (60) days of the date of receipt hereof. If the Liquidity Provider fails to notify the Issuer of its decision within such 60-day period, the Liquidity Provider shall be deemed to have rejected such request.

Very truly yours,

DISTRICT OF COLUMBIA WATER AND  
SEWER AUTHORITY

By: \_\_\_\_\_  
Name:  
Title:

**EXHIBIT D**

**NOTICE OF EXTENSION**

District of Columbia Water and Sewer Authority  
Wells Fargo Bank, N.A., as Tender Agent  
[Name of applicable Remarketing Agent]

Re: Notice of Extension

Ladies and Gentlemen:

Reference is hereby made to that certain Standby Bond Purchase Agreement, dated July \_\_, 2014 (the "*Agreement*"), among the District of Columbia Water and Sewer Authority (the "*Issuer*"), Wells Fargo Bank, N.A., as trustee and tender agent (the "*Tender Agent*"), (the "*Tender Agent*") and TD Bank, N.A., as liquidity provider (the "*Liquidity Provider*"). All capitalized terms contained herein which are not specifically defined shall be deemed to have the definition set forth in the Agreement.

Pursuant to the request made by the Issuer pursuant to Section 11.8 of the Agreement, dated \_\_\_\_\_, the Liquidity Provider hereby extends the Expiration Date for the Facility Period to [IDENTIFY APPROPRIATE DATE].

Very truly yours,

TD BANK, N.A., as Liquidity Provider

By: \_\_\_\_\_  
Name:  
Title:

**EXHIBIT E**

**FORM OF BANK BOND CUSTODY AGREEMENT**

BANK BOND CUSTODY AGREEMENT dated July \_\_, 2014, by and between Wells Fargo Bank, N.A. (the “*Custodian*”), and TD Bank, N.A., as liquidity provider (the “*Liquidity Provider*”).

WHEREAS, the District of Columbia Water and Sewer Authority, an independent authority of the District of Columbia (the “*Issuer*”), Wells Fargo Bank, N.A., as trustee and tender agent (the “*Tender Agent*,” which term shall include any successor thereto appointed pursuant to the terms of the Sixteenth Supplement as defined below), and the Liquidity Provider have entered into a certain Standby Bond Purchase Agreement dated as of the date hereof (as amended or otherwise modified from time to time, the “*Agreement*”) pursuant to which the Liquidity Provider has agreed to purchase in certain circumstances the Issuer’s [NAME OF BONDS] (collectively, the “*2014B Bonds*”); and

WHEREAS, the 2014B Bonds were issued pursuant to the Indenture (as defined in the Agreement), including the Sixteenth Supplement (as defined in the Agreement); and

WHEREAS, the Sixteenth Supplement requires that the 2014B Bonds delivered by the holders thereof to the Tender Agent pursuant to the Sixteenth Supplement be purchased under certain circumstances by the Liquidity Provider under the Agreement; and

WHEREAS, it is a condition to the effectiveness of the obligations of the Liquidity Provider under the Agreement that the Custodian shall have entered into this Bank Bond Custody Agreement; and

WHEREAS, the Custodian has agreed to act as custodian and agent for the Liquidity Provider as herein provided;

NOW, THEREFORE, in consideration of the mutual covenants recited herein, and other good and valuable consideration, receipt of which is hereby acknowledged, it is hereby agreed as follows:

1. The Liquidity Provider appoints the Custodian as its agent and bailee for the purpose of receiving Bank Bonds (as defined in the Agreement) under the Agreement and holding such Bank Bonds for and on behalf of the Liquidity Provider. The Custodian hereby agrees to hold such Bank Bonds for such purpose, as the Liquidity Provider’s agent and bailee. As used herein, the term “Bank Bonds” means, unless the context otherwise requires, the beneficial ownership of any Bank Bonds during any period that Bank Bonds are maintained as Book-Entry Bonds.

2. Except at the written direction of the Liquidity Provider, the Bank Bond Custodian shall not pledge, hypothecate, transfer or release possession of any Bank Bonds held by or registered in the name of the Custodian on behalf of the Liquidity Provider to any person or in any manner not in accordance with this Bank Bond Custody Agreement and shall not enter into any other agreement regarding possession of such Bank Bonds without the prior written

consent of the Liquidity Provider. The Custodian will not release Bank Bonds to the purchaser of such Bank Bonds unless the Liquidity Provider has delivered to the Custodian, in addition to its written direction contemplated above in this paragraph, written notice (which may be by telex, answerback received) that a portion of the Available Principal Commitment (as defined in the Agreement) in an amount equal to the principal amount of such Bank Bonds and the corresponding increase in the Available Interest Commitment (as defined in the Agreement) pursuant to the terms of the Agreement has each been reinstated.

3. Upon written notice to the Liquidity Provider and release and delivery to the Liquidity Provider or its designee of any Bank Bonds then held by the Custodian pursuant to this Custody Agreement, the Custodian shall have the right to terminate its obligations with respect to such Bank Bonds under this Bank Bond Custody Agreement. The Liquidity Provider shall have the option to terminate this Bank Bond Custody Agreement at any time upon written notice to the Custodian and, upon such termination, the Custodian will release and deliver to the Liquidity Provider or its designee any Bank Bonds then held by the Custodian hereunder. The Liquidity Provider may also from time to time request that the Custodian release and deliver to the Liquidity Provider all or a portion of the Bank Bonds then held by the Custodian without termination of this Bank Bond Custody Agreement, and upon receipt of any such request in writing, the Custodian will release and deliver such Bank Bonds to the Liquidity Provider or its designee then held by the Custodian.

4. In acting under this Bank Bond Custody Agreement the Custodian shall not be liable to the Liquidity Provider except for gross negligence or willful misconduct in the performance of its obligations hereunder.

5. The Custodian's duties are only such as are specifically provided herein, and the Custodian shall incur no fiduciary or other liability whatsoever to the Liquidity Provider or any other person, except to the extent the Liquidity Provider incurs loss or liability due to the Custodian's gross negligence or willful misconduct. The Custodian may consult with counsel and shall be fully protected in any action taken in good faith in accordance with such advice. The Custodian may rely conclusively and shall be fully protected in acting upon any written instructions given to it hereunder and believed by it to have been properly executed.

6. The Custodian may resign at any time by giving written notice thereof to the Liquidity Provider. Such resignation shall not become effective until a successor Custodian shall have been appointed by the Liquidity Provider and shall have accepted such appointment in writing. The Liquidity Provider will use its commercially reasonable efforts to promptly appoint a successor Custodian. The resigning Custodian may, at the expense of the Issuer, petition any court of competent jurisdiction, including without limitation the [Supreme Court of the State of New York], for the appointment of a successor Custodian.

7. This Bank Bond Custody Agreement cannot be amended or modified except in a writing signed by the Liquidity Provider and the Custodian.

8. This Bank Bond Custody Agreement shall inure to the benefit of and shall be binding upon the Custodian and the Liquidity Provider and their respective successors and assigns.

9. THIS IS THE BANK BOND CUSTODY AGREEMENT REFERRED TO IN THE AGREEMENT, AND SHALL BE GOVERNED BY THE LAW OF THE [DISTRICT OF COLUMBIA] WITHOUT REGARD TO CHOICE OF LAW RULES.

10. This Bank Bond Custody Agreement may be executed in counterparts which, taken together, shall constitute a single document.

11. Capitalized terms used herein without definition shall have the same meanings herein as such terms have in the Agreement.

{*SIGNATURES ON PAGES FOLLOWING*}

IN WITNESS WHEREOF, the parties hereto have caused this Bank Bond Custody Agreement to be duly executed and delivered by their authorized representatives as of the date first above written.

WELLS FARGO BANK, N.A., as Custodian

By: \_\_\_\_\_  
Name:  
Title:

TD BANK, N.A., as Liquidity Provider

By: \_\_\_\_\_  
Name:  
Title:

ACCEPTED AND AGREED TO:

DISTRICT OF COLUMBIA WATER AND  
SEWER AUTHORITY

By: \_\_\_\_\_  
Name:  
Title:



AGREEMENT REGARDING RATES AND FEES

The DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY, an independent authority of the District of Columbia (the “Issuer”) and TD BANK, N.A. (the “Liquidity Provider”) have entered into a Standby Bond Purchase Agreement dated as of July \_\_, 2014 (the “Agreement”) that relates to the Issuer’s Public Utility Subordinate Lien Multimodal Revenue Bonds, Series 2014B (the “2014B Bonds”). Pursuant to the Agreement, the Liquidity Provider has agreed to provide for the purchase of the 2014 B Bonds which are not remarketed upon certain tenders by the holders thereof on or prior to the last day of the Facility Period (as such term is defined in the Agreement) under the terms and conditions set forth in the Agreement.

Defined terms used and not defined herein shall have the meaning set forth in the Agreement.

The Issuer and the Liquidity Provider hereby agree to the following.

**Section 1.** This Agreement Regarding Rates and Fees is the “Fee Agreement” referenced in the Agreement, and the terms hereof are incorporated by reference into the Agreement in its entirety and shall be treated as part of the Agreement.

**Section 2.** This Agreement Regarding Rates and Fees may be signed in any number of counterparts with the same effect as if the signatures thereto and hereto were upon the same instrument.

**Section 3.** The following shall be the “Facility Fee” referred to in the Agreement.

(a) “Facility Fee” means a non-refundable fee with respect to the Agreement for each day in an amount equal to the Facility Fee Rate for such day multiplied by the Available Commitment for such day, such Facility Fee (i) shall be due initially on the Effective Date and shall be prorated for the first quarter and (ii) shall thereafter be paid quarterly in advance on the first Business Day of each January, April, July, and October commencing October 1, 2014. This Facility Fee shall be prorated for the last quarter. The Facility Fee shall be calculated on the basis of a year of 365- or 366-days and actual days elapsed.

(b) “Facility Fee Rate” means, for any day, 0.29% per annum, subject to adjustment as set forth in clauses (i) and (ii) below:

(i) If the Bonds Rating (defined herein) is reduced to a rating level (“rating level” for this purpose shall be deemed to include sign changes and numeric qualifiers) lower than that indicated in the table below (the “Threshold Bonds Rating”), the Facility Fee Rate shall increase by 5 basis points (0.05%) for each rating level lower than the Bonds Threshold Rating to and including the rating level to which the Bonds Rating is reduced (or, if applicable, subsequently increased), such that the Facility Fee Rate increases are cumulative.

MOODY’S  
A1

S&P/FITCH  
A+

In the event the Rating Agencies then rating the 2014B Bonds have conflicting or “split” ratings, the lowest of such ratings shall be used to determine the Bonds Rating. Any adjustment to the Facility Fee Rate pursuant to this Section 3(b)(i) shall be and become effective as of and on the date of the written announcement of the change in the Bonds Rating.

(ii) Upon the occurrence and during the continuance of an Event of Default, the Facility Fee Rate shall automatically and without notice to the Issuer be increased from the rate in effect at the time of such occurrence by 1.00% per annum commencing on the date such Event of Default occurs and continuing until such Event of Default is cured to the satisfaction of the Liquidity Provider.

**Section 4.** The Issuer shall pay to the Liquidity Provider the following fees, as applicable: (a) the Draw Fee in connection with each purchase of 2014B Bonds by the Liquidity Provider under the Agreement; (b) the Amendment Fee in connection with each amendment or extension of the Agreement and (c) the Transfer Fee in connection with any transfer of the Agreement.

**Section 5.** The following defined terms and definitions shall apply to such terms as used in the Agreement:

“Amendment Fee” means such amount as the Liquidity Provider may from time to time customarily charge for amendments relating to letters of credit issued by the Liquidity Provider (which Amendment Fee is \$2,500 as of the date of this Agreement Regarding Rates and Fees).

“Bank Rate” means, for each day of determination with respect to any Bank Bond, except as otherwise provided in Section 2.2(a) of the Agreement, (i) for the period from and including the Purchase Date of such Bank Bond to but not including the 31<sup>st</sup> calendar day following the related Purchase Date, the rate per annum equal to the Base Rate from time to time in effect (but in no event less than 3.50% per annum), (ii) for the period from and including the 31<sup>st</sup> calendar day following the related Purchase Date to but not including the 91<sup>st</sup> calendar day following the related Purchase Date, the rate per annum equal to the Liquidity Rate from time to time in effect, and (iii) thereafter, the rate per annum equal to the Term Loan Rate from time to time in effect; provided that, notwithstanding anything herein or in the Agreement to the contrary, from and after the occurrence of an Event of Default, the Bank Rate shall equal the Default Rate, and provided further that at no time shall the Bank Rate with respect to any Bank Bonds be less than the rate on Bonds that are not Bank Bonds.

“Base Rate” means a fluctuating rate of interest per annum equal to the higher of (i) the Federal Funds Effective Rate, plus 2.00% and (ii) the Prime Rate. Each change in the Base Rate shall take effect simultaneously with the corresponding change or changes in the Prime Rate or Federal Funds Effective Rate, as the case may be.

“Bonds Rating” means the long-term credit rating with respect to the 2014B Bonds assigned by any Rating Agency; *provided, however*, that (i) references to any ratings herein are references to rating levels in effect as of the date of this Agreement Regarding Rates

and Fees, (ii) in the event any Rating Agency adopts a new rating system or modifies its current rating system, each rating referenced herein shall be deemed to be replaced by the new or modified rating level which the Liquidity Provider reasonably determines to most closely approximate the rating prior to modification, (iii) in the event any Rating Agency is replaced by a different Rating Agency, each rating referenced herein shall be deemed to be replaced by the rating level of the new Rating Agency which the Liquidity Provider reasonably determines to most closely approximate the equivalent rating level of the previous Rating Agency; and (iv) in the event the Rating Agencies then rating the 2014B Bonds have conflicting or “split” ratings, the lowest of such ratings shall be used to determine the Bonds Rating.

“Default Rate” means, for any day, a fluctuating rate of interest per annum equal to the higher of (i) the Base Rate plus two hundred basis points (2.0%) and (ii) five hundred fifty basis points (5.50%).

“Draw Fee” means the fee charged for each purchase of 2014B Bonds by the Liquidity Provider under the Agreement, which fee shall be \$250, payable quarterly in arrears based upon invoices submitted by the Liquidity Provider to the Issuer.

“Federal Funds Effective Rate” means for any day the rate of interest per annum as determined by the Liquidity Provider at which overnight Federal Funds are offered to the Liquidity Provider for such day by major banks in the interbank market, with any change in such rate to become effective on the date of any change in such rate. Each determination of the Federal Funds Effective Rate by the Liquidity Provider shall be deemed conclusive and binding on the Issuer absent manifest error.

“Liquidity Provider Downgrade Event” means either of the following: (i) the short-term unenhanced credit rating assigned to the Liquidity Provider by Moody’s shall fall to two or more levels below “P-1,” or (ii) the short-term unenhanced credit rating assigned to the Liquidity Provider by S&P shall fall to two or more levels below “A-1+.”

“Liquidity Rate” means, for any day, a fluctuating rate of interest per annum equal to the higher of (i) the Base Rate plus seventy-five basis points (0.75%) and (ii) four hundred twenty-five basis points (4.25%).

“Prime Rate” means, for any day, a rate of interest per annum equal to the rate listed as “The United States Prime Rate” on corporate loans posted by large United States commercial banks as most recently published in the Eastern print edition of the Wall Street Journal<sup>®</sup>, or its successor publication. If *The Wall Street Journal* (Eastern Edition) or its successor publication, ceases to publish a rate or rates of interest as the “Prime Rate”, then for purposes of this Agreement, the term “Prime Rate” shall mean the rate which the Liquidity Provider establishes from time to time as its “Prime Rate”, whether or not published. The parties understand that such rate is not intended to be the lowest rate of interest charged by the Liquidity Provider in connection with the extension of credit to its customers.

“Term Loan Rate” means, for any day, a fluctuating rate of interest per annum equal to the higher of (i) the Base Rate plus one hundred fifty basis points (1.50%), or (ii) five hundred basis points (5.0%).

“Termination Fee” means, upon a request by the Issuer to terminate the Agreement pursuant to Section 2.11 of the Agreement, payment by the Issuer on or before the date of the termination of the Agreement (the “Voluntary Termination Date”) an additional fee determined as follows: if the Voluntary Termination Date is less than or equal to 18 months prior to the Expiration Date, an amount equal to the Facility Fee that the Issuer would have paid the Liquidity Provider from the Voluntary Termination Date to the Expiration Date then in effect; *provided, however*, that any Termination Fee shall be calculated based on the Available Commitment on the Voluntary Termination Date; and *provided further, however*, that no Termination Fee shall be required if such termination request by the Issuer is a direct consequence of a Liquidity Provider Downgrade Event.

“Transfer Fee” shall mean such amount as the Liquidity Provider may from time to time charge for transfers of the Agreement (which Transfer Fee is \$2,500 as of the date of this Agreement Regarding Rates and Fees).

**Section 6.** By accepting delivery of this Fee Agreement, you agree that, from and after the date hereof, the terms hereof shall not be disclosed by you to any person other than your officers, directors, employees, managers, agents, consultants, investors, partners, members, accountants, attorneys and other advisors (collectively, the “Authorized Representatives”), and then only on a “need to know” basis in connection with the transactions contemplated by the Agreement and on a confidential basis (except that, notwithstanding the foregoing, you may make such public disclosures as you are required by law or by a court of competent jurisdiction, in the opinion of your counsel, to make). Nothing contained in this Fee Agreement shall be considered confidential to the extent that it (i) becomes generally available to the public (through no action or omission of the Issuer or any of its Authorized Representatives in contravention of the confidentiality requirements set forth herein), or (ii) has been disclosed to other parties by the Liquidity Provider (other than agents, consultants, investors, partners, members, accountants, attorneys and other advisors of the Liquidity Provider), or (iii) is incorporated into reports or other work product generated by the Issuer or any of its Authorized Representatives. Your obligations hereunder with respect to confidentiality shall survive the expiration or termination of the Agreement.

{SIGNATURES ON PAGE FOLLOWING}

IN WITNESS WHEREOF, the parties hereto have caused this Agreement Regarding Rates and Fees to be duly executed and delivered as of July \_\_, 2014, by their respective officers thereunto duly authorized.

TD BANK, N.A.

By: \_\_\_\_\_  
Name:  
Title:

**AGREED TO AND ACCEPTED,  
AS OF JULY \_\_, 2014, BY:**

DISTRICT OF COLUMBIA WATER AND  
SEWER AUTHORITY, an independent  
authority of the District of Columbia

By: \_\_\_\_\_  
Name:  
Title:

57359294\_3

*Signature Page - Agreement Regarding Rates and Fees*

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY  
BOARD OF DIRECTORS CONTRACTOR FACT SHEET**

**ACTION REQUESTED**

**GOODS AND SERVICES CONTRACT MODIFICATION:**

**Human Capital Management/Payroll (HCM/PR) System and Services  
(Joint Use - Indirect)**

Approval to execute a modification for a contract for Human Resource/Payroll System and Services in the amount of \$1,410,905.40.

**CONTRACTOR/SUB/VENDOR INFORMATION**

<b>PRIME:</b> Ceridian Corporation 3311 East Old Shakopee Road Minneapolis, Minnesota 55425-164	<b>SUBS:</b> N/A	<b>PARTICIPATION:</b> N/A
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**DESCRIPTION AND PURPOSE**

Original Contract Value:	\$700,000.00
Original Contract Dates:	09-14-1999—09-13-2002
No. of Option Years in Contract:	2
Option Year (1-2) Values:	\$1,589,102.00
Option Year (1-2) Dates:	12-31-2002—12-31-2008
Contract Modification Value:	\$1,456,506.87
Contract Modification Dates:	01-01-2009—12-31-2014
This Contract Modification Value:	\$1,410,905.40
This Contract Modification Dates:	01-01-2015—12-31-2019

**Purpose of the Contract:**

The purpose of the contract is to provide services for DC Water's Human Capital Management (HCM) and Payroll systems.

**Contract Scope:**

To provide HCM and Payroll payroll processing and tax filing services.  
To provide maintenance and support for the HCM and payroll time and attendance and employee self-service portal services.  
To provide upgrades and product enhancements, training, implementation and consulting services as needed.

**Current Change Order Scope:**

To introduce functional improvements from the legacy system Latitude to Dayforce. This will be an upgrade for recruitment, payroll, benefits applications and self-service.

**Spending Previous Year:**

Cumulative Contract Value: 09-14-1999 to 12-31-2014—\$3,745,608.87

**Contractor's Past Performance:**

The contractor's past performance has been satisfactory.

**Reason for the Change:**

In 2010, a contract extension was exercised. At that time, management indicated that it intended to conduct a strategic review of its Information Technology Systems with a focus on potential systems integration and migration toward an Enterprise Resource Planning (ERP) system. It was stated that the review may influence the HCM/Payroll system used at DC Water. The review had not been completed, thus the recommendation and the approval of the extension was granted.

**PROCUREMENT INFORMATION**

<b>Contract Type:</b>	Fixed Price	<b>Award Based On:</b>	Highest Rated Proposal
<b>Commodity:</b>	Services	<b>Contract Number:</b>	WAS-9079-AA-AB
<b>Contractor Market:</b>	Open Market		

**BUDGET INFORMATION**

<b>Funding:</b>	Operating & Capital	<b>Department:</b>	Controller
<b>Service Area:</b>	DC Water Wide	<b>Department Head:</b>	John Madrid

**ESTIMATED USER SHARE INFORMATION**

User - Operating	Share %	Dollar Amount
District of Columbia	100%	\$ 1,185,905.40
TOTAL ESTIMATED DOLLAR AMOUNT		\$ 1,185,905.40
User - Capital - EH6C701	Share %	Dollar Amount
District of Columbia	100%	\$ 225,000.00
TOTAL ESTIMATED DOLLAR AMOUNT		\$ 225,000.00

  
 Katy Chang Date  
 Acting Director of Procurement

  
 Gail Alexander-Reeves Date  
 Director of Budget

  
 Mark Kim Date  
 Chief Finance Officer

\_\_\_\_\_  
 George S. Hawkins Date  
 General Manager



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

Thursday, July 24, 2014; 11:00 a.m.  
Blue Plains Wastewater Treatment Plant  
5000 Overlook Avenue, SW, DC  
AGENDA

<b>Call to Order</b>	Chairman
<b>June 2014 Financial Report</b>	Budget Director, Treasury & Debt Manager
<b>Agenda for September Committee Meeting</b>	Chairman
<b>Adjournment</b>	Chairman

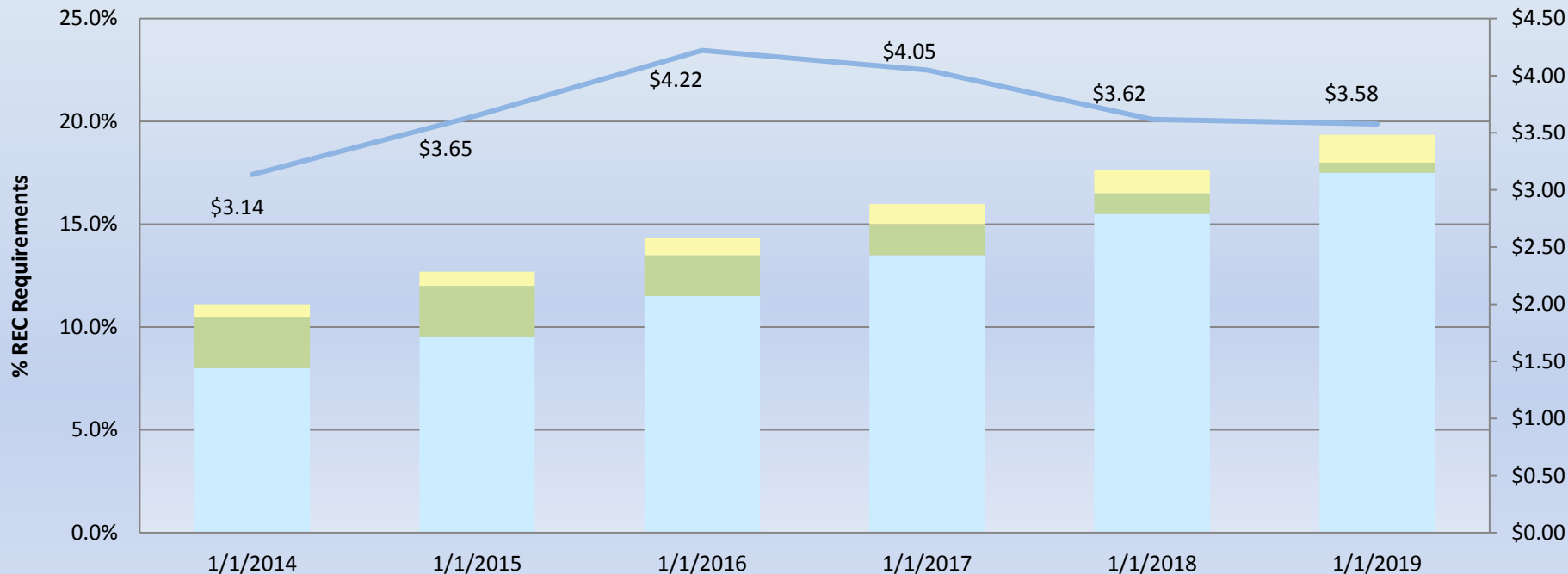
\*Detailed agenda can be found on DC Water's website at [www.dewater.com/about/board\\_agendas.cfm](http://www.dewater.com/about/board_agendas.cfm)



# Renewable Portfolio Standards for the District of Columbia

- Each state has the authority to set its own Renewable Portfolio Standards (RPS). In the District of Columbia, the Public Services Commission (PSC) oversees and enforces compliance with its RPS program, requiring electric suppliers to provide a specified fraction of power from renewable sources.
- A Renewable Energy Credit (REC) represents the property rights to the environmental, social, and other non-power qualities of renewable electricity generation. A REC, and its associated attributes and benefits, can be sold separately from the underlying physical electricity associated with a renewable-based generation source. RECs are used to track ownership and enforce compliance with state RPS programs.
- RECs comprise 4-5% of DC Water's electric expenditure, depending on vintage year. The PSC has defined annual percentage requirements for three classes of RECs: Tier 1, Tier 2 and Solar. Solar can be used to meet Tier 1 or Tier 2 requirements.
- Tier 1 consists of: solar(electric or thermal), wind, biomass, landfill gas, wastewater-treatment gas, geothermal, ocean (mechanical and thermal) and fuel cells fueled by "Tier 1" resources. Solar thermal installations must generally use Solar Rating and Certification Corporation (SRCC) certified components in order to qualify as an eligible resource.
- Tier 2 consists of: hydropower (other than pumped-storage generation) and municipal solid waste. Although it is currently an eligible Tier 2 resource, municipal solid waste incineration may not be used to meet more than 20% of Tier 2 requirement during a given year and beginning in 2013 municipal solid waste will no longer be eligible to generate Tier 2 RECs. After 2019, Tier 2 renewable resources will not be allowed to be applied toward meeting annual RPS requirements. Hydropower (other than pumped-storage generation) and municipal solid waste. Although it is currently an eligible Tier 2 resource, municipal solid waste incineration may not be used to meet more than 20% of Tier 2 requirement during a given year and beginning in 2013 municipal solid waste will no longer be eligible to generate Tier 2 RECs. After 2019, Tier 2 renewable resources will not be allowed to be applied toward meeting annual RPS requirements.
- Solar RECs make up 85-90% of the total REC cost, depending on vintage year.
- In 2017 the Alternative Compliance Penalty ("ACP") begins to ramp down for Solar RECs, causing a corresponding drop in market prices.
- Combination of declining Solar costs and increasing Tier 1 percentage results in relatively flat estimated annual expenditure for RECs in the near term.

### REC Requirements for District of Columbia



	1/1/2014	1/1/2015	1/1/2016	1/1/2017	1/1/2018	1/1/2019
Solar	0.600%	0.700%	0.825%	0.980%	1.150%	1.350%
Tier 2	2.5%	2.5%	2.0%	1.5%	1.0%	0.5%
Tier 1	8.0%	9.5%	11.5%	13.5%	15.5%	17.5%
\$/MWh	\$3.14	\$3.65	\$4.22	\$4.05	\$3.62	\$3.58

	1/1/2014	1/1/2015	1/1/2016	1/1/2017	1/1/2018	1/1/2019
Solar (\$/MWh)	\$487.50	\$487.50	\$475.00	\$375.00	\$275.00	\$225.00
Tier 2 (\$/MWh)	\$2.00	\$2.00	\$2.25	\$2.50	\$2.75	\$3.00
Tier 1 (\$/MWh)	\$2.00	\$2.00	\$2.25	\$2.50	\$2.75	\$3.00
Cal Yr. Est. Total (\$)*	\$817,467	\$958,569	\$1,111,231	\$1,062,890	\$949,056	\$938,886

\*Estimates based on DC Water historical volume. Does not account for potential increase in demand starting 2016