

Approved FY 2021 Budgets

Section VI: CAPITAL FINANCING, CASH AND DEBT



Cambi Digesters



\$ in thousands

DC Water relies on several funding sources to finance its capital projects and cash flow needs. The process of identifying, obtaining, and managing these funds, is a combined effort throughout the Authority. This includes future revenues, collections, grant applications, planning, and debt service management. Below is the list of various funding sources and percentage contribution, to support DC Water’s overall CIP needs.

Approximately 69% percent of DC Water’s Capital Program is funded by debt and pay-go, 19% of the funds is contributed by the wholesale capital payments, and the remaining estimated 12% funds comes from other available funds.

Ten-year Sources of Funds	Amount	Percentage
Debt Financing (1)	\$ 2,400,143	43.6%
Wholesale Capital Payment	1,042,707	18.9%
EPA Grants & CSO Appropriation	158,393	2.9%
Interest Income on Bond Proceeds	29,220	0.5%
Pay-Go Financing (2)	1,393,285	25.3%
Clean Rivers Impervious Area Charge (CRIAC)	406,440	7.4%
System Availability Fee (SAF)	75,075	1.4%
Total	\$ 5,505,263	100%

- 1) Debt financing refers to the borrowing of funds through long-term revenue bonds, commercial paper, and other short-term notes
- 2) Pay-Go financing is any funds available after meeting the reserves and rate stabilization fund deposits



Funds Summary

\$ in thousands

Sources and Uses of Funds

	FY 2019 Actual	FY 2020 Approved	FY 2020 Revised	FY 2021 Approved
Sources				
Beginning Balance	\$ 282,107	\$ 143,688	\$ 72,281	\$ 158,584
New Debt Proceeds / Commercial Paper / EMCP ⁽¹⁾	\$ -	\$ 180,716	\$ 300,000	\$ 300,000
System Availability Fee (SAF)	2,006	5,775	5,775	7,700
Clean Rivers Impervious Area Charge (CRIAC)	29,932	34,769	29,347	35,675
Pay-Go Financing	82,042	69,083	95,231	90,252
EPA Grants	14,175	38,990	32,700	28,464
CSO Appropriation	8,000	-	-	-
Wholesale Customer Capital Contributions	48,636	67,321	71,640	95,205
Interest Income	4,749	3,658	3,831	6,365
Total Sources	\$ 189,541	\$ 400,311	\$ 538,524	\$ 563,661
Uses				
Water Projects	\$ 45,310	\$ 71,721	\$ 62,163	\$ 88,677
Wastewater Treatment	53,127	66,620	77,536	102,976
Sanitary Sewer Treatment	36,224	43,646	44,933	63,926
Combined Sewer & LTCP Projects	221,752	151,427	171,436	157,058
Stormwater Projects	2,210	8,571	6,869	9,631
Non-Process Facilities	8,529	36,002	42,066	31,849
Washington Aqueduct	10,847	15,532	15,515	16,266
Capital Equipment	17,225	17,105	17,105	27,327
Meter Replacement / AMR/ CIS	4,142	9,718	14,598	9,880
Total Uses	\$ 399,366	\$ 420,342	\$ 452,221	\$ 507,590
Ending Balance	\$ 72,281	\$ 123,657	\$ 158,584	\$ 214,655

(1) Commercial Paper and Extendable Municipal Commercial Paper are used for interim financing and capital equipment

Cash Reserve Summary

	FY 2019 Actual	FY 2020 Approved	FY 2020 Revised	FY 2021 Approved
Beg. O&M Reserve Balance (Net of Rate Stabilization Fund)	\$ 166,796	\$ 165,000	\$ 186,764	\$ 180,000
Operating Surplus	\$ 137,554	\$ 101,633	\$ 116,835	\$ 115,046
Wholesale Customer Prior Year Billing Reconciliation	(10,940)	(3,448)	(5,599)	(5,417)
Project Billing Refund	-	(4,000)	(4,000)	(4,000)
Federal Customer Prior Year Billing Reconciliation	(5,753)	1,317	227	2,233
Transfer to CAP Fund	(10,246)	-	-	-
DC Fleet reimbursement	1,719	-	-	-
Transfer to Rate Stabilization Fund	(6,000)	-	(13,000)	-
Interest Earned from Bond Proceeds	618	570	570	410
Pay-Go Capital Financing	(86,982)	(81,071)	(101,797)	(103,272)
Ending O&M Reserve Balance (Net of Rate Stabilization Fund)	\$ 186,764	\$ 180,000	\$ 180,000	\$ 185,000
Rate Stabilization Fund	\$ 61,450	\$ 55,450	\$ 74,450	\$ 71,950

\$ in thousands

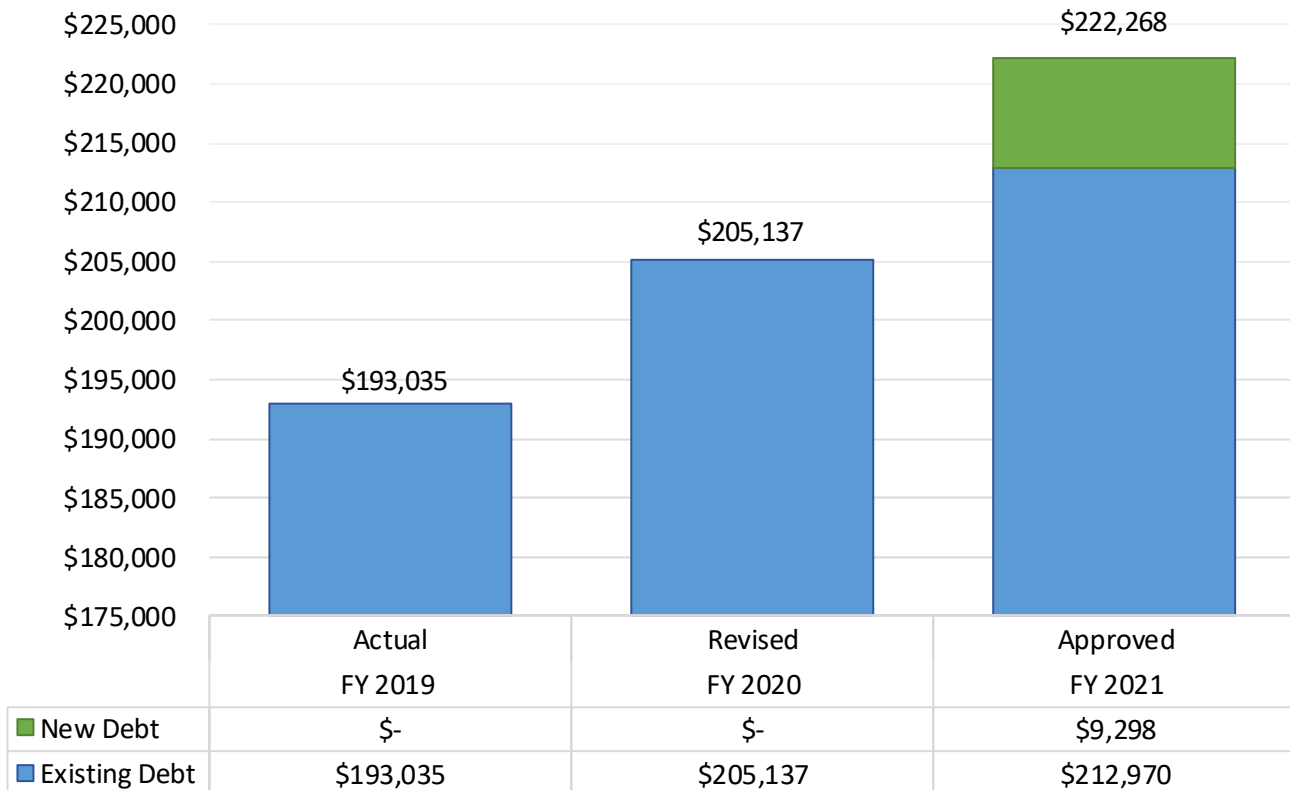
Interest Rate Assumptions

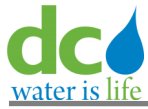
- Budget Appropriation and Financial Plan
 - 1) Variable rate
 - 2.50% in FY 2020 and FY 2021
 - 2) Fixed rate
 - 5.50% in FY 2020 and 5.00% in FY 2021
 - Plus cost of issuance and insurance

Capital Financing Plan

- DC Water will issue debt for two purposes: 1) Finance the costs associated with the CIP and 2.) Re-fund existing debt to obtain Debt Service savings and/or restructure certain terms of existing debt. The key goals of DC Water’s comprehensive capital financing plans are to:
 - 1) Minimize the cost of capital
 - 2) Increase operational flexibility; and
 - 3) Optimize assets/liability matching through Interim Financing, Pay-Go Financing, and Federal Grants.

Debt Management FY 2019 - FY 2021





Debt Service Management

\$ in thousands

The chart below shows debt service payment of principal and interest for a three-year outlook.

Bond Series	FY 2019 Actual	FY 2020 Revised	FY 2021 Approved
Senior Lien			
Series 1998	\$ 23,281	\$ 23,368	\$ 23,365
2014A	16,749	16,849	16,849
2017A&B	16,973	17,845	17,848
2018A&B	18,279	18,324	18,324
Total Senior Lien	\$ 75,282	\$ 76,385	\$ 76,386
Subordinate Lien			
Series 2010A	\$ 10,864	\$ 15,456	\$ 15,564
Series 2012A,B-1,B-2&C	20,923	20,091	20,087
Series 2013A	14,905	-	-
Series 2014B	1,570	2,002	2,498
Series 2014C	17,895	30,302	30,348
Series 2015A&B	19,412	19,423	24,733
Series 2016	28,843	17,039	17,039
Series 2016B	853	858	835
Series 2019A&B	-	6,883	7,625
Series 2019C	-	1,572	1,741
Series 2019D	-	11,320	12,308
EMCP	856	1,500	1,500
Commercial Paper	827	1,500	1,500
Jennings Randolph Bond	805	805	805
Total Subordinate Lien	\$ 117,753	\$ 128,752	\$ 136,583
Proposed Debt Service	\$ -	\$ -	\$ 9,298
Total Debt Service	\$ 193,035	\$ 205,137	\$ 222,268

As of September 2019, DC Water received an upgrade to its Senior bond ratings from AA to AA+ by Fitch Ratings; this allows for a lower borrowing cost which in turn reduces ratepayer cost in the long run.

Senior Bond Ratings		
Standard & Poor's Corporation	AAA	Stable Outlook
Moody's Investor Service	Aa1	Stable Outlook
Fitch's Rating	AA+	Stable Outlook



Debt Service Coverage

\$ in thousands

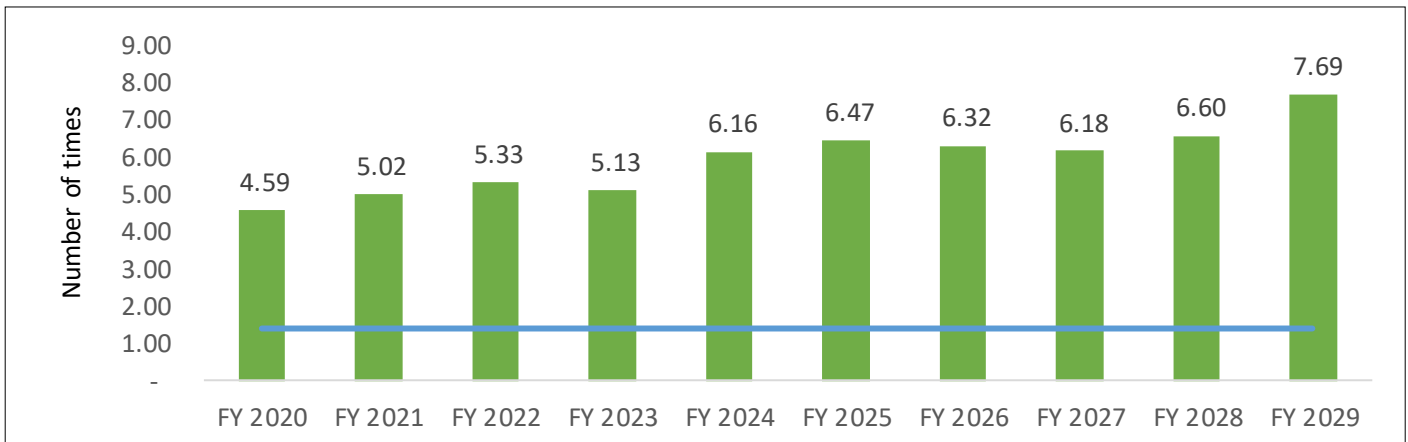
Debt Service Coverage (FY 2020 - FY 2029)

DC Water is authorized to issue additional debt only to the extent that it can satisfy the Debt Service Coverage (annual net revenues as a percent of annual debt service) requirements established in the Indenture and certain Board policies.

Debt level	Master Indenture	Board Resolution	Management Practice
Senior	120x	140x	140x
Subordinate	100x	100x	100x

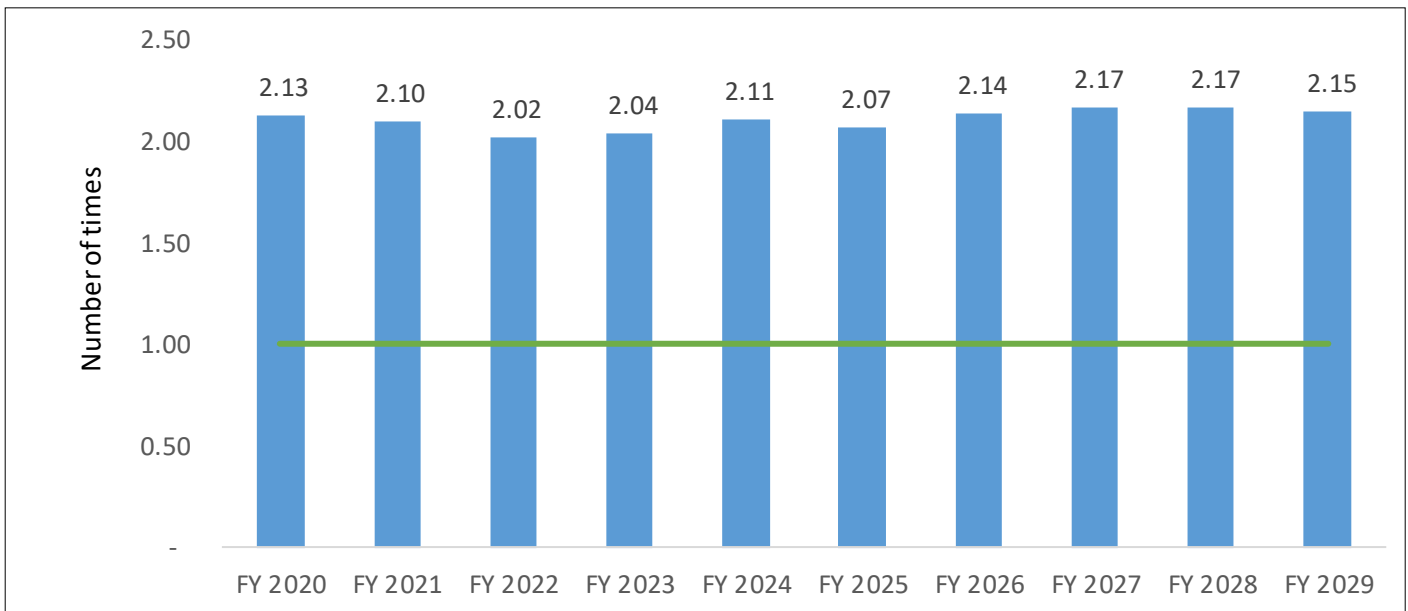
Senior Debt Service Coverage

Senior Debt Service Coverage (Management target = 140x)



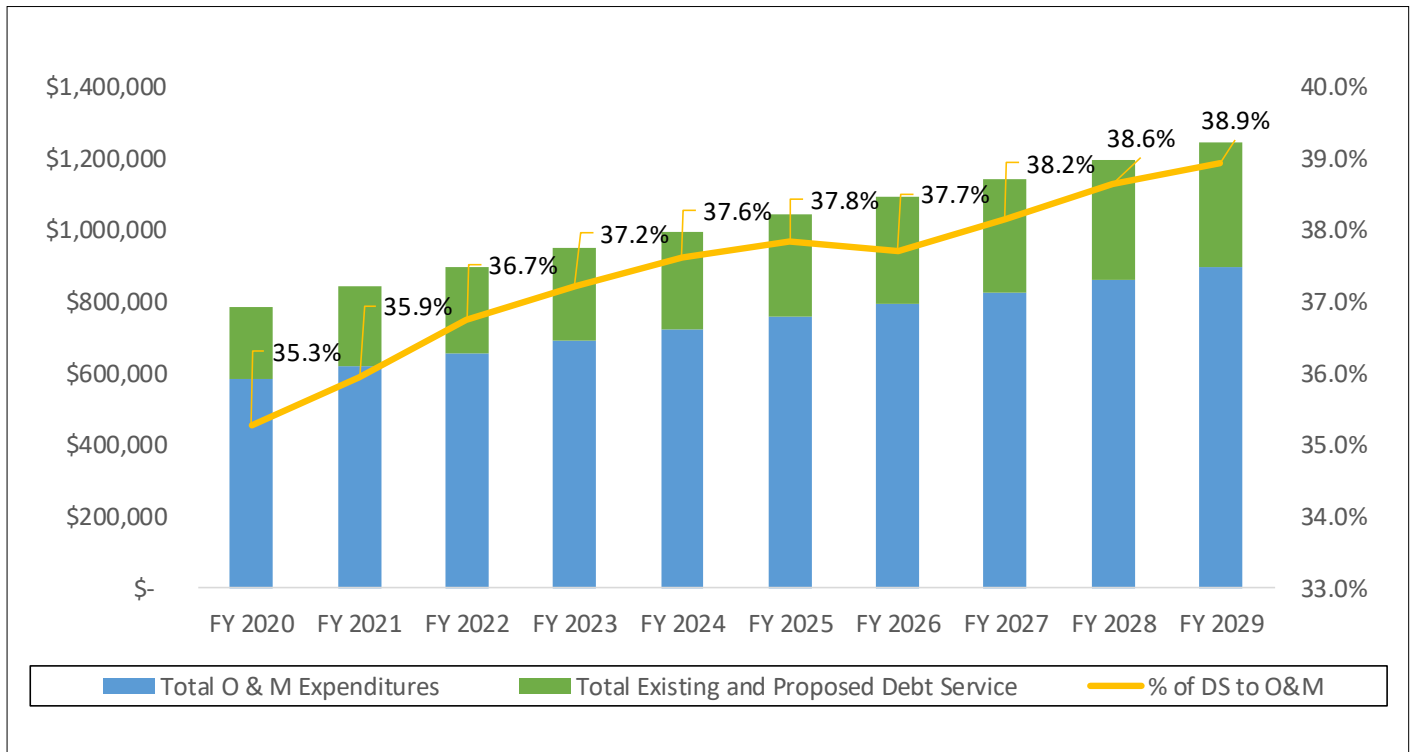
Subordinate Debt Service Coverage

Subordinate Debt Service (Board/Management target = 100x)

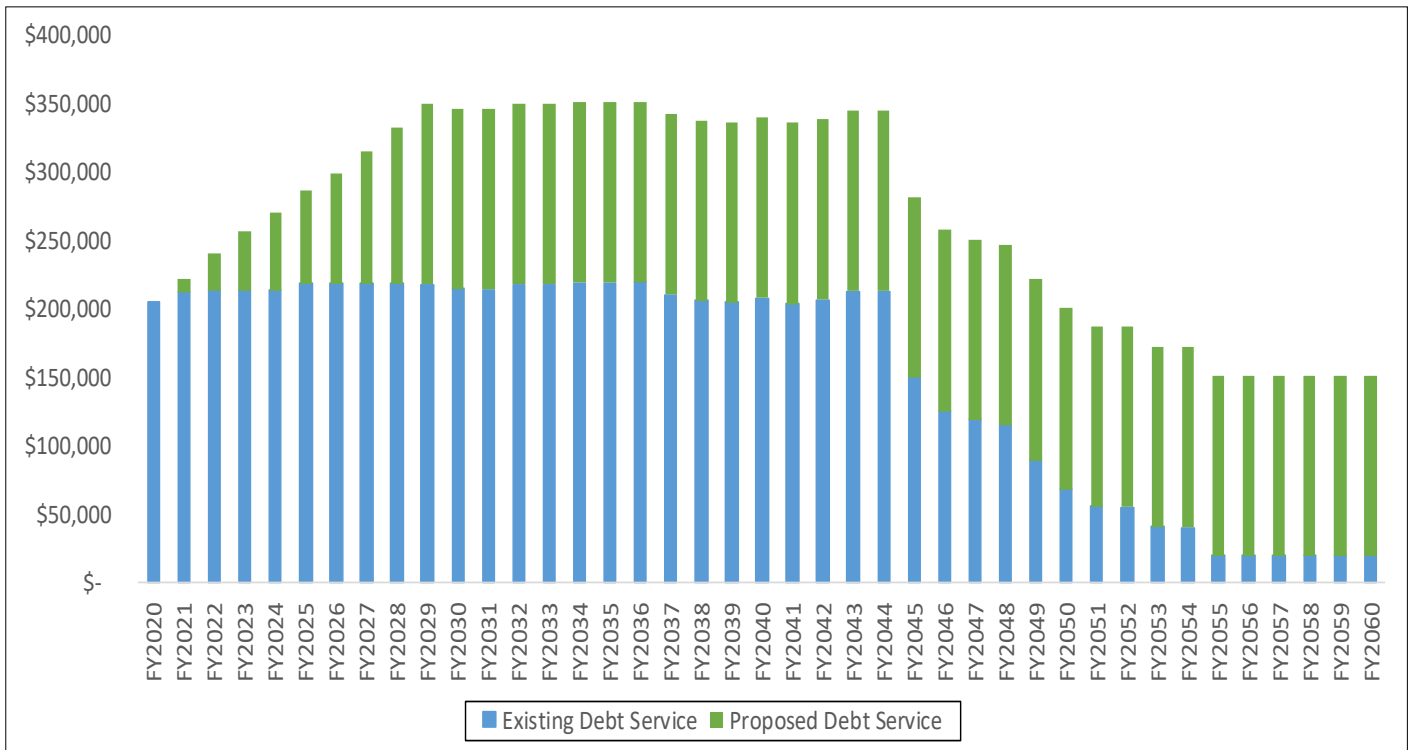


\$ in thousands

Debt Service as Percentage of O&M Expenditures

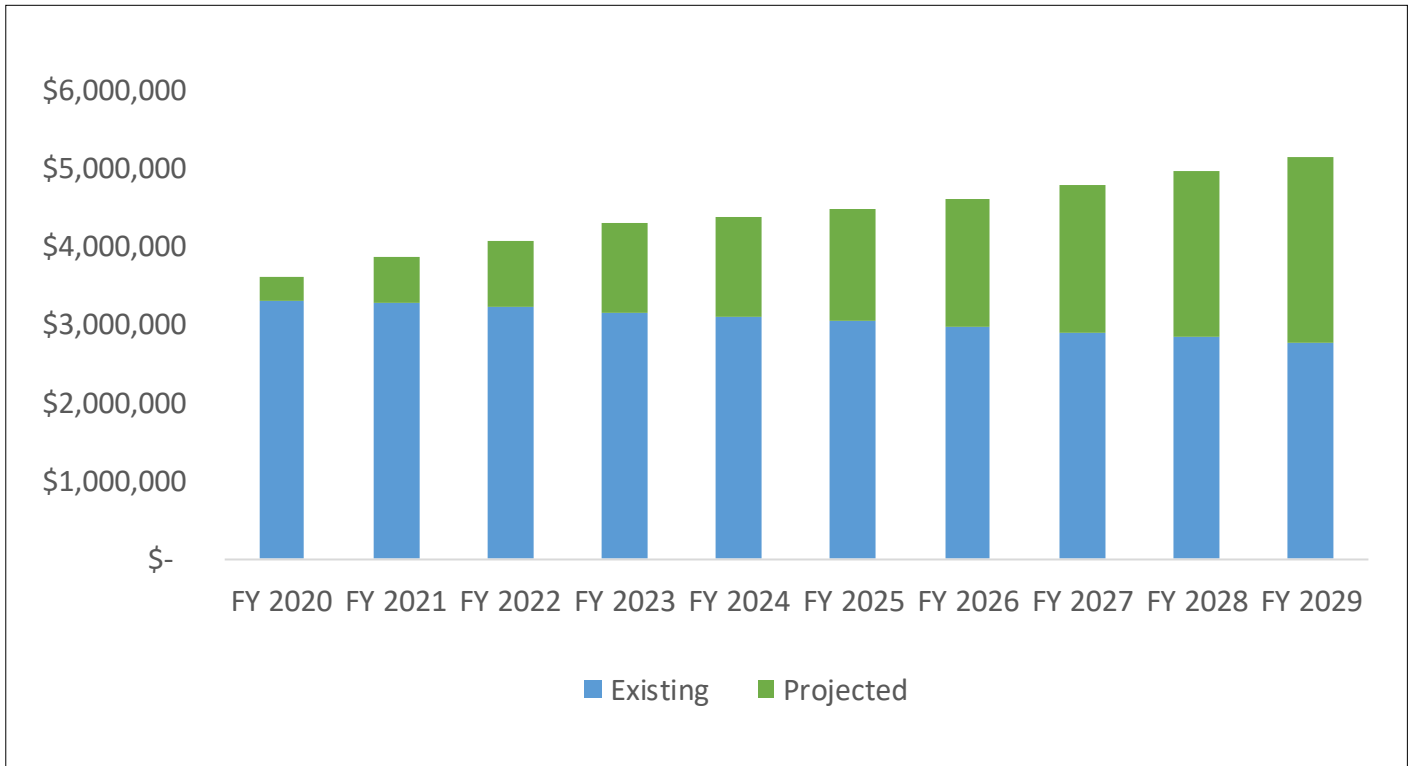


Total Long Term Outstanding & Proposed Debt Service

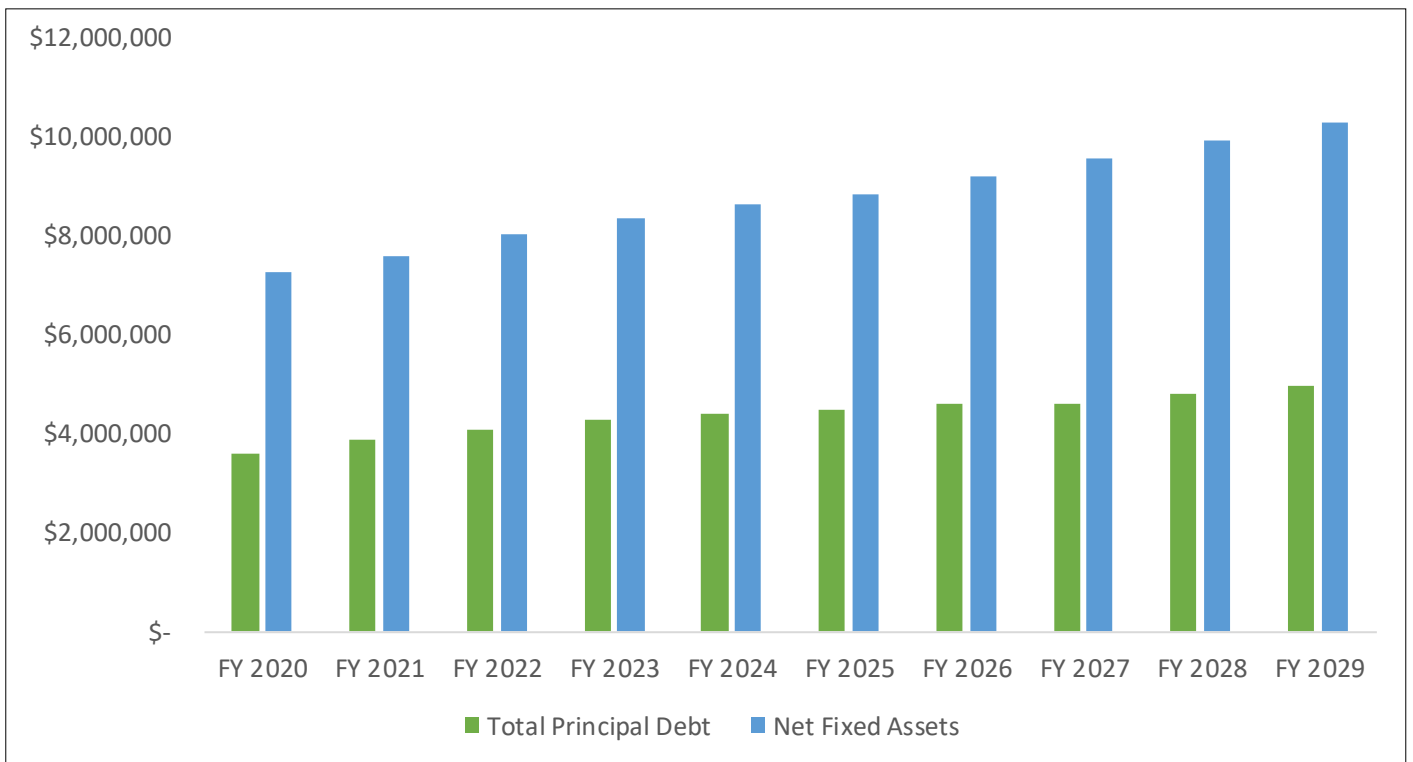


\$ in thousands

Principal Outstanding Debt

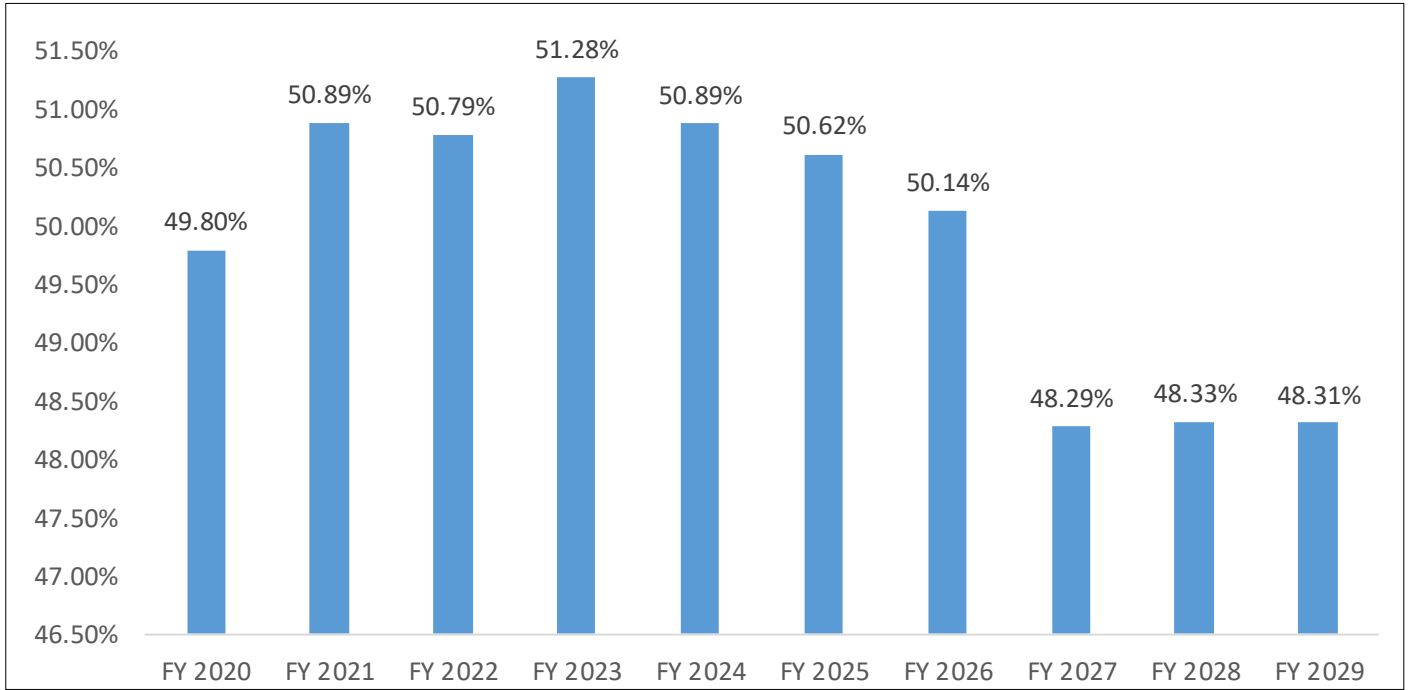


Principal vs Net Fixed Assets



\$ in thousands

Debt to Net Fixed Assets Ratio



DEBT LIMIT: DC Water is not subject to any legal debt limitations. However, prior to any new debt issuance, DC Water must meet an additional bonds test and certify revenue sufficiency

PUBLIC UTILITY SENIOR LIEN REVENUE BONDS: 1) Series 1998 (March 1998); 2) Series 2014A (July 2014); 3) Series 2017A (January 2017); 4) Series 2017B (January 2017); 5) Series 2018A (April 2018); 6) Series 2018B (April 2018)

PUBLIC UTILITY SUBORDINATE LIEN REVENUE BONDS: 1) Series 2012A (March 2012); 2) Series 2013A (July 2013); 3) Series 2014B (July 2014); 4) Series 2013A (July 2013); 5) Series 2014B (July 2014); 6) Series 2015A (October 2015); 7) Series 2015B (October 2015); 8) Series 2016B Environmental Impact Bond (September 2016); 9) Series 2019A (October 2019); 10) Series 2019B (October 2019); 11) Series 2019C (October 2019); and 12) Series 2019D Refunding (October 2019)

PUBLIC UTILITY SUBORDINATE LIEN REVENUE BONDS (FEDERALLY TAXABLE ISSUER SUBSIDY BUILD AMERICA BONDS): 1) Series 2010A (October 2010)

PUBLIC UTILITY SUBORDINATE LIEN REVENUE REFUNDING BONDS: 1) Series 2008A: (refunded Series 2004, Assured Guaranty insured, April 2008); 2) Series C taxable commercial paper: (refunded Series 2007B, April 2008); and 3) Series 2012C: (advance refunded Series 2003, March 2012); 4) Series 2014C: (advanced refunded all or a portion of Series 2007A, 2008A, 2009A, and 2012B, October 2014); 5) Series 2016A: (advanced refunded all or a portion of Series 2007A, 2008A, and 2009A, January 2016)

NOTES FOR JENNINGS RANDOLPH RESERVOIR: The note payable to the Federal government for improvements to the Jennings Randolph Reservoir is considered subordinate debt under the Master Indenture of Trust. The notes were issued to provide a backup water supply facility for the Authority. DC Water's share of operating and capital cost is 30 percent

NOTES FOR LITTLE SENECA RESERVOIR: The note payable to Washington Suburban Sanitary Commission (WSSC) is considered subordinate debt under the Master Indenture of Trust. The notes were issued by WSSC for construction of the Little Seneca Dam and Lake for backup and peak-day water supply for the Authority. DC Water's share of operating and capital costs is 40 percent. DC Water prepaid the note in full in August 2013

COMMERCIAL PAPER (CP): These notes issued are considered subordinate debt under the Master Indenture of Trust. DC Water's commercial paper program is issued in increments with maturities less than 270 days. As described in Section III, the Board approved the commercial paper program in early FY 2002; proceeds from the sale of the notes are used for interim bond financing, short-term financing for capital equipment and certain taxable costs for the Washington Aqueduct. Each new bond issuance is evaluated to determine the most cost-effective way of reducing the amount of taxable commercial paper. Normal market conditions for commercial paper carries significantly lower interest rates than long-term debt. In

May 2020, DC Water authorized the Letter of Credit facility to TD Bank, NA. Additionally, DC Water successfully extended JP Morgan Chase Bank as the authorized dealer and US Bank as the Issuing Paying Agent. The \$150 million commercial paper program includes: (1) Series B (tax-exempt) aggregate principal amount not to exceed \$100 million; and (2) Series C (taxable) aggregate principal amount not to exceed \$50 million

EXTENDABLE MUNICIPAL COMMERCIAL PAPER (EMCP): This program will provide interim financing for a portion of the Authority's Capital Improvement Program. Under this program the notes are issued backed by the liquidity and credit rating of the Authority. Each Series A EMCP Note will mature on its respective "Original Maturity Date", which may range from one to 90 days from the date of issuance, unless its maturity is extended on the "Original Maturity Date" to the "Extended Maturity Date", which will be the date that is 270 days after the date of issuance of the Series A EMCP Note. The notes are payable from and secured by a subordinate lien on the Authority's net revenues, as further described in the Authority's master trust indenture as supplemented. In November 2015, DC Water authorized the dealer for the EMCP program as Goldman, Sachs & Co. The \$100 million extendable municipal commercial paper program includes: (1) Series A (tax-exempt) aggregate principal amount not to exceed \$100 million

DEBT POLICY: DC Water's comprehensive debt policy can be found on our website at www.dewater.com

INVESTOR RELATIONS: DC Water's investor relations can be found via BondLink at www.dewaterbonds.com