



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Board of Directors

Finance and Budget Committee

Thursday, April 24, 2014

11:00 a.m.

1. **Call to Order** Timothy L. Firestine, Chairperson
2. **March 2014 Financial Report (Attachment 1)** Gail Alexander-Reeves and Robert Hunt
 - A. Operating Revenues & Expenditures
 - B. Capital Disbursements Summary
 - C. Cash Reserves & Investments
 - D. **Investment Report**
3. **2014 Plan of Finance Update** Mark Kim
4. **Investment Portfolio Management Update (Attachment 2)** Mark Kim
5. **Investment Policy Revisions (Attachment 3)** Mark Kim, Robert Hunt & PFM
6. **Investment Policy Recommendation (Attachment A)** Mark Kim
7. **Banking Services RFP Recommendation (Attachment B)** Robert Hunt
8. **Action Items** Mark Kim
 - A. **Approval of Revised Investment Policies – (Redlined - Attachment 4A; Clean - Attachment 4B)**
 - B. **Approval of Banking Services Contract (Attachment 5)**
9. **Other Business** Timothy L. Firestine
10. **Agenda for May Committee Meeting (Attachment 6)** Timothy L. Firestine
11. **Executive Session**
12. **Adjournment**

FOLLOW-UP ITEMS – Follow-up Items from the meeting held January 23, 2014.

1. Provide an update on the Rolling Owner Controlled Insurance Program (ROCIP) **(Mr. Firestine)**
Status: *To be discussed at May 22, 2014 Committee meeting.*
2. Quarterly update on Project performance / status, focusing on the increased disbursements in the Wastewater Area—DETS/Wastewater Operations **(Mr. Ortiz)** **Status:** *To be discussed at May 22, 2014 Committee meeting.*
3. Update on the Accounts Receivable balances and collection efforts - Customer Services **Status:** *To be discussed at May 22, 2014 Committee meeting.*



Fiscal Year 2014

Monthly Financial Report

Period Ending March 31, 2014

DEPARTMENT OF FINANCE, ACCOUNTING & BUDGET

Mark Kim, Chief Financial Officer

Gail Alexander-Reeves, Director, Budget

Robert Hunt, Manager, Debt & Treasury

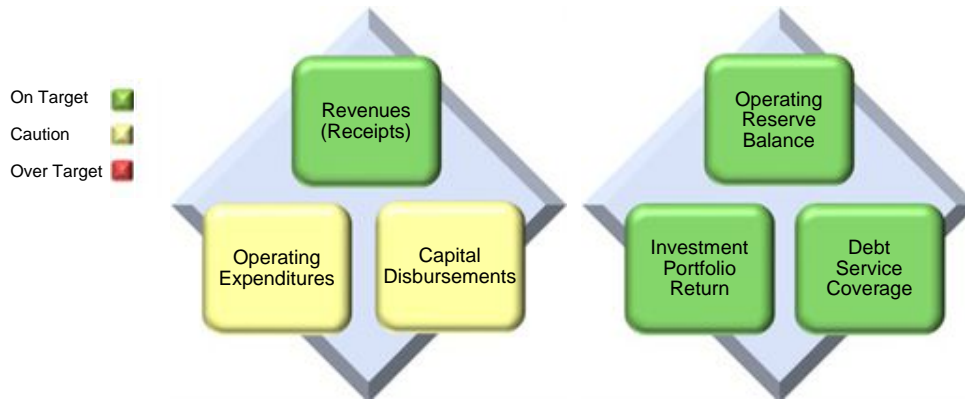
Syed Khalil, Manager, Financial Planning & Revenues

John Madrid, Controller

MARCH 2014

EXECUTIVE SUMMARY

As of the end of March 31, 2014, with 50 percent of the fiscal year completed, we are on track with budgetary expectations and targeted performance metrics.



(\$ in millions)

	Approved Budget	Revised Budget	YTD Budget	YTD Actual	Variance Favorable (Unfavorable)		% Revised Budget
Revenues (Receipts)*	\$477.6	\$467.2	\$233.6	\$233.1	(\$0.5)	(0.2%)	50%
Expenditures*	\$479.5	\$441.7	\$220.9	\$209.9	\$11.0	5.0%	48%
Capital Disbursements	\$557.1	\$557.1	\$322.5	\$319.7	\$2.8	0.9%	57%

* Straight-lined (6/12 of revised budget)

Highlights:

- The FY 2016 Federal Bill is being prepared and must be submitted to federal agencies by April 15, 2014.
- Town Hall meetings started in April. Eight meetings have been scheduled to date.
- Pursuant to the MOU between DC Water and the District regarding snow removal billings, the District has been billed for \$130,662 as of March 2014, and reimbursement is anticipated during the year.
- FY 2015 Rate Proposal to the Apartment and Office Building Association of Metropolitan Washington (AOBA) presentation scheduled for April 30, 2014.
- Electricity continues to trend at historically high prices since January 2014 primarily due to extremely cold weather.
- Staff completing the preliminary FY 2014 Mid-Year projections and anticipate update to the Committee in May 2014.

Mark T. Kim, Chief Financial Officer

Monthly Financial Report

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

Operating Revenues (\$000's)

Category	A	B*	C	D=C/A	E=C-B	F=E/B
	FY 2014	YTD	YTD	YTD %	YTD \$	YTD %
	BUDGET	BUDGET	ACTUAL	BUDGET	Fav/(Unfav)	Fav/(Unfav)
Res. / Comm. / Multi.	\$256,193	\$128,097	\$132,131	51.6%	\$4,034	3.1%
Federal	55,141	27,571	27,878	50.6%	307	1.1%
Municipal (DC Govt.)	9,675	4,838	7,107	73.5%	2,270	46.9%
DC Housing	6,685	3,343	4,601	68.8%	1,259	37.7%
Metering Fee	10,776	5,388	5,634	52.3%	246	4.6%
Wholesale	71,126	35,563	34,759	48.9%	(803)	(2.3%)
PILOT/ROW	25,181	12,590	11,800	46.9%	(791)	(6.3%)
All Other	32,410	16,205	9,173	28.3%	(7,046)	(43.5%)
TOTAL	\$467,187	\$233,593	\$233,082	49.9%	(524)	(0.2%)

* Straight-lined (6/12 of revised budget)

VARIANCE ANALYSIS FOR MAJOR REPORTED ITEMS

At the end of March 2014, cash receipts totaled \$233.1 million, or 49.9 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 \$7.1 million or 73.5 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 for the second quarter total \$34.8 million or 48.9 percent of the revised FY 2014 budget. The YTD \$0.8 million shortfall is due to non-receipt of payment from some of the Potomac Interceptor customers.

Other Revenue – Receipts are lower than the straight-lined budget at \$9.1 million or 28.3 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 March 31, 2014

Operating Expenditures (\$000's)

Category	A	B*	C	D=C/A	E=B-C	F=E/B
	FY 2014 BUDGET	YTD BUDGET	YTD ACTUAL	YTD % BUDGET	YTD \$ Fav/(Unfav)	YTD % Fav/(Unfav)
Personnel	\$119,765	\$59,883	\$61,561	51.4%	(\$1,678)	(2.8%)
Contractual Services	76,044	38,022	32,907	43.3%	5,115	13.5%
Water Purchases	27,991	13,996	12,603	45.0%	1,393	10.0%
Supplies & Chemicals	30,909	15,454	13,318	43.1%	2,136	13.8%
Utilities	30,715	15,357	18,081	58.9%	(2,724)	(17.7%)
Small Equipment	993	496	274	27.6%	222	44.8%
SUBTOTAL O&M	\$286,416	\$143,208	\$138,744	48.4%	\$4,464	3.1%
Debt Service	130,120	65,060	58,575	45.0%	6,485	10.0%
PILOT/ROW	25,181	12,591	12,591	50.0%	(1)	(0.0%)
TOTAL OPERATING	\$441,717	\$220,859	\$209,910	47.5%	\$10,949	5.0%
Capital Labor	(12,960)	(6,480)	(7,807)	60.2%	1,327	(20.5%)
TOTAL NET OPERATING	\$428,757	\$214,379	\$202,102	47.1%	\$12,277	5.7%

* Straight-lined (6/12 of revised budget)

VARIANCE ANALYSIS FOR MAJOR REPORTED ITEMS

At the end of March 2014, with 50 percent of the fiscal year completed, operating expenditures are at 47.5 percent of the revised budget. These numbers include estimated, incurred but unpaid, invoices and are subject to revision in subsequent reports.

Personnel Services – Higher expenditures are in line with expectation and attributable to the impact of wage increases and overtime costs. Year-to-date overtime expenditures total \$4.0 million or 9.5 percent of regular pay. Primary drivers of overtime include: increased after hours work requests due to equipment failures, short-staffing due to retirements in the maintenance services department, and higher water main breaks due to extreme cold temperatures. Staff will continue to monitor this category closely throughout the fiscal year. At the end of March, 1,076 positions were filled and 184 authorized positions were vacant. The year-to-date spending on capital labor charges are consistent with expectations and prior-year trend.

Supplies and Chemicals – Under spending 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.

Under-spending in chemicals is primarily driven by lower costs due to lower pricing and dosage. Expenditures are expected to increase for the remainder of the fiscal year due to anticipated increases in chemical contract prices at the Plant, coupled with increased dosage for the new processes coming online and odor abatement needs during the summer months.

Utilities – As a result of uncharacteristic electric price hikes for December 2013 through March 2014, we experienced exorbitant prices which significantly increased our electricity expenditures for the past two months. The tunnel boring machine project also slightly increased the Authority's electricity consumption during this period. Additional information is provided in the Appendix on page 12.

Payment in Lieu of Taxes – Payments and accrued expenses totaled \$10.0 million, actual payment differs due to previous Board direction to freeze PILOT at the FY 2007 level.

Right of Way – With the expiration of the MOU in September 2013, DC Water continues to collect and retain the ROW fees pending the execution of a new MOU with the District.

Monthly Financial Report

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

Capital Disbursements (\$000's)

Service Area	A	B	C	D = C/A	E = B - C	F = E/B
	FY 2014 BUDGET	YTD BUDGET	YTD ACTUAL	YTD % BUDGET	YTD \$ Fav/(Unfav)	YTD % Fav/(Unfav)
Wastewater	\$268,192	\$174,094	\$189,889	70.8%	(\$15,796)	(9.1%)
Sewer	29,818	14,831	11,655	39.1%	3,175	21.4%
Combined Sewer Overflow	166,509	92,058	82,987	49.8%	9,071	9.9%
Stormwater	2,843	1,610	674	23.7%	935	58.1%
Water	63,136	26,553	25,587	40.5%	966	3.6%
Washington Aqueduct	10,000	5,000	2,970	29.7%	2,030	40.6%
Capital Equipment	16,627	8,313	5,919	35.6%	2,395	28.8%
TOTAL	\$557,125	\$322,459	\$319,681	57.4%	\$2,778	0.9%

VARIANCE ANALYSIS FOR MAJOR REPORTED ITEMS

At the end of March 2014, the YTD spending variance is favorable by \$2.8 million or 0.9 percent with majority of the over spending occurring in Wastewater Treatment. Actual disbursements for the month of March 2014, totaled \$37.6 million.

Wastewater - Increased spending in Plant-wide projects are primarily due to the construction and completion of the new Warehouse/Visitor Center/Security Facility, security services (construction patrol) at Blue Plains, and construction services to upgrade the Central Laboratory Facility. Additional spending is attributed to the Enhanced Nitrogen Removal Program for the upgrades to the aeration system in the Secondary Treatment Facility (ENR-North) to optimize the nitrogen removal process.

Combined Sewer Overflow – Spending is slightly favorable primarily due to the Blue Plains Tunnel project progressing according to schedule, completing the Anacostia River Tunnel mobilization and drop shaft, and the estimates for the design work on Poplar Point Pumping Station being less than anticipated.

Washington Aqueduct - Significant delays in undertaking capital expenditures were primarily due to high levels of vacant positions. In-house personnel are required to supervise contractual activities. As positions are filled, we expect to see increased spending in the remainder of the fiscal year.

Capital Equipment - The increased spending in infrastructure upgrades for Information Technology is offset primarily by reduced spending from the new procurement process for capital equipment, and delivery for the new skimmer boat and emergency vehicles.

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

Cash and Investments (\$ in millions)

Cash Balances

Rate Stabilization Fund Account (RSF)	\$28.9
DC PILOT Fund	22.4
DC ROW Fund	2.6
Operating Reserve Accounts	<u>148.1</u>
Operating Cash Balance Including RSF	\$202.0
Debt Service Reserve - Series 1998	23.5
Bond Fund - Series 2010 (Cap. Int.)	1.4
Bond Fund - Series 2012 (Cap. Int.)	1.8
Bond Construction Fund - Series 2013	124.0
CSO LTCP Appropriations Account	<u>28.0</u>
Total All Funds	\$380.7

OVERALL PORTFOLIO PERFORMANCE

- Operating reserve balance was \$148.1 million as compared to the FY 2014 operating reserve level objective of \$125.5 million.
- Average cash balance for the month of March was \$175.5 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 March (on a cash basis) was \$25,991; total year-to-date is \$228,966 as compared to the budget of \$380,527 for the year.
- A detailed investment performance report is attached.

INSURANCE POLICY RENEWAL UPDATE

The Authority is on track to renew its Property & Equipment, Excess Auto/General Liability, Workers’ Compensation, Public Officials’ Liability, Crime and Fiduciary insurance coverages effective July 1, 2014. We have completed the process of preparing documents and data for renewal submissions.

ROLLING OWNER CONTROLLED INSURANCE PROGRAM (ROCIP) UPDATE

We have successfully completed 53 months (88.33%) of the ROCIP 2 program and 17 months (28.33%) of ROCIP 3. There are currently 21 open projects with 249 active contractors in ROCIP 2 and 15 open projects with 89 active contractors in ROCIP 3.

Monthly Financial Report

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

Cash Flow Summary (\$000's)

	Annual Budget Cash Basis	YTD 50% Cash Budget	YTD Actual Cash Oct. 1, 2013 - Mar. 31, 2014	Variance Favorable (Unfavorable)	
OPERATING BUDGET					
Cash Provided					
Retail	\$338,470	\$169,235	\$177,350	\$8,115	5%
Wholesale	71,126	\$35,563	34,759	(803)	-2%
Other	50,972	\$25,486	20,836	(4,650)	-18%
Transfer from Rate Stabilization Fund	6,500	\$3,250		(3,250)	-100%
Total Cash Provided	467,067	233,534	232,946	(588)	0%
Operating Cash Used					
Personnel Services	106,805	53,403	58,251	(4,848)	-9%
Contractual Services	76,043	38,022	31,737	6,284	17%
Chemicals & Supplies	30,909	15,455	17,194	(1,739)	-11%
Utilities	30,714	15,357	14,256	1,101	7%
Water Purchases	27,991	13,996	13,251	744	5%
Small Equipment	993	497	516	(19)	-4%
Total Operating Cash Used	273,455	136,728	135,205	1,523	1%
Other Cash Used					
Debt Service	130,120	65,060	58,575	6,485	10%
Payment In Lieu of Taxes/Right of Way	25,181	12,590	6,207	6,383	51%
Total Other Cash Used	155,301	77,650	64,782	12,869	17%
Total Cash Used	428,756	214,378	199,987	14,391	7%
Net Cash Provided (Used) by Operating Act.	38,311	19,156	32,959	13,803	
CAPITAL BUDGET					
Cash Provided					
Debt Proceeds	316,861	158,431	158,506	75	0%
EPA Grants	19,541	9,771	10,011	241	2%
CSO Grants	21,141	10,571	8,857	(1,713)	-16%
Interest Income	159	80	103	23	29%
Wholesale Capital Contributions	175,673	87,837	125,417	37,581	43%
Total Cash Provided	533,376	266,688	302,895	36,207	14%
Cash Used					
DC Water Capital Program	547,125	273,563	316,711	(43,149)	-16%
Washington Aqueduct Projects	10,000	5,000	2,970	2,030	41%
Total Cash Used	557,125	278,563	319,681	(41,118)	-15%
Net Cash/PAYGO Provided (Used) by Cap. Act.	(23,749)	(11,874)	(16,786)	(4,912)	
Beginning Balance, October 1 (Net of Rate Stab. Fund) Projected					
Plus (Less) Operating Surplus	141,518		141,518		
Wholesale Customer Refunds from Prior Years	38,311	19,156	32,959		
Interest Earned From Bond Reserve	(9,700)	(4,850)	(4,138)		
Transfer to Rate Stabilization Fund		60	137		
Prior Year Federal Billing Reconciliation		(3,000)	(3,000)		
Transfer to Right of Way (ROW) Reserve	(6,000)	(3,000)	(2,550)		
Cash Used for Capital	(23,749)	(11,874)	(16,786)		
Balance Attributable to O&M Reserve	\$140,500		\$148,140		
OTHER CASH RESERVES					
Rate Stabilization Fund			Current Balance		
DC PILOT Reserve Fund	\$28,950		\$28,950		
Right of Way Reserve Fund	\$22,385		\$22,385		
	\$2,550		\$2,550		
CSO Long-Term Control Plan Appropriation	\$28,034		\$28,034		

Monthly Financial Report

APPENDIX

Operating Revenues Detail.....	9
Retail Accounts Receivable	10
Overtime by Department	11
Operating Expenditures Detail – Electricity	12
Capital Disbursements Detail	13
Accounts Payable	14
Grants Report.....	15
Investment Report	16

Monthly Financial Report

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

Operating Revenues Detail

(\$ in millions)

Revenue Category	Budget	YTD Budget	YTD Actual	Variance Favorable / (Unfavorable)	Actual % of Budget
Residential, Commercial, and Multi-family	\$256.2	\$128.1	\$132.1	\$4.0	51.6%
Federal	55.1	27.6	27.9	0.3	50.6%
District Government	9.7	4.9	7.1	2.3	73.5%
DC Housing Authority	6.7	3.4	4.6	1.3	68.8%
Customer Metering Fee	10.8	5.4	5.6	0.2	52.3%
Wholesale	71.1	35.6	34.8	(0.8)	48.9%
Right-of-Way Fee/PILOT	25.2	12.6	11.8	(0.8)	46.9%
Subtotal (before Other Revenues)	\$434.8	\$217.4	\$223.9	\$6.5	51.5%
Other Revenue without RSF					
IMA Indirect Cost Reimb. For Capital Projects	8.6	4.3	0.0	(4.3)	0.0%
DC Fire Protection Fee	6.9	3.5	3.4	(0.0)	49.9%
Stormwater (MS4)	1.0	0.5	0.4	(0.1)	40.0%
Interest	0.5	0.3	0.4	0.1	72.9%
Developer Fees (Water & Sewer)	6.0	3.0	3.3	0.3	54.2%
Others	2.9	1.5	1.7	0.2	57.4%
Subtotal	\$25.9	\$13.0	\$9.1	(\$3.8)	35.2%
Rate Stabilization Fund Transfer	\$6.5	\$3.3	\$0.0	(\$3.3)	0.0%
Other Revenue Subtotal	\$32.4	\$16.2	\$9.1	(\$7.0)	28.3%
Grand Total	\$467.2	\$233.6	\$233.1	(\$0.5)	49.9%

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

Customer Category	Water	Sewer	Clean Rivers IAC	Metering Fee	Total
Residential	15,237	18,547	7,775	2,517	44,076
Commercial	24,137	24,773	10,054	1,709	60,672
Multi-family	13,116	15,648	2,845	593	32,201
Federal	10,806	10,258	6,814	446	28,323
District Govt	2,063	2,521	2,523	300	7,407
DC Housing Authority	1,921	2,319	361	69	4,671
Total:	67,279	74,066	30,372	5,634	177,350

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 March 31, 2014

Retail Accounts Receivable (Delinquent Accounts)

The following tables show retail accounts receivable over 90 days including a breakdown by customer class as of March 31, 2014.

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

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

The increase in Accounts Receivable balances is attributed to stoppage of all collection efforts during Federal Government shut-down. Historically during winter months, DC Water does not disconnect service, which results in increase in accounts receivable.

Greater Than 90 Days by Customer

	Number of Accounts			Month of March (All Categories)				Total Delinquent				
				Active		Inactive		a/c Feb.		a/c Mar.		
	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	Amount (\$)	No. of a/c	Amount (\$)	%
Commercial	12,002	3,335	15,337	1,296	1,350,699	146	106,735	1,455	1,185,271	1,442	1,457,434	25%
Multi-family	7,364	426	7,790	776	1,329,170	140	252,782	929	1,581,378	916	1,581,951	29%
Single-Family Residential	104,712	3,150	107,862	8,423	2,063,126	2,092	620,805	10,868	2,782,376	10,515	2,683,932	47%
Total	124,078	6,911	130,989	10,495	4,742,995	2,378	980,322	13,252	5,549,024	12,873	5,723,317	100%

Notes: Included in the above \$4.74m (or 10,495 accounts) of the DC Water Over 90 days delinquent accounts, \$1,062,205.66 (or 2,239 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 March 31, 2014

Overtime by Department

Department	FY 2014			
	Budget	YTD Actual	YTD % of Budget	% of Regular Pay
Office of the Board Secretary	\$4,000	\$116	2.9%	0.2%
General Manager	10,000	1,007	10.1%	0.2%
General Counsel	2,000	0	0.0%	0.0%
External Affairs	4,000	185	4.6%	0.0%
Internal Audit	0	0	0.0%	0.0%
Information Technology	20,000	9,078	45.4%	1.1%
Procurement	30,000	43,330	144.4%	3.5%
Customer Service	240,000	112,733	47.0%	3.0%
Finance, Accounting & Budget	30,000	14,193	47.3%	0.6%
Risk Management	1,000	0	0.0%	0.0%
Assistant General Manager - Support Services	1,000	0	0.0%	0.0%
Human Capital Management	5,000	1,108	22.2%	0.1%
Occupational Safety and Health	2,000	65	3.2%	0.0%
Facilities Management and Security	200,000	194,231	97.1%	10.2%
Water/Sewer Pump Maintenance	200,000	45,895	22.9%	3.2%
Engineering and Technical Services	780,000	565,139	72.5%	7.5%
Water Services	980,000	841,353	85.9%	15.4%
Clean Rivers	5,000	481	9.6%	0.3%
Sewer Services	900,000	802,449	89.2%	16.7%
Wastewater Treatment - Operations	1,108,100	684,881	61.8%	16.4%
Wastewater Treatment - Process Engineering	100,000	49,630	49.6%	5.2%
Maintenance Services	725,000	646,954	89.2%	18.7%
Permit Operations	11,000	1,440	13.1%	0.3%
Fleet Management	1,000	965	96.5%	0.4%
Total DC WATER	\$5,359,100	\$4,015,235	74.9%	9.5%

Notes:

- FY 2014 year-to-date actual includes accrual for 9 days (3/23/14 - 3/31/14)
- Engineering and Technical Services includes overtime charged 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 March 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 \$85.31/mWh.

Electricity market conditions for the months of January through March reached record prices primarily due to extreme weather conditions coupled with slight increased usage by the tunnel boring project. The PJM Independent System Operator released analysis stating that in its 87 year history, it experienced 8 of the 10 peak demands on the grid in January and February. These factors contributed to low natural gas storage levels and energy market instability.

There are currently no block purchases for electricity as prices are relatively high. In line with the adopted electricity purchase strategy, staff continues to monitor the futures market with intent to purchase additional electric loads for FY 2014 and through FY 2015, if market conditions are appropriate and in line with budget assumptions. Staff met with the new electric service provider ConEdison Solutions, and will be reviewing long-term hedging strategies to ensure cost certainty and minimize price volatility for DC Water.

As indicated in the chart below, DC Water's average year-to-date actual price is only slightly lower than the spot market price but higher than the S.O.S. price primarily due to the aforementioned 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 ¹	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	95.11	115.47	115.47	1,885	3,882	(1,997)
Mar-14	94.77	76.17	76.17	1,964	3,226	(1,262)
YTD Average	\$95.98	\$106.10	\$100.72	\$11,086	\$14,314	-\$3,228
				Remainder	\$11,740	
				Total Budget	\$22,826	

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

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

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

Service Areas	Disbursements Budget		Actual Disbursements			% of Disbursements Budget	Commitments
	Annual	YTD	Oct.- Feb. 2014	March 2014	YTD	Annual	
Wastewater Treatment							
Liquid Processing Projects	\$18,072	\$10,495	\$16,193	\$2,765	\$18,958	105%	\$33,869
Plantwide Projects	18,782	10,937	21,973	2,218	24,191	129%	67,731
Solids Processing Projects	138,222	97,131	73,121	16,659	89,781	65%	123,749
Enhanced Nitrogen Removal Facilities	93,116	55,530	51,666	\$5,293	56,959	61%	321,052
Total Wastewater Treatment	268,192	174,094	162,953	26,936	189,889	71%	546,400
Sanitary Sewer							
Sanitary Collection Sewers	1,478	467	466	229	695	47%	1,859
Sanitary On-Going Projects	9,653	5,891	4,134	308	4,442	46%	6,116
Sanitary Pumping Facilities	957	532	321.23	-	321	34%	17
Sanitary Sewer Program Management	4,814	2,575	2,792	638	3,429	71%	9,229
Sanitary Interceptor/Trunk Force Sewers	12,916	5,366	2,543	225	2,768	21%	10,253
Total Sanitary Sewer	29,818	14,831	10,256	1,400	11,655	39%	27,474
Combined Sewer Overflow							
CSO Program Management	2,280	1,233	1,828	356	2,184	96%	7,025
Combined Sewer Projects	11,904	7,211	5,311	205	5,516	46%	14,337
D.C. Clean Rivers Project	152,325	83,615	70,887	4,399	75,286	49%	676,625
Total Combined Sewer Overflow	166,509	92,058	78,027	4,960	82,987	50%	697,987
Stormwater							
Stormwater Local Drainage	122	82	6	3	10	8%	1,514
Stormwater On-Going Program	446	319	461	-	461	103%	304
Stormwater Pumping Facilities	-	-	-	-	-	0%	-
DDOT Stormwater Program	-	0	-	-	-	0%	-
Stormwater Research and Program Management	436	206	77	20	97	22%	537
Stormwater Trunk/Force Sewers	1,839	1,003	100	7	107	6%	553
Total Stormwater	2,843	1,610	645	30	674	24%	2,908
Water							
Water Distribution Systems	31,493	14,073	9,997	1,938	11,935	38%	42,363
Water On-Going Projects	8,770	4,045	1,848	214	2,062	24%	5,763
Water Pumping Facilities	3,710	1,609	3,405	27	3,432	93%	13,090
DDOT Water Projects	4,869	2,668	1,238	80	1,318	27%	7,274
Water Storage Facilities	2,173	791	969	31	1,000	46%	889
Water Projects Program Management	3,565	1,768	3,556	-	3,556	100%	5,006
Water Lead Program	2,823	1,599	1,331	359	1,689	60%	4,482
AMR Installation / Replacement	5,733	-	595	-	595	10%	-
Total Water	63,136	26,553	22,939	2,648	25,587	41%	78,867
Washington Aqueduct	10,000	5,000	2,970	-	2,970	30%	-
Capital Equipment	16,627	8,313	4,247	1,671	5,919	36%	6,890
Total Capital Projects	\$557,125	\$322,459	\$282,035	\$37,645	\$319,681	57%	\$1,360,525

Monthly Financial Report

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

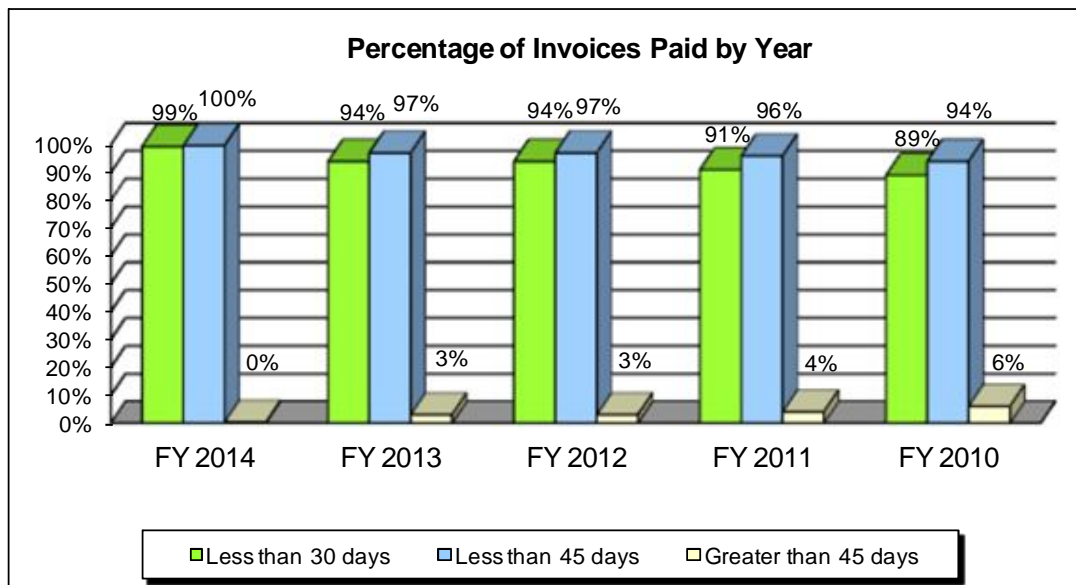
Accounts Payable

During the first six months of FY 2014, 8,909 vendor payments were processed and paid compared to 5,511 in FY 2013 (as shown in the table below) and with a dollar value of \$390.4 million compared to \$274.8 million for FY 2013.

For FY 2014, approximately 99.2% percent of the invoices, less retainage and disputes were paid within 30 days compared to 94.4% paid within 30 days during FY 2013. The percentages for January, February and March 2014 were 98.9%, 98.4% and 99.7% respectively. The Authority’s goal is to pay 97 percent of all undisputed invoices within 30 days.

Comparative Accounts Payable Performance				
Days	FY 2014		FY 2013	
	Number	Percent	Number	Percent
Less than 30	8,476	99.2%	4,965	94.3%
Less than 45	8,510	99.6%	5,126	97.4%
Greater than 45	31	0.4%	137	2.6%
Subtotal	8,541	100.0%	5,263	100.0%
Retainage/Disputes	368		248	
Total	8,909		5,511	

The chart below shows historical performance from fiscal year 2010 to fiscal year 2014.

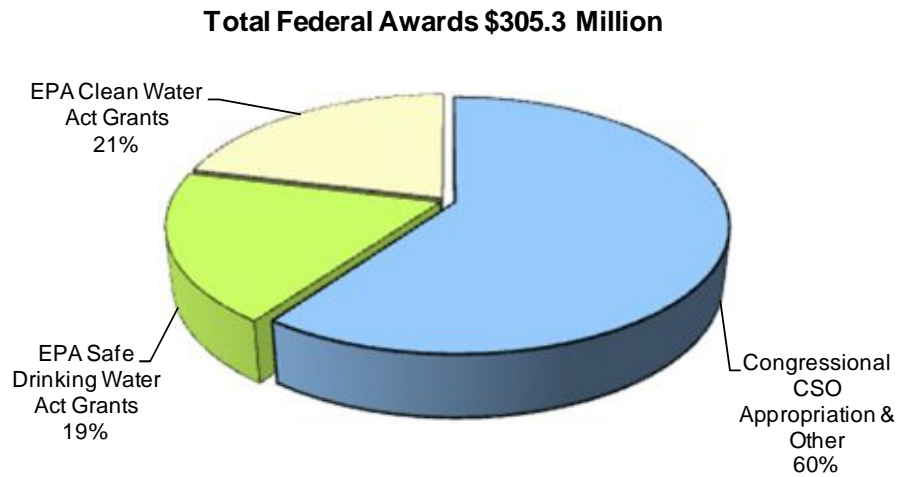


Fiscal Year-to-Date
As of March 31, 2014

Grants Report

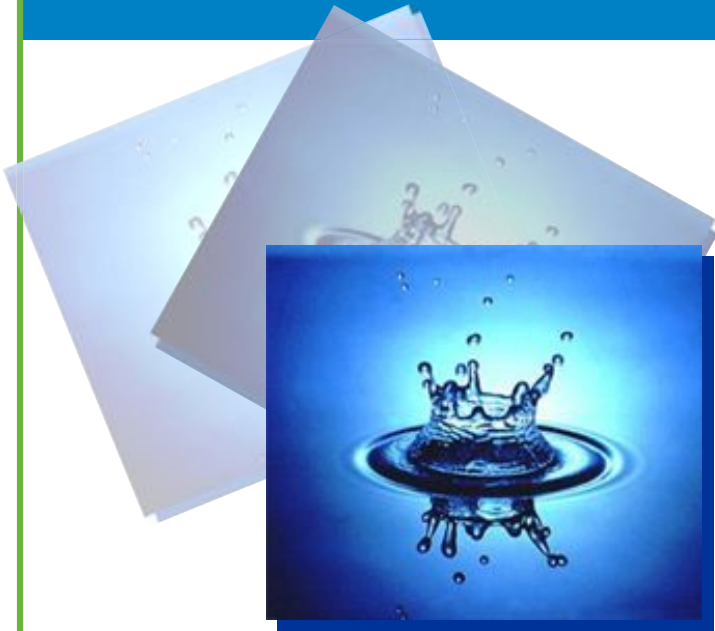
The Authority receives grants to fund a portion of its capital costs from the U.S. Environmental Protection Agency (EPA) under two acts, the Clean Water Act of 1972 and the Safe Drinking Water Act of 1974. DC Water also receives a limited amount of EPA grant funding for certain operating functions. Additionally, we have now received fourteen Congressional CSO appropriations (including \$14.2 million) received on May 15, 2013.

As of March 31, 2014, including the CSO appropriation, DC Water has a total of \$305.3 million awarded in federal funds for active projects. The decline in EPA funding was due to the closing of nine grants during FY 2013.



EPA’s allocation for the District is \$6.8 million in Clean Water funding and \$8.8 million in Safe Drinking Water funding for FY 2014.

The cumulative federal appropriation for CSO increased to \$182.8 million with the additional appropriation of \$14.2 million on May 15, 2013. The cumulative life-to-date cash disbursement for the CSO appropriation is \$167.0 million through December 31, 2013. Based on the projected FY 2014 and FY 2015 capital spending on the Clean Rivers’ projects and no additional funding, all remaining CSO funds are projected to be depleted before the end of FY 2015.



DC Water

Investment Performance Report – March 2014



DC Water
Finance Division
Economic Update

ECONOMIC COMMENTARY

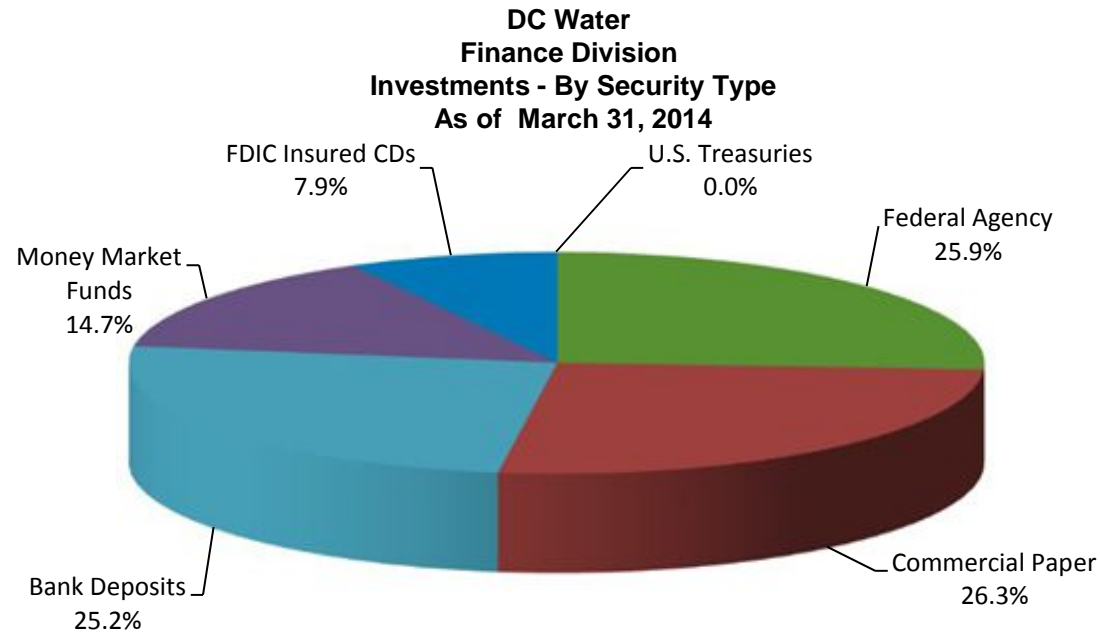
- The final revision of 4th quarter Gross Domestic Product (“GDP”) showed the economy growing at a 2.6% annualized pace.
- Nonfarm payrolls increased by 192,000 jobs in March, slightly below expectations. The unemployment rate held steady at 6.7%.
- With the unemployment rate nearing the 6 ½% guidance the Federal Reserve has set, the language was replaced with a timeline that referenced the end of the asset purchase program.
- At the March FOMC meeting, the pace of asset purchases was tapered by an additional \$10 billion. The Federal Reserve is still currently buying \$55 billion of U.S. Treasuries and mortgage-backed securities per month—down from \$85 million at the end of last year.

PORTFOLIO RECAP

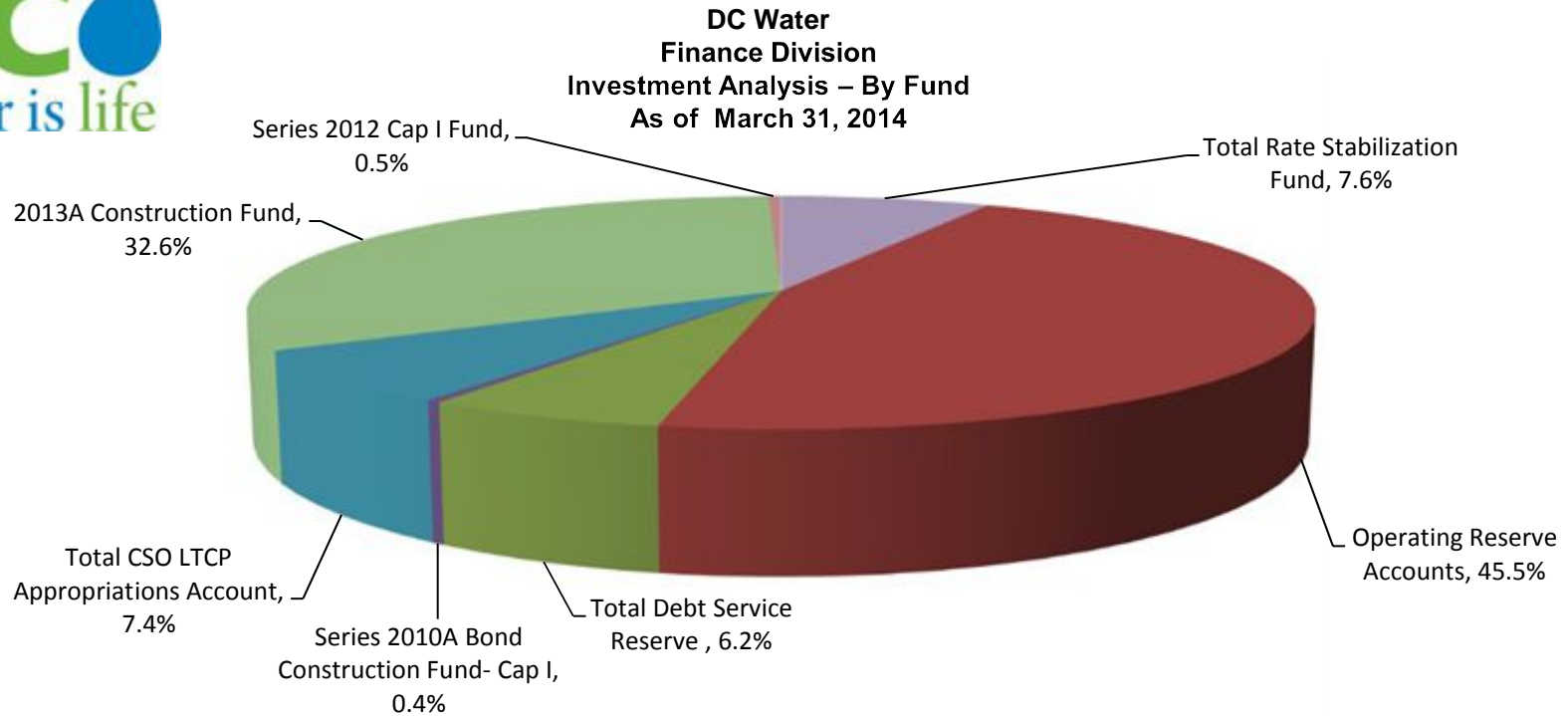
- The portfolio is diversified among Bank Deposits, Commercial Paper, Federal Agencies, Treasury Notes, FDIC Insured CDs, and SEC registered money market funds.
- The overall yield-to-maturity on cost of the portfolio is 0.33%.
- The portfolio is in compliance with the Authority's Investment Policy.

Operating Reserve Fund

- The Authority purchased \$30 million of 3-month Commercial Paper at an average yield of 0.11%. Issuers included Baylor University, Honeywell International, and Union Bank.
- The Authority purchased \$2.5 million of 2-year FDIC-insured Certificates of Deposit yielding of 0.40%.



Security Type	Book Value + Accrued Interest	Asset Allocation	Permitted By Policy
Bank Deposits	\$ 95,932,316	25.2%	100.0%
Money Market Funds	55,833,729	14.7%	100.0%
Bankers Acceptances	-	0.0%	40.0%
Commercial Paper	99,974,267	26.3%	35.0%
U.S. Treasuries	-	0.0%	100.0%
Federal Agency	98,803,811	25.9%	80.0%
FDIC Insured CDs	30,227,665	7.9%	30.0%
Municipal Obligations	-	0.0%	20.0%
Total	\$ 380,771,788	100.0%	

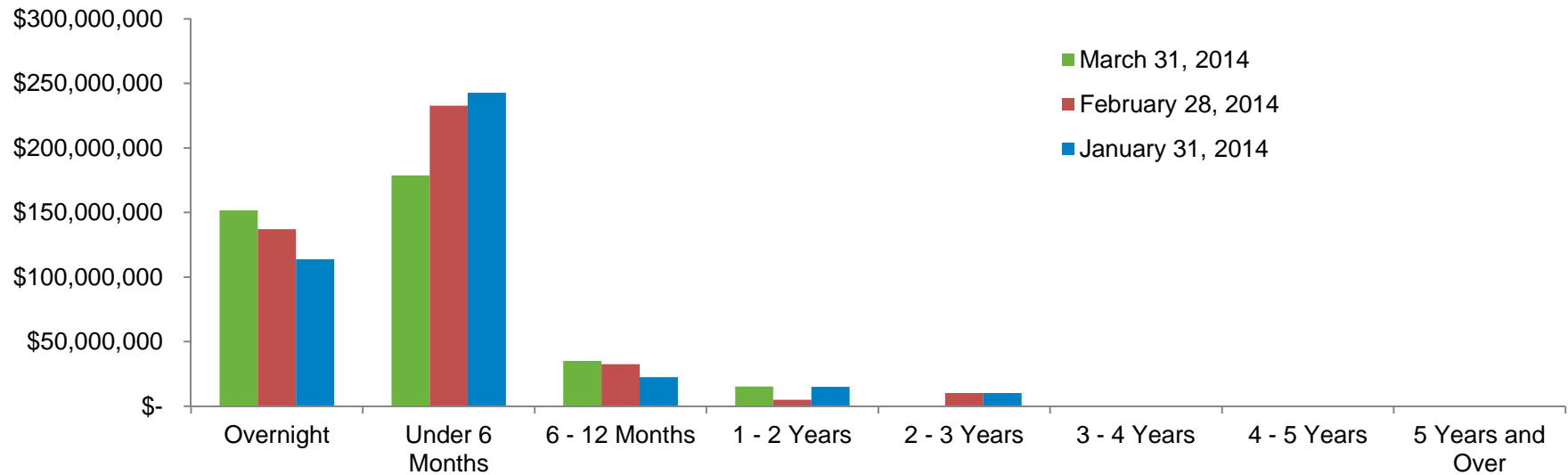


Fund Name	Book Value + Accrued Interest	Yield-to- Maturity at Cost	Effective Duration (years)	Weighted Average Maturity (days)
Total Rate Stabilization Fund	\$ 28,956,328	0.40%	0.09	31.4
Operating Reserve Accounts	\$ 173,123,848	0.54%	0.22	81.7
Total Debt Service Reserve	\$ 23,516,472	0.30%	1.20	444.2
Series 2010A Bond Construction Fund- Cap I	\$ 1,408,752	0.01%	0.00	1.0
Total CSO LTCP Appropriations Account	\$ 28,038,367	0.17%	0.12	44.5
Series 2012 Bond Construction Fund	\$ 634	0.01%	0.00	1.0
2013A Construction Fund	\$ 123,953,166	0.10%	0.10	35.8
Series 2012 Cap I Fund	\$ 1,774,220	0.01%	0.00	1.0
Total	\$ 380,771,788	0.34%	0.22	81.9



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

Maturity Distribution	March 31, 2014	February 28, 2014	January 31, 2014
Overnight \$	151,766,045.26 \$	136,985,034.80 \$	113,745,844.24
Under 6 Months	178,662,304.56	232,769,641.08	242,758,328.78
6 - 12 Months	35,148,650.69	32,621,852.14	22,615,416.57
1 - 2 Years	15,194,787.35	5,061,509.17	15,063,132.17
2 - 3 Years	-	10,161,804.52	10,158,155.09
3 - 4 Years	-	-	-
4 - 5 Years	-	-	-
5 Years and Over	-	-	-
Totals \$	380,771,787.86 \$	417,599,841.71 \$	404,340,876.85





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

	Credit Ratings S&P / Moody's	Book Value		Investment Policy Limit	Compliance with Investment Policy
Bank Deposits					
TD Bank		85,834,475.53	22.5%	100.0%	Yes
Premier Bank		5,035,409.75	1.3%	100.0%	Yes
Capital One Bank		5,062,430.94	1.3%	100.0%	Yes
Sub-Total Bank Deposits		95,932,316.22	25.2%	100.0%	Yes
Money Market Mutual Funds					
American Beacon MMF	AAAm	1,483,710.27	0.4%	50.0%	Yes
Williams Capital Money Market Fund	AAAm	2,500,585.96	0.7%	50.0%	Yes
Merrill Lynch MMF	AAAm	1,185,629.53	0.3%	50.0%	Yes
Wells Fargo Advantage Treasury Plus	AAAm	1,408,752.44	0.4%	50.0%	Yes
Wells Fargo Government MMF	AAAm	49,255,050.84	12.9%	50.0%	Yes
Sub-Total Money Market Mutual Funds		55,833,729.04	14.7%	100.0%	Yes
Certificates of Deposit					
CDARs - Placed by Industrial Bank	NR / NR	20,174,036.09	5.3%	30.0%	Yes
CDARs - Placed by City First Bank	NR / NR	10,053,628.61	2.6%	30.0%	Yes
Sub-Total Certificates of Deposit		30,227,664.70	7.9%	30.0%	Yes
Commercial Paper					
Bank Of Nova Scotia Ny Comm Paper	A-1 / P-1	9,998,133.30	2.6%	5.0%	Yes
Baylor University Comm Paper	A-1+ / NR	9,998,075.00	2.6%	5.0%	Yes
Deutsche Bank Finl Llc Comm Paper	A-1 / P-1	9,998,308.30	2.6%	5.0%	Yes
General Elec Cap Corp Comm Paper	A-1+ / P-1	9,997,869.40	2.6%	5.0%	Yes
Honeywell Intl Comm Paper	A-1 / P-1	9,997,583.30	2.6%	5.0%	Yes
Hsbc Usa Inc Comm Paper	A-1 / P-1	9,995,750.00	2.6%	5.0%	Yes
Mizuho Funding Llc Comm Paper	A-1 / P-1	9,995,100.00	2.6%	5.0%	Yes
Sumitomo Mitsui Bank Ny Comm Paper	A-1 / P-1	9,998,750.00	2.6%	5.0%	Yes
Toyota Motor Credit Corp Comm Paper	A-1+ / P-1	9,997,983.30	2.6%	5.0%	Yes
Union Bank Na Comm Paper	A-1 / P-1	9,996,713.90	2.6%	5.0%	Yes
Sub-Total Commercial Paper		99,974,266.50	26.3%	35.0%	Yes
Federal Agencies					
Federal Home Loan Bank	AA+ / Aaa	98,803,811.40	25.9%	40.0%	Yes
Sub-Total Federal Agencies		98,803,811.40	25.9%	100.0%	Yes
Total		\$ 380,771,787.86	100.0%		



**DC Water
Finance Division
Book Value Performance
As of March 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	0.01%	0.12%	0.04%	0.18%	0.15%	0.30%	0.37%
Operating Reserve Accounts	0.02%	0.27%	0.07%	0.28%	0.16%	0.32%	0.35%
Total Debt Service Reserve	0.02%	0.29%	0.07%	0.30%	0.18%	0.36%	0.37%
Total CSO LTCP Appropriations Account	0.01%	0.09%	0.02%	0.09%	0.05%	0.10%	0.12%
2010A Capitalized Interest Fund	0.04%	0.53%	0.25%	1.03%	0.57%	1.14%	1.08%
2013A Construction Fund	0.01%	0.10%	0.03%	0.11%	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
Short-Term	0.03%	0.33%	0.08%	0.32%	0.16%	0.33%	0.36%
Merrill Lynch 3-Month Treasury Index (Book Value) ¹	0.00%	0.04%	0.01%	0.05%	0.02%	0.04%	0.04%
Core (1+ Years)	0.04%	0.48%	0.11%	0.47%	0.22%	0.43%	0.45%
Merrill Lynch 1-3 Year Treasury Index (Book Value) ²	0.03%	0.35%	0.09%	0.37%	0.17%	0.35%	0.33%

- (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
Rate Stabilization Fund										
TD BANK BANK DEPOSIT		\$ 8,960,150		4/1/2014		0.90%	\$ 8,960,150	\$ 8,960,150	\$ 8,960,150	
DEUTSCHE BANK FINL LLC COMM PAPER	25153KDW4	10,000,000	-	4/30/2014	1/24/2014	0.21%	9,994,400	9,998,580	9,998,308	
GENERAL ELEC CAP CORP COMM PAPER	36959JEW9	10,000,000	-	5/30/2014	1/24/2014	0.13%	9,995,450	9,998,830	9,997,869	
										\$ 28,956,327.70
Operating Reserve Accounts										
TD BANK BANK DEPOSIT		\$ 75,351,195		4/1/2014		0.90%	\$ 75,351,195	\$ 75,351,195	\$ 75,351,195	
CAPITAL ONE BANK		5,062,431		4/1/2014		0.50%	5,062,431	5,062,431	5,062,431	
WILLIAMS CAPITAL MONEY MARKET FUND		2,500,586		4/1/2014		0.00%	2,500,586	2,500,586	2,500,586	
SUMITOMO MITSUI BANK NY COMM PAPER	86562LE16	10,000,000	-	5/1/2014	2/28/2014	0.15%	9,997,417	9,998,450	9,998,750	
BAYLOR UNIVERSITY COMM PAPER	07286NFH7	10,000,000	-	6/17/2014	3/26/2014	0.09%	9,997,925	9,997,925	9,998,075	
MIZUHO FUNDING LLC COMM PAPER	60688GFQ5	10,000,000	-	6/24/2014	2/28/2014	0.21%	9,993,233	9,995,160	9,995,100	
HONEYWELL INTL COMM PAPER	43851UFT5	10,000,000	-	6/27/2014	3/26/2014	0.10%	9,997,417	9,996,870	9,997,583	
HSBC USA INC COMM PAPER	40427SFW4	10,000,000	-	6/30/2014	2/28/2014	0.17%	9,994,239	9,995,710	9,995,750	
UNION BANK NA COMM PAPER	90526NG17	10,000,000	-	7/1/2014	3/26/2014	0.13%	9,996,497	9,994,810	9,996,714	
INDUSTRIAL BANK CDARS		5,000,000	0.650	10/16/2014	10/18/2012	0.65%	5,000,000	5,047,192	5,047,192	
INDUSTRIAL BANK CDARS		5,030,007	0.350	10/16/2014	10/17/2013	0.35%	5,030,007	5,038,125	5,038,125	
CITY FIRST BK OF WASHINGTON, D.C (CDARS)		5,000,000	0.400	11/13/2014	11/14/2013	0.40%	5,000,000	5,007,667	5,007,667	
INDUSTRIAL BANK CDARS		5,000,000	0.500	11/13/2014	11/14/2013	0.50%	5,000,000	5,009,583	5,009,583	
INDUSTRIAL BANK CDARS		2,528,080	0.450	1/22/2015	1/23/2014	0.45%	2,528,080	2,530,228	2,530,228	
CITY FIRST BK OF WASHINGTON, DC (CDARS)		2,500,000	0.600	3/19/2015	3/21/2013	0.60%	2,500,000	2,515,530	2,515,530	
INDUSTRIAL BANK CDARS		2,545,282	0.750	1/21/2016	1/23/2014	0.75%	2,545,282	2,548,908	2,548,908	
CITY FIRST BK OF WASHINGTON, DC (CDARS)		2,530,097	0.400	3/17/2016	3/20/2014	0.40%	2,530,097	2,530,432	2,530,432	
										\$ 173,123,848.49
Total Debt Service Reserve										
MERRILL LYNCH MMF		\$ 1,185,630		4/1/2014		0.06%	\$ 1,185,630	\$ 1,185,630	\$ 1,185,630	
WELLS FARGO GOVERNMENT MMF	94975P405	2,215,069		4/1/2014		0.01%	2,215,069	2,215,069	2,215,069	
FHLB NOTES	3130A0FX3	5,000,000	0.210	2/18/2015	12/17/2013	0.21%	4,999,745	5,002,529	5,001,062	
FEDERAL HOME LOAN BANK GLOBAL NOTES	313381YP4	5,000,000	0.250	2/20/2015	1/30/2013	0.30%	4,995,000	5,005,629	4,999,264	
FHLB NOTES	313375RN9	10,000,000	1.000	3/11/2016	5/22/2013	0.43%	10,158,100	10,085,276	10,115,447	



**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
										\$ 23,516,471.99
Series 2010A Bond Construction Fund- Cap I										
WELLS FARGO ADVANTAGE TREASURY PLUS	94975H296	\$ 1,408,752		4/1/2014		0.01%	\$ 1,408,752	\$ 1,408,752	\$ 1,408,752	
										\$ 1,408,752.44
Total CSO LTCP Appropriations Account										
TD BANK BANK DEPOSIT		\$ 1,523,131		4/1/2014		0.90%	\$ 1,523,131	\$ 1,523,131	\$ 1,523,131	
PREMIER BANK DEPOSIT		5,035,410		4/1/2014		0.24%	5,035,410	5,035,410	5,035,410	
AMERICAN BEACON MMF	02368W200	1,483,710		4/1/2014		0.01%	1,483,710	1,483,710	1,483,710	
BANK OF NOVA SCOTIA NY COMM PAPER	06416KET3	10,000,000	-	5/27/2014	1/24/2014	0.12%	9,995,900	9,998,540	9,998,133	
TOYOTA MOTOR CREDIT CORP COMM PAPER	89233HF66	10,000,000	-	6/6/2014	1/27/2014	0.11%	9,996,028	9,998,830	9,997,983	
										\$ 28,038,367.46
Series 2012 Bond Construction Fund										
WELLS FARGO GOVERNMENT MMF	94975P405	\$ 634		4/1/2014		0.01%	\$ 634	\$ 634	\$ 634	
										\$ 634.01
2013A Bond Construction Fund										
WELLS FARGO GOVERNMENT MMF	94975P405	\$ 45,265,128		4/1/2014		0.01%	\$ 45,265,128	\$ 45,265,128	\$ 45,265,128	
FHLB NOTES	313382SH7	32,500,000	0.150	4/23/2014	8/8/2013	0.14%	32,502,275	32,522,891	32,521,592	
FHLB GLOBAL BONDS	3133X7FK5	45,000,000	5.250	6/18/2014	8/8/2013	0.15%	46,974,150	46,173,908	46,166,446	
										\$ 123,953,166.11
Series 2012 Cap I Fund										
WELLS FARGO GOVERNMENT MMF	94975P405	\$ 1,774,220		4/1/2014		0.01%	\$ 1,774,220	\$ 1,774,220	\$ 1,774,220	
										\$ 1,774,219.66
							\$ 381,487,285.70	\$ 380,757,646.63	\$ 380,771,787.86	\$ 380,771,787.86

Investment Performance Report – March 2014



DC Water
Finance Division
Security Transactions
Last 6 Months

ACCOUNT	CUSIP	DESCRIPTION	PAR	COUPON	DATE	DATE	YTM	AMOUNT
Purchases								
DC WASA OPERATING RESERVE ACCOUNTS	RE1002089	INDUSTRIAL BANK CDARS	5,030,007	0.350	10/16/2014	10/17/2013	0.356	\$ 5,030,006.63
DC WASA OPERATING RESERVE ACCOUNTS	RE0907890	CITY FIRST BK OF WASHINGTON, D.C (CDARS)	5,000,000	0.400	11/13/2014	11/14/2013	0.405	\$ 5,000,000.00
DC WASA OPERATING RESERVE ACCOUNTS	RE0907908	INDUSTRIAL BANK CDARS	5,000,000	0.500	11/13/2014	11/14/2013	0.506	\$ 5,000,000.00
DC WASA OPERATING RESERVE ACCOUNTS	912828SL5	US TREASURY NOTES	10,000,000	0.250	03/31/2014	11/19/2013	0.088	\$ 10,009,293.45
DC WASA OPERATING RESERVE ACCOUNTS	00915TBC3	AIR PRODUCTS & CHEMICALS COMM PAPER	10,000,000	-	02/12/2014	11/19/2013	0.112	\$ 9,997,402.78
DC WASA OPERATING RESERVE ACCOUNTS	90526NCK9	UNION BANK NA COMM PAPER	10,000,000	-	03/19/2014	11/19/2013	0.203	\$ 9,993,333.30
DC WASA OPERATING RESERVE ACCOUNTS	313385UN4	FEDERAL HOME LOAN BANKS DISC NOTE	10,000,000	-	03/21/2014	11/19/2013	0.101	\$ 9,996,611.10
DC WASA OPERATING RESERVE ACCOUNTS	46640QCK5	JP MORGAN SECURITIES LLC COMM PAPER	10,000,000	-	03/19/2014	11/20/2013	0.223	\$ 9,992,727.78
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

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
Total Rate Stabilization Fund									
04/30/14	MATURITY	25153KDW4	DEUTSCHE BANK FINL LLC COMM PAPER		04/30/14	10,000,000	9,994,400.00	5,600.00	10,000,000
2013A Bond Construction Fund									
04/23/14	MATURITY	313382SH7	FHLB NOTES	0.150	04/23/14	32,500,000.00	32,500,000.00	24,375.00	32,524,375.00

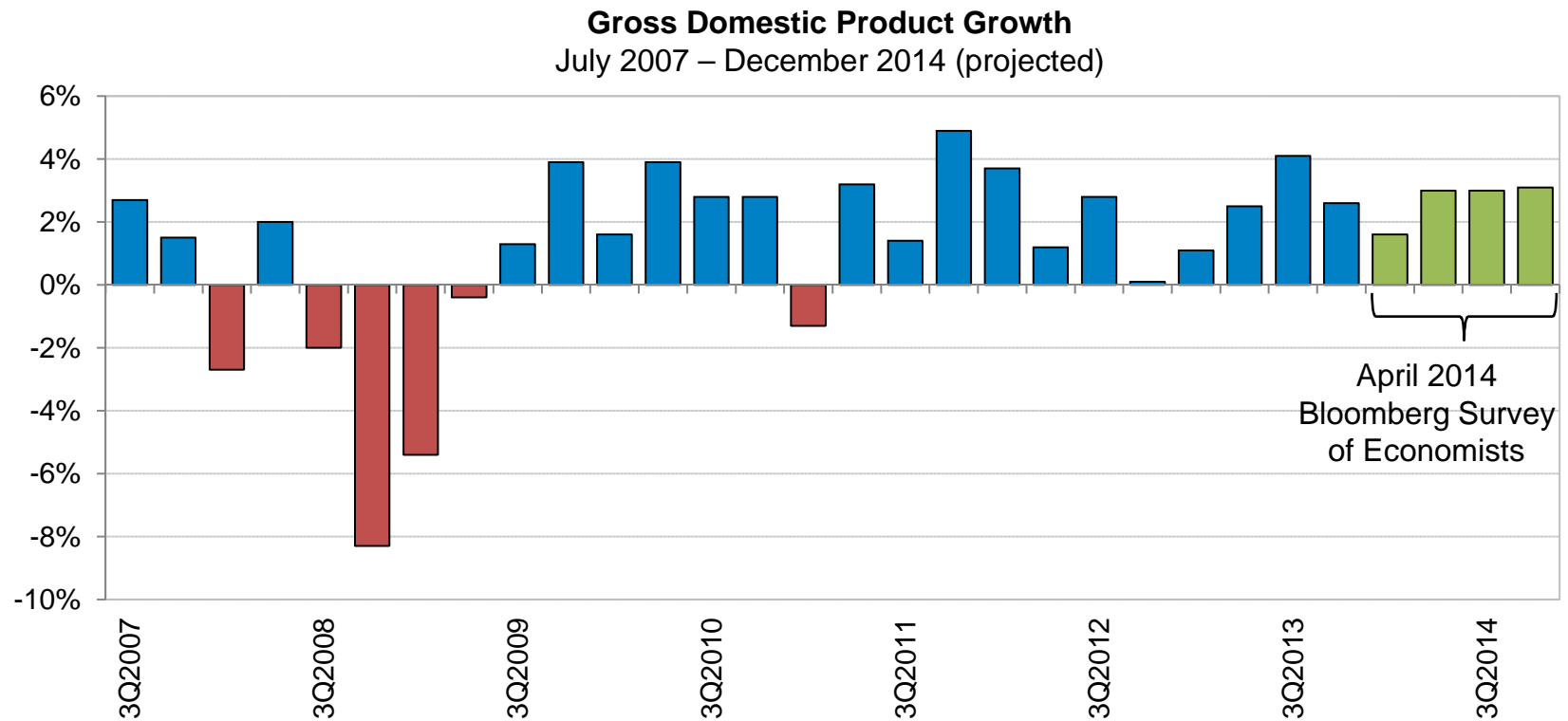


Appendix: Economic Update



Gross Domestic Product

- The final revision of 4th quarter Gross Domestic Product (“GDP”) showed the economy growing at a 2.6% annualized pace.



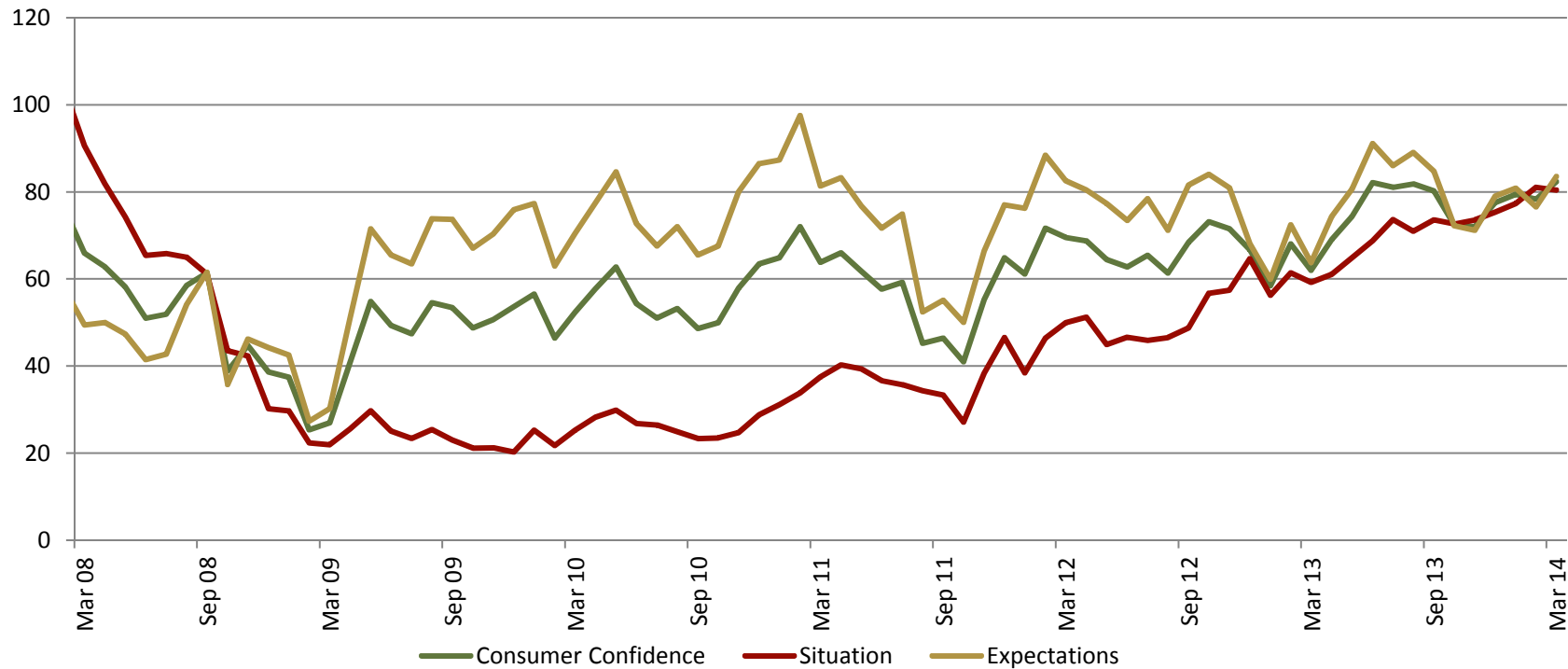
Source: Bloomberg



Consumer Confidence Improves

- In March, consumer confidence reached its highest level in 6 years. The index rose to 82.3, up from 78.3 in February and its first reading above 82 since June 2013.

**Consumer Confidence
March 2008 – March 2014**



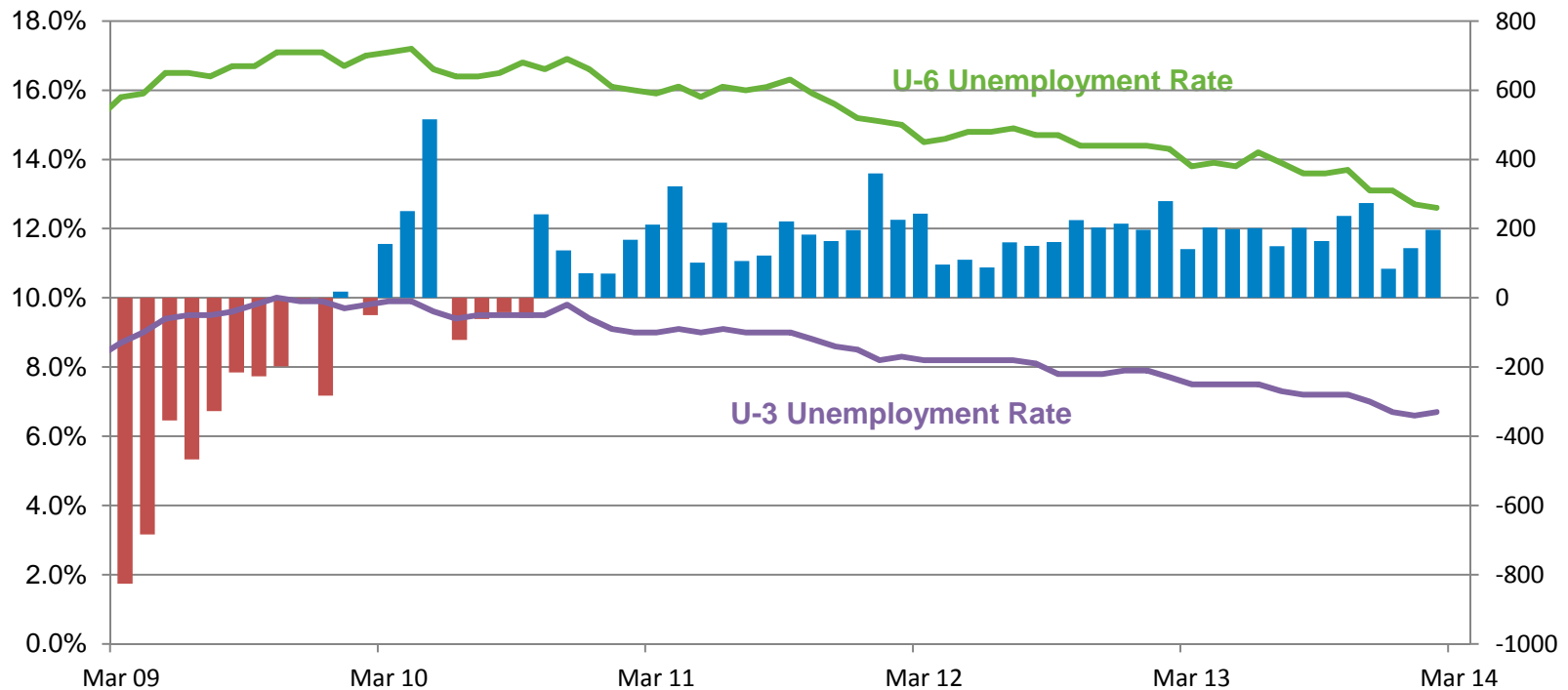
Source: Bloomberg



March Job Growth was Modest

- Nonfarm payrolls increased by 192,000 jobs in March, slightly below expectations. The unemployment rate held steady at 6.7%.

Unemployment vs. Non-Farm Payrolls
March 2009 – March 2014

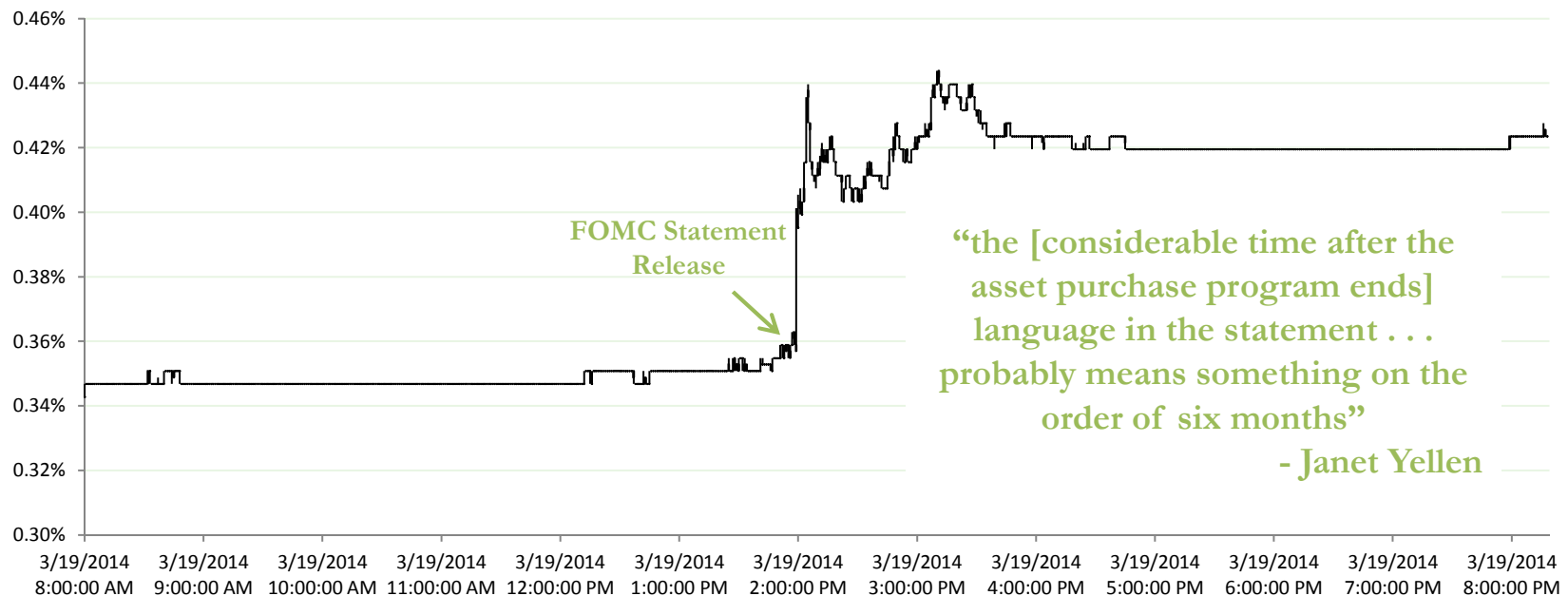


Source: Bloomberg



Yellen Debut Rattles Markets

- In her first press conference as Chairman after a FOMC meeting, Janet Yellen flustered the markets by suggesting the Fed could increase its Fed Fund’s target rate in early 2015. This was a timeline that was more accelerated than market participants anticipated.
- Later in the month, Yellen eased investor concern by suggesting the U.S. economy will need Fed stimulus for “some time” suggesting a more drawn out time frame.

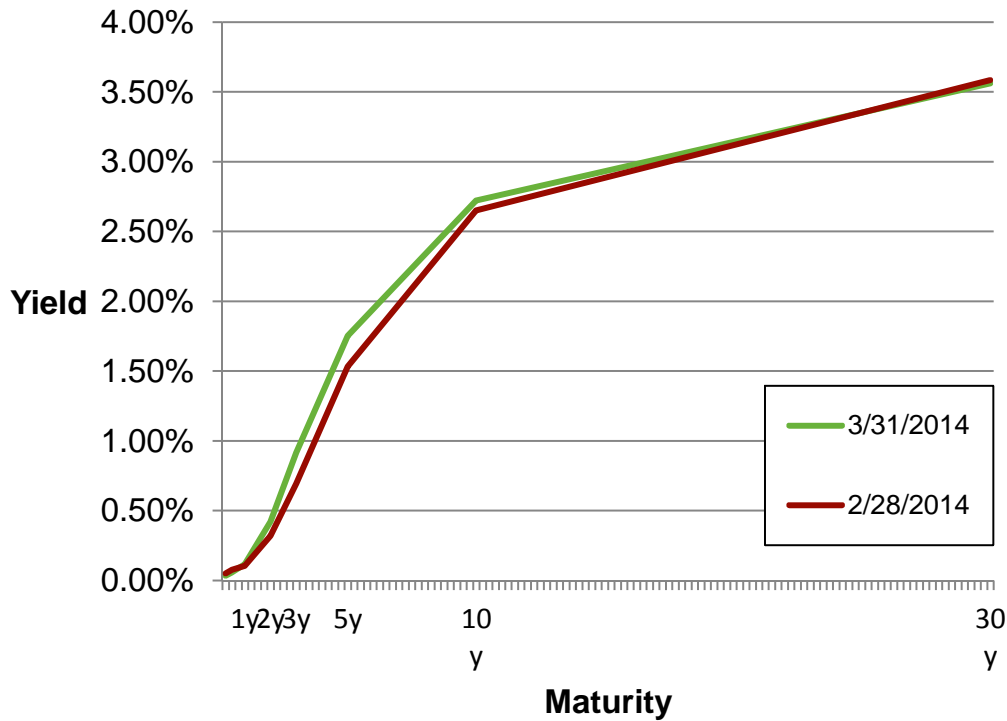


Source: Bloomberg, Federal Reserve



Yield Curve Steepened in March

U.S. Treasury Yield Curve
March 31, 2014 versus February 28, 2014



	<u>3/31/2014</u>	<u>2/28/2014</u>	<u>Change</u>
3 month	0.03%	0.05%	-0.02%
6 month	0.06%	0.07%	-0.01%
1 year	0.11%	0.10%	0.01%
2 year	0.42%	0.32%	0.10%
3 year	0.91%	0.69%	0.22%
5 year	1.75%	1.53%	0.22%
10 year	2.72%	2.65%	0.07%
30 year	3.56%	3.58%	-0.02%

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.

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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.

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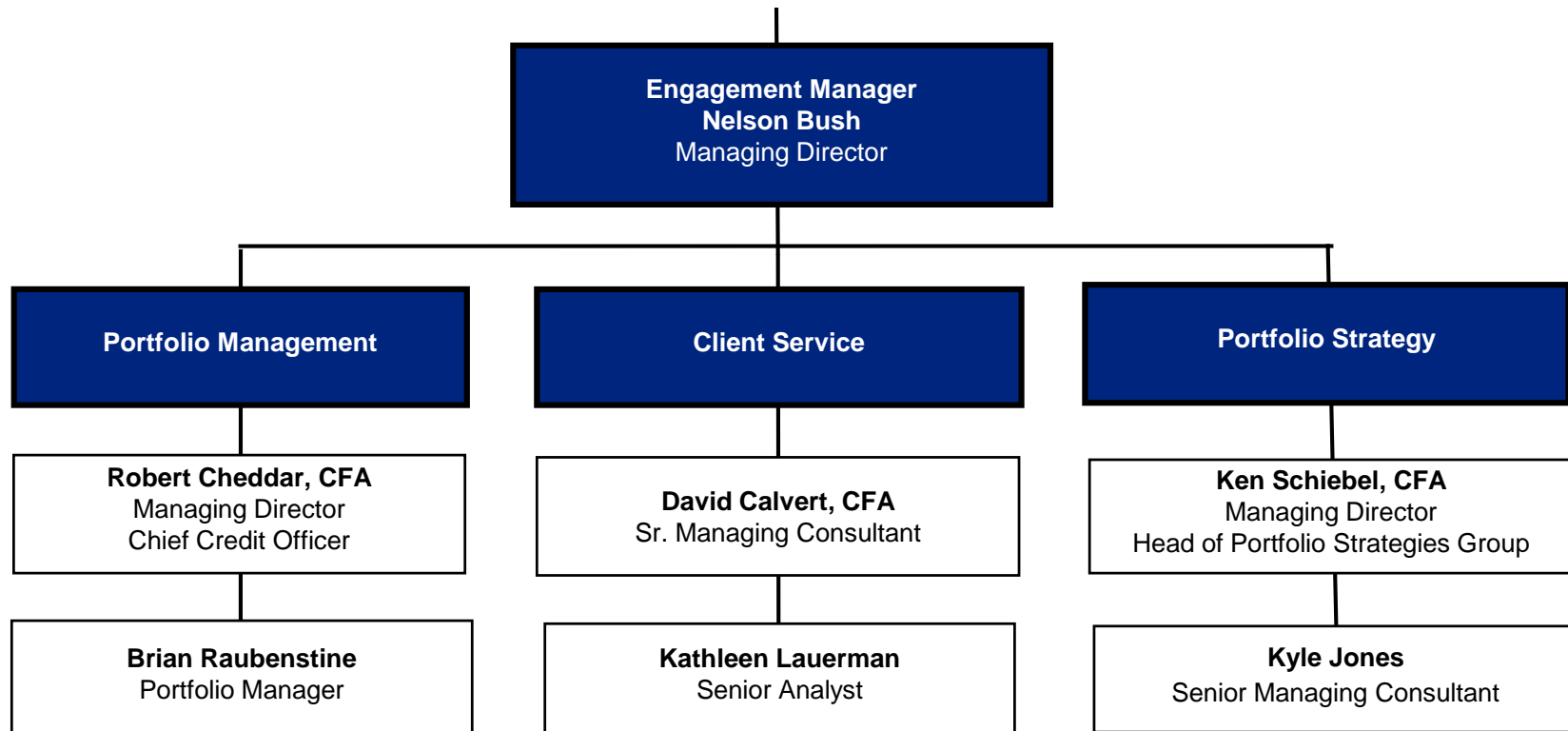


Presentation to Finance and Budget Committee

Overview of PFM Asset Management LLC

April 24, 2014

PFMAM Engagement Team



Philosophy and Approach

Philosophy

Safety:	Preserve invested capital with high-quality investments
Liquidity:	Match the portfolio's liquidity needs to anticipated cash-flow needs
Return:	Maintain a portfolio structure that provides a market rate of return on assets while seeking to limit volatility

Approach

PFMAM designs portfolios that are tailored to match each client's specific investment policy and cash flow needs. This disciplined approach adheres to three key principles:

1. Deep understanding of clients' needs in order to develop a successful investment program that stands the test of time;
2. Construct portfolios that are diversified and have lower volatility than comparable market benchmarks; and
3. Actively manage portfolios by capturing market inefficiencies and avoiding risk.

Investment Strategies for DC Water

There is the opportunity to enhance the yield and return of the Operating Reserve Fund, Rate Stabilization Fund, and Debt Service Reserve Fund by adopting a different investment strategy with a longer maturity and greater diversification.

Portfolio	Current Duration	Current Average Maturity
Operating Reserve Fund	0.20 Years	72 Days
Rate Stabilization Fund	0.09 Years	31 Days
Debt Service Reserve Fund	1.20 Years	1.22 Years

The 2013 Project Fund is currently invested in a laddered portfolio with maturities aligned with expected draws. We believe this is a prudent strategy that should be maintained.

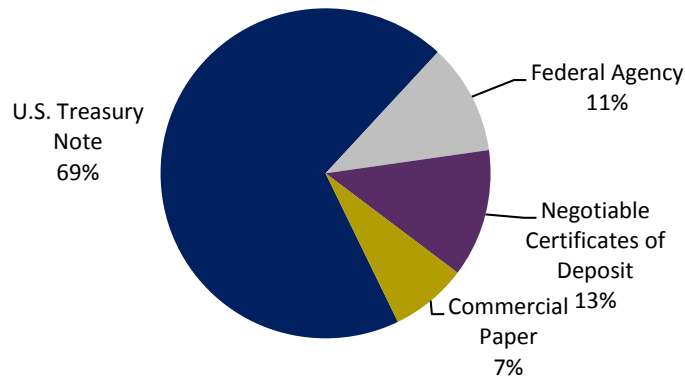
Using the existing Investment Policy guidelines, we would suggest the following sample portfolios.

Operating Reserve Fund

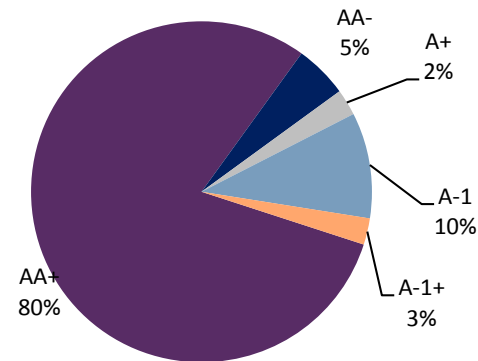
Benchmark: Merrill Lynch 1 – 3 Year U.S. Treasury Index

Sample Portfolio Effective Duration*:	1.71 years
Sample Portfolio Gross Yield to Maturity at Cost*:	0.45%

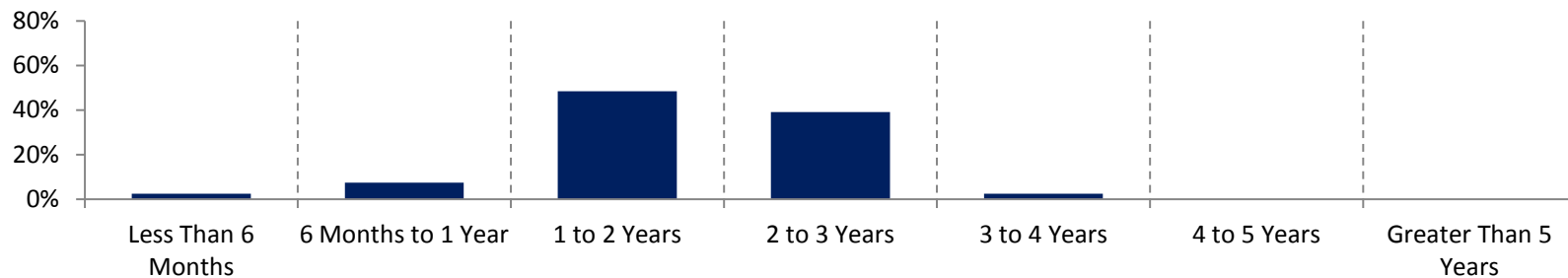
Sample Portfolio Sector Allocation



Sample Portfolio Credit Quality Distribution



Sample Portfolio Maturity Distribution

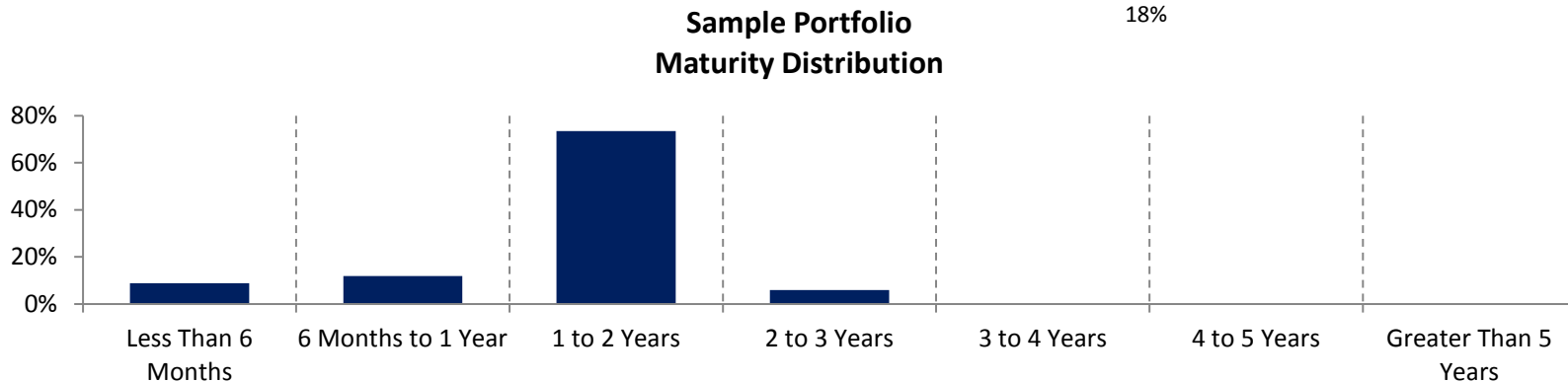
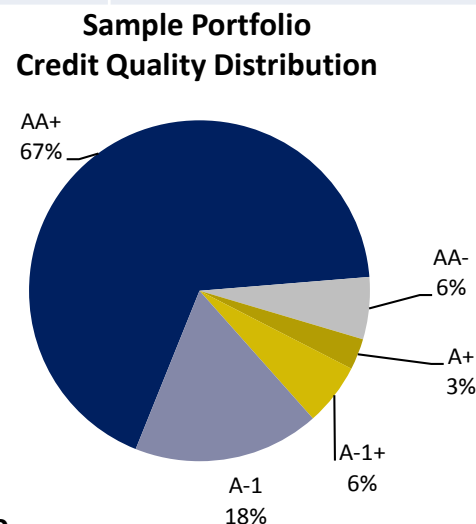
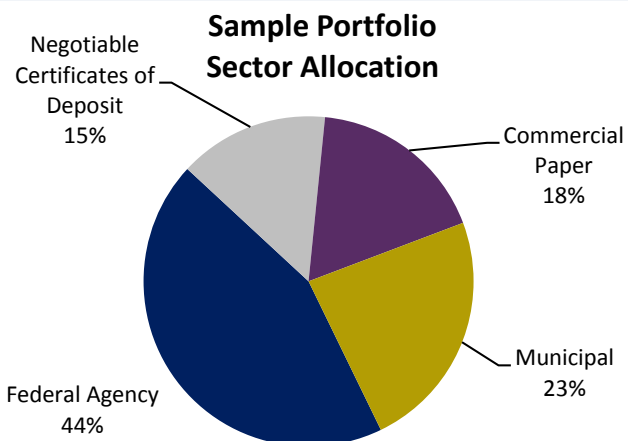


*Assumes securities were purchased on April 7, 2014

Rate Stabilization Fund

Benchmark: Merrill Lynch 1 Year U.S. Treasury Index

Sample Portfolio Effective Duration*:	1.03 years
Sample Portfolio Gross Yield to Maturity at Cost*:	0.23%



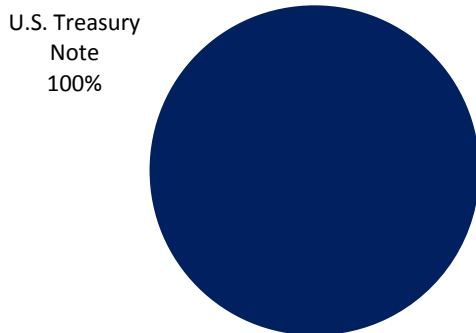
*Assumes securities were purchased on April 7, 2014

Debt Service Reserve Fund

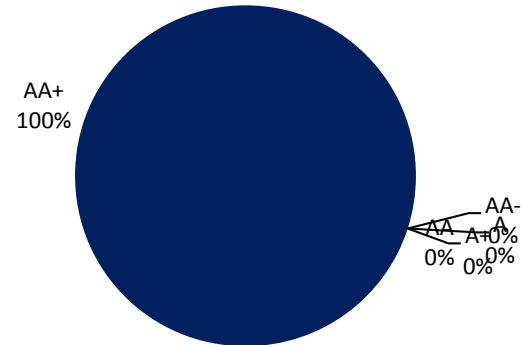
Benchmark: Merrill Lynch 1 – 3 Year U.S. Treasury Index

Sample Portfolio Effective Duration*:	1.62 years
Sample Portfolio Gross Yield to Maturity at Cost*:	0.33%

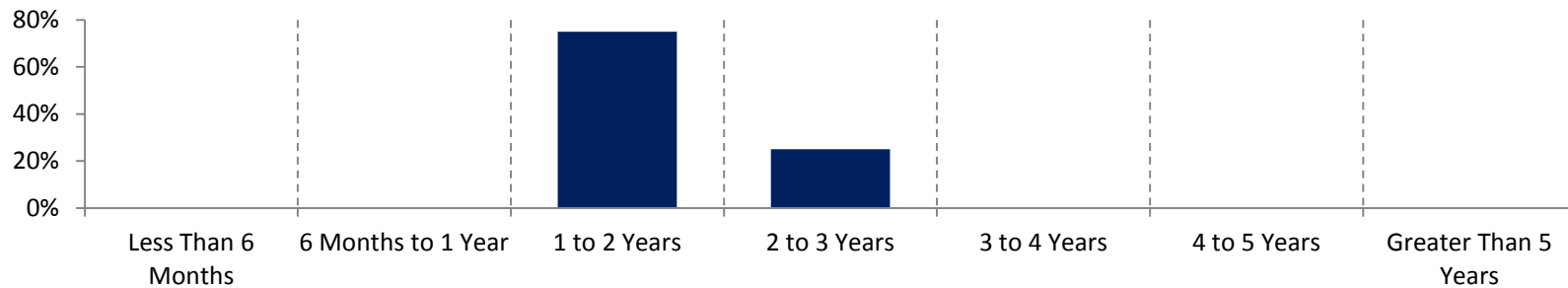
Sample Portfolio Sector Allocation



Sample Portfolio Credit Quality Distribution



Sample Portfolio Maturity Distribution



*Assumes securities were purchased on April 7, 2014

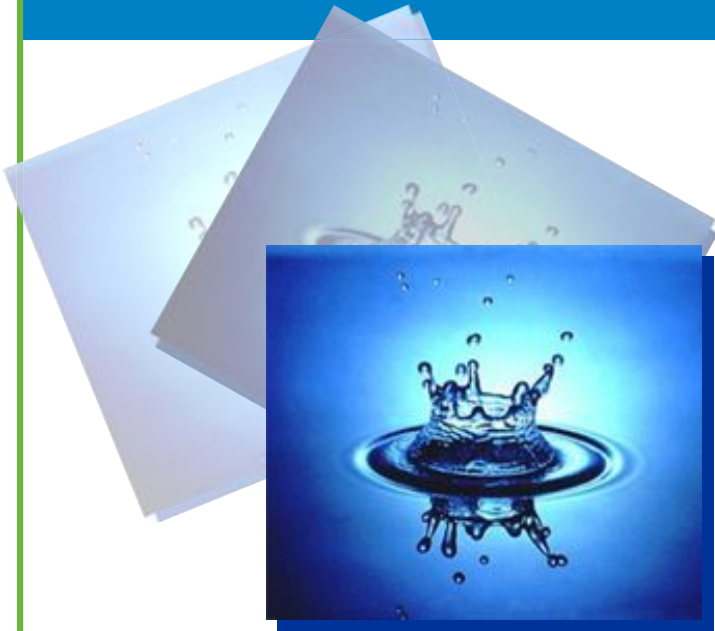
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Sample portfolios shown herein are being provided for illustrative purposes only. As economic and market conditions may change in the future, so may PFAM's recommendations as to the sale and purchase of securities in the portfolio.



DC Water

Discussion of Investment Policy Recommendations

April 24, 2014



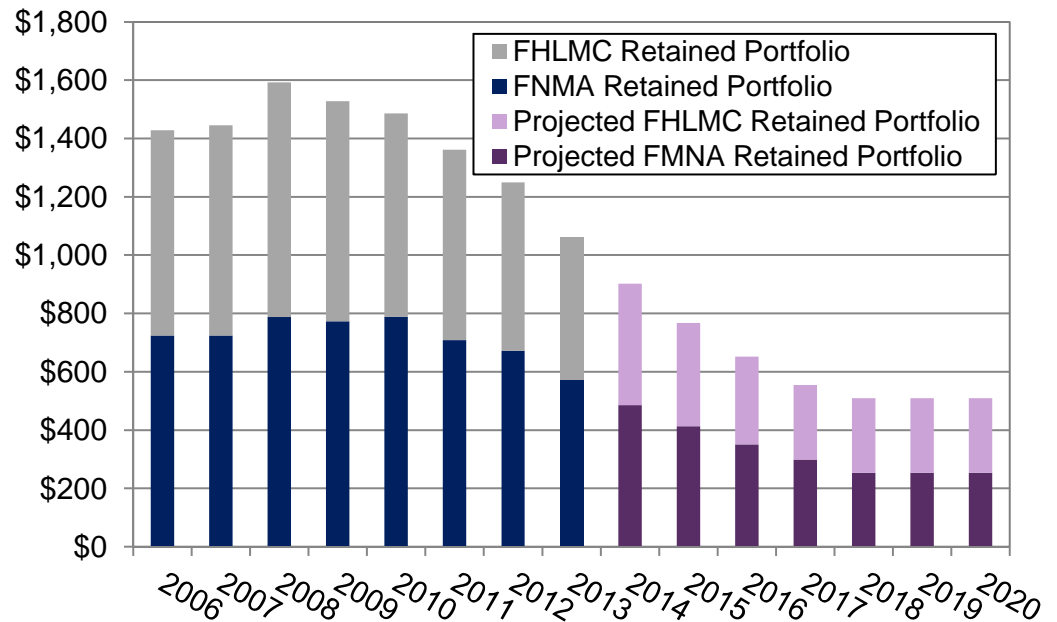


Market Update

Reduction in Supply of Federal Agencies

- In August of 2012, the Treasury Department announced changes that would accelerate the wind down of Fannie Mae and Freddie Mac’s investment portfolios. This is expected to reduce federal agency supply by \$1 trillion.
- Under the Protecting American Taxpayers and Homeowners (PATH) Act, Fannie Mae and Freddie Mac will be liquidated.
- As federal agency supply decreases, the yield spreads to U.S. Treasuries have become very tight.
- The ability to allocate funds into other asset classes will allow DC Water to maintain a more diversified portfolio.

FNMA and FHLMC Investment Portfolios
2006 – 2020 (projected)





Expansion of Permitted Investments

Management is recommending that DC Water revise its investment policy and strategy to include additional asset classes in order to provide for greater portfolio diversification and to enhance returns.

Security Type	Recommendation
Corporate Notes	Include as permissible investment
Prime Money Market Mutual Funds	Include as permissible investment
Federal Agency Mortgage-Backed Securities	Include as permissible investment
Supranational Bonds	Include as permissible investment
Negotiable Certificates of Deposit	Permissible investment; recommend revising credit ratings requirement



Corporate Notes

- Corporate Notes are not currently authorized by DC Water’s Investment Policy.
- High quality corporate notes can diversify fixed income portfolios and enhance investment returns.
- Exposure to corporate notes requires active credit management, which should include:
 - Purchases restricted to issuers that have stable or improving credit fundamentals and offer yields that represent risk adjusted relative value
 - Not simply relying on ratings agencies, but rather a continuing program of fundamental credit analysis
 - Appropriate sector and issuer diversification requirements

Recommended Language

High quality corporate notes that meet the following criteria:

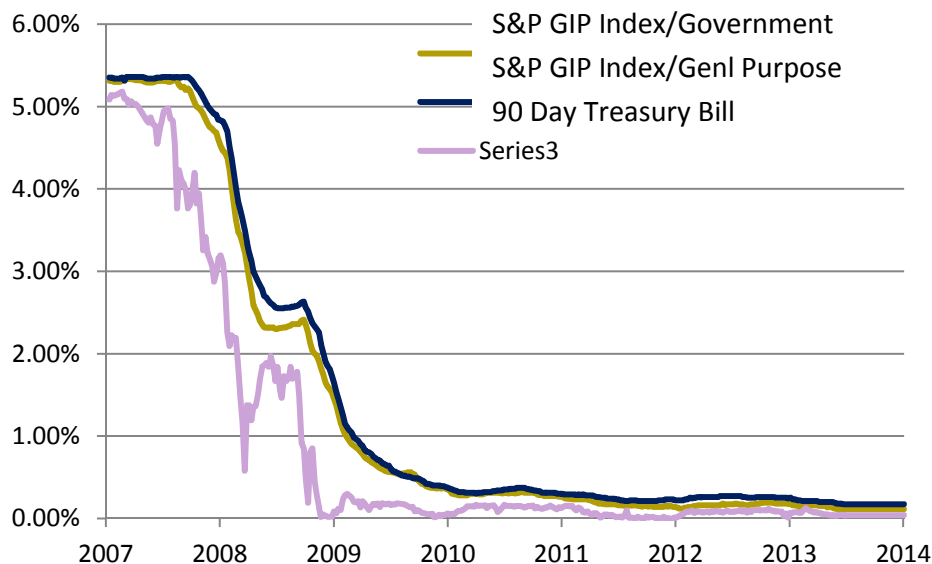
- 1) a rating of at least ‘AA’ (or its equivalent) from at least one NRSRO and a rating of at least ‘A’ (or its equivalent) from a second NRSRO; and*
- 2) the final maturity shall not exceed a period of five (5) years from the time of purchase.*



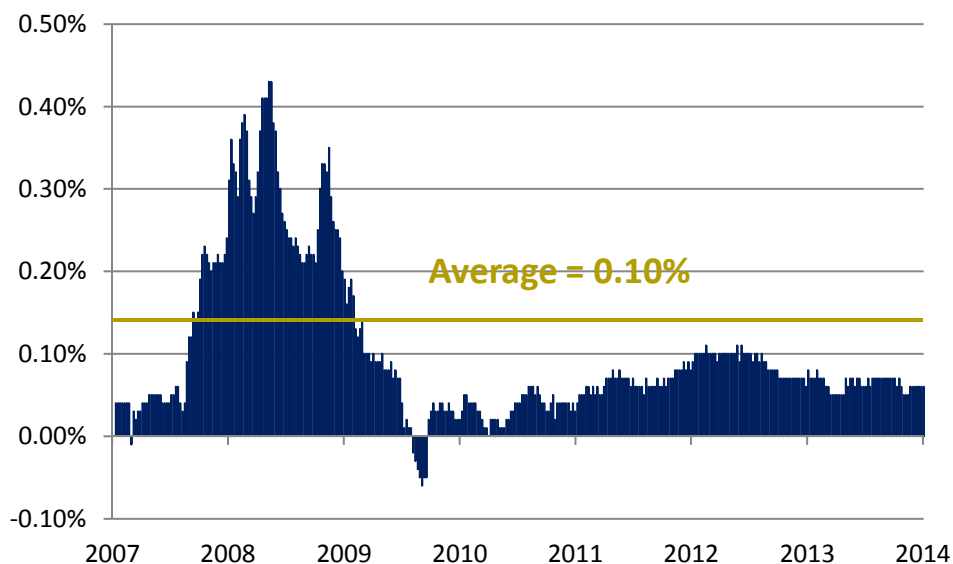
Prime Money Market Mutual Funds

- Prime Money Market Mutual Funds may contain Corporate Notes, which are not permitted in the Investment Policy.
- Money market mutual funds that contain corporate exposure can offer a modest yield advantage over government-only money market funds.

Historical Performance



Historical Spread
S&P GIP Gen'l Purpose¹ vs. S&P GIP Gov't²



Source: Bloomberg

1. S&P Rated Government Investment Pool Index General Purpose Taxable
2. S&P Rated Government Investment Pool Index Government



Federal Agency MBS

- Federal Agency Mortgage Backed Securities (MBS) are not expressly permitted by DC Water's Investment Policy.
- Allocation to MBS may help provide for further diversification and yield enhancing opportunities.

Recommended Language

Federal Agency Mortgage-Backed Securities issued by Fannie Mae, Freddie Mac, or the Government National Mortgage Association (GNMA) that meet the following criteria:

- 1) a rating of at least "AA" (or its equivalent) by two NRSROs; and*
- 2) the weighted average life (WAL) shall not exceed a period of five (5) years from the time of purchase.*



Supranational Bonds

- Supranational bonds are not expressly permitted by DC Water’s Investment Policy.
- Supranational bonds are issued by multi-national organizations such as the World Bank, Asian Development Bank, or African Development Bank.
- Investing in supranationals can allow for further diversification while maintaining a high degree of liquidity and credit quality and modestly enhancing returns.

Recommended Language

Obligations, participations or other instruments of any Federal agency, instrumentality or United States government-sponsored enterprise, including those issued or fully guaranteed as to the principal and interest by Federal agencies, instrumentalities or United States government sponsored enterprises, provided that:

- 1) at time of purchase the maturity does not to exceed five (5) year; and*
- 2) have a rating of at least ‘A’ (or its equivalent) from at least two NRSROs.*



Negotiable Certificates of Deposit

- Negotiable Certificates of Deposit are permitted in the Investment Policy.
- The Authority has not activity participated in this sector.
- For terms longer than one year we recommend adjusting the policy to include issuers that are rated “AA” by at least one NRSROs with a rating of at least “A” by a second NRSRO.

Recommended Language

Negotiable Certificates of Deposit and Bank Deposit Notes of domestic banks and domestic offices of foreign banks with:

- 1) ratings of at least ‘A-1’ (or its equivalent) by two NRSROs for maturities one (1) year or less; and*
- 2) a rating of at least ‘AA’ (or its equivalent) from at least one NRSRO and a rating of at least ‘A’ (or its equivalent) from a second NRSRO for maturities over one (1) year; and*
- 3) the final maturity shall not exceed a period of five (5) years from the time of purchase.*



Questions?

**FINANCE & BUDGET COMMITTEE
PROPOSED CHANGES TO STATEMENT OF INVESTMENT POLICY**

ACTION ITEM A: Approval of Revised Statement of Investment Policy

The Board will be asked to approve a resolution to approve changes to the Statement of Investment Policy which sets forth the investment and operational policies for the management of DC Water funds.

Changes to the Statement of Investment Policy include:

- a. Deletion of Diversity as an objective
- b. Changes to and additions to the types of Authorized Investments
- c. Addition of Sector and Issuer limits on investments
- d. Change in the description of the Core Portfolio
- e. Addition of the Engagement of Investment Managers

FINANCE & BUDGET COMMITTEE

Recommendation of Selection of Banking Services Provider

ACTION ITEM B:

The Board will be asked to approve a resolution to approve the selection of a banking services provider. The bank will provide general banking services to DC Water including the receipt and processing of customer payments thru an established lockbox as well as the establishment of various accounts for deposit and services including payroll, disbursements, and reserve accounts.

A Request for Proposals was issued February 3, 2014. Three responses were received and evaluated by a panel of senior staff and a recommendation has been made to select the team of TD Bank and Industrial Bank (Local Business Enterprise/Local Small Business Enterprise) to provide banking services.

District of Columbia Water and Sewer Authority

Statement of Investment Policy

Amended _____, 2014

District of Columbia Water and Sewer Authority

Statement of Investment Policy

Table of Contents

<i>Purpose</i>	3
<i>Scope of the Investment Policy</i>	3
<i>Investment Objectives</i>	3
<i>Delegation of Authority</i>	4
<i>Standard of Prudence</i>	4
<i>Ethics and Conflict of Interest</i>	4
<i>Authorized Investments</i>	4
<i>Prohibited Investments and Investment Practices</i>	<u>76</u>
<i><u>Collateralization of Bank Deposits</u></i>	7
<i>Portfolio Diversification</i>	7
<i>Maximum Maturity</i>	8
<i>Selection, Approval of Brokers, Qualified Financial Institutions</i>	<u>89</u>
<i><u>Engagement of Investment Managers</u></i>	<u>10</u>
<i>Competitive Selection of Investment Instruments</i>	<u>910</u>
<i>Investment of Bond Proceeds</i>	<u>911</u>
<i>Safekeeping and Custody</i>	<u>911</u>
<i>Internal Control</i>	<u>1011</u>
<i>Performance Standards</i>	<u>1011</u>
<i>Reporting</i>	<u>1012</u>
<i>Investment Policy Adoption</i>	<u>1012</u>
<i>Glossary</i>	<u>1113</u>

District of Columbia Water and Sewer Authority

Statement of Investment Policy

Purpose

The purpose of this document is to set forth the investment and operational policies for the management of public funds of the District of Columbia Water and Sewer Authority (“DC Water”).

These policies are designed to ensure the prudent management of Authority funds, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices.

It shall be the policy of DC Water that all investments and investment practices meet or exceed all statutes governing the investment of public monies in the District of Columbia and any investment restrictions imposed by bond covenants. Further, accounting for DC Water Portfolio shall be consistent with guidelines of the Governmental Accounting Standards Board (GASB).

Scope of the Investment Policy

This investment policy is a comprehensive one that governs the overall administration and investment management of those monies held in DC Water’s investment portfolio. This policy shall apply to such monies from the time of receipt until the time the monies ultimately leave DC Water’s accounts. These monies include, but are not limited to, all operating funds, debt service funds, capital project funds, and grant money.

The guidance set forth herein is to be strictly followed by all those responsible for any aspect of the management or administration of these monies.

Investment Objectives

DC Water’s Portfolio shall be managed to accomplish the following hierarchy of objectives:

- i) **Safety** – The safeguarding of principal shall be the foremost objective of the investment program, and other objectives shall be subordinated to the attainment of this objective.
- ii) **Liquidity** – The investment portfolio shall be managed at all times with sufficient liquidity to meet all daily and seasonal needs, as well as special projects and other operational requirements either known or which might reasonably be anticipated.
- iii) **Return on Investment** – The investment portfolio shall be managed with the objective of obtaining no worse than a market rate of return over the course of budgetary and economic cycles, taking into account the constraints contained herein and the cash flow patterns of DC Water.

~~iv) **Diversity** – The investment portfolio shall be managed to avoid undue concentration of ownership in a single issue by a single issuer or type of securities or maturities.~~

Delegation of Authority

DC Water Board of Directors grants authority for the management of the investment program and for the investment of funds (within the constraints set by this policy) to the General Manager. By letter of delegation, the General Manager may delegate responsibility for managing the investment program to a designee. The GM or designee shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include references to safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking services contracts.

Standard of Prudence

The standard of prudence to be applied to the investment of DC Water's Portfolio shall be the "Prudent Person" rule that states:

"Investments shall be made with judgment and care, under circumstances then prevailing which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

Ethics and Conflict of Interest

Consistent with any DC Water policies on ethics, employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial positions that could be related to the performance of the investment portfolio. Employees shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of DC Water.

Authorized Investments

DC Water shall be permitted to invest in any of the following securities.

- A) **U.S. Treasury Obligations.** United States Treasury bills, notes, or any other obligation or security issued by or backed by the full faith and credit of the United States Treasury. These securities shall be limited to a maximum maturity of five (5) years at the time of purchase.
- B) **Registered Investment Companies (Mutual Funds.)** Shares in open-end, no-load investment funds provided such funds are registered under the Federal Investment Company Act of 1940, and invest exclusively in the securities permitted under this investment policy provided that the fund is rated "AAAm" or "AAAm-G" or the equivalent by a NRSRO. The mutual fund must comply with the diversification, quality and maturity requirements of Rule 2(a)-7, or any successor rule, of the United States Securities and Exchange Commission.

Before investing in any mutual fund, the GM or designee will obtain a copy of the fund's prospectus and review permitted investments, fees, and management.

- C) **Repurchase Agreements.** Contracts for the present purchase and subsequent resale at a specified time in the future of specific securities at specified prices at a price differential

representing the interest income to be earned by DC Water. Such contracts shall be invested in only if the following conditions are met:

- 1) the Repurchase Agreement has a term to maturity of no greater than ninety (90) days;
- 2) the contract is fully secured by deliverable U.S. Treasury and Federal Agency obligations as described in (A) and (B) above (without limit to maturity), having a market value at all times of at least one hundred two percent (102%) of the amount of the contract;
- 3) a Master Repurchase Agreement or specific written Repurchase Agreement governs the transaction;
- 4) the securities are held free and clear of any lien by an independent third party custodian acting solely as agent for DC Water, provided such third party is not the seller under the repurchase agreement;
- 5) a perfected first security interest under the Uniform Commercial Code in accordance with book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of DC Water;
- 6) for repurchase agreements with terms to maturity of greater than one (1) day, DC Water will value the collateral securities daily and require that if additional collateral is required then that collateral must be delivered within one business day (if a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated);
- 7) the counterparty is a:
 - a) primary government securities dealer who reports daily to the Federal Reserve Bank of New York, or
 - b) a bank, savings and loan association, or diversified securities broker-dealer having \$5 billion in assets and \$500 million in capital and subject to regulation of capital standards by any state or federal regulatory agency; and
- 8) the counterparty meets the following criteria:
 - a) has long-term credit rating of at least 'AA' or the equivalent from a Nationally Recognized Statistical Rating Organization ("NRSRO"),
 - b) has been in operation for at least 5 years, and
 - c) is reputable among market participants.

D) **Federal Agency Obligations.** Bonds, notes, debentures, or other obligations or securities issued by a federal government agency or instrumentality, except Collateralized Mortgage Obligations, with a rating of at least "AA" or equivalent from two (2) major rating agencies. These obligations shall be limited to a maximum maturity of five (5) years at the time of purchase.

~~no more than thirty percent (30%) of the total monies available for investment (based on book value on the date of acquisition) may be invested in negotiable Certificates of Deposit and Bank Deposit Notes.~~

E) **Bankers' Acceptances** issued by a domestic bank or a federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System may be purchased if the following conditions are met:

- 1) the maturity is no greater than one hundred eighty days (180)~~two hundred seventy days (270) days;~~ and
- 2) the short-term paper of which is rated not lower than 'A-1' or the equivalent by a NRSRO;

~~no more than forty percent (40%) of the total monies available for investment (based on book value on the date of acquisition) may be invested in Bankers' Acceptances; and the amount invested in any single bank will not exceed five percent (5%) of the total monies available for investment (based on book value on the date of acquisition).~~

- F) **Commercial Paper.** Unsecured short-term debt of U.S. corporations may be purchased if the following conditions are met:
- 1) the maturity is no greater than two hundred-seventy days (270) ~~one hundred eighty days (180) days;~~
 - 2) ~~no more than thirty five percent (35%) of the total monies available for investment (based on book value on the date of acquisition) may be invested in commercial paper;~~
 - 3) ~~the amount invested in any single issuing corporation will not exceed five percent (5%) of the total monies available for investment (based on book value on the date of acquisition);~~
 - 4) 2) _____ the issuing corporation, or its guarantor, has a short-term debt rating of no less than “A-1” (or its equivalent) by at least two of the NRSROs; and
 - 5) 3) _____ the total holdings of an issuer’s paper do not represent more than ten percent (10%) of the issuing corporation’s total outstanding commercial paper.
- G) **Collateralized Certificates of Deposit** in state chartered banks or federally chartered banks. Deposits with savings and loans associations or District and Federal Credit Unions shall not exceed the greater of the total net worth or \$500,000. Collateralized Certificates of Deposit shall be collateralized at 102%. Please refer to the Authority’s DC Water’s collateralization policies under Collateralization of Bank Deposits.
- H) Corporate Notes: High quality corporate notes that meet the following criteria:
- 1) a rating of at least ‘AA’ (or its equivalent) from at least one NRSRO and a rating of at least ‘A’ (or its equivalent) from a second NRSRO; and
 - 2) the final maturity shall not exceed a period of five (5) years from the time of purchase.
- H)I) **FDIC insured Certificates of Deposit** obtained thru Certificate of Deposit placement services including the Certificate of Deposit Account Registry Service (CDARS).
- J) Federal Agency Mortgage-Backed Securities issued by Fannie Mae, Freddie Mac, or the Government National Mortgage Association (GNMA) that meet the following criteria:
- 1) a rating of at least “AA” (or its equivalent) by two NRSROs.
 - 2) the weighted average life (WAL) shall not exceed a period of five (5) years from the time of purchase.
- H)K) **Negotiable Certificates of Deposit and Bank Deposit Notes** of domestic banks and domestic offices of foreign banks with:
- 1) ratings of at least ‘A-1’ (~~the its~~ equivalent) by two NRSROs for maturities of one (1) year or less; and
 - 2) a ratings of at least ‘AAA’ (or its ~~the~~ equivalent) from at least by ~~one~~ two NRSROs, without regard to gradation and a rating of at least ‘A’ (or its equivalent); from a second NRSRO for maturities over one (1) year; and ~~and not exceeding five years.; and~~
 - 2) 3) _____ the final maturity shall not exceed a period of five (5) years from the time of purchase.
- L) Supranational Bonds: Obligations, participations or other instruments of any Federal agency, instrumentality or United States government-sponsored enterprise, including those issued or fully guaranteed as to the principal and interest by Federal agencies, instrumentalities or United States government sponsored enterprises, provided that:
- 1) at time of purchase the maturity does not to exceed five (5) years; and;
 - 1) 2) _____ have a rating of at least ‘A’ (or its equivalent) from at least two NRSROs.

~~M~~ **Municipal Obligations.** Bonds, notes and other evidences of indebtedness of the District of Columbia, or of any state or local government upon which there is no default that meet the following criteria:

- 1) have a final maturity on the date of investment not to exceed five (5) years.
- 2) rated in either of the two highest rating categories by a NRSRO; and
- ~~3) no more than twenty percent (20%) of the total monies available for investment (based on book value on the date of acquisition) may be invested in Municipal Obligations.~~
- 4) ~~3)~~ the total holdings of any single issue do not represent more than 25% of the total issue.

The monies of individual funds may be commingled for investment purposes. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

Prohibited Investments and Investment Practices

DC Water is prohibited from:

- 1) Investment in reverse repurchase agreements;
- 2) Short sales (selling a specific security before it has been legally purchased);
- 3) Borrowing funds for the sole purpose of reinvesting the proceeds of such borrowing;
- 4) Investment in complex derivatives such as range notes, dual index notes, inverse floating rate notes and deleveraged notes, or notes linked to lagging indices or to long-term indices.
- 5) Investing in any security not specifically permitted by this Policy.

Collateralization of Bank Deposits

DC Water requires that all cash and other deposits maintained in any financial institution be collateralized, including bank deposits and collateralized certificates of deposit. Collateral will be secured in accordance with the following policy:

- 1) collateralization on all deposits of DC Water monies in excess of the amount protected by federal deposit insurance,
- 2) collateralization with any of the following (i) U.S. Treasury obligations, (ii) Federal Agency obligations, or (iii) a Letter of Credit issued by a Federal Home Loan Bank the amount of which shall be 102% of the deposits held.

In order to anticipate market changes and provide a level of security for all monies, the collateralization level shall be 102% of the market value of principal, plus accrued interest or as required by the terms of outstanding DC Water bond issues, municipal bond insurance policies and/or other financing agreements, which may pertain to DC Water's monies. Collateral shall always be held by an independent third-party custodian. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to DC Water and retained by the GM or designee. The right of collateral substitution is allowed.

Portfolio Diversification

DC Water's Portfolio shall be diversified by security type and institution. The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each eligible security is as follows:

U.S. Treasury Obligations	100% maximum
Federal Agency Obligations	80% maximum

Repurchase Agreements	100% maximum
Commercial Paper	35% maximum
Bankers' Acceptances	40% maximum
Municipal Obligations	20% maximum
Negotiable Certificates of Deposit	30% maximum
Collateralized Certificates of Deposit	30% maximum
Registered Mutual Funds	100% maximum
Bank Deposits	100% maximum
FDIC insured Certificates of Deposit	30% maximum

<u>Permitted Investment</u>	<u>Sector Limit</u>	<u>Issuer Limit</u>
<u>Collateralized Bank Deposits</u>	<u>100%</u>	<u>100%</u>
A. <u>U.S. Treasury Obligations</u>	<u>100%</u>	<u>100%</u>
B. <u>Registered Money Market Mutual Funds</u>	<u>100%</u>	<u>50%</u>
C. <u>Repurchase Agreements</u>	<u>100%</u>	<u>50%</u>
D. <u>Federal Agency Obligations</u>	<u>80%</u>	<u>40%</u>
E. <u>Bankers' Acceptances</u>	<u>40%</u>	<u>5%</u>
F. <u>Commercial Paper</u>	<u>35%</u>	<u>5%</u>
G. <u>Collateralized Certificates of Deposit</u>	<u>30%</u>	<u>5%</u>
H. <u>Corporate Notes</u>	<u>30%</u>	<u>5%</u>
I. <u>FDIC-Insured Certificates of Deposit</u>	<u>30%</u>	<u>5%</u>
J. <u>Mortgage Backed Securities</u>	<u>30%</u>	<u>5%</u>
K. <u>Negotiable Certificates of Deposit</u>	<u>30%</u>	<u>5%</u>
L. <u>Supranational Bonds</u>	<u>30%</u>	<u>5%</u>
M. <u>Municipal Obligations</u>	<u>20%</u>	<u>5%</u>

The DCWASA's Portfolio will be further diversified to limit the exposure to any one issuer. No more than five percent (5%) of the DCWASA's Portfolio will be invested in the securities of any single issuer with following exceptions:

U.S. Treasury	100% maximum
Each Federal Agency	40% maximum
Each Repurchase Agreement Counterparty	50% maximum
Each Mutual Fund	50% maximum

Maximum Maturity

Maintenance of adequate liquidity to meet the cash flow needs of DC Water is essential. Accordingly, the portfolio will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Selection of investment maturities must be consistent with the cash requirements of DC Water in order to avoid the forced sale of securities prior to maturity.

For purposes of this Investment Policy, assets of DC Water shall be segregated into three categories based on expected liquidity needs and purposes — short-term operating monies, the core portfolio and bond proceeds.

Short-Term Operating Monies. Assets categorized as short-term monies will be invested in permitted investments maturing in twelve (12) months or less. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio will be continuously invested in readily available funds such as money market mutual funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

Core Portfolio. The operating fund core portfolio will be invested in permitted investments with a stated maturity of no more than five (5) years from the date of purchase (with the exception of Federal Agency Mortgage-Backed Securities which must have a weighted average life (WAL) of no more than five (5) years). To control the volatility of the core portfolio, the GM or designee will determine a duration target, not to exceed three (3) years.

Bond Proceeds. Proceeds from the sale of bonds will be invested in compliance with the specific requirements of the bond covenants without further restriction as to the maximum term to maturity of securities purchased. However, in no case will bond proceeds be invested in securities with a term to maturity that exceeds the expected disbursement date of those monies. Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturity of such investment is made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the Budget and Finance Committee.

Selection, Approval of Brokers, Qualified Financial Institutions

The GM or designee shall maintain a list of financial institutions and broker/dealers that are approved for investment purposes (“Qualified Institutions”). All Qualified Institutions who desire to provide investment services to DC Water will be provided with current copies of DC Water’s Investment Policy. Receipt of this policy, including confirmation that it has been reviewed by persons dealing directly with DC Water, will be received prior to any organization providing investment services to the DC Water.

Qualified Institutions should supply the GM or designee with information sufficient to adequately evaluate the financial capacity and creditworthiness of the firm. The following information should be provided: (i) audited financial statements, (ii) regulatory reports on financial condition, (iii) proof of National Association of Security Dealers certification and proof of state registration, and (iv) any additional information to allow the GM or his designee to evaluate the creditworthiness of the institution.

Only firms meeting the following requirements will be eligible to serve as broker/dealers for DC Water:

- 1) “primary” dealers and regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);
- 2) capital of no less than \$10,000,000;
- 3) registered as a dealer under the Securities Exchange Act of 1934;
- 4) member of the National Association of DealersFinancial Industry Regulatory Authority (NASDFINRA);
- 5) registered to sell securities in the District of Columbia; and

- 6) the firm and assigned broker have been engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years.

The GM or designee shall conduct an annual review of the financial condition and registrations of Qualified Institutions.

Engagement of Investment Managers

The GM may engage one of more qualified firms to provide investment management services for DC Water. All investment management firms who desire to provide investment services will be provided with current copies of DC Water's Investment Policy. Before an organization can provide investment services to DC Water, it must confirm in writing that it has received and reviewed this Policy. The GM or his designee will conduct appropriate due diligence in the selection of qualified investment management firms and will periodically confirm a manager's qualifications by periodically visiting that manager's operational facilities that provide services to DC Water.

Only firms meeting the following requirements will be eligible to serve as an investment manager:

- 1) Registered with the SEC under the Investment Advisers Act of 1940;
- 2) Registered to conduct business in the District of Columbia;
- 3) Have proven experience in providing investment management services to entities with similar investment objectives as DC Water.

Any firm engaged by DC Water to provide investment services will:

- 1) Provide to DC Water an annual updated copy of Form ADV, Part II;
- 2) Maintain a list of approved security brokers/dealers selected by creditworthiness who are authorized to provide investment services in the District of Columbia;
- 3) Provide monthly reports of transactions and holdings to the GM or his designee;
- 4) Provide quarterly performance reports that display investment performance in comparison to DC Water's investment benchmarks;
- 5) Periodically show that the manager has solicited at least three bids for any security purchased or sold on behalf of DC Water; and
- 6) Not collect any soft dollar fees from any broker/dealer or other financial firm in relation to services provided to DC Water.

Competitive Selection of Investment Instruments

It will be the policy of DC Water to transact all securities purchases and sales only with Qualified Institutions through a formal and competitive process requiring the solicitation and evaluation of at least three bids/offers. Electronic bids will be accepted. DC Water may also purchase or sell securities using electronic trading systems. The DC Water will accept the bid which (a) offers the highest rate of return within the maturity required; and (b) optimizes the investment objective of the overall portfolio. When selling a security, DC Water will select the bid that generates the highest sale price.

Primary fixed price Federal Agency offerings may be purchased from the list of Qualified Institutions without competitive solicitation if it is determined that no Agency obligations meeting DC Water's requirements are available in the secondary market at a higher yield.

Investment of Bond Proceeds

DC Water will comply with all applicable sections of the Internal Revenue Code of 1986, Arbitrage Rebate Regulations and bond covenants with regard to the investment of bond proceeds. Accounting records will be maintained in a form and for a period of time sufficient to document compliance with these regulations.

Safekeeping and Custody

All investment securities purchased by DC Water or held as collateral on deposits or investments shall be held by DC Water or by a third-party custodial agent who may not otherwise be counterparty to the investment transaction.

All securities in DC Water's Portfolio shall be held in the name of DC Water and will be free and clear of any lien. Further, all investment transactions will be conducted on a delivery-vs.-payment basis. The custodial agent shall issue a safekeeping receipt to DC Water listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the custodial agent will also provide reports that list all securities held for DC Water, the book value of holdings and the market value as of month-end.

Appropriate DC Water officials and representatives of the custodial agent responsible for, or in any manner involved with, the safekeeping and custody process of DC Water shall be bonded in such a fashion as to protect DC Water from losses from malfeasance and misfeasance.

Internal Controls

The GM or designee shall establish a system of internal controls governing the administration and management of DC Water's Portfolio, and these controls shall be documented in writing. Such controls shall be designed to prevent and control losses of DC Water monies arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by any personnel. DC Water shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

Performance Standards

The investment portfolio shall be designed and managed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs of DC Water. The return on DC Water investments will be compared to an index of U.S. Treasury securities having a similar duration or other appropriate benchmark on a quarterly basis. For funds having a duration or weighted average maturity of greater than 90 days, performance will be computed on a total return basis.

Reporting

On a monthly basis, the GM or designee will submit an investment report to the Finance & Budget Committee. This investment report shall include: (i) a listing of the existing portfolio in terms of investment securities, maturity date, yield, market value and other features deemed relevant, (ii) the total investment earnings for the reporting period, (iii) a listing of all transactions executed during the quarter, and (iv) a statement on compliance with this Policy and any applicable bond resolutions.

Investment Policy Adoption

This policy is adopted by the Board of Directors of the District of Columbia Water and Sewer Authority this ___ day of _____ 2014.

Glossary

Agencies: Federal agency securities and/or government-sponsored enterprises.

Bankers' Acceptance: A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Benchmark: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Broker: A broker brings buyers and sellers together for a commission.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

Collateral: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

Delivery versus Payment: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

Diversification: Dividing investment funds among a variety of securities offering independent returns.

Liquidity: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

Market Value: The price at which a security is trading and could presumably be purchased or sold.

Master Repurchase Agreement: A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

Maturity: The date upon which the principal or stated value of an investment becomes due and payable.

Nationally Recognized Statistical Rating Organization (NRSRO): A credit rating agency which issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes.

Portfolio: Collection of securities held by an investor.

Primary Dealer: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

Repurchase Agreement (RP or REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions.

Securities and Exchange Commission (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Treasury Bills: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

Treasury Bonds: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

Treasury Notes: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

Uniform Net Capital Rule: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

Yield: The rate of annual income return on an investment, expressed as a percentage. Income/current yield is obtained by dividing the current dollar income by the current market price for the security. Net yield or yield to maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

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District of Columbia Water and Sewer Authority

Statement of Investment Policy

Amended _____, 2014

District of Columbia Water and Sewer Authority

Statement of Investment Policy

Table of Contents

<i>Purpose</i>	3
<i>Scope of the Investment Policy</i>	3
<i>Investment Objectives</i>	3
<i>Delegation of Authority</i>	4
<i>Standard of Prudence</i>	4
<i>Ethics and Conflict of Interest</i>	4
<i>Authorized Investments</i>	4
<i>Prohibited Investments and Investment Practices</i>	6
<i>Collateralization of Bank Deposits</i>	7
<i>Portfolio Diversification</i>	7
<i>Maximum Maturity</i>	8
<i>Selection, Approval of Brokers, Qualified Financial Institutions</i>	8
<i>Engagement of Investment Managers</i>	9
<i>Competitive Selection of Investment Instruments</i>	9
<i>Investment of Bond Proceeds</i>	10
<i>Safekeeping and Custody</i>	10
<i>Internal Control</i>	10
<i>Performance Standards</i>	10
<i>Reporting</i>	10
<i>Investment Policy Adoption</i>	11
<i>Glossary</i>	12

District of Columbia Water and Sewer Authority

Statement of Investment Policy

Purpose

The purpose of this document is to set forth the investment and operational policies for the management of public funds of the District of Columbia Water and Sewer Authority (“DC Water”).

These policies are designed to ensure the prudent management of Authority funds, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices.

It shall be the policy of DC Water that all investments and investment practices meet or exceed all statutes governing the investment of public monies in the District of Columbia and any investment restrictions imposed by bond covenants. Further, accounting for DC Water Portfolio shall be consistent with guidelines of the Governmental Accounting Standards Board (GASB).

Scope of the Investment Policy

This investment policy is a comprehensive one that governs the overall administration and investment management of those monies held in DC Water’s investment portfolio. This policy shall apply to such monies from the time of receipt until the time the monies ultimately leave DC Water’s accounts. These monies include, but are not limited to, all operating funds, debt service funds, capital project funds, and grant money.

The guidance set forth herein is to be strictly followed by all those responsible for any aspect of the management or administration of these monies.

Investment Objectives

DC Water’s Portfolio shall be managed to accomplish the following hierarchy of objectives:

- i) **Safety** – The safeguarding of principal shall be the foremost objective of the investment program, and other objectives shall be subordinated to the attainment of this objective.
- ii) **Liquidity** – The investment portfolio shall be managed at all times with sufficient liquidity to meet all daily and seasonal needs, as well as special projects and other operational requirements either known or which might reasonably be anticipated.
- iii) **Return on Investment** – The investment portfolio shall be managed with the objective of obtaining no worse than a market rate of return over the course of budgetary and economic cycles, taking into account the constraints contained herein and the cash flow patterns of DC Water.

Delegation of Authority

DC Water Board of Directors grants authority for the management of the investment program and for the investment of funds (within the constraints set by this policy) to the General Manager. By

letter of delegation, the General Manager may delegate responsibility for managing the investment program to a designee. The GM or designee shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include references to safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking services contracts.

Standard of Prudence

The standard of prudence to be applied to the investment of DC Water's Portfolio shall be the "Prudent Person" rule that states:

"Investments shall be made with judgment and care, under circumstances then prevailing which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

Ethics and Conflict of Interest

Consistent with any DC Water policies on ethics, employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial positions that could be related to the performance of the investment portfolio. Employees shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of DC Water.

Authorized Investments

DC Water shall be permitted to invest in any of the following securities.

- A) **U.S. Treasury Obligations.** United States Treasury bills, notes, or any other obligation or security issued by or backed by the full faith and credit of the United States Treasury. These securities shall be limited to a maximum maturity of five (5) years at the time of purchase.
- B) **Registered Investment Companies (Mutual Funds.)** Shares in open-end, no-load investment funds provided such funds are registered under the Federal Investment Company Act of 1940 and invest exclusively in the securities permitted under this investment policy provided that the fund is rated "AAAm" or "AAAm-G" or the equivalent by a NRSRO. The mutual fund must comply with the diversification, quality and maturity requirements of Rule 2(a)-7, or any successor rule, of the United States Securities and Exchange Commission.

Before investing in any mutual fund, the GM or designee will obtain a copy of the fund's prospectus and review permitted investments, fees, and management.

- C) **Repurchase Agreements.** Contracts for the present purchase and subsequent resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by DC Water. Such contracts shall be invested in only if the following conditions are met:
 - 1) the Repurchase Agreement has a term to maturity of no greater than ninety (90) days;

- 2) the contract is fully secured by deliverable U.S. Treasury and Federal Agency obligations as described in (A) and (B) above (without limit to maturity), having a market value at all times of at least one hundred two percent (102%) of the amount of the contract;
 - 3) a Master Repurchase Agreement or specific written Repurchase Agreement governs the transaction;
 - 4) the securities are held free and clear of any lien by an independent third party custodian acting solely as agent for DC Water, provided such third party is not the seller under the repurchase agreement;
 - 5) a perfected first security interest under the Uniform Commercial Code in accordance with book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of DC Water;
 - 6) for repurchase agreements with terms to maturity of greater than one (1) day, DC Water will value the collateral securities daily and require that if additional collateral is required then that collateral must be delivered within one business day (if a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated);
 - 7) the counterparty is a:
 - a) primary government securities dealer who reports daily to the Federal Reserve Bank of New York, or
 - b) a bank, savings and loan association, or diversified securities broker-dealer having \$5 billion in assets and \$500 million in capital and subject to regulation of capital standards by any state or federal regulatory agency; and
 - 8) the counterparty meets the following criteria:
 - a) has long-term credit rating of at least 'AA' or the equivalent from a Nationally Recognized Statistical Rating Organization ("NRSRO"),
 - b) has been in operation for at least 5 years, and
 - c) is reputable among market participants.
- D) **Federal Agency Obligations.** Bonds, notes, debentures, or other obligations or securities issued by a federal government agency or instrumentality, except Collateralized Mortgage Obligations, with a rating of at least "AA" or equivalent from two (2) major rating agencies. These obligations shall be limited to a maximum maturity of five (5) years at the time of purchase.
- E) **Bankers' Acceptances** issued by a domestic bank or a federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System may be purchased if the following conditions are met:
 - 1) the maturity is no greater than one hundred-eighty days (180); and
 - 2) the short-term paper of which is rated not lower than 'A-1' or the equivalent by a NRSRO.
- F) **Commercial Paper.** Unsecured short-term debt of U.S. corporations may be purchased if the following conditions are met:
 - 1) the maturity is no greater than two hundred-seventy days (270)
 - 2) the issuing corporation, or its guarantor, has a short-term debt rating of no less than "A-1" (or its equivalent) by at least two of the NRSROs; and
 - 3) the total holdings of an issuer's paper do not represent more than ten percent (10%) of the issuing corporation's total outstanding commercial paper.
- G) **Collateralized Certificates of Deposit** in state chartered banks or federally chartered banks. Deposits with savings and loans associations or District and Federal Credit Unions shall not exceed the greater of the total net worth or \$500,000. Collateralized Certificates of Deposit

shall be collateralized at 102%. Please refer to the DC Water's collateralization policies under Collateralization of Bank Deposits.

- H) **Corporate Notes:** High quality corporate notes that meet the following criteria:
- 1) a rating of at least 'AA' (or its equivalent) from at least one NRSRO and a rating of at least 'A' (or its equivalent) from a second NRSRO; and
 - 2) the final maturity shall not exceed a period of five (5) years from the time of purchase.
- I) **FDIC insured Certificates of Deposit** obtained thru Certificate of Deposit placement services including the Certificate of Deposit Account Registry Service (CDARS).
- J) **Federal Agency Mortgage-Backed Securities** issued by Fannie Mae, Freddie Mac, or the Government National Mortgage Association (GNMA) that meet the following criteria:
- 1) a rating of at least "AA" (or its equivalent) by two NRSROs.
 - 2) the weighted average life (WAL) shall not exceed a period of five (5) years from the time of purchase.
- K) **Negotiable Certificates of Deposit and Bank Deposit Notes** of domestic banks and domestic offices of foreign banks with:
- 1) ratings of at least 'A-1' (or its equivalent) by two NRSROs for maturities of one (1) year or less; and
 - 2) a rating of at least 'AA' (or its equivalent) from at least one NRSRO and a rating of at least 'A' (or its equivalent) from a second NRSRO for maturities over one (1) year; and
 - 3) the final maturity shall not exceed a period of five (5) years from the time of purchase.
- L) **Supranational Bonds:** Obligations, participations or other instruments of any Federal agency, instrumentality or United States government-sponsored enterprise, including those issued or fully guaranteed as to the principal and interest by Federal agencies, instrumentalities or United States government sponsored enterprises, provided that:
- 1) at time of purchase the maturity does not to exceed five (5) years; and
 - 2) have a rating of at least 'A' (or its equivalent) from at least two NRSROs.
- M) **Municipal Obligations.** Bonds, notes and other evidences of indebtedness of the District of Columbia, or of any state or local government upon which there is no default that meet the following criteria:
- 1) have a final maturity on the date of investment not to exceed five (5) years.
 - 2) rated in either of the two highest rating categories by a NRSRO; and
 - 3) the total holdings of any single issue do not represent more than 25% of the total issue.

The monies of individual funds may be commingled for investment purposes. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

Prohibited Investments and Investment Practices

DC Water is prohibited from:

- 1) Investment in reverse repurchase agreements;
- 2) Short sales (selling a specific security before it has been legally purchased);
- 3) Borrowing funds for the sole purpose of reinvesting the proceeds of such borrowing;

- 4) Investment in complex derivatives such as range notes, dual index notes, inverse floating rate notes and deleveraged notes, or notes linked to lagging indices or to long-term indices.
- 5) Investing in any security not specifically permitted by this Policy.

Collateralization of Bank Deposits

DC Water requires that all cash and other deposits maintained in any financial institution be collateralized, including bank deposits and collateralized certificates of deposit. Collateral will be secured in accordance with the following policy:

- 1) collateralization on all deposits of DC Water monies in excess of the amount protected by federal deposit insurance,
- 2) collateralization with any of the following (i) U.S. Treasury obligations, (ii) Federal Agency obligations, or (iii) a Letter of Credit issued by a Federal Home Loan Bank the amount of which shall be 102% of the deposits held.

In order to anticipate market changes and provide a level of security for all monies, the collateralization level shall be 102% of the market value of principal, plus accrued interest or as required by the terms of outstanding DC Water bond issues, municipal bond insurance policies and/or other financing agreements, which may pertain to DC Water’s monies. Collateral shall always be held by an independent third-party custodian. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to DC Water and retained by the GM or designee. The right of collateral substitution is allowed.

Portfolio Diversification

DC Water’s Portfolio shall be diversified by security type and institution. The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each eligible security is as follows:

Permitted Investment	Sector Limit	Issuer Limit
Collateralized Bank Deposits	100%	100%
A. U.S. Treasury Obligations	100%	100%
B. Registered Money Market Mutual Funds	100%	50%
C. Repurchase Agreements	100%	50%
D. Federal Agency Obligations	80%	40%
E. Bankers’ Acceptances	40%	5%
F. Commercial Paper	35%	5%
G. Collateralized Certificates of Deposit	30%	5%
H. Corporate Notes	30%	5%
I. FDIC-Insured Certificates of Deposit	30%	5%
J. Mortgage Backed Securities	30%	5%
K. Negotiable Certificates of Deposit	30%	5%
L. Supranational Bonds	30%	5%

M. Municipal Obligations	20%	5%
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Maximum Maturity

Maintenance of adequate liquidity to meet the cash flow needs of DC Water is essential. Accordingly, the portfolio will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Selection of investment maturities must be consistent with the cash requirements of DC Water in order to avoid the forced sale of securities prior to maturity.

For purposes of this Investment Policy, assets of DC Water shall be segregated into three categories based on expected liquidity needs and purposes — short-term operating monies, the core portfolio and bond proceeds.

Short-Term Operating Monies. Assets categorized as short-term monies will be invested in permitted investments maturing in twelve (12) months or less. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio will be continuously invested in readily available funds such as money market mutual funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

Core Portfolio. The operating fund core portfolio will be invested in permitted investments with a stated maturity of no more than five (5) years from the date of purchase (with the exception of Federal Agency Mortgage-Backed Securities which must have a weighted average life (WAL) of no more than five (5) years). To control the volatility of the core portfolio, the GM or designee will determine a duration target, not to exceed three (3) years.

Bond Proceeds. Proceeds from the sale of bonds will be invested in compliance with the specific requirements of the bond covenants without further restriction as to the maximum term to maturity of securities purchased. However, in no case will bond proceeds be invested in securities with a term to maturity that exceeds the expected disbursement date of those monies. Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturity of such investment is made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the Budget and Finance Committee.

Selection, Approval of Brokers, Qualified Financial Institutions

The GM or designee shall maintain a list of financial institutions and broker/dealers that are approved for investment purposes (“Qualified Institutions”). All Qualified Institutions who desire to provide investment services to DC Water will be provided with current copies of DC Water’s Investment Policy. Receipt of this policy, including confirmation that it has been reviewed by persons dealing directly with DC Water, will be received prior to any organization providing investment services to the DC Water.

Qualified Institutions should supply the GM or designee with information sufficient to adequately evaluate the financial capacity and creditworthiness of the firm. The following information should be provided: (i) audited financial statements, (ii) regulatory reports on financial condition, (iii) proof of National Association of Security Dealers certification and proof of state registration, and (iv) any additional information to allow the GM or his designee to evaluate the creditworthiness of the institution.

Only firms meeting the following requirements will be eligible to serve as broker/dealers for DC Water:

- 1) “primary” dealers and regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);
- 2) capital of no less than \$10,000,000;
- 3) registered as a dealer under the Securities Exchange Act of 1934;
- 4) member of the Financial Industry Regulatory Authority (FINRA);
- 5) registered to sell securities in the District of Columbia; and
- 6) the firm and assigned broker have been engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years.

The GM or designee shall conduct an annual review of the financial condition and registrations of Qualified Institutions.

Engagement of Investment Managers

The GM may engage one or more qualified firms to provide investment management services for DC Water. All investment management firms who desire to provide investment services will be provided with current copies of DC Water’s Investment Policy. Before an organization can provide investment services to DC Water, it must confirm in writing that it has received and reviewed this Policy. The GM or his designee will conduct appropriate due diligence in the selection of qualified investment management firms and will periodically confirm a manager’s qualifications by periodically visiting that manager’s operational facilities that provide services to DC Water.

Only firms meeting the following requirements will be eligible to serve as an investment manager:

- 1) Registered with the SEC under the Investment Advisers Act of 1940;
- 2) Registered to conduct business in the District of Columbia;
- 3) Have proven experience in providing investment management services to entities with similar investment objectives as DC Water.

Any firm engaged by DC Water to provide investment services will:

- 1) Provide to DC Water an annual updated copy of Form ADV, Part II;
- 2) Maintain a list of approved security brokers/dealers selected by creditworthiness who are authorized to provide investment services in the District of Columbia;
- 3) Provide monthly reports of transactions and holdings to the GM or his designee;
- 4) Provide quarterly performance reports that display investment performance in comparison to DC Water’s investment benchmarks;
- 5) Periodically show that the manager has solicited at least three bids for any security purchased or sold on behalf of DC Water; and
- 6) Not collect any soft dollar fees from any broker/dealer or other financial firm in relation to services provided to DC Water.

Competitive Selection of Investment Instruments

It will be the policy of DC Water to transact all securities purchases and sales only with Qualified Institutions through a formal and competitive process requiring the solicitation and evaluation of at least three bids/offers. Electronic bids will be accepted. DC Water may also purchase or sell securities using electronic trading systems. The DC Water will accept the bid which (a) offers the highest rate of return within the maturity required; and (b) optimizes the investment objective of

the overall portfolio. When selling a security, DC Water will select the bid that generates the highest sale price.

Primary fixed price Federal Agency offerings may be purchased from the list of Qualified Institutions without competitive solicitation if it is determined that no Agency obligations meeting DC Water's requirements are available in the secondary market at a higher yield.

Investment of Bond Proceeds

DC Water will comply with all applicable sections of the Internal Revenue Code of 1986, Arbitrage Rebate Regulations and bond covenants with regard to the investment of bond proceeds. Accounting records will be maintained in a form and for a period of time sufficient to document compliance with these regulations.

Safekeeping and Custody

All investment securities purchased by DC Water or held as collateral on deposits or investments shall be held by DC Water or by a third-party custodial agent who may not otherwise be counterparty to the investment transaction.

All securities in DC Water's Portfolio shall be held in the name of DC Water and will be free and clear of any lien. Further, all investment transactions will be conducted on a delivery-vs.-payment basis. The custodial agent shall issue a safekeeping receipt to DC Water listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the custodial agent will also provide reports that list all securities held for DC Water, the book value of holdings and the market value as of month-end.

Appropriate DC Water officials and representatives of the custodial agent responsible for, or in any manner involved with, the safekeeping and custody process of DC Water shall be bonded in such a fashion as to protect DC Water from losses from malfeasance and misfeasance.

Internal Controls

The GM or designee shall establish a system of internal controls governing the administration and management of DC Water's Portfolio, and these controls shall be documented in writing. Such controls shall be designed to prevent and control losses of DC Water monies arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by any personnel. DC Water shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

Performance Standards

The investment portfolio shall be designed and managed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs of DC Water. The return on DC Water investments will be compared to an index of U.S. Treasury securities having a similar duration or other appropriate benchmark on a quarterly basis. For funds having a duration or weighted average maturity of greater than 90 days, performance will be computed on a total return basis.

Reporting

On a monthly basis, the GM or designee will submit an investment report to the Finance & Budget Committee. This investment report shall include: (i) a listing of the existing portfolio in

terms of investment securities, maturity date, yield, market value and other features deemed relevant, (ii) the total investment earnings for the reporting period, (iii) a listing of all transactions executed during the quarter, and (iv) a statement on compliance with this Policy and any applicable bond resolutions.

Investment Policy Adoption

This policy is adopted by the Board of Directors of the District of Columbia Water and Sewer Authority this ____ day of _____ 2014.

Glossary

Agencies: Federal agency securities and/or government-sponsored enterprises.

Bankers' Acceptance: A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Benchmark: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Broker: A broker brings buyers and sellers together for a commission.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

Collateral: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

Delivery versus Payment: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

Diversification: Dividing investment funds among a variety of securities offering independent returns.

Liquidity: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

Market Value: The price at which a security is trading and could presumably be purchased or sold.

Master Repurchase Agreement: A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

Maturity: The date upon which the principal or stated value of an investment becomes due and payable.

Nationally Recognized Statistical Rating Organization (NRSRO): A credit rating agency which issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes.

Portfolio: Collection of securities held by an investor.

Primary Dealer: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

Repurchase Agreement (RP or REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions.

Securities and Exchange Commission (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Treasury Bills: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

Treasury Bonds: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

Treasury Notes: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

Uniform Net Capital Rule: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

Yield: The rate of annual income return on an investment, expressed as a percentage. Income/current yield is obtained by dividing the current dollar income by the current market price for the security. Net yield or yield to maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY
BOARD OF DIRECTORS CONTRACTOR FACT SHEET**

ACTION REQUESTED

GOODS AND SERVICES CONTRACT AWARD

Banking Services

(Joint Use - Indirect Cost)

Approval to execute a contract for a base period of one (1) year with up to four (4) one-year options in the amount of \$1,159,995.30.

CONTRACTOR/SUB/VENDOR INFORMATION

PRIME: TD Bank, N.A. 2070 Chain Bridge Road Vienna, VA 22182	SUBS: Industrial Bank 4821 Georgia Avenue, NW Washington, DC 20011 (Local Small Business Enterprise)	PARTICIPATION: 15%
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DESCRIPTION AND PURPOSE

Base Year Contract Value:	\$229,765.74
Contract Base Period:	365 (1 year)
Number of Option Years:	4
Anticipated Contract Start Date:	09-01-2014
Anticipated Contract Completion Date:	08-31-2019
Proposal Closing Date:	03-03-2014
Proposals Received:	3
Proposal Range:	\$835,860.96 - \$1,159,995.30
Preference Points Received:	1.5

Purpose of the Contract:

The purpose of the contract is to provide banking services for the District of Columbia Water and Sewer Authority (DC Water). The contract will provide services that include but are not limited to general services, lockbox processing, deposit remittances, reporting requirements, worksite supervision, communications and controls, collateral requirements and account maintenance services

Note: The cost for the one (1) year base period is \$229,765.74. The cumulative cost for option years one (1) through four (4) is \$1,159,995.30.

The procurement method utilized was a Request for Proposal (RFP). Award will be made to one firm. TD Bank, N.A. is the highest rated offeror of all firms. The names of all responsive firms who submitted proposals are listed below.

Proposals were received from:

Bank of America Merrill Lynch
 TD Bank, N.A.
 Wells Fargo

PROCUREMENT INFORMATION

Contract Type:	Requirements Contract	Award Based On:	Highest Rating RFP
Commodity:	Goods & Services	Contract Number:	14-PR-CFO-02
Contractor Market:	Open Market with preference points for LBE/LSBE participation		

BUDGET INFORMATION

Funding:	Operating	Department:	Office of the Chief Financial Officer
Service Area:	DC Water Wide	Department Head:	Mark Kim

ESTIMATED USER SHARE INFORMATION

User - Operating	Share % *	Dollar Amount
District of Columbia	83.78%	\$971,844.06
Washington Suburban Sanitary Commission	11.84%	\$137,343.44
Fairfax County	3.03%	\$ 35,147.86
Loudoun County	1.17%	\$ 13,571.95
Potomac Interceptor	0.18%	\$ 2,087.99
Total Estimated Dollar Amount	100.00%	\$1,159,995.30

*Actual amounts will be reconciled and billed to customers accordingly.

 4.17.14
 Katy Chang Date
 Acting Procurement Director

 4/17/14
 Gail Alexander-Reeves Date
 Director of Budget

 4/17/14
 Mark Kim Date
 Chief Financial Officer

 George S. Hawkins Date
 General Manager



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

Thursday, May 22, 2014; 11:00 a.m.
Blue Plains Wastewater Treatment Plant
5000 Overlook Avenue, SW, DC
AGENDA

Call to Order	Chairman
April 2014 Financial Report	Budget Director, Treasury & Debt Manager
Agenda for June Committee Meeting	Chairman
Adjournment	Chairman

*Detailed agenda can be found on DC Water's website at www.dewater.com/about/board_agendas.cfm