dc water is life

DC Water **Budget in Brief**

REVISED FY 2011 APPROVED FY 2012
ADOPTED FEBRUARY 3, 2011

William M. Walker, *Chairman of the Board*

George S. Hawkins, *General Manager*

Olu Adebo, *Chief Financial Officer*

stewardship: **ENVIRONMENT**, **RESOURCES** and **WORKFORCE**

water is life

District of Columbia Water and Sewer Authority

MISSION, VISION and VALUES

Mission

- Serve all of its customers with outstanding service by providing reliable and cost-effective water and wastewater services in accordance with best practices.

Vision

- Provide world-class water and wastewater services as a leading steward of the environment.

Values

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

2010 BUDGET PRESENTATION AWARD

The Government Finance Officers Association of the United States and Canada (GFOA) presented a distinguished Budget Presentation Award to the District of Columbia Water and Sewer Authority, for its annual budget for the fiscal year beginning October 1, 2010. To receive this award, a government unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

CONTENTS

I am pleased to submit the revised Fiscal Year 2011 and Fiscal Year 2012 operating budgets and the FY 2010-2019 Capital Improvement Program as adopted by the Board at its regular meetings in January and February 2011 and in compliance with District of Columbia Law 11-111. This Budget in Brief provides a summary of our life-giving services: clean water and sanitation.

Water is life. And to be sure, throughout history and around the world, lives have been lost by the millions for lack of access to clean water and sanitation, In the United States, most of us are fortunate to have both.

Without our work, some 16 million people could not start their days. In fact, the reliability and relatively low cost of what we provide, especially when compared to other utilities, might give the impression that the water business presents no real cause for public concern. This is far from the case.

I preside over a 1,000-strong workforce charged with maintaining and upgrading a labyrinthine underground system of pipes and valves. To maintain this network in the face of economic pressures, declining consumption, stricter environmental mandates, and a customer base that may be unfamiliar is an awesome, humbling challenge. It is like performing maintenance on a vehicle that is in motion. Not only do customers expect services to be uninterrupted every minute of every day, but regulators expect the service to be simultaneously and nearly continuously upgraded.

Our principal economic challenge is to fund all services through customer rates. In short, we can respond on the ground to a broken pipe or replace a broken valve – at any time of day or night, in any kind of weather. But with any aging system, breaks come more often and in more severe forms. These pipes need to be replaced, not repaired again and again at large costs to our customers. These increasingly frequent emergency requirements, along with a long term strategic replacement plan, must be funded from the same customer base already shouldering the economic burden.

The approved budgets for DC Water described in this document will commit $3.8 billion over 10 years in capital investments, $403.4 million in FY 2011 and $422.4 million in FY 2012 operating funds.

The resources we need will have an impact on planned and future rates. No increase in rates is a welcome one, especially in trying economic times. But the cost of maintaining and replacing our aging infrastructure continues to rise and federal mandates and regulations continue to increase in number and cost, while the available federal funding is actually decreasing.

Also, the health of our Chesapeake Bay watershed is at stake. DC Water was the only enterprise to meet its voluntary 2010 Bay goals-largely because of investments of about $1 billion at the Blue Plains Facility over the last decade. Although more progress is possible and DC Water has several large projects that will support these goals, the region will not achieve a healthy Bay (or tributaries such as the Potomac and Anacostia) unless we reduce pollutants from nonpoint sources, especially runoff from development and agricultural lands. Farmers have successfully made a compelling case that the costs of reducing nutrients will be hard to bear. But our ratepayers already know this to be true.

As a result, DC Water will continue to aggressively pursue federal investment with our regional congressional delegations and national industry partners as we advocate for shared responsibility for the clean up of the Bay.

In closing, we pledge to continue our life-giving services – clean water and sanitation – through allocation of resources, operational efficiencies and strategic capital investments while doing a better job communicating with our customers. To this last point, we have been known since our inception in 1996 as DC WASA. In FY 2010, the Authority began doing business as DC Water. The goal of our new name and logo was to be a more visible and approachable utility for our customers, and to hear from local and national stakeholders on how to innovate. We continue to welcome suggestions and comments, and encourage you to tour our facilities. Please feel free to stay in touch on Facebook and Twitter, or to contact me at gmsuggestions@dcwater.com.

George S. Hawkins

George S Hawkins
February 2011

A MESSAGE FROM OLU ADEBO

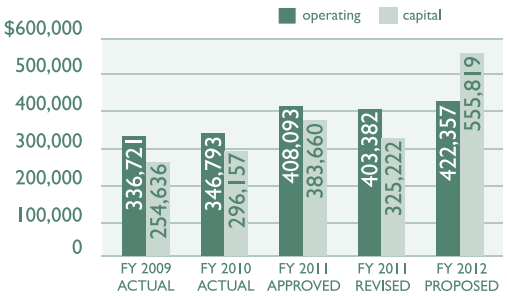
As Chief Financial Officer for DC Water, I am pleased to present the Board-adopted operating and capital budgets for Fiscal Years 2011 and 2012. Assembling the DC Water budget is both an exhilarating and challenging endeavor. Our budget process uses a ten-year planning horizon and considers a number of inputs, such as regulatory requirements; infrastructure needs determined by various facility master plans for major systems; Board-determined priorities; and funding and rate impacts on our customers. As you can imagine, the process is one that entails countless hours and relies on the cooperation of many people throughout the organization, feedback from our many customers and an intense review by our Board of Directors. I would like to take this opportunity to personally thank everyone who contributed in any way to the development of our revised FY 2011 and approved FY 2012 budgets.

Under the direction of General Manager George Hawkins with strong oversight by our Board of Directors during FY 2010, we have attempted to enhance our transparency throughout the budget process with an agency-wide communication framework that provides feedback from all levels within DC Water, expanded community outreach through town hall meetings sponsored by various DC Council members, and extensive Board review and interaction. We have utilized this new style of transparency and frank discussions in the development of this budget. A comparative summary of the operating and capital budgets follow and a more detailed discussion is provided later in the document. Our budget focuses on the future, recognizing the many challenges we face while maintaining appropriate fiscal controls. Management has demonstrated its willingness and ability to continue our mantra of excellent customer service, while tightening our budgets, focusing on improved ways of conducting business and planning for greater efficiency, all with our customers in mind.

As you explore this document, you will see that this budget continues to maintain DC Water's vision for a strong financial future. It also demonstrates that we are well positioned to meet the challenges ahead.

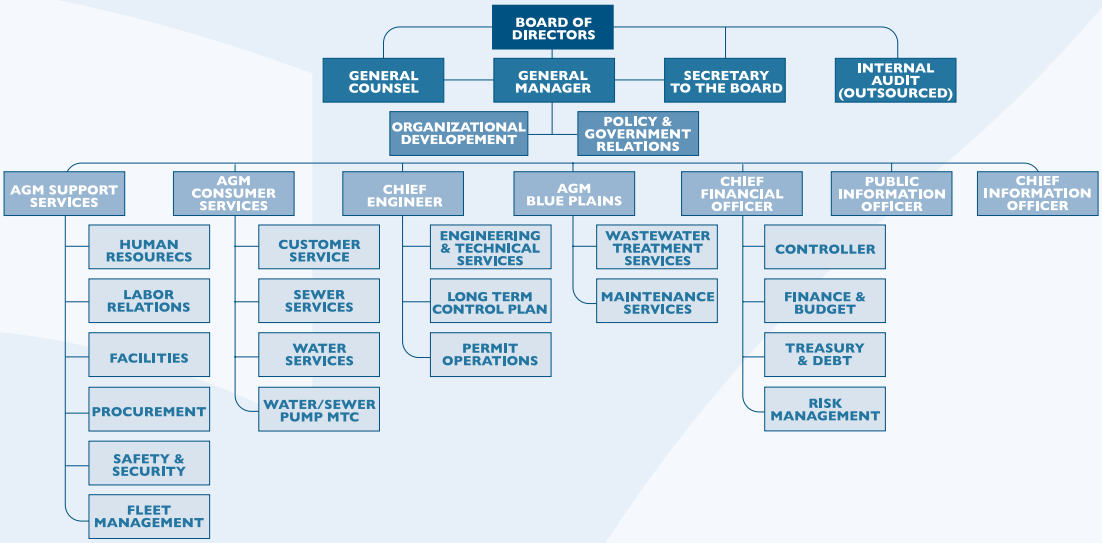
Olu Adebo, February 2011

OPERATING AND CAPITAL BUDGET SUMMARY



BOARD OF DIRECTORS / ORGANIZATIONAL STRUCTURE

William M. Walker *Chairman / Principal Member / District of Columbia*
David J. Bardin *Principal Member / District of Columbia*
F. Alexis H. Roberson *Principal Member / District of Columbia*
Alan J. Roth Principal *Member / District of Columbia*
Alethia Nancoo *Principal Member / District of Columbia*
Timothy L. Firestine *Vice Chairman / Principal Member / Montgomery County, MD*
Robert Hoyt Principal *Member / Montgomery County, MD*
Anthony H. Griffin *Principal Member / Fairfax County, VA*
Howard C. Gibbs *Alternate Member / District of Columbia*
Brenda Richardson *Alternate Member / District of Columbia*
Maurice Boissiere *Alternate Member / District of Columbia*
Joseph Cotruvo *Alternate Member / District of Columbia*
Howard Croft *Alternate Member / District of Columbia*
Paivi Spoon *Alternate Member / Prince George's County, MD*
Beverly Warfield *Alternate Member / Prince George's County, MD*
David W. Lake *Alternate Member / Montgomery County, MD*
Kathleen Boucher *Alternate Member / Montgomery County, MD*
James Patteson *Alternate Member / Fairfax County, VA*



History – The District of Columbia Water and Sewer Authority was created by District law in 1996, with the approval of the United States Congress, as an independent authority of the District Government with a separate legal existence.

Age of Pipes – The median age of District water main pipes is 75 years old. Approximately 9 percent of the pipes were installed in the 1900s, with .2 percent of the system dating back to the 1860s before the Civil War.

Service Area – DC Water provides more than 600,000 residents and 16.6 million annual visitors in the District of Columbia with water and wastewater (sewer) service. With a service area of approximately 725 square miles, DC Water also treats wastewater for approximately 1.6 million people in Montgomery and Prince George's Counties in Maryland and Fairfax and Loudoun Counties in Virginia.

Employees – Approximately 1,000 people work for DC Water at various facilities throughout the District.

Drinking Water Quality – DC Water maintains a strong emphasis on water quality, which involves an annual flushing program, regulatory and voluntary water quality testing, ongoing system upgrades and lead service replacements. DC Water has a strong relationship with the U.S. Army Corps of Engineers Washington Aqueduct to ensure that the water treatment process is optimal for delivering high water quality throughout the year.

Pumped and Treated Water Storage – DC Water pumped an average of 106 million gallons of water per day in Fiscal Year 2010. DC Water stores 61 million gallons of treated water at its eight facilities. An additional 49 million gallons are stored by the Washington Aqueduct.

Water Distribution System – 1,350 miles of water pipe, four pumping stations, five reservoirs, three water tanks, 36,000 valves, and more than 9,100 public fire hydrants comprise the DC Water distribution system.

Blue Plains Advanced Wastewater Treatment Plant – Located at the southernmost tip of the District and covering more than 150 acres along the Potomac River, Blue Plains is the largest advanced wastewater treatment facility in the world.

Wastewater Treatment Capacity – Blue Plains treats an average of 330 million gallons per day (MGD), and has the capacity to treat 370 MGD, with a peak capacity of more than 1 billion gallons per day.

Sewer System – DC Water operates 1,800 miles of sanitary and combined sewers, 22 flow-metering stations, nine off-site wastewater pumping stations, 16 stormwater pumping stations, 12 inflatable dams and a swirl facility.

Financial Performance – DC Water has a strong track record of positive financial performance consistent with historic performance. In FY 2010, DC Water ended the fiscal year with revenues exceeding expenditures and positive budget to actual results. Revenues totaled $373.5 million, or 99 percent of budget, and operating expenditures totaled $355.3 million, approximately 93 percent of the budget. DC Water received its 14th unqualified audit opinion of its financial statements.

Customer Service – DC Water provides information to customers through bill inserts, monthly newsletters, its website, tours, town hall meetings, and social media such as Facebook and Twitter. An interactive voice recognition system makes information available in more than 150 languages. Our 24-hour Emergency Command Center, at (202) 612-3400, serves as a communication hub for receiving and responding to emergency calls from customers and the public.

Community Service – Giving back to the community and promoting volunteerism has been a hallmark of DC Water since its inception. All year, employees participate in a variety of company-sponsored and individual volunteer and charitable projects. Additionally, DC Water conducts science laboratory exercises in District high schools and tours of the Blue Plains Plant to engage the public.

Governance – A 22-member Board of Directors, with representatives from the District, Montgomery and Prince George's Counties in Maryland and Fairfax County in Virginia, establishes policies. The District members set rates, charges and policies for District services. The entire Board votes and establishes policies for joint-use services. The General Manager manages the daily operations and performance of the regional utility.

DC Water Financial Information

- Bond Rating: Aa2/AA/AA
- FY 2011 Revenue: $399 million (cash receipts)
- FY 2011 Revised Operating Budget: $403. million
- FY 2011 Capital Budget: $325.2 million

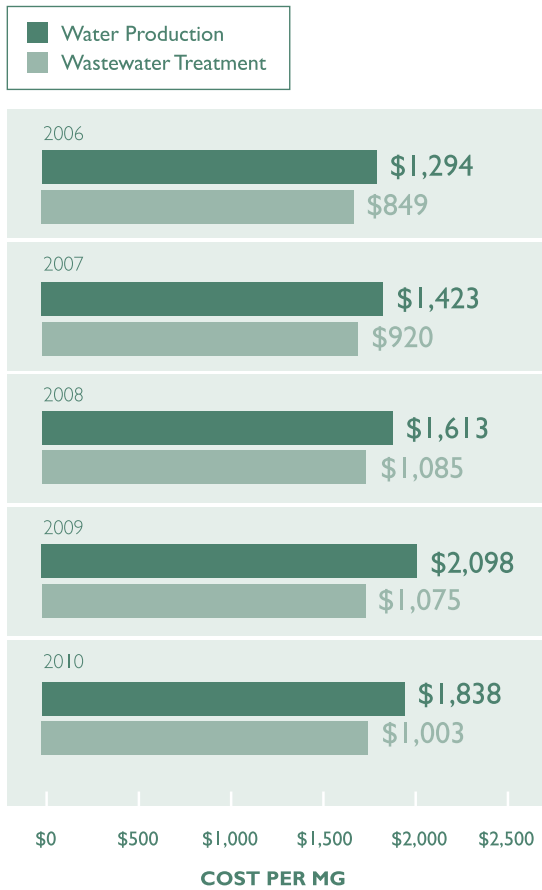
DC WATER SERVICE AREA

Over the past two years, DC Water has developed and implemented meaningful performance measures to align with agency strategic goals and achieve Board objectives. In FY 2010, the initial performance measures were identified, tracked and reported monthly to the Board. The results are displayed in the dashboard below. Moving forward, performance measures will be further drilled to the individual level to ensure that all personnel are focused on core strategic activities.

One nationally-recognized efficiency measure is the American Water Works Association (AWWA) Qualserv cost per million gallons. DC Water continues to perform well when compared with other large systems and shows great cost effectiveness.

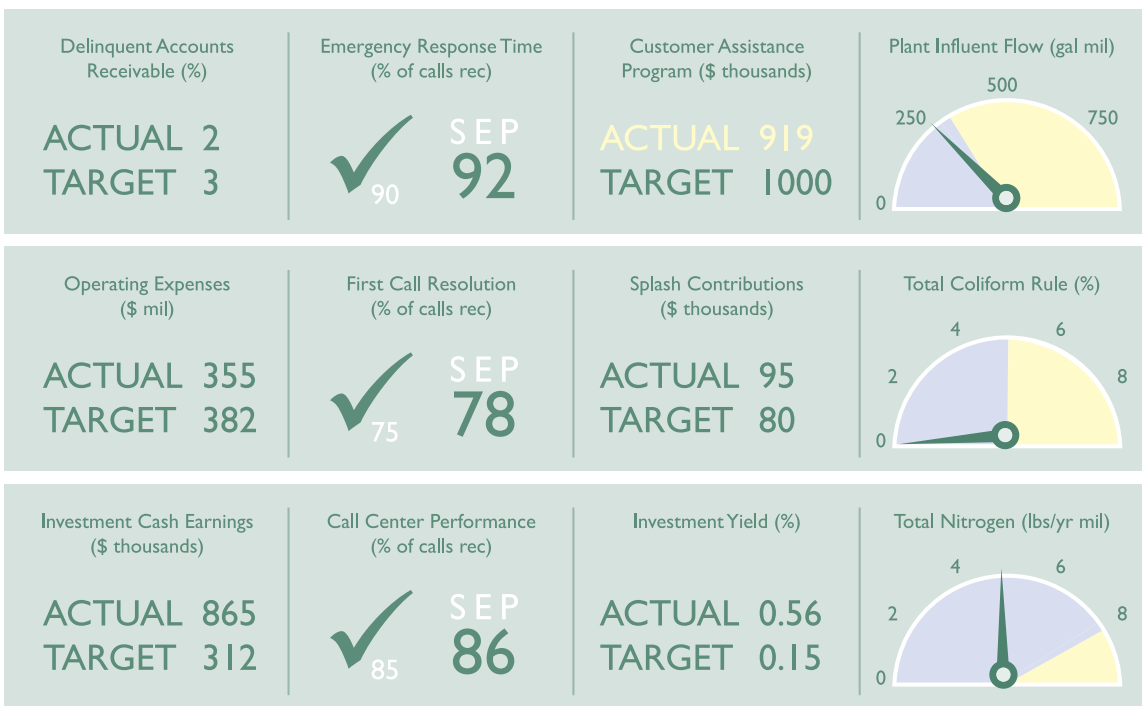
U.S. NATIONAL MEDIAN COST PER MILLION GALLONS (per AWWA)		
	WATER PRODUCTION	**WASTEWATER TREATMENT**
FY 2007	$1,431	$2,022
FY 2008	$1,650	$2,077

DC WATER OPERATING EFFICIENCY RESULTS



FY 2010 OPERATING PERFORMANCE DASHBOARD

The operating Dashboard provides a bird's eye view of our salient performance measures. These measures are continuously monitored and reported to the Board of Directors. A detailed explanation of these measures is provided in the Glossary and Acronyms Section (IX) of the Revised FY 2011 and Approved FY 2012 Budget Book.



The following are highlights of the FY 2011/2012 operating budgets. Detailed descriptions and tables can be found in the full revised FY 2011 and approved FY 2012 operating budget book available at dcwater.com.

- Revised FY 2011 operating budget totals $403.4 million.
- Approved FY 2012 operating budget totals $422.4 million.
- Proposed FY 2012 water and sewer rate increase of $0.41 per Ccf from $6.89 to $7.30 per Ccf.
- Proposed FY 2012 monthly Impervious Area Charge (IAC) increase of $3.42 from $3.45 per Equivalent Residential Unit (ERU) to $6.87 per ERU.
- Proposed FY 2012 PILOT fee increase of $0.04 per Ccf, from $0.49 per Ccf to $0.53 per Ccf. ROW increase of $0.01 per Ccf, from $0.14 per Ccf to $0.15 per Ccf.

Note: 1 Ccf = 748 gallons

Stewardship: Environment, Resources and Workforce

The revised FY 2011 and approved FY 2012 operating budgets provide the resources necessary to continue the stewardship of a multi-billion dollar water treatment and distribution and sewage collection and treatment system. DC Water continues to deliver clean water, collect and treat the sewage before returning clean water to the local waterways and repair main and sewer breaks as needed. These budgets also include funding for energy conservation activities - to help save the environment and operating dollars – strengthened safety and security activities, process improvement design and implementation (including permit processing), as well as support of capital efficiencies through in-sourcing of water and sewer design and valve operations.

DC Water will undertake a number of pilot energy conservation projects aimed at reducing electricity use at Blue Plains and lowering our energy costs. This includes replacing some lighting with more energy-efficient fixtures and review of various technical control systems. Several of these projects can be achieved within 12-18 months and will result in immediate energy and costs savings that will show a pay-back within 2-3 years.

Personnel increases associated with enhanced capital investment are a major driver of the changes in the FY 2011/12 operating budgets and include 33 of the planned 37 new positions authorized in FY 2012. As DC Water moves to triple capital water/sewer infrastructure investments over the next 10 years (a 100-year replacement schedule), additional design and management work will be required. Rather than issuing additional contracts to support this ongoing effort, these services will be transitioned to in house staff. This will help to control costs and quality of the work as staff will be more familiar with the standards of the agency, and eliminate the learning curve created when new contractors come on board. Similarly, the replacement of valves throughout the system is currently completed by contracted organizations. This budget provides for the transition of these activities to in-house staff over a 3-4 year period. FY 2011 is the beginning of this transition and should result in substantial capital savings once fully implemented. Together, these design and valve operations in-sourcing initiatives should lower costs within the capital program by $3-4 million a year by FY 2015.

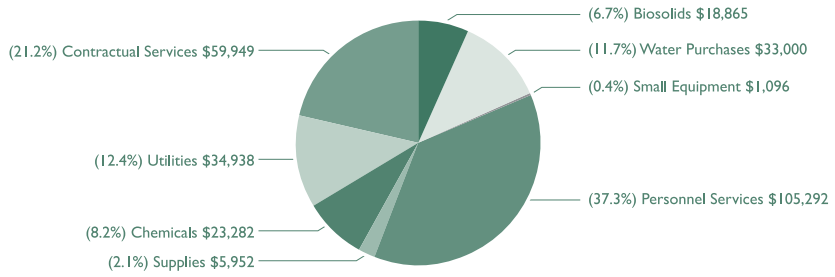
The safety of employees and customers is at the forefront of every decision we make. Approximately 1,000 Team Blue members contribute to the continued delivery of services throughout the region; often in various weather conditions, on holidays and at all times of the day and night. Additional safety training, planning and equipment as well as security resources have been included within this budget to support the additional level of work anticipated as maintenance increases and the capital investments move forward.

FUNDING SOURCES AND USES FOR OPERATING BUDGETS

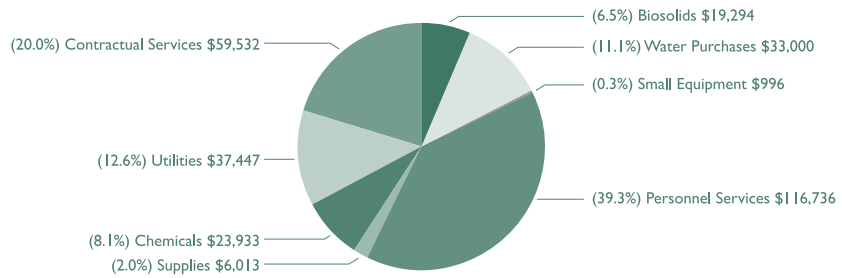
		FY 2011 Revised Budget	FY 2012 Approved Budget
Sources ($ thousands)	Retail Revenues	$295,356	$321,480
	Wholesale Revenues	$68,825	$71,439
	Other Revenues	$34,927	$19,303
	Total Revenues	**$399,108**	**$412,222**
Uses ($ thousands)	O&M Expenditures	$282,674	$293,569
	Debt Service	$98,726	$105,387
	PILOT	$16,882	$18,301
	ROW	$5,100	$5,100
	Subtotal	**$403,382**	**$422,357**
	Less Charges to Capital	($11,000)	($16,000)
	Total Uses	**$392,382**	**$406,357**

OPERATIONS AND MAINTENANCE EXPENDITURES BY CATEGORY ($000's)

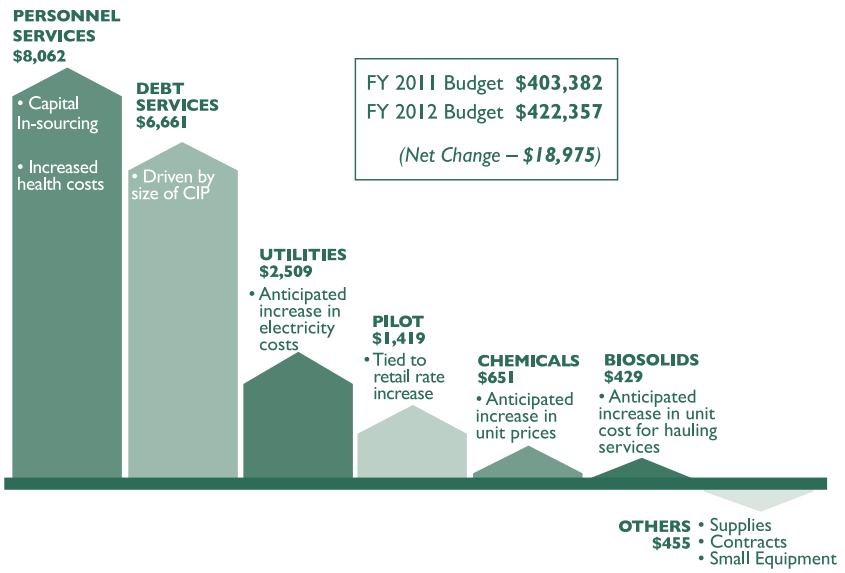
FY 2011 Revised $282,674



FY 2012 Approved $293,569



FY 2012 EXPENDITURE BUDGET DRIVERS ($000's)



Operations

Management's Top Budget Priorities

Budget Prioritization
- Health/Safety of Employees and Customers
- Legal Requirements and Board Directive
- Customer Service
- Efficiency

Technique / Approach
- Teamwork
- Communication
- Process improvement
- Performance management and Accountability
- Innovation / creativity
- Linkage between operating and Capital budgets

Management's Top Operating Initiatives

Water system Initiatives
- Continue high level emergency response time
- Review overall strategy on water distribution infrastructure improvements
- Continue enhancements of water quality operations
- Regulatory compliance
- Maintaining high water quality standards
- Reservoir profile analysis
- Water conservation initiative and outreach

Wastewater System Initiatives
- Maintain full compliance with the National Pollutant Discharge Elimination Systems (NPDES) Permit
- Sewer service root foaming pilot
- Digestion process hydrolysis
- Side-stream treatment of nitrogen removal
- Biosolids product quality improvement

Other Management Initiatives
- Energy conservation pilots
- Improve permit process review
- Enhance customer access through website and social media
- Expand Customer Assistance Program (CAP)
- Security command center
- New Blue Plains Plant logistics to enhance safety
- Strengthen cyber security
- In-source select contractual services
- Organizational development and process improvements

SUMMARY OF OPERATING BUDGET AND POSITIONS BY DEPARTMENT ($000's)

	BUDGET				POSITIONS			
	FY 2010 Actual	FY 2011 Approved	FY 2011 Revised	FY 2012 Approved	FY 2010 Actual	FY 2011 Approved	FY 2011 Revised	FY 2012 Approved
OPERATIONS								
Wastewater Treatment	$76,181	$82,776	$81,309	$85,359	107	125	121	121
Water Services	51,300	58,307	57,750	58,846	153	173	178	184
Sewer Services	18,296	20,854	20,024	20,484	154	159	159	159
Maintenance Services	19,029	19,739	20,082	20,590	127	139	139	139
Water and Sewer Pumping Services	4,025	4,715	4,719	4,837	25	33	33	33
Engineering and Technical Services	14,556	16,806	16,417	19,363	103	147	140	167
Long Term Control Plan (Clean Rivers)	201	583	1,005	1,499	2	10	10	10
Permits	89	704	811	971	-	3	5	5
Customer Service	13,689	15,342	16,054	16,356	114	123	124	124
Subtotal Operations	**$197,366**	**$219,828**	**$218,170**	**$228,302**	**785**	**912**	**909**	**942**
ADMINISTRATION								
General Manager	2,127	3,715	4,360	4,405	9	12	14	16
Office of the Secretary	370	594	595	624	2	2	2	2
Internal Audit	649	790	820	815	-	-	-	-
Finance and Budget	6,775	7,631	8,024	7,773	42	45	45	46
Risk Management	5,381	6,444	6,445	6,208	3	4	4	4
General Counsel	7,959	5,523	5,876	6,041	14	14	14	14
Public Affairs	1,101	1,771	1,843	1,868	10	9	10	10
Information Technology	7,855	9,817	10,021	9,827	12	24	24	24
Assistant General Manager – Support Services	273	414	295	322	1	2	2	2
Human Resources	4,099	4,936	4,904	4,994	20	24	24	24
Facilities Management	6,449	6,517	6,694	6,877	56	59	59	60
Procurement & Materiel Management	3,140	4,217	4,120	4,311	33	38	38	38
Safety and Security	5,142	5,961	6,190	6,743	11	14	14	14
Fleet Management	4,102	4,214	4,318	4,459	6	6	6	6
Subtotal Administration	$55,422	$62,546	$64,504	$65,267	219	253	256	260
Subtotal – Operation & Maintenance (O&M)	$252,787	$282,374	$282,674	$293,569	1,004	1,165	1,165	1,202
Debt Service	83,514	103,354	98,726	105,387	-	-	-	-
Payment in Lieu of Taxes (PILOT)	15,374	17,265	16,882	18,301	-	-	-	-
Right of Way (ROW)	5,100	5,100	5,100	5,100	-	-	-	-
Total Operating Expenditures	**$356,775**	**$408,094**	**$403,832**	**$422,357**	**1,004**	**1,165**	**1,165**	**1,202**
Personnel Services charged to Capital Projects	(9,982)	(10,000)	(11,000)	(16,000)				
Total Net Operating Expenditures	**$346,793**	**$398,094**	**$392,382**	**$406,357**	**1,004**	**1,165**	**1,165**	**1,202**

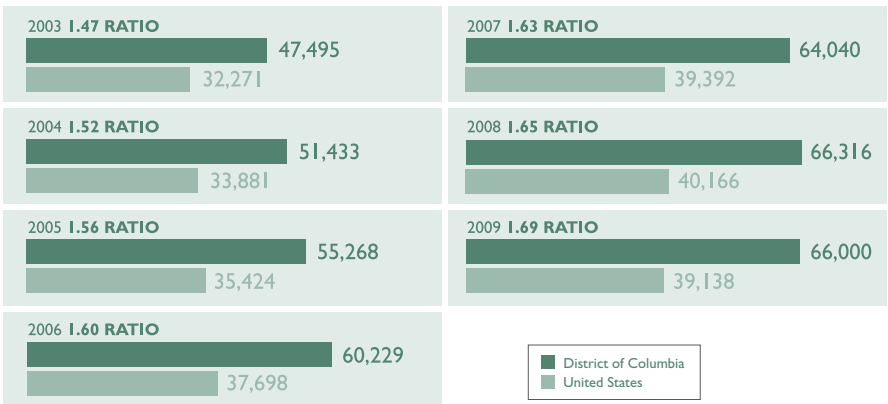
Regional Demographics

At DC Water, identifying and understanding customer requirements is a component of our planning process. Therefore, we must be sensitive to local sociopolitical and macroeconomic trends. DC Water's retail customers include residential, commercial and multifamily (which is the largest base), federal government, District Government and the DC Housing Authority. More than 600,000 residents in the District of Columbia live in approximately 284,000 households, and only 134,000 paying customers cover the majority of operations, maintenance and replacement of the water and sewer infrastructure throughout the District. While there are an additional 1.6 million living throughout the DC Water service area using a small portion of the wastewater collection and a larger portion of the treatment facilities, there are fewer customers within the District to share the burden of the aging infrastructure serving the residents, visitors and governmental entities. The FY 2012 budget incorporates trends and statistics impacting DC and the region.

Key Economic Indicators

While the Census Bureau recently noted that the DC metropolitan region had several jurisdictions within the top 10 wealthiest communities in the United States in 2008, unemployment continues to rise. These statistics appear to correlate with trends such as lower metro rail ridership (fewer employees coming into the District for jobs), and higher commercial leased vacancy rates. However, tourism appears stable as demonstrated by strong hotel occupancy rates and solid restaurant patronage in downtown Washington, DC.

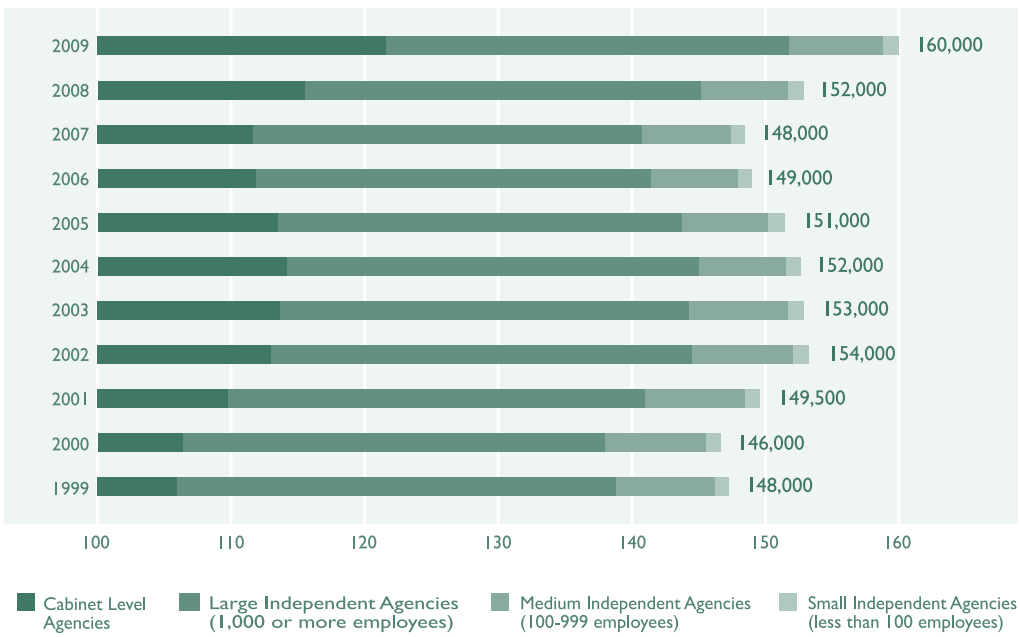
DC PER CAPITA INCOME IS HIGHER THAN U.S. AVERAGE



Employment within the District of Columbia

The economic downturn has impacted all customer sectors, its demonstrated through above average unemployment rates in the District and surrounding jurisdictions, local government layoffs and commercial closings. In addition, approximately 15.7 percent of the families in Washington, DC live at or below the poverty level. While federal employment is a major economic driver within the region and is trending upward, the President of the United States recently declared a wage freeze for federal employees.

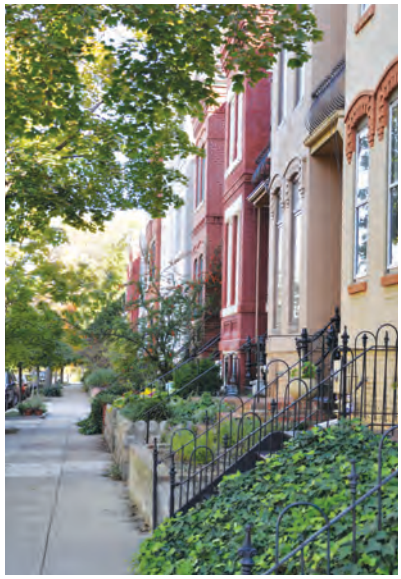
TOTAL FEDERAL EMPLOYMENT IN THE DISTRICT HAS REMAINED RELATIVELY STABLE



Area Characteristics

Urban tourist, educational center. A vibrant business and commercial hub in the East Coast. The nerve center of the Federal government and a strong local government presence. Diverse cultures including major national and international theaters and attractions.

Average Temperature:
Winter – 37 degrees F
Spring – 56 degrees F
Fall – 60 degrees F



Diverse Customer Base

DC Water has a diverse customer base and thus receives cash receipts from a variety of sources. (A detailed listing of our customer categories and accounts are in Section IV of our Adopted Budget Book). This diversity mitigates reliance on any single customer and provides a level of revenue stability.

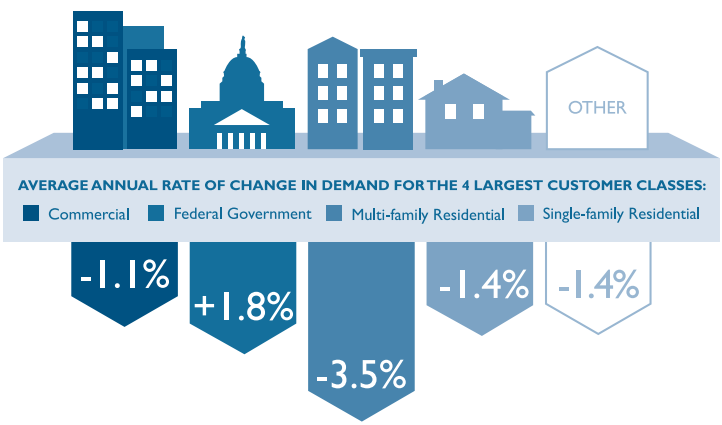
Water Consumption Trends

Similar to many other water utilities across the country, DC Water has historically experienced about a 1 percent average annual water consumption decline, primarily due to water conservation measures by customers. In FY 2008 and 2009, however, DC Water results showed a 3 and 4 percent decline respectively, while the FY 2010 results were more in line with historic averages. Comparable fluctuates were also experienced by many of the other regional water utilities as shown below.

	FY 2009	FY 2010
Washington Suburban Sanitary Commission (WSSC)	(3.5%)	4.2%
Arlington County	(2.3%)	(0.8%)
Loudoun Water	(7.0%)	(1.0%)
Fairfax County Water	(5.0%)	11%

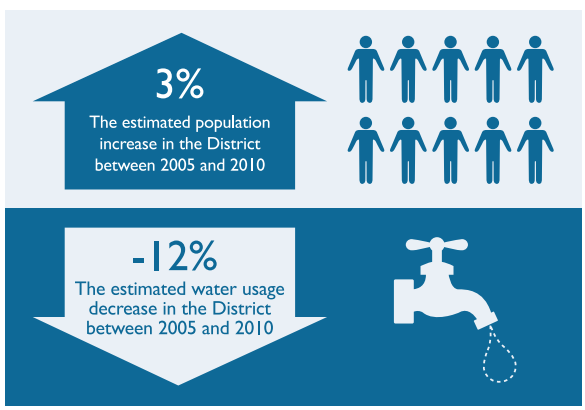
DC WATER LONG-TERM WATER DEMAND SHOWS A DECLINE RELATIVELY CONSISTENT WITH THE ASSUMPTION

FY 2005 FY 2010 Annual retail water consumption by customer type (millions of Ccf)



TOTAL RESIDENTIAL PER CAPITA WATER DEMAND IS DECLINING AS POPULATION INCREASES

Total residential per capita water demand is declining as population increases.



Development of DC Water's Capital Improvement Program (CIP) budget was especially challenging this year. We struck a balance between the resources required to meet the Authority's stringent regulatory requirements while maintaining and sustaining its aging infrastructure, and the impact that higher rates will have on our customers during these difficult financial times. The FY 2010-2019 CIP provides a framework for the development, prioritization, implementation and measurement of capital projects.

The financial summary of the FY 2010-2019 CIP is:

- The ten-year CIP totals $3.8 billion (cash disbursements basis)
- Lifetime budget is $7.9 billion
- Capital authority request is $752.5 million

A more detailed description of major CIP changes and program details can be found within the Revised FY 2011 and Approved FY 2012 Operating and Capital Budget books online at dcwater.com.

FY 2010 — FY 2019 CAPITAL IMPROVEMENT PROGRAM ($000's)

PROGRAM AREA	TOTAL DISBURSEMENT BUDGET	TOTAL PROJECT LIFETIME BUDGET
Wastewater Treatment	$1,402,604	$2,664,081
Sanitary Sewer	436,655	835,165
Combined Sewer Overflow	1,125,047	2,671,963
Stormwater	21,839	61,958
Water	612,873	1,400,215
Washington Aqueduct	110,816	203,138
Capital Equipment	103,906	103,906
Total	**$3,813,740**	**$7,940,426**

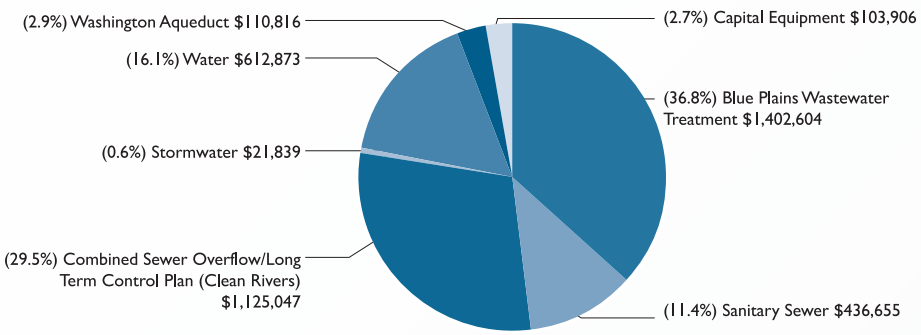
FY 2010 — FY 2019 PROJECTED CAPITAL IMPROVEMENT PLAN DISBURSEMENTS BASIS ($000's)

	FY 2010 ACTUALS	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	TOTAL FY 2010 – 2019
Wastewater Treatment	102,564	133,129	335,993	325,703	174,426	90,154	128,997	72,561	24,815	14,260	**$1,402,604**
Sanitary Sewer	19,394	33,996	44,400	40,336	60,815	50,386	40,914	42,974	57,188	46,253	**436,655**
Combined Sewer Overflow/ Long Term Control Plan	55,113	76,085	93,014	130,325	117,937	144,678	175,450	166,462	82,465	83,518	**1,125,047**
Stormwater	2,914	3,491	4,027	4,345	2,775	818	839	796	880	955	**21,839**
Water	61,061	50, 610	53,755	63,474	66,349	60,671	56,351	68,967	71,938	59,697	**612,873**
Washington Aqueduct	12,110	10,449	10,470	10,654	10,801	11,076	11,340	11,649	11,244	11,023	**110,816**
Capital Equipment	9,001	17,462	14,160	14,949	9,019	8,199	7,640	7,568	8,509	7,399	**103,906**
Total	$262,157	$325,222	$555,820	$589,786	$442,122	$365,982	$421,531	$370,976	$257,039	$233,104	$3,813,740

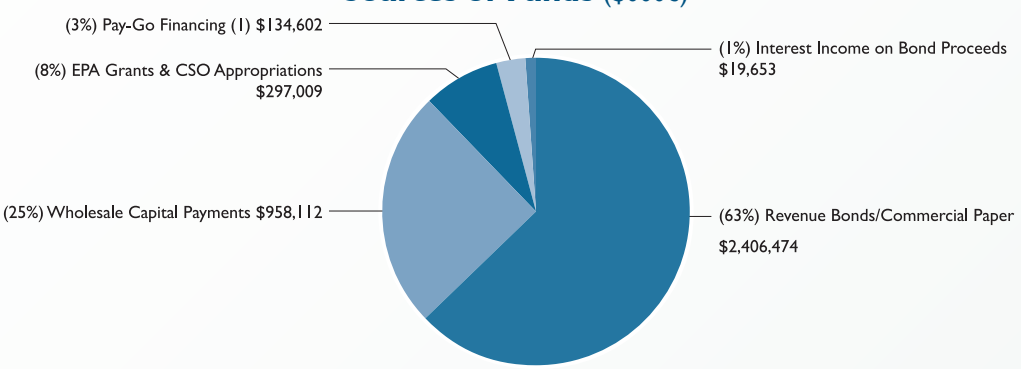
FY 2010 — FY 2019 CAPITAL IMPROVEMENT PROGRAM ($000's)

TOTAL $3.8 BILLION

Uses of Funds ($000's)



Sources of Funds ($000's)



(1) Pay-go financing is any excess operating balances above the Board's reserve requirement and used in lieu of debt financing.

MEASURE OF PRIORITY ($000'S)

	MANDATES Agreements, regulatory standards, court orders, issues and permits requirements, stipulated agreements, etc.	HEALTH & SAFETY Required to address public safety	BOARD POLICY Undertaken as a result of the Board's commitment to outside agencies	POTENTIAL FAILURE Related to facilities in danger of failing, or critical to meeting permit requirements	HIGH PROFILE/ GOOD NEIGHBOR Address public concerns	GOOD ENGINEERING PRACTICES/ HIGH PAYBACK Need to fulfill mission and upgrade Facilities	GOOD ENGINEERING PRACTICES/ LOW PAYBACK Lower priority projects	TOTAL
FY 2010	$82,493	$2,221	$22,837	$66,110	$3,861	$81,630	$3,003	$262,157
FY 2011	113,153	6,112	11,594	62,531	5,957	109,235	16,641	325,222
FY 2012	204,178	11,950	6,580	74,965	8,772	234,154	15,220	555,820
FY 2013	249,071	21,502	13,070	59,953	6,271	229,516	10,403	589,785
FY 2014	202,371	25,348	13,710	59,576	6,963	124,907	9,247	442,122
FY 2015	202,983	8,888	12,220	42,765	2,156	86,553	10,416	365,982
FY 2016	266,548	7,471	12,177	38,591	0	88,097	8,647	421,531
FY 2017	204,867	6,238	11,715	31,806	0	88,736	27,612	370,976
FY 2018	72,192	8,912	9,449	24,912	0	90,427	51,148	257,039
FY 2019	72,191	9,782	6,121	19,731	0	105,720	9,560	223,104
Total	**$1,670,048**	**$108,424**	**$119,473**	**$480,940**	**$33,981**	**$1,238,976**	**$161,897**	**$3,813,740**
% of Total	**43.79%**	**2.84%**	**3.13%**	**12.61%**	**0.89%**	**32.49%**	**4.25%**	**100.00%**
FY 2009-2018	**45.11%**	**2.25%**	**3.84%**	**14.43%**	0.95%	**30.29%**	**3.14%**	**100.00%**

Overview

Water is essential to all life. The staff at DC Water takes great pride in providing this life-giving resource, then reclaiming and cleansing it for a safe return to the environment. The water we use today is the same water that will be on our planet 10 years, 100 years and 1,000 years from now. We are humbled by the role we play in keeping this resource fresh and clean for our children and our grandchildren.

The core operations at DC Water are water distribution, and wastewater collection and treatment. We purchase treated water from the Washington Aqueduct, a unit of the U.S. Army Corps of Engineers, and pump it through an elaborate 1,300-mile distribution system to arrive at faucets, spigots and fire hydrants around the District.

Once the water is used, it enters DC Water's wastewater collection system. After traveling through the 1,800-mile sewer system and pumping stations, the sewage finally arrives at the Blue Plains Advanced Wastewater Treatment Plant. The Plant treats enough wastewater each day to fill RFK Stadium before discharging it – nearly clean enough to drink – into the Potomac River.

We face a monumental task in simply managing such a large system. But the District, like most older cities, is also challenged with aging infrastructure in need of replacement. Environmental mandates call for continuous process improvement and technological advances. Team Blue members continue to prove they are up to the challenge.

Sewer System

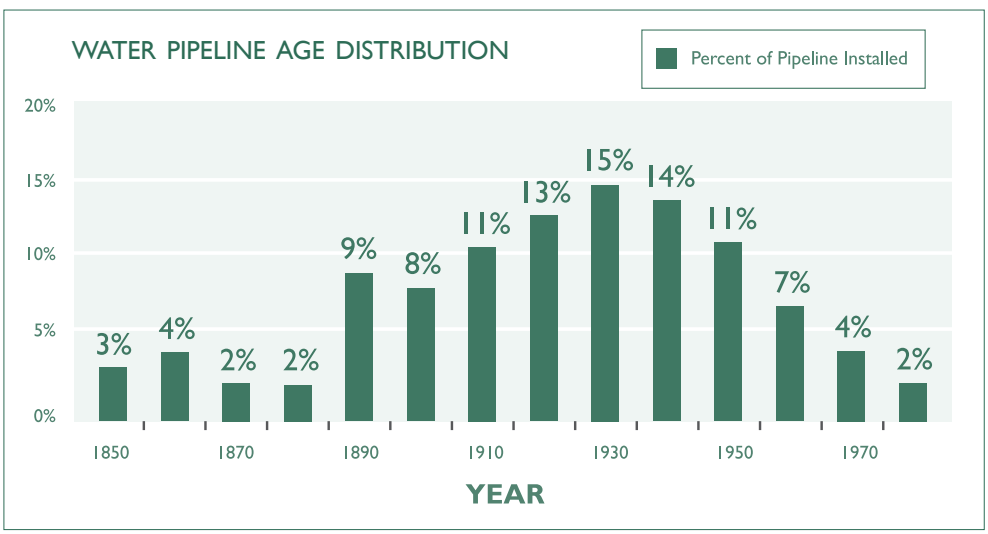
A majority of the sewers in the DC Water system were constructed more than 100 years ago and are still in operation. Our sanitary sewer system includes approximately 600 miles of large interceptor sewers and smaller gravity collection sewers. We are also responsible for sewer lateral connections from the sewer mains to the property lines of residential, government, and commercial properties. The existing sanitary sewer system in the District of Columbia dates back to 1810, and includes a variety of materials such as brick and concrete, vitrified clay, reinforced concrete, ductile iron, plastic, steel, brick, cast iron, cast in place concrete, and even fiberglass.

During FY 2009, DC Water completed a sewer system assessment and water facility plan. This study identified a significant increase in funding needed for sewer infrastructure improvements. Over the last two budget cycles the lifetime budget in this area has increased by more than $500 million and the proposed 10-year CIP has been increased by more than $250 million. Most of the increased spending planned in the sewer area begins in FY 2011 and averages more than $40 million per year through FY 2019.

The current CIP includes funds for an ongoing, annual sewer inspection program, which may identify the need for additional work.

Water

The lifetime budget for the water service area (including meter replacement / automated meter reading installation) is $1.4 billion, an increase of $197.3 million from last year's CIP and a cumulative increase of $389 million over the last two budget cycles. The related ten year disbursements amount to more than $100 million. Both of these amounts are associated with the water facility plan update that was competed in FY 2009.



Selected Environmental Projects:

Clean Rivers Project

Along with other older cities, the District of Columbia faces the challenge of how to fix combined sewer overflows, which happen when heavy rain events overwhelm a system designed generations ago. A nationally accepted solution, and one we have adopted, is to build a huge network of tunnels to hold the combined stormwater and sewage until the storm passes and sends it to our treatment plant. Our agreements with the federal government require the design, construction and implementation of various activities and a Long Term Control Plan to be complete by 2025 at a cost of nearly $2.6 billion. These mandated activities are designed to reduce overflows into the local waterways by 98 percent. We have begun to refer to this collection of tunnels as well as other activities as our Clean Rivers Project. Other activities include measures such as tide gates, pumping station improvements, inflatable dams, and screens that filter debris–which have already reduced combined sewer overflows by 40 percent.

Nutrient Removal at Blue Plains to Protect the Chesapeake Bay

Blue Plains was the first wastewater treatment plant in the Chesapeake Bay watershed to meet its program goals, and has met or exceeded them since 2000. The first major step was a program to reduce nitrogen from the Plant by 40 percent over the 1985 levels.

The next generation of nitrogen removal projects will break ground in 2011 after many years of planning. This project will allow Blue Plains to meet the newest federal permit requirements that go into effect in July 2014 for nitrogen, as it already does for phosphorus. The Enhanced Nutrient Removal (ENR) program will cost nearly $1.0 billion. It will operate in conjunction with the Clean Rivers Project.

Digester project burns methane to generate power and reduce carbon footprint

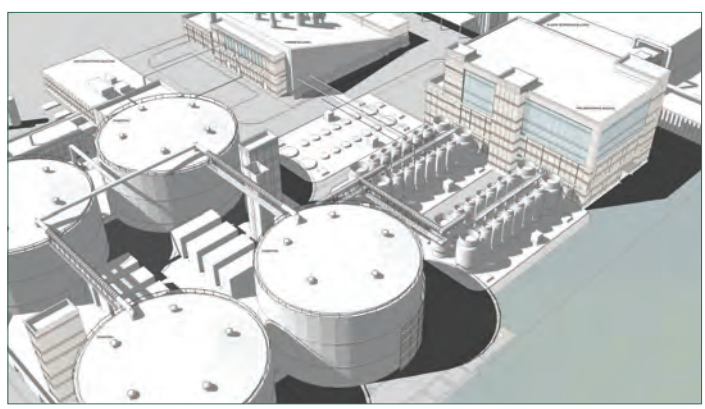
DC Water will soon be the first utility in North America to use thermal hydrolysis for wastewater treatment, and when completed, Blue Plains will be the largest thermal hydrolysis plant in the world.

Blue Plains, as a 24/7/365 operation, is the largest consumer of electricity in the District of Columbia. Using thermal hydrolysis and anaerobic digestion together will generate power to help operate the plant. Analysts estimate the net power generation at approximately 10 megawatts. This represents an enormous cost savings—as much as one third of our electricity costs each year.

In addition to the production of clean, green renewable power, the new process reduces the amount of solid material to be hauled away by 50 percent resulting in about 30 fewer trucks each day, or 11,000 less per year, and reduces truck emissions and gasoline costs. Together, these benefits will dramatically decrease the Blue Plains carbon footprint.

The end product is a better class of biosolids—Class A—that has many more applications. Class A biosolids can be used in many recycling applications including agriculture, reclamation, silviculture, and products for gardening, landscaping, green roofs and urban forestry.

The price tag of the complete project is about $400 million and is scheduled for ground-breaking in early 2011. It should be operational in mid-2014. Many eyes will be watching, as leaders in the U.S. water sector eagerly await the results of DC Water's undertaking.



Rendering; future construction of the Biosolids Management Facilities.

Overview

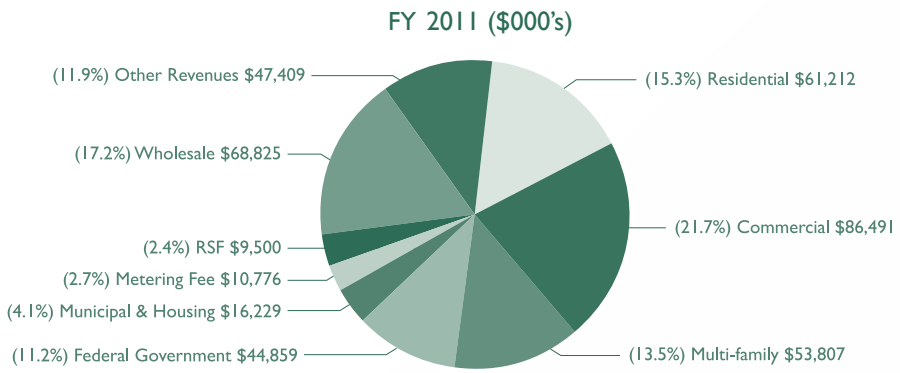
DC Water has a ten year financial plan that provides a strong financial framework to support implementation of the Board strategic plan, policies, priorities and guidance in several key financial areas. This financial plan serves as one of management's key tools to plan and monitor progress in meeting financial goals and to proactively address future financial and operational issues. Given DC Water's substantial borrowing needs over the next ten years, adherence to these Board policies is crucial in order to cost-effectively access the capital markets and retain our credibility with customers and regulators. The financial plan projects capital investments, operating expense requirements, with revenue requirements to support these requirements.

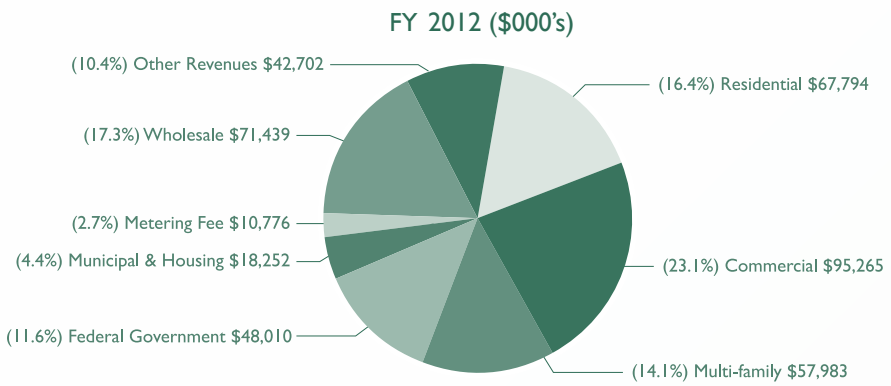
Our financial planning process is guided by key Board documents including the following:

FY 2008-2013 Strategic Plan; Statement of Investment Policy; Financial Policies; Pay-As-You-Go Policy; Retail Rate Setting Policy; Rate Stabilization Fund Policy; Operating Reserve Policy; Water and Sewer Facilities Plan; FY 2010-2019 10-year CIP
(These documents can be found at dcwater.com)

Operating Revenues

To provide continuous delivery of water and wastewater services, DC Water must receive adequate revenues to cover operating and maintenance (O&M) costs, debt service and other liquidity requirements. Revenue projections are a central part of the ten year financial plan. The revised FY 2011 revenue budget totals $399.1 million and is projected to increase to $412.2 million in FY 2012.





Proposed Retail Rate and Fee Changes

Financial Plan revenue projections reflect the FY 2011 Board-approved retail rates as well as the FY 2012 proposed rates.

	FY2011 (current)	**FY2012** (proposed)	**Units of Measurement**
Water	$3.10	$3.29	per Ccf or (748 gallons)
Sewer	$3.79	$4.01	per Ccf or (748 gallons)
Monthly Impervious Area Surface Charge	$3.45	$6.87	per ERU
Customer Metering Fee	$3.86	$3.86	5/8 meter size
Payment in Lieu of Taxes (PILOT)	$0.49	$0.53	per Ccf or (748 gallons)
Right of Way (ROW)	$0.14	$0.15	per Ccf or (748 gallons)

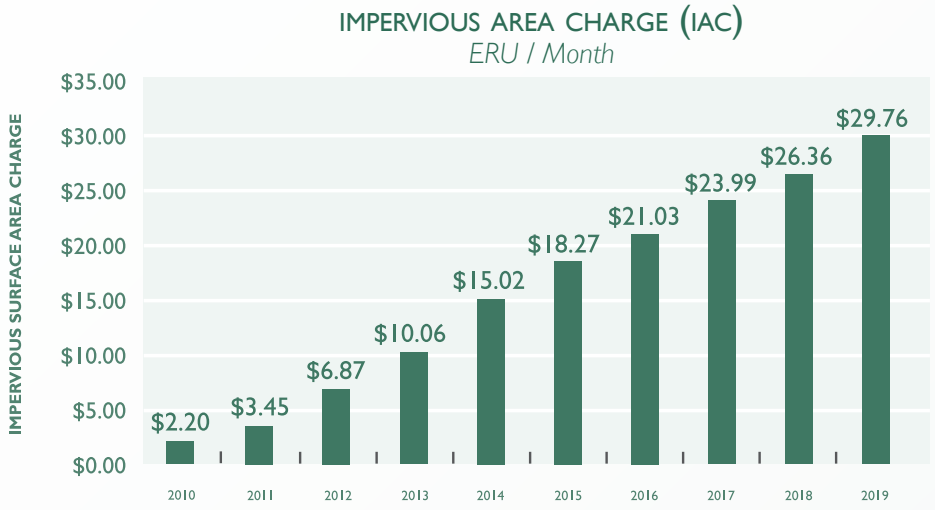
Water and Sewer Rates

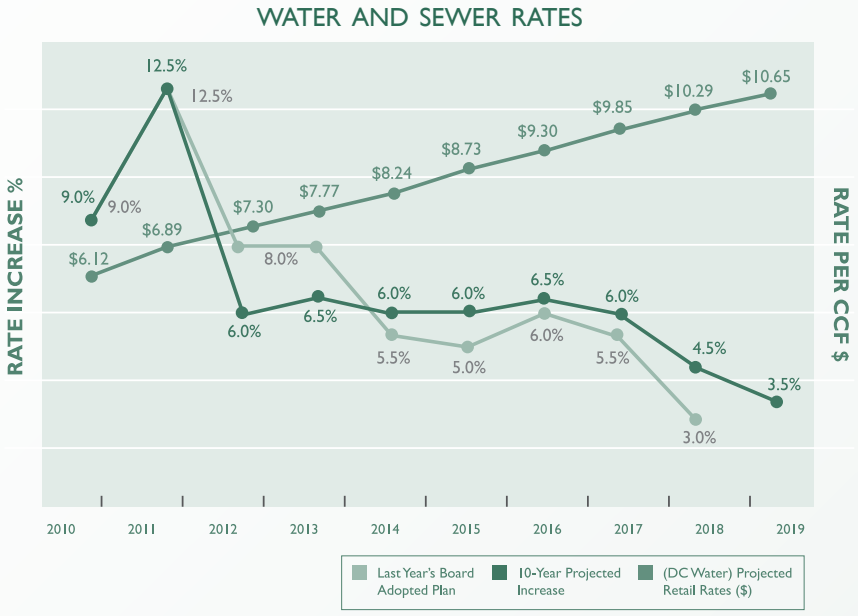
The proposed water and sewer rate increases included in the Ten Year Financial Plan are driven by the following factors:

- Average annual debt service increase of 13.8 percent
- Average annual O/M increase of 2.7 percent
- Anticipated operating cost savings at Blue Plains beginning in FY 2014 due to the implementation of the digester/cambi biosolids management project.

Clean Rivers Impervious Area Charge

The Impervious Area Charge (IAC) is a separate sewer service fee established in FY 2009 to recover the cost of implementing the Clean Rivers Project. The FY 2012 proposed monthly Clean Rivers IAC is $6.87 per ERU (Equivalent Residential Unit). Between FY 2010–FY 2019, the annual rates are projected to range from $3.45 to $29.76 per ERU per month. The projected Clean Rivers IAC charges are primarily driven by anticipated debt service costs to support the $2.6 billion Clean Rivers Project and are based upon the amount of impervious surface on each individual property which impacts wet weather runoff that must be treated at the Blue Plains Wastewater Treatment Plant. If additional federal assistance is provided, the impervious rate increases would be lower; the ten-year plan assumes no external funding beyond the special Congressional appropriations DC Water has already received, totaling $150.7 million.





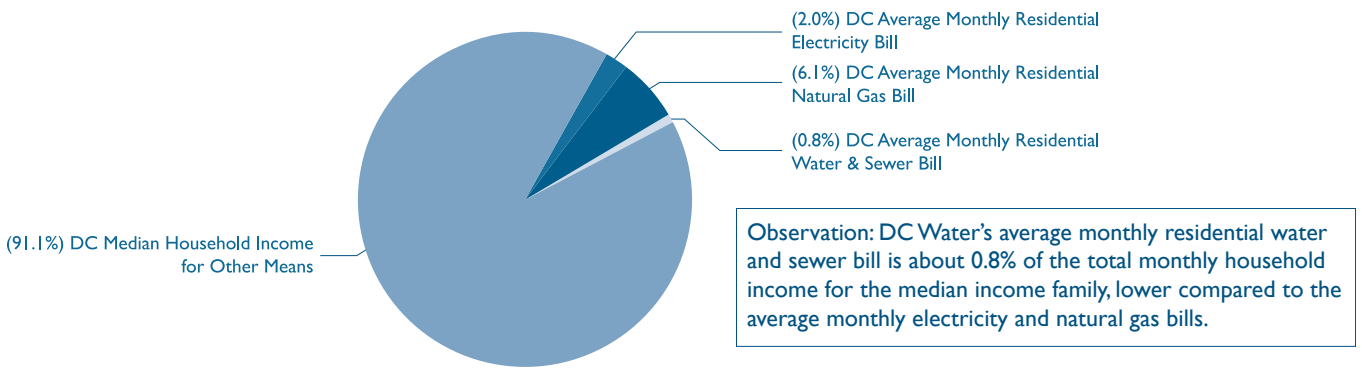
Right of Way and PILOT Fees

DC Water pays a Payment in Lieu of Taxes (PILOT) fee to the District Government each year based upon services received and certified by the DC Chief Financial Officer. The annual fee is adjusted in accordance with adjustments made to the retail water and sewer rates. In addition, DC Water pays a Right of Way (ROW) fee, a permit fee, assessed by the District, for the water and sewer lines that occupy space underground in the public right of way.

Customer Affordability

At DC Water, we have sought to balance our operating and financial needs with the financial impact upon our customers. Our rates and fees are comparable with similar water and wastewater utilities. However, the concept of utility affordability can be viewed differently within each individual household. EPA guidelines suggest that fees and charges should be within 2 percent of the median household income to be considered affordable. Using 2008 data (last available census data), DC Water is well under that target.

2008 MONTHLY DC MEDIAN HOUSEHOLD INCOME



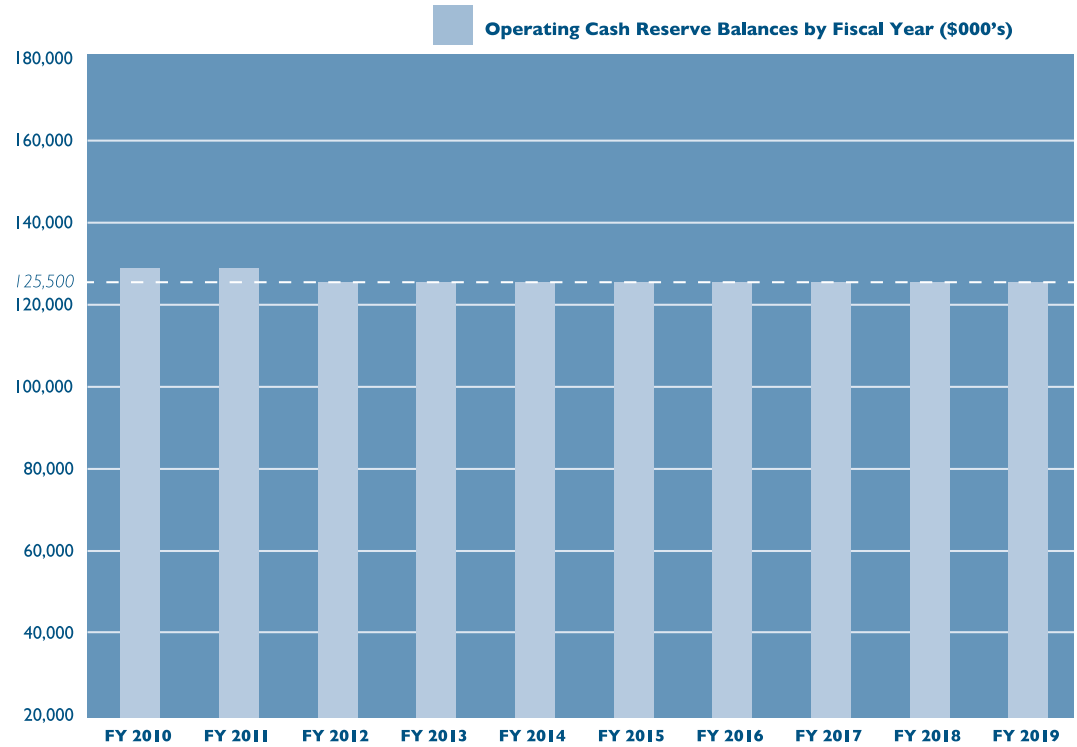
Observation: DC Water's average monthly residential water and sewer bill is about 0.8% of the total monthly household income for the median income family, lower compared to the average monthly electricity and natural gas bills.

Even with this favorable affordability index, there are many low income residents in DC for whom the average water/sewer bill would consume greater than 2 percent of their monthly household income. Recognizing this, DC Water provides programs to customers most in need. Through the Customer Assistance Program (CAP), the Authority provides eligible customers a discount of 4 Ccfs per month on their water and sewer bills. Since it began, participation in CAP has continued to increase. In FY 2010, a total of 6,458 customers received a discount on their monthly bills. In February 2010, the Board expanded the CAP discount to include the first 4 Ccf's of Payment in Lieu of Taxes (PILOT) and Right of Way (ROW) to qualifying low-income customers effective October 1, 2010. The District Department of the Environment, Office of Energy, administers this program for the Authority and similar programs for several other utilities in the area.

In addition, the Authority offers assistance to families in need through the Serving People Lending a Supporting Hand program (S.P.L.A.S.H.), in times of emergency. The program is administered by the Greater Washington Urban League. Every dollar received by the Authority is distributed to eligible customers.

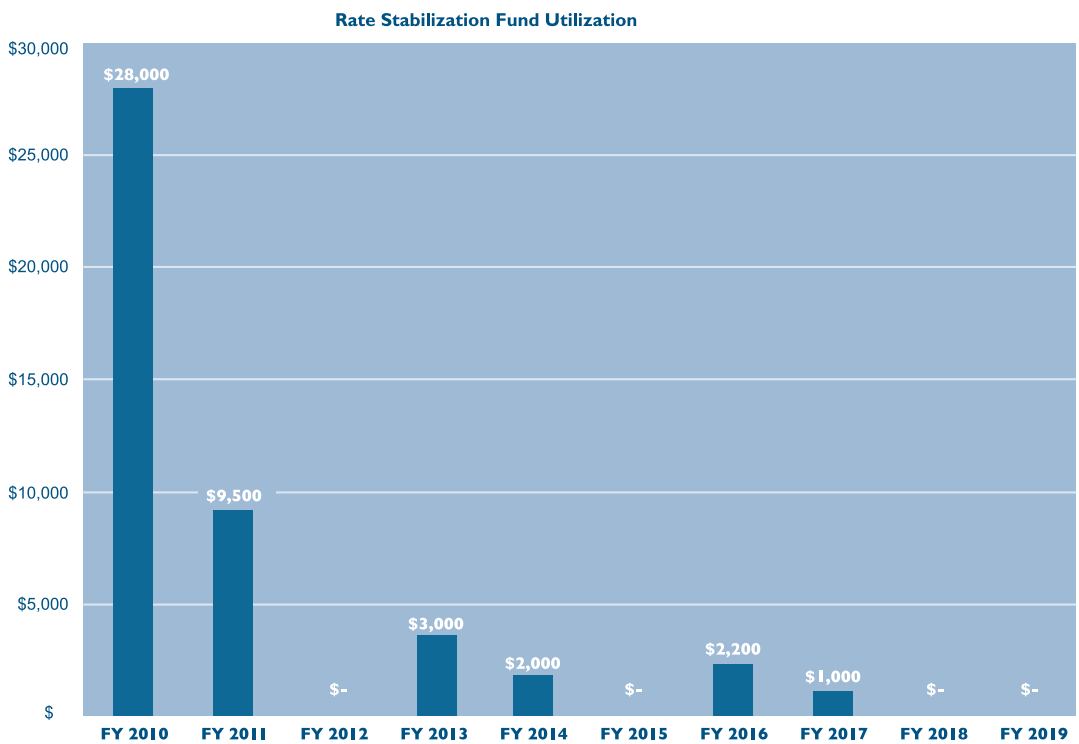
Operating Reserves

Consistent with Board policy, DC Water maintains cash reserves equivalent to 120 days of budgeted operations and maintenance, with the objective of maintaining at least $125.5 million in operating reserves. The ten-year plan reflects continued maintenance of this reserve level.



Rate Stabilization Fund

At the end of FY 2010, DC Water's Rate Stabilization Fund (RSF) balance was $16.7 million. The proposal calls for use of $9.5 million in FY 2011. At the end of the current 10-year plan period, there will be a balance of $2.0 million in the RSF. Using of RSF funds allows DC Water to implement future rate increases in a gradual manner while still meeting Board and indenture policies on cash reserves and debt service coverage.



Debt Management

DC Water's 10-year $3.8 billion CIP (cash disbursement basis), debt service continues to be the fastest growing line item of the operating budget with an average annual increase of 13.8 percent. Debt management consists of managing funds borrowed through revenue bonds, commercial paper, and other short-term notes. Currently, debt financing represents 63 percent of the funding in the ten-year capital program and debt service is projected to be 26 percent of the FY 2012 operating budget, increasing to 43 percent by FY 2019. Debt to net fixed assets (plant) ratio will increase from 45 to 59 percent in the current ten year financial plan.

At the end of FY 2010, (September 2010), DC Water had a total $1.2 billion outstanding debt; 42 percent senior lien and 58 percent subordinate. In October 2010, the Authority successfully issued an additional $300 million Public Utility Subordinate Lien Revenue Bonds, Series 2010A (Federally Taxable – Issuer Subsidy – Build America Bonds). DC Water accomplished the lowest cost of financing for a bond issuance in its history at 3.6 percent (net of subsidy) with a solid financing team, strong financial performance, diligent planning and market favorability. By utilizing the Build America Bonds (BABs) program, DC Water anticipates savings of more than $76 million throughout the life of the issuance as compared to the traditional tax-exempt financing. Investor confidence in DC Water was exhibited through significant interest in the BABs sale with more than $700 million of orders from more than 30 major institutional investors. The Series 2010A bonds priced with a lower spread to Treasuries (thus a lower all-in-rate) than directly comparable transactions.

DC Water provides information for current and future investors on its website, **dcwater.com**. In addition, as new issuances are planned, internet road shows for domestic and international investors are provided giving pertinent information on the Authority's strong management, capital improvement activities and forecasts, and financial forecasts. The next debt issuance is anticipated in late FY 2012.

Capital Financing Plan

The DC Water's capital program is funded through multiple sources, including equitable wholesale cash payments, interest earnings and a comprehensive capital financing plan. This financing plan continues to meet the dual objectives of 1) securing the lowest costs of capital possible and 2) maximizing administrative and operating flexibility. This plan includes several components.

Grants – The Financial Plan assumes that 7.7 percent of the capital expenditures between FY 2010-2019 will be from federal grants. DC Water currently receives grants from several sources including EPA Clean Water and Safe Drinking Water Acts, direct appropriations and various agreements. As stated in the General Manger's message, DC Water is aggressively pursuing additional federal support for the many regulatory and critical infrastructure investments that must be made in the near future.

Pay-As-You-Go Financing (PAYGO) – PAYGO financing is operating cash in excess of operating requirements and reserves that is used for capital financing or for repayment of higher cost debt in order to enact Board policy seeking the least costly capital financing for capital projects. The Board and staff continually monitor and evaluate its cash balances, reserve requirements, capital financing requirements and market interest rates, and determine the optimal financing package to produce the lowest practical cost of debt for financing its capital projects.

Interim Financing Program - In FY 2002 the Board approved a $100 million commercial program which was increased to $225 million in FY 2010. The notes are backed by two irrevocable letters of credit; considered subordinate debt under the Master Indenture of Trust; and are issued in increments with maturities less than 270 days. The proceeds are used for interim bond financing, short-term financing for capital equipment and certain taxable costs for the Washington Aqueduct.

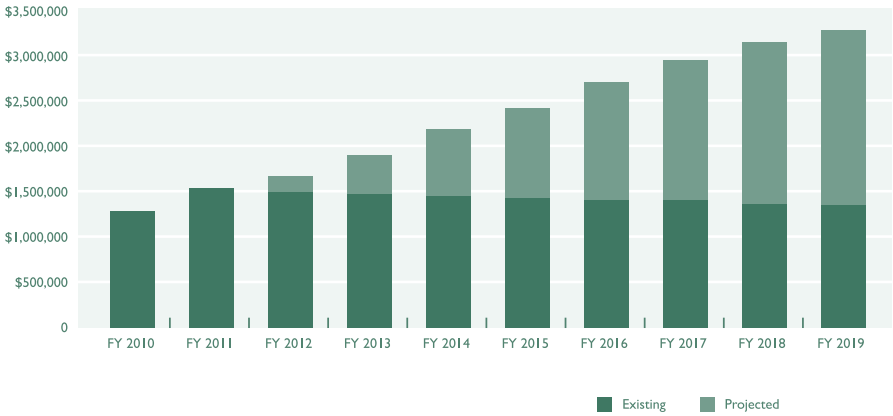
Permanent Financing – The current capital financing program provides plans to issue bonds every twelve to eighteen months. Bond issuances are used to finance capital projects and are described in further detail in the Capital, Financing, Cash and Debt section of the full budget book.

Senior Lien Bond Ratings:

Moody's	Aa2	Stable Outlook
Standard & Poor's	AA	Stable Outlook
Fitch Ratings	AA	Stable Outlook

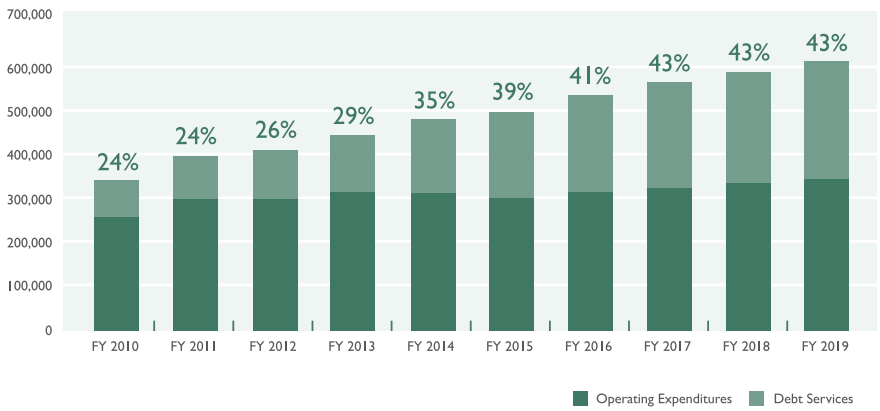
NEW AND EXISTING DEBT OUTSTANDING AND PROJECTED

BASED ON FY 2010 – FY 2019 CAPITAL IMPROVEMENT PLAN (IN $000'S)

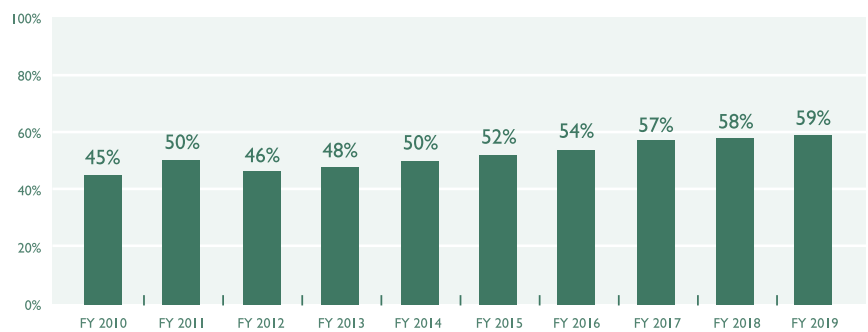


DEBT SERVICES AS PERCENTAGE OF TOTAL OPERATING EXPENDITURES

FINANCIAL PLAN FY 2010 – FY 2019 (IN $000'S)



DEBT TO NET FIXED ASSETS RATIO FY 2010 — FY 2019



A high performance workforce is one of the 'Critical Success Factors and Objectives' of DC Water's 2008 – 2013 Strategic Plan. Our business success depends on the quality of our employees. We aim to attract, develop and retain the best staff. Our employees are our most valuable asset and vital to attaining our mission and the Board's strategic goals. We will continue to invest in our employees and provide our managers with the training and tools to provide effective leadership of our employees.

In FY 2010, the General Manager launched a new effort called the Team Blue Project, which initiated a series of ongoing conversations around the most important issues facing DC Water. To enhance this new organizational culture, a new Director of Organizational Development has been charged with engaging and guiding Team Blue members at every level of the organization to make DC Water the best-run utility in the world.

For DC Water to continue to succeed as a whole, management has developed a new organizational culture framed under the philosophy of complete openness, and a philosophy predicated on the idea that every employee must be able to perform his or her job in a fulfilling, safe and productive environment. To that end, one of the most important goals is to make sure every employee is excited about working for the best water utility in the world has an opportunity to participate in one of the many team based projects that will transform DC Water.

Training is a critical aspect of both individual and professional development at the Authority. During FY 2011, the Authority will continue to offer training programs and classes that provided the knowledge and skills that are essential for employees to complete their jobs in a competent manner while meeting customer expectations. The table below provides a summary of DC Water's total training budgets for FY 2011 and FY 2012.

($ in 000s)

	FY 2011		FY 2012	
TRAINING TYPE	**BUDGET**	**PERCENT OF TOTAL TRAINING BUDGET**	**BUDGET**	**PERCENT OF TOTAL TRAINING BUDGET**
Outside Training	868	64%	868	63%
In-House Training	243	13%	243	18%
Contractual Training	275	23%	275	20%
Total	**1,386**	**100%**	**1,386**	**100%**

Finance
Distinguished Budget Presentation Award
For Fiscal Year Beginning October 1, 2010
Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting For its Comprehensive Annual Financial Report
For Fiscal Year Ended September 30, 2009
Government Finance Officers Association

Fleet Management
2010 Honorable Mention Certificate of Award for the 100 Best Fleets of North America
The Government Fleet

Information Technology
2010 W³ Silver Award
Judged by International Academy of the Visual Arts

2010 CIO 100 Award
CIO Magazine

2010 Laureate
The Computerworld Honors Program

2010 21st Century Achievement Award Finalist
The Computerworld Honors Program

Recognition for Geographic Information System
Environmental Systems Research Institute

Public Affairs
2010 Excellence in Community Service
Communitas Awards

Safety and Security
2010 George W. Burke, Jr. Facility Safety Award
Water Environment Federation

Sewer Services
2010 Golden Manhole Award
Water Environment Federation

Wastewater Treatment
2010 Gascoigne Wastewater Treatment Plant Operational Improvement Medal
Water Environment Federation

2010 National Environmental Achievement Award
National Association of Clean Water Agencies

2010 Platinum Peak Performance Award
National Association of Clean Water Agencies

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