



## Approved FY 2023 Budgets

### Section VI: CAPITAL FINANCING, CASH AND DEBT



Blue Plains / anaerobic digesters

\$ in thousands

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

Approximately 63% of DC Water's capital program is funded by debt and pay-go, 17% of the funds is contributed by the wholesale capital payments, and the remaining estimated 20% funds come from other available funds.

Below is the list of various funding sources and the percentage contribution, to DC Water's overall CIP needs.

Ten-year Sources of Funds	Amount	Percentage
Debt Financing (1)	\$ 2,570,230	38.6%
Wholesale Capital Payment	1,157,445	17.4%
Pay-Go Financing (2)	1,608,335	24.2%
Clean Rivers Impervious Area Charge (CRIAC)	723,083	10.9%
EPA Grants & CSO Appropriation	209,942	3.2%
System Availability Fee (SAF)	77,000	1.2%
Federal Grants - Infrastructure Funding	261,689	3.9%
Interest Income on Bond Proceeds	20,554	0.3%
Curing Pad and Solar	31,044	0.5%
<b>Total</b>	<b>\$ 6,659,322</b>	<b>100%</b>

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

\$ in thousands

## Sources and Uses of Funds

	FY 2021 Actual	FY 2022 Approved	FY 2022 Revised	FY 2023 Approved
<b>Sources</b>				
<b>Beginning Balance</b>	<b>\$ 266,205</b>	<b>\$ 209,136</b>	<b>\$ 151,031</b>	<b>\$ 281,405</b>
New Debt Proceeds / Commercial Paper / EMCP <sup>(1)</sup>	\$ -	\$ 200,000	\$ 405,000	\$ 194,519
Curing Pad and Solar	-	-	-	1,165
System Availability Fee (SAF)	5,403	7,700	7,700	7,700
Clean Rivers Impervious Area Charge (CRIAC)	49,158	52,095	52,095	52,514
Pay-Go Financing	90,014	89,226	104,659	114,315
Federal Grants - Infrastructure Funding	-	-	8,855	37,594
EPA Grants	30,568	31,311	42,161	27,101
CSO Appropriation	8,002	-	-	-
Wholesale Customer Capital Contributions	70,648	83,640	86,872	90,690
Interest Income	1,151	2,623	2,623	3,304
<b>Total Sources</b>	<b>\$ 254,946</b>	<b>\$ 466,596</b>	<b>\$ 709,966</b>	<b>\$ 528,902</b>
<b>Uses</b>				
Water Projects	\$ 55,880	\$ 100,209	\$ 165,313	\$ 227,116
Wastewater Treatment	72,007	63,922	85,979	78,574
Sanitary Sewer Treatment	28,204	75,437	68,086	103,383
Combined Sewer & LTCP Projects	161,517	165,276	152,266	117,703
Stormwater Projects	1,831	9,228	7,029	11,526
Non-Process Facilities	21,508	12,725	31,439	12,052
Washington Aqueduct	9,588	13,324	16,875	59,628
Capital Equipment	19,571	32,940	37,440	33,921
Meter Replacement / AMR/ CIS	14	3,079	3,079	3,100
<b>Total Uses</b>	<b>\$ 370,120</b>	<b>\$ 476,140</b>	<b>\$ 567,506</b>	<b>\$ 647,003</b>
Capital Contingency Reserve for LTCP	\$ -	\$ 47,614	\$ 12,086	\$ 32,350
<b>Ending Balance</b>	<b>\$ 151,031</b>	<b>\$ 151,978</b>	<b>\$ 281,406</b>	<b>\$ 130,955</b>

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

## Cash Reserve Summary

	FY 2021 Actual	FY 2022 Approved	FY 2022 Revised	FY 2023 Approved
<b>Beg. O&amp;M Reserve Balance (Net of Rate Stabilization Fund)</b>	<b>\$ 186,827</b>	<b>\$ 185,000</b>	<b>\$ 196,286</b>	<b>\$ 235,600</b>
Operating Surplus	\$ 118,938	\$ 122,961	\$ 174,315	\$ 143,799
Wholesale Customer Prior Year Billing Reconciliation	2,313	(3,342)	(5,400)	(5,000)
Federal Customer Prior Year Billing Reconciliation	2,233	488	(3,060)	(4,188)
Interest Earned from Bond Proceeds	194	85	85	225
Pay-Go Capital Financing	(114,221)	(111,192)	(126,625)	(127,837)
<b>Ending O&amp;M Reserve Balance (Net of Rate Stabilization Fund)</b>	<b>\$ 196,286</b>	<b>\$ 194,000</b>	<b>\$ 235,600</b>	<b>\$ 242,600</b>
Rate Stabilization Fund	\$ 87,744	\$ 77,244	\$ 35,644	\$ 35,644

\$ in thousands

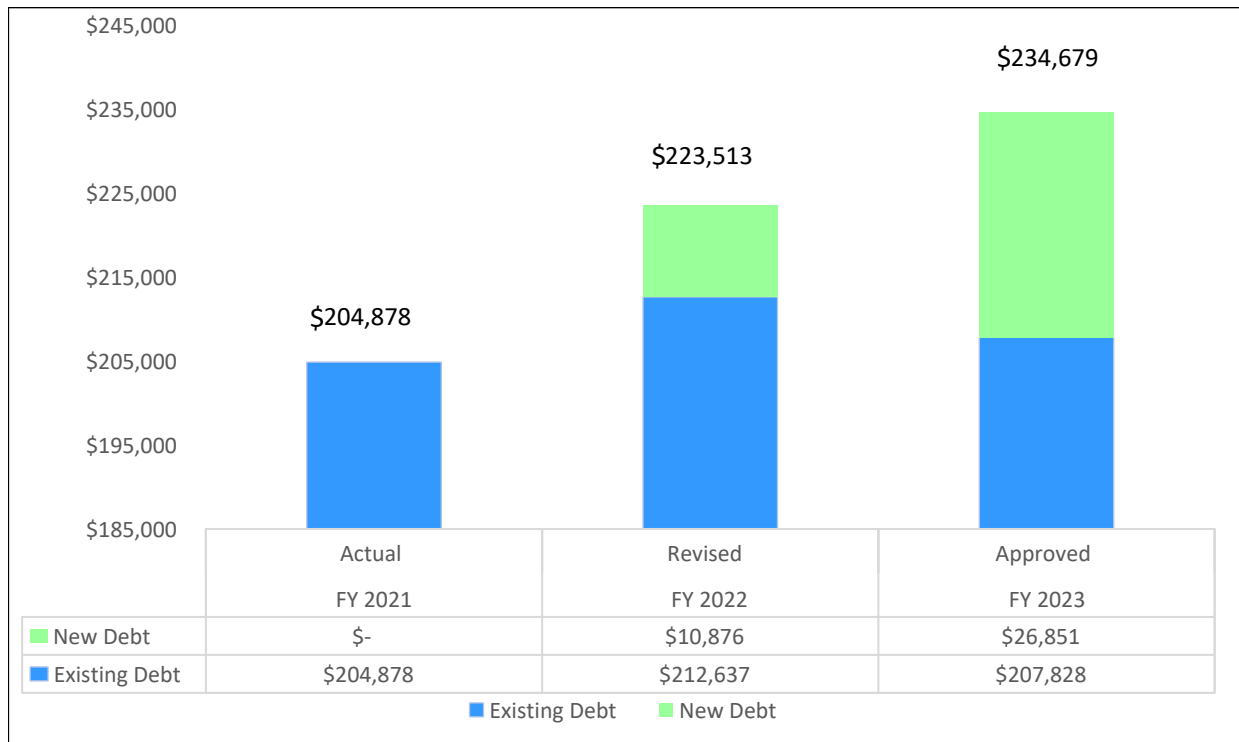
## Interest Rate Assumptions

- Budget Appropriation and Financial Plan
  1. Variable rate
    - 2.5% for FY 2022 and FY 2023
  2. Fixed rate
    - 4.0% and 5.0% for FY 2022 and FY 2023 respectively
    - Plus, cost of issuance and insurance

## Capital Financial Plan

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

## Debt Management FY 2021 – FY 2023





\$ in thousands

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

Bond Series	FY 2021 Actual	FY 2022 Revised	FY 2023 Approved
<b>Senior Lien</b>			
Series 1998	\$ 21,390	\$ 23,365	\$ 23,369
Series 2014A	16,829	16,849	16,849
Series 2017A&B	17,819	17,846	17,848
Series 2018A&B	18,312	18,326	18,329
WIFIA Loan	736	-	-
<b>Total Senior Lien</b>	<b>\$ 75,085</b>	<b>\$ 76,386</b>	<b>\$ 76,395</b>
<b>Subordinate Lien</b>			
Series 2010A	\$ 14,608	\$ 15,351	\$ 15,460
Series 2012A,B-1,B-2&C	20,046	20,087	-
Series 2014B	59	2,000	2,500
Series 2014C	30,341	30,123	30,006
Series 2015A&B	24,714	24,729	24,732
Series 2016	16,979	17,039	17,039
Series 2016B	428	-	-
Series 2019A&B	7,620	7,625	7,625
Series 2019C	1,741	1,741	1,741
Series 2019D	12,302	12,305	12,305
Series 2022A	-	1,446	16,218
Extendable Municipal Commercial Paper	87	1,500	1,500
Commercial Paper	62	1,500	1,500
Jennings Randolph Bond	805	805	805
<b>Total Subordinate Lien</b>	<b>\$ 129,793</b>	<b>\$ 136,251</b>	<b>\$ 131,433</b>
<b>Proposed Debt Service</b>	<b>-</b>	<b>10,876</b>	<b>26,851</b>
<b>Total Debt Service</b>	<b>\$ 204,878</b>	<b>\$ 223,513</b>	<b>\$ 234,679</b>

In February 2022, DC Water affirmed its senior bond ratings of AAA/Aa1/AA+ from S&P/Moody's/Fitch's Ratings. This allows DC Water to have a lower borrowing cost which in turn reduces ratepayer cost in the long run.

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

\$ in thousands

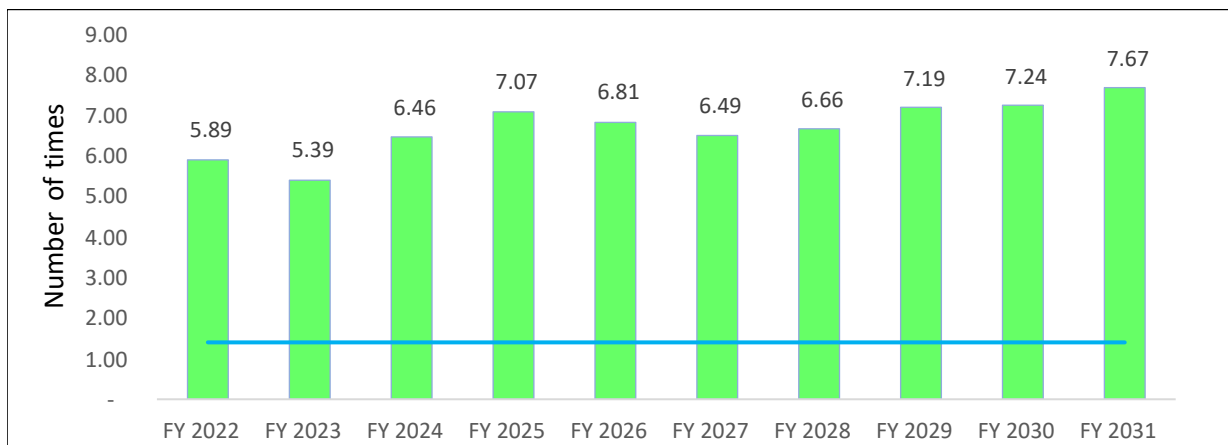
## Debt Service Coverage (FY 2022 – FY 2031)

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

Debt Level	Master Indenture	Board Resolution	Management Practice
Senior	120x	140x	140x
Subordinate	100x	100x	100x
Combined	NA	160x	160x

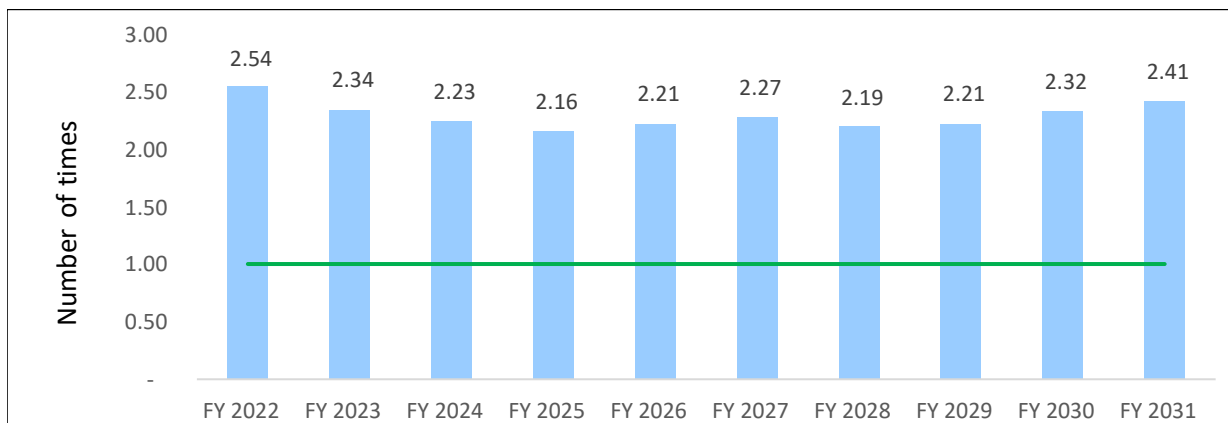
### Senior Debt Service Coverage

Senior Debt Service Coverage (Management target = 140x)



### Subordinate Debt Service Coverage

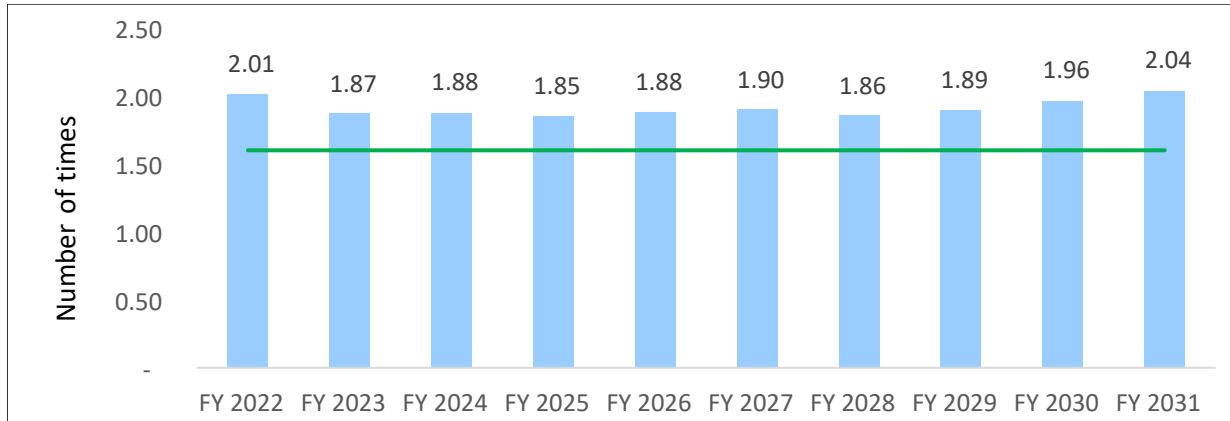
Subordinate Debt Service (Board/Management target = 100x)



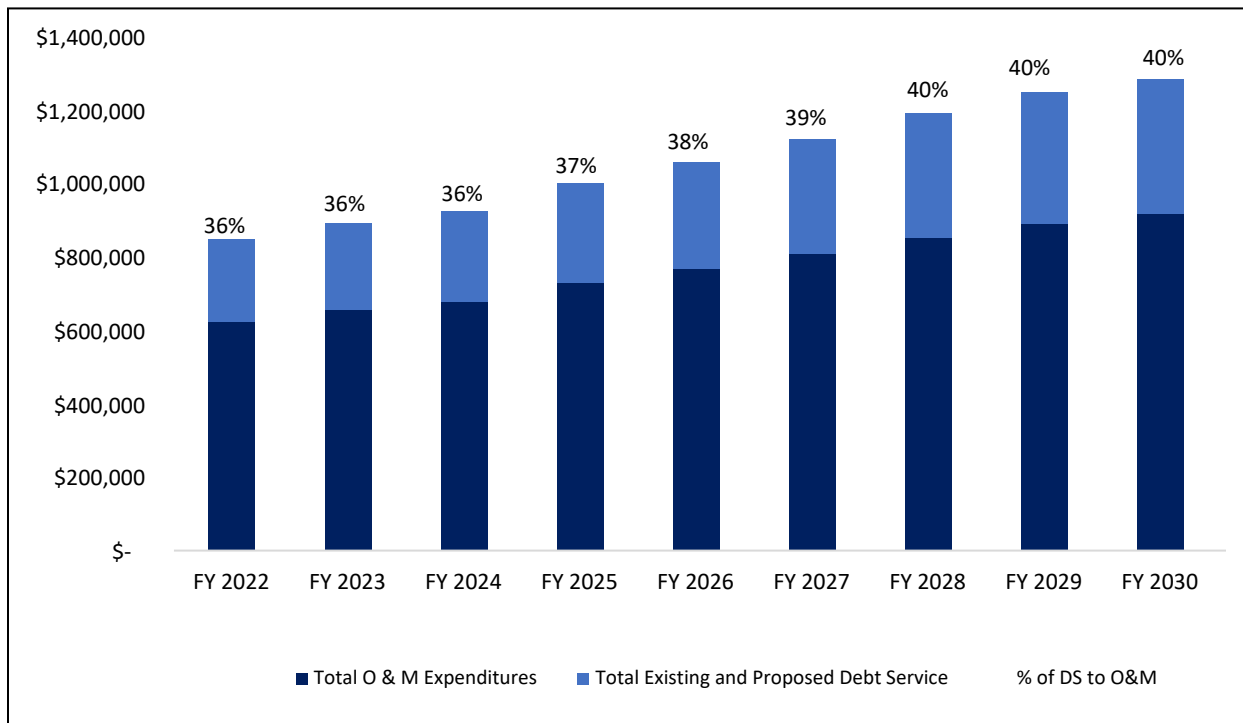
\$ in thousands

## Combined Debt Service Coverage

Combined Debt Service (Board/Management target = 160x)

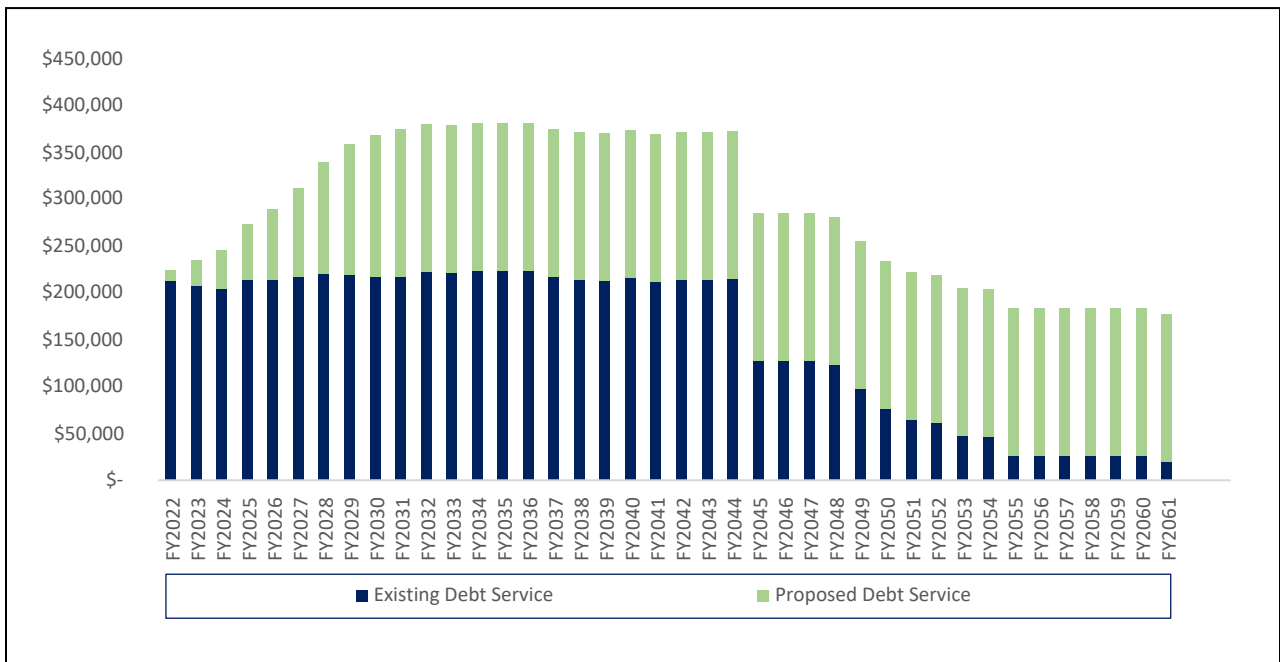


## Debt Service as Percentage of O&M Expenditures

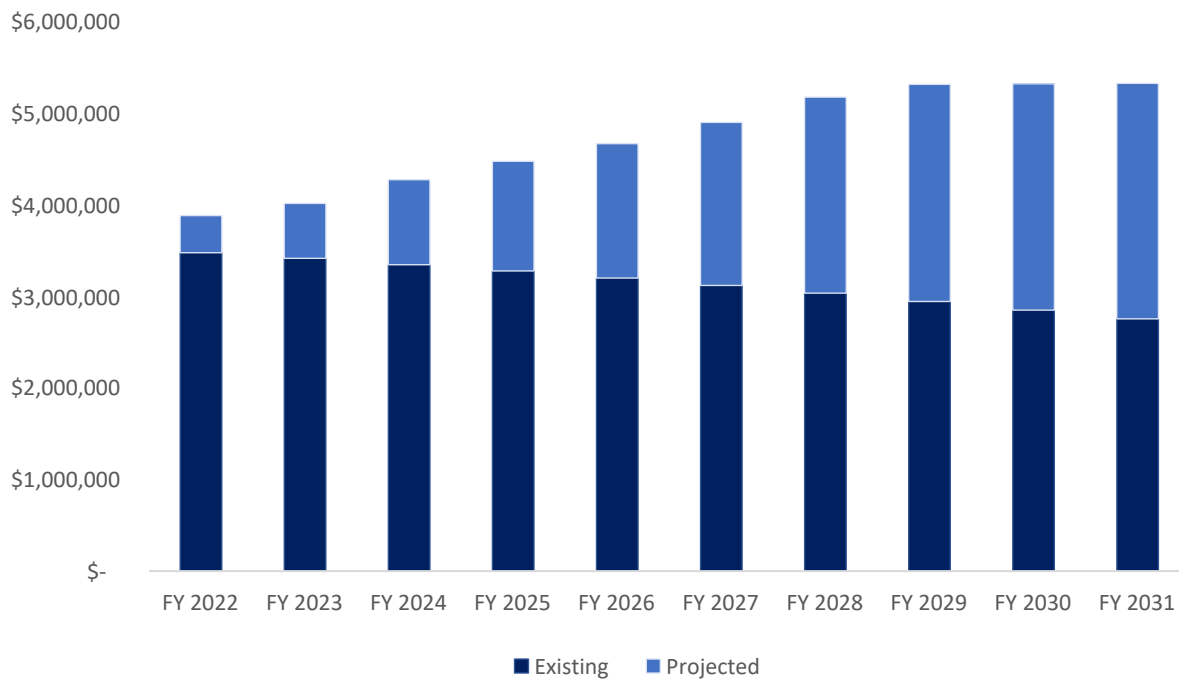


\$ in thousands

## Total Outstanding & Proposed Debt Service



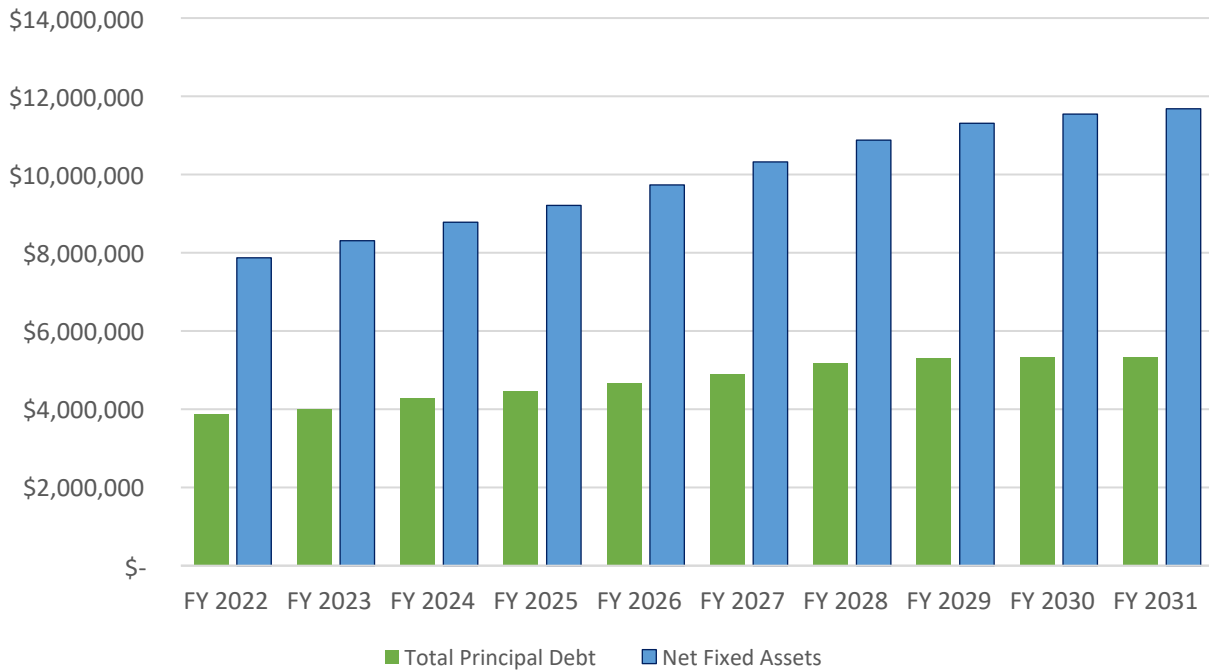
## Principal Outstanding Debt



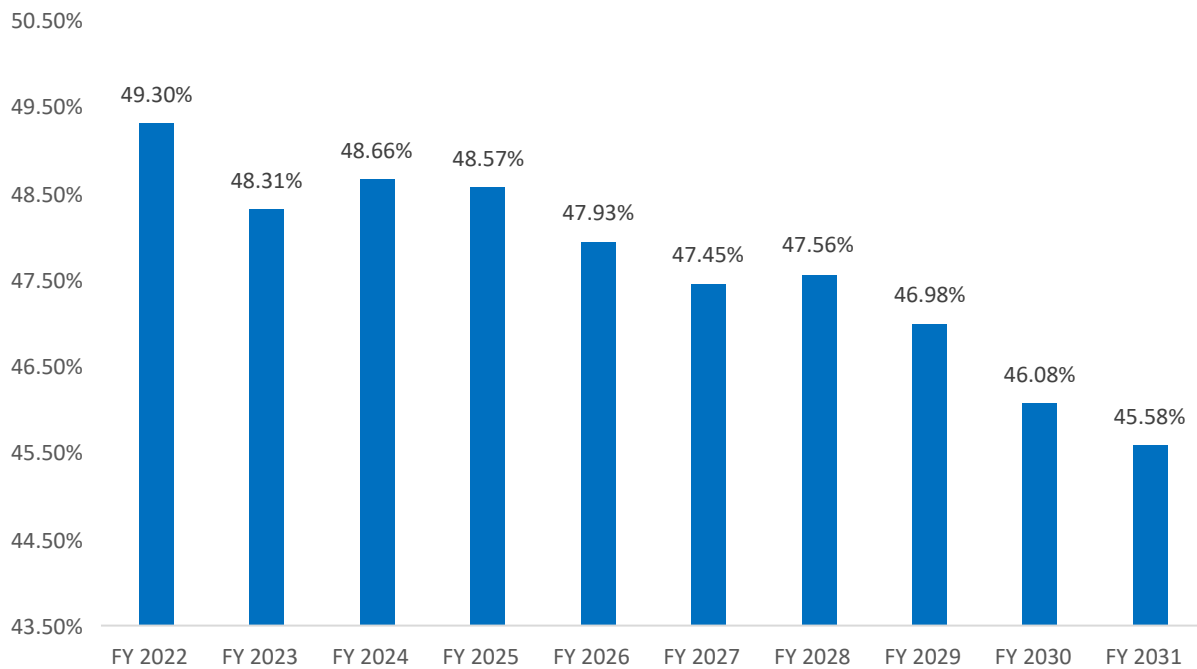


\$ in thousands

## Principal vs Net Fixed Assets



## Debt to Net Fixed Assets Ratio



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

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

**PUBLIC UTILITY SUBORDINATE LIEN REVENUE BONDS:** 1) Series 2012A (March 2012); 2) Series 2013A (July 2013); 3) Series 2014B (July 2014); 4) Series 2013A (July 2013); 5) Series 2014B (July 2014); 6) Series 2015A (October 2015); 7) Series 2015B (October 2015); 8) Series 2016B Environmental Impact Bond (September 2016); 9) Series 2019A (October 2019); 10) Series 2019B (October 2019); 11) Series 2019C (October 2019); 12) Series 2022B (February 2022); 13) Series 2022C (February 2022); 14) Series 2022D (February 2022); and 15) Series 2022E (March 2022).

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

**PUBLIC UTILITY SUBORDINATE LIEN REVENUE REFUNDING BONDS:** 1) Series 2008A: (refunded Series 2004, Assured Guaranty insured, April 2008; 2) Series C taxable commercial paper: (refunded Series 2007B, April 2008); and 3) Series 2012C: (advance refunded Series 2003, March 2012); 4) Series 2014C: (advanced refunded all or a portion of Series 2007A, 2008A, 2009A, and 2012B, October 2014); 5) Series 2016A: (advanced refunded all or a portion of Series 2007A, 2008A, and 2009A, January 2016); 6) Series 2019D: (advanced refunded all of Series 2013A); 7) Series 2022C: (refunded portion of Series 2014C, 2015A and 2015B, February 2022); 8) Series 2022D: (refunded portion of Series 2014C, February 2022); and 9) Series 2022A: (forward direct purchase agreement to refund all Series 2012A and 2012C, July 2022).

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

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

**COMMERCIAL PAPER (CP):** These notes issued are considered subordinate debt under the Master Indenture of Trust. DC Water's commercial paper program is issued in increments with maturities less than 270 days. As described in Section III, the Board approved the commercial paper program in early FY 2002; proceeds from the sale of the notes are used for interim bond financing, short-term financing for capital

equipment and certain taxable costs for the Washington Aqueduct. Each new bond issuance is evaluated to determine the most cost-effective way of reducing the amount of taxable commercial paper. Normal market conditions for commercial paper carries significantly lower interest rates than long-term debt. In May 2020, DC Water authorized the Letter of Credit facility to TD Bank, NA. Additionally, DC Water successfully extended JP Morgan Chase Bank as the authorized dealer and US Bank as the Issuing Paying Agent. The \$150 million commercial paper program includes: (1) Series B (tax-exempt) aggregate principal amount not to exceed \$100 million; and (2) Series C (taxable) aggregate principal amount not to exceed \$50 million

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

**DEBT POLICY:** DC Water's comprehensive debt policy can be found on our website at [www.dewater.com](http://www.dewater.com)

**INVESTOR RELATIONS:** DC Water's investor relations can be found via BondLink at [www.dewaterbonds.com](http://www.dewaterbonds.com)