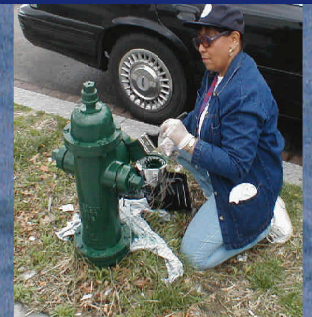


**District of Columbia
Water and Sewer Authority**



Revised FY 2004 & Approved FY 2005 Operating Budgets

Adopted January 6, 2004
Glenn S. Gerstell, Chairman
Jerry N. Johnson, General Manager





WASA'S VISION

WASA is the industry leader and environmental steward in providing excellent water service and wastewater collection and treatment services for all our customers.

WASA's MISSION

The mission of WASA is to serve all its regional customers with superior service by operating reliable and cost-effective water and wastewater services in accordance with best practices.

WASA's VALUES

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



BOARD OF DIRECTORS' STRATEGIC PLAN GOALS

- **Customer and Community Service**
WASA is committed to understanding, serving, and responding to the needs of its diverse customers and stakeholders. WASA will utilize state-of-the-art technology to monitor, measure and manage customer expectations, and reach out to improve relationships with stakeholders and the public
- **Organizational Effectiveness**
WASA will ensure the effectiveness of the organization by creating and maintaining a safe, productive, highly competent, diverse workforce. WASA will through partnerships with stakeholders maintain a professional, high-functioning, ethical work environment and culture
- **Environmental Quality and Operations**
WASA will provide excellent environmental stewardship, meet and surpass regulatory standards and manage the Authority's infrastructure effectively
- **Finance and Budget**
WASA will maintain a sound financial position by optimizing operational and capital programs and exploring additional revenue sources, while maintaining fair and equitable rates



BOARD OF DIRECTORS

District of Columbia

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Lucy Murray, Principal
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ACKNOWLEDGEMENTS

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Cuthbert Braveboy, Sewer Services
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ACKNOWLEDGEMENTS

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The Office of Budget and Finance would like to extend its appreciation to all the departmental staff members whose hard work and dedication helped make this document possible.



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

District of Columbia Water & Sewer Authority

District of Columbia

For the Fiscal Year Beginning

October 1, 2003

President

Executive Director

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DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

5000 OVERLOOK AVENUE, S.W., WASHINGTON, D.C. 20032

January 6, 2004

Mr. Glenn S. Gerstell
Chairman
Board of Directors
District of Columbia Water and Sewer Authority
5000 Overlook Ave., S.W.
Washington, D.C. 20032

Subject: Transmittal of Adopted FY 2005 Budgets

Dear Chairman Gerstell and WASA Board Members:

I am pleased to submit the revised FY 2004 and FY 2005 budgets as adopted by the Board in January 2004. These budgets are intended to meet the mandate provided for in District of Columbia Law 11-111, which specifies that “...WASA shall prepare and submit to the Mayor, for inclusion in the annual budget, annual estimates of the expenditures and appropriations necessary for the operation of the Authority for the year...”

This transmittal letter serves as an addendum to the original General Manager’s message that was submitted to the Board in October 2003. There were no changes to the proposed budgets I originally submitted to the Board, except for an increase in the capital authority request to reflect the inclusion of contingencies for these projects. The activities described in the originally-published message (which follows in its entirety in this approved document), remain as the key operating priorities of the Authority for the next two fiscal years and beyond.

FY 2003 – FY 2012 Financial Plan, Retail Rates & Revenues

The revised 10-year plan continues to meet all Board financial policies regarding senior debt service coverage and reserve levels and provides the financial framework to maintain WASA's strong AA level bond ratings. Over the remainder of the 10-year plan, annual rate increases are projected to range from five to six percent, as has been the case since WASA's inception and are required primarily to support retail ratepayers' share of the Authority's \$1.76 billion capital improvement program. The proposed rate and fee changes and ten-year financial plan do not include the proposed combined sewer overflow (CSO) Long Term Control Plan that is currently being considered by the Environmental Protection Agency (EPA), as discussed in more detail in the original budget message that follows.

FY 2004 & FY 2005 Operating Budgets

The FY 2004 revised budget of \$258.9 adopted by the Board in January 2004 is approximately \$0.2 million lower than the FY 2004 approved budget. A \$0.4 million reduction in personnel services is offset by increases in other expenditure areas. The reduction in personnel services is due to decreases in fringe benefits and overtime expenditures.

The FY 2005 operating budget adopted by the Board in January 2004 is \$275.3 million. The \$16.4 million increase from FY 2004 to FY 2005 is due largely to increased debt service associated with the capital improvement program.

The Authority's key operating goals remain the same as originally presented in October 2003. Additional details on the FY 2004 and FY 2005 operating budgets can be found in Sections II and VII.

FY 2003 – FY 2012 Capital Improvement Program

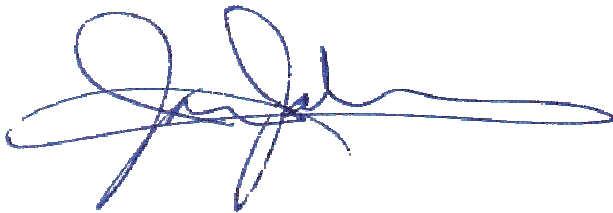
The Board-adopted, ten year, \$1.76 billion capital improvement program (disbursements basis) remains unchanged from the plan originally presented in October 2003. This program funds critical improvements to our water distribution system, the Blue Plains Advanced Wastewater Treatment Plant, and the Authority's sewer systems, and is discussed in more detail in Section V.

In the course of reviewing the 10-year plan with the Board, I recommended, and the Board approved, an inclusion of contingency funds in our capital authority request. This change added \$96.8 million to our FY 2005 authority request for Blue Plains (\$46.8 million), Sewer Collection System (\$11.0 million), Water System (\$29.9 million) and Stormwater (\$9.1 million), bringing the total capital authority budget for FY 2005 to \$371.0 million.

It has been my pleasure to work with the Board to demonstrate, in concrete terms, our commitment to high quality and cost effective delivery of services to our customers. The budgets approved by the Board contain the resources required to meet the goals laid out in the Board's Strategic Plan: providing our customers with world-class service, developing and supporting our outstanding workforce, protecting the environment, and maintaining our strong financial position. I extend a special thanks to the many Authority employees who assisted in developing this budget document.

This budget as well as additional information about the Authority can be found on our website at www.dcwasa.com.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jerry N. Johnson", with a long horizontal flourish extending to the right.

Jerry N. Johnson
General Manager



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

5000 OVERLOOK AVENUE, S.W., WASHINGTON, D.C. 20032

Mr. Glenn S. Gerstell
Chairman
Board of Directors
District of Columbia Water and Sewer Authority
5000 Overlook Avenue, S.W.
Washington, D.C. 20032

October 16, 2003

Dear Chairman Gerstell and WASA Board Members:

I am pleased to present the District of Columbia Water and Sewer Authority's (WASA) revised FY 2004 and proposed FY 2005 budgets for your consideration. These budgets are intended to meet the mandate provided for in District of Columbia Law 11-111, which specifies that *"...WASA shall prepare and submit to the Mayor, for inclusion in the annual budget, annual estimates of the expenditures and appropriations necessary for the operation of the Authority for the year..."*

I am particularly pleased to be starting the budget process on a high note – the upgrade of our bond ratings to the "AA" category. In conjunction with our issuance of long-term debt this past summer, all three Wall Street bond rating agencies took this positive action, a significant accomplishment for an organization as relatively young as ours. By reducing the interest rates we pay on our borrowings, our customers' bills will be lower than if we had not received these rating upgrades.

A significant reason for our bond rating upgrades is the Board's leadership in all areas of our finances and operations, as laid out in the Strategic Plan. Just two weeks ago, the Board of Directors reviewed and renewed its vision for WASA as part of its strategic planning process, and the core vision remains the same: *WASA will be an independent, competitive, environmentally-sensitive provider of high quality water and wastewater services.* As part of the review of its Strategic Plan, the Board outlined four Strategic Goal Areas. These areas are the framework for these budgets, as well as our long-term financial, capital and operational plans, the performance expectations addressed by our annual workplan, and the day-to-day activities required to fulfill these plans. In particular, the budgets presented to you today include specific operating plans that will ensure that WASA meets these Board-directed Strategic Goal Areas. Throughout this document, we will highlight the links among our budget, operating plans, and the Board's Strategic Plan.

With the Board Strategic Plan as a foundation for all that we do, WASA continues to operate in a rapidly evolving environment, requiring constant adjustments to our daily and annual activities. Changes in technology already have had significant impacts on our customers and employees, with the introduction of new equipment, new metering technology a new web site, and a new two-way radio system. Changes in our regulatory requirements also demand operational changes and reprioritizations, including the issuance of a new permit for Blue Plains and the execution of a major consent decree related to operation of the combined sewer system. We will continue to face these changes over the term of these proposed budgets.

While we have made great progress since we began operations in October 1996 with some of our operations and programs recognized as industry-leading, we have significant work to bring all facets of WASA up to the same high level of performance. I believe that we can accomplish this goal through the budgets and long-term plans developed and presented today. I want to thank staff members across WASA whose input into the budget and long-term plans is critical to achieving our goals.

OPERATING BUDGET SUMMARY

As discussed in more detail below under “Strategic Goal – Financial Stability,” our revised FY 2004 operating budget totals \$258.9 million, a \$0.2 million decrease from the approved FY 2004 budget. We have held operations and maintenance costs in line while addressing a number of issues that are outside of WASA’s control by finding savings in other areas. The proposed FY 2005 budget totals \$275.3 million, a \$16.4 million increase over the revised FY 2004 budget. The majority of this increase is due to additional debt service as the capital program progresses. Additional details on the major initiatives and changes in these budgets are discussed below.

STRATEGIC GOAL AREA – CUSTOMER & COMMUNITY SERVICES

This strategic area encompasses our direct relationships with and service to our retail and wholesale customers and employees, as well as our obligations to other stakeholders in the District and the greater Washington area. In the broader sense, it also covers our communications to our customers and other stakeholders.

CUSTOMER SERVICE INITIATIVES

The past three years have been a period of dramatic change for our customers as we have revamped virtually all areas of service delivery, including water, sewer and day-to-day customer service. These changes will continue over the next two years and beyond as other major initiatives are accomplished, some of which are described in more detail below.

Improved response to customers through investment in technology and staff reorganization – Building on the FY 2002 reorganization of our call center, billing and collections operations and the implementation of our new customer information and billing

system in 2001, we have dramatically improved our billing accuracy and responsiveness to customers. Our efforts in this area continue in FY 2004 and FY 2005 with the following improvements:

- *New Consolidated Command Center* – Beginning November 1, we will begin operation of our consolidated command dispatching and call center, managed by the Department of Customer Service. The command center will provide customers with a single point of contact for all of their needs, whether they are billing or water or sewer service-related. Previously, customers called multiple times or were transferred among several WASA departments to address their concerns. The command center will use the customer information system to generate fieldwork and track customer issues. All water, sewer and customer service dispatching will be done through the command center, allowing us to create synergies among the different areas. The development of the new command center was done at no additional operating cost; thirteen existing positions were transferred from Water and Sewer Services to Customer Service to staff this effort.
- *New Radio System* – A counterpart to the new command center is WASA's new radio system. WASA has collaborated with the District's Emergency Management Agency to participate in its 800 MHz radio system, which results in expanded coverage for our field crews across the District and will provide for better communication among departments. For customers, it means streamlined dispatching of their service calls, which will result in better and faster service. For employees, it means enhanced safety as crews can better communicate with each other.
- *Asset Management System* – In FY 2004, we will begin implementation of our new asset management system. This system, which will integrate our existing customer information, maintenance management, process computer control system (PCCS) / supervisory control and data acquisition system (SCADA), and other systems, will assist WASA in better managing our water and sewer infrastructure. It will allow us to better track specific asset performance and related repairs, and perform more preventive maintenance. For our customers, it will mean better work order scheduling, which will improve service call response times, and ultimately fewer service calls as preventive maintenance activities reduce the number of service issues. This project is projected to cost \$9.5 million over four years.

While we expect that the improvements discussed above will improve customer service, our investments to date are also yielding significant improvements. Calls answered within two minutes on non-peak days have improved from 52 percent in January 2002 to an average of 86 percent in FY 2003, with most months' performance in the 85 to 90 percent range. Performance in recent months has been hampered by training in anticipation of implementation of the consolidated command center and related reorganization activities. We will consistently meet our goal of 97 percent in FY 2004.

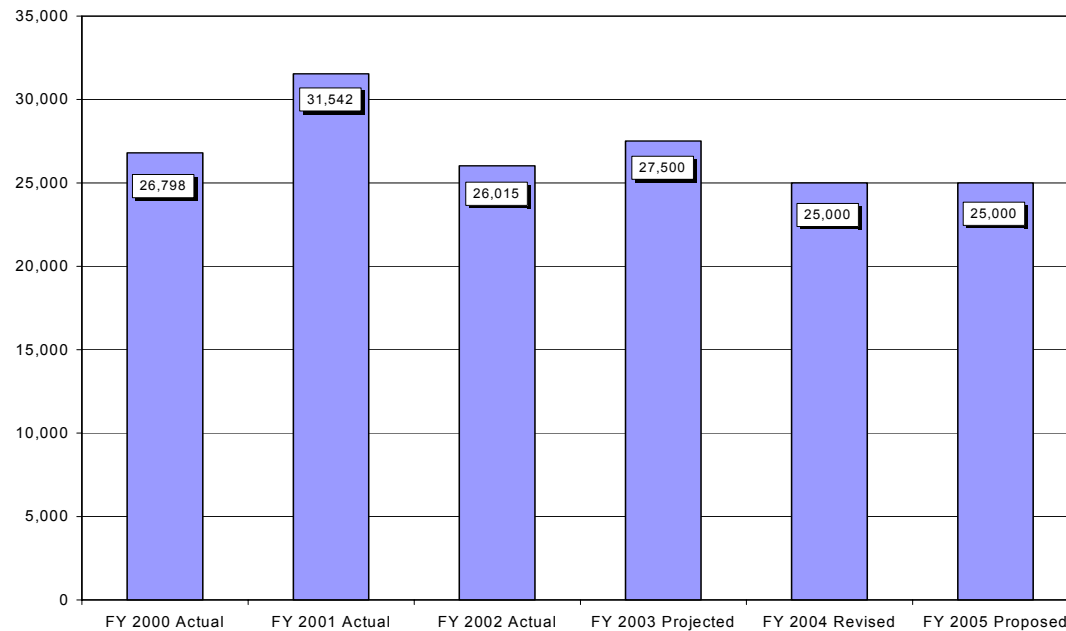
We have also begun significant initiatives to improve customer service on water and sewer service issues. Following an intensive review of our organization and supervisory structure in the Department of Water Services, we implemented a significant change to assure effective field supervision of repair crews, transitioning from "roving" field supervisors to a clearly designated working supervisor of each repair crew. This change was accomplished without an overall increase in staffing. In addition, we created a new technical support services division within Water Services that will focus on managing our "War Room" efforts for capital improvement projects for valve replacement and other distribution system projects. In FY 2003, we responded to approximately 50 percent of main breaks and service line leaks within 45 minutes, less than our goal of 95 percent, but over the next two years we will work to reach our goal. In addition, in FY 2003, we repaired 79

percent of main breaks within our target of ten days, beating our FY 2002 performance of 73 percent. We believe these organizational improvements will help us to improve our performance in this area. We have also made key additions to our technical and management staff in the critical areas of water pumping and water quality, and are planning a renewed emphasis on water conservation in the coming year.

We improved our performance in sewer service functions, and will continue to focus on these key objectives in FY 2004 and FY 2005:

- Cleaned a projected 27,500 catch basins in FY 2003, slightly exceeding our target of 25,000
- Investigated or relieved close to 2,800 sewer laterals
- Cleaned approximately 120 miles of sewer lines
- Repaired or replaced close to 330 sewer laterals
- Collected 900 tons of floatable debris from the Anacostia and Potomac Rivers
- Cleaned wetwells at six critical stormwater pumping stations, removing debris to help prevent road flooding

**Actual and Projected Catch Basins Cleaned
FY 2000 – FY 2005**



Improved billing & customer information options – The combination of our new web site, www.dcwasa.com, and our customer billing and information system have given customers significant enhancements for billing information and payment options, including on-line account information, and payment via electronic funds transfer and credit / debit cards. At the end of FY 2003, electronic payments totaled approximately nine percent of all transactions.

We have completed a number of billing and payment option enhancements in FY 2003, and are working on several more in FY 2004 & FY 2005:

- *Monthly billing* – With the implementation of our new automated meter reading (AMR) project, we have transitioned over 100,000 residential and small commercial customers to monthly billing over the last year. As we complete AMR meter installations on remaining customers, they will be transitioned to monthly billing, with completion scheduled for FY 2005. Monthly billing has been requested by many of our customers with fixed incomes and our commercial customers. It also gives customers much quicker notice of underground or hidden water leaks and is required in order to implement budget billing.
- *Budget billing* – Starting this month, WASA customers can sign up for a budget billing option, which will provide them with flat monthly bills, allowing them to better budget for their water bills.
- *Recurring debit / credit card payment* – In June, we unveiled an enhancement to our existing credit card payment that simplifies the credit card payment process by requiring customers to only type in their card number once and authorize payment every billing period using that same number. Previously, customers had to authorize their credit card payment each transaction. Approximately 750 customers have signed up for this option so far. We also added the option to use debit cards, and in FY 2004, will be evaluating the addition of autocheck service for customers.
- *Customer assistance program expansion* – In response to the Board's request, I recently presented a plan for expanding our program for low income customers to single family home renters; currently, the program only applies to homeowners. I look forward to working with the Board to accomplish this program enhancement in FY 2004. In addition, we are planning to expand our S.P.L.A.S.H. (Serving People by Lending a Supporting Hand) program that is funded by voluntary contributions from customers and the public. Specifically, we will be implementing an enhancement to our bill that will allow customers to "round-up" their bill payment each month with the increment going to fund S.P.L.A.S.H.

Our new customer information and billing system, installed in June 2001, has facilitated major changes in our customer service operations as well as many enhancements. However, because of the significant enhancements that have been added, we must now undertake a major upgrade to the system to integrate all of these enhancements into the base product. The upgrade will provide archive and purge capabilities, which will enable us to streamline customer account records and improve data integrity. The upgrade improves some major processes such as group billing and service order processing, and allows us to take better advantage of work scheduling and customer order functionality. Once completed, we will undertake a bill redesign project to incorporate some of the changes requested by customers and the Board.

Improved metering – WASA is well underway with the implementation of our comprehensive meter replacement AMR project. This project will replace the 124,000 meters in our system with meters that automatically transmit consumption data to our billing system via cellular technology. This will ensure that our customers get accurate, timely, and consistent meter readings, and will ultimately result in cost savings – the average cost per meter read is expected to drop to just over \$1 from approximately \$3. Through September, we had installed over 97,000 out of a total 102,000 residential meters and almost 9,000 out of 20,000 small commercial meters (two inches or less).

The benefits to our customers are great – in addition to cost savings, the new AMR technology virtually guarantees that meter readings will be done in a timely and accurate manner. Because of the frequency of meter reads, it will also help customers better identify leaks, and for large customers, it will also allow them to better manage their water usage.

Installations on the 2,800 large commercial meters (three inches or greater) are scheduled to begin in the first half of FY 2004 upon completion of meter rightsizing work on the largest meters. As previously discussed with the Board, this work will be more difficult to complete due to the poor quality and age of the infrastructure on most of the large meters, requiring ancillary work (such as plumbing, meter pit and box work, etc.). We will be proposing minor modifications to the regulations that provide WASA with ownership of these meters to better allow us to complete this ancillary work. Any costs of completing this work will be recovered through the metering fee.

The new AMR residential meters have generated an approximate six percent increase in billing in FY 2003, and we project similar increases for other small commercial meters. We project that large commercial meters will experience closer to 10 percent increase in billed consumption due to the age of these meters, and have increased our FY 2004 and FY 2005 revenue projections and ten-year plan accordingly.

The new AMR technology eliminates the need for manual meter reading, the job function of 26 existing positions. We have trained all of our staff on how to maintain our investment in the new technology. In FY 2004 we will complete the reorganization of our customer service meter operations. We have already restructured our entire meter operation, including revisions of job descriptions, to reflect new work processes required to fully capitalize on the new technology's capabilities. While we know a number of existing positions will no longer be needed, we are adding several new roles to better address unauthorized use of water, focusing on fire hydrant hook-ups and ensuring that all new construction and renovations are properly metered.

INTERNAL & EXTERNAL COMMUNICATIONS

The introduction of both our new web site, www.dcwasa.com, and our monthly customer newsletter, *What's on Tap*, have greatly improved our communications with our customers and other external WASA stakeholders. We have also provided extensive specialized customer and stakeholder communications for the high profile projects underway for the last year, including the AMR program, the CSO Long-Term Control Plan, the lead service line sampling and replacement program, and water and sewer system improvements throughout the District. Individual customer mailings were provided for these programs and public meetings were held for the CSO LTCP, lead service line sampling & replacement program, the Northeast Boundary Sewer upgrade project and water system infrastructure improvements in Anacostia.

Newspaper articles and other outreach materials were published on these projects. We plan to use similar approaches for other major projects in the future. WASA also has gained national and international recognition for its capital projects through articles in industry publications, broadcast documentaries and newscasts. WASA annually publishes its *Consumer Confidence Report* on water quality and distributes it to all District residents. We also launched a *Water – Use It Wisely* educational campaign with regional partners.

Internally, we enhanced efforts to keep employees informed through specialty newsletters on safety, security, maintenance and employee relations. Additionally, the General Manager holds a monthly breakfast meeting with front-line supervisors to discuss concerns and report on initiatives. Managers also practice an ‘open door’ policy to discuss employee concerns.

GOVERNMENT RELATIONS

Over the last two years, we have greatly improved our inter-governmental relationships, in large part due to the addition of a staff person focused on this area. In addition, we have built and solidified strategic alliances with a variety of stakeholders in WASA, including customers, key environmental groups, and political and legislative leaders at the local, regional and federal levels. This success has been marked by the receipt of \$49.7 million in CSO grant funding in FY 2003, which would not have happened without the strong support of President Bush, Mayor Anthony Williams, Representative Eleanor Holmes-Norton, other Congressional representatives and staff members, and the U.S. Office of Management and Budget. We also successfully secured additional grant funding from federal agencies, including the Federal Emergency Management Agency and the Environmental Protection Agency. In addition, we have successfully resolved a number of longstanding issues with the District of Columbia, including finalization of the right of way fee memorandum of understanding and other legislation intended to enhance the Authority’s administrative flexibility. Our efforts over the next two years will focus on continued federal financial support for the CSO Long-Term Control Plan, security preparedness, increased financial flexibility for our contributions to the Washington Aqueduct (see discussion under “Financial Stability” below), and enhanced working relationships with local and regional governmental entities in order to advance specific organizational objectives.

COMMUNITY & PUBLIC SERVICE EFFORTS

As part of our strong emphasis on serving our customers, we strive to extend a helping hand to our community. As part of our employee gainsharing program this year, we created a specific goal for community service for all of our employees that provides a bonus for community service efforts. Among the community service activities that WASA participates in are:

Christmas in April – For the fourth year, WASA staff participated in the Christmas in April program, designed to help residents with maintaining their properties when they do not have the resources to do work on their own.

Joint Utility Discount Day – October 2002 marked WASA’s third participation in the Joint Utility Discount Day, held at the Washington Convention Center. Over 7,000 residents attended the event in order to apply for discounted water, electric, gas, and telephone bills. WASA was the host utility responsible for all coordination of the event, with 78 WASA employees volunteering to assist customers, including

assisting participants with the application process, and distributed water conservation kits to everyone in attendance. Additionally, daylong demonstrations of home water conservation techniques were presented.

Stanton Elementary School Partnership – WASA rehabilitated a major water storage facility near the playground of Stanton Elementary School two years ago. After the work was completed, WASA planted and fenced in a flower garden to enhance the appearance of the facility, located at the intersection of Naylor Road and Alabama Avenue, S.E. Since that time, we have maintained a partnership with the school by assisting in the maintenance of the garden and supporting its science programs. This past summer, 39 employees volunteered by providing IT upgrades, taking inventory of computers and general supplies, landscaping and performing general maintenance work.

Project Harvest – In November, WASA employees contributed food to this effort which is co-sponsored by WHUR-FM and NBC's Channel 4.

Call for Protection Program – Led by our payroll group, WASA employees contributed used cell phones to a battered women's organization. These phones were reprogrammed to provide emergency calls.

Toy and Book Drive – In conjunction with WASA's Labor-Management Partnership, WASA employees contributed books and toys during the holiday season to "Bread for the Soul," an organization that assists families living with AIDS.

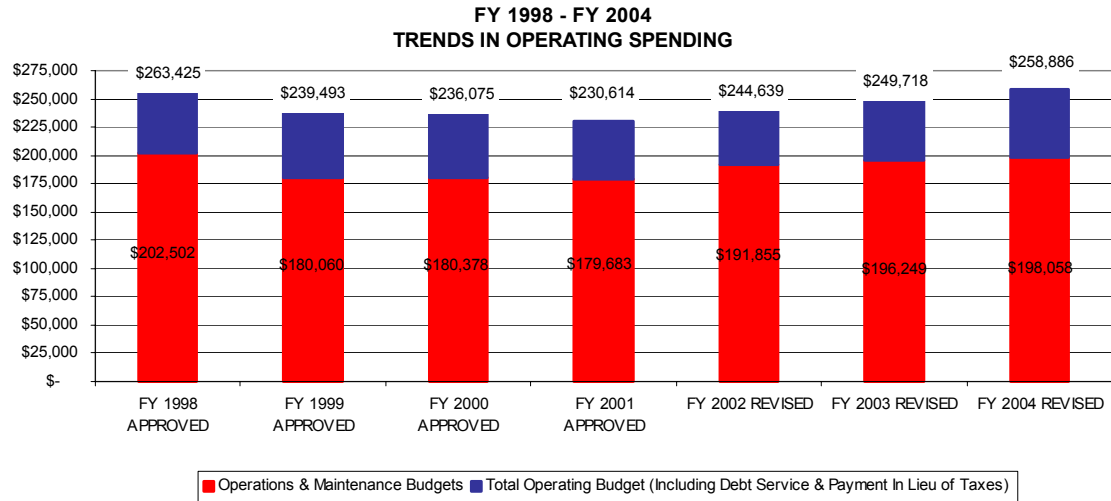
Anacostia River-Clean-Up Day – In April, WASA employees assisted in this District-wide effort, and WASA also contributed the use of its skimmer boat.

STRATEGIC GOAL AREA – FINANCIAL STABILITY

Operating Budget

WASA's revised FY 2004 operating budget is \$4.5 million less than the FY 1998 approved budget of seven years ago, the first budget approved by WASA's Board of Directors. This is a direct result of the Board's strong oversight of WASA's financial and operating activities and our Internal Improvement Plan and streamlining efforts, as shown in the chart below.

**OPERATING BUDGET HISTORY
FY 1998 – FY 2004
(In 000's)**



Our revised FY 2004 operating budget totals \$258.9 million, a \$0.2 million decrease from the approved FY 2004 budget. We have held operations and maintenance costs in line while addressing a number of issues that are outside of WASA's control by finding savings in other areas.

**FY 2004 & FY 2005 Operating Budgets
(In 000's)**

	FY 2004 Approved	FY 2004 Revised	Increase / (Decrease)	Percentage Change	FY 2005 Proposed	Increase / (Decrease)	Percentage Change
Operations & Maintenance Expenditures	\$ 198,215	\$ 198,058	\$ (157)	-0.1%	\$ 202,684	\$ 4,626	2.3%
Payment in Lieu of Taxes / Right of Way Fee	15,825	15,773	(52)	-0.3%	16,307	534	3.4%
Debt Service	45,055	45,055	-	0.0%	56,298	11,243	25.0%
Total Operating Budget	\$ 259,095	\$ 258,886	\$ (209)	-0.1%	\$ 275,289	\$ 16,403	6.3%

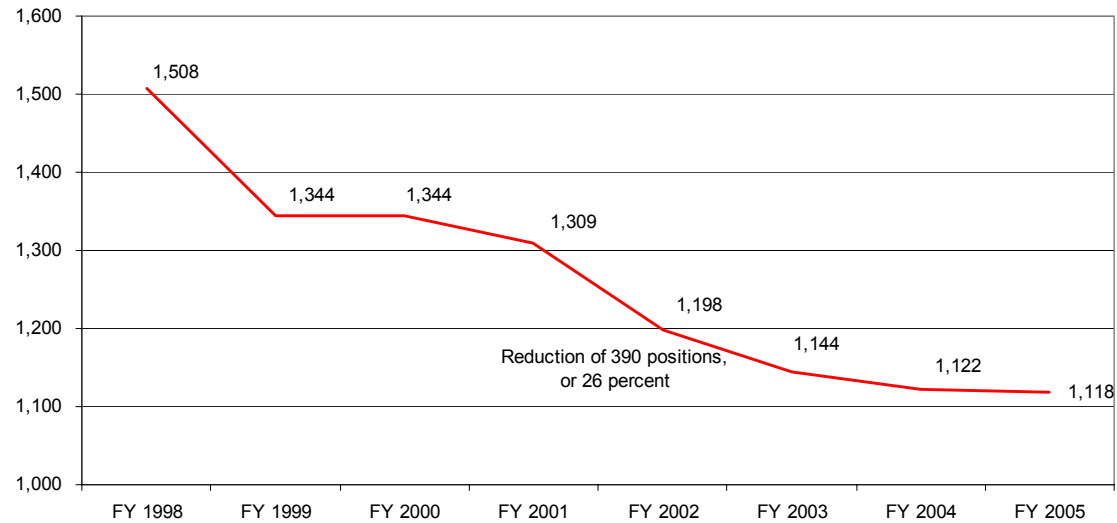
Our operations and maintenance budget, (i.e., our total operating budget minus debt service, the payment in lieu of taxes (PILOT), and the District's right of way fee), totals \$198.1 million, essentially flat with the approved FY 2004 budget. I would note that the FY 2004 budget approved by the Board was \$4 million lower than the budget I originally submitted. Similar to other governments and corporations, we face significant increases in property, liability, workers' compensation, health insurance and other insurance premiums. The insurance market continues to be extremely tight in the wake of September 11 and corporate accounting scandals, and while we were very successful in negotiating premiums that are significantly less than what other organizations face, the total increase in premiums and related claims totals \$1.0 million. These increases have been offset by savings in other areas, including renegotiation of our biosolids hauling contracts, earlier than anticipated elimination of certain maintenance contracts, and other reductions in contractual services.

The proposed FY 2005 budget totals \$275.3 million, a \$16.4 million increase over the revised FY 2004 budget. As shown in the chart above, two-thirds of this increase is additional debt service as the capital program progresses. Our operations and maintenance budget (i.e., total operating budget less debt service, the payment in lieu of taxes, and the District's right of way fee) totals \$202.7 million, a \$4.6 million, or 2.3 percent, increase over the revised FY 2004 budget. This increase is due primarily to projected compensation increases for WASA's employees and increased utilities' costs.

Staffing

Reflecting the commitments we have made through our various Internal Improvement Plans across WASA designed to make the utility more competitive and efficient in all areas, we have steadily reduced position levels. As shown in the chart below, in FY 1998, our approved position level totaled 1,508 positions; in FY 2005, our approved position level will total 1,118 positions, a reduction of 390 since WASA was created. Because of the operational and technology-related improvements which have driven these staffing reductions, service to our customers and operational quality has improved dramatically while inflation-adjusted costs have declined.

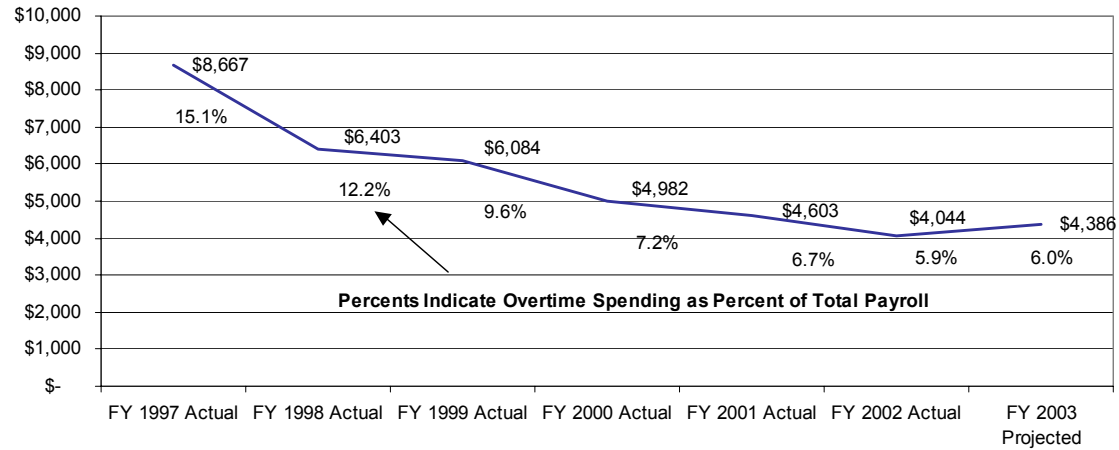
Full Time Positions FY 1998 – FY 2005



Overtime

WASA has significantly reduced its usage of overtime primarily through better management. In WASA's first year of operation (FY 1997), overtime spending totaled \$8.7 million; in FY 2003, overtime spending is projected to total \$4.4 million, a reduction of 49 percent. Similarly, overtime as percent of total payroll has been reduced from 15 percent in FY 1997 to 6.0 percent in FY 2003. WASA projects budgeting at this level in the future to allow managerial flexibility for addressing emergency system issues and peak staffing requirements in the most cost-effective manner.

**Overtime Spending
FY 1997 – FY 2003
(In 000's)**



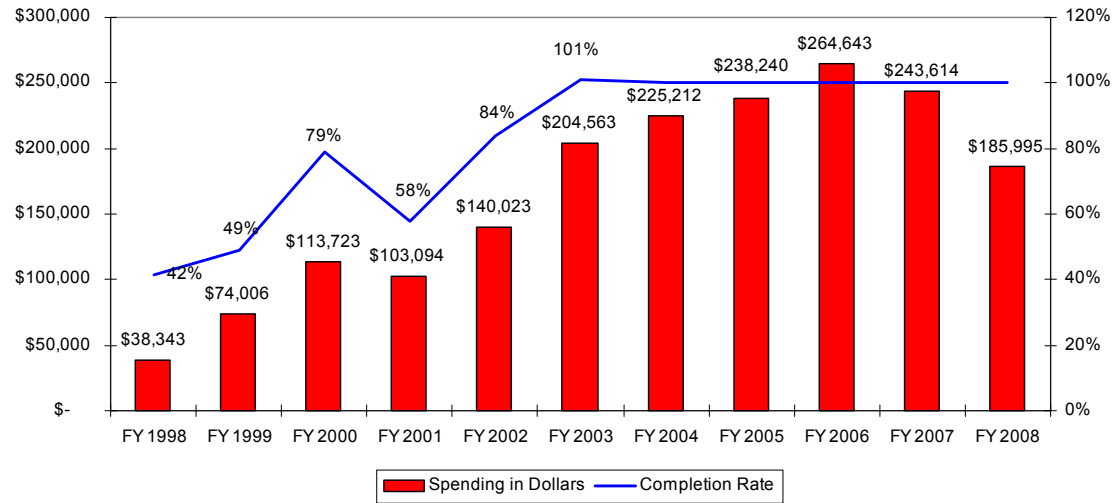
Water and Sewer Rates & Fees

The key criteria we follow in developing and / or adjusting rates and fees continues to be the Board's rate-setting policies, which call for gradual and predictable rate increases based on the actual costs of delivering services to our customers. To this end, the Board approved a substantially revised rate structure in FY 2002, which included splitting the bill into two sections: 1) a WASA services section, which includes a new metering fee for the costs associated with purchasing, operating, and maintaining meters, and an accompanying reduction in our base water and sewer rates; and 2) a District of Columbia section, which includes a new pass-through fee for the District of Columbia's right of way fee and payment in lieu of taxes as a separate line item, and the previously approved District stormwater fee. This new structure was effective October 1, 2002. In addition, in July 2003, the Board approved a retail rate increase of 2.5 percent, effective October 1, 2003.

This year, consistent with the ten-year plan and the Board's financial policies, I propose a five percent rate increase for FY 2005. This will continue our trend of gradual rate increases, primarily to pay for the debt service costs of our capital improvement program. Unlike prior years, we are meeting (and for some projects exceeding) our capital improvement program spending targets -- in FY 2003, our spending totaled \$204 million; in prior years, our peak spending was \$140 million, and generally was in the range of \$100 to \$115 million, as shown in the chart below. Because so many projects are now in the construction phase, we expect this high level of spending to continue through FY

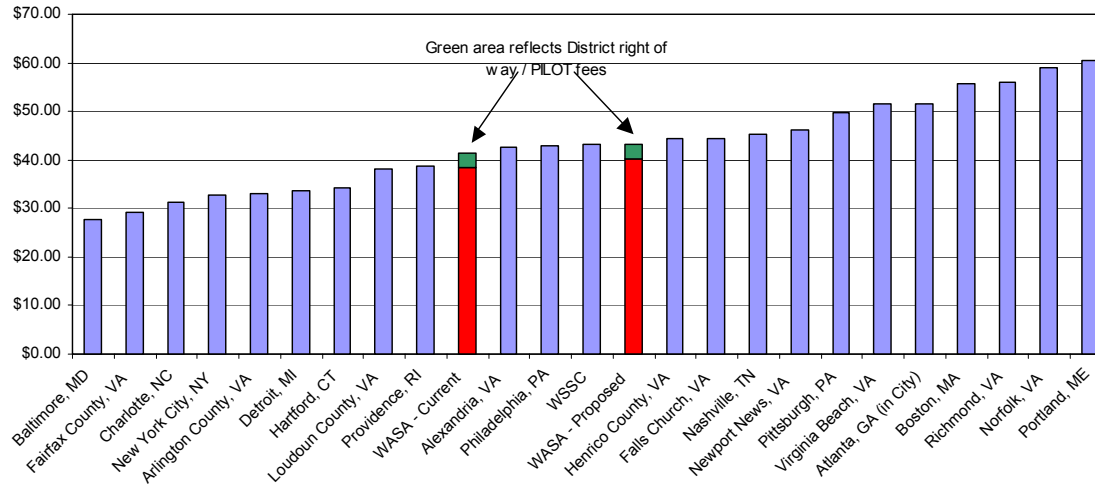
2008. Our recent success in meeting spending targets is in large part due to the Board's leadership, including thorough reviews by the Operations and Finance & Budget Committees.

**Historical & Projected
Capital Improvement Program Spending & Completion Rates
FY 1998 – FY 2008
(In 000's)**



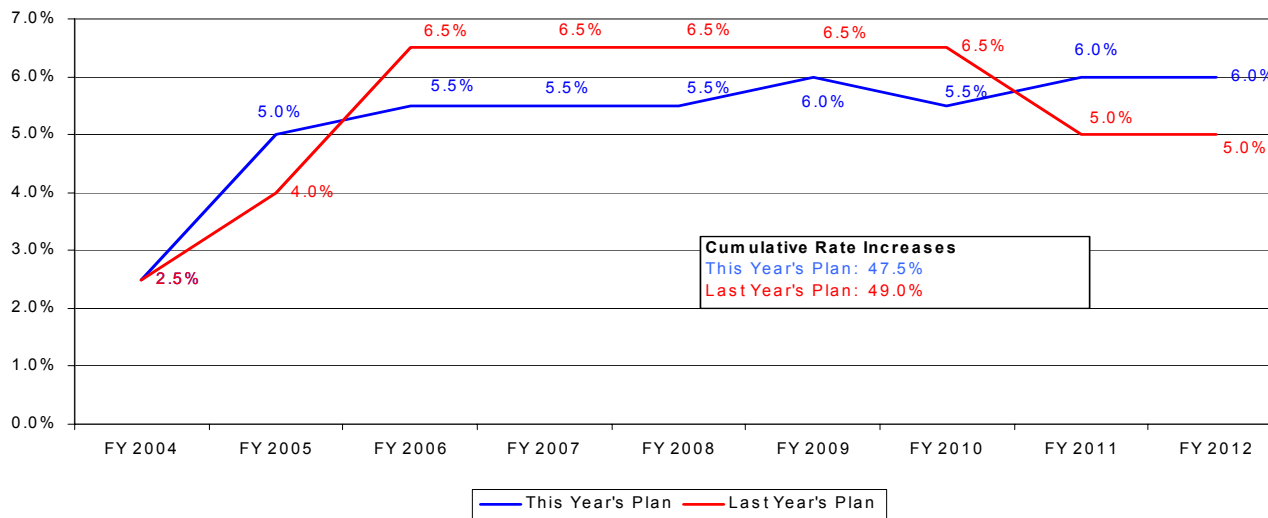
The relative lower levels of spending provided us with a great deal of flexibility in recent years. The Board directed adoption of rate increases that were lower than I proposed, while establishing a \$21.5 million rate stabilization fund to better prepare for the sizable CIP spending that is still ahead. In 1997, the Board raised rates by 42 percent after eleven years of no rate increases by our predecessor agency – this brought WASA's rates, which were some of the lowest in the country at the time, into the low to mid range of comparable national and regional utilities.

**WASA RATE COMPARISONS TO OTHER REGIONAL AND EAST COAST UTILITIES
Typical Residential Customer Monthly Bill
As of Summer 2003**

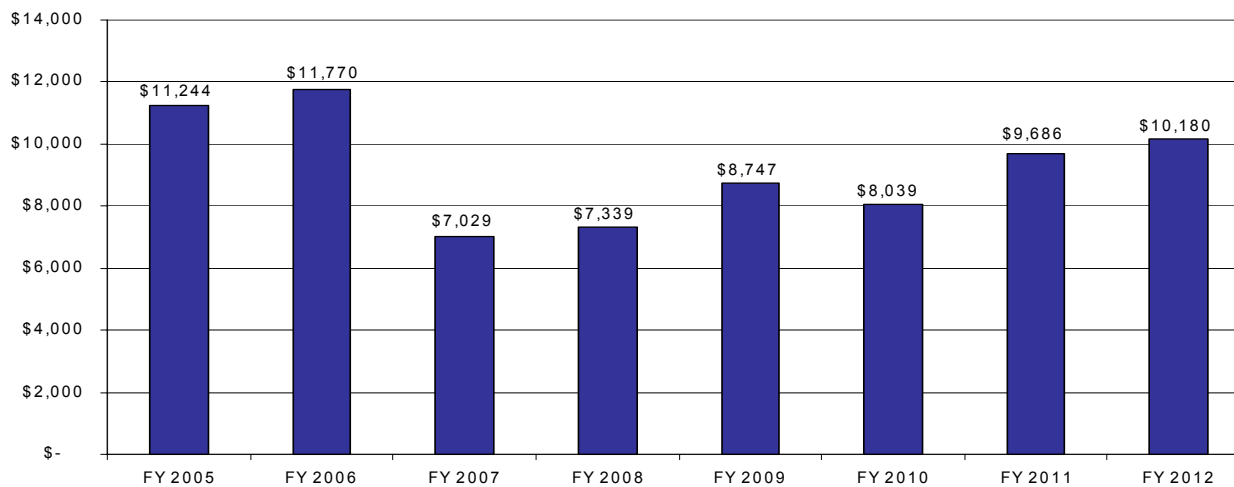


Since that time, rates have increased by approximately 2.5 percent per year, less than our initial projections of five to six percent annually, due largely to lower levels of capital spending. Now that the capital program is well underway, I am projecting that we will require gradual rate increases of five to six percent annually, still in line with our initial projections in 1997 and which have been consistently confirmed in each succeeding year. Because of the rate actions taken to date by the Board, we are avoiding large, spike rate increases that many other utilities are facing by deferring rate actions.

PROPOSED RATE INCREASES
Comparison of This Year vs. Last Year's Plan
FY 2004 – FY 2012



INCREMENTAL INCREASE IN RETAIL REVENUE
(In \$000's)



In FY 2003, we also completed a review of our existing fee schedule for such items as water tap installation, fire hydrant usage, etc. Several fees were updated to reflect either changes in service levels that we provide or the increased cost of providing each service, and this new fee schedule took effect at the beginning of FY 2004. In FY 2004 we will complete a review of our existing metering fee to take into account the projected new ancillary costs we expect to encounter in the AMR program over the next two years. In addition, during the same period, we will analyze the existing right of way / payment in lieu of taxes pass-through fee to ensure that we are recovering the actual cost of this fee. These revisions will be presented as part of next year's budget process, with implementation proposed for FY 2006.

Projected Financial and Rates Impact of CSO LTCP

Proposed rate increases over the next ten years reflect the implementation of the early years of the proposed CSO Long-Term Control Plan (LTCP). In FY 2003, we received a Congressional appropriation of \$49.7 million for initial funding of the LTCP, due largely to the efforts of President Bush, Mayor Williams, Delegate Eleanor Holmes-Norton, other Congressional representatives and staff, and the U.S. Office of Management and Budget. In addition, following the Bush Administration's decision to include \$15 million for the LTCP in its proposed FY 2004 budget, the House of Representatives has included \$35 million in its version of the proposed FY 2004 District Appropriations Act. The Senate Appropriations Committee has approved a similar version of the bill that includes \$25 million for the LTCP in FY 2004. Because it is very unlikely that this outside funding would be appropriated without a commitment to long term implementation of the proposed LTCP, beginning in last year's CIP, we added the early years of the proposed 40 year LTCP to our ten-year CIP and ten-year financial plan (totaling approximately \$190 million with inflation), as well as continuing to move forward with those projects that were already in the CIP. Similarly, we have added the existing and projected grant funding to our ten-year financial plan. However, as discussed later in this document, WASA does not intend to begin any additional LTCP work (beyond the projects previously included in the CIP) until an EPA and Board-approved financing and implementation plan are in place.

Additionally, it is important to note that the projected rate increases needed for the CSO LTCP are based on WASA's current rate structure. WASA has completed an evaluation of various rate and fee structures for recovery of CSO costs (including impervious surface area fees and similar structures) that was presented to the Board in spring 2003. We anticipate analysis of these alternatives to continue at least over the next year, with a final determination being made in conjunction with adoption of a Board-approved financing plan. As many Board members know, implementation of new CSO rates has caused significant customer complaints in other jurisdictions. To ensure that any rate structure is fair, equitable and will be accepted by our customers, I recommend that FY 2004 be spent working on a more detailed analysis of the implementation and customer impact issues associated with a potential rate structure change. We would also share this analysis with the District's Committee on Public Works and the Environment, chaired by Carol Schwartz, as the Committee undertakes its review of the same issues related to a proposed new stormwater rate structure.

Regardless of the ultimate rate structure for CSO, these significant costs will be borne by our ratepayers, resulting in substantial increases in customer dollars paid for wastewater services, unless substantial outside funding can be secured. I want to be very clear on this point:

approval of any plan shorter in duration than the forty year plan approved by the Board, without substantial amounts of outside funding, will raise customer rates well beyond the levels described in this section.

Revenues

We continue to build on the progress we have made over the last few years in revenue forecasting and monitoring. Investments in the new customer information and billing system and the new AMR program have yielded great improvements, ensuring more accurate meter reads and consumption data and enhanced reporting and tracking functionality to better identify and address potential customer and business issues. In addition, the reorganization of our customer service department has also improved our collections and billing performance, specifically through the establishment of a large accounts group and enhanced collections efforts, including our “dialing for dollars” program for delinquent accounts, improved lien processing, and enhanced coordination efforts with other District agencies.

Our revised FY 2004 revenue budget totals \$261.5 million and is projected to grow to \$275.2 million in FY 2005. These projections reflect the Board-approved 2.5 percent rate increase in FY 2004, and a proposed 5.0 percent rate increase in FY 2005. As noted earlier, the rate and revenue projections in the ten-year plan only reflect the early years of the proposed CSO LTCP, assuming a forty-year implementation schedule. If the final CSO LTCP includes a different implementation schedule, these rate and revenue projections will need to be revised. In addition, both years reflect projected increases in recorded consumption as the meter replacement / AMR program is completed. Based on our experience to date with residential installations, we have assumed that recorded consumption in small commercial meters (less than three inches) will increase by approximately six percent. For large meters (three inches or greater), we have assumed a ten percent increase, spread over two years beginning in FY 2005, in line with the AMR installation plan.

Consistent with the Board’s policy of ensuring that all customers pay for the service they receive and that our rates and fees keep up with the actual cost of providing service, we have begun addressing a number of revenue-related issues:

- **Howard University & Soldiers’ Home** – In 1938, the District of Columbia executed agreements with both of these organizations that provided them free water service in exchange for use of land for the McMillan Reservoir and Water Treatment Plant. In the early 1990’s, the District’s Department of Public Works extended this exemption to sewer service. Based on prior direction of the Board and a legal interpretation of the original agreements that exempted only water service, we will give notice to them in FY 2004 of our intent to begin charging them for sewer service. We are also evaluating the feasibility of an alternative arrangement (other than free water service) for usage of this land. The projected financial impact of charging for sewer service is estimated at approximately \$1.1 million.
- **Potomac Interceptor** – WASA has separate agreements with each of the Potomac Interceptor users (the Town of Vienna, Dulles Airport, National Park Service, and the Department of the Navy) which were initially executed by WASA’s predecessor agency in 1963 – 1964. These agreements provide for a consumption-based rate to recover the actual cost of providing service. We have not updated this rate since sometime prior to FY 1997, and plan to update these rates within the next six months.

- **Other Issues** – We have also identified a number of very small rate issues, including two small accounts that receive water service from WASA and sewer service from WSSC, but are charged at a significantly lower rate than WASA’s water rate via a 1967 agreement with WSSC. We will be working this year to renegotiate these issues.

Cash Reserves

WASA Board policy calls for cash reserves equivalent to approximately six months’ operating costs, or \$95.5 million in FY 2004. The ten-year plan reflects continued maintenance of this reserve levels, and as our operations and maintenance budgets grow, our required operating and maintenance reserve levels will grow as well, increasing at approximately 1.4 percent annually after FY 2005. These reserves are a key reason for our strong bond ratings, which helps keep our customers’ bills low by reducing the interest rates we pay on our borrowings.

Rate Stabilization Fund

Consistent with Board policy, in years where our financial performance is better than projected, we set aside additional funds that we use in future years where capital spending and debt service peak, helping to avoid “spike” rate increases for our customers. At the end of FY 2003, the rate stabilization fund amounted to \$21.5 million, including a contribution of \$7.0 million in FY 2003. This fund is in addition to the Board-adopted six month operating and maintenance reserve, and additional contributions will be determined each year based on actual financial performance and only if all other Board policy and indenture requirements are met. We currently project that the fund would be utilized in FY 2007 through FY 2012 under the proposed ten-year financial plan.

Bond Ratings

In July, WASA received upgrades to the AA category on its senior lien bond ratings from all three rating agencies, as shown in the chart below. This puts WASA in the second highest rating category available to state and local issuers. All three rating agencies cited WASA’s strong financial performance, ongoing rate increases, and improved management and Board policy direction as key factors in their upgrade. By reducing the interest rates we pay on our debt borrowings, our customers’ bills will be lower than if we had not received these rating upgrades.

Rating Agency	Old Senior Rating	New Senior Rating
Moody's Investors Service	A1 Stable Outlook	Aa3 Stable Outlook
Standard & Poor's	A Positive Outlook	AA- Stable Outlook
Fitch Ratings	A+	AA--

Capital Financing Plans and Debt Issuance

Implementation of our capital financing plan continues as planned and meets the dual objectives of providing maximum flexibility while resulting in as low a cost of capital as possible. Specifically, this plan includes three primary components:

- *Utilize available pay-as-you-go financing to pay down higher cost, taxable U.S. Treasury notes for the Washington Aqueduct* – we have prepaid \$57 million to date and will make our final prepayment of \$1.2 million in FY 2004.
- *Establish an interim financing program to finance construction* – In early FY 2002, we developed a commercial paper program for this purpose which has been extremely successful. Interest rates on the program have ranged from 0.85 to 1.65 percent, and has been very well-received by a wide variety of institutional investors. The program was authorized in the amount of \$100 million, and while no debt is currently outstanding under the program as we paid it off with the proceeds of our latest fixed rate bond issue, we project that we will begin utilizing it again in the first quarter of FY 2004.
- *Issue fixed rate debt every twelve to 24 months to take out interim financing proceeds* – We successfully issued \$176.2 million of new fixed rate, subordinate lien revenue bonds in August 2003. Despite volatile market conditions at the time of pricing, we successfully placed all bond with investors on the date of pricing at a true interest cost of 5.29 percent, beating market indices. The success of this bond sale was due to our rating upgrades and the efforts of our underwriting team. The timing, size, and structure of our next financing will depend on capital spending in the upcoming year and market conditions, and we currently expect to enter the markets with our next issuance in summer 2004.

We are constantly evaluating our outstanding debt portfolio to see if any refinancing opportunities exist that could result in interest rate savings. In FY 2002, at the Board's direction, we completed an evaluation of our share of the District's general obligation debt and determined that no significant savings could be achieved. In addition, we have evaluated our other debt issuance and because of restrictive call provisions or previous financings, additional refinancings are not feasible.

Other Financial Accomplishments & Issues

External Audit – FY 2002 marked our sixth consecutive receipt of an unqualified audit opinion on our audited financial statements, and the sixth consecutive year that the Comprehensive Annual Financial Report received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association. While this may seem to be a routine event, given the performance of WASA's predecessor agency, this has been a notable accomplishment. In addition, the FY 2002 audit was the first WASA completed under the new Governmental Accounting Standards Board pronouncement (GASB 34), which requires additional management discussion and analysis and additional notes to the financial statements.

Grants – We continue to make progress in grants management. Approximately \$270 million, or 15 percent of the ten year plan, is financed by EPA grants through the *Clean Water* and *Safe Drinking Water Acts*, including funding already received for the CSO LTCP as well as anticipated funding in FY 2004. A portion of these grants include a twenty percent local match – due to the efforts of Delegate Eleanor Holmes Norton, this match ratio was successfully extended through FY 2002. We have also been successful in securing grant financing from non-EPA sources, due to the successful effort of our Board and government relations staff:

- *FY 2002 Veterans Affairs – Housing and Urban Development Appropriations Bill -- \$1.8 million* – We recently received approval of our grant application for this money which will be used for combined sewer separation in the Anacostia area.
- *Federal Emergency Management Agency (FEMA) funding for hazard mitigation for disasters - \$0.1 million* – This funding will be used to mitigate stormwater run-off and flooding in certain parts of the District.
- *District Emergency Management Agency funding for emergency preparedness - \$1.0 million* – WASA expects to receive this funding from the District as part of its \$156 million special appropriation from Congress. Funds will be used primarily to offset costs of the conversion from chlorine to sodium hypochlorite at Blue Plains.

In addition to our successful efforts in grant applications, we have dramatically improved our grants utilization as well as the grants close-out process. We have now completely closed out all of the pre-WASA grants (some dating back to the early 1970's.)

Federal Customer Issues – As reported last year, we have made great progress in addressing longstanding billing and service issues for the federally-owned water system in Northern Virginia. A new federal law passed in December 2001 required that federal agencies in Northern Virginia install individual meters at all points of service and that future water billings be based on actual meter readings. WASA has worked very successfully with the Pentagon, Arlington Cemetery and the National Park Service to ensure that this was completed on time and according to WASA specifications, and have had continuing success in gaining timely access to these meters. Notwithstanding this success, the Pentagon has indicated that it is still interested in receiving water service from Arlington County, which also provides sewer service to Northern Virginia federal entities. We will continue to work closely with the Pentagon and other federal agencies to ensure the law is implemented as written, but will also continue discussions with Arlington County on wholesale rate structure and service options. In FY 2003, revenues from the federally-owned system (including Ronald Reagan National Airport) totaled \$1.0 million, or less than one percent of total retail revenues.

Washington Aqueduct Financing – We have made progress over the last six months in addressing a critical financing issue for Washington Aqueduct capital projects. Currently, the U.S. Army Corps of Engineers requires WASA to remit cash in an amount equal to the total project cost in advance of advertising contracts, and these funds are transferred immediately to a Corps / U.S. Treasury account to be held until project completion no interest to WASA. In the past, this has not been a significant issue to WASA as the level of projects to be undertaken was relatively small. However, these projects are beginning to increase in size and scope, becoming an unreasonable cost for WASA's customers to bear. We have begun discussions with senior management at the Corps, Congressional committees, and the Office of Management and Budget and are pursuing several options to exempt WASA from this requirement. In addition, we are pursuing options to transfer dollars on a phased basis, utilizing an escrow account or providing the Corps with a bank line of credit, all of which would allow us to keep our cash and related interest earnings until the funds are actually needed by the Corps.

Insurance Review & New Projects – In FY 2003, we completed a comprehensive review of our insurance program, including types of policies, levels of coverage, and deductibles. Despite an extremely difficult insurance market, we were able to negotiate enhanced coverage in our new policies with only a 26 percent increase in total premiums, which includes a significant increase in property values due to our capital improvement program, adding certain terrorism coverage, and purchasing new policies for employment practices and fiduciary liability (for WASA's benefit plans) coverage. Without these items, our premiums would have only increased by seven percent. In addition to the review of our policies, we have also identified two new programs that we will be pursuing in FY 2004 and FY 2005:

- **Owner-Controlled Insurance Program (OCIP)** – Under this program WASA would take responsibility for procuring and managing insurance for WASA construction projects vs. contractors purchasing insurance, which is our current practice. This type of arrangement should result in savings on insurance costs passed through to WASA in each construction contract by avoiding contractors' mark-up on premiums and redundancies in coverage. These types of programs have become standard practice in the insurance industry; WASA will determine the feasibility of this program in early FY 2004.
- **Sewer Back-Up Insurance Program for Customers** – In FY 2004, we will evaluate options for sewer back-up insurance for our customers. Currently, we receive approximately 380 calls per month to respond to sewer back-ups, most of which are not a WASA responsibility. However, when a customer's basement contains raw sewage, it can be difficult to explain our legal position. Consequently, we have made contact with the Colorado Springs Utilities on an innovative program they developed in response to this kind of issue. There are several possible alternatives we are exploring, and we plan to bring a recommendation to the Board in FY 2004.

STRATEGIC GOAL AREA – ENVIRONMENTAL QUALITY

This goal area reflects the core reason we exist – to provide critical water and wastewater services to our customers. In the last two years, we have made significant strides in demonstrating full regulatory compliance, completing the requirements of EPA consent decrees and administrative orders relating to the drinking water system and the Blue Plains Advanced Wastewater Treatment Plant. We have a great number of ongoing and new activities occurring across our operations that will allow us to meet this goal, as well as its companion goal of

WASA's role as an environmental steward. These activities are included in the FY 2004 & FY 2005 budgets and our ten year capital improvement and financial plans, and are described in more detail below.

Combined Sewer Overflow Long-Term Control Plan (CSO LTCP) – In 2002, we completed and forwarded our proposed CSO Long-Term Control Plan to the EPA – a major accomplishment for our organization. Since that time, we have been negotiating the plan with the EPA and U.S. Department of Justice (DOJ), with particular focus on the implementation schedule and water quality standards. During this timeframe, we have also negotiated the settlement of a lawsuit against WASA regarding implementation of the federal CSO Nine Minimum Controls program (the “EarthJustice” lawsuit). As part of this settlement, WASA will continue to aggressively move forward with \$143 million (disbursements basis) of previously budgeted and planned projects that will reduce combined sewer overflows by approximately forty percent when completed over the next six years. These projects include repair and replacement of various tide gates, construction of new fabric dams, and rehabilitation of various pumping stations.

The benefits of our long-term plan are significant -- when fully implemented, combined sewer overflows will be reduced by a projected 96 percent (98 percent on the Anacostia River), resulting in improved water quality and a significant reduction in debris on our national capital's waterways. As noted above, WASA's \$143 million (disbursements basis) of previously planned projects for the next six years alone will result in an approximately 40 percent reduction in combined sewer overflows. The plan, described in more detail in the accompanying capital improvement program document, includes a variety of improvements planned throughout the District to improve the quality of the Anacostia and Potomac Rivers and Rock Creek:

- Four large storage tunnels, which will allow the storage of flows from storm events until they can be gradually sent to Blue Plains for advanced treatment
- Pumping station improvements
- Targeted separation of combined sewers in several sections of the District to include Anacostia
- Consolidation and elimination of 13 of 59 outfalls, including 4 outfalls on the Anacostia River
- Funds for low impact development (LID) at WASA facilities and to encourage LID across the District

While the benefits are great, the cost of this program is significant, totaling \$1.265 billion in 2001 dollars. With inflation, this increases to \$2.6 billion (assuming an implementation period of 40 years), one of the largest public infrastructure projects ever in the Washington metropolitan region. Because of the considerable cost of the program and the potential impact on our ratepayers, we have developed implementation scenarios that range from 15 to 40 years. If the LTCP were to be implemented over 15 or 20 years without any outside or federal assistance, our ratepayers would face multiple, annual double digit rate increases in the near future, hitting our lowest income customers the hardest. A 30 to 40 year schedule, while still resulting in significant rate increases over time, allows for a more gradual implementation of these increases, largely avoiding annual double digit increases. We have evaluated various rate and fee structures for recovery of these costs, including impervious surface area fees and similar structures. However, these significant costs will still be borne by some component of our ratepayers regardless of the ultimate rate structure, resulting in substantial increases in customer dollars paid for

wastewater services. Significant federal or other outside assistance would allow for a more rapid implementation schedule, while mitigating the impact on our ratepayers.

In FY 2003, we received a Congressional appropriation of \$49.7 million for initial funding of the LTCP. In addition, the proposed House FY 2004 District Appropriations bill includes an additional \$35 million in funding, while the proposed Senate District Appropriations bill includes \$25 million in funding (while the appropriations are technically made in one year, project and grant disbursements will occur over a multi-year timeframe as the projects are implemented.) Because it is very unlikely that this outside funding would have been appropriated without a commitment to long term implementation of the proposed LTCP, beginning in last year's CIP, we added the early years of the proposed 40 year LTCP to our ten-year CIP and ten-year financial plan (totaling approximately \$190 million with inflation), as well as continuing to move forward with those projects that were already in the CIP. Similarly, we have added projected grant funding to our ten-year financial plan. It is important to note that the projected LTCP disbursements are based on a forty-year implementation schedule; the majority of LTCP costs, approximately \$2.3 billion with inflation, are not reflected in the current ten-year CIP and financial plan.

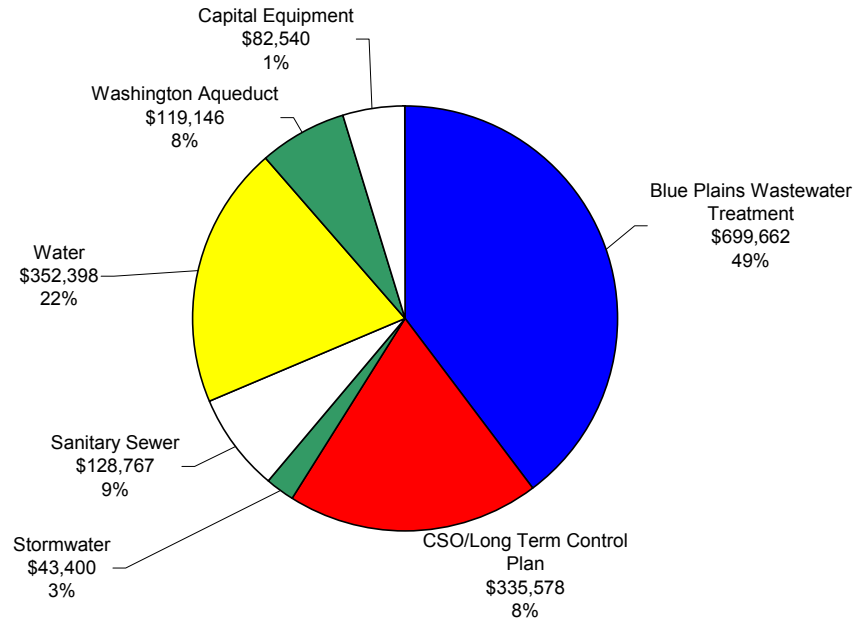
While provisions have been made in this budget and the CSO plan to begin preliminary LTCP work, it is recommended that no funds beyond the \$143 million (disbursements basis) incorporated in the current CIP be committed or spent until such time as the following is accomplished:

1. EPA & DOJ approve the final LTCP in a manner that is acceptable to the Board;
2. EPA, DOJ, and WASA agree on the implementation plan and schedule;
3. A Board-approved financing plan is adopted; and
4. A judicially enforceable agreement is executed between EPA, DOJ, and WASA governing the implementation of the LTCP.

CAPITAL IMPROVEMENT PROGRAM

This year's ten-year capital improvement program (CIP) totals \$1.76 billion (cash disbursements basis), approximately \$200 million more than last year's plan. Near term increases are due to accelerated project completion schedules and lead service line replacements. Increases in the later years of the plan are due to inclusion of the FY 2012 disbursements for the Long Term Control Plan in the amount of \$86.5 million, and new projects in the Water Services Area in FY 2012. The following chart shows the breakdown of CIP projects by type. Additional details on the major projects in the CIP are included in Section 5 of this document as well as in the separate CIP budget document.

**FY 2003 – 2012
Capital Improvement Program
Spending by Service Area**



REGULATORY, LEGISLATIVE AND CAPITAL ISSUES

The CIP and the proposed CSO LTCP continue to be the primary drivers of projected rate increases for our customers and of our long-term financial picture. While the proposed CIP is comprehensive in its scope, we also closely monitor emerging issues (such as potential regulatory changes) that could require significant adjustments in our CIP and operations. We also have in place extensive planning tools

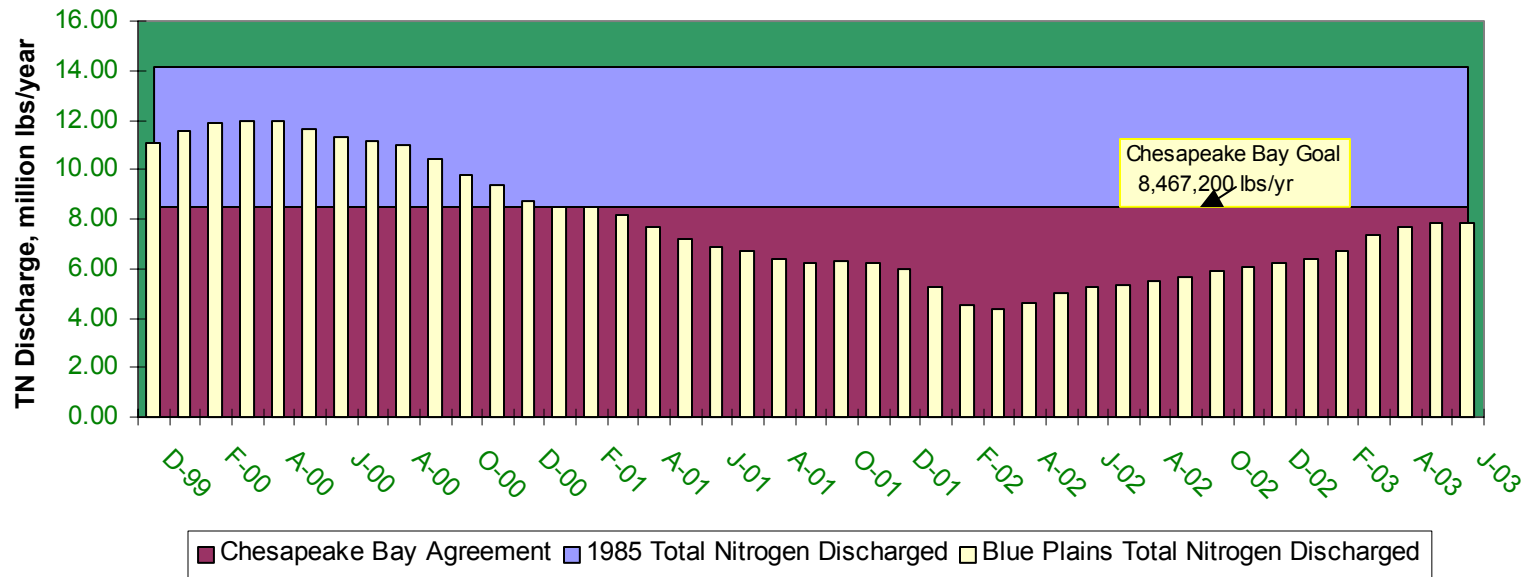
that help us identify issues and projects that extend beyond the current ten-year period. These planning tools and potential legislative and regulatory changes include the following:

Facilities Master Plan and New Projects – WASA has developed a Facilities Master Plan that covers a twenty-year planning horizon, stretching ten years beyond the current ten-year CIP. This plan serves as a framework and planning guide for the CIP, and identifies potential long-term projects and issues that may result in additional capital projects. The last Facilities Master Plan was prepared in FY 1998; an update is currently underway and is scheduled to be complete in FY 2004. The current Facilities Master Plan identifies a number of significant projects that will need to be undertaken in the years following the current ten-year planning period, including:

- **Blue Plains projects** – In FY 2013 – 2015, we have identified \$382 million in additional projects that will be added to the CIP as these years fall into the ten-year planning period. The largest of these projects are heat drying improvements, at a cost of \$198 million; spent wastewater treatment, which would remove solids from the spent wastewater recycle, totaling \$41 million and beginning in FY 2013; renovation and reconstruction of existing prefabricated metal buildings as needed (\$37 million beginning in FY 2014); and upgrade of the raw wastewater pump stations, at a cost of \$34 million. Many of these projects will be contingent in part on the new permit requirements.
- **Sewer system assessment** – In FY 2003, we initiated our first comprehensive assessment of the sewer system. While we have included limited funding in the CIP (approximately \$5 million annually beginning in FY 2005), the results of this study will allow us to identify specific projects and a spending plan for improvements to the sewer system. It is anticipated that sewer system rehabilitation will require an increasing level of future investment.

Chesapeake Bay Agreement changes – The 1987 Chesapeake Bay Agreement calls for a 40 percent voluntary nitrogen reduction by its signatories by 2000. As shown in the chart below, the District of Columbia was the first signatory in the region to meet this voluntary commitment due to significant improvements by WASA at Blue Plains.

Annual Total Nitrogen Load, lbs/yr



The Chesapeake Bay Program, an initiative of EPA, is currently evaluating the costs and benefits of increasing the targeted level of nutrient removals, and making these reductions mandatory instead of voluntary. If these new targets are implemented, WASA could be required to invest an estimated \$300 to \$500 million in capital improvements at Blue Plains, assuming voluntary compliance. If mandatory compliance is required through inclusion in a future NPDES permit, these estimated costs could double.

Clean Air Act –Blue Plains is working with EPA and the District to be classified as a minor source of air pollutants under the Clean Air Act. The new digesters and associated improvements are being carefully evaluated to gauge the impact on air emissions and potential air permits and any resulting impact on capital expenditures. The reclassification of the District of Columbia as a “severe” non-attainment area for ozone heightens the need to carefully consider the impact of future improvements on air emissions at Blue Plains.

Lead Service Lines – In summer 2002, through our water quality monitoring program, we determined that the lead content sampled at some customers’ taps was above the action level specified by the EPA. This has triggered new operating and capital requirements for WASA, including distribution of public education materials and the replacement of seven percent of its existing lead service lines annually until the lead content levels drop below the EPA standards (Approximately 22,000 of WASA’s 124,000 service lines are lead, and

approximately 1,600 will need to be replaced annually). WASA can meet the replacement requirement either through physical replacement or additional testing, and we have developed a plan to replace up to 600 service lines and to test additional service lines. In FY 2003, we dramatically accelerated our sampling and replacement efforts to meet stringent EPA deadlines, replacing approximately 400 service lines and meeting the balance of the requirement through sampling. Because of lack of flexibility in EPA's timing requirements, the replacements we completed in FY 2003 were often grouped geographically rather than with regard to highest recorded lead concentration. In FY 2004 and FY 2005, we plan to pursue these replacements in a more logical manner, giving priority to lines with higher recorded concentrations while also giving attention to opportunities provided by street reconstruction and WASA capital improvement program initiatives. The total cost of the program for FY 2004 and FY 2005 is projected at \$27 million. Additional costs will be added to future plans depending on testing results in FY 2004 and FY 2005.

Washington Aqueduct – The Washington Aqueduct is facing a significant regulatory issue regarding disposal of solids from the treatment process, as described in more detail below. WASA and its partners in Northern Virginia are actively involved in the identification alternative approaches to the issues that have been raised. Our interactive and cooperative efforts on this critical project are one example of the strong supplier-customer relationship we now have with the Aqueduct due to the implementation of the new operating agreement in FY 1997.

Currently, solids that settle out from water at the Dalecarlia Treatment Plant and Georgetown Reservoir are periodically discharged to the Potomac River during high river flow conditions. The NPDES permit received by the Aqueduct requires development of a plan to remove 85 percent of incoming sediments and not return them to the Potomac River. The Aqueduct, WASA and the other wholesale customers are working with the EPA to identify technological alternatives available to meet this requirement. The Aqueduct has tentatively identified projects to address this requirement, with costs totaling approximately \$51 million (WASA share only), with design beginning in FY 2004, and construction scheduled to begin in FY 2007. This projected cost has been included in our CIP. The costs and schedule for improvements are dependent on the final design of this project.

Land Application of Biosolids – Currently, the majority of biosolids generated at Blue Plains are land applied at farms in Virginia. In late FY 2003, the Commonwealth of Virginia adopted legislation allowing Virginia counties to impose a fee for biosolids land applied in the state. This annual cost of this fee is projected at \$300,000. In addition, we continue to monitor other pending regulatory changes in Virginia that could limit our ability to land apply this product. In line with the Board's strategic goal of developing a state-of-the-art biosolids management program (described in more detail later in this document), we are pursuing a number of other alternative recycling solutions including geographical diversification to West Virginia and Pennsylvania, use of biosolids in silviculture, mine reclamation and site restoration and are also supporting research efforts that could help spur the use of biosolids as a product.

Stormwater System and Management – We are entering our third year as administrator of the District's Stormwater Compliance Enterprise Fund, which includes coordination of work among the District's Departments of Health, Transportation and Public Works to ensure compliance with the District's stormwater permit. The primary activity this year is the renewal of the District's current permit, which technically expired in April 2003, but remains in effect until a new permit is issued. The District recently received a new draft permit, and the stormwater task force is currently analyzing it to determine financial and operating impacts. It is anticipated that any incremental

requirements of WASA due to the new permit will be fully paid from proceeds of the stormwater fee or other outside sources. Other major efforts included development of a detailed management and implementation plan.

We continue to collect the District's stormwater rate to fund these efforts. This rate was passed by City Council in 2001 and appears on WASA's water and sewer bill as a separate line item. In accordance with the District's stormwater legislation, we also completed an initial evaluation of potential impervious-surface based rate structures for stormwater cost recovery and forwarded this to City Council in July 2003. As previously noted, over the next year, we will continue our analysis of the specific impact that this type of structure could have on our customers and share this analysis with City Council as they evaluate any changes to the stormwater rate structure.

WASA already performs a number of stormwater management activities that are not funded by the stormwater fee, including catch basin cleaning in areas served by separate sewers and cleaning lateral drainage channels, amounting to approximately \$3 to \$4 million annually. In addition, we have included \$43 million (disbursements basis) in our existing capital program for improvements to stormwater pumping stations and other parts of the separate stormwater collection system. We have begun discussions with the District regarding transitioning all stormwater-related costs to the Stormwater Enterprise Fund.

Blue Plains Permit Renewal

In January 2003, we received a new NPDES permit for Blue Plains from the EPA. We have appealed certain portions of the permit related to the proposed CSO LTCP, and expect these issues to be resolved as part of the current LTCP negotiations. We remain in compliance with all portions of the permit that have not been appealed.

AMSA Award

We received the Association of Metropolitan Sewerage Agencies' (AMSA) Gold Award for the third consecutive year for complete and consistent compliance with our permit.

Biosolids Management

We are continuing implementation of our Biosolids Management Program, originally adopted by the Board in 1999. This plan, which included input from our neighbors, environmental groups, and other stakeholders, evaluated a number of options for long-term biosolids processing and disposal, and identified full biosolids digestion as a common element of all long-term approaches and continuing land application as long as financially advantageous. The total cost of this plan is \$440 million, including the new egg-shaped digesters as well as a variety of ancillary projects, including portions of the process computer control system, additional dewatering facilities, etc. In FY 2003, design continued on the new digesters, with construction scheduled to start in 2004, depending on zoning and Board approval of the design plans and construction contracts. In addition, progress continues on the additional dewatering facilities, which are projected to be complete in 2004.

We also continue our outreach efforts to the end user communities of our biosolids product, primarily farms in Virginia. We have undertaken an innovative project at the Stafford County Airport for utilization of biosolids in generating ground cover in a previously non-productive area, and are also working to encourage the District government to utilize biosolids for fertilization of trees. We received a general permit for land application of biosolids from the Pennsylvania Department of Environmental Protection and are working with the State of West Virginia at a mine site, providing additional opportunities for cost-effective reuse of biosolids. We have also participated in a number of research projects related to biosolids utilization and odor control, which are described in more detail later in this document. We are closely monitoring the status of legislation in Virginia relating to land application for biosolids, as well as actively participating in the work of national organizations addressing technical issues related to beneficial reuse of biosolids. For example, through our research, we are helping provide information to Virginia, which is considering regulations that may limit nitrogen applications during winter months, and we are tracking national trends in digestion design and Class A implementation to ensure we stay ahead of localized trends in biosolids legislation.

During the coming year, we intend to carefully evaluate the costs and operational issues associated with our biosolids hauling operation, which is currently carried out by private contractors. Among the options we will evaluate is taking over this function in-house with the ultimate objective of getting WASA's costs in line with what other utilities in the region pay.

Applied Research

WASA continues to support and implement research to support the Board's strategic goal of developing technology that is based on "good science and prudent financial management." Blue Plains provides numerous opportunities for demonstration of new technical approaches and ideas. The FY 2004 & FY 2005 budgets include funding for the following significant research efforts:

- In cooperation with other utilities in Maryland and Virginia, WASA is funding the third and final year of a major project involving the mobility of phosphorus from biosolids to the aquatic environment. This research is being conducted by the University of Delaware, Virginia Tech, the University of Maryland, and Penn State University.
- Through our sponsorship of the Water Environment Research Foundation, WASA is participating in another collaborative research effort involving utilities around the world to develop new technology to improve wastewater system operations. WASA staff serves on project advisory committees addressing health and safety and management issues.
- WASA is supporting joint research by the University of Maryland and the United States Department of Agriculture to assess odors associated with land application of lime-stabilized biosolids and to produce a mathematical model for predicting and preventing odorous biosolids based on plant process data.

- In cooperation with Virginia Tech, WASA is sponsoring research on soil reclamation through the application of biosolids, with demonstration of alternative techniques in Stafford County, Virginia, as well as studies to look at why biosolids help farmers through stressful environmental conditions, and how proposed nutrient regulations will affect our ability to land apply in the winter.
- Through our participation with the Mid-Atlantic Biosolids Association, we are supporting funding to look at optimizing digester design in order to minimize odor.
- WASA is continuing a partnership with Howard University, College of Engineering, Architecture and Computer Sciences to develop a wastewater technologies center, initially focusing on the application of membrane and filtration processes to improve wastewater treatment efficiency.
- Through the Washington Aqueduct, WASA provides support to the American Water Works Association Research Foundation, a national collaborative research effort involving over 1,000 utilities and other supporters around the world. Research projects address drinking water quality, operation and maintenance methods, health effects, and management issues. WASA is actively participating as a sponsoring utility on projects relating to condition assessment of valves and other assets, continuity of system operations and environmental impacts of discharges of treated water during maintenance activities.

Wastewater Collection

Our focus continues on day-to-day preventive maintenance on our wastewater collection system, including completion of the following critical tasks:

- Cleaned a projected 27,500 catch basins in FY 2003, slightly exceeding our target of 25,000
- Investigated or relieved close to 2,800 sewer laterals
- Cleaned approximately 120 miles of sewer lines
- Repaired or replaced close to 330 sewer laterals
- Collected 900 tons of floatable debris from the Anacostia and Potomac Rivers
- Cleaned wetwells at six critical stormwater pumping stations, removing debris to help prevent road flooding

Fiscal year 2003 included a number of accomplishments in the wastewater collection system. In August, we commissioned a new trash skimmer boat which will substantially increase our capacity to collect debris on the Anacostia and Potomac Rivers. The new skimmer boat, which cost \$0.24 million, will help us meet our goal of collecting over 600 tons of debris per year. In response to customers' requests, we also began construction on improvements to the sewer system to help relieve local area flooding issues in Northeast Washington along the Northeast Boundary sewer, including street regading, adding new catch basins and replacing smaller basins with larger ones, and replacing and lining existing sewers. Costs for this project total approximately \$3.5 million and are partially funded with grant funding from the District Emergency Management Agency as well as the District's Department of Transportation. As part of this effort, we held two public meetings

and distributed a special informational brochure to residents in the affected neighborhoods. This project is projected to be complete in FY 2004. Finally, we also purchased additional equipment to assist us in meeting customers' request for catch basin cleaning.

We completed improvements to the Potomac Interceptor to address odor complaints on an interim basis, and completion of final design of permanent odor control improvements is scheduled for FY 2004, with construction scheduled to begin thereafter. The costs of this project are projected to increase substantially due to larger equipment needed to control odors, high architectural costs related in part to historical preservation requirements of the National Park Service, and difficult construction locations. The National Park Service is expected to provide some portion of the funding for its requested enhancements. In addition to the odor control improvements, we will also begin construction of structural improvements in FY 2004.

In addition to these daily activities, we began our comprehensive assessment of the sewer system in FY 2003. The CIP contains funding for various sewer rehabilitation projects across the District as well as a continued base level of funding pending the results of this assessment.

WATER SYSTEM INITIATIVES

Drinking Water Quality

In 2003, we continued to meet, and in some cases surpass the requirements of the Safe Drinking Water Act. In addition, in June 2003, we received notice from EPA that WASA has successfully completed all of the actions required in the administrative order and consent decree that date back to WASA's creation. Over the next year, we will work aggressively with the Department of Justice to be formally released from the consent decree and administrative order. In 2003, WASA produced its fifth consumer confidence report, which was widely distributed to all customers and in local newspapers.

WASA continues various ongoing system maintenance programs (such as our annual flushing program for approximately 500 miles of the 1,300 miles in our system) to ensure reliable service and to improve water quality. Other efforts to ensure good water quality include the completion of our cross-connection elimination program in FY 2003, as well as our ongoing fire hydrant inspection program, which will help ensure that new cross-connections are not inadvertently created.

Distribution System

“Sold vs. Pumped” Ratio & Water Audit Results – Our sold vs. pumped ratio has remained steady over the last three years, ranging from 66 to 69 percent. In FY 2002, we completed our comprehensive water audit, which identified all sources of unaccounted for water, including meter under-registration, system leaks, system maintenance (flushing, etc.), firefighting and unauthorized water use (illegal use of fire hydrants, etc.) Our AMR program is currently underway, with approximately 107,000 meters (out of 124,000 meters total) already installed, and we expect that this will address a significant component of our sold vs. pumped ratio. Billed residential consumption in FY 2003 increased by approximately six percent due to new meters, and we are projecting larger billed consumption increases in our large

commercial meters. As part of the second phase of our customer service reorganization and IIP, we will be adding an inspections function, staffed with two employees, whose sole job will be to continually canvass the District, ensuring that all new construction and redevelopment activities are metered and billed and to investigate aberrations in consumption by large customers. In addition, we are in the process of strengthening our theft of service program, led by our Security department, with a particular focus on illegal hydrant usage as well as unauthorized connections. This program is also a significant issue for safety purposes, as well as financial, as illegal usage can affect system water quality and fireflows. Additionally, our continuing valve replacement efforts are addressing leaking valves and facilitating prompt response to leaks by increasing valve reliability. Our “War Room” activity center focuses technical resources on the operation and condition of valves.

Georgetown Project -- We have also been participating in the cooperative efforts among the District of Columbia, Pepco, Verizon and Washington Gas in upgrading the underground infrastructure as part of the Georgetown Project. Our role in this project includes replacement of certain sections of older water mains, replacement of large internal joint seals and valves, elimination of over twenty cross connections, and replacement of several defective sewer laterals, with a total cost of over \$4 million. This work is scheduled to be complete in FY 2005.

Field Supervision and Response – Following an intensive review of our organization and supervisory structure in the Department of Water Services, in FY 2003, we implemented a significant change to assure effective field supervision of repair crews, transitioning from “roving” field supervisors to a clearly designated supervisor of each repair crew. We believe that this change, which was accomplished without an overall increase in staffing, has improved accountability, response times, and productivity. In FY 2004, we will also be evaluating the most effective way to operate valves in support of the CIP. Currently, contractors provide a significant portion of this service, and we will be evaluating whether or not in-house provision of this service is more cost and operationally-effective.

Improvements to Anacostia Water Service – We developed a detailed facilities plan to improve water pressure and service reliability to the Anacostia area, and with the completion of rehabilitation of the Anacostia water tanks No. 1 and No. 2, water storage projects to support the Anacostia area continue to progress. The next water storage project to benefit the Anacostia area is construction of an elevated tank at St. Elizabeth’s Hospital, which will improve water pressure, with construction scheduled to begin in FY 2005, after zoning approvals are completed. We have also begun a close to \$8 million replacement of a twenty-inch water main along Martin Luther King Boulevard in Anacostia that will improve water pressure and service reliability. As part of this project, we are making special outreach efforts to customers to keep them informed of project progress and the impact the project has on their daily water service.

Other measures designed to improve the water pressure in the Anacostia area include replacing the Anacostia Pumping Station at its current site, and building a new booster pumping station in the vicinity of the Fort Stanton Reservoir. The design period for both of these projects begins in FY 2004, and construction will begin in FY 2006.

Water Conservation

Water conservation will be an area of renewed focus in FY 2004 and FY 2005, building on the transfer of this function from the Department of Engineering and Technical Services to the Department of Water Services in FY 2003. Two employees will be dedicated to this effort, and our focus will be on providing a customer-oriented program, focusing on daily activities customers can undertake to conserve water. Over the last year, we continued to provide water audits for both large and small customers, and have participated in various community events where we have given talks on conservation and distributed conservation materials. Our largest outreach effort in the next few months is planned for the Joint Utility Discount Day at the Washington Convention Center. WASA staff will present daylong demonstrations of household conservation practices and distribute conservation materials to approximately 7,000 District of Columbia residents who are expected to attend this event. In addition, we began sponsorship and participation in a regional water conservation campaign, *Water – Use It Wisely*.

Fire Hydrants

Maintenance of the 8,700 fire hydrants in the District is one of our most critical water distribution system functions. Since 1997, we have succeeded in improving the number of hydrants in operation, and have generally exceeded our target of 99.5 percent of fire hydrants consistently in service. Our goal is to investigate any report of malfunctioning fire hydrants within 24 hours, and needed repairs are to be made in five working days. In 2003, we implemented a backlog reduction plan for out of service fire hydrants, and between October and June, we reduced the number of out of service hydrants from a monthly average of 91 to 25.

INTERNAL IMPROVEMENT PLANS

We continue our organization-wide focus on improving service and reducing costs, where possible, to our customers through the implementation of Internal Improvement Plans (IIP). Specific plans have been developed and are in the process of being implemented for our six largest departments with details for each department discussed in more detail below.

The impact of our efforts to date can be demonstrated by bottom-line results. Total staffing through FY 2005 has been reduced by 390 positions since the Congressionally-approved FY 1998 budget was adopted, a reduction of 26 percent. Our revised FY 2004 operating budget is \$4.5 million less than the Congressionally-approved FY 1998 budget. As an indication of our commitment to continue these improvements in the future, our 10-year plan assumes that operations and maintenance expenses will increase by only 1.4 percent annually after FY 2005, less than the historical rate of inflation. Even with these cost reductions, WASA's service performance has improved across the organization as discussed in detail throughout this document.

A new initiative in FY 2004 is the creation of a productivity analysis and planning group. This group, which will be housed in the Office of the Assistant General Manager, will lead WASA's efforts in monitoring the implementation of each of the departmental IIP's, and will also focus

on productivity enhancement and streamlining initiatives across the organization. The FY 2004 and FY 2005 budgets include funding for one position to begin this function.

Blue Plains – Wastewater Treatment & Maintenance Services

The Blue Plains IIP, which was presented to the Board in March 2000, projected total position reductions of 228 at Blue Plains and annual cost savings of \$23 to \$24 million when fully implemented, with approximately half of the savings to be achieved due to new capital projects. In addition to WASA personnel reductions, the plan called for reducing the number of contractor full time equivalents at the plant from 166 to 36. The results to date have been significant – by the end of FY 2005 we will have reduced a total of 124 positions since FY 2000, and at the same time, plant performance has improved and our regulatory requirements have been surpassed. We have also experienced some reductions in contractual services in Maintenance Services, with the phasing out of small and medium process equipment maintenance and chlorination / dechlorination maintenance as the new alternate disinfection facilities are brought on line. Similarly, in FY 2005, Wastewater Treatment will begin phasing out contract dewatering services as the new additional dewatering facilities and centrifuges are brought on line. Future reductions are in part contingent on the completion of a variety of capital projects, a number of which are underway including:

- grit and screens rehabilitation – underway with completion projected for FY 2006
- additional dewatering facilities – underway with completion projected for FY 2005
- process computer control system – underway with construction completed in phases beginning in FY 2004 and continuing through FY 2009
- new digesters – design underway

It is important to note that some of these projects will result in increased operating costs (e.g., chemical costs for alternate disinfection).

We have also undertaken a number of management initiatives to help us meet our IIP goals at Blue Plains, including a focus on cross-training for various positions. We have also incorporated new work rules changes into our collective bargaining agreement and will continue to make progress in this area as part of the upcoming negotiation. Finally, the introduction of new technology (including the maintenance management system and the process computer control system) will result in significant streamlining of our operations.

Customer Service

We successfully completed the first phase of the Customer Service IIP, which included a major reorganization of our call center, billing and collections operations and a substantial investment in training for existing and new employees. The reorganization and related training resulted in a reduction of 15 positions in FY 2002. The second and final phase of our Customer Service IIP began in FY 2003 in conjunction with implementation of our new AMR technology, which eliminates the need for manual meter reading. In FY 2003, we designed and in FY 2004 we will complete the reorganization of our customer service meter operations. We will restructure our entire meter operation, including revisions of job descriptions, to reflect new work processes required to fully capitalize on the new technology's capabilities. While we know a

number of existing positions will no longer be needed, we will add several new roles to better address unauthorized use of water, focusing on fire hydrant hook-ups and ensuring that all new construction and renovations are properly metered.

In FY 2004, we will also begin operation of our consolidated command center, which will provide customers a single point of contact for all of their questions. The development of the command center was done at no additional operating cost; thirteen existing positions were transferred from Water and Sewer Services to Customer Service to staff this effort.

Water & Sewer Services

In FY 2002, we completed an initial evaluation of our Water Services and Sewer Services operations. This analysis identified “benchmark” staffing levels approximately equal to the number of currently filled positions. It also outlined opportunities for cross-functional sharing of resources during peak service demand periods (specifically during winter months to deal with water main breaks and support needed for the capital improvement program), and appropriate levels of equipment and parts to be provided to field crews. Since FY 2001, we have reduced 56 positions from these areas, based on implementation of improved work methods suggested by the plan. We have completed the first phase of an enhanced training program for employees in these departments in FY 2003.

Within these revised position levels, the Water Services function has created a new technical services support branch which includes staffing dedicated to CIP management and coordination (including valve operation and testing) and other project management services for new projects such as the asset management system and management of WASA’s water conservation program. Water Services has also implemented its plan to realign its supervisory responsibilities for the distribution system maintenance section, including hiring of new foremen and expansion of existing duties for water services workers.

Other Departments

We have also undertaken similar IIP efforts in other departments, including:

- Development of an Internal Improvement Plan for the Department of Engineering and Technical Services which was completed in FY 2003
- Reducing 10 positions in Facilities and Security as part of a departmental reorganization in FY 2003

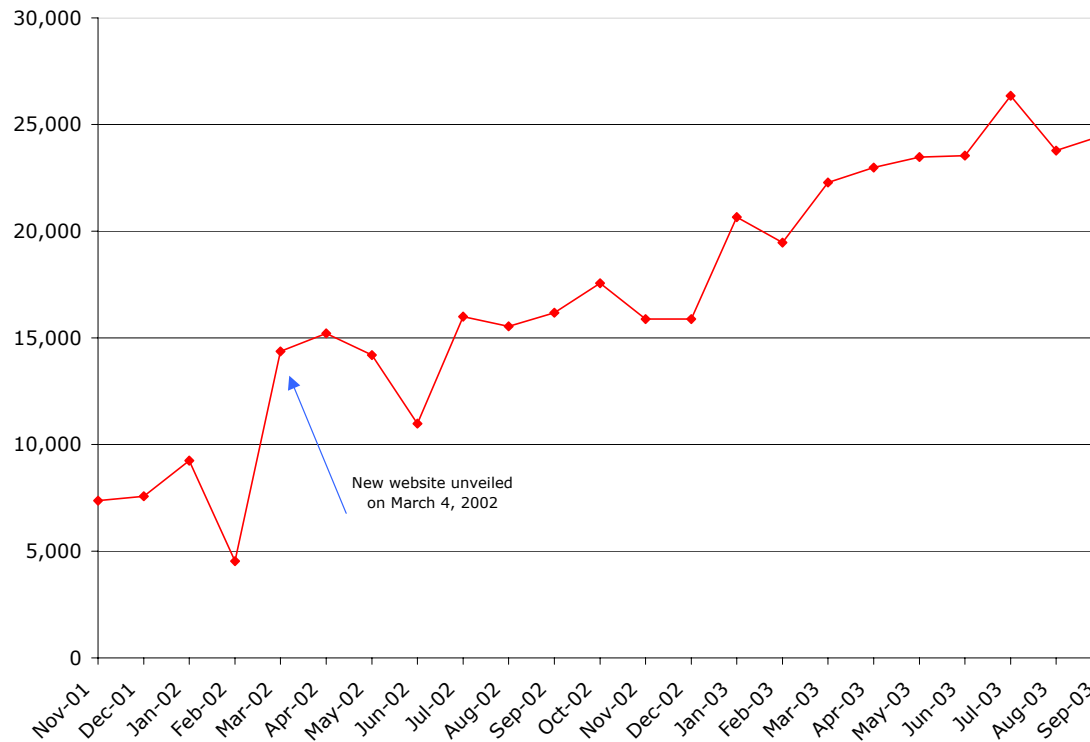
INFORMATION TECHNOLOGY

Our efforts in Information Technology over the past few years have been focused on implementing the Board-approved Information Technology Strategic Plan, developed in FY 2002. This plan lays out a vision for the delivery of IT services at WASA, including a recommended methodology for prioritization of projects (which includes an assessment of cost savings and productivity growth), suggested

security and infrastructure improvements, and other organizational enhancements. We will complete an update of this plan in FY 2005. These budgets include the resources and projects necessary to meet the goals of the Board and the Strategic Plan.

All of our IT projects are focused on improving service to our customers, whether directly or indirectly. A major success has been the introduction of our revamped website, www.dcwasa.com. In FY 2003, we added a new section for vendors that allows them to register for new contract solicitations and get amendments to these solicitations. We have also enhanced our front page to focus on immediate customer priorities, such as Hurricane Isabel. The on-line account information and credit / debit card payment options continue to be popular with our customers, with close to nine percent of transactions being completed on-line. In FY 2004, we will be adding a new graphic framework for the website, along with invoice submission capabilities for vendors. The success of the website is evidenced by the increased traffic we have experienced since it went live in spring 2002 which is shown in the chart below.

**VISITORS TO WWW.DCWASA.COM
NOVEMBER 2001 THROUGH SEPTEMBER 2003**



One of the key IT strategic plan priorities is to better integrate information technology into our operations, including ensuring that operations-related projects are consistent with the IT strategic plan's goals, are developed in accordance with our existing IT infrastructure and functionality, and are collaboratively managed by Information Technology, Engineering and user departments. A few key examples of this effort that are already underway or will begin in the next few years are:

- *Maintenance management system* - this project went live in FY 2003 and will greatly enhance our predictive maintenance and inventory management efforts
- *Process computer control system* – this project is in the beginning stages of design and is critical to accomplishing the goals of the Blue Plains IIP. This project will be one of our first efforts at integration of IT and operations functions.
- *Asset management for WASA's water and sewer systems* – as discussed earlier, this system, which will integrate our existing customer information, maintenance management, PCCS / SCADA, and other systems, will help us better manage our infrastructure, particularly in the water and sewer systems. It will allow us to better track specific asset performance and related repairs, and perform more preventative maintenance.

Other challenges that we have addressed in these budgets over the next few years include the transition of a number of projects from the project development stage to mature, in-house supported projects. Since FY 2000, we have implemented four major systems, including a new payroll / human resources information system, a new financial system, a new maintenance management system, and a new customer information and billing system. All of these systems require both ongoing upgrades and support. We are also focused on ensuring the safety of our information technology infrastructure and systems, and are making improvements to our firewalls and other security systems. We are developing a business continuity / data redundancy plan for all of our systems, and through the innovative application service provider (ASP) solution employed for the new customer information system, have already met this objective for this mission-critical system. In addition, in 2003, we completed a review of cyber-security at WASA which demonstrated that WASA has strong controls in place.

In addition to the systems and improvements discussed above, in FY 2003, we implemented a new time and attendance system. This new system virtually eliminates all manual timesheets and paperwork associated with the previous system, greatly reducing payroll processing time and errors. It also gives managers real-time access to attendance data. In FY 2004, we will introduce an employee self-service option, which will give employees on-line access to benefits and payroll information.

Fleet Management

Building on the success of our renegotiated fleet maintenance contract in FY 2002 coupled with the substantial investment we have made in our fleet over the past five years, we have reduced our fleet operating costs by \$0.2 million in FY 2004, on top of reductions made in FY 2003. We plan to continue this capital investment in our fleet, with \$10.8 million budgeted over the next ten years, keeping us on a roughly five year replacement schedule for approximately 75 percent of our fleet, with the remaining 25 percent to be replaced as needed,

depending on age, mileage, condition, and type of vehicle. Our replacement plans are constantly being reevaluated in light of the organizational changes laid out by the IIP as well as the cost-benefit of each individual vehicle replacement.

Other major priorities over the next two years include transitioning a significant portion of our fuel purchases via the District government's fueling sites to achieve cost savings. We are continuing to work on curtailing vehicle abuse by evaluating the skills of drivers and tailoring training programs to the needs that are identified. Activities aimed at reducing abuse of vehicles include training in driving procedures on ice and snow, use of antilock brakes, operation of water and sewer equipment, and defensive driving.

Facilities

In FY 2003, we began the initial phases of a reorganization of our Facilities department, including additional senior leadership in critical areas of facilities management: mechanical maintenance and general facilities operations. These changes resulted in the reduction of ten authorized positions in FY 2003. Over the next two years, our Facilities' efforts will focus on completing this reorganization, improving service to internal customers, completing a WASA-wide long-term space assessment, and finishing critical renovation projects. These projects will focus in particular on the Central Operations Facility (COF) at Blue Plains, including an overhaul of the aged HVAC system, elevator replacement, and renovations to bring all restrooms into ADA compliance. We also plan to begin landscaping improvements at Blue Plains.

Procurement

In FY 2004, we plan to complete a reorganization of our procurement and materiel management organization including merging small and large procurement functions and enhanced contract administration. This reorganization will result in the elimination of two positions by the end of FY 2005. In addition, in FY 2004 and FY 2005, we will be consolidating our inventory yards, including merging the Potomac and Anacostia Yards. As a result of this merger, Potomac Yard will be closed.

A major emphasis in our procurement operations over the last two years has been meeting the Board's Business Development Plan. This plan sets a target of 50 percent of all discretionary spending to be spent with certified local, small and disadvantaged businesses (LSDBE's). In FY 2002, our performance was 49 percent. Although we do not expect to meet the 50 percent target in FY 2003, we made significant strides in ensuring inclusion of protected class businesses in the procurement process. In FY 2003, WASA attended four major business outreach events, which were focused on increasing procurement opportunities for historically under-represented business enterprises

Training of key users is also a major priority – in FY 2003, we conducted training sessions on ethics in procurement and basic procurement procedures, with a particular focus on first line supervisors. We also conducted our first recyclable products fair in 2003.

STRATEGIC GOAL AREA – ORGANIZATIONAL EFFECTIVENESS

REGIONALIZATION STUDY

In FY 2004, we will undertake a comprehensive review of our organizational effectiveness and governance structure, consistent with the Board's direction at the conclusion of the last regionalization study, completed in January 2001.

EMPLOYEES & HUMAN RESOURCES

Our success in achieving the Board's strategic goals depends in large part on one group of people: our employees. Over the last six years, we have developed a focused human resources department and comprehensive program to support all of our employees, and provide organization-wide leadership in training, labor relations, and performance management. We have also given our managers the training and tools to lead their departments and employees.

Labor Relations & Collective Bargaining Agreement – In FY 2003, we continued implementation of our existing agreement with our five collective bargaining units, which include approximately 75 percent of our workforce. Major provisions of this agreement, which expired on September 30, 2003, include:

- A pay for performance program for union employees *that is the first of its kind in the District*;
- A gainsharing program in FY 2003;
- Participation in the WASA benefits program for post-1987 employees; and
- Uniform testing levels and procedures for all WASA employees.

We have begun initial negotiations on the new agreement. At the initial bargaining session, the five collective bargaining units informed WASA of their desire to negotiate six different contracts (one for compensation and five separate working condition agreements for each unit), we are pursuing an action with the Public Employee Relations Board (PERB) to consolidate the five units into one unit. Separate agreements with each union would likely result in employees who work side-by-side or in the same department having different work rules and benefits. In addition, the negotiation and administration of six different agreements will not be cost-effective. We anticipate a ruling from PERB within the next few months.

Labor-Management Partnership – WASA is an active participant in the Mayor's Labor-Management Partnership initiatives, and we have initiated our own labor-management partnership that holds monthly meetings on a variety of issues. Our efforts in this area have been recognized District-wide, with the receipt of an award from the Mayor recognizing the efforts of the Department of Maintenance Services to improve internal communications.

Pay for Performance & Gainsharing – We have completed our second pay for performance cycle for non-union employees. This program has been very successful, with employees receiving pay raises ranging from zero to seven percent, depending on their performance on specific goals laid out by their supervisor and senior management at the beginning of the evaluation period. We continue to conduct training for supervisors to assist them in the goal-setting and evaluation process.

As mentioned above, the existing collective bargaining agreement introduced a pay for performance element for union employees for FY 2003. A new performance evaluation system was designed jointly with the unions. With the implementation of the new system, union employees would be eligible for a lump sum bonus based on their performance rating. The bonuses range from one to two percent of base salary.

Finally, the agreement also included the development of a gainsharing program in FY 2003. This program set WASA-wide and departmental specific goals based off the Board's strategic plan and our annual workplan. If these goals are accomplished, all employees will be eligible for a lump sum payment of up to \$1,200. We are currently analyzing departmental performance on each goal, and project that final bonuses will be paid in December.

Training – We have invested significant dollars in training our employees since we were created and have continued this commitment in FY 2004 and FY 2005. Our training budget in FY 2004 totals \$1.6 million – *approximately \$1,400 per employee*. One key objective of our training program is to give employees the skills needed to stay current with the technology changes we are making across WASA as well as related industry and regulatory changes. Our training program will equip employees with the tools needed to effectively perform their jobs and further their careers.

One of our biggest successes in the training area has been our intensive effort to certify our wastewater treatment operators and our maintenance employees. To date, we have certified approximately 190 employees, and by the end of FY 2005, expect to certify a total of 254 employees. The maintenance program is a pilot program modeled after a program offered by the International Maintenance Institute. These training programs are in direct support of our Internal Improvement Programs, and in FY 2003, we provided similar intensive training to the Departments of Water and Sewer Services in support of their Internal Improvement Programs.

We also offer a variety of other types of training, offered both in-house, through outside contractors, and through professional associations, including:

- Safety training, including first aid, confined space entry and excavation, emergency response, etc.
- Procurement and contract management and ethics in procurement
- Performance evaluation training
- Workforce violence
- Workplace diversity
- Collective bargaining agreement training
- Customer service

We are particularly proud of a new program initiated late in FY 2002 – *WASA Reads*. This program is targeted at employees who have reading, writing and math comprehension difficulties and is offered on a confidential basis.

Benefits – We negotiated new agreements with health care insurance providers effective January 1, 2003, including transitioning to a new regional provider for a significant number of employees. We negotiated renewals in these policies for calendar year 2004, and like other organizations in the region and nationwide, experienced increases in our premiums. We also established an enhanced employee assistance program (EAP) with a new provider in 2003.

Internship Program – WASA is firmly committed to supporting and encouraging the educational goals of college students by exposing them to careers in wastewater treatment and water distribution through its internship programs. Participants in the program receive opportunities to work closely with diverse groups of professionals performing critical tasks that are required to operate a large utility. Exposure to careers and opportunities at the Authority help the interns make a conscious decision about their academic and career choices. We had 34 interns participating in our FY 2003 program. The intern program is paid for with savings from vacancies, and is offered at no additional cost to our ratepayers. This program has also proven to be a successful recruitment tool for WASA.

In summer 2003, we also sponsored seven young men and women from the Covenant House, an organization that provides shelter and support services for at-risk youth. These young people worked for our Facilities department.

10-10-10 Fitness Challenge – As part of a special program sponsored by the D.C. Chamber of Commerce, a team of 100 WASA employees participated in this program with other major companies in the District, which required employees to walk 10,000 steps per day.

INTERNAL AUDIT

WASA's Internal Audit Office continues to focus on implementation of its Annual Audit Plan, approved by the Board's Audit Committee. During FY 2003, 13 audits were completed, including reviews of information technology projects, gainsharing program implementation, and biosolids cost review. At least twelve additional audits are planned for FY 2004. The Internal Audit Office will also continue to work with WASA's external auditors on the annual financial and grants audit.

SECURITY

Ensuring security has always been a critical matter for WASA, and has become even more critical in the wake of September 11. Even before those tragic events, we already had plans in place to complete a significant upgrade of the security system at our water storage facilities and pumping stations. This project, which is partially funded by the federal government, is scheduled to be complete in the first quarter of FY 2004, and includes extensive electronic surveillance and remote monitoring devices, including cameras, automated gates, and intrusion detection devices, among other improvements. At Blue Plains, we redesigned and reconstructed the entrance in summer 2002,

greatly improving access, security, and aesthetics, and will be improving our electronic surveillance as well. Over the next two years, we will be evaluating and making security improvements, as needed, to other WASA facilities across the District, including the Main & O St. pumping station.

With the support of EPA and in cooperation with the Washington Aqueduct, an initial review of water system vulnerability has been conducted by Sandia National Laboratories. In FY 2003, we completed a substantial update of our Emergency Response Plan. Efforts in this area will continue in FY 2004, with tabletop exercises and drill to assess the effectiveness of our plan. As in the past, these activities will be closely coordinated with the District of Columbia, including the Emergency Management Agency, Police and Fire Departments, and other key District agencies.

We continue our cooperative efforts with the Metropolitan Police Department and various federal agencies, including the Federal Bureau of Investigation and the Bureau of Alcohol, Tobacco and Firearms, on coordination of security efforts, building on the success we had with these organizations in development of our comprehensive security program in FY 2000.

We are also focused on ensuring the security of our technology assets, and in 2003, completed a review of cyber-security at WASA.

SAFETY

WASA continues our commitment to the safety of our employees, contractors and neighbors. This commitment is evidenced by both the dollars we have budgeted for safety activities, totaling \$1.3 million annually in operating funds in FY 2004 and FY 2005, as well as the Board's decision to create a separate subcommittee of the Operations Committee that focuses exclusively on safety and emergency planning issues.

The priority of this Board subcommittee and management over the last year has been monitoring the initial phases of implementation of our Comprehensive Safety Plan, which was originally developed in July 2001. This plan includes a comprehensive list of proactive items, including training, inspections, investigations, and other related tools. A major component of the plan which is especially important in light of the events of September 11 is emergency response planning. Our emergency response plan was already in place prior to those events, and over the last year we have worked especially closely with the District's Fire Department, the D.C. Emergency Management Agency and various federal agencies and regional to ensure proper coordination with their plans. We have also developed a detailed bioterrorism plan in conjunction with these agencies.

In FY 2003, we increased our efforts to ensure the safety of contractors who are currently working at various locations across WASA, particularly on the capital improvement program. We added one new position to our Occupational Safety and Health department to focus exclusively on day-to-day contractor safety, and will also assist with the review of design and construction plans to ensure that all safety issues are addressed upfront and through the construction phase.

We have also undertaken significant efforts to ensure that our employees are actively involved and committed to workplace safety. We created union – management safety committees to focus on safety issues. We have provided extensive training, including chemicals handling, excavation safety, confined space, and traffic control / work zone safety, among others. We also began stepped-up efforts to track the results of these efforts – we developed a benchmarking system to track the improvement we make in vehicle accidents, lost work day injuries, and other key performance measures. This benchmarking system is integrated into our gainsharing program, directly linking safety compliance to employee bonuses.

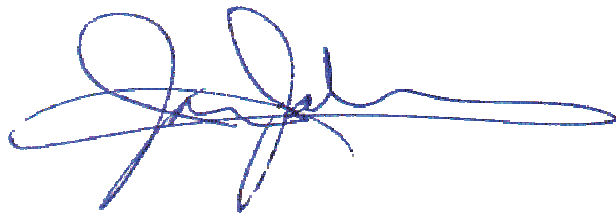
In September 2003, we successfully managed preparation and emergency activities associated with Hurricane Isabel, including the set-up and operation of a WASA-specific Emergency Operations Center as well as 24-hour operation of our customer call center. We coordinated closely with the District and Federal Emergency Management Agencies and other appropriate local agencies. Our customers experienced no interruptions in service, and we experienced no significant property damage. We believe the model we used in preparing for Isabel will be applicable to other emergencies we might face in the future. We are pursuing federal reimbursement for the incremental costs we incurred associated with our preparation activities and losses during the hurricane.

ACKNOWLEDGEMENTS

The past year has been one of great achievement for our organization which would not have been possible without the support and guidance of our Board of Directors, under the leadership of Chairman Gerstell. I would also like to extend a special thanks to Finance and Budget staff who worked extensive hours to produce this document as well as our new CIP document, and to all of WASA department heads and their support staff whose efforts in developing these budgets were critical.

I believe this plan meets our customer service and environmental commitments on a cost-effective basis. I welcome the opportunity to work with the Board in the coming weeks as we review this budget, a concrete demonstration of our commitment to our customers and our commitment to the environment. The bottom line and goal of this entire budget submission is to *provide excellent service delivery to our customers*.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jerry N. Johnson", with a long horizontal flourish extending to the right.

Jerry N. Johnson
General Manager



KEY FACTS

Service Area and Operations:

Date Established: October 1, 1996

Service Area: Approximately 725 square miles

Retail water and wastewater service provided to the District of Columbia

Wholesale wastewater treatment service provided to Montgomery County and Prince George's County in Maryland (through Washington Suburban Sanitary Commission), and Fairfax and Loudoun Counties in Virginia

Blue Plains: The largest advanced wastewater treatment facility in the world

Population Served: 0.57 million in the District of Columbia (2002)
Over 1.6 million in Maryland and Virginia

Operation and Facilities:

No. of Positions: 1,309 (FY 2001)
1,198 (FY 2002)
1,144 (FY 2003)
1,122 (FY 2004)
1,118 (FY 2005)

Water Pumped: 125.1 million gallons per day average (FY 2003)

Treated Water Storage: 52 million gallons / 8 tanks

Miles of Water Lines: 1,300 miles

Wastewater Treated: 368.6 million gallons per day average (FY 2003)

Wastewater Capacity: 370 million gallons per day (permitted)

Miles of Sewer Lines: 1,800 miles

Financial Information:

Bond Ratings: Aa3/AA-/AA-

FY 2004 Revenue: \$261.5 million

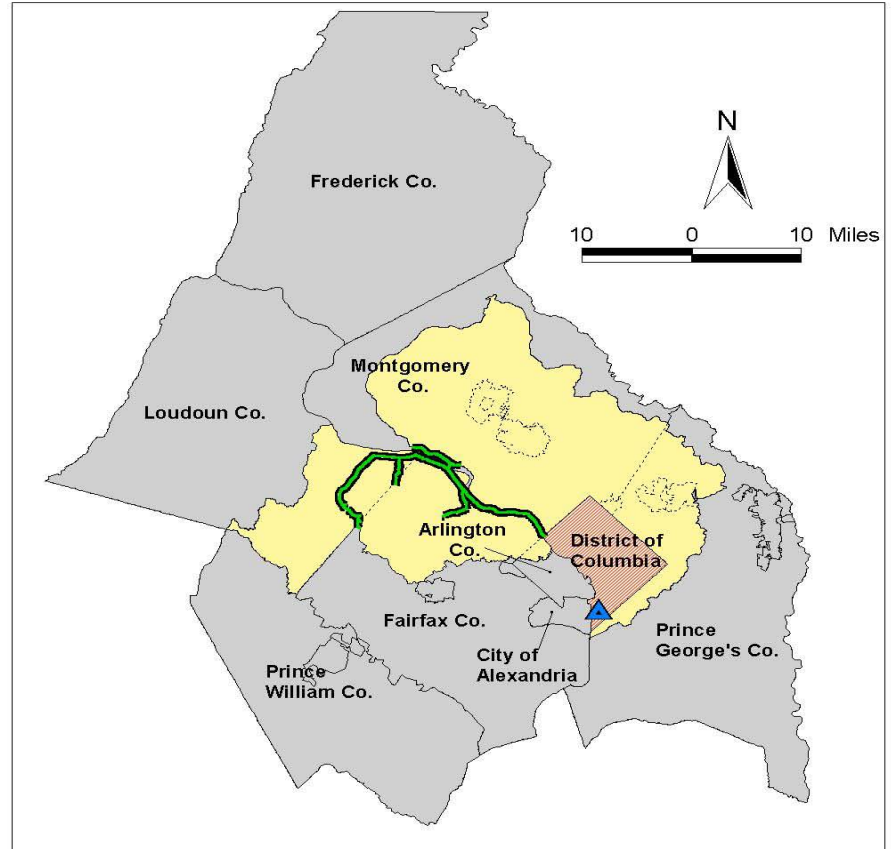
FY 2004 Operating Budget: \$258.9 million

FY 2004 Capital Budget: \$225.2 million



Service Area

District of Columbia-Water and Sewer Authority (DCWASA)



Legend Facilities managed by & Service Areas served by DCWASA

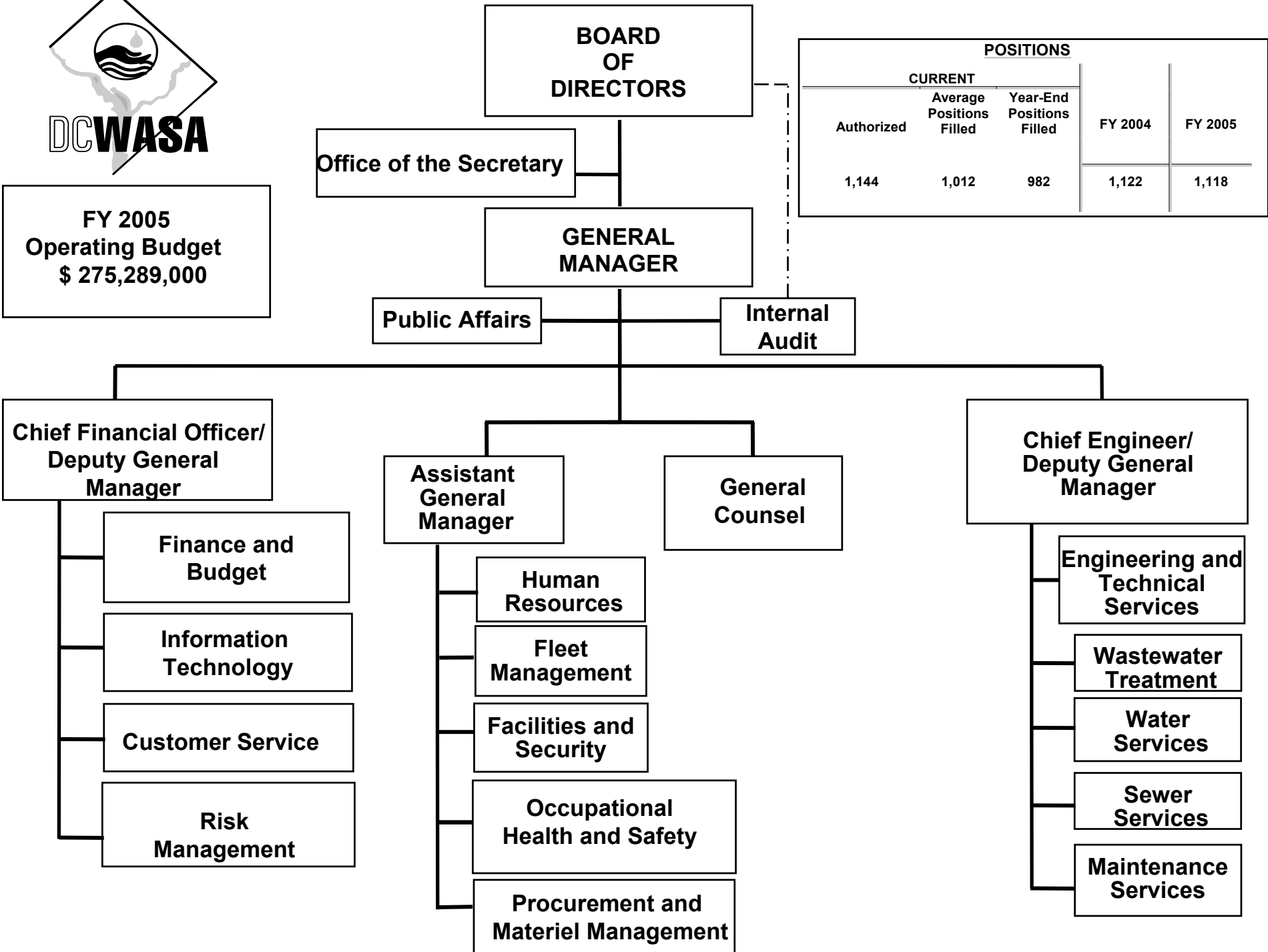
-  Blue Plains Wastewater Treatment Plant
-  Potomac Interceptor
-  Jurisdictional Boundaries
-  DC Water Distribution & Sewage Collection Systems
-  Blue Plains Service Area (suburban portion)
-  Blue Plains Service Area (DC portion)

Prepared for DCWASA by Department of Environmental Programs
Metropolitan Washington Council of Governments
Created on: February, 2001

Note: WASA's service area covers the District of Columbia and portions of Montgomery and Prince George's Counties in Maryland, and Fairfax and Loudoun Counties in Virginia.



**FY 2005
Operating Budget
\$ 275,289,000**



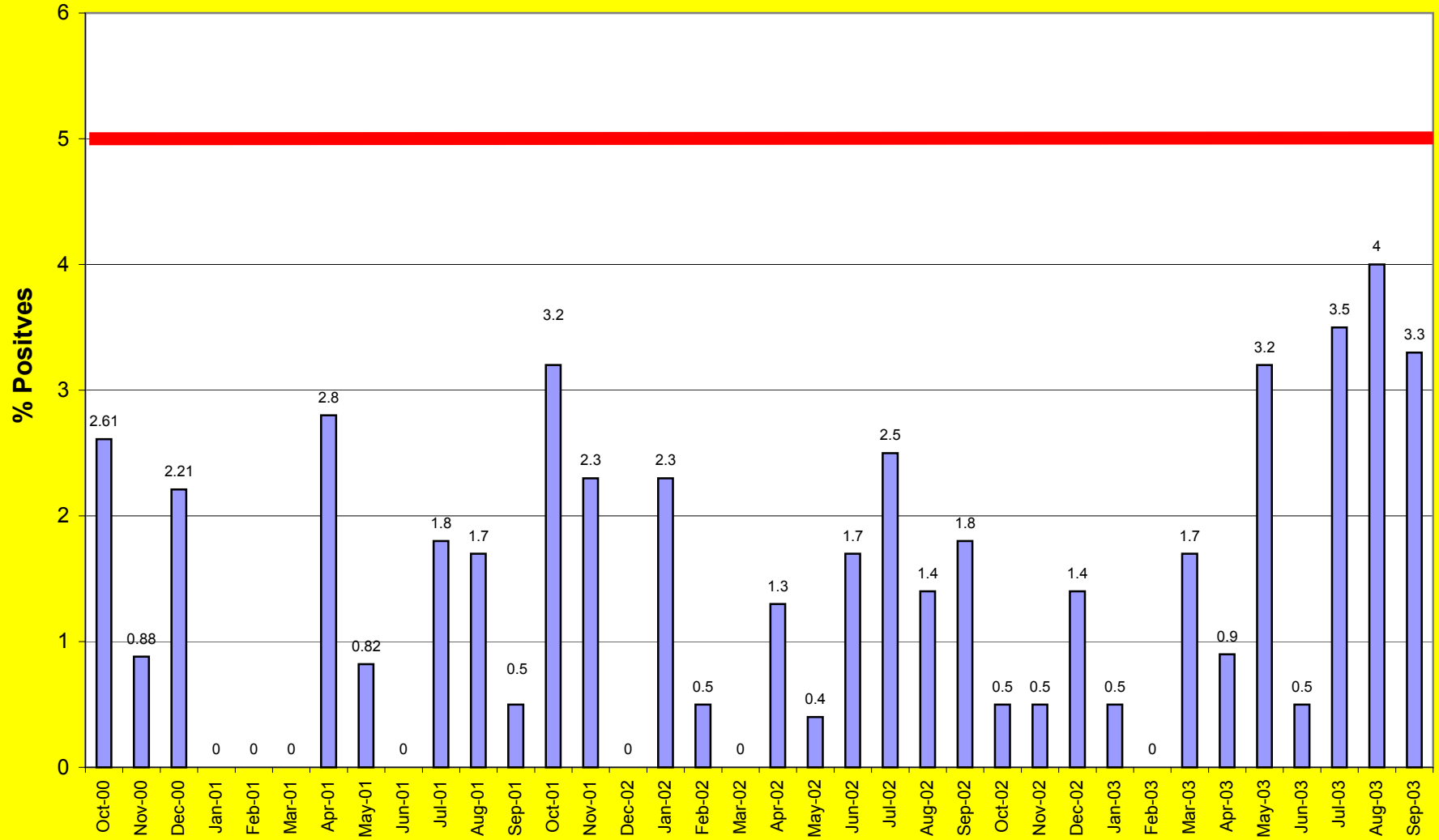
POSITIONS				
Authorized	CURRENT		FY 2004	FY 2005
	Average Positions Filled	Year-End Positions Filled		
1,144	1,012	982	1,122	1,118

PRIMARY WASA PERFORMANCE MEASURES & TARGETS

Description	Performance Target	FY 2003 Actual Performance	FY 2004 Target
Customer Service <ul style="list-style-type: none"> • Meter Reading Accuracy Rate • Calls Answered on Non-Peak Days 	<ul style="list-style-type: none"> • 99.9% • 97% serviced in 2 minutes 	<ul style="list-style-type: none"> • > 99.9% for AMR meters • 84% serviced in 2 minutes 	<ul style="list-style-type: none"> • 99.9% • 97%
Water System <ul style="list-style-type: none"> • Drinking Water Quality • Response Time for Water Main Breaks • Percent of Fire Hydrants in Service 	<ul style="list-style-type: none"> • Meet or surpass EPA requirements • Respond in less than 45 minutes and repair in ten days • 99.5% 	<ul style="list-style-type: none"> • Surpassed EPA requirements (see page II-6) • Respond to 48% within 45 minutes • 45% of mains repaired within 10 days • 99.7% 	<ul style="list-style-type: none"> • Surpassed EPA requirements • Respond to 95% in less than 45 minutes • Repair 95% in ten days • 99.5%
Wastewater System <ul style="list-style-type: none"> • EPA Wastewater Quality Standards • Catch Basin Cleaning 	<ul style="list-style-type: none"> • 100% compliance with EPA wastewater quality standards • 25,000 per year 	<ul style="list-style-type: none"> • 100% compliance with EPA wastewater quality standards (see page II-7) • 28,433 per year 	<ul style="list-style-type: none"> • 100% compliance with EPA wastewater quality standards • 25,000 per year
Financial <ul style="list-style-type: none"> • Senior Debt Service Coverage • Operating Cash Reserves • Net Operating Results (Cash Basis) 	<ul style="list-style-type: none"> • 140% Board policy • 200% - 2003 projection • 6 months O&M expenses – Board policy • \$94.6 million - 2003 projection • Surpass budget 	<ul style="list-style-type: none"> • 507% (after transfer to rate stabilization fund) • \$118.7 million • \$41.6 million (budget \$13.1 million) 	<ul style="list-style-type: none"> • 401% • \$95.5 million • \$8.6 million target

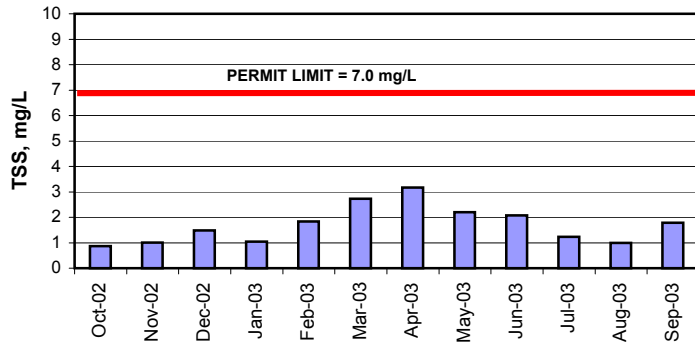
NOTE: This page describes the primary performance measures WASA is focusing on, based on the Board of Directors' strategic plan and feedback from customers and other constituents.

**DC DRINKING WATER TOTAL COLIFORM RESULTS
2000 - 2003
EPA MCL = 5% positives per month**



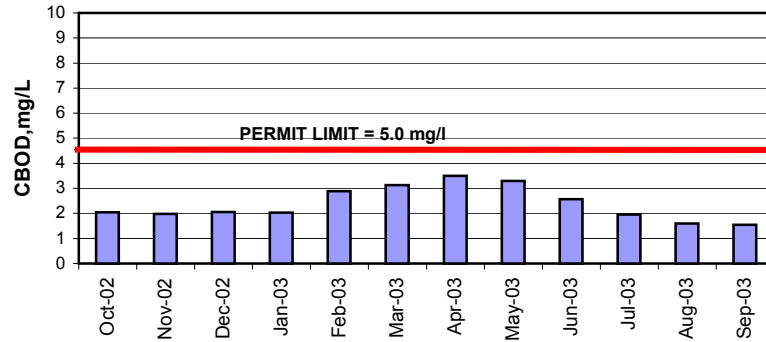
**BLUE PLAINS WASTEWATER TREATMENT PLANT
PLANT EFFLUENT QUALITY
OCTOBER 2002 - SEPTEMBER 2003**

**MONTHLY AVERAGE
EFFLUENT SUSPENDED SOLIDS**



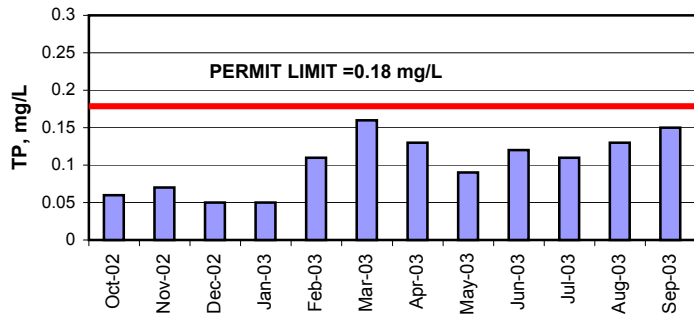
Effluent Total Suspended Solids (TSS) is a measure of the amount of solid material that remains suspended after treatment.

**MONTHLY AVERAGE
EFFLUENT CBOD**



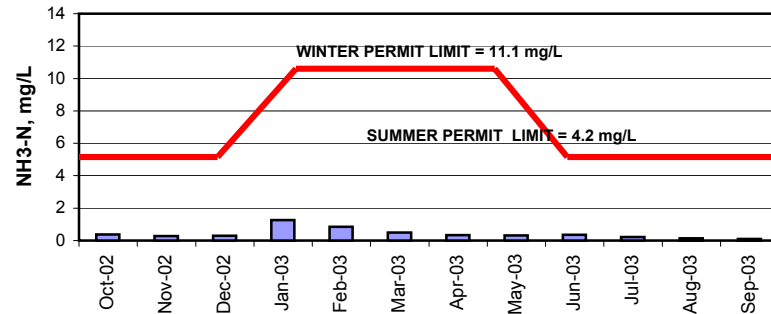
Carbonaceous Biochemical Oxygen Demand (CBOD) is a measure of the amount of dissolved oxygen required for the decomposition of organic materials.

**MONTHLY AVERAGE
EFFLUENT TOTAL PHOSPHORUS**



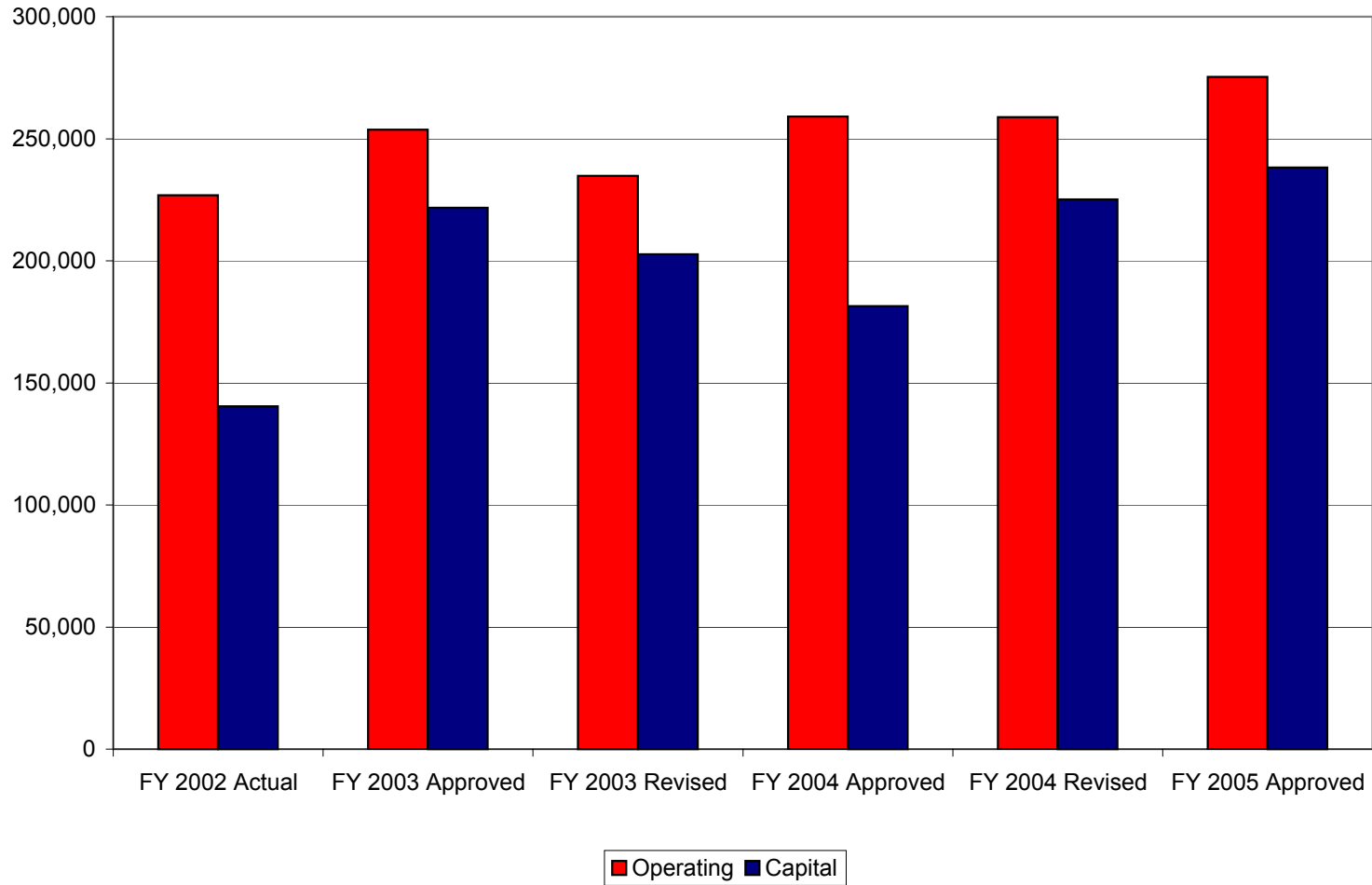
The total Phosphorus (TP) is a measure of the particulate and dissolved phosphorus in the effluent.

**MONTHLY AVERAGE
EFFLUENT AMMONIA NITROGEN**

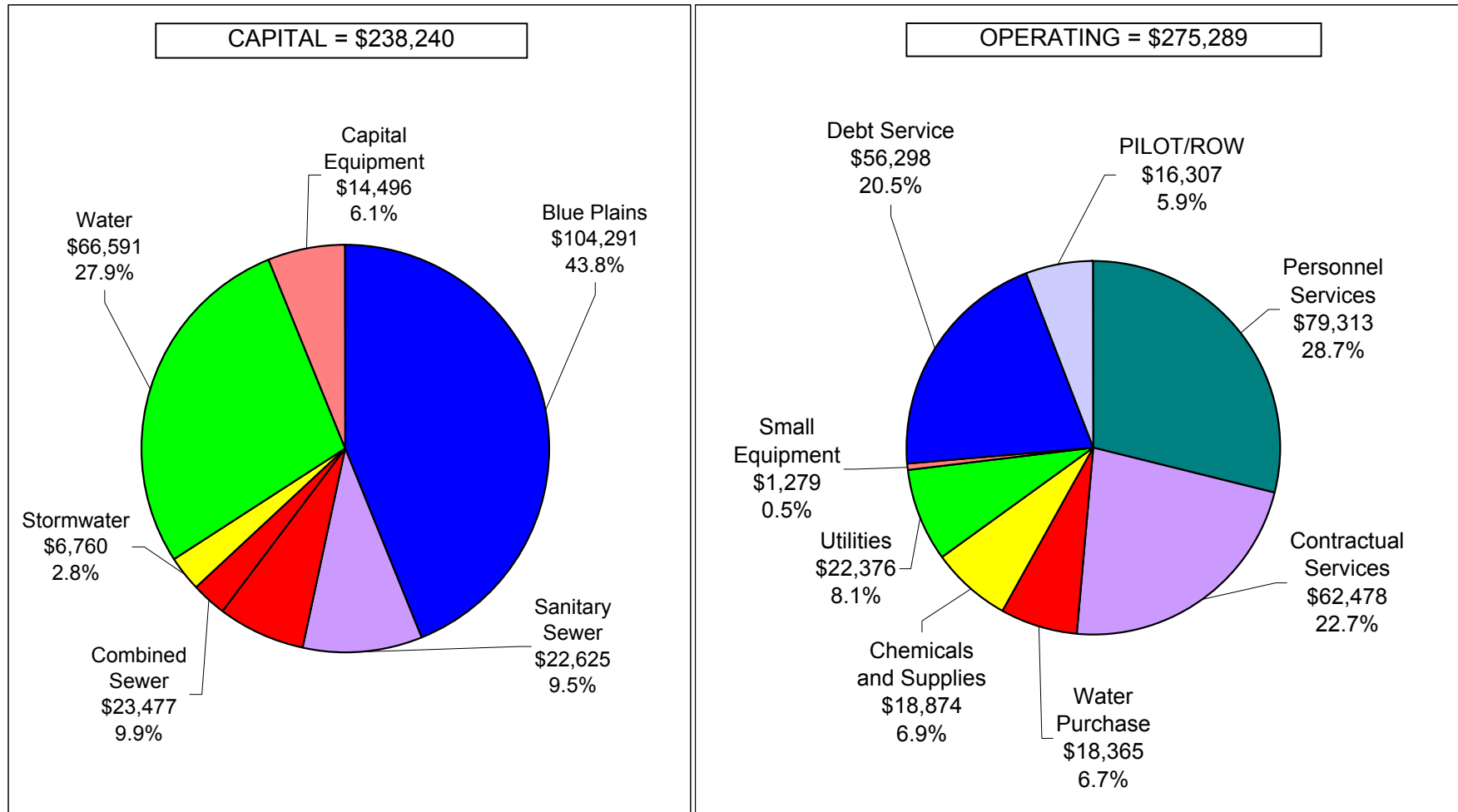


The Ammonia Nitrogen (NH3-N) is a measure of the nitrogen found in ammonia.

Operating and Capital Expenditures FY 2002 - FY 2005 (\$000's)



FY 2005 Approved Budget (\$000's)



Comparative Expenditures
(\$000's)

	<u>FY 2002 ACTUAL</u>	<u>FY 2003 ACTUAL</u>	<u>FY 2004 APPROVED</u>	<u>FY 2004 REVISED</u>	<u>FY 2005 APPROVED</u>
<u>CAPITAL</u>					
Blue Plains	79,579	125,284	82,555	110,893	104,291
Sanitary Sewer	6,735	5,088	20,030	15,208	22,625
Combined Sewer	5,556	11,889	10,325	14,092	16,737
Combined Sewer Overflow Long Term Control Plan	-	-	730	730	6,740
Stormwater	1,037	2,730	4,679	3,543	6,760
Water	35,396	49,897	53,117	65,866	66,591
Capital Equipment	11,720	9,532	10,043	14,880	14,496
Total Capital	<u>140,023</u>	<u>204,420</u>	<u>181,478</u>	<u>225,212</u>	<u>238,240</u>
<u>OPERATING</u>					
Personnel Services	68,507	71,028	74,932	74,549	79,313
Contractual Services	59,166	63,892	63,087	63,241	62,478
Water Purchases	16,904	13,723	18,365	18,365	18,365
Chemicals and Supplies	11,483	12,153	18,964	18,789	18,874
Utilities	20,071	20,804	21,608	21,806	22,376
Small Equipment	960	1,025	1,260	1,307	1,279
Total O&M	<u>177,091</u>	<u>182,624</u>	<u>198,215</u>	<u>198,058</u>	<u>202,684</u>
Debt Service	34,507	36,674	45,055	45,055	56,298
Payment in Lieu of Taxes/ Right of Way	15,247	15,513	15,825	15,773	16,307
Subtotal Operating	<u>226,844</u>	<u>234,811</u>	<u>259,095</u>	<u>258,886</u>	<u>275,289</u>
Personnel Services charged to Capital Projects	(6,345)	(6,937)	(6,000)	(8,000)	(8,376)
Total Operating	<u>220,499</u>	<u>227,874</u>	<u>253,095</u>	<u>250,886</u>	<u>266,913</u>

CASH FLOW SUMMARY

(\$000's)

	FY 2003 Actual	FY 2004 Approved Budget	FY 2004 Revised Budget	FY 2005 Proposed Budget
OPERATING BUDGET				
Operating Receipts:				
Residential, Commercial & Multi-Family	\$ 141,885	\$ 139,639	\$ 138,964	\$ 148,682
Federal	32,028	27,770	28,238	27,801
Municipal	7,208	8,954	7,036	7,646
D.C. Housing Authority	5,705	6,250	5,895	6,128
Metering Fee	4,240	5,779	5,300	5,300
<i>Subtotal Retail</i>	<u>\$ 191,066</u>	<u>\$ 188,393</u>	<u>\$ 185,433</u>	<u>\$ 195,557</u>
Wholesale	50,050	50,396	49,622	50,118
Other Operating Receipts	23,898	28,898	26,480	29,481
Total Operating Receipts	<u>\$ 265,014</u>	<u>\$ 267,688</u>	<u>\$ 261,534</u>	<u>\$ 275,156</u>
Operating Disbursements				
Personnel Services	\$ 68,476	\$ 68,855	\$ 68,549	\$ 70,937
Contractual Services	55,419	63,164	63,241	62,478
Chemicals & Supplies	14,239	18,964	18,789	18,874
Utilities & Rent	17,663	21,608	21,806	22,376
Water Purchases	14,120	18,365	18,365	18,365
Small Equipment	1,251	1,260	1,307	1,279
<i>Subtotal Operations & Maintenance</i>	<u>\$ 171,167</u>	<u>\$ 192,216</u>	<u>\$ 192,057</u>	<u>\$ 194,309</u>
Payment in Lieu of Taxes / Right of Way Fee	15,371	15,825	15,773	16,307
Debt Service	36,786	45,055	45,055	56,298
Total Operating Disbursements	<u>\$ 223,325</u>	<u>\$ 253,096</u>	<u>\$ 252,885</u>	<u>\$ 266,914</u>
Operating Surplus	\$ 41,690	\$ 14,592	\$ 8,649	\$ 8,242
CAPITAL BUDGET (See Section 6 for more details)				
Sources of Capital Funds	\$ 194,023	\$ 175,443	\$ 209,222	\$ 233,549
Uses of Capital Funds	204,421	181,478	225,212	238,240
Pay-As-You-Go Financing	<u>\$ (10,398)</u>	<u>\$ (6,035)</u>	<u>\$ (15,990)</u>	<u>\$ (4,691)</u>
CASH RESERVES:				
Beginning O&M Reserve Balance (Net of Rate Stabilization Fund)	\$ 120,101	\$ 94,887	\$ 118,738	\$ 100,465
Operating Surplus	41,690	14,592	8,649	8,242
Wholesale Customer Refunds/Payments for Prior Years	7,021	-	(7,800)	-
Transfer to Rate Stabilization Fund	(7,000)	(4,300)	-	-
Prior Year Right of Way Payment	(10,600)	-	-	-
Prior Year Federal Billing Reconciliation	(14,069)	(1,923)	(1,923)	(7,424)
Prepayment of Aqueduct Treasury Loans	(8,007)	(1,209)	(1,209)	-
Pay-As-You-Go Capital Financing	(10,398)	(6,035)	(15,990)	(4,691)
Ending O&M Reserve Balance (Net of Rate Stabilization Fund)	<u>\$ 118,738</u>	<u>\$ 96,012</u>	<u>\$ 100,465</u>	<u>\$ 96,592</u>
Rate Stabilization Fund	\$ 21,500	\$ 20,800	\$ 21,500	\$ 21,500

ACCOUNTING AND BUDGET PROCESSES

Basis of Accounting

The Authority is a single enterprise fund and maintains accounting records using the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP). Under this basis of accounting, revenues are recorded when earned, and expenses are recorded when goods and services are received. The Authority's expenditure budget is prepared on a comparable basis to GAAP, with the exception of debt service that is budgeted in full when due, including principal and interest (depreciation is not budgeted.) Depreciation and interest expense are recorded as expenses for financial statement purposes.

Annual Budget Process

The general framework for the operating and capital budget development along with specific dates for the presentation of several phases of the budget are illustrated in the following budget calendar. The budgetary process is an integrated approach that links the operating and capital budgets with the ten-year financial plan. As shown in the calendar on page II-13, preparation of the Authority's budget begins in spring with development of the ten-year financial plan. Based on the financial framework laid out in the ten-year plan, departments develop individual operating budgets, and management reviews these submissions over the summer. These budgets cover a two-year period, including a revised budget for the immediate ensuing fiscal year (e.g., beginning October 1, 2003) and a proposed budget for the next fiscal year (e.g., beginning October 1, 2004). Concurrent with the operating budget process, the Authority's ten-year capital program is developed and reviewed by management. In October, management presents the operating budgets, ten-year plan, and capital improvement program to the Board's Operations and Finance & Budget Committees for their review. The Committees complete their review from October through December. The operating budgets, capital improvement program, and ten-year plan are then forwarded to the full Board for its consideration in January.

After adoption by the Board of Directors, the Authority is required to submit its annual operating and capital budgets to the Mayor and Council of the District of Columbia for its review and comment; however, neither has power to change the annual budgets of the Authority. The District then includes the Authority's budgets as an enterprise fund in the fiscal year budget it sends to the U.S. Congress for approval. Any increases to the Authority's approved budget must receive approval from the U.S. Congress.

Budgetary Control

After the U.S. Congress approves the budget, the operating and capital budgets are loaded into the Authority's financial management system, which prevents overspending without appropriate approvals. The Department of Finance and Budget prepares daily and monthly management reports for each operating unit, management staff, the Board of Directors and its various committees. The reports are consistently reviewed each month to ensure the Authority complies with its authorized budget levels.

WASA HISTORY & GOVERNANCE

In 1996, regional participants in the Authority's services, including the District of Columbia, Montgomery and Prince George's Counties in Maryland, and Fairfax County in Virginia and the United States Congress, agreed to create an independent, multi-jurisdictional water and wastewater authority that would take over the responsibilities of its predecessor which was an agency of the Government of the District of Columbia. In April 1996, the Council of the District of Columbia passed the "Water and Sewer Authority Establishment and Department of Public Works Reorganization Act of 1996", a statute that provided the groundwork for the Authority to become operationally independent on October 1, 1996. Since that time, the Authority has met its mission of providing clean drinking water to residents of the District of Columbia and wastewater conveyance and treatment services to both residents of the District and wholesale customers in Maryland and Virginia.

The Authority is governed by a Board of Directors consisting of eleven principal and eleven alternate members who represent the District of Columbia, Montgomery and Prince George's Counties in Maryland, and Fairfax County in Virginia. The Mayor of the District of Columbia appoints, and the Council confirms, all District Board members, including the Chairperson. In addition, the Mayor appoints the five principal and five alternate members who represent the surrounding jurisdictions based on submissions from those jurisdictions. All members serve four year terms. The Authority may only take action on policy matters after it receives a favorable vote of no less than six members of the Board of Directors. All Board members participate in decisions directly affecting the general management of joint-use facilities (such as projects at the Blue Plains Advanced Wastewater Treatment Plant), and only the District of Columbia members participate in those matters that affect only District ratepayers.

FY 2005 Budget Calendar

Month	Event
April – May 2003	<p>Budget Kick Off Meeting</p> <p>Business Planning</p> <ul style="list-style-type: none"> ▪ Update Ten Year Financial Plan ▪ Review FY 2004 Work Plan and Budget Priorities <p>Initial FY 2003 – FY 2012 Capital Budget Review</p>
May 2003	<p>Initial FY 2005 Operating Budget Submission</p> <ul style="list-style-type: none"> ▪ Revised FY 2004 budget and proposed FY 2005 budget submission by departments
May – June 2003	<ul style="list-style-type: none"> ▪ Departmental meetings with Finance & Budget Staff
June – September 2003	<p>General Manager’s Budget Reviews and Budget Decisions</p>
October 2003	<p>Submit FY 2005 Proposed Budget to:</p> <ul style="list-style-type: none"> ▪ Finance and Budget Committee ▪ Operations Committee
January 2004	<p>Board Adoption of FY 2005 Budget</p> <ul style="list-style-type: none"> ▪ Submission to the District of Columbia for inclusion in its budget
June 2004	<p>District of Columbia Budget Submission to Congress</p>



WASA KEY FINANCIAL POLICIES

- **DEBT SERVICE COVERAGE** -- WASA will set rates and develop operating and capital budgets that ensure **senior debt service coverage of 140 percent**
 - This coverage level exceeds WASA's bond indenture requirement of 120 percent senior debt service coverage
- **CASH RESERVES** -- WASA will maintain **cash reserves approximately equivalent to six months' operating and maintenance expenses**, approximately \$95.5 million in FY 2004.
- **PAY-GO FINANCING OF CAPITAL** -- WASA will finance a portion of its capital program on a **pay-go basis from cash reserves that exceed the operating & maintenance reserve level**.
- **RATE-SETTING PRINCIPLES**
 - WASA's rates and fees will be based on the **actual cost to deliver each service**.
 - Rate increases will be implemented in a **gradual and predictable** manner, avoiding large one-time rate increases.
- **RATE STABILIZATION FUND** -- Once WASA achieves its required level of cash reserves, a **rate stabilization fund** will be established **to avoid "rate shock."** At the end of FY 2003, WASA's rate stabilization fund totaled \$21.5 million.

FY 2003 - 2012 FINANCIAL PLAN

Overview

WASA's strong financial performance and its recent success in achieving bond rating upgrades has been in large part due to the annual development of and adherence to a ten year strategic financial plan. The ten-year financial plan serves as one of management's key tools to monitor progress in meeting financial goals and to proactively address future financial and operational issues. During FY 2003, WASA met or exceeded the goals set by Board policy and the FY 2002 - 2011 ten-year plan. This budget includes WASA's seventh comprehensive ten-year financial plan, covering FY 2003 – 2012.

The necessity of a ten-year financial plan is clear:

1. WASA operates under a regulatory and capital project-driven environment that requires a minimum ten-year planning horizon. In order to provide our customers with the best service possible and with gradual and predictable rate increases, WASA must plan for all projects on a long-term and integrated basis, including both capital and operating requirements. A five year, capital-only financial plan would insufficiently prepare WASA to address the major regulatory and capital project issues that will impact service, operations, and rates in the five to ten year period.
2. In accordance with Board policy, WASA will set rates so that each customer will be charged for the actual cost to provide each service, and rate increases will be gradual and predictable. Because proposed future rate increases are due primarily to WASA's capital program, the development of a ten-year financial plan allows WASA to meet these key goals of full cost recovery and predictability.
3. The Board has directed WASA management to undertake internal improvements that will significantly lower operating costs over a ten-year period. A ten-year plan is required to bridge current operations and related capital and operating budgets with these longer term cost reduction goals.

Board policies and guidance in several key financial areas drive the development of the FY 2003 - 2012 financial plan. Given WASA'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. Key Board policies are summarized below.

Capital Financing and Reserve Policies

In order to secure the lowest practical cost of capital to finance WASA's long-term capital program, WASA will maintain:

1. Senior debt service coverage of 140 percent, exceeding WASA's bond indenture requirements of 120 percent; and
2. Cash reserves equivalent to six months' operating expenses, approximately \$95.5 million in FY 2004.
3. WASA will also finance a substantial portion of its capital program on a pay-go basis from cash balances that exceed the operating reserve level. This pay-go financing reduces the need for long-term debt and ultimately lowers WASA's debt service expenses.
4. WASA will, whenever possible, use the least costly type of financing for capital projects, based on a careful evaluation of WASA's capital and operating requirements and financial position for each year.
5. WASA will attempt to match the period of debt repayment, in total, with the lives of the assets financed by any such debt.
6. WASA will finance its capital equipment needs (e.g., computer equipment and systems; minor utility equipment such as pumps, motors, etc.) with operating cash or short-term financing instruments with the same or shorter lives as the related assets.

Rate Setting and Budgetary Policies

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

1. Rates and fees will be based on the actual cost to deliver each service.
2. Current rates must be sufficient to cover current costs and to meet all bond covenants.
3. Rates will be based on an annually updated ten year financial plan (both operating and capital).
4. Rate increases will be implemented in a gradual and predictable manner, avoiding large one-time rate increases.
5. Contributions to and usage of a rate stabilization fund as needed to avoid "rate shock." Each year, after reviewing pay-go financing and any other non-recurring financing uses of excess operating cash, the annual rate stabilization fund deposit, if any, is determined. This fund was established in FY 2000 and its balance at the end of FY 2003 was \$21.5 million.

Cash Management and Investment Policies

In December 1997, the Board adopted comprehensive cash management and investment policies. These policies specified the amount of the portfolio allowed in each type of investment and also specified the following investment objectives, in priority order:

1. Safety
2. Liquidity
3. Return on investment
4. Diversity

In FY 2002, the Board completed a review of its existing investment strategy and policies, and reaffirmed the core policy and investment objectives listed above. Minor modifications were made to the policy, including:

- Extension of maturities for bond-related investments in order to facilitate meeting or exceeding the arbitrage yield on these investments. Previously, WASA's investment policy limited investments to a three-year maturity; under current market conditions, it is difficult to meet the arbitrage yield with this maturity restriction. The revised policy does not impair the safety or liquidity of these investments; these funds will still be held in U.S. Treasury or agency securities (or agreements backed by these types of securities) consistent with existing policy and indenture restrictions.
- Formalized and strengthened collateral and counterparty requirements for repurchase agreements.

Major Accomplishments

The FY 2002 - 2011 financial plan, adopted in January 2003, and Board policy set out several financial and organizational goals to be accomplished in FY 2003. *During FY 2003, WASA met or exceeded the goals set out by the Board and the FY 2002 - 2011 financial plan*, as summarized below.

- ★ WASA received bond rating upgrades to the "AA" category from all three major rating agencies who cited WASA's strong financial performance, ongoing rate increases, and improved management and Board policy direction as key factors in their upgrade.
- ★ WASA successfully reentered the fixed rate capital markets in July 2003 with the sale of \$176.2 million of subordinate lien revenue bonds. Despite volatile market conditions at the time of pricing, all bonds were successfully placed with investors at a true interest cost of 5.29 percent, beating market indices.
- ★ WASA continued to negotiate the proposed Combined Sewer Overflow Long-Term Control Plan (CSO LTCP) with EPA and the Department of Justice. The proposed plan totals \$1.265 billion (in 2001 dollars) in new capital costs; with inflation and assuming a forty year implementation period as approved by the Board of Directors, the cost of the plan totals \$2.6 billion. The early years of this plan have been included in the current ten-year financial plan due to the receipt of \$49.7 million in grant funding from the federal government, although WASA does not intend to undertake any additional LTCP costs above those projects already in WASA's CIP until finalization of an EPA and Board-approved LTCP and financing plan.

- ★ WASA Board policy calls for cash reserves equivalent to 180 days' operating and maintenance expenses, or approximately \$94.6 million in FY 2003. WASA consistently met this goal during FY 2003, and this year's plan provides for an increase in this reserve to \$95.5 million in FY 2004, in line with the revised FY 2004 operations and maintenance budget.
- ★ WASA Board policy requires senior debt service coverage of at least 140 percent, greater than the bond indenture requirement of 120 percent. WASA's senior debt service coverage in FY 2003 is projected at 507 percent, reflecting implementation of the Board's policy of gradual and predictable rate increases and lower than projected operating and capital spending. Senior debt service coverage will decline to the Board's 140 percent policy level as capital spending and related debt issuance increase. Subordinate debt service coverage (subordinate debt service includes WASA's subordinate lien revenue bonds issued in July (Series 2003), WASA's share of District of Columbia general obligation debt, Little Seneca Reservoir debt, and Jennings Randolph Reservoir debt) in FY 2003 is projected at 276 percent. WASA is required to have 100 percent coverage of subordinate debt service.
- ★ WASA implemented a revised rates and fee structure in October 2002 which included splitting the bill into two sections: 1) a WASA services section, which includes a new metering fee for the costs associated with purchasing, operating, and maintaining meters, and an accompanying reduction in base water and sewer rates; and 2) a District of Columbia section, which includes a pass-through fee for the District of Columbia's right of way fee as a separate line item, and the previously approved District stormwater fee. In addition, the Board approved a retail rate increase of approximately 2.5 percent effective October 1, 2003.
- ★ Consistent with Board policy described above, WASA contributed an additional \$7.0 million to the rate stabilization fund in FY 2003, raising the balance in this fund to \$21.5 million.
- ★ At the Board's direction, WASA developed an operations and maintenance budget for FY 2004 that is \$4 million less than originally proposed by management. The revised FY 2004 budget remains within the reduced level.
- ★ WASA completed a comprehensive review of its insurance program, including types of policies, levels of coverage and deductibles. In total, insurance premiums only increased by 26 percent, including terrorism coverage and new policies for employment practices and fiduciary liability (for WASA's benefits plans). Without these items, premiums would have only increased by seven percent.
- ★ WASA continued to utilize its commercial paper program for interim financing of District ratepayers' share of the capital program. Interest rates under this program were at historic lows, ranging from 1.40 to 1.70 percent.
- ★ For the first time, WASA met its annual capital spending target for FY 2003, disbursing \$204.4 million, slightly in excess of budget.

- ★ For the second consecutive year, WASA received the Government Finance Officers' Award for Distinguished Budget Presentation for its FY 2004 budget submission.
- ★ WASA received its sixth unqualified audit opinion for the fiscal year ended September 30, 2002. In FY 2002, WASA also successfully implemented the requirements of Governmental Accounting Standards Board (GASB) 34.
- ★ Overtime spending was reduced from a high of \$8.7 million in FY 1997 to \$4.4 million in FY 2003, or six percent of payroll. This reduction continues a six year trend of significant reductions in overtime costs, from a rate of 23 percent of payroll in the months before WASA was formed.
- ★ WASA implemented the initial phases of the multi-year internal improvement plan for the Blue Plains Advanced Wastewater Treatment Plant operations (specifically the Departments of Wastewater Treatment and Maintenance Services.) By the end of FY 2005, we will have eliminated 124 positions in these areas as well as several outside maintenance contracts that have been taken over by in-house staff. In addition, several capital projects began over the last three years that are critical to achieving these cost savings goals, including a new process computer control system, additional dewatering facilities, and design of the new digestion facilities. Required by WASA's enabling legislation, this plan identifies significant improvements to be made to operations (through implementation of the capital improvement program and work process improvements) that are projected to result in cost savings of \$24 million over the next ten years.
- ★ WASA also has begun development of similar internal improvement plans in other areas of operations, including Water Services, Sewer Services, and Facilities and Security. Since FY 2001, 66 positions have been reduced from these functions.
- ★ WASA continued to build on the significant improvements made in the Department of Customer Service over the last few years, which have resulted in greatly improved service to WASA customers. Major accomplishments over the last year include:
 - Implementation of the comprehensive meter replacement / automated meter reading (AMR) program. This program started in March 2002, and approximately 107,000 meters (out of approximately 124,000 total meters) were installed as of September 2003. Over 95 percent of residential meters have been installed and 45 percent of small commercial meters (less than three inches in size) have been installed. WASA will begin installation of large commercial meters (three inches or greater in size) in early FY 2004; these meters account for approximately 45-50 percent of retail revenue. In FY 2003, WASA took ownership of commercial meters, a significant improvement as previously, commercial customers owned their meters which did not facilitate new meter installation. Installation of the larger meters is expected to take longer than residential meters due to access and conditions of the infrastructure surrounding the meters; WASA currently expects that it will complete large meter installation by the end of FY 2005. As described later in this document, this program is projected to result in consumption and revenue increases of ten percent for large commercial customers in FY 2005 and FY 2006. In addition to projected revenue increases, the new AMR system eliminated the need for manual meter reading, the job function of 26 existing positions.

- Improved billing and payment options. In conjunction with AMR implementation, WASA has converted over 100,000 accounts to monthly billing, and the remaining accounts will be converted as new AMR meters are installed. In addition, WASA introduced enhancements to its electronic payment options of on-line, telephone, and credit / debit card payments. Approximately nine percent of total payments are now made via one of these options.
- Improved collections efforts, which have resulted in a reduction of delinquent accounts receivable over 90 days from \$25.1 million in September 2002 to \$21.8 million in September 2003.
- ★ WASA continued to build on the investments made in information technology in prior years, including implementation of a new, independent financial management system, a new payroll and time and attendance system, a new website; and a new customer information and billing system. New information technology initiatives in FY 2003 included:
 - WASA implemented a new time and attendance system including swipe cards and time clocks, which eliminates manual timesheets job applications, reducing payroll processing errors and giving managers real-time access to attendance data.
 - WASA implemented its new maintenance management system in early FY 2003. This new system will improve predictive maintenance and inventory management functions at Blue Plains, and is a critical component of our Blue Plains internal improvement program.

Future Goals

The approved FY 2003 - 2012 financial plan includes the resources necessary to accomplish critical financial and operational goals over the coming years, as summarized below.

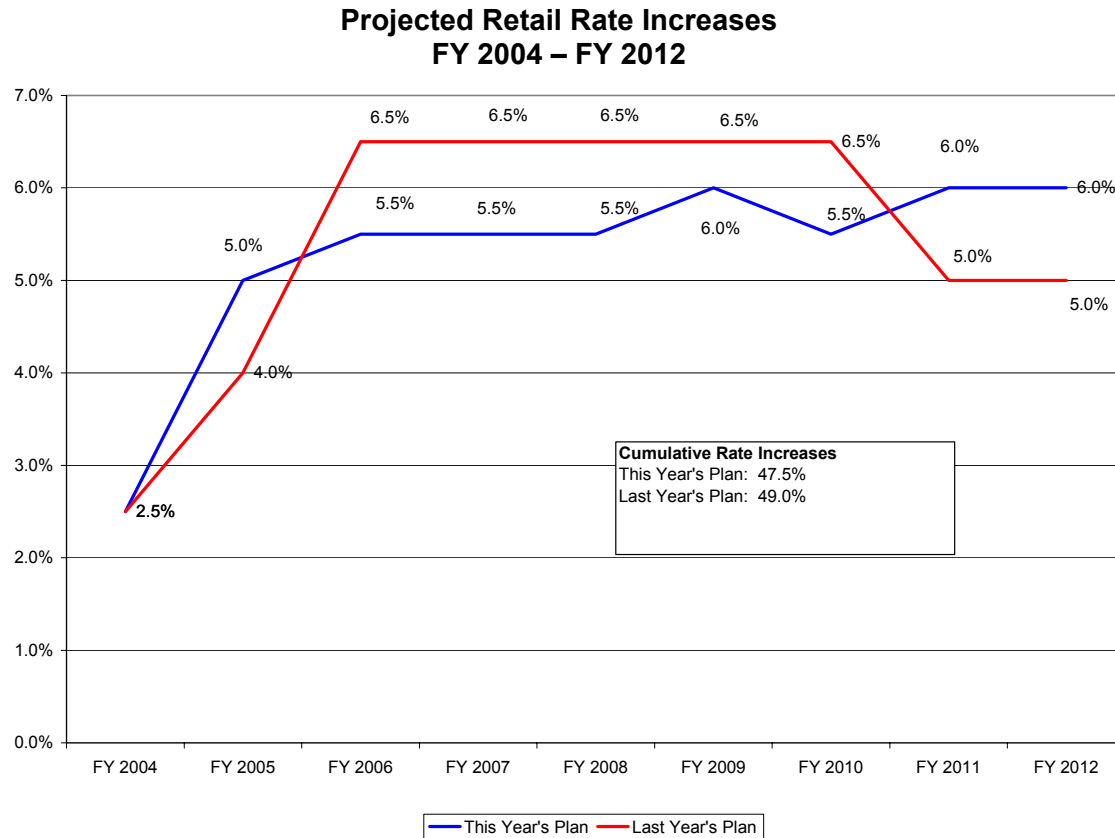
- ★ Continue adherence to the Board's financial, investment, rate-setting and long-term planning policies.
- ★ Begin initial implementation of the proposed CSO Long-Term Control Plan, including completion of projects already in WASA's CIP as well as associated grant funding. Over the next year, one of WASA's top priorities will be the finalization of a Board and EPA-approved CSO Long-Term Control Plan, including a financing plan, that meets WASA's environmental and regulatory commitments and meets the Board's rate-setting policies regarding gradual and predictable rate increases that are affordable for WASA's retail customers.

- ★ Continue implementation of internal improvement plan across WASA, including Blue Plains, Customer Service, the Departments of Water and Sewer Services, and Engineering and Technical Services to ensure long-term operating cost reduction goals are met.
- ★ Continue implementation of major improvements in customer service, including:
 - Complete AMR / meter replacement program.
 - Begin operation of a new consolidated dispatching and command center, which will provide customers with a single point of contact for all billing and water and sewer service needs.
 - Implement additional billing and payment option enhancements, including budget billing, redesigned bill, and autocheck payment options.
- ★ Successfully implement key information technology initiatives, including:
 - Implementation of the *process computer control system* (PCCS) which will automate a substantial number of plant processes and is critical to achieving Blue Plains internal improvement goals. Initial planning and design for this system began in FY 2002.
 - Implementation of a new *asset management system*. By integrating WASA's existing customer information, maintenance management, PCCS / SCADA and other systems, it will help us better track specific asset performance and perform more preventive maintenance, particularly in the water and sewer systems.
 - Successive phases and upgrades of the *financial, payroll and human resources information, and customer information and billing systems*
 - Evaluation and development of *data redundancy* and related systems to ensure that WASA's mission-critical systems can operate on an uninterrupted basis in the event of an emergency
- ★ Negotiate new collective bargaining agreement for FY 2004 and beyond.

Rates

The proposed rates and fees included in the FY 2003 – 2012 financial plan reflect the continued implementation of WASA's \$1.7 billion capital improvement program and related internal improvement programs across WASA as well as the significant changes and initiatives begun in FY 2002, including a revised rates and fee structure and the early years of WASA's proposed CSO Long-Term Control Plan. Due to these ongoing and new initiatives, from FY 2004 – FY 2012, WASA's rates are projected to increase by 2.5 percent to 6.0 percent annually, with cumulative rate increases of 47.5 percent, as shown in the chart below. The primary reason for

projected rate increases remains unchanged: WASA's \$1.7 billion capital program. Debt service for the CIP is projected to increase on average by 13.2 percent per year, while operations and maintenance expenditures are only projected to increase by 1.4 percent.



This year's plan reflect the following recent changes approved by the Board in FY 2002 & FY 2003:

1. **Revised rates and fee structure** for FY 2003 which included splitting the bill into two sections and raised WASA's overall retail revenues by \$10.6 million:

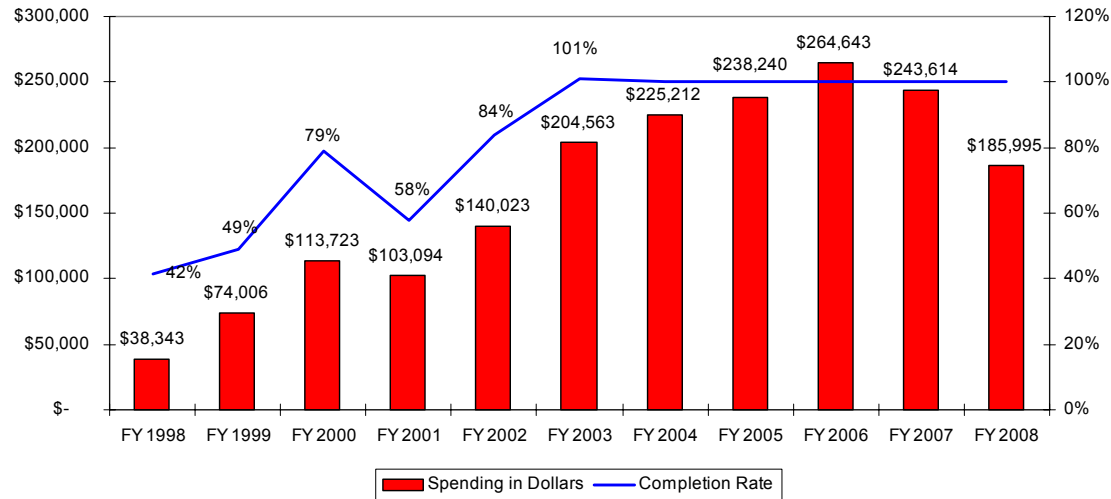
- *WASA services section*, which includes a new metering fee to recover costs associated with installing, operating, and maintaining meters and an accompanying reduction of approximately 5.3 percent in base water and sewer rates. In FY 2004, WASA will complete a review of the metering fee, taking into account projected increases in the AMR project due to increased ancillary infrastructure work.
- *District of Columbia section*, which includes the previously approved District stormwater fee and a pass-through of the District of Columbia's right of way fee / payment in lieu of taxes as a separate line item on WASA's bill. In FY 2003, WASA finalized a memorandum of understanding with the District of Columbia that fixes the amount of the right of way fee at \$5.1 million annually, and provides for annual increases in the payment in lieu of taxes equivalent to WASA's average retail rate increases, consistent with an earlier memorandum of understanding. (The District of Columbia published regulations that implemented a public space occupancy permit rental fee ("right of way") fee on all area utilities that is imposed on infrastructure located in the public rights of way, including WASA's water and sewer mains. Other Washington utilities, including Pepco and Washington Gas, pass through this fee as a separate line item on their retail customers' bill.)

2. **Retail rate increase of 2.5 percent**, effective October 1, 2003.

3. **Revised fees and charges schedule**, which includes revisions to the majority of WASA's existing fees and provides for new fees for services such as waste hauler fees, etc. The fee schedule was last updated in 1999.

Beyond FY 2004, the proposed plan includes rate increases of five to six percent, consistent with Board policy of gradual and predictable rate increases. Historically, actual rate increases have been approximately 2.5 percent annually, less than initial projections of five to six percent annually due to lower capital spending. As shown in the chart below, capital spending has accelerated rate over the past year, and is projected to continue at a relatively high level through FY 2008 as a significant number of capital projects are in the construction phase. To support this level of spending and ensure a gradual rate schedule, a five percent rate increase is proposed for FY 2005.

Historical & Projected Capital Spending & Completion Rates



The proposed plan takes into account areas of potential revenue enhancement and cost savings:

- **Internal improvement program** – The ten year plan assumes \$24 million in savings at Blue Plains as a result of this program. Approximately 50 percent of the savings will be passed on to WASA's wholesale customers, representing their share of usage of Blue Plains, with 50 percent accruing to District ratepayers.
- **Meter replacement / AMR program** – The ten year plan reflects a six percent increase in residential and small commercial billed consumption, and a ten percent increase in large commercial billed consumption (three inches or greater) spread across FY 2005 and FY 2006.

This year's plan also ensures compliance with key Board financial policies; projected senior debt service coverage ranges from 141percent (FY 2012) to 507 percent (FY 2003), above the policy requirement of 140 percent. In addition, cash reserves are maintained at six months' operations and maintenance expenses, growing from \$95.5 million in FY 2004 to \$111.2 million in FY 2012.

WASA's current rates and proposed fees remain very competitive with other water and wastewater providers in the mid-Atlantic and the eastern United States, as shown on the charts in Section 4. The proposed future rate increases over the ten-year planning period are also consistent with regional and national providers.

Customer Assistance Programs

In June 2000, the Board adopted a customer assistance program that assists low-income customers in paying their water bills. The program is comprised of two components: a component funded by voluntary contributions from ratepayers; and a component funded by WASA and based on a bill credit for 400 cubic feet of water consumption per month. The component that includes a bill credit is limited to single family homeowners that meet income guidelines promulgated by the U.S. Office of Management and Budget; WASA is currently considering a proposal to expand the program to single family renters. The ten-year plan assumes a total impact of \$500,000 annually.

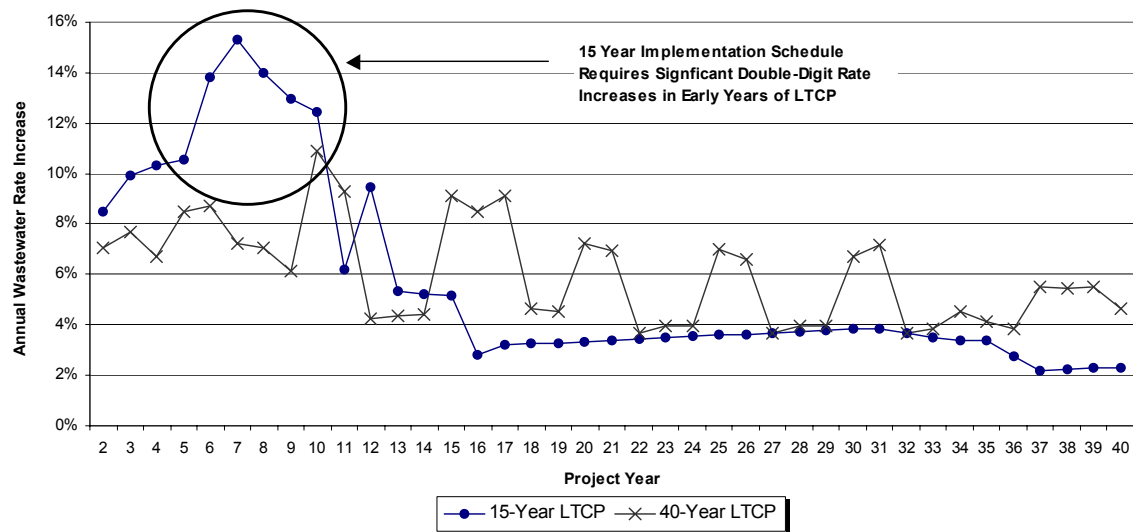
Rate Stabilization Fund

This year's plan reflects continued funding of the rate stabilization fund, including a contribution of \$7.0 million in FY 2003 as a result of higher than projected revenues and lower than budgeted operating spending. The total balance in the fund is currently \$21.5 million. Approximately \$20 million would be utilized in FY 2007 through FY 2012 to help level out proposed rate increases in those years. Additional contributions to the rate stabilization fund will be determined each year based on actual financial performance and the latest ten-year plan. No deposits to the rate stabilization fund would be made unless the Board's 180 day operating and maintenance reserve policy and all other bond indenture requirements are met.

Combined Sewer Overflow Long-Term Control Plan – In 2003, WASA continued to negotiate the proposed CSO Long-Term Control Plan with the EPA and Department of Justice. The proposed plan totals \$1.265 billion (in 2001 dollars) in new capital costs; with inflation and assuming a forty-year implementation period, the plan totals \$2.6 billion. In total, the ten-year plan includes approximately \$333 million of the LTCP, assuming a forty-year implementation schedule. This includes \$143 million of CSO-related capital projects that have historically been in WASA's capital improvement program and are also in the LTCP, including fabridams and pumping station improvements, as well as the early years of the proposed forty year LTCP, totaling approximately \$190 million. This early years of the proposed LTCP were included due to the receipt of \$49.7 million in a special Congressional appropriation in FY 2003 and the anticipated receipt of \$25 to \$35 million in FY 2004, pending final approval by Congress. However, WASA does not intend to undertake any additional CSO LTCP work without an EPA-approved and Board-approved implementation and financing plan.

As mentioned earlier, it is important to note that the projected LTCP disbursements are based on a forty-year implementation schedule, thus the majority of LTCP costs, approximately \$2.3 billion with inflation, are not reflected in the proposed ten-year financial plan. Because of the considerable cost of the program and the resulting impact on ratepayers, WASA has developed

implementation scenarios that range from 15 to 40 years. As shown in the chart below, if the LTCP were to be implemented over 15 or 20 years without any outside or federal assistance, ratepayers would face multiple annual double digit rate increases in the near future, hitting low income customers the hardest. A 30 to 40 year schedule, while still resulting in significant rate increases over time, allows for a more gradual implementation of these increases, largely avoiding annual double digit increases. Significant federal or other outside assistance would allow for a more rapid implementation schedule, while mitigating the impact on ratepayers. Preliminary analysis indicates that 60 percent outside funding would result in average annual rate increases of approximately two percent in addition to WASA's already planned rate increases.



The ten year plan and analysis described above assume recovery of CSO costs through WASA's existing wastewater rate structure. In 2003, WASA completed an initial evaluation of alternative rate structures (such as impervious surface area-based rates). Further analysis of potential rate structures will continue over this next year, with a detailed analysis of the specific implementation and customer impact issues associated with an impervious surface-based rate.

Revenues

Revised FY 2004 revenue projections total \$261.5 million, an increase of \$6.1 million over projected FY 2003 revenues:

- *Residential, commercial and multi-family revenues* are projected to decline by approximately \$2.9 million. In FY 2003, receipts were \$7 million higher than budget due to the one-time impact of the conversion of residential accounts from quarterly to monthly billing. Fiscal year 2004 receipts do not reflect this one-time issue experienced in FY 2003.
- *Federal revenues* are projected to increase by \$5.8 million, as described below.
- *Metering fee receipts* are projected to increase by approximately \$1.0 million due to the full-year implementation of this fee.
- *Wholesale receipts* are projected to decrease by \$0.4 million reflecting reduced operations and maintenance budgets (particularly in the Departments of Wastewater Treatment and Maintenance Services) at Blue Plains.
- *Other revenues* are projected to increase by \$2.6 million due primarily to the full year implementation of the right of way / payment in lieu of taxes pass-through fee, offset by slight declines in other miscellaneous revenues.

Proposed FY 2005 revenues total \$275.2 million, approximately \$13.6 million, or 5.2 percent higher than revised FY 2004 projections. This increase is due primarily to:

- *Proposed rate increase of 5.0 percent*
- *Projected consumption increases* due to implementation of the meter replacement / AMR program
- *Projected increase in interest earnings*, assuming interest rates increase to closer to historical levels

Additional details on revenue projections for each class of customers are described below.

Residential, Commercial & Multi-Family - FY 2004 projections reflect a decrease of \$2.9 million, or 2.0 percent, from FY 2003, due primarily to the following reasons.

- In FY 2003, receipts were \$7 million higher than budget due to the one-time impact of the conversion of residential accounts from quarterly to monthly billing and higher than projected receipts due to strong consumption in late FY 2002 that was collected in FY 2003. Fiscal year 2004 receipts do not reflect these one-time issues experienced in FY 2003.
- The decrease described above is offset by a Board approved rate increase of 2.5 percent effective October 1, 2003.
- In addition, FY 2004 projections reflect a six percent increase in recorded consumption for small commercial meters (less than three inches) that are scheduled to be replaced in FY 2004 as part of the AMR program, in line with the metered consumption increases experienced in new residential meters in FY 2003.
- Increase in commercial revenue associated with Howard University and Soldiers' Home as described in more detail below.
- Continued implementation of the customer assistance program, which reduces projected revenues by approximately \$0.5 million. This accounts for the proposed expansion of this program to low income single family renters; currently the program only applies to single family homeowners.

Proposed FY 2005 revenue projections reflect an increase of \$10.0 million over FY 2004, due to the following reasons:

- Proposed rate increase of 5.0 percent
- Continued increase in metered consumption reflecting of the meter replacement / AMR program, including a projected five percent increase in large commercial and multi-family metered consumption (three inch or greater meters), reflecting phased installation of these meters in FY 2004 through FY 2006. An additional five percent increase in recorded consumption in FY 2006 is included in the ten-year plan.
- One percent decrease in residential consumption due to projected conservation.
- Continued implementation of the customer assistance program, which reduces projected revenues by approximately \$0.5 million.

Federal - Revised FY 2004 federal revenues are projected to total \$28.2 million, or \$5.8 million greater than FY 2003. Under the current federal billing legislation, federal billings are prepared on an estimated basis eighteen months in advance of the start of the fiscal year (e.g., the FY 2004 billing was prepared in April 2002), and are based on then-current consumption estimates and projected rate increases as included in the then-current ten year plan. These estimates are then reconciled with actual consumption and rate increases, and an adjustment is made in the subsequent year's billing (e.g., the reconciliation of FY 2004 estimated vs. actual consumption and rate increases will be included in the FY 2007 billing, prepared in April 2005.) Federal revenues in the ten year plan are presented on a revenue basis, net of any adjustments for prior year reconciliations which are accounted for as reserve items. Consistent with this methodology, revised FY 2004 federal revenues reflect the final billing sent to the federal government in April 2002, net of the adjustment for the prior year (FY 2001) reconciliation.

Long-term federal revenue projections reflect an assumed ten percent increase in recorded consumption phased in over FY 2005 and FY 2006 due to the meter replacement / AMR program, in line with projected increases for large commercial and multi-family meters. The majority of federal meters are three inches or greater in size.

WASA has made good progress in resolving long-standing Northern Virginia federal billing and service issues. WASA provides water service to the federally-owned system in Northern Virginia, while Arlington County provides sewer service. WASA's water service is provided via two large mains that cross the Key Bridge, with billings based on two meters on the Virginia side of the Key Bridge. The Pentagon, as owner of the Northern Virginia water system, is responsible for maintenance of these mains, overall system maintenance, and installation and maintenance of meters. Historically, the lack of individual meters at some federal locations in Northern Virginia and the complex billing process has caused disagreements about actual consumption and billing among the individual Northern Virginia customers. The FY 2002 District of Columbia Appropriations Act, which was enacted in December 2001, contained provisions requiring federal entities in Northern Virginia to install meters and that future water billings be based on actual meter readings. WASA has worked very successfully with the Pentagon, Arlington Cemetery and the National Park Service to ensure that meters were installed, and have had continuing success in gaining timely access to these meters.

Meanwhile, the Pentagon has indicated that it is still interested in receiving water service from Arlington County rather than WASA. WASA began preliminary discussions with Arlington County on potential wholesale rate structures and service options in FY 2001,

although these negotiations have since been suspended. In FY 2003, revenues from the federally-owned system (including Ronald Reagan National Airport) totaled \$1.0 million, or less than one percent of total retail revenues.

Municipal & D.C. Housing Authority - Representing approximately seven percent of FY 2004 retail receipts, receipts from the District of Columbia government and the District of Columbia Housing Authority are expected to remain approximately level with FY 2003. In FY 2005, receipts from these organizations are projected to increase due to the proposed retail rate increase of 5.0 percent along with a 7.0 percent increase in recorded consumption for municipal accounts due to the AMR program, spread over FY 2005 and FY 2006.

Metering Fee – This fee recovers the costs associated with installing, operating, and maintaining meters, and is charged to all retail customers (including federal and municipal customers.) The fee varies based on meter size, with monthly fees ranging from \$2.01 for a 5/8 inch meter (typical size of a residential customer meter) to \$160 to \$210 for larger meters (typically used for large commercial customers.) This fee is projected to yield \$5.3 million annually. In FY 2004, WASA will analyze the existing metering fee levels to take into account projected cost increases in the AMR program due to increased ancillary infrastructure repair costs. This analysis will be presented as part of the FY 2005 budget process for implementation in FY 2006, if approved.

Right of Way / Payment In Lieu of Taxes Pass-Through Fee –Similar to other Washington area utilities, WASA has implemented a new fee that passes through the costs of the District's right of way fee / payment in lieu of taxes as a separate line item on its bill. This fee is charged on a consumption basis at \$0.36 per Ccf to all customer classes. Revenues from the fee are projected to total \$14.4 million. In FY 2004, WASA will complete an analysis of this fee to ensure that we are recovering the actual cost of the fee as imposed by the District.

Wholesale - WASA's wholesale customers are responsible for a proportionate share of operating and maintenance expenses (associated only with shared facilities primarily at Blue Plains) based on their respective share of wastewater volume discharged. In addition, each user is responsible for a proportionate share of related indirect costs, or overhead. Wholesale revenues are projected to increase by approximately one percent annually after FY 2004, consistent with WASA's operating and maintenance expense increase assumption over the ten year period. This assumption assumes full development of WASA's Blue Plains internal improvement plan which is projected to result in operating savings of \$24 million (2000 dollars.) WASA's wholesale customers will receive approximately 50 percent of any savings due to the internal improvement program, based on their usage of Blue Plains. As noted below, in FY 2004, WASA will be updating the consumption-based rate it charges to certain smaller users of Blue Plains and a major collection sewer, the Potomac Interceptor.

Stormwater – WASA's FY 2004 and FY 2005 revenues include \$1.125 million annually from the District's stormwater fee that will be used to fund WASA's share of District stormwater permit compliance activities. The stormwater fee was implemented in July 2001, and appears as a separate line item on WASA's retail customers' bills. As described in more detail later in this document, the FY

2003 - 2012 financial plan assumes that all incremental costs borne by WASA for stormwater will be covered by the stormwater fee approved by City Council, and that no WASA funds will be advanced to pay for these activities.

Revenue enhancements – In FY 2004, WASA will address a number of longstanding rate and revenue issues:

- Howard University & Soldiers' Home – In 1938, the District of Columbia executed agreements with both of these organizations that provided them free water service in exchange for use of land for the McMillan Reservoir, Treatment Plant, and Bryant St, Pumping Station. In the early 1990's, the District's Department of Public Works extended this exemption to sewer service. The value of water and sewer service to these customers is \$1.8 million annually. Based on prior direction of the Board and a legal interpretation of the original agreements that only exempted water, not sewer, service, WASA will give notice to these customers that we will begin charging them for sewer service.
- Potomac Interceptor users – WASA has separate agreements with certain small users of the Potomac Interceptor, a 50 mile collection sewer line that transports wastewater from areas of Loudoun and Fairfax Counties in Virginia and Montgomery County in Maryland to Blue Plains. These agreements are with the Town of Vienna, Virginia, Dulles Airport, the National Park Service and the Department of the Navy and were executed by WASA's predecessor agency in 1963-1964. They provide for a consumption-based rate to recover the actual cost of providing service and WASA plans to update this rate in FY 2004. Current revenue from these users totals approximately \$0.6 million.

Other major assumptions underlying the revenue projections contained in the FY 2003 - 2012 financial plan include:

- Six percent increase in recorded consumption for small meters spread over FY 2004 and FY 2005, in line with the increase in recorded consumption experienced in new residential meters in FY 2003; and ten percent increase in recorded consumption for large meters (primarily commercial, multi-family, and federal) spread over FY 2005 and FY 2006 reflecting the phased completion of the AMR program. From FY 2006 – FY 2012, a one percent reduction in water sales is assumed for residential customers, with a similar reduction for all other customer categories beginning in FY 2007, based on historical trends in consumption levels.
- One percent annual increase in revenues from wholesale customers between FY 2005 and 2012, consistent with operating and maintenance expense increase assumptions and the goals of the Blue Plains internal improvement plan.
- Based on the current interest rate environment, interest projections assume a two percent earnings rate in FY 2004 and approximately 4.0 percent in FY 2005, reflecting implementation of WASA's revised investment strategy described earlier in this document. Beyond FY 2005, interest rates are assumed to return to the 5.0 percent range. In addition, interest earnings are based on cash balances remaining in line with the Board-adopted operating and maintenance reserve.
- The majority of other non-operating revenues, totaling \$9.3 million in FY 2004, are projected to remain relatively stable over the ten year plan, and include such items as:

- Reimbursement from Arlington County and Falls Church for debt service issued for pre-1997 Washington Aqueduct capital improvements - \$1.8 million
- WASA's share of the District's stormwater fee - \$1.1 million
- Fire protection fee that was adopted by the Board in January 2000 and is charged to the District of Columbia government - \$1.9 million
- Recovery of indirect costs from WASA's IMA partners – \$1.5 million - this reflects recovery of indirect costs on capital projects (e.g., costs for Finance and Budget, General Counsel, and Human Resources functions)
- Other miscellaneous fees and charges, including service line repairs, developer-related fees, etc. - \$2.9 million

Operating Expenditures

Due to WASA's \$1.76 billion capital improvement program, debt service is the fastest growing area of expenditure in the ten-year plan, growing at an average annual rate of 13.2 percent, and from 15 percent of expenditures in FY 2003 to 30 percent in FY 2012. All other operations and maintenance expenses are projected to grow at an average annual rate of 1.4 percent, less than projected inflation, due to implementation of internal improvement plans that are projected to result in operating savings of approximately \$24 million over the ten year planning period. These savings are already reflected in the FY 2003 - 2012 plan and proposed rate structure and wholesale revenue projections: operating and maintenance expenses (excluding the Washington Aqueduct) are projected to grow by one percent annually through FY2010, versus projected annual inflation of three percent. Approximately 50 percent of projected savings at Blue Plains due to the internal improvement plan will accrue to WASA's wholesale customers.

The following chart provides detail for the FY 2004 and FY 2005 operating budgets.

COMPARISON OF FY 2004 & FY 2005 OPERATING BUDGETS
(In \$000's)

	FY 2004 APPROVED	FY 2004 REVISED	Percent Change	FY 2005 PROPOSED	Percent Change
Personnel Services	74,932	74,549	-0.5%	79,313	6.4%
Contractual Services	63,087	63,241	0.2%	62,478	-1.2%
Water Purchases	18,365	18,365	0.0%	18,365	0.0%
Chemicals & Supplies	18,964	18,789	-0.9%	18,874	0.5%
Utilities	21,608	21,806	0.9%	22,376	2.6%
Small Equipment	1,260	1,307	3.7%	1,279	-2.1%
Subtotal Operations & Maintenance	198,216	198,057	-0.1%	202,685	2.3%
Debt Service	45,055	45,055	0.0%	56,298	25.0%
PILOT / Right of Way Fee	15,825	15,773	-0.3%	16,307	3.4%
Subtotal Debt Service & PILOT / ROW	60,880	60,828	-0.1%	72,605	19.4%
TOTAL OPERATING	259,096	258,885	-0.1%	275,290	6.3%
Less Personnel Services Charged to Capital Projects	(6,000)	(8,000)	33.3%	(8,376)	4.7%
TOTAL NET OPERATING	253,096	250,885	-0.9%	266,914	6.4%

The revised FY 2004 budget totals \$258.9 million, a reduction of \$0.2 million from the approved FY 2004 budget, and in line with the Board's reductions of \$4 million from management's proposed budget. The revised FY 2004 operations and maintenance budget (net of debt service, the payment in lieu of taxes, and the right of way fee) is 0.1 percent less than the original budget, as described in more detail below:

- **Personnel service expenditures** are slightly less than the approved FY 2004 budget. The revised FY 2004 budget assumes compensation increases of five percent Authority-wide, which covers all projected increases in personnel services, including projected increases in health insurance premiums, pay for performance and other compensation increases for union and non-union employees, and other components such as step increases, gainsharing, etc. WASA is currently negotiating a new collective bargaining agreement with its unions; the existing four-year agreement expired on September 30, 2003. In addition, the amount of personnel services charged to capital projects is projected to increase in FY 2004 and FY 2005 as the capital program progresses and based on prior years' experience (projected personnel services to be charged to capital projects in FY 2003 is projected at \$7.1 million).

- **Contractual service expenditures** increase by \$0.2 million, or 0.2 percent, reflecting the following:
 - Increased insurance premiums and workers' compensation and tort claim reserves totaling \$1.0 million.
 - Increases in certain departmental contractual service budgets, including increased customer service spending of \$0.3 million for a new autocheck payment option for customers and additional customer information system support; increased technology spending of \$0.4 million for system support offset by reduced personnel services; increased outside legal services of \$0.1 million; and increased one-time human resources consulting services of \$0.1 million.
 - Offsetting reductions in various contractual services across other departments totaling \$1.9 million, including savings due to a renegotiation of WASA's biosolids hauling contracts; reductions in contractor services at Blue Plains in the Department of Maintenance Services per the IIP; reductions in fleet maintenance services due to execution of a new outside fleet maintenance contract; and other miscellaneous reductions in Finance, Internal Audit, and Sewer Services.
- **Chemicals and supplies expenditures** decrease by \$0.2 million in FY 2004, due primarily to reductions in supply purchases at Blue Plains. Chemical spending, which is approximately 75 percent of this line item, stays flat in FY 2004 and FY 2005.
- **Utilities expenditures** increase by \$0.2 million.

The proposed FY 2005 budget totals \$275.3 million, a 6.3 percent increase over the revised FY 2004 budget, primarily due to increased debt service for the capital program. The FY 2005 operations and maintenance budget (net of debt service, the payment in lieu of taxes, and the right of way fee) increases by only 2.3 percent, with the increase due primarily to projected compensation increases. Specific information regarding each department is included in Section 7.

Beginning in FY 2006, the ten year financial plan reflects the following major assumptions:

- One percent increase over proposed FY 2005 levels in most expense categories, reflecting implementation of the Blue Plains, Customer Service, and other departmental internal improvement programs.
 - Beginning in FY 2011, operating expenses are projected to increase by three percent, reflecting completion of the internal improvement programs.
- Three percent increase in water purchase costs, based on projected Washington Aqueduct budget trends.
- Payment in lieu of taxes (PILOT) to the District of Columbia increases at the same rate as WASA retail rate increases, in accordance with the memorandum of understanding with the District.
- The net right of way payment to the District of Columbia stays level at \$5.1 million through FY 2013 consistent with the recently executed memorandum of understanding with the District.

Capital Financing Program, Cash Position, & Long-Term Debt

The FY 2003 - 2012 financial plan funds total capital disbursements of \$1.76 billion, slightly above last year's plan due to accelerated project schedules and the addition of one more year of the proposed CSO LTCP, assuming a forty-year implementation schedule. The permanent financing of WASA's capital program comes from four primary sources, as more fully described below. The amount of EPA grant funding is defined by annual federal appropriations, while jurisdictional capital contributions are based on a fixed percentage of Blue Plains and other shared facilities. The remainder of the program is funded with WASA debt and pay-go financing from operations. The amount of pay-go financing is equal to the amount available after fully funding the six months' operating reserve and meeting Board policies on the level and timing of rate increases and debt service coverage.

During FY 1999, WASA developed a comprehensive financing plan with the dual goals of 1) securing the lowest cost of capital possible, and 2) maximizing administrative and operating flexibility. The plan includes the following components:

- *Implement interim financing program for construction financing* – In early FY 2002, WASA developed a commercial paper program for this purpose which has been extremely successful. Interest rates on the program have ranged from 0.85 to 1.65 percent, and has been very well-received by a wide variety of institutional investors. The program was authorized in the amount of \$100 million, and while no debt is currently outstanding under the program as it was taken off with proceeds of the Series 2003 financing, we expect to begin utilizing it again in the first quarter of FY 2004.
- *Issue take-out financing (either fixed or variable rate bonds) as needed to retire interim financing*
- *Utilize WASA pay-go financing to first pay off Washington Aqueduct debt* - Rather than permanently funding WASA's share of Aqueduct improvements with higher cost, taxable U.S. Treasury notes, WASA will first use available pay-go funds to pay these obligations. WASA will continue to use U.S. Treasury notes as an interim financing source for Aqueduct improvements due to the administrative flexibility afforded to WASA and the Aqueduct, but will prepay outstanding amounts in the year immediately following the initial interim borrowing. Through FY 2003, WASA has prepaid \$57 million in U.S. Treasury notes, and will make the final prepayment in FY 2004.

Additional details on each financing source are described below.

	FY2003 - 2012 PLAN TOTAL	Percent of Total
EPA Grants	\$ 269,803,303	15.3%
Wholesale Capital Payments	438,503,724	24.9%
Revenue Bonds / Commercial Paper	996,169,979	56.6%
Pay-Go Financing	46,770,349	2.7%
Interest Income on Bond Proceeds	10,251,200	0.6%
TOTAL SOURCES	\$ 1,761,498,555	100.0%

1. **EPA Grants** - WASA currently receives 55 - 80 percent EPA grant funding for certain eligible projects under the Clean Water and Safe Drinking Water Acts. In general, the District of Columbia projects carried out by WASA are supported by one percent of the available annual funding through revolving fund programs associated with the Clean Water and Safe Drinking Water Acts. In addition, WASA has received \$49.7 million in special funding for the proposed CSO LTCP and expects to receive another \$25 - \$35 million in FY 2004.

2. **Wholesale Capital Payments** - Nearly 60 percent of the capacity of WASA's wastewater treatment facilities are contractually committed to provide wholesale service to suburban jurisdictions under various contracts. Montgomery and Prince George's Counties (through the Washington Suburban Sanitary Commission (WSSC)), Fairfax County, and the Loudoun County Sanitation Authority pay a proportionate share of capital-related costs equal to their share of contracted capacity at Blue Plains.

3. **Revenue Bonds/ Commercial Paper** – Debt issuance represents 56 percent of funding for the ten year capital program, a very low rate given the size of WASA's capital program. A common ratio used by the rating agencies to measure leverage and debt burden is the ratio of debt to net fixed assets (plant). In FY 1998, WASA's debt to plant ratio was 39 percent, and, based on the current capital improvement program, is projected to increase to just over 50 percent through FY 2012, a very low level given the size of WASA's capital program and when compared to other comparable utilities. In addition, debt service as a percentage of total operating expenditures remains at thirty percent or less through the ten-year planning period, even with substantial new debt issuance projected during this period.

4. **Pay-Go (Internal) Financing** - The amount transferred from operations to the capital program each year is equal to the amount remaining in cash reserves after the six month operating and maintenance reserve and rate stabilization fund goals have been satisfied. Approximately 3 percent of total funding for the FY 2003 - 2012 plan is projected to come from pay-go financing, which strikes an appropriate balance between maintaining moderate debt levels and financing provided by current ratepayers. Pay-go funds will be used in a manner consistent with our financial policies: 1) to fund items with shorter useful lives where bond financing is less appropriate, such as capital equipment; and 2) to achieve the lowest cost of capital possible, including using pay-go funds to reduce higher cost debt, such as the taxable Washington Aqueduct Treasury notes.

FY 2004 & 2005 Debt Issuance Plans & Debt Service Assumptions

In August 2003, WASA reentered the fixed rate capital market for the first time since 1998 with the issuance of \$176.220 million in subordinated lien revenue bonds. This issue was successfully priced in very volatile market conditions a true interest cost of 5.29 percent, beating market indices. Proceeds from this financing took out existing commercial paper of \$100 million, with the balance funding new capital spending and costs of issuance. We currently project that all Series 2003 proceeds will be spent in early FY 2004, and we will begin utilizing our commercial paper program again shortly thereafter. Our next take-out financing is currently planned for summer 2004, depending on capital spending.

Because of prevailing market conditions, we also lowered our near-term interest rate assumptions to 5.0 percent in FY 2004, and considering the issuance of variable rate debt for our next financing. We have maintained our long-term interest rate assumption at 6.5 percent.

Cash Position & Reserves

Cash balances totaled \$190.1 million at the end of FY 2003. As described below, this includes \$21.5 million for rate stabilization and \$49.9 million for the special Congressional appropriation WASA received in FY 2003 for the proposed CSO LTCP. Over the next ten years, cash balances are projected to remain close to the Board-required reserve levels, with the operating and maintenance reserve totaling \$95.5 million in FY 2004 and growing to approximately \$111.2 million in FY 2012, based on projected growth in operations and maintenance expenses. WASA's base 180 day operating reserve includes the following components:

PROJECTED FY 2004 YEAR-END CASH RESERVES (1)
(In 000's)

BOARD-ADOPTED OPERATING RESERVE (180 Days O&M)	
60 Day Operating Reserve (Indenture-Required)	\$ 31,521
Renewal & Replacement Reserve (Indenture-Required)	34,451
District of Columbia General Obligation Reserve	1,508
Undesignated Reserve	<u>27,987</u>
TOTAL OPERATING RESERVE	\$ 95,467
Reserve for Rate Stabilization Fund	<u>21,500</u>
TOTAL OTHER RESERVES	\$ 21,500
TOTAL CASH RESERVES	<u>\$ 116,967</u>

(1) Excludes special CSO LTCP funding

- *Indenture-Required Operating Reserve* - This reserve is required by WASA's bond indenture and is equivalent to two months' prior year operations and maintenance expenses, or approximately \$31.5 million in FY 2004.
- *Renewal & Replacement Reserve* - This reserve is also required by the bond indenture to provide funding for unforeseen emergency needs, and is equivalent to two percent of original plant in service, or \$34.5 million (based on FY 2002 audited results). As plant in service is replaced and upgraded over the next several years, the required size of this reserve will increase significantly. In recognition of this dynamic, the bond indenture provides WASA with the flexibility to revisit the appropriate size of this reserve.
- *District of Columbia General Obligation Bond Reserve* - This reserve is required under WASA's memorandum of understanding with the District of Columbia regarding payment of District general obligation bonds that WASA is responsible for. This reserve is equal to ten percent of the subsequent fiscal year's debt service, or \$1.5 million in September 2004.
- *Undesignated Reserve* - After allocating portions of the 180 day operating and maintenance reserve to the reserves listed above, the amount that remains (approximately \$28.0 million projected for FY 2004) is WASA's undesignated reserve, and is available for other contingencies.

WASA has other reserves that are available to it in very specific circumstances:

- *Rate Stabilization Fund* - Consistent with the Board's financial policies and as envisioned in the bond indenture, this fund is to be established to mitigate large annual rate increases. At the end of FY 2003, the balance in this fund totaled \$21.5 million. Future deposits to the rate stabilization fund will be determined annually based on financial performance in that fiscal year and updated ten-year capital and operating forecasts.
- *Senior Lien Debt Service Reserve Fund* - The bond indenture requires WASA to maintain a debt service reserve fund for its Series 1998 senior lien bonds in the amount of ten percent of future maximum annual debt service. This reserve is in addition to the 180 day operating and maintenance reserve, is held by WASA's trustee and can only be used in the event that net revenues are insufficient to meet the next debt service payment. Currently, this reserve is sized at approximately \$23.4 million, and will increase as WASA issues additional senior lien, fixed rate debt. WASA earns interest on this reserve that is included in other operating revenue and is used to offset annual debt service payments. (The level of interest earnings that WASA can retain on the debt service reserve fund is limited by federal arbitrage restrictions.)

Long-Term Operational & Financial Issues

Over the next ten years, WASA faces a number of significant operational and related financial issues that will impact future financial plans:

Combined Sewer Overflow Long-Term Control Plan –As described earlier in this document, this year's plan includes the early years of the proposed CSO LTCP; because the plan assumes a forty year implementation schedule, the majority of LTCP costs, approximately \$2.3 billion with inflation, are not reflected in the proposed ten-year financial plan. Over the next year, WASA will be finalizing a detailed implementation and financing plan (including significant outside funding, if possible) that will meet the Board's rate-setting policy of gradual and predictable rate increases that are affordable to customers. Next year's plan will reflect this finalized financing plan.

Stormwater – WASA has completed its third year as administrator of the District's Stormwater Compliance Enterprise Fund, which includes coordination of work among the District's Departments of Health, Transportation and Public Works to ensure compliance with the District's stormwater permit. To fund these efforts, in FY 2001, WASA implemented the District's stormwater fee, which was passed by City Council but appears on WASA's water and sewer bill as a separate line item. The District recently received a new draft permit, and the stormwater task force is currently analyzing it to determine financial and operating impacts. The FY 2003 - 2012

financial plan assumes that all incremental costs borne by WASA for stormwater will be covered by the District's stormwater fee, including any additional requirements of the new permit.

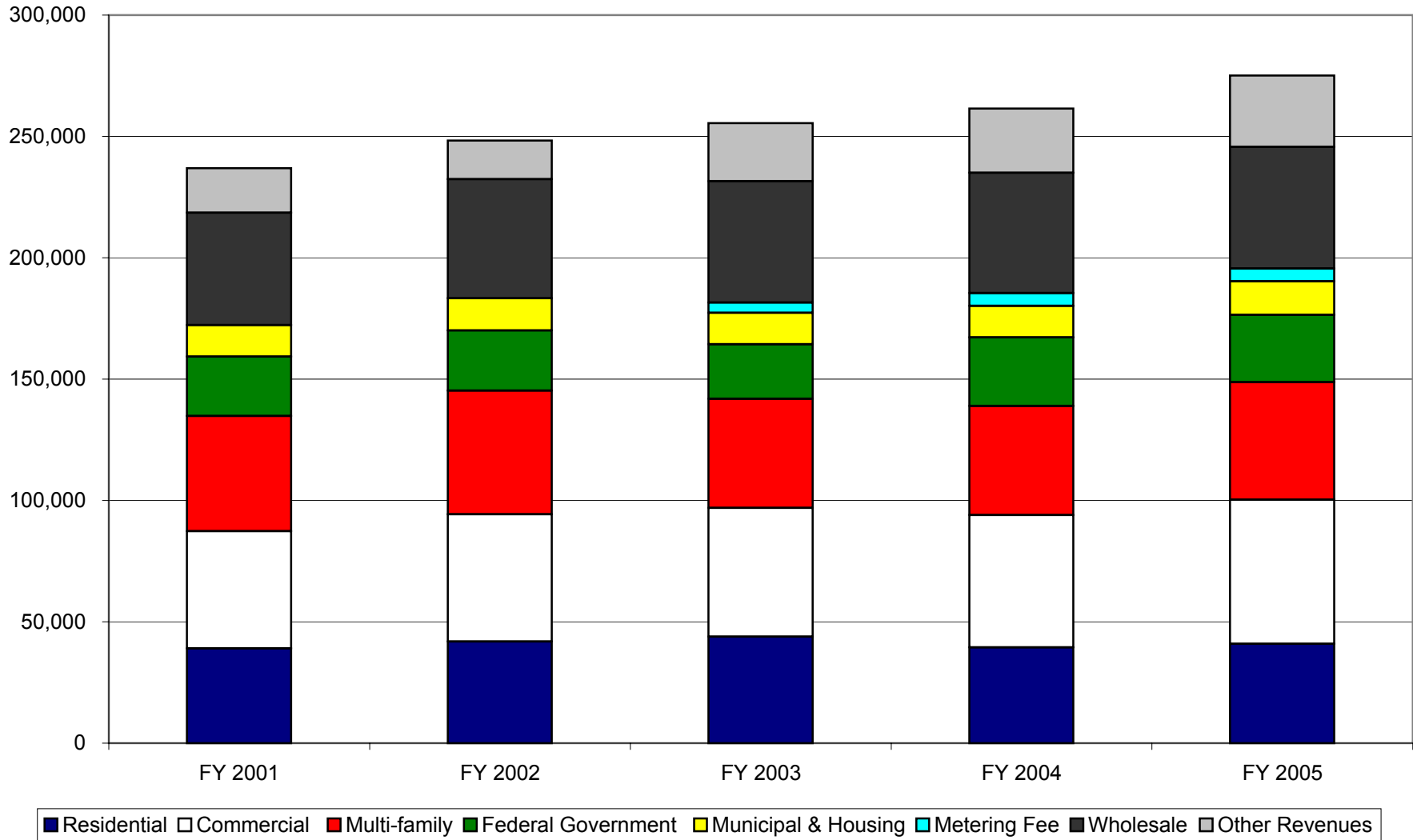
Other Issues – WASA faces a number of other regulatory issues that could result in significant new capital and operating costs, including additional nutrient removal requirements as part of the Chesapeake Bay Program and additional lead service line replacements in accordance with the EPA's Lead and Copper Rule. These issues, which are described in more detail in Section 1 of this document, will be closely monitored by WASA over the next year and included in future years' plans, as appropriate.

Results

WASA's adherence to the Board's financial and rate-setting policies by implementing prior ten year plans has been one of the key reasons for WASA's financial success. The consistent support for and implementation of the plan has been commended and acknowledged by the capital markets and broader financial community, as evidenced by the bond rating upgrades WASA received in summer 2003 to the AA category. WASA's ratings currently are Aa3 / AA- / AA-.

Continued adherence to Board policies and the proposed ten year plan will provide the financial resources to meet our ongoing commitment to 1) provide world-class service to our customers and 2) meet our regulatory and environmental obligations. An essential component of meeting these goals is fully funding the proposed capital program, which the proposed ten year plan accomplishes. Continuing implementation of the plan and its underlying policies will result in maintenance of WASA's already strong bond ratings and should result in future bond rating upgrades, producing continuing reductions in WASA's cost of capital which will be passed on to WASA's customers.

Historical & Projected Cash Receipts (\$000's)



Historical and Projected Operating Cash Receipts

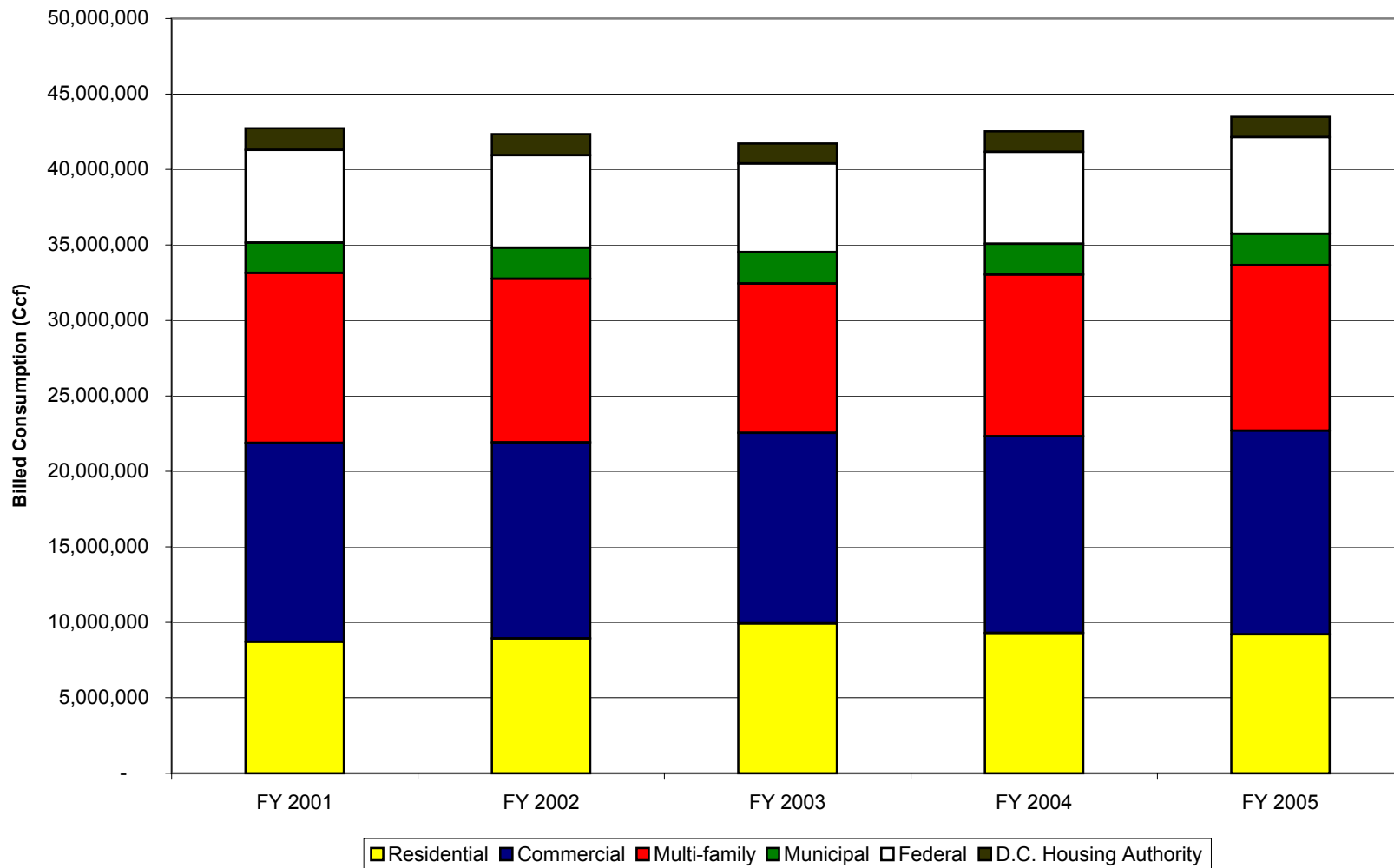
(\$000's)

	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Revised	FY 2005 Approved
Residential	39,009	41,917	43,842	39,422	40,892
Commercial	48,378	52,362	53,065	54,610	59,450
Multi-family	47,448	50,986	44,978	44,932	48,340
Federal Government (1)	24,442	24,764	22,486	28,238	27,801
District Government	6,854	7,063	7,208	7,036	7,646
D.C. Housing Authority	6,163	6,241	5,705	5,895	6,128
Metering Fee	-	-	4,240	5,300	5,300
Total Retail	<u>172,294</u>	<u>183,333</u>	<u>181,524</u>	<u>185,433</u>	<u>195,557</u>
IMA Wastewater Charges	43,069	45,590	46,289	45,512	45,967
Potomac Interceptor Wastewater Charges	3,200	3,479	3,761	4,109	4,151
Total Wholesale	<u>46,270</u>	<u>49,068</u>	<u>50,050</u>	<u>49,622</u>	<u>50,118</u>
District Stormwater Revenue (2)	-	394	840	1,125	1,125
Misc. Rev. (e.g. water tap installation, fire hydrant usage, etc.)	4,978	9,215	8,508	6,324	6,324
Washington Aqueduct Debt Service Revenue for Falls Church & Arlington	2,099	1,977	1,908	1,831	1,795
Interest Income (including interest on Bond Debt Service Reserve Fund)	11,305	4,373	2,776	2,800	5,837
Right of Way / PILOT Fee	-	-	9,866	14,400	14,400
Total Other	<u>18,381</u>	<u>15,960</u>	<u>23,898</u>	<u>26,480</u>	<u>29,481</u>
Total Operating Cash Receipts	<u><u>236,945</u></u>	<u><u>248,361</u></u>	<u><u>255,473</u></u>	<u><u>261,534</u></u>	<u><u>275,156</u></u>

(1) Historical actuals are presented on revenue basis. Projected amounts shown are billed revenues. Actual Federal receipts are a combination of current year projected revenues and prior year adjustments, which are presented as reserve items. See Section III for further explanation.

(2) Reflects District stormwater fee revenue that will fund WASA's share of District stormwater permit compliance activities, and will not be funded through WASA's retail rates or other WASA revenue sources. See Section 3 for further explanation.

Historical and Projected Billed Consumption (Ccf)



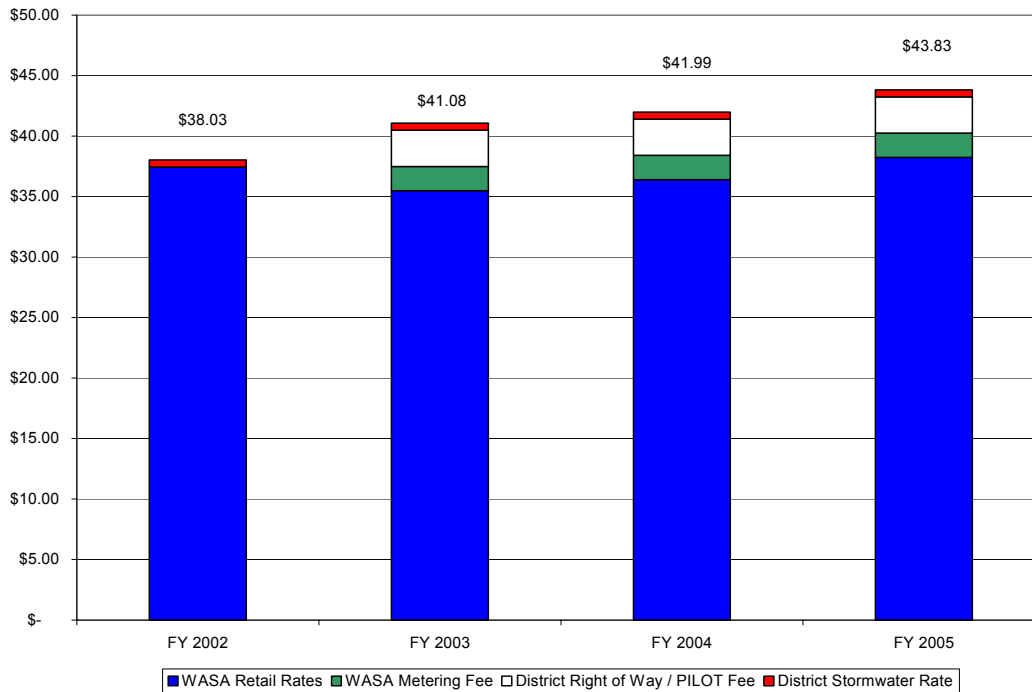
Historical and Projected Billed Consumption (Ccf)

	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Revised	FY 2005 Approved
Residential	8,851,102	8,710,801	8,927,739	9,923,906	9,300,000	9,207,000
Commercial (1)	12,668,330	13,174,786	12,987,578	12,617,502	13,024,000	13,486,000
Multi-family	10,828,940	11,254,723	10,846,297	9,902,788	10,713,000	10,959,000
Municipal (2)	2,571,633	2,002,108	2,062,721	2,079,107	2,035,000	2,087,000
Federal	6,410,412	6,161,145	6,128,184	5,861,776	6,100,000	6,405,000
D.C. Housing Authority	<u>1,311,530</u>	<u>1,423,964</u>	<u>1,386,339</u>	<u>1,328,779</u>	<u>1,355,000</u>	<u>1,341,000</u>
	42,641,947	42,727,527	42,338,858	41,713,858	42,527,000	43,485,000

- (1) Reflects consumption at Commercial facilities and selected facilities at Howard University and Soldiers' Home.
- (2) Reflects consumption at District of Columbia Government facilities and WASA facilities
- (3) Ccf - hundred cubic feet or 748 gallons

RECENT & PROPOSED RATE & FEE CHANGES

AVERAGE RESIDENTIAL MONTHLY BILL FY 2002 – FY 2005



FY 2003 RATE & FEE CHANGES

The Board approved a revised rates and fee structure for FY 2003 which included splitting the bill into two sections:

- **WASA services section**, which includes a new metering fee to recover costs associated with installing, operating, and maintaining meters and an accompanying reduction of approximately 5.3 percent in our base water and sewer rates; and
- **District of Columbia section**, which includes a pass-through of the District of Columbia's right of way fee / payment in lieu of taxes as a separate line item on WASA's bill and the previously approved District stormwater fee

These changes increased the typical residential customer's monthly bill by \$3.04, and raised WASA's overall retail revenues by approximately \$10.6 million.

FY 2004 RATE CHANGES

Effective October 1, 2003, the Board increased water and sewer rates by 2.5 percent, increasing the typical residential customer's monthly bill by \$0.92 and raised WASA's overall retail revenues by approximately \$4.2 million.

PROPOSED FY 2005 RATE CHANGES

The FY 2005 budget and ten-year plan include a proposed rate increase of 5.0 percent, which would increase the typical residential customer's monthly bill by \$1.83 and is projected to yield approximately \$8.7 million in additional revenue

RATE COMPARISONS

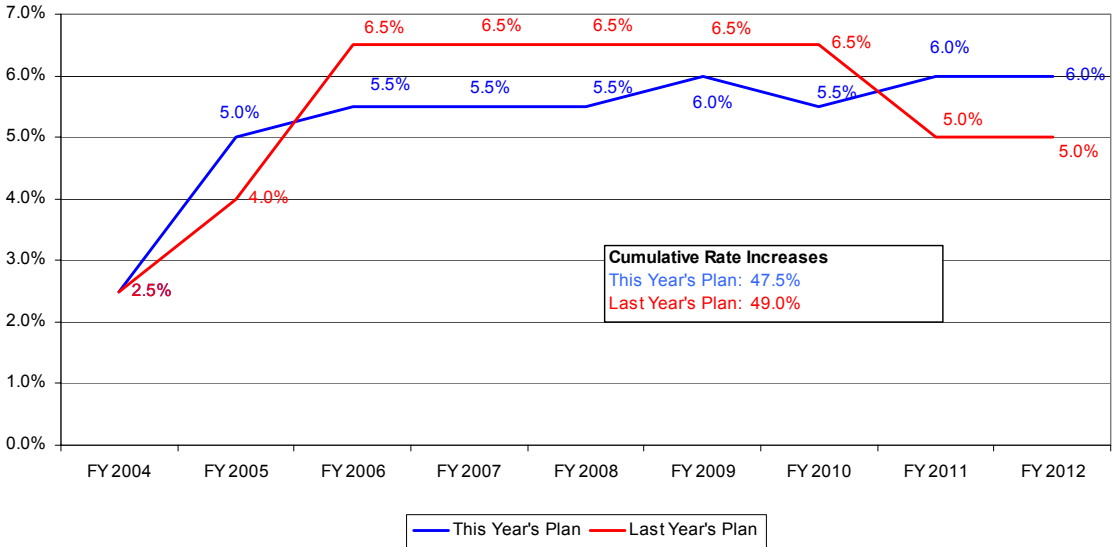
WASA's existing rates for the typical residential customer's monthly bill are \$1.64 less than the average monthly bill of other neighboring and East Coast utilities (see chart on page IV-14)

	FY 2002	FY 2003	FY 2004	FY 2005
WASA Retail Rates (1)	\$ 37.45	\$ 35.49	36.40	38.23
WASA Metering Fee	-	2.01	2.01	2.01
Subtotal WASA Rates & Charges	\$ 37.45	\$ 37.50	\$ 38.41	\$ 40.24
Increase / Decrease	-	\$ 0.05	\$ 0.92	\$ 1.83
District of Columbia Right of Way / PILOT Fee (1)	\$ -	\$ 3.00	\$ 3.00	\$ 3.00
District of Columbia Stormwater Fee	0.58	0.58	0.58	0.58
Subtotal District of Columbia Charges	\$ 0.58	\$ 3.58	\$ 3.58	\$ 3.58
Total Amount Appearing on WASA Bill	\$ 38.03	\$ 41.08	\$ 41.99	\$ 43.83
Increase / Decrease Over Prior Year	-	\$ 3.04	\$ 0.92	\$ 1.83

(1) Assumes average monthly consumption of 8.33 Ccf, or 6,231 gallons.

FY 2003 – 2012 FINANCIAL PLAN PROJECTED RETAIL RATE & FEE CHANGES

FY 2004 – 2012 Projected Rate Increases



- Projected rate increases under this year's plan total 47.5 percent, in line with last year's plan.
 - If all projected rate increases are implemented as planned, the average residential customer's bill will increase from \$43.83 in FY 2005 to \$62.13 in FY 2012

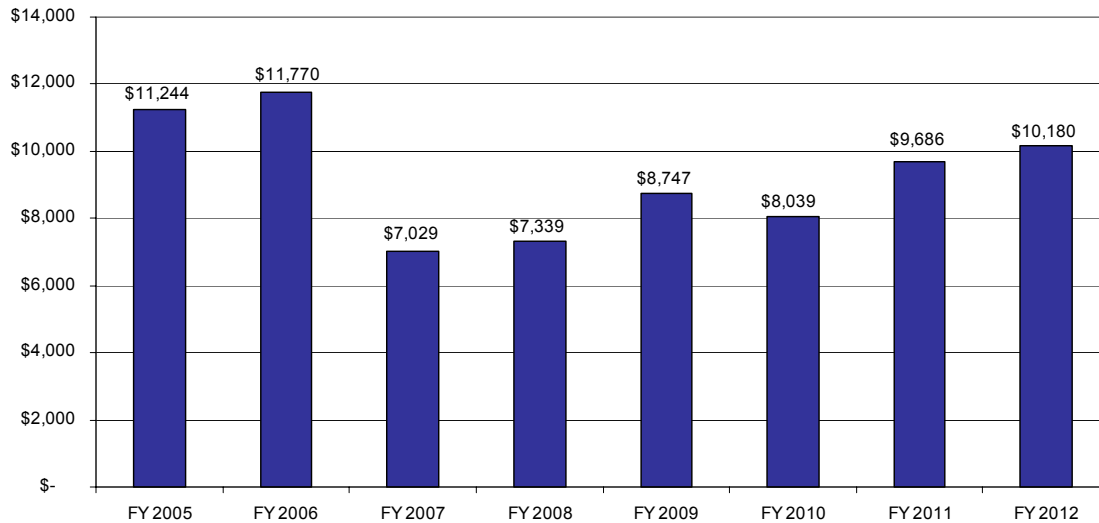
- Historically, rates have increased by approximately 2.5 percent annually, less than initial projections of 5 to 6 percent annually, due largely to lower than projected capital spending (see chart on page IV-11).

- In FY 2003, we met our capital spending targets and project that we will continue spending in excess of \$200 million annually through FY 2007, requiring annual rate increases of 5 to 6 percent.

- This year's plan includes the early years of the proposed CSO Long-Term Control Plan (see the following pages and Sections I and III for more details), including \$190 million in capital disbursements assuming a 40-year implementation schedule. If this program is accelerated without offsetting outside funding, rate increases will be higher than the proposed ten-year plan.

FY 2003 – 2012 FINANCIAL PLAN PROJECTED RETAIL RATE & FEE CHANGES, cont.

**Incremental Increase In Revenues
Including Early Years of CSO Long-Term Control Plan
FY 2005 – FY 2012
(In \$000's)**



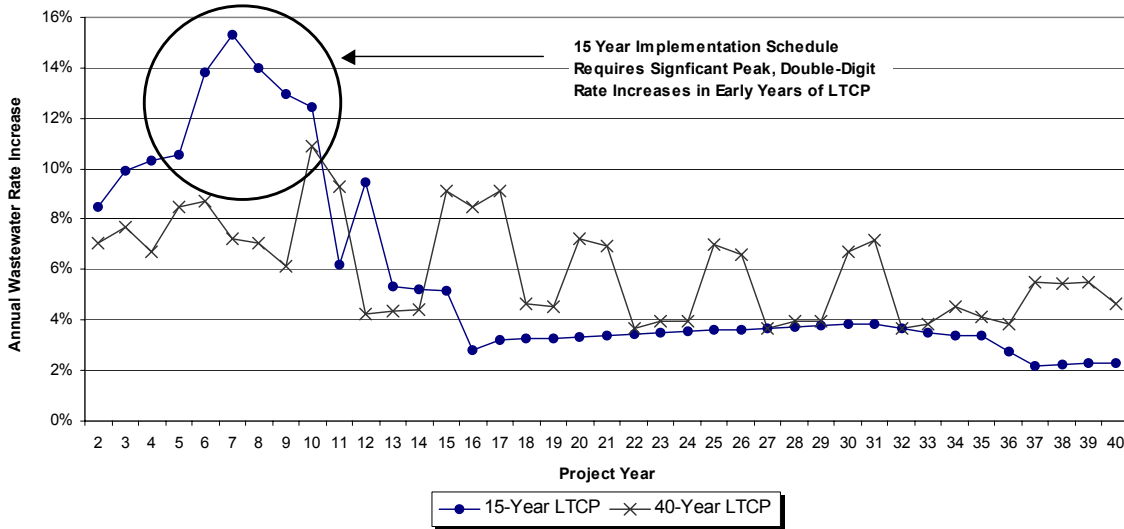
As shown in the chart at left, incremental increases in revenues are projected to range from \$11.8 million to \$7.0 million in FY 2005 – FY 2012, due to:

- Projected increases in billed consumption due to the comprehensive meter replacement / AMR program:
 - Six percent for residential customers experienced in FY 2003
 - Six percent for small commercial (less than three inch meters) in FY 2004 and FY 2005
 - Ten percent for large commercial (three inches or greater) in FY 2005 and FY 2006

- Proposed rate increases ranging from 5.0 percent to 6.0 percent as described on the preceding page.

POTENTIAL IMPACT OF CSO LONG-TERM CONTROL PLAN ON LONG-TERM RATES

**Impact of Proposed CSO Long-Term Control Plan
On Long-Term Rates**



In August 2002, the Board approved the proposed CSO Long-Term Control Plan (LTCP). Capital costs for this plan total approximately \$1.3 billion in 2001 dollars, increasing to \$2.6 billion with inflation (assuming implementation over 40 years.)

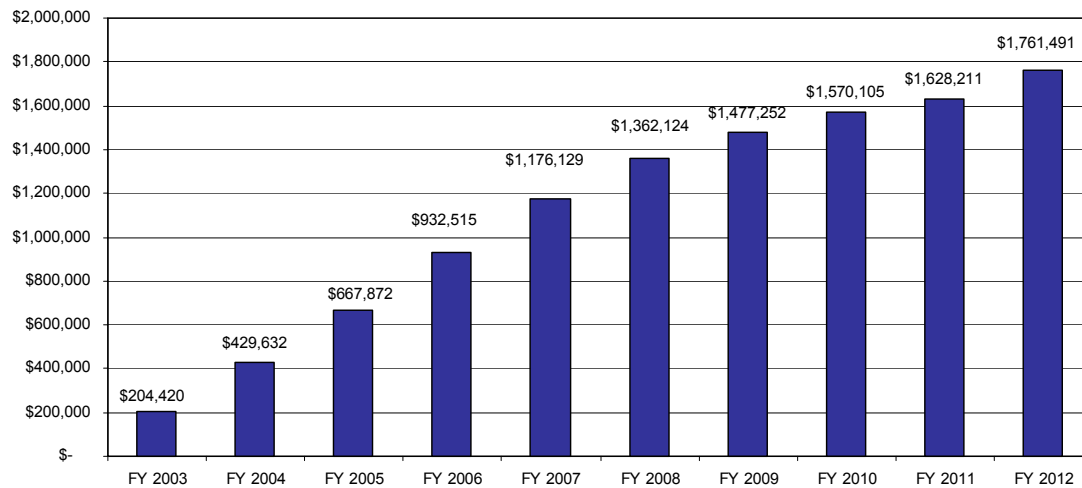
Because of the cost of this program and resulting significant impact on ratepayers, WASA has developed implementation scenarios that range from 15 to 40 years.

- As shown in the chart at left, if the CSO LTCP is implemented in 15 years, WASA ratepayers would face several years of consecutive double digit rate increases, on top of already planned rate increases for WASA's \$1.7 billion CIP.
- Implementation over a longer time frame (e.g., 40 years) will still result in significant rate increases but will spread the impact over a long number of years, and substantially reduce the number of annual double digit rate increases.
- If significant federal or outside assistance is provided, implementation over a shorter timeframe is feasible.

As discussed in Sections I and III of this document, WASA has included the early years of this program in our ten-year plan due to receipt of federal funding. However, we do not intend to undertake any additional LTCP work (beyond those projects already included in the CIP) until finalization of a Board and EPA-approved plan.

WHY RATE INCREASES ARE NEEDED

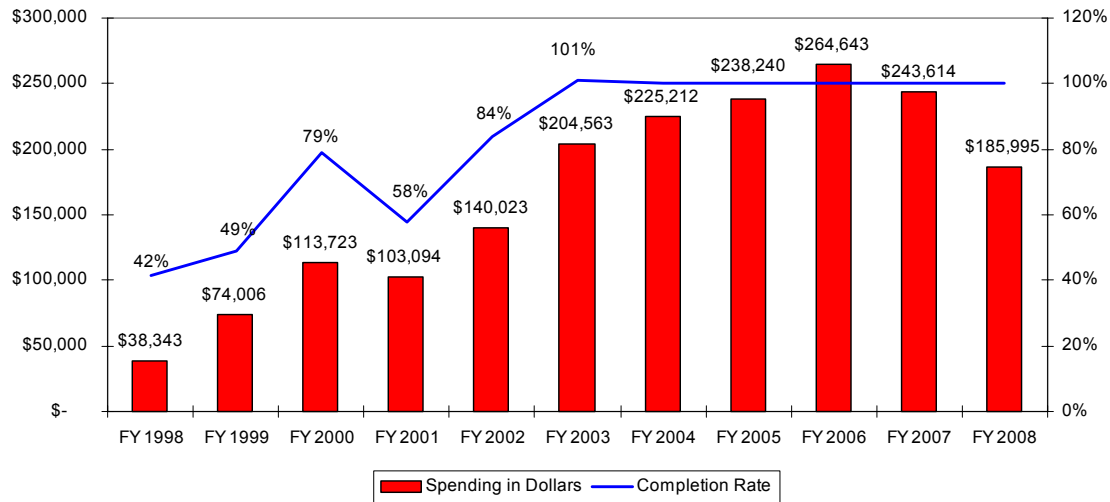
CUMULATIVE CAPITAL SPENDING
FY 2003 – 2012
(In \$000's)



- WASA's ten year capital improvement program totals \$1.76 billion, with annual spending ranging from \$58 million to \$265 million.
- Once completed, the ten year capital improvement program will double the value of WASA's infrastructure.
- The ten-year plan includes only the early years of the proposed CSO LTCP and combined sewer projects historically included in the CIP, totaling \$333 million. The balance of the CSO LTCP, totaling \$2.3 billion including inflation and assuming a forty-year implementation schedule, will be factored into the ten year plan upon approval of a Board and EPA-approved LTCP.

WHY RATE INCREASES ARE NEEDED, cont.

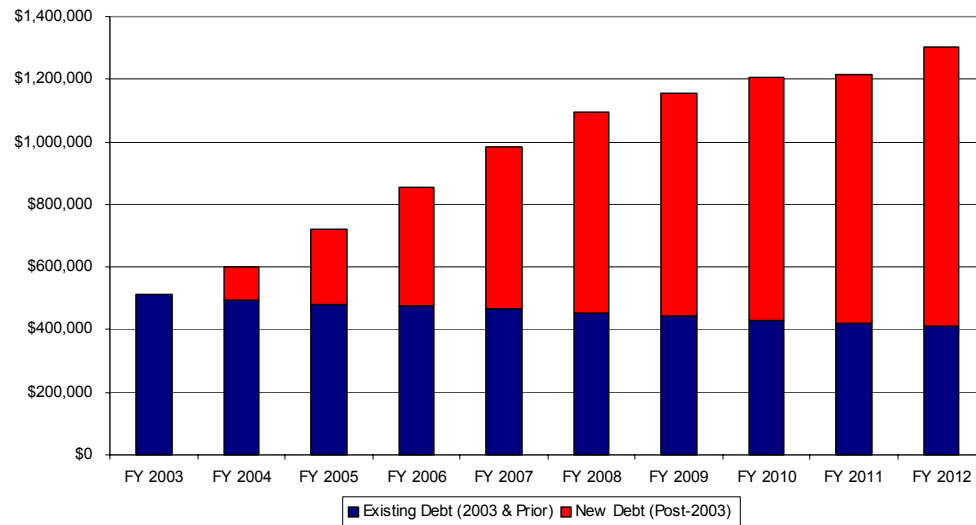
**HISTORICAL & PROJECTED CAPITAL SPENDING
& COMPLETION RATES
FY 1998 - 2008
(In \$000's)**



- Capital spending has accelerated over the last year, reaching targeted spending rates for the first time.
- This rate of spending is projected to continue through FY 2008, requiring annual rate increases of 5 to 6 percent.

WHY RATE INCREASES ARE NEEDED, cont.

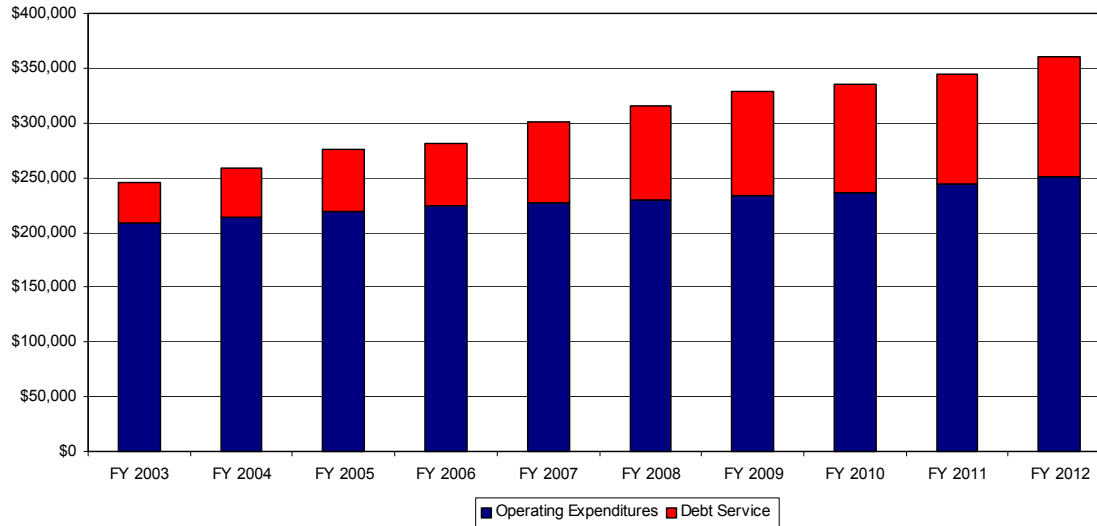
NEW & EXISTING DEBT OUTSTANDING
FY 2003 – 2012
(In \$000's)



- The largest source of funding for WASA's capital program is debt.
- Over the next ten years, WASA will issue approximately \$960 million in new debt (which includes the funding of reserves and costs of issuance), increasing total debt outstanding from \$511 million at the end of FY 2003 to \$1.3 billion at the end of FY 2012.

WHY RATE INCREASES ARE NEEDED, cont.

**OPERATING & DEBT SERVICE EXPENDITURES
FY 2003 – 2012
(In \$000's)**



Over the ten-year period, total expenditures increase on average by 4.3 percent annually.

WASA'S proposed rate increases are primarily required to fund increasing debt service costs.

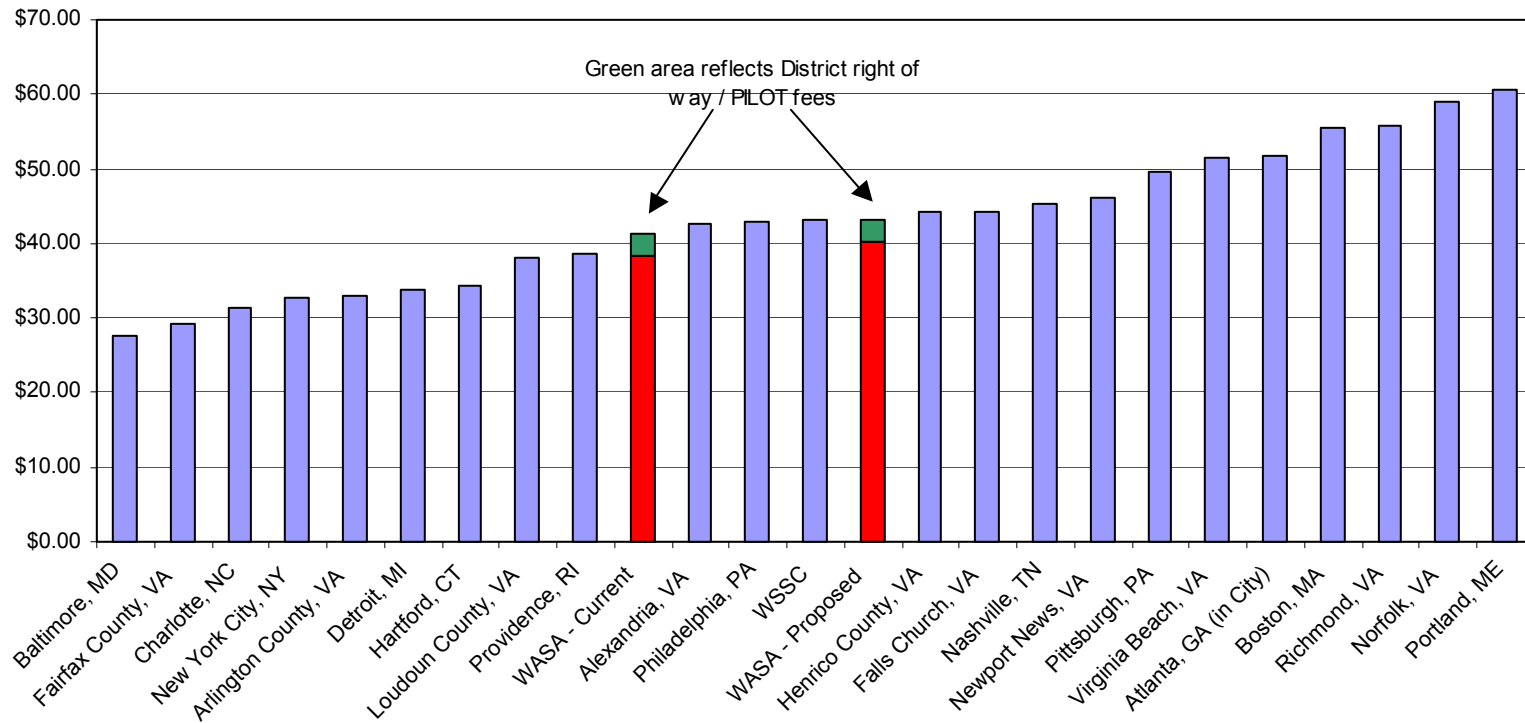
- Operations and maintenance expenditures (excluding the payment in lieu of taxes and right of way fee) increase on average by only 1.4 percent annually.
- Debt service expenditures grow at an annual average rate of 13.2 percent.

This year's ten-year financial plan reflects WASA's major revenue enhancement and cost-saving initiatives that are already underway:

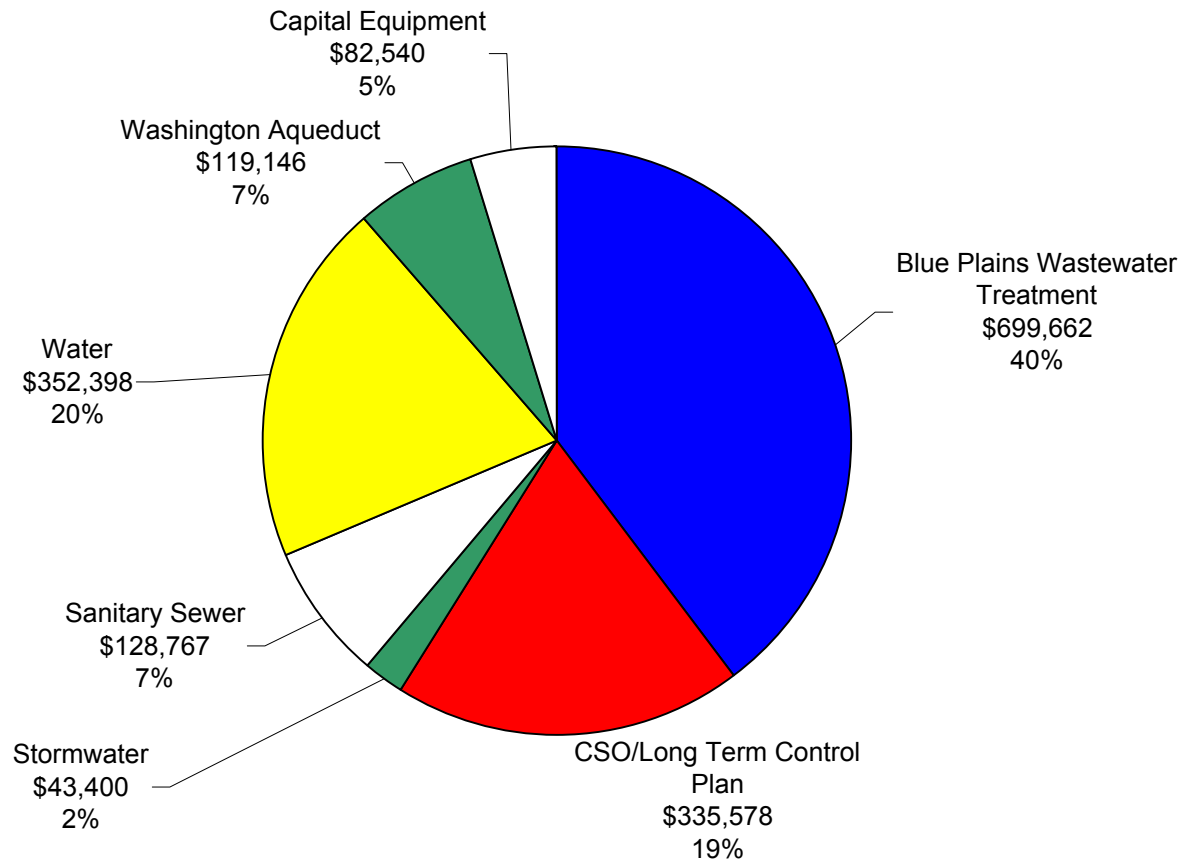
- Increased revenues in all customer classes due to the AMR program
- District ratepayer share of Internal Improvement Program savings (approximately 50 percent of any savings accrue to wholesale customers)

WASA'S RETAIL RATES ARE COMPARABLE TO OTHER UTILITIES

Average Monthly Residential Bill Comparison
(Based on summer 2003 rates)



- (1) Assumes average residential consumption of 8.33 Ccf, or 6,231 gallons, per month. Ccf = hundred cubic feet, or 748 gallons.
- (2) Reflects WASA's proposed rate and fee changes in FY 2005 while other utilities' rates are as of summer 2003. However, during this period, it is anticipated that many utilities will take rate actions. The green area indicates the pass-through of the District's right of way / PILOT fee, totaling \$3.00 per month.



FY 2003 – 2012 CAPITAL IMPROVEMENT PROGRAM OVERVIEW

MAJOR CHANGES & INITIATIVES

FY 2003 has been marked by unprecedented capital spending, particularly on upgrading the Blue Plains Advanced Wastewater Treatment Plant. For the first time ever, WASA surpassed its capital spending target, spending 101 percent of the revised FY 2003 budget. This success is due in large part to the direction provided by the Board, particularly through the detailed reviews performed by the Operations and Finance and Budget Committees.

WASA's ten-year capital improvement program (CIP) totals \$1.76 billion (cash disbursements basis), approximately \$200 million more than last year's plan. As discussed in Section I, near term increases are due to accelerated project completion schedules and lead service line replacements. Increases in the later years of the plan are due to inclusion of the FY 2012 disbursements for the Long Term Control Plan in the amount of \$86.5 million, and new projects in the Water Services Area in FY 2012.

This is the second year that we have included the early years of the LTCP in the 10-year plan. This plan was completed and presented to the U.S. Environmental Protection Agency in August 2002, and totals \$1.265 billion in 2001 dollars, or \$2.6 billion in inflated dollars, assuming a forty-year implementation schedule. In FY 2003, the Authority received a \$49.7 million appropriation from the U.S. Congress for initial funding of the LTCP, and there are indications that an appropriation of \$25 million to \$35 million will be received in FY 2004. It is highly unlikely that this outside funding will continue without a commitment to the implementation of the proposed LTCP, so we have included it in our lifetime and disbursements budgets. It is important to note that the projected LTCP disbursements are based on a 40-year implementation schedule, so the majority of LTCP costs are not reflected in the current 10-year CIP and financial plan. WASA does not intend to begin any additional LTCP work beyond the \$143 million (cash disbursements basis) of projects previously included in the CIP until a Board-approved financing plan is in place, except as authorized by the Board of Directors, as discussed in Section 1 of this document.

The following sections summarize major projects and changes in each service area, with additional details for each project included in each service area section. Additional details by project are included in the separate CIP document. Please note that all dollar amounts are presented on a project lifetime basis, except where noted otherwise.

WASTEWATER TREATMENT

The lifetime budget for the Wastewater Treatment Service Area is \$1.2 billion dollars, reflecting no change from last year's plan. The 10-year disbursement budget is \$699.7 million, an increase of \$20.7 million over last year's plan, attributable to project budget increases for the filtration/disinfection facility (\$12.9 million), plant access upgrades and other facility and security improvements (\$7.7 million), and a new project for automated sampling (\$1 million).

Major projects under construction in FY 2003 included Additional Chemical Systems, Alternate Disinfection Facilities, Additional Dewatering Facilities, Primary and Secondary Treatment Facilities, Process Control Computer System, Gravity Thickener Facilities, and Grit and Screen Facilities.

Construction is scheduled to start in FY 2004 for the Nitrification/Denitrification Facilities Upgrade and the Filtration/Disinfection Facility construction has been accelerated to the end of FY 2004. Plant access upgrades and other facility upgrades are also scheduled for the upcoming year.

COMBINED SEWER

The lifetime budget for the Combined Sewer Service Area is \$2.6 billion, consistent with last year's lifetime budget. This includes the proposed CSO LTCP, assuming a 40-year implementation schedule. The proposed CSO LTCP was included in the lifetime budget due to the receipt of funding from the U.S. Congress; because receipt of this and future funding would have been unlikely without a commitment to eventually implement the LTCP, we have added the LTCP to the lifetime budget. On a disbursements basis, we have only included the early years of the LTCP, totaling \$189.8 million; the majority of the LTCP costs on a disbursements basis are not reflected in the current CIP or rates projections. Except as authorized by the Board of Directors, WASA does not intend to begin any additional LTCP work beyond previously planned and budgeted projects until an EPA and Board-approved plan is in place.

We have begun implementation of the \$143 million (disbursements basis) of previously planned and budget CSO-related projects, including fabric dam replacement and pumping station rehabilitation. It is important to note that these projects alone are projected to result in a forty percent reduction in combined sewer overflow when completed over the next six years.

STORMWATER

The lifetime budget for the Stormwater Service Area is \$94.7 million, an increase of \$2.4 million over last year. Stormwater initiatives include projects for large diameter storm sewers and pumping station force sewer replacement and rehabilitation, totaling \$21.1 million. These projects include replacing undersized, aged, or deteriorated sewers, as well as installation of new sewers to serve new development. Rehabilitation of 15 existing stormwater pumping stations, totaling \$24.6 million, has been deferred, pending discussions with the District of Columbia regarding responsibility for this infrastructure. A portion of WASA's stormwater work is coordinated with the District's Department of Transportation (DDOT) when projects are made necessary by DDOT's work in the streets that often requires relocation of storm sewers, inlets, or other structures. The lifetime budget for these projects is \$28.5 million, with DDOT paying the costs of repaving.

SANITARY SEWER

Lifetime budgets in the Sanitary Sewer Service Area total \$193 million, compared to \$177 million in last year's plan. This increase is due primarily to projected cost increases for pumping station upgrades based on more detailed designs that were completed in FY 2003 and increased costs of the Potomac Interceptor permanent odor control structures. The 10-year disbursements plan in this service area is \$128.8 million, a \$1.5 million increase over the FY 2002 – FY 2011 plan. A major area of activity is upgrading pumping stations, with lifetime budgets of \$20.2 million. These upgrades are included in the EarthJustice Consent Decree.

Design for reconstructing portions of the Potomac Interceptor, which provides wastewater conveyance from areas of Virginia and Maryland, will be completed and construction is scheduled to begin on this project in FY 2004. Included in this project will be permanent odor control structures. The lifetime budget for this project is \$25.1 million.

Construction will start in FY 2004 for the East Side Interceptor rehabilitation and the Citywide Inflow/Infiltration project. Also during FY2004, WASA will continue the evaluation of the sewer system to determine its condition, verify adequate capacity, and to develop new capital projects, as appropriate. The lifetime budget for Sanitary Sewer program management is \$14.9 million.

WATER

The lifetime budget for the Water Service Area is \$566 million, an increase of \$64 million over last year's \$502 million lifetime budget. Disbursements for the 10-year plan have increased from \$323.3 million to \$352.4 million. These increases are attributable to lead service line replacements being included in the budget in FY 2004 and FY 2005 and large and small watermain repair projects in FY 2012.

A major rehabilitation of the Bryant Street pumping station, with a lifetime budget of \$58.5 million will continue in FY 2004. The Automated Meter Reading project, which began in FY 2002, will continue in FY 2004 and FY 2005 with the replacement of the largest commercial meters. To date, over 106,000 residential and small commercial meters have been installed. The lifetime budget for this project is \$46 million, which includes ongoing upgrades of \$0.3 to \$0.5 million annually after initial implementation.

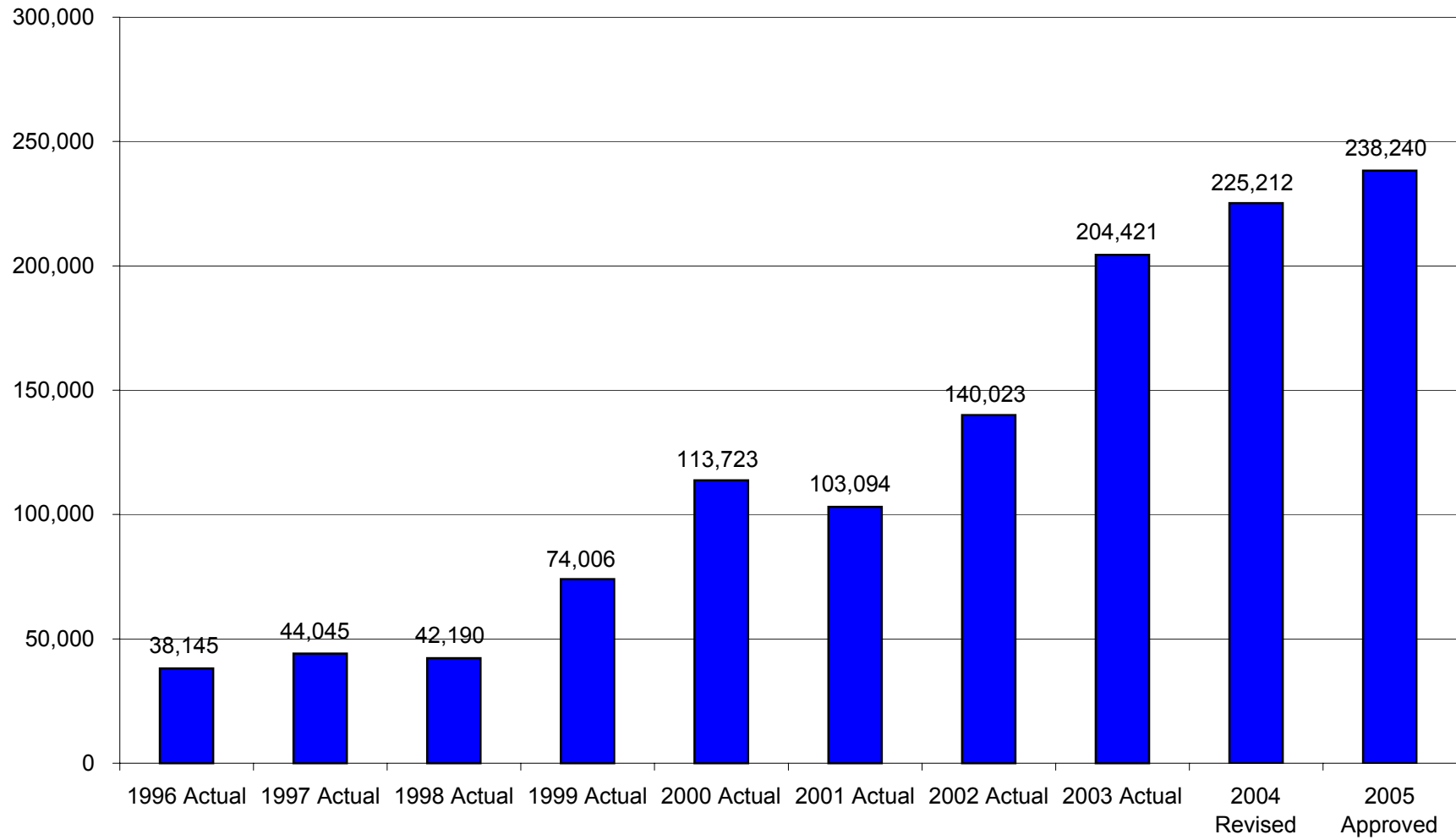
WASHINGTON AQUEDUCT

The FY 2003 – FY 2012 disbursements budget for WASA's share of Washington Aqueduct projects total \$119.1 million, or \$7.6 million less than last year's plan. The decrease is due to the elimination of a previously planned project, backwash treatment.

CAPITAL EQUIPMENT

The FY 2005 proposed lifetime budget for Capital Equipment is \$97 million, compared to \$85.6 million in last year's plan. With the exception of some systems projects, lifetime budgets for capital equipment begin with FY 2002 actual disbursements and end with projected FY 2013 disbursements due to the annual nature of the purchases that are made in this service area. The increase in the lifetime budget is attributable to the proposed asset management system and to the purchase of photocopying equipment.

Historical and Projected Capital Spending
FY 1996 - FY 2005
(\$000's)



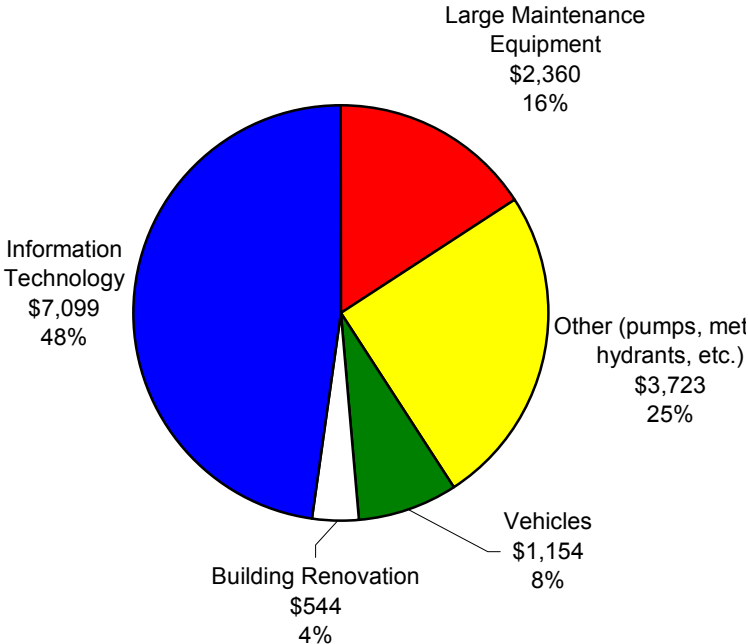
FY 2003 - FY 2012 PROJECTED CAPITAL IMPROVEMENT PLAN - DISBURSEMENTS BASIS (\$ in 000's)

	FY 2003 Actual	FY 2004 Revised	FY 2005 Approved	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Total FY '03-'12
Wastewater Treatment											
Liquid Processing Projects	37,499	50,675	57,253	66,318	35,714	7,358	789	495	566	1,917	258,584
Plantwide Projects	48,675	29,655	16,552	10,323	7,883	7,459	1,049	618	590	4,733	127,537
Solids Processing Projects	39,110	30,563	30,486	53,003	78,624	56,781	23,177	964	356	477	313,541
Sub-total	125,284	110,893	104,291	129,644	122,221	71,598	25,015	2,077	1,512	7,127	699,662
Stormwater											
Stormwater Extensions/Local Drainage	206	436	2,251	246	-	-	-	-	-	-	3,139
Stormwater On-Going Program	289	97	222	222	224	229	239	279	340	356	2,497
Stormwater Pumping Facilities	181	360	765	674	701	4,221	4,082	1,119	-	-	12,103
DPW Stormwater Program	450	635	1,135	998	1,024	1,097	1,210	1,357	1,504	1,531	10,941
Stormwater Projects Program Management	299	284	1,212	1,158	839	398	241	118	112	80	4,741
Stormwater Trunk/Force Sewers	1,305	1,731	1,175	1,113	978	1,028	1,116	1,533	-	-	9,979
Sub-total	2,730	3,543	6,760	4,411	3,766	6,973	6,888	4,406	1,956	1,967	43,400
Sanitary Sewer											
Sanitary Collection Sewers	400	3,532	1,723	628	525	285	-	-	-	-	7,093
Sanitary On-Going Projects	2,100	4,265	3,575	4,088	3,717	3,777	3,020	4,705	5,292	4,894	39,433
Sanitary Pumping Facilities	-	1,047	968	7,092	4,792	32	-	-	-	-	13,931
Sanitary Sewer Projects Program Management	605	1,892	2,792	2,326	1,533	601	374	495	430	334	11,382
Sanitary Interceptor/Trunk Force Sewers	1,983	4,472	13,567	11,287	4,159	6,266	5,669	6,054	3,471	-	56,928
Sub-total	5,088	15,208	22,625	25,421	14,726	10,961	9,063	11,254	9,193	5,228	128,767
Water											
Water Distribution Systems	7,193	14,947	26,546	25,732	8,699	17,581	14,045	11,214	11,140	13,965	151,062
Water On-Going Projects	2,619	5,087	3,403	3,840	3,717	3,390	3,552	3,805	3,036	3,393	35,842
Water Pumping Facilities	10,868	14,593	13,885	12,702	9,943	337	-	-	-	-	62,328
DPW Water Projects	1,954	3,088	1,856	2,205	2,273	2,433	2,290	2,616	2,910	3,052	24,677
Water Storage Facilities	1,159	297	310	3,099	1,736	3,520	4,822	7,544	1,475	-	23,962
Water Projects Program Management	3,843	3,080	2,481	2,630	2,160	2,252	1,785	152	-	-	18,383
Meter Replacement /AMR Installation	16,741	10,000	6,103	300	500	500	500	500	500	500	36,144
Sub-total	44,377	51,092	54,584	50,508	29,028	30,013	26,994	25,831	19,061	20,910	352,398
Washington Aqueduct	5,520	14,774	12,007	6,977	16,598	15,914	15,504	18,514	6,635	6,703	119,146
Capital Equipment	9,532	14,880	14,496	8,430	5,641	7,677	6,513	5,025	5,471	4,875	82,540
Sub-total	192,531	210,390	214,763	225,391	191,980	143,136	89,977	67,107	43,828	46,810	1,425,913
Combined Sewer Overflow / Long Term Control Plan											
CSO Program Management	1,196	1,167	506	112	-	-	-	-	-	-	2,981
Combined Sewer Projects	10,693	12,925	16,231	38,370	34,364	16,249	4,691	4,666	4,628	-	142,817
Long-Term Control Plan (see note)	-	730	6,740	770	17,270	26,610	20,460	21,080	9,650	86,470	189,780
Sub-total	11,889	14,822	23,477	39,252	51,634	42,859	25,151	25,746	14,278	86,470	335,578
Total FY 2005 WASA Capital Improvement Program	204,420	225,212	238,240	264,643	243,614	185,995	115,128	92,853	58,106	133,280	1,761,491

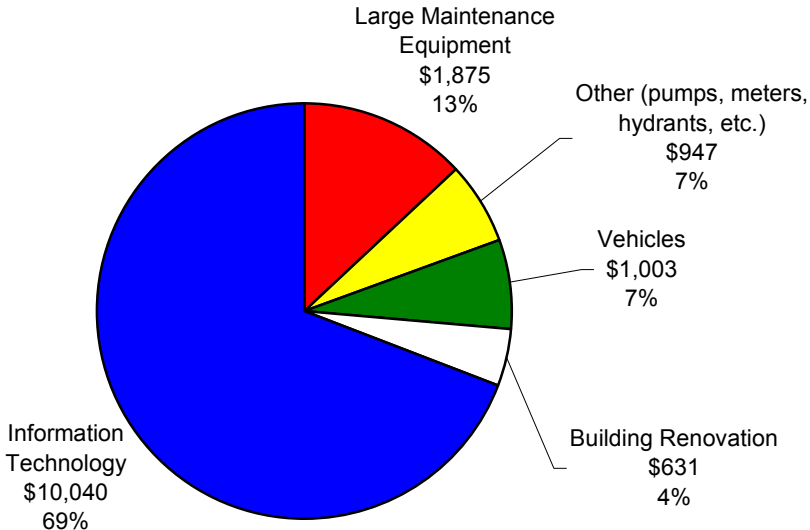
Note: As discussed in Section 1 of this document, the CSO Long Term Control Plan (LTCP) was approved by the Board of Directors and forwarded to the EPA in August 2002. The total cost of the proposed plan is \$2.6 billion, assuming implementation over 40 years and annual inflation of three percent. WASA's CIP previously included approximately \$143 million (cash disbursements basis) for various CSO-related projects, including pumping stations, fabridam, and other related improvements. These were the only CSO-related projects included in the CIP (excluding program management and plan development), pending input from stakeholders, finalization of a Board-approved plan for submission to the EPA, and development of a financing plan. In FY 2003, WASA received a \$49.7 million appropriation from the U.S. Congress (with a 100 percent match) for initial funding of the LTCP, and there are preliminary indications that an additional \$25-\$35 million will be appropriated in FY 2004. It is highly unlikely that this outside funding will finalization of a Board-approved plan for submission to the EPA, and development of a financing plan. In FY 2003, WASA received a \$50 million appropriation from the U.S. Congress (with a 100 percent match) for continue to be appropriated without ultimate implementation of the proposed LTCP. Therefore, we have added the \$2.6 billion LTCP to the lifetime CIP, although because of the 40-year schedule, only \$189 million is projected to be disbursed in the current 10-year planning period. In addition, while we have added the LTCP to the CIP to accommodate the potential receipt of future grants, WASA does not intend to undertake any additional LTCP work beyond the \$143 million (cash disbursements basis) of projects previously included in the CIP until completion of an EPA and Board-approved LTCP, including a financing plan, except as authorized by the Board of Directors.

**Capital Equipment
(\$ in 000's)**

FY 2004 Revised



FY 2005 Approved



**FY 2003 - FY 2012 Capital Equipment Disbursements
(\$ in 000's)**

Department	Equipment Type	FY 2003 Actual	FY 2004 Revised	FY 2005 Approved	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Total
Wastewater Treatment												
	Laboratory Equipment	\$24	\$42	\$34	\$34	\$27	\$27	\$25	\$25	\$32	\$32	\$302
	Safety Equipment	0	0	0	16	14	13	19	19	16	20	117
	Metering and Recording Devices	0	20	18	16	15	13	12	10	10	10	124
	Plant Model	21	50	0	0	0	0	0	0	0	0	71
	Total	\$45	\$112	\$52	\$66	\$56	\$53	\$56	\$54	\$58	\$62	\$614
Water Services												
	Fire Hydrant Replacements	\$169	\$195	\$267	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$2,381
	System Valve Replacements	0	114	150	73	81	89	98	100	100	100	905
	Water Service Replacement	233	349	250	300	300	300	300	300	300	300	2,932
	Total	\$402	\$658	\$667	\$623	\$631	\$639	\$648	\$650	\$650	\$650	\$6,218
Sewer Services												
	Sewer Pipes/Fittings	\$0	\$30	\$30	\$30	\$30	\$30	\$30	\$30	\$30	\$30	\$270
	Regulator and Gate Rehabilitation	0	10	10	10	10	10	10	10	10	10	90
	Sewer Cleaning and Repair Equipment	173	20	55	55	55	55	55	55	55	55	633
	Portable Pumps	0	15	15	15	15	15	15	15	15	15	135
	Flow Meters/Sensor Replacements	0	25	25	25	25	25	25	25	25	25	225
	Manhole Covers/Frames	0	33	33	33	33	33	33	33	33	33	297
	Catch Basin Tops/Frames/Covers	0	60	60	60	60	60	60	60	60	60	540
	Outfall Gates	36	414	0	0	0	0	0	0	0	0	450
	Visitors' Center	87	0	0	0	0	0	0	0	0	0	87
	Total	\$296	\$607	\$228	\$228	\$228	\$228	\$228	\$228	\$228	\$228	\$2,727
Customer Service												
	Command Center	\$0	\$507	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$507
	Total	\$0	\$507	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$507
Fleet Management												
	Vehicles	\$1,005	\$1,154	\$1,003	\$1,027	\$1,050	\$1,091	\$1,053	\$1,098	\$1,100	\$1,100	\$10,681
	Total	\$1,005	\$1,154	\$1,003	\$1,027	\$1,050	\$1,091	\$1,053	\$1,098	\$1,100	\$1,100	\$10,681

**FY 2003 - FY 2012 Capital Equipment Disbursements
(\$ in 000's)**

Department	Equipment Type	FY 2003 Actual	FY 2004 Revised	FY 2005 Approved	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Total
Facilities and Security												
	Water System Electronic Security	\$978	\$489	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,467
	HVAC at Various Locations	128	288	300	0	0	0	0	0	0	0	716
	Fencing at Various Locations	0	175	25	0	0	0	0	0	0	0	200
	Signage	0	0	25	0	0	0	0	0	0	0	25
	Rollup Doors	0	81	81	81	81	81	0	0	0	0	405
	Fleet Building Rehab	63	0	0	0	0	0	0	0	0	0	63
	Photocopier Purchase	0	1,300	0	0	0	0	1,300	0	0	0	2,600
	Facilities Improvements	53	0	200	350	350	350	350	350	350	350	2,703
Total		\$1,222	\$2,333	\$631	\$431	\$431	\$431	\$1,650	\$350	\$350	\$350	\$8,179
Information Technology												
	Asset Management System	\$100	\$1,500	\$5,812	\$2,180	\$150	\$100	\$100	\$100	\$100	\$100	\$10,242
	EMAP Phases I and II	0	225	197	0	0	0	0	0	0	0	422
	Engineering Plotters/Scanners	0	50	50	50	0	0	63	0	0	0	213
	Field Laptops	0	75	0	0	0	0	0	0	0	0	75
	e-Contract Management System	0	100	0	0	0	0	0	0	0	0	100
	TV Camera Equipment	0	130	0	0	0	0	130	0	0	0	260
	Maintenance Management System	618	50	50	50	50	50	50	50	50	50	1,068
	Radios	38	644	30	30	30	30	30	30	30	30	922
	Document Management System	0	40	0	0	0	0	0	0	0	0	40
	Financial Management System	105	250	100	100	100	100	100	100	100	100	1,155
	Payroll/HR System	472	300	30	30	30	30	30	30	30	30	1,012
	Customer Information System	1,067	950	674	100	100	100	100	100	100	100	3,391
	Automated Call Distribution	0	200	0	0	0	0	0	0	0	0	200
	Automated Dispatch System	0	0	0	0	100	1,900	50	50	50	50	2,200
	Interactive Voice Response	0	150	20	20	20	20	20	20	20	20	310
	Facilities Management System	0	50	0	0	0	0	0	0	0	0	50
	Wireless Technology Survey	0	50	100	0	0	0	0	0	0	0	150
	Network Systems Security	37	150	100	30	30	30	30	30	30	30	497
	Intranet	20	50	50	50	50	50	50	50	50	50	470
	Handheld Inventory	0	0	300	50	50	50	50	50	50	50	650
	Software Applications/Licenses	78	150	150	150	150	150	150	150	150	150	1,428

**FY 2003 - FY 2012 Capital Equipment Disbursements
(\$ in 000's)**

Department	Equipment Type	FY 2003 Actual	FY 2004 Revised	FY 2005 Approved	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Total
Information Technology - continued												
	Redundant Data Center	35	400	382	200	60	60	60	60	60	60	1,377
	Web Development	340	250	75	75	75	75	75	75	75	75	1,190
	Network System Renewal	133	200	650	150	150	650	150	150	650	150	3,033
	Desktop Replacements	438	500	500	500	500	500	500	500	500	500	4,938
	Cable Renewal	178	200	200	200	200	200	200	200	200	200	1,978
	Telephone System Renewal/Replacement	90	425	350	450	100	100	100	100	100	100	1,915
	Lotus Notes Migration	0	30	80	10	70	10	10	70	10	10	300
	Windows NT Migration	38	30	140	30	30	30	30	30	30	30	418
Total		\$3,787	\$7,149	\$10,040	\$4,455	\$2,045	\$4,235	\$2,078	\$1,945	\$2,385	\$1,885	\$40,004
Maintenance Services												
	Shop Equipment	\$0	\$30	\$75	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$105
	Centrifuge Repair/Replace	0	200	200	200	200	200	200	200	200	200	1,800
	Plant Lighting	0	30	0	0	0	0	0	0	0	0	30
	VFD Replacement-Nitrification Pumping	811	0	0	0	0	0	0	0	0	0	811
	Pump Repair/Replacement	528	500	400	400	400	400	200	200	200	200	3,428
	Large Electric Motors	834	900	500	500	300	200	200	200	200	200	4,034
	High Priority Rehab Program	601	700	700	500	300	200	200	100	100	0	3,401
Total		\$2,774	\$2,360	\$1,875	\$1,600	\$1,200	\$1,000	\$800	\$700	\$700	\$600	\$13,609
Total Capital Equipment		\$9,531	\$14,880	\$14,496	\$8,430	\$5,641	\$7,677	\$6,513	\$5,025	\$5,471	\$4,875	\$82,539

**FY 2003 - FY 2012 Capital Improvement Plan
Project Lifetime Budgets by Program Area (\$000's)**

	FY 2004	FY 2005	Variance
<u>Wastewater Treatment</u>			
Liquid Processing Projects	433,016	436,807	3,791
Plantwide Projects	302,350	288,577	(13,773)
Solids Processing Projects	471,609	459,835	(11,774)
Sub-total	1,206,976	1,185,219	(21,757)
<u>Stormwater</u>			
Stormwater Extensions/Local Drainage	6,219	6,599	380
Stormwater On-Going Program	6,188	6,718	530
Stormwater Pumping Facilities	26,169	24,550	(1,619)
DDOT Stormwater Program	25,804	28,507	2,703
Stormwater Projects Program Management	6,415	7,260	845
Stormwater Trunk/Force Sewers	21,461	21,081	(380)
Sub-total	92,256	94,715	2,459
<u>Sanitary Sewer</u>			
Sanitary Collection Sewers	15,475	15,231	(244)
Sanitary On-Going Projects	58,729	60,569	1,840
Sanitary Pumping Facilities	15,205	20,171	4,966
Sanitary Sewer Projects Program Management	13,696	14,930	1,234
Sanitary Interceptor/Trunk Force Sewers	74,071	82,100	8,030
Sub-total	177,175	193,001	15,826
<u>Water</u>			
Water Distribution Systems	230,602	291,707	61,105
Water On-Going Projects	47,830	52,085	4,255
Water Pumping Facilities	79,251	83,053	3,802
DDOT Water Projects	33,325	40,256	6,931
Water Storage Facilities	38,957	36,663	(2,294)
Water Projects Program Management	28,627	25,044	(3,583)
Meter Replacement /AMR Installation	43,409	46,000	2,591
Sub-total	502,000	574,808	72,808

**FY 2003 - FY 2012 Capital Improvement Plan
Project Lifetime Budgets by Program Area (\$000's)**

	FY 2004	FY 2005	Variance
Washington Aqueduct	197,867	204,570	6,703
Capital Equipment	85,566	101,449	15,883
Sub-total	2,261,840	2,353,762	91,922
<u>Combined Sewer Overflow</u>			
CSO Program Management	18,729	15,254	(3,475)
Combined Sewer Projects	142,148	150,176	8,028
Long-Term Control Plan (see note 1)	2,457,000	2,457,000	-
Sub-total	2,617,877	2,622,430	4,553
Total WASA CIP Lifetime (see notes)	4,879,717	4,976,192	96,475

Notes:

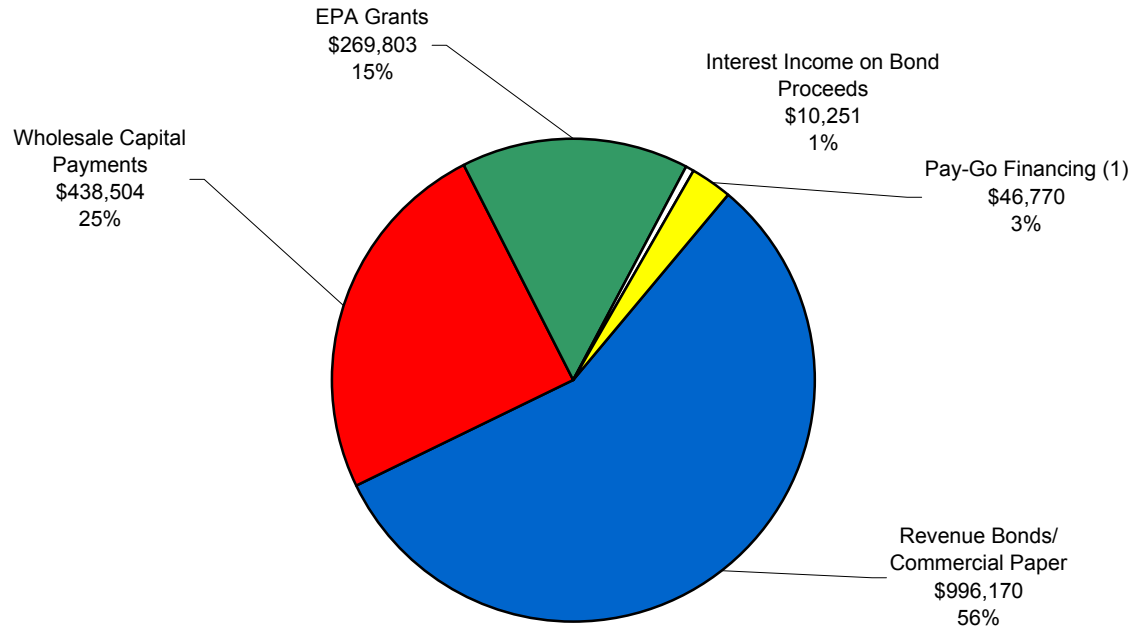
- 1 As discussed in Section 1 of this document, the CSO Long-Term Control Plan (LTCP) was approved by the Board of Directors and forwarded to the EPA in August 2002. The total cost of the proposed plan is \$2.6 billion, assuming implementation over 40 years and annual inflation of three percent. WASA's CIP previously included approximately \$143 million (cash disbursements basis) for various CSO-related projects. These include pumping station rehabilitations, fabridams, and other related improvements. These were the only CSO-related projects included in the CIP (excluding CSO program management and plan development), pending input from stakeholders, finalization of a Board-approved plan for submission to the EPA, and development of a financing plan. WASA received \$49.7 million in FY 2003, with a 100 percent match, and has received preliminary indications that an additional \$25 - \$35 million may be received in FY 2004 for initial funding of the LTCP. Because it is highly unlikely that this outside funding will continue to be appropriated without ultimate implementation of the proposed LTCP, we have added the \$2.6 billion LTCP to the lifetime CIP, although because of the 40-year implementation schedule, only \$189.8 million is projected to be disbursed in the current 10-year planning period. In addition, while we have added the LTCP to the CIP to accommodate the potential receipt of these grants, WASA does not intend to undertake any additional LTCP work beyond those \$143 million (cash disbursements basis) of projects previously included in the CIP) until completion of an EPA and Board-approved LTCP, except as authorized by the Board of Directors.
- 2 Lifetime budgets shown here represent total budgets for projects that are active during the current 10-year CIP. Lifetime budgets include historical spending prior to the beginning of the current 10-year plan, spending during the 10-year plan, and projected spending beyond the current 10-year plan. Projects completed in FY 2003 will be dropped from the CIP next year.
- 3 These budgets do not include inhouse labor costs, which historically have averaged \$6 to \$8 million annually and are applicable primarily to time charged to capital projects by employees in the Departments of Engineering, Sewer Services, and Water Services.

**Fiscal Year 2005 Capital Authority Request
(\$000's)**

<u>Program Areas</u>	<u>Fiscal Year 2005 Capital Authority Request</u>
Blue Plains Wastewater Treatment	181,656
Sewer Collection System	43,800
Combined Sewer Projects ¹	0
Stormwater	9,118
Water System	122,627
Washington Aqueduct (WASA share)	0
Capital Equipment	<u>13,839</u>
Total	<u>371,040</u>

¹ The combined sewer projects' authority request is zero, as existing, previously requested, capital authority in this service area is in excess of projected commitments in FY 2004, FY 2005, and the first half of FY 2006.

FY 2003 - 2012 CAPITAL IMPROVEMENT PROGRAM
Sources of Funds
(In \$000's)



(1) Pay-go financing is any funds available after funding the 180 day, or approximately \$95.5 million in FY 2004, operating and maintenance reserve. These transfers are first used to pay down higher cost debt (such as U.S. Treasury notes for interim financing of Washington Aqueduct improvements), and then used to reduce the amount of revenue bond/commercial paper issuance.

**CAPITAL IMPROVEMENT PROGRAM
FY 2003 - FY 2005
SOURCES & USES
(In \$000's)**

	FY 2003	FY 2004	FY 2005
SOURCES			
Commercial Paper / New Debt Proceeds (1)	\$ 93,313	\$ 102,305	\$ 128,947
Treasury Notes for Washington Aqueduct (2)	1,165	-	-
Pay-Go Financing (3)	10,397	15,990	4,692
EPA Grants (4)	27,254	34,845	34,692
Wholesale Customer Capital Payments	72,175	71,944	68,278
Interest Income	116	128	1,631
TOTAL SOURCES	\$ 204,420	\$ 225,212	\$ 238,240
USES			
Blue Plains Projects	\$ 125,284	\$ 110,893	\$ 104,291
Combined Sewer Projects	11,889	14,092	16,737
Combined Sewer LTCP Projects (5)	-	730	6,740
Sanitary Sewer Projects	5,088	15,208	22,625
Stormwater Projects	2,730	3,543	6,760
Water Projects	44,377	51,092	54,584
Washington Aqueduct	5,520	14,774	12,007
Capital Equipment	9,532	14,880	14,496
TOTAL USES	\$ 204,420	\$ 225,212	\$ 238,240

(1) Reflects issuance of commercial paper for interim financing beginning in early FY 2004, with issuance of take-out financing (either revenue bonds or variable rate debt) once the commercial paper program issue is fully utilized. The next take-out financing is currently projected to occur in summer 2004.

(2) Taxable U.S. Treasury notes are used for interim financing of WASA's share of the Aqueduct's capital program. Instead of using this higher cost financing source for permanent financing, WASA has prepaid this debt in the fiscal year after it is originally incurred, following WASA's policy of first using available pay-go funds to retire higher cost debt and second to reduce tax-exempt borrowing for the remainder of the capital program.

(3) Pay-go financing is cash available after meeting the 180 day operating reserve requirement, which totals \$95.5 million in FY 2004.

(4) Includes FY 2003 Congressional appropriation for the CSO LTCP and projected FY 2004 funding.

(5) Reflects the early years of the proposed CSO LTCP assuming a forty year implementation schedule. Additional details on the CSO LTCP and this funding can be found in Sections I, III and V.

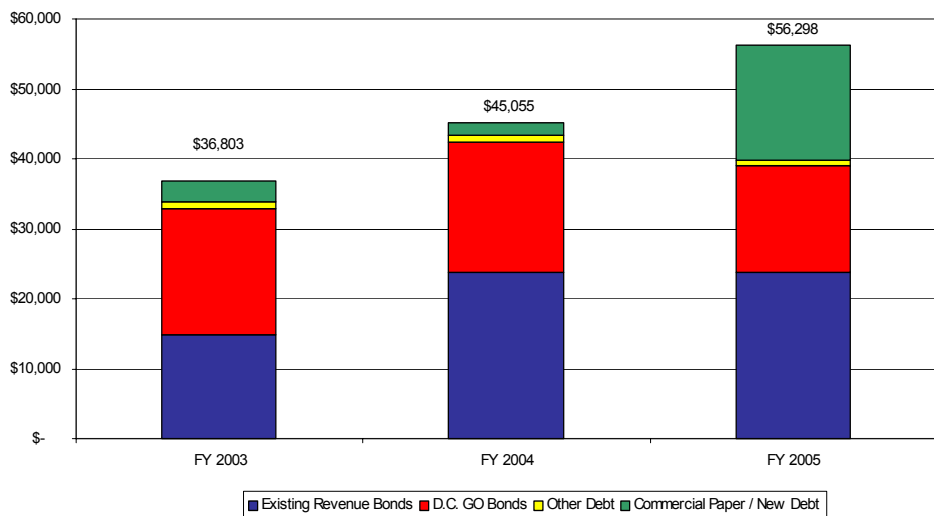
CASH RESERVES SUMMARY

(In \$000's)

	FY 2003 Actual	FY 2004 Approved Budget	FY 2004 Revised Budget	FY 2005 Approved Budget
Beginning O&M Reserve Balance (Net of Rate Stabilization Fund)	\$ 120,101	\$ 94,887	\$ 118,738	\$ 100,465
Operating Surplus	41,690	14,592	8,649	8,242
Wholesale Customer Refunds/Payments for Prior Years	7,021	-	(7,800)	-
Transfer to Rate Stabilization Fund	(7,000)	(4,300)	-	-
Prior Year Right of Way Payment	(10,600)	-	-	-
Prior Year Federal Billing Reconciliation	(14,069)	(1,923)	(1,923)	(7,424)
Prepayment of Aqueduct Treasury Loans	(8,007)	(1,209)	(1,209)	-
Pay-As-You-Go Capital Financing	(10,398)	(6,035)	(15,990)	(4,691)
Ending O&M Reserve Balance (Net of Rate Stabilization Fund)	\$ 118,738	\$ 96,012	\$ 100,465	\$ 96,592
Rate Stabilization Fund	\$ 21,500	\$ 20,800	\$ 21,500	\$ 21,500

MAJOR HIGHLIGHTS & ISSUES IN DEBT IN FY 2003 - 2005

PROJECTED DEBT SERVICE FY 2003 – 2005 (In \$000's)



Due to WASA's \$1.7 billion capital improvement program (cash disbursements basis), debt service represents the fastest growing area of WASA's operating budget.

- ✓ *FY 2004 projected debt service is approximately \$8.3 million, or 22 percent, higher than FY 2003 debt service due primarily to full year amortization of the Series 2003 subordinate lien revenue bonds plus new commercial paper debt service.*
- ✓ *FY 2005 projected debt service is approximately \$11.2 million higher than FY 2004 due primarily to the issuance of new debt, offset by a scheduled \$3.5 million reduction in District general obligation debt service.*

CAPITAL FINANCING PLAN

WASA prepared a comprehensive capital financing plan in FY 1999 containing two key goals: 1) minimize WASA's cost of capital and 2) increase operational flexibility. This plan includes the following components:

- ✓ *Interim financing program for construction financing – WASA implemented a new commercial paper program in early FY 2002.*
- ✓ *Issuance of take-out financings (either fixed rate or variable rate debt) as needed for permanent financing*
- ✓ *Use of pay-go financing to first prepay higher cost debt, such as taxable U.S. Treasury notes issued for the Washington Aqueduct*
 - *At the end of FY 2003, WASA had prepaid \$57 million in U.S. Treasury notes*

BOND RATINGS – WASA received upgrades to the Aa category in 2003.

- *Moody's – Aa3*
- *Standard & Poor's – AA-*
- *Fitch – AA-*

OUTSTANDING DEBT

DEBT OUTSTANDING AS OF SEPTEMBER 30, 2003 (1)

<u>SENIOR DEBT</u>	<u>INTEREST RATES</u>	<u>FINAL MATURITY</u>	<u>AMOUNT OUTSTANDING</u>
Public Utility Revenue Bonds, Series 2003	5.50 - 6.00	2028	266,120
<u>SUBORDINATE DEBT</u>			
Public Utility Subordinated Lien Revenue Bonds, Series 2003	5.0 - 5.25	2033	176,220
Notes payable to the federal government for Jennings Randolph Reservoir	3.25	2041	16,896
Notes payable to WSSC for Little Seneca Reservoir	5.98 - 6.60	2014	360
District of Columbia general obligation bonds - varying series -reflects prepayment	4.55 - 6.75	2012	51,217
TOTAL SUBORDINATE DEBT			<u>244,693</u>
TOTAL DEBT OUTSTANDING			<u><u>510,813</u></u>

(1) Excludes U.S. Treasury notes for interim financing of Washington Aqueduct projects which have been prepaid with pay-as-you-go financing.

LEGAL DEBT LIMIT: WASA is not subject to any legal debt limitations.

PUBLIC UTILITY REVENUE BONDS (Senior Lien): Senior lien debt issued under WASA's master trust indenture; WASA has issued one series to date in 1998 totaling \$266.120 million. This series was insured by FSA and is rated Aaa / AAA / AAA.

PUBLIC UTILITY REVENUE BONDS (Subordinate Lien): Subordinate lien debt issued under WASA's master trust indenture; WASA has issued one series to date in 2003 totaling \$176.220 million. This series was insured by FGIC and is rated Aaa / AAA / AAA.

DISTRICT GENERAL OBLIGATION BONDS: Debt issued by the District of Columbia government for capital improvements of WASA's predecessor agency which WASA assumed at its creation. This debt is treated as subordinate under WASA's master trust

indenture. Under a 1998 MOU with the District, WASA prepays the next fiscal year's debt service each September, e.g., in September 2003, WASA prepaid FY 2004 debt service.

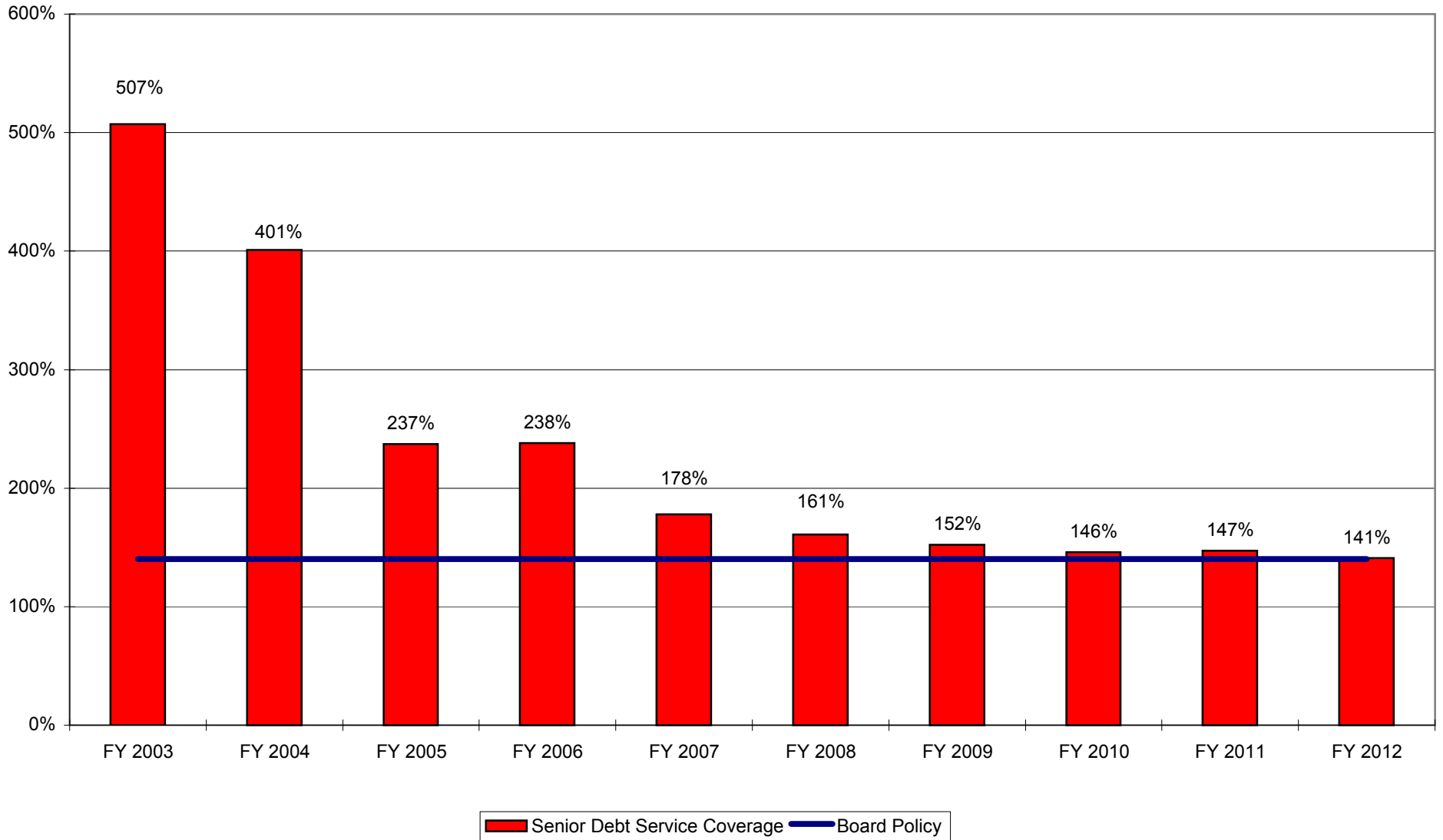
NOTES FOR JENNINGS RANDOLPH RESERVOIR: Debt issued by the federal government for construction of this backup water supply facility; WASA's share of operating and capital costs is 30 percent.

NOTES FOR LITTLE SENECA RESERVOIR: Debt issued by the Washington Suburban Sanitary Commission (WSSC) for construction of this backup water supply facility; WASA's share of operating and capital costs is 40 percent.

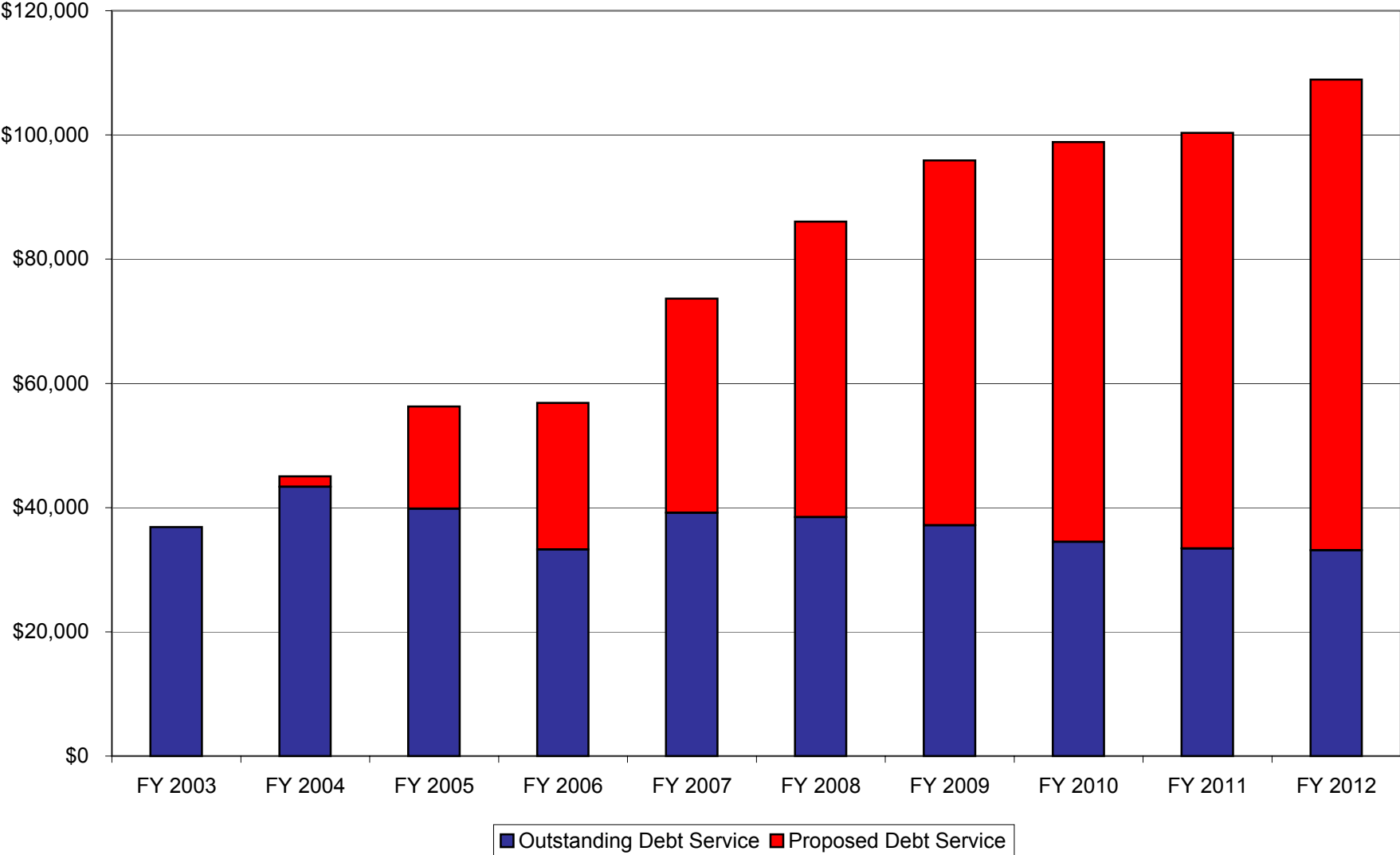
U.S. TREASURY NOTES FOR THE WASHINGTON AQUEDUCT: A portion of the Washington Aqueduct's capital program is financed by U.S. Treasury notes, and WASA is responsible for approximately 76 percent of this debt. Because these notes are issued on a taxable basis (and thus carry higher interest rates), WASA has prepaid this debt annually with pay-as-you-go financing.

COMMERCIAL PAPER: As described in Section 3, WASA developed this program in early FY 2002 for interim financing of its capital program, and all outstanding borrowings were refunded by the issuance of subordinate lien revenue bonds in 2003. WASA's commercial paper program is issued in increments with maturities less than 270 days, and in normal market conditions carries significantly lower interest rates than long-term debt. In addition, notes under the program are issued on a subordinate basis. WASA's commercial paper program is backed by a direct pay letter of credit issued by Westdeutsche Landesbank Girozentrale (WestLB).

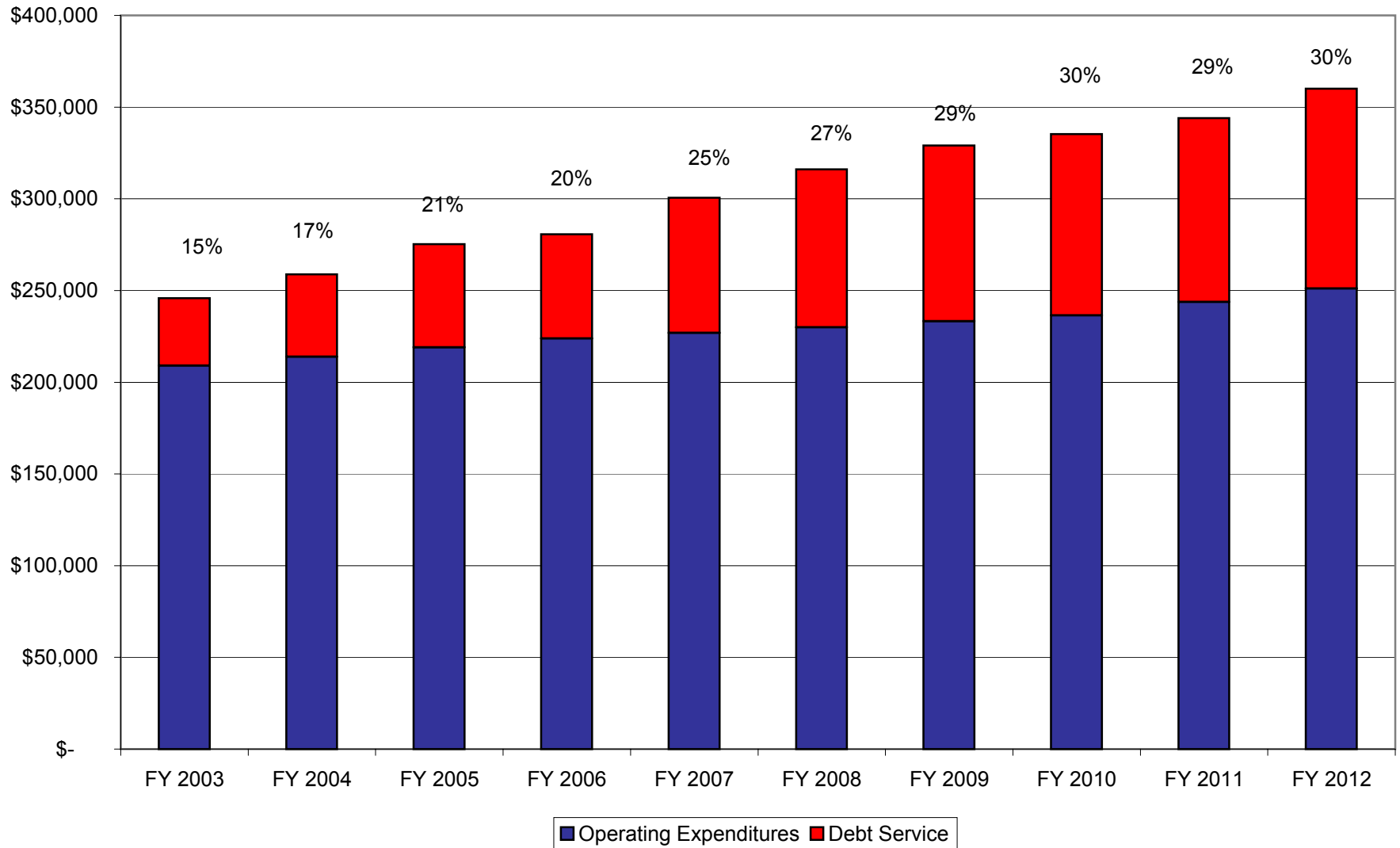
SENIOR DEBT SERVICE COVERAGE
FY 2003 - 2012



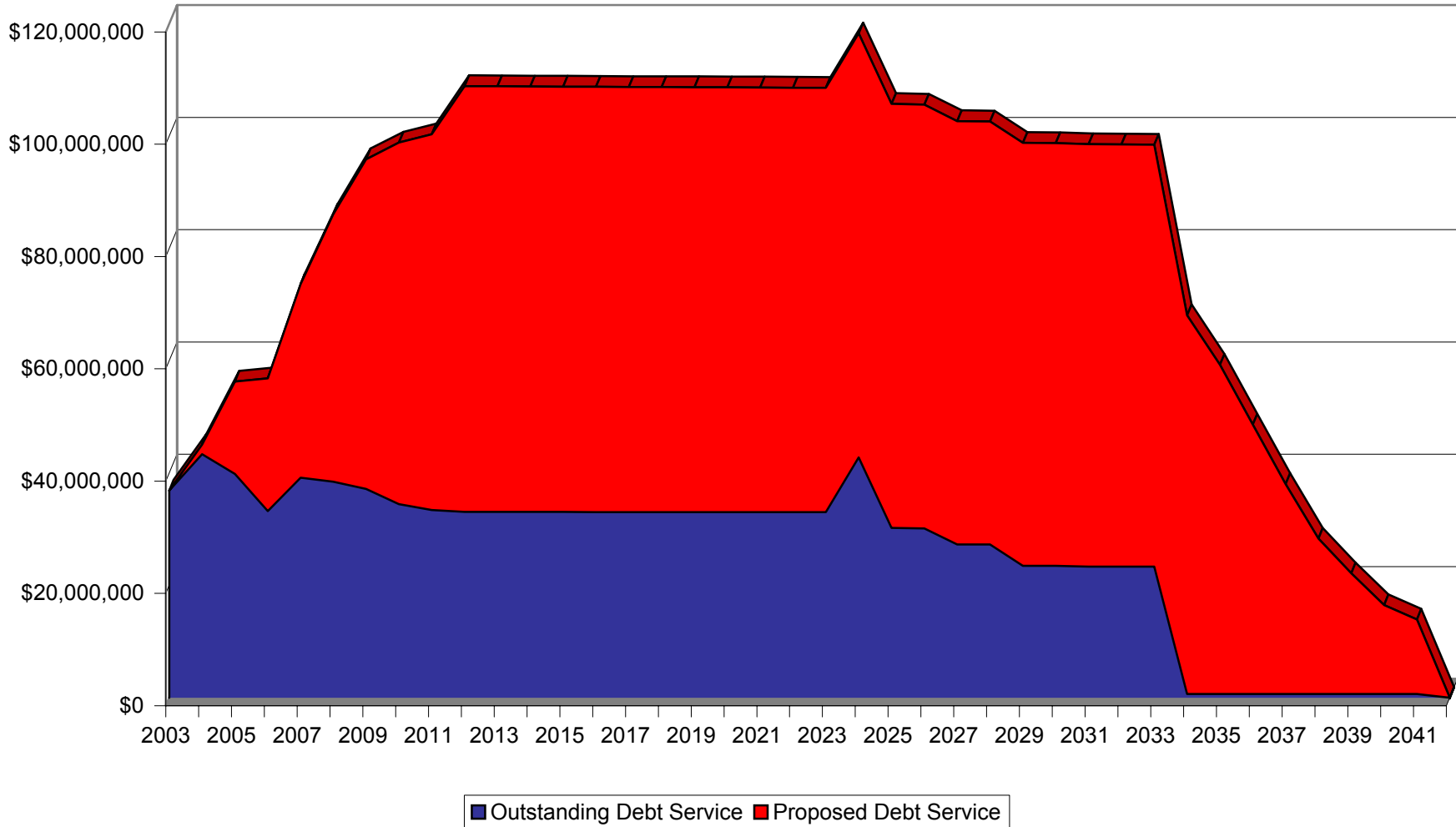
OUTSTANDING & PROPOSED DEBT SERVICE
FY 2003 - 2012
(In \$000's)



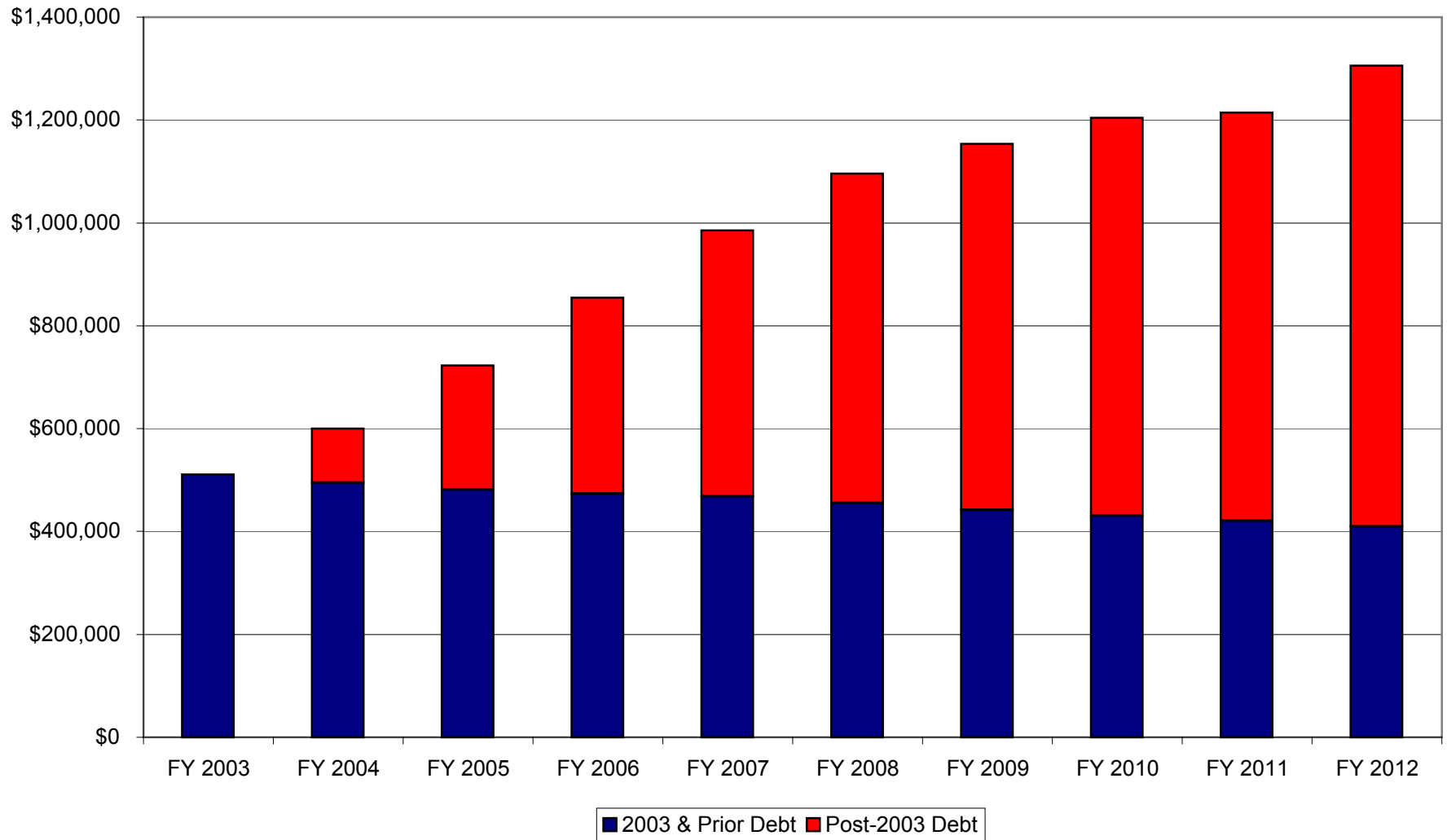
DEBT SERVICE AS PERCENTAGE OF TOTAL OPERATING EXPENDITURES
FY 2003 - 2012
(In \$000's)



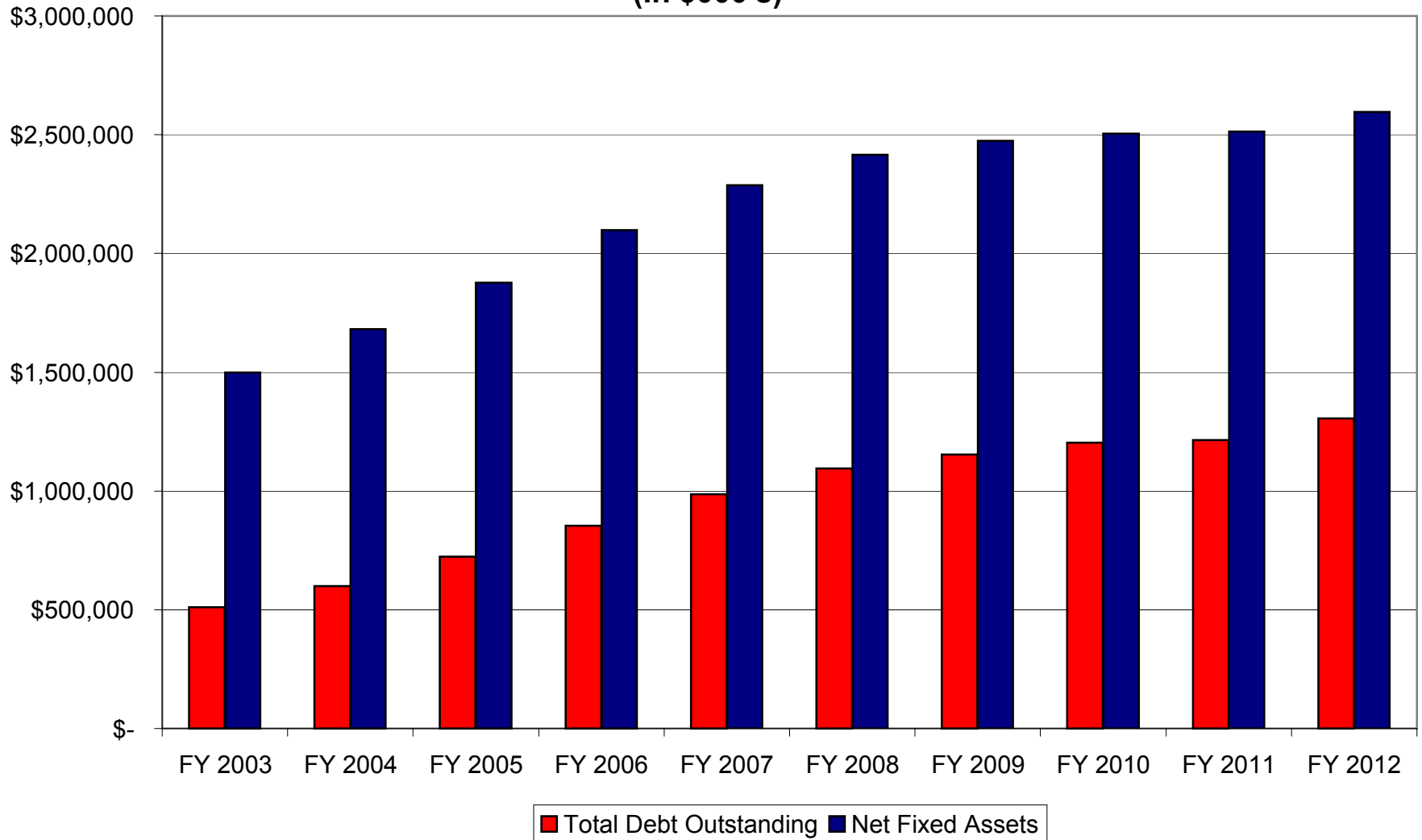
OUTSTANDING & PROPOSED DEBT SERVICE
FY 2003 - 2042
Based on FY 2003 - 2012 Financial Plan



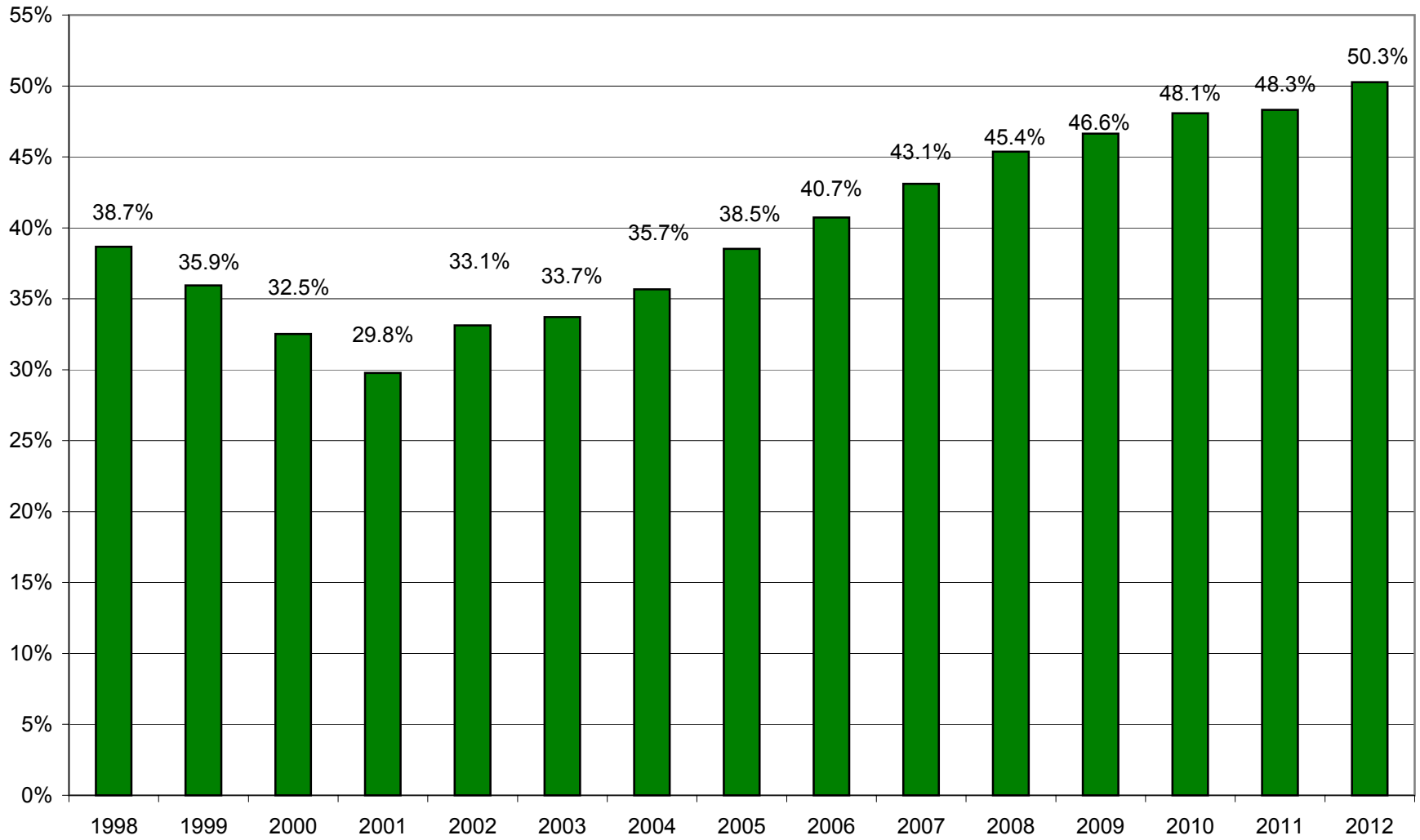
TOTAL PRINCIPAL OUTSTANDING
Existing and Projected Based on FY 2003 - 2012 Capital Improvement Program
(In \$000's)



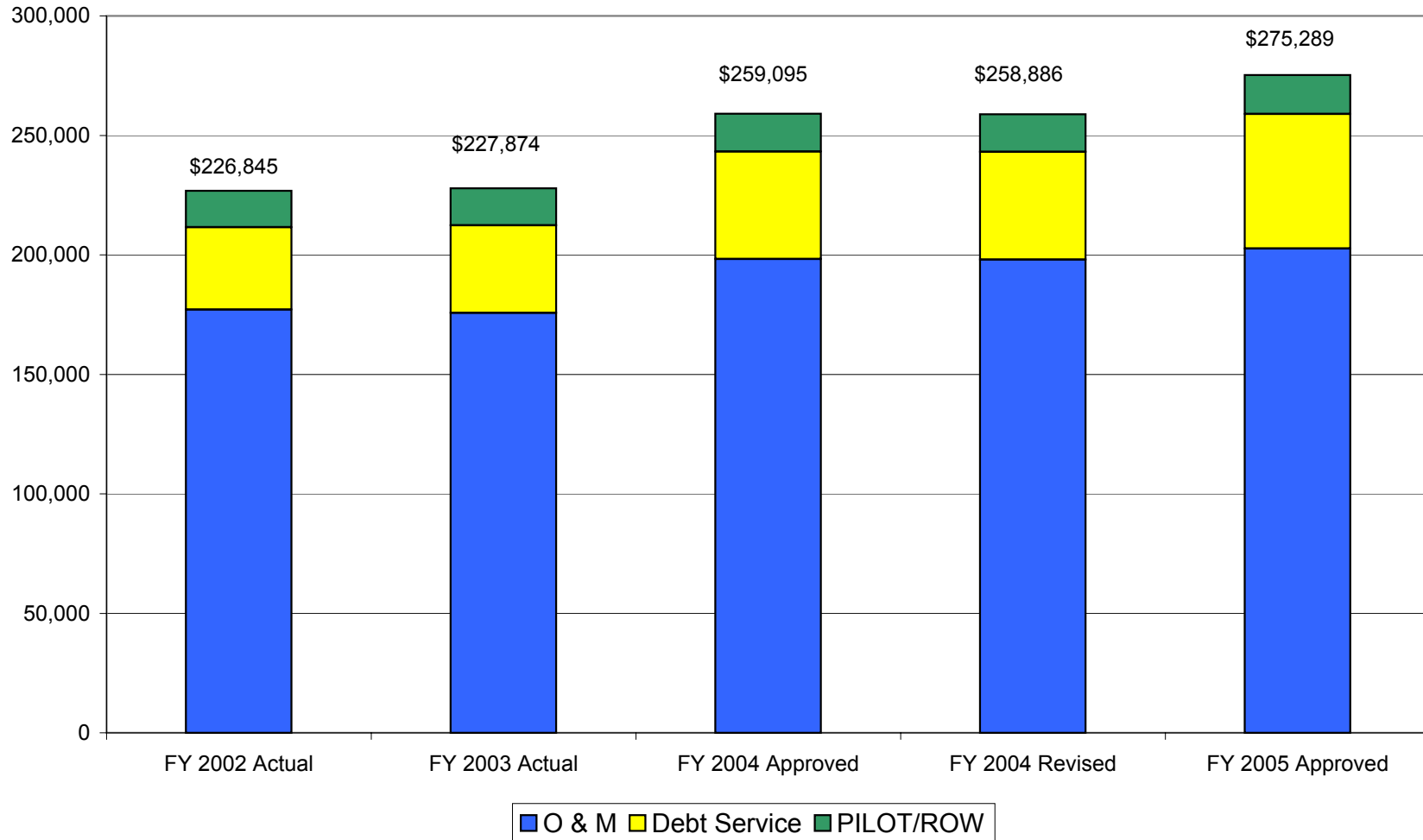
PROJECTED TOTAL DEBT VS. PROJECTED TOTAL FIXED ASSETS
FY 2003 - 2012
(In \$000's)



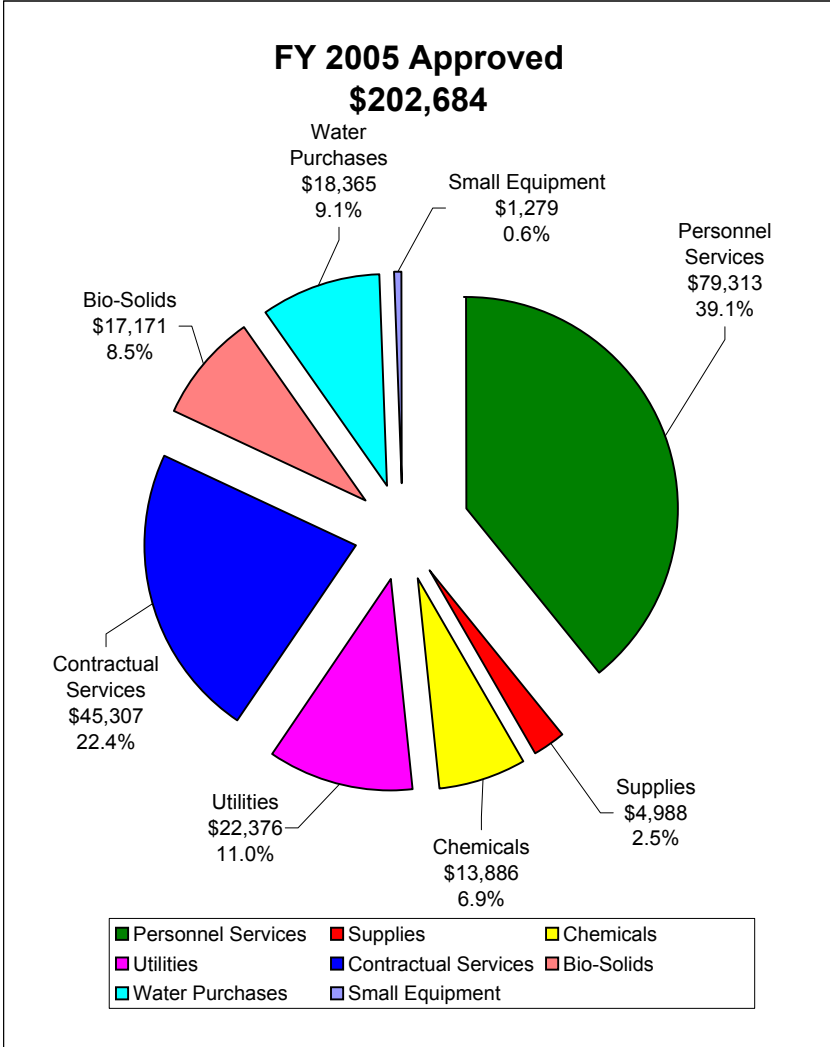
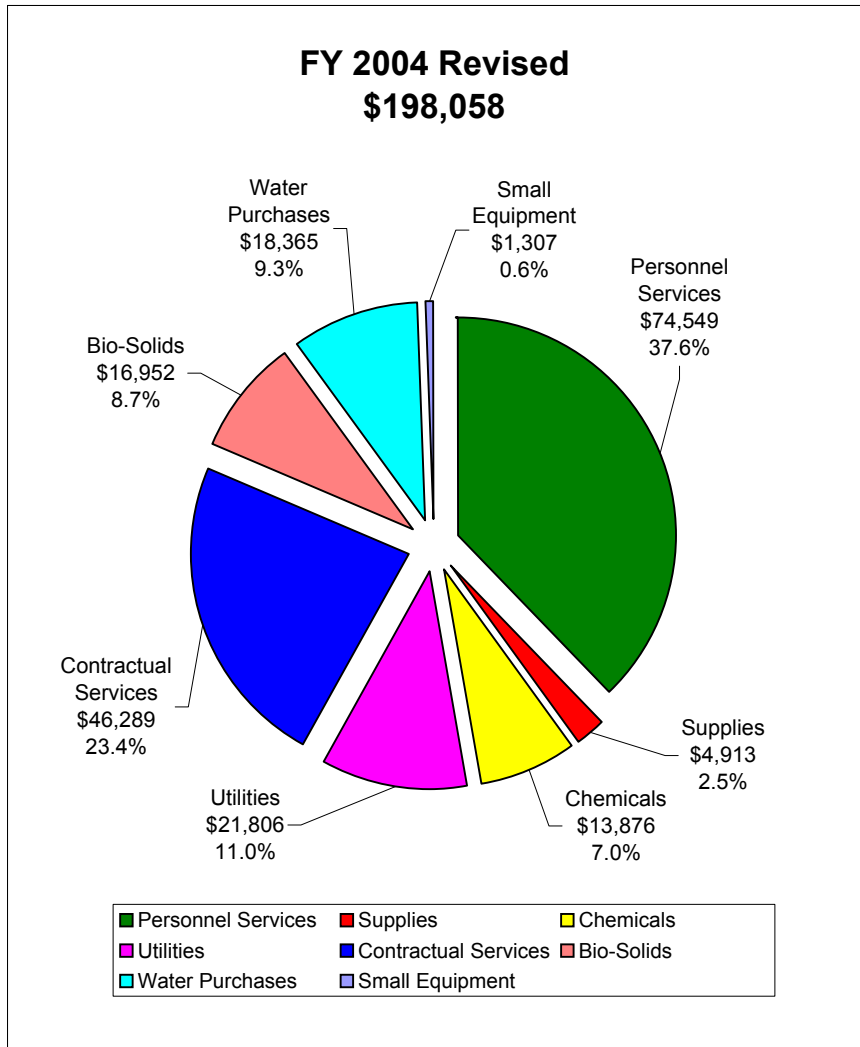
**DEBT TO NET FIXED ASSETS RATIO
FY 1998 - 2012**



Comparative Operating Expenditures FY 2002 - FY 2005 (\$000's)



Operating & Maintenance Expenditures By Category (\$000's)



Comparative Operating Expenditures
(\$000's)

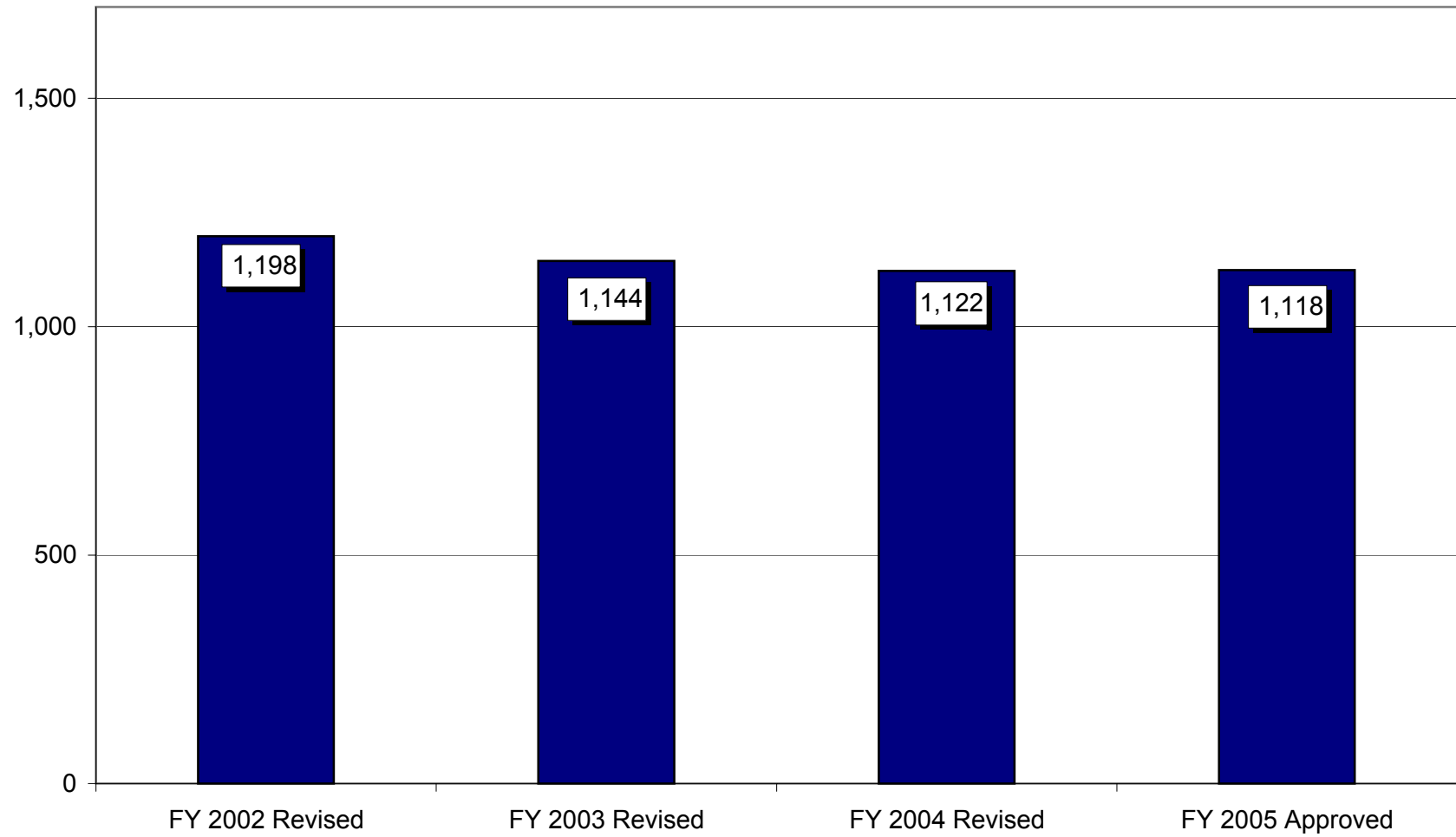
	<u>FY 2002 ACTUAL</u>	<u>FY 2003 ACTUAL</u>	<u>FY 2004 APPROVED</u>	<u>FY 2004 REVISED</u>	<u>FY 2005 APPROVED</u>
<u>OPERATING</u>					
Personnel Services	68,507	71,028	74,932	74,549	79,313
Contractual Services	59,166	63,892	63,087	63,241	62,478
Water Purchases	16,904	13,723	18,365	18,365	18,365
Chemicals and Supplies	11,483	12,153	18,964	18,789	18,874
Utilities	20,071	20,804	21,608	21,806	22,376
Small Equipment	960	1,025	1,260	1,307	1,279
Subtotal O & M Expenditures	177,091	182,624	198,216	198,058	202,684
Debt Service	34,507	36,674	45,055	45,055	56,298
Payment in Lieu of Taxes/ Right of Way	15,247	15,513	15,825	15,773	16,307
Total O & M Expenditures	226,844	234,811	259,096	258,886	275,289
Personnel Services charged to Capital Projects	(6,345)	(6,937)	(6,000)	(8,000)	(8,376)
Total Net Operating Expenditures	220,499	227,874	253,095	250,886	266,913

Comparative Operating Expenditures by Department

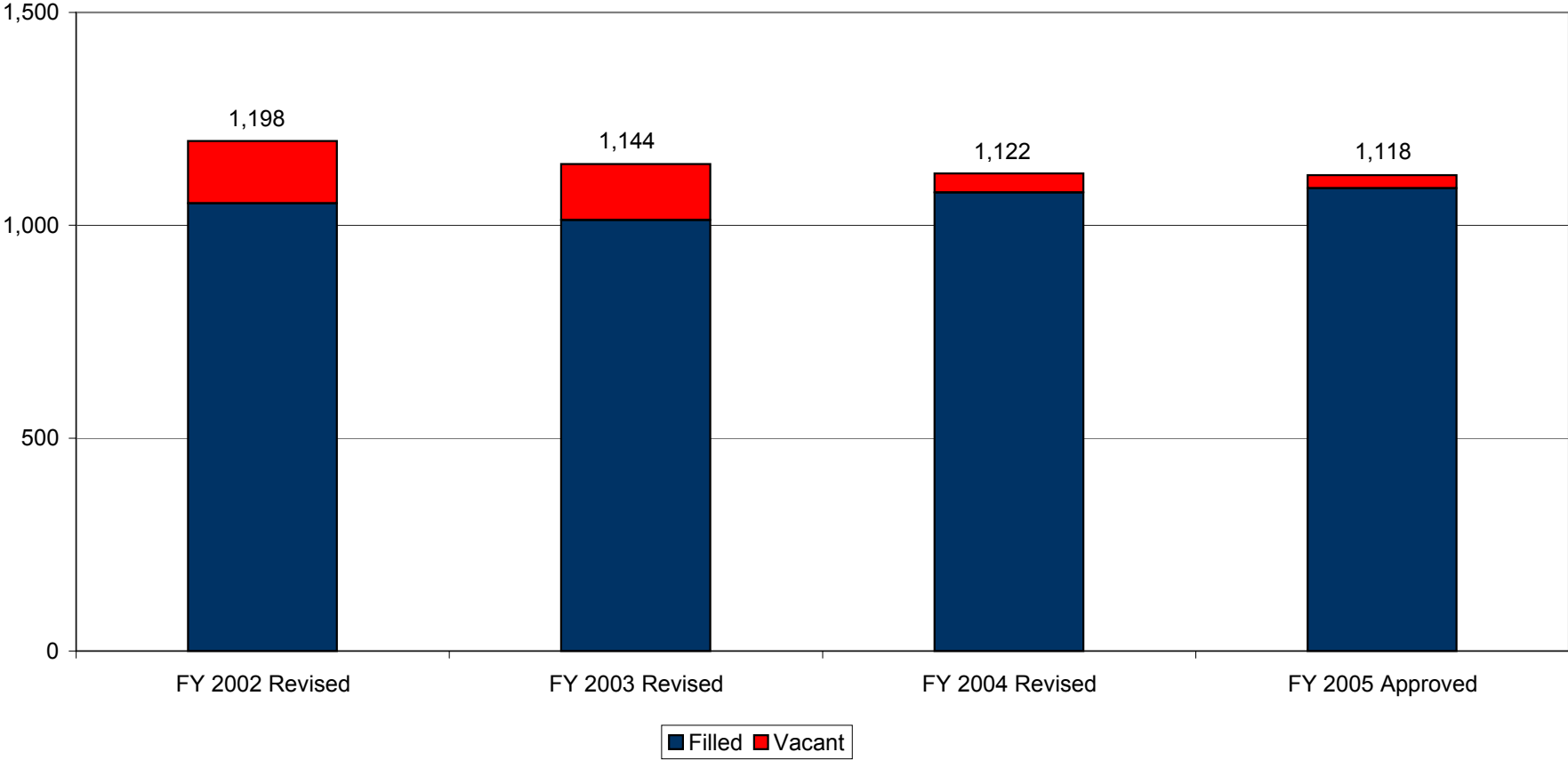
(\$000's)

	<u>FY 2003 Actual</u>	<u>FY 2004 Approved</u>	<u>FY 2004 Revised</u>	<u>FY 2005 Approved</u>	
O p e r a t i o n s	Wastewater Treatment	58,650	63,986	63,274	62,846
	Water Services	30,975	37,645	36,659	37,814
	Sewer Services	12,118	13,447	13,203	13,906
	Maintenance Services	19,807	21,315	20,945	21,386
	Engineering & Technical Services	10,312	11,789	11,674	12,384
	Customer Service	9,611	10,084	11,194	11,886
	Subtotal	<u>141,473</u>	<u>158,266</u>	<u>156,949</u>	<u>160,222</u>
A d m i n i s t r a t i o n	Office of the Secretary	267	373	372	380
	General Manager	880	949	1,119	1,178
	General Counsel	4,765	3,439	3,607	3,541
	Public Affairs	754	838	900	997
	Internal Audit	420	521	462	484
	Finance and Budget	4,921	5,761	5,539	5,798
	Information Technology	3,377	4,133	4,280	4,377
	Risk Management	8,589	5,647	6,674	6,835
	Assistant General Manager	425	495	417	429
	Facilities & Security	7,654	8,144	8,157	8,585
	Occupational Safety and Health	530	663	710	735
	Procurement & Materiel Management	2,932	3,075	2,926	3,025
	Fleet Management	2,744	2,939	2,701	2,852
	Human Resources	2,892	2,972	3,243	3,245
Subtotal	<u>41,152</u>	<u>39,949</u>	<u>41,107</u>	<u>42,461</u>	
Subtotal O & M Expenditures	182,624	198,215	198,057	202,684	
Debt Service	36,674	45,055	45,055	56,298	
Payment in Lieu of Taxes/ Right of Way	15,513	15,825	15,773	16,307	
Total O & M Expenditures	234,811	259,095	258,886	275,289	
Personnel Services charged to Capital Projects	(6,937)	(6,000)	(8,000)	(8,376)	
Total Net Operating Expenditures	<u>227,874</u>	<u>253,095</u>	<u>250,886</u>	<u>266,913</u>	

**Authorized Positions
FY 2002 - FY 2005**



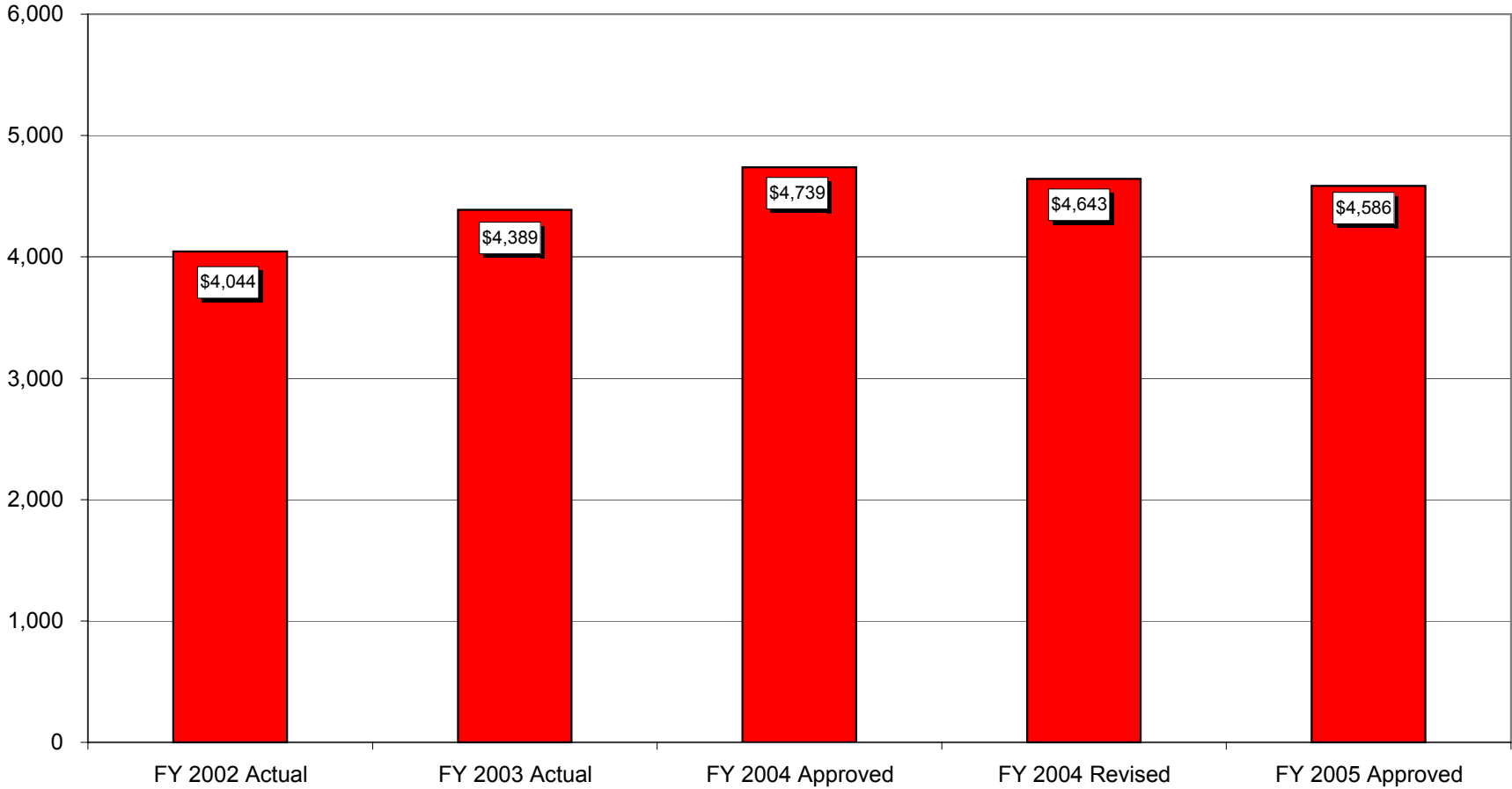
**Filled vs. Vacant Positions
FY 2002 - FY 2005**



FY 2004 Revised & FY 2005 Approved Position Request

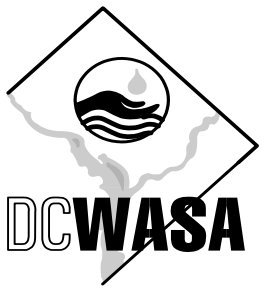
	Fiscal Year 2002			FY 2002	Fiscal Year 2003			FY 2003	Fiscal Year 2004		Fiscal Year 2005
	Authorized	Average Filled	Average Vacant	Year-End Filled	Authorized	Average Filled	Average Vacant	Year-End Filled	Authorized	Revised	Approved
Operations											
Wastewater Treatment	169	149	20	144	152	141	11	135	144	144	144
Water Services	173	155	18	150	170	145	25	134	170	158	158
Sewer Services	171	152	19	144	160	145	15	144	160	159	159
Maintenance Services	197	185	12	181	194	178	16	176	190	185	182
Engineering & Technical Services	117	94	23	97	118	100	18	100	118	118	118
Customer Service	123	109	14	97	110	94	16	87	105	119	119
Subtotal	950	844	106	813	904	803	101	776	887	883	880
Administration											
Secretary to the Board of Directors	2	2	-	2	2	2	-	2	2	2	2
General Manager	6	5	1	5	6	5	1	5	6	6	6
General Counsel	9	8	1	8	10	9	1	8	10	10	10
Public Affairs	5	4	1	3	5	3	2	4	5	5	5
Internal Audit	4	3	1	2	4	3	1	4	4	4	4
Finance	42	39	3	38	42	38	4	37	42	42	42
Information Technology	29	16	13	14	29	15	14	18	29	29	29
Risk Management	3	2	1	2	3	3	-	3	3	3	3
Assistant General Manager	4	3	1	4	4	3	1	3	4	4	3
Facilities and Security	72	57	15	59	63	60	3	56	63	63	64
Occupational Safety and Health	5	5	-	4	6	6	-	6	6	6	6
Procurement & Materiel Management	42	40	2	39	40	38	2	36	40	39	38
Fleet Management	5	4	1	5	5	5	-	4	5	5	5
Human Resources	20	20	-	19	21	19	2	19	21	21	21
Subtotal	248	208	40	204	240	209	31	205	240	239	238
Total Positions	1,198	1,052	146	1,017	1,144	1,012	132	981	1,127	1,122	1,118

**Overtime Expenditures
FY 2002 - FY 2005**

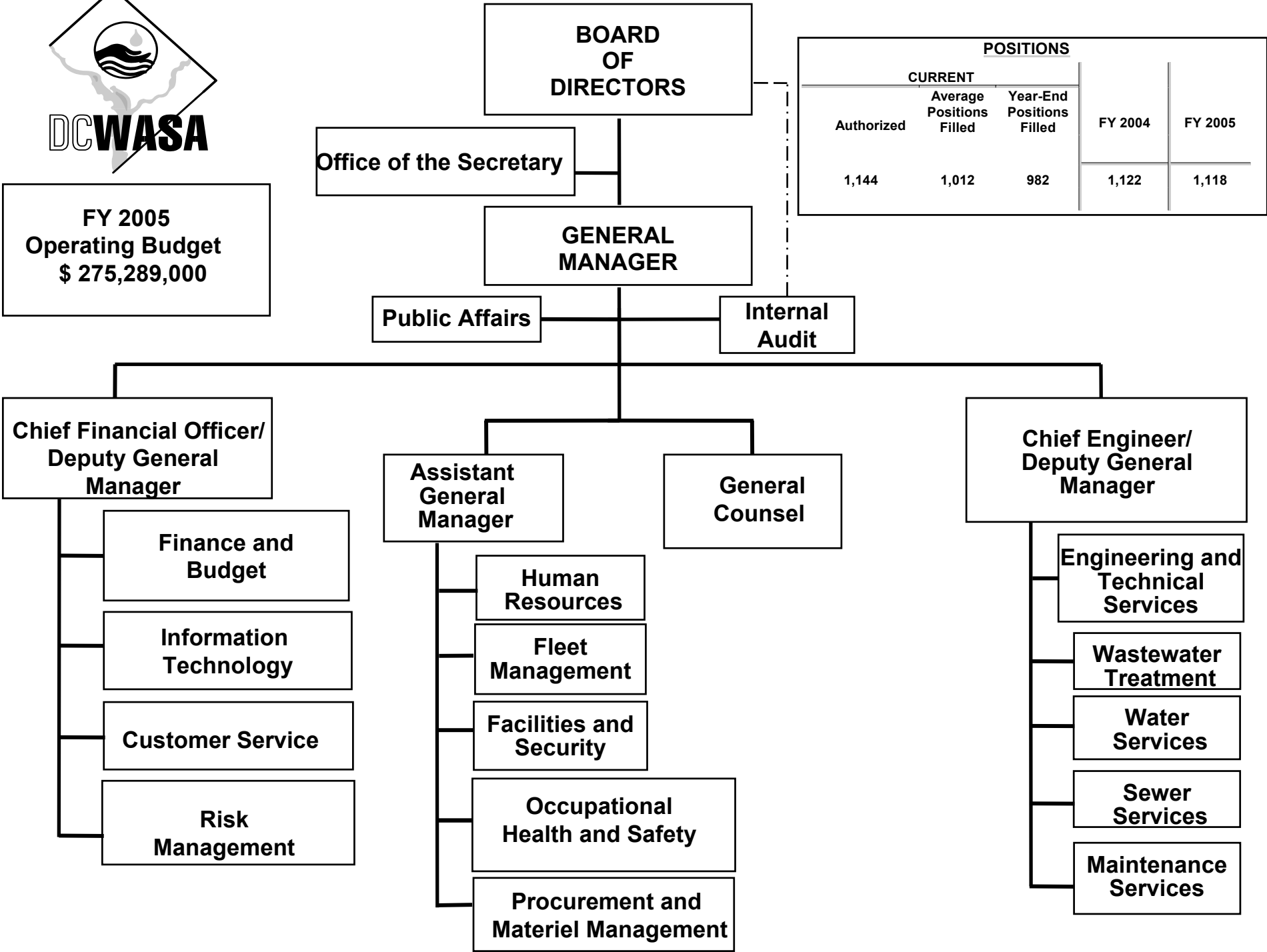


OVERTIME BY DEPARTMENT
(\$000's)

Department	FY 2002 Actual	FY 2003 Revised	FY 2003 Actual	FY 2004 Approved	FY 2004 Revised	FY 2005 Approved
Wastewater Treatment	875	1,052	890	1,021	1,021	964
Water Services	917	978	1,001	978	978	978
Sewer Services	812	882	854	882	882	882
Maintenance Services	743	815	909	800	800	800
Engineering & Technical Services	212	425	237	425	425	425
Customer Service	225	300	190	300	200	200
Secretary to the Board of Directors	1	2	2	2	2	2
General Manager	15	15	13	15	15	15
General Counsel	1	2	1	2	2	2
Public Affairs	0	2	1	2	2	2
Internal Audit	0	0	0	0	0	0
Finance & Budget	31	40	30	40	40	40
Information Technology	34	50	22	50	50	50
Risk Management	0	0	2	0	2	2
Assistant General Manager	0	0	1	0	2	2
Facilities & Security	124	142	192	142	142	142
Occupational Safety & Health	0	1	1	1	1	1
Procurement & Materiel Management	50	52	38	52	52	52
Fleet Management	0	2	1	2	2	2
Human Resources	4	25	2	25	25	25
Total	4,044	4,785	4,389	4,739	4,643	4,586



**FY 2005
Operating Budget
\$ 275,289,000**



POSITIONS				
Authorized	CURRENT		FY 2004	FY 2005
	Average Positions Filled	Year-End Positions Filled		
1,144	1,012	982	1,122	1,118



**FY 2005 Budget
\$62,846,000**

**CHIEF
ENGINEER**

**WASTEWATER
TREATMENT
6- Positions**

POSITIONS				
CURRENT			FY 2004	FY 2005
Authorized	Average Positions Filled	Year-End Positions Filled		
152	141	135	144	144

**General Foremen
4- Positions**

FUNCTIONS

- Plant shift supervision (24/7)

**Process Engineering
8- Positions**

FUNCTIONS

- Engineering control, coordination with design and construction, plant automation (PCCS)

**Laboratory and
Pretreatment
Branch
10 - Positions**

FUNCTIONS

- Physical, chemical and biological analysis of wastewater and biosolids used for process control and permit reporting
- Industrial discharge monitoring

**Solids
Processing
Branch
36 - Positions**

FUNCTIONS

- Biosolids conditioning, thickening, dewatering, and stabilization

**Wastewater
Treatment
Branch
73 - Positions**

FUNCTIONS

- Treat influent wastewater to remove pollutants and organic matter and meet National Pollutant Discharge Elimination System Permit (NPDES) requirements

**Biosolids
Management
Branch
7 - Positions**

FUNCTIONS

- Biosolids storage, loading, hauling and utilization/ disposal

WASTEWATER TREATMENT

MISSION: To treat wastewater delivered to Blue Plains from the collection system of the District of Columbia and surrounding jurisdictions in Maryland and Virginia, ensuring that effluent is in compliance with the Clean Water Act.

BUDGET OVERVIEW: The revised FY 2004 operating budget is \$0.7 million less than the FY 2004 approved budget due to the renegotiation of biosolids hauling contracts that result in savings of \$1.2 million. These savings are offset by increased dewatering contract expenditures due to a delay in a related capital project and a new biosolids monitoring fee imposed by Virginia counties. The FY 2005 approved budget decreases by \$0.4 million due to reduced dewatering contract expenditures offset by projected compensation increases, utility costs increases, and scheduled contract increases for biosolids hauling. The department will be analyzing biosolids hauling alternatives, including bringing this service in-house in FY 2004.

	FY 2003 Revised	FY 2004 Approved	FY 2004 Revised	FY 2005 Approved
Positions: (FTE's)				
Number of authorized positions	152	144	144	144
Average number of positions filled	141			
Operating Expenses				
Personnel Services including Overtime	10,171	10,026	9,951	10,392
Overtime	1,052	1,021	1,021	964
Non-Personnel Services:				
Chemicals & Supplies	12,835	14,346	14,299	14,299
Utilities	14,611	14,611	14,614	14,934
Contractual Services, etc.	7,828	7,005	7,302	5,911
BioSolids	17,471	17,871	16,952	17,171
Small Equipment	158	126	156	140
Total Non-Personnel Services	52,903	53,959	53,323	52,454
Total Operations & Maintenance	63,074	63,985	63,274	62,846
Capital Equipment	147	62	112	52

Targeted Performance Measures	FY 2003 Projection	FY 2004 Budget	FY 2004 Projection	FY 2005 Projection
Achieve AMSA Gold Award Status	Gold	Gold	Gold	Gold
Compliance with disposal of biosolids regulations (%)	100%	100%	100%	100%
Inspection and Sampling of Pretreatment Permittees (%)	100%	100%	100%	100%
Obtain 90% acceptable results on discharge monitoring report quality assurance samples	90%	90%	90%	90%
Certified operators (%)	85%	92%	92%	98%

WASTEWATER TREATMENT

OVERVIEW

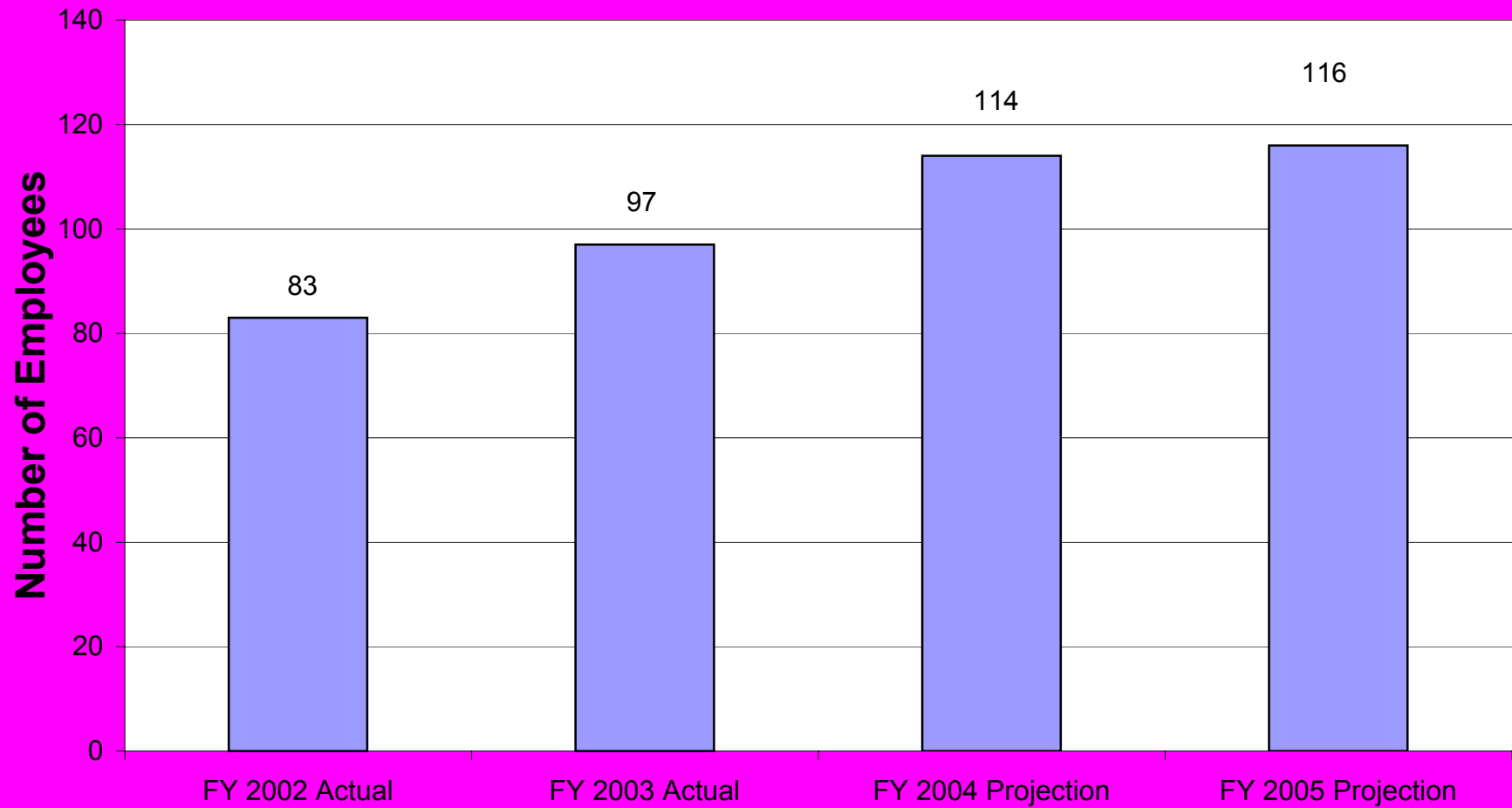
FY 2004 Major Recommended Activities and Changes

- Maintain full compliance with recently issued NPDES permit parameters
- Maintain compliance with Chesapeake Bay Agreement nitrogen removal requirements
- Continue to implement IIP, including cross-training on wastewater treatment duty stations
- Implement full scale permanent operation of the Alternate Disinfection Facility
- Enforce and implement the pretreatment enforcement response plan
- Minimize plant and biosolids odor
- Continue implementation of High Priority Rehabilitation Program (HPRP) to ensure critical process equipment remains in service
- Continue operation of treatment facilities during construction of the following Capital Improvement Program (CIP) projects:
 - Secondary Treatment Upgrades
 - Process Control Computer System
 - Additional Chemicals System
 - Primary Treatment Upgrades
 - Filtration and Disinfection Design
 - Additional Dewatering Facilities
- Implement plant wide automatic wastewater sampling system that will streamline operations
- Continue to work with Maryland and Virginia on new regulatory requirements for biosolids land application
- Continue to conduct wastewater treatment process research and development in the areas of wastewater solids settling enhancement, alternative technology to treat recycled wastewater, and biosolids odor control

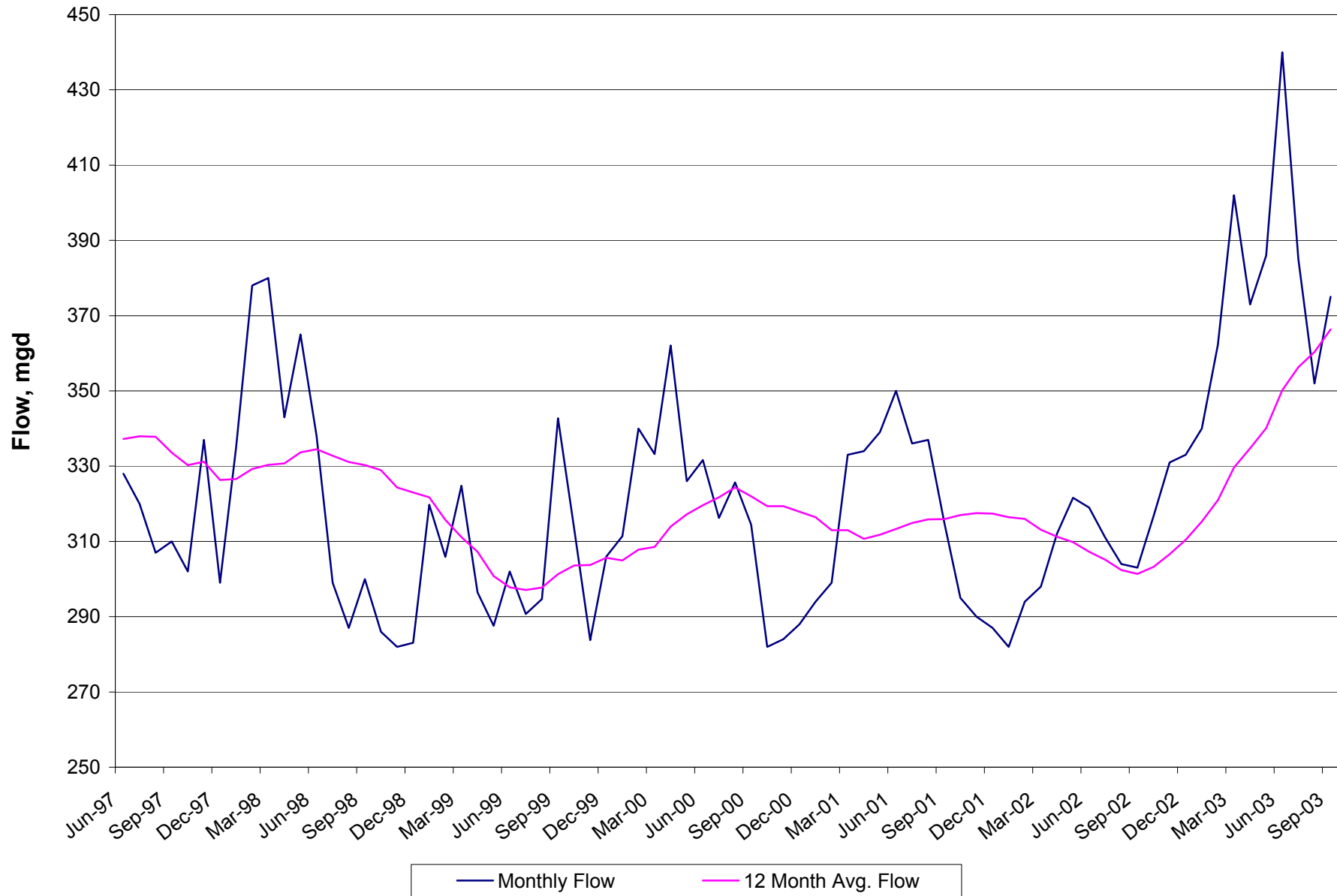
FY 2005 Major Recommended Activities and Changes

- Continue to implement IIP, including machine operators' training and certification program
- Continue conducting wastewater treatment process research to enhance plant performance
- Design operation of new additional Dewatering Facilities which are schedule to be completed in early FY 2005 and which will reduce contractual dewatering costs
- Continue operation of treatment facilities during construction of the following CIP projects:
 - Secondary Treatment Upgrades
 - Process Control Computer System
 - Additional Chemicals System
 - Primary Treatment Upgrades
 - Filtration and Disinfection Upgrades
 - New Digester Construction

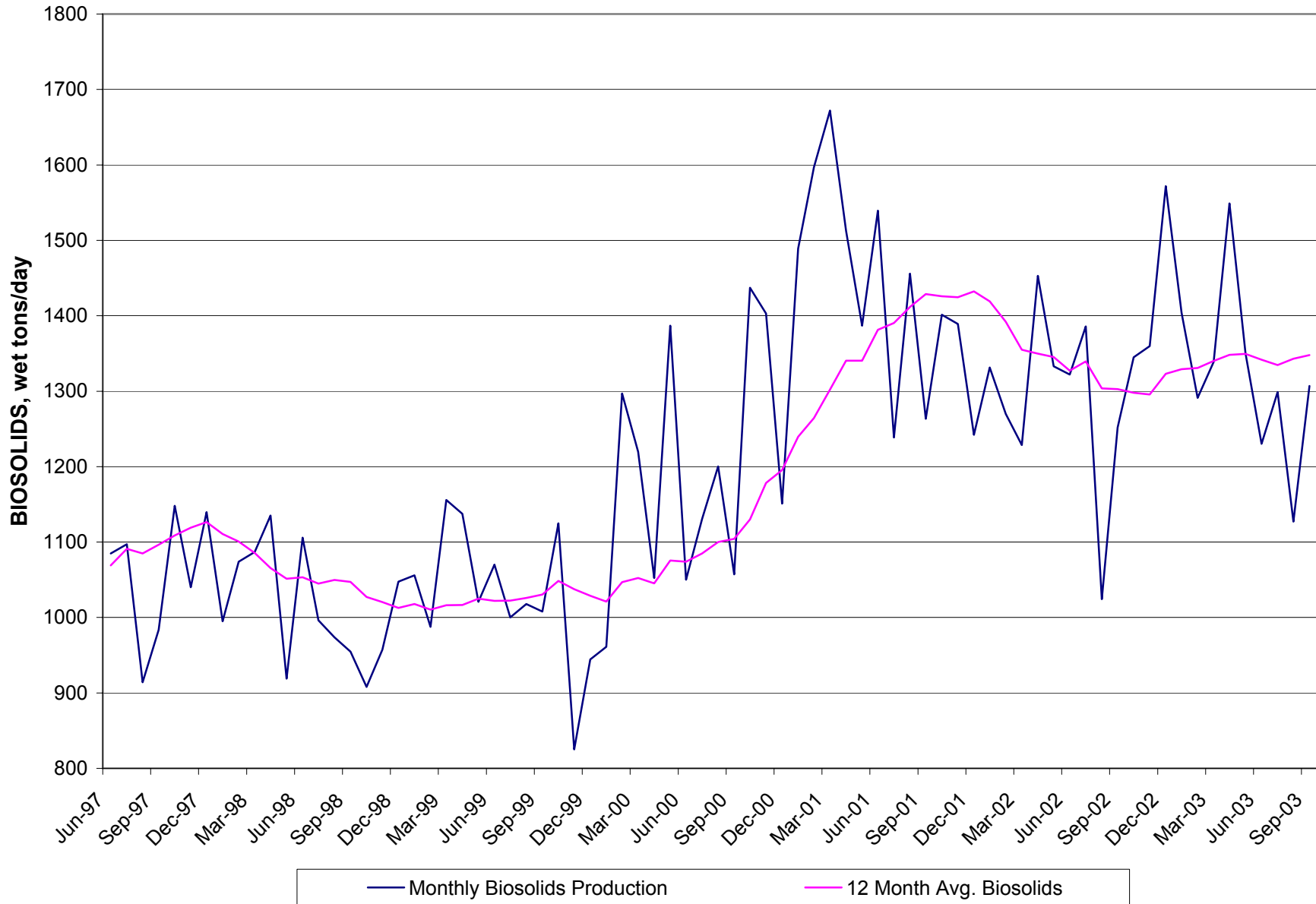
CERTIFIED OPERATORS



**BLUE PLAINS WASTEWATER TREATMENT PLANT
PLANT EFFLUENT FLOW PRODUCTION
JUNE 1997 - SEPTEMBER 2003**

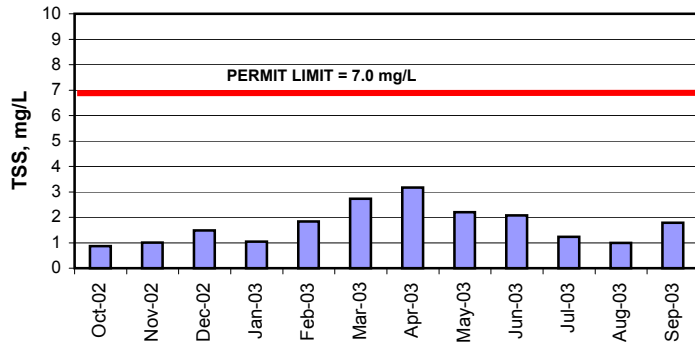


**BLUE PLAINS WASTEWATER TREATMENT PLANT
BIOSOLIDS PRODUCTION
JUNE 1997 - SEPTEMBER 2003**



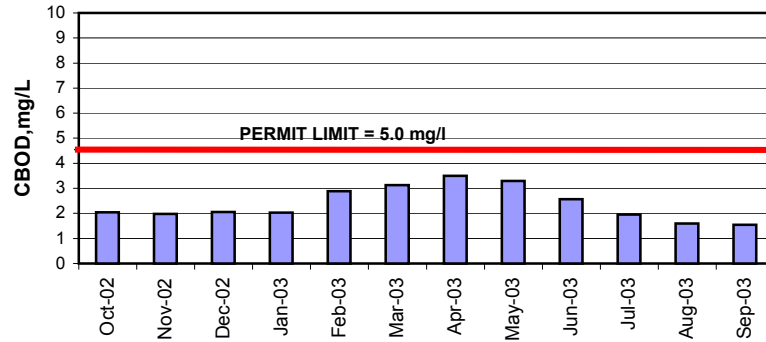
**BLUE PLAINS WASTEWATER TREATMENT PLANT
PLANT EFFLUENT QUALITY
OCTOBER 2002 - SEPTEMBER 2003**

**MONTHLY AVERAGE
EFFLUENT SUSPENDED SOLIDS**



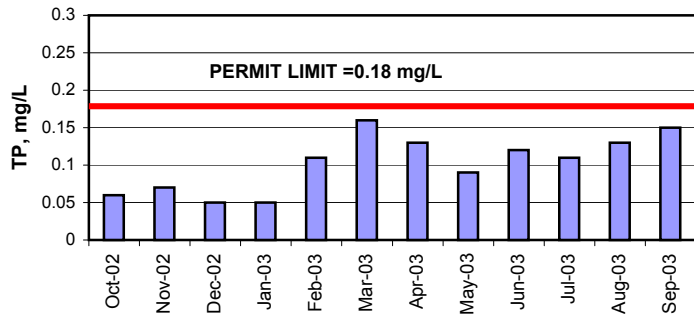
Effluent Total Suspended Solids (TSS) is a measure of the amount of solid material that remains suspended after treatment.

**MONTHLY AVERAGE
EFFLUENT CBOD**



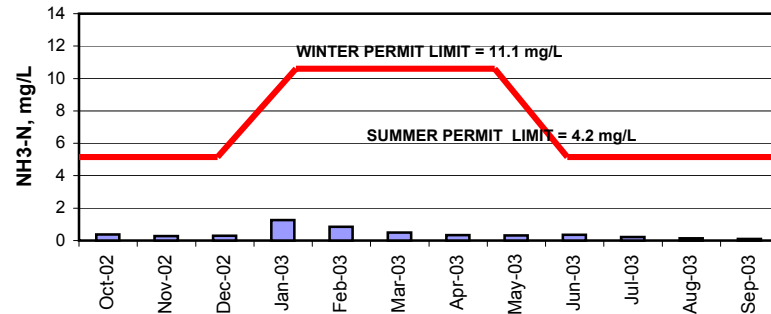
Carbonaceous Biochemical Oxygen Demand (CBOD) is a measure of the amount of dissolved oxygen required for the decomposition of organic materials.

**MONTHLY AVERAGE
EFFLUENT TOTAL PHOSPHORUS**



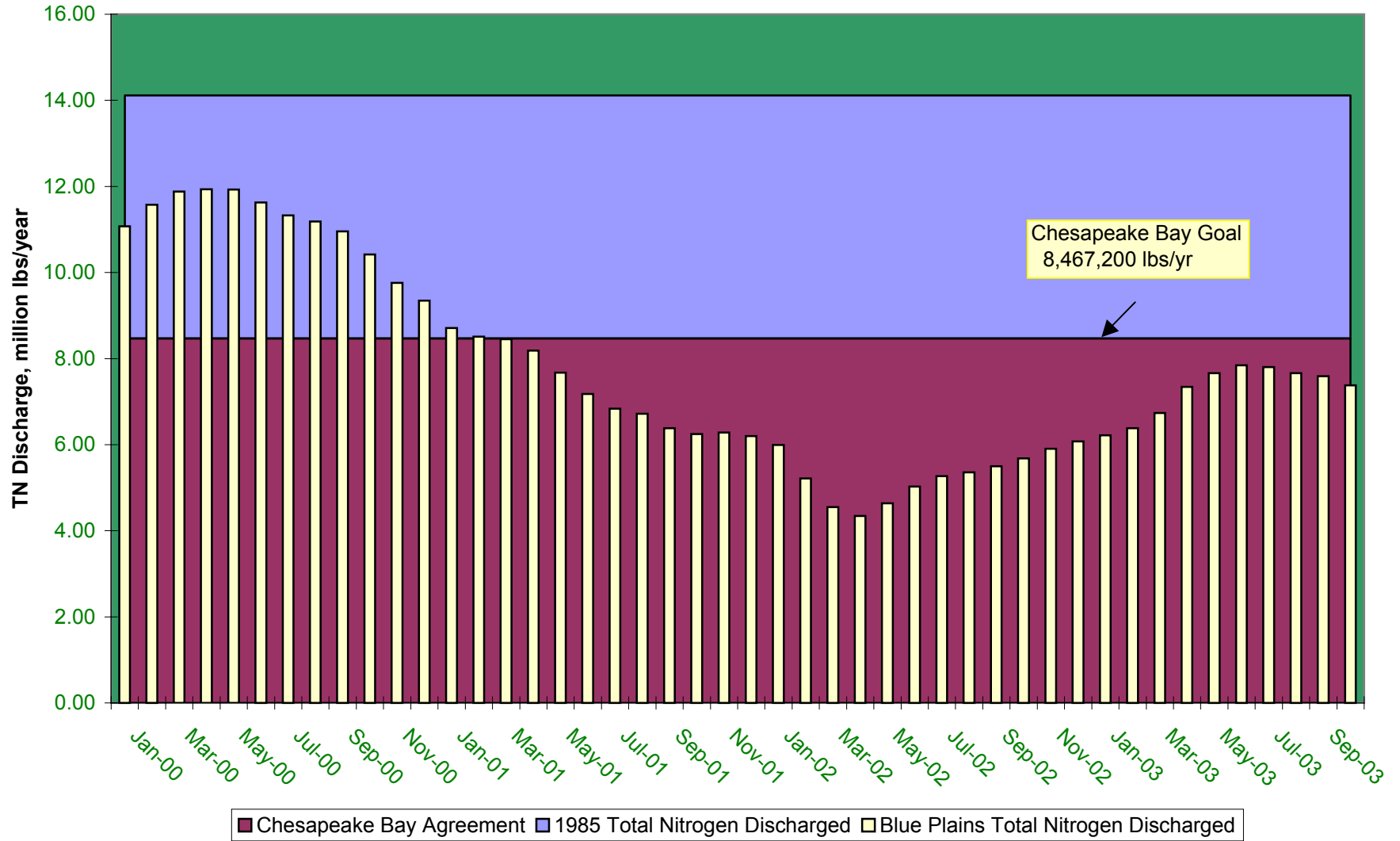
The total Phosphorus (TP) is a measure of the particulate and dissolved phosphorus in the effluent.

**MONTHLY AVERAGE
EFFLUENT AMMONIA NITROGEN**



The Ammonia Nitrogen (NH3-N) is a measure of the nitrogen found in ammonia.

Annual Total Nitrogen Load, lbs/yr





CHIEF ENGINEER

			POSITIONS	
CURRENT			FY 2004	FY 2005
Authorized	Average Positions Filled	Year-End Positions Filled		
170	145	134	158	158

**FY 2005 Budget
\$37,814,000**

**WATER SERVICES
Office of the Director
4 - Positions**

**Pumping Services
14 - Positions**

**Distribution Branch
108 - Positions**

**Technical Support Services
10 - Positions**

**Water Quality
22 - Positions**

FUNCTIONS

- Operate and maintain pumping stations and water storage
- Monitor and maintain appropriate pressure in the distribution system
- Operate control valves in the pumping stations and storage facilities
- Operate and maintain Supervisory Control and Data Acquisition (SCADA) system
- Coordinate pumping operations with the daily water consumption requirements with Washington Aqueduct Treatment Plants
- Overall water monitoring and control
- Preventive maintenance program

FUNCTIONS

- Water main repair, replacement and extension
- Water service line repair and replacement
- Valve operation and maintenance
- Hydrant operation and maintenance
- Contract support for Capital Improvement Program (CIP) projects
- Investigation and servicing of customer issues
- Provide technical assistance to field operations personnel
- Coordinate work orders
- Maintain, update and replace water distribution maps

FUNCTIONS

- Manage the Valve Coordination Control (War Room) program
- Establish and administer a comprehensive Asset Management Program for the water and sewer systems
- Evaluate CIP design and construction documents
- Manage multiple infrastructure repair and maintenance contracts
- Support the Bryant Street renovation project
- Test valve shutdown plans for construction of CIP projects
- Perform the actual shutdowns for construction of CIP projects
- Track all valve closures in the system
- Conduct studies of corrosion issues

FUNCTIONS

- Environmental Protection Agency (EPA) compliance monitoring
- Implement a comprehensive, customer oriented water conservation program
- Corrosion control and monitoring
- Unidirectional flushing program
- Cross connection control program
- Chloramination treatment monitoring
- Co-operative water quality ventures and outreach
- Lead and copper testing program
- Overall water quality monitoring
- Publication of annual Consumer Confidence report
- Public notification and regulatory monitoring

WATER SERVICES

MISSION: To operate and maintain a potable water transmission and distribution system, which delivers high quality water to WASA's customers. Water Services will ensure that water distribution meets or exceeds the applicable water quality regulations promulgated by the Safe Water Drinking Act and is provided in a reliable manner.

BUDGET OVERVIEW: The revised FY 2004 and approved FY 2005 budgets reflect the transfer of 12 filled positions from DWS' previous Water Operations Services branch to the Customer Service department for the WASA-wide consolidated customer service command center resulting in a decrease of approximately \$1.0 million. Other departmental priorities include implementation of the IIP and lead service line replacement program. The approved FY 2005 budget increases by \$1.2 million due primarily to projected compensation increases.

	FY 2003 Revised	FY 2004 Approved	FY 2004 Revised	FY 2005 Approved
Positions: (FTE's)				
Number of authorized positions	170	170	158	164
Average number of positions filled	153			
Operating Expenses				
Personnel Services Including Overtime	10,415	10,791	9,770	10,765
Overtime	978	978	978	978
Non-Personnel Services:				
Chemicals & Supplies	676	704	704	789
Utilities	1,713	3,515	3,637	3,711
Contractual Services, etc.	3,977	4,125	4,051	4,053
Water Purchases	18,365	18,365	18,365	18,365
Small Equipment	150	144	132	132
Total Non-Personnel Services	24,881	26,854	26,889	27,050
Total Operations & Maintenance	35,296	37,645	36,659	37,814
Capital Equipment	593	681	658	667

Targeted Performance Measures	FY 2003 Projection	FY 2004 Budget	FY 2004 Projection	FY 2005 Projection
Maintain full compliance with Safe Drinking Water Act standards for positive coliform results (less than 5%).	< 5%	< 5%	< 5%	< 5%
Flush 500 miles of distribution system annually.	370	500	500	500
Exercise 10,000 - 15,000 valves annually.	19,724	15,000	20,000	25,000
Maintain a 99.5% fire hydrant operational rate.	99.7%	99.5%	99.5%	99.5%
Respond to all water leaks within 45 minutes.	50% within 45 minutes	within 45 minutes	within 45 minutes	within 45 minutes
Repair 90% of reported main leaks within 10 days.	79%	90%	90%	90%

WATER SERVICES

OVERVIEW

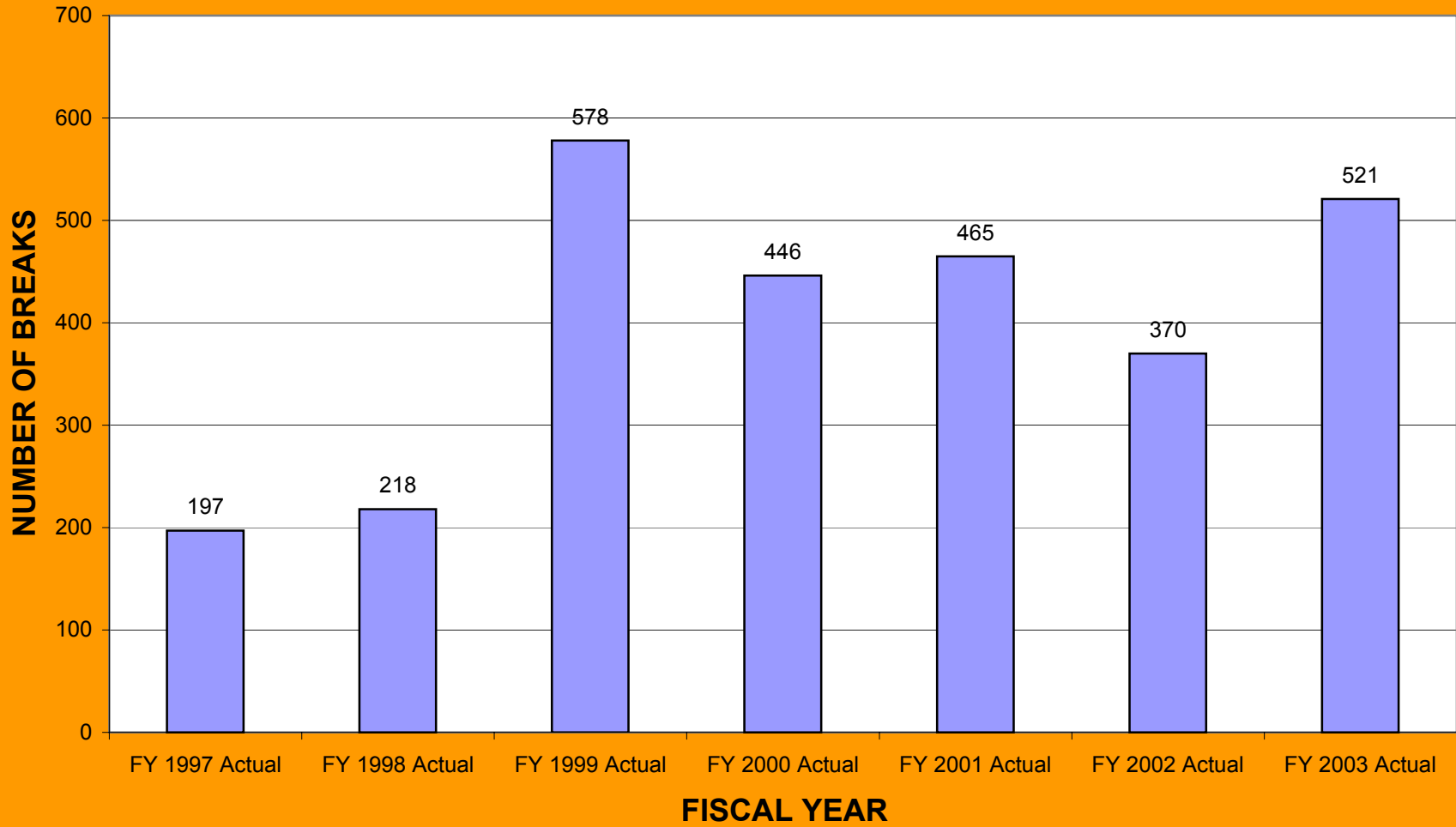
FY 2004 Major Recommended Activities and Changes

- Fully implement Phase II of the IIP program, including standard operating procedures, training, certification, and work process/reporting improvements
- Improve field support and linkage with the Customer Service department (Customer service and dispatch functions were transferred to the Customer Service department along with 12 positions based upon a WASA wide customer service consolidation plan to develop a customer service command center. DWS will continue to perform field support and work order coordination activities.)
- Support efforts to increase sold vs. pumped ratio through timely identification and repair of leaks
- Improve main break and service response time and reduce existing backlogs
- Develop effective support for water distribution system CIP projects, including analysis of cost and operational effectiveness of brining valve operations in-house versus contracting out
- Support development of the WASA-wide Asset Management program
- Analyze development of a 7-day work week for systems repair, service, valve, and hydrant programs within the Distribution Branch and valve operations crews for distribution system projects
- Continue support of water pumping CIP projects, including Bryant Street pumping station rehabilitation
- Undertake SCADA system improvements in conjunction with the Department of Engineering and Technical Services
- Implement new water conservation program
- Ensure compliance with all EPA regulations, with particular focus on Lead and Copper Rule requirements for FY 2004

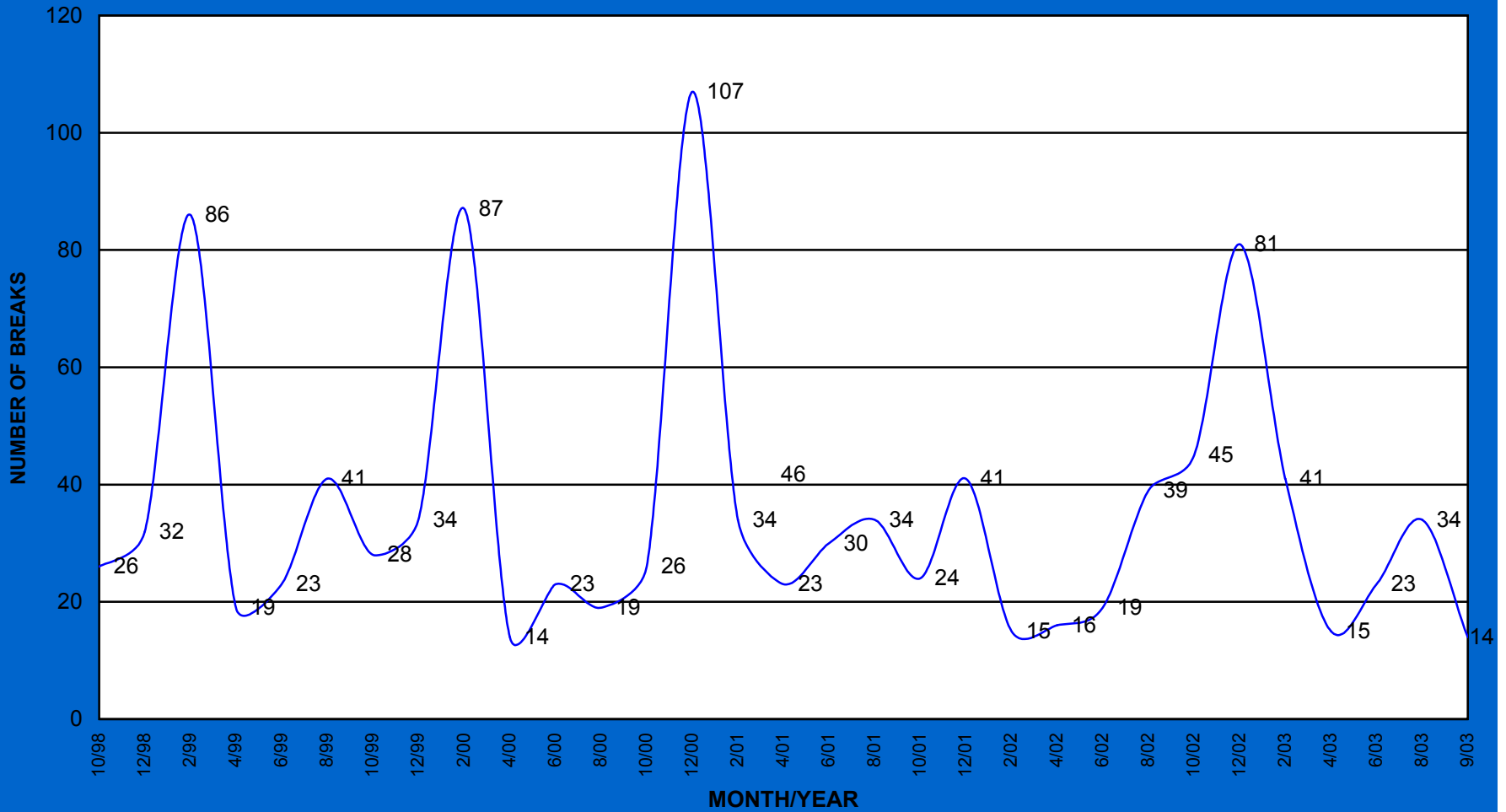
FY 2005 Major Recommended Activities and Changes

- Continue to implement IIP recommendations
- Complete transition to new low pressure boilers and new chillers.
- Expand duties of field crews to incorporate preventative maintenance functions at remote pumping stations and reservoirs
- Integrate new SCADA system improvements into operations as projects come online
- Continue to Support efforts to increase sold vs. pumped ratio through timely identification and repair of leaks
- Completion of the upgrades to the Fort Reno pumping station is scheduled for the end of FY 2005
- Ensure compliance with all EPA regulations, with particular focus on Lead and Copper Rule requirements for FY 2005
- Continue to support development of the WASA-wide Asset Management program

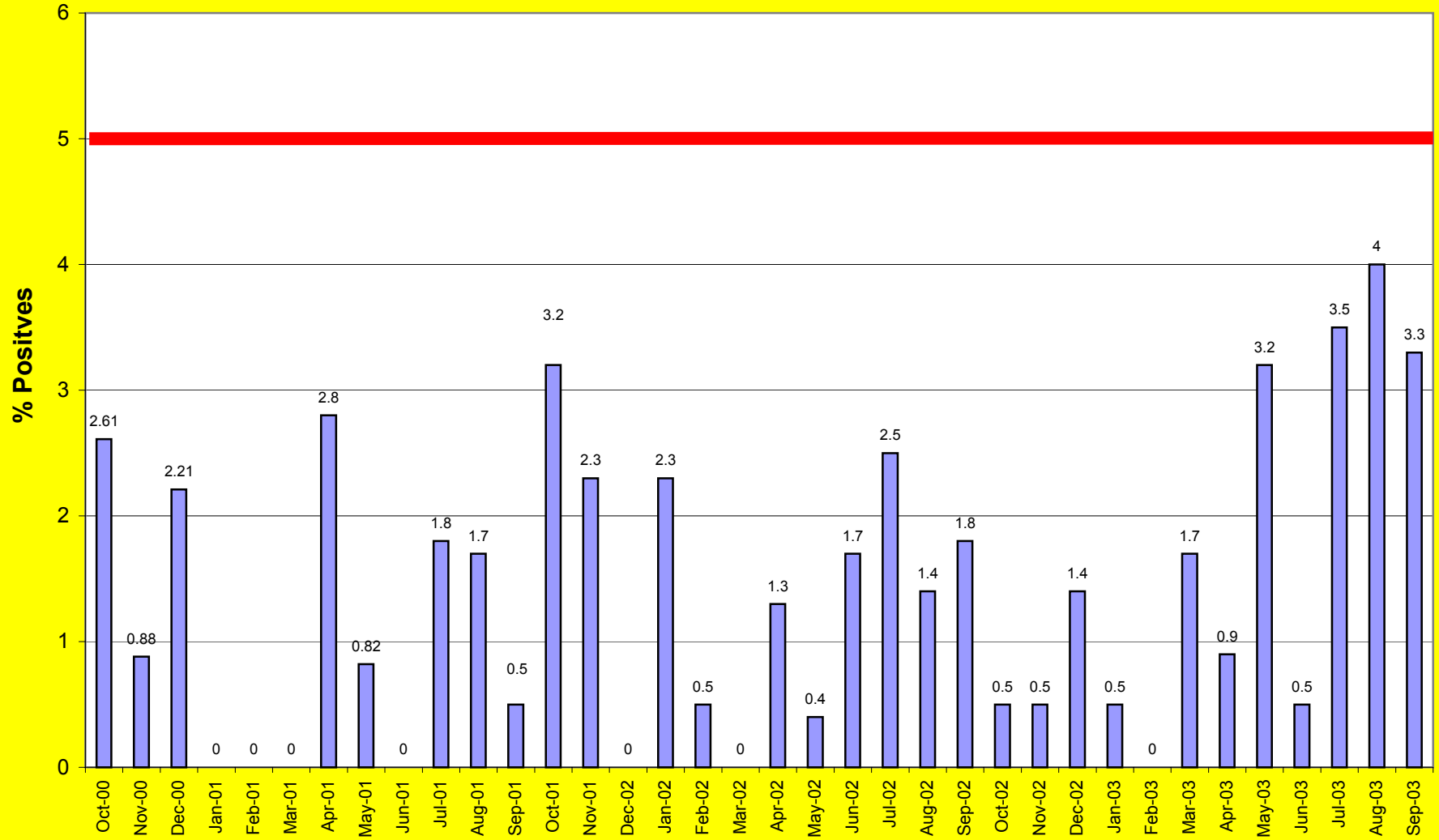
HISTORICAL WATER MAIN BREAKS FY 1997 - FY 2003

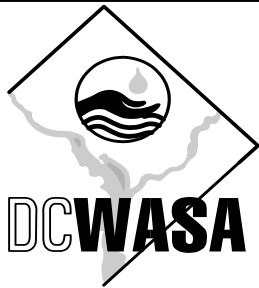


HISTORICAL MONTHLY MAIN BREAKS FY 1999 - 2003



**DC DRINKING WATER TOTAL COLIFORM RESULTS
2000 - 2003
EPA MCL = 5% positives per month**





**CHIEF
ENGINEER**

**SEWER
SERVICES**

**FY 2005 Budget
\$13,906,000**

CURRENT POSITIONS			FY 2004	FY 2005
Authorized	Average Positions Filled	Year-End Positions Filled		
160	145	144	159	159

**Sewage Pumping
35 - Positions**

FUNCTIONS

- Operation of sanitary and stormwater pumping stations
- Operation of combined sewer system controls, including swirl concentrator and fabridams.

**Inspection & Maintenance
75 - Positions**

FUNCTIONS

- Public sewer investigation
- Sewer lateral investigation
- Sewer cleaning
- Stream cleaning
- Sewer regulator structure operations and maintenance
- Catch basin cleaning
- Floatable debris removal

**Construction & Repair
44 - Positions**

FUNCTIONS

- Sewer main installation and repair
- Catch basin installation and repair
- Sewer lateral replacement and repair
- Inspection of contractor operations
- Manage CIP Projects
- Inspection of in-house projects
- Coordinate work orders

**Potomac Interceptor
5 - Positions**

FUNCTIONS

- Operation and maintenance of the Potomac Interceptor Sewer
- Operation and maintenance of related odor control facilities and manholes
- Right-of-Way maintenance and surveillance

SEWER SERVICES

MISSION: Provide for the operation and maintenance of the sewer system which collects and transports wastewater and stormwater flows to treatment and authorized discharge points.

BUDGET OVERVIEW: The revised FY 2004 budget is approximately \$0.2 million less than the approved FY 2004 budget due to contractual services reductions for odor control, and wet well cleaning. The FY 2005 budget increases by \$0.7 million due primarily to projected compensation increases and increased contractual and utility costs related to operation of new odor control improvements on the Potomac Interceptor.

	FY 2003 Revised	FY 2004 Approved	FY 2004 Revised	FY 2005 Approved
Positions: (FTE's)				
Number of authorized positions	160	160	159	159
Average number of positions filled	145			
Operating Expenses				
Personnel Services including Overtime	9,280	9,349	9,368	9,829
Overtime	882	882	882	882
Non-Personnel Services:				
Chemicals & Supplies	423	422	442	442
Utilities	1,629	1,629	1,656	1,785
Contractual Services, etc.	1,897	1,929	1,619	1,732
Small Equipment	117	118	118	118
Total Non-Personnel Services	4,065	4,098	3,835	4,077
Total Operations & Maintenance	13,345	13,447	13,203	13,906
Outfall Gates	230	150	414	-
TV Camera Equipment	-	-	130	-
Visitors' Center	200	-	-	-
Capital Equipment	145	193	607	228

Targeted Performance Measures	FY 2003 Projection	FY 2004 Budget	FY 2004 Projection	FY 2005 Projection
Number of catch basins cleaned annually	27,500	25,000	25,000	25,000
Number of laterals investigated or relieved annually	2,800	2,000	2,000	2,000
Tonnage of floatable debris removed from rivers	900	500	500	500
Number of sewer laterals repaired or replaced annually	330	400	400	400
Feet of sewer main repaired or replaced annually	430	500	500	500
Number of inspections completed on Potomac Interceptor meters	420	350	350	350

SEWER SERVICES

OVERVIEW

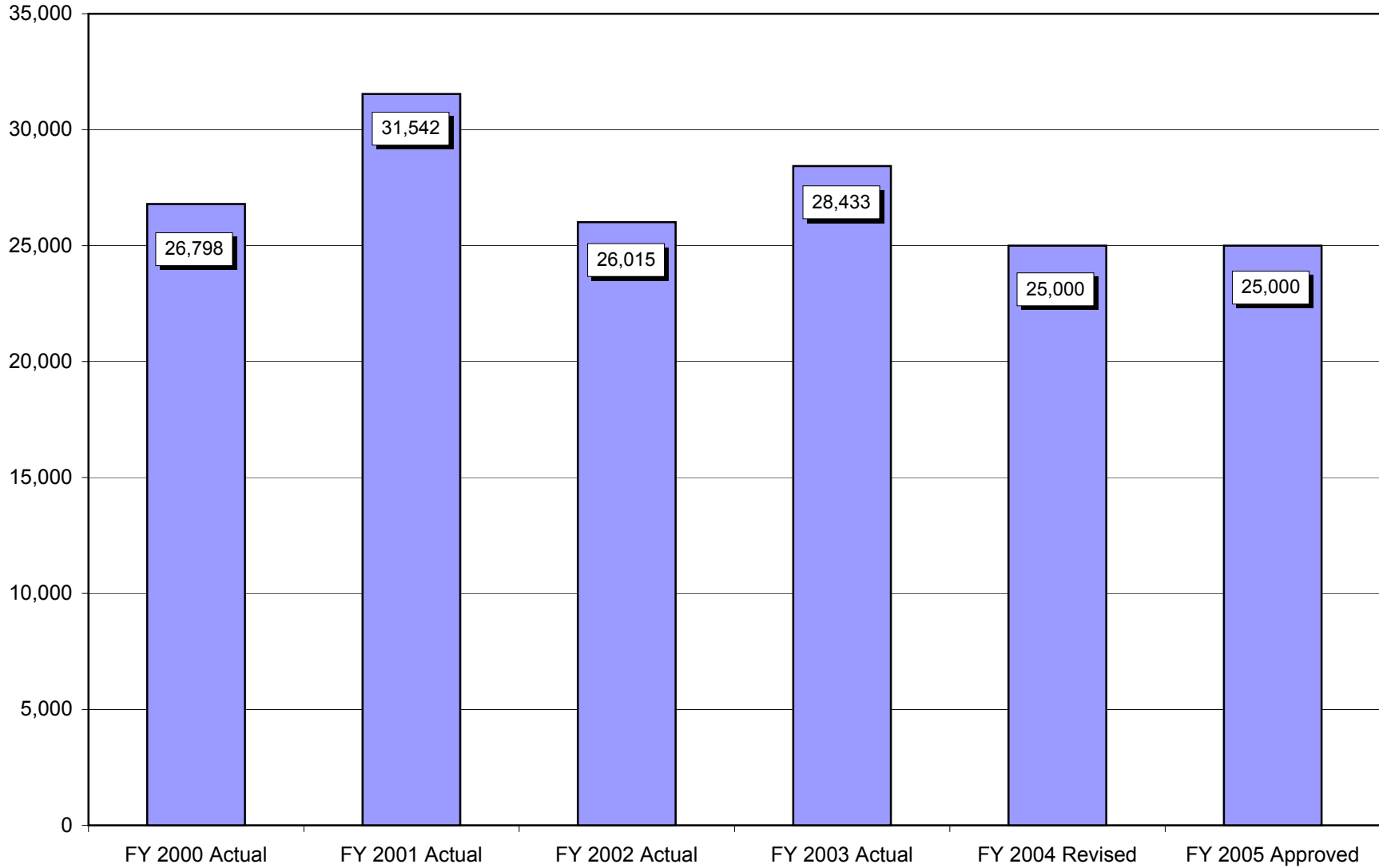
FY 2004 Major Recommended Activities and Changes

- Continue high priority rehabilitation activities at Main & O Street and Potomac Sewer pumping stations and begin final design on permanent improvements on these pumping stations: Poplar Point, Upper Anacostia, Rock Creek, Earl Place, Potomac, and East Side pumping stations
- Ensure full compliance with requirements of Earth Justice consent decree and NPDES permit, including new sampling and reporting requirements, system maintenance requirements, public notification of CSO events, etc
- Begin operation of new fabri dams
- Begin implementation of Combined Sewer Overflow Long Term Control Plan upon approval by EPA
- Reduction of 1 position due to consolidation of WASA-wide command center in Department of Customer Service
- Continue implementation of the IIP, with enhanced focus on training
- Begin implementation of new asset management system
- Implement new TV camera system for inspection of sewers
- Continue final detailed design and begin construction of the Potomac Interceptor Long-Term Odor Abatement Program

FY 2005 Major Recommended Activities and Changes

- Continue implementation of the IIP
- Work with DETS to design Phase 1 of Supervisory Control and Data Acquisition (SCADA) system
- Continue implementation of Combined Sewer Overflow Long Term Control Plan upon approval by EPA
- Continue full compliance with requirements of consent decree and NPDES permit, including new data sampling and reporting requirements, system maintenance requirements, public notification of CSO events, etc
- Continue high priority rehabilitation activities at Main & O Street and Potomac Sewer pumping stations and begin construction on Poplar Point, Upper Anacostia, Rock Creek, Earl Place, Potomac, and East Side pumping stations
- Complete Potomac Interceptor Long-Term Odor Abatement Program

FY 2000 - FY 2005 Catch Basins Cleaned





**FY 2005 Budget
\$21,387,000**

**CHIEF
ENGINEER**

**MAINTENANCE
SERVICES**

POSITIONS				
CURRENT			FY 2004	FY 2005
Authorized	Average Positions Filled	Year-End Positions Filled		
194	178	177	185	182

**Electrical
Maintenance
56 - Positions**

**Mechanical
Maintenance
78 - Positions**

**Maintenance
Management
22 - Positions**

**Instrumentation and
Telemetry
26 - Positions**

FUNCTIONS

- Maintain electrical power distribution and process control systems, equipment, and components for water, stormwater, and wastewater pumping facilities, and the Blue Plains Advanced Wastewater Treatment Plant
- Operate and maintain electrical power distribution system from 69kv to 5kv, electrical control systems for process equipment and facilities

FUNCTIONS

- Maintain mechanical process systems and equipment for water, stormwater, and wastewater pumping facilities, and the Blue Plains Advanced Wastewater Treatment Plant

FUNCTIONS

- Plan and coordinate all activities for corrective, preventive, and predictive maintenance
- Plan and operate support systems to manage maintenance by planning, estimating, inspecting, and scheduling maintenance activities
- Coordinate work through operations and engineering

FUNCTIONS

- Maintain electronic process control systems, flow measurement, metering and recording equipment for water, stormwater, and wastewater pumping facilities, and the Blue Plains Advanced Wastewater Treatment Plant
- Maintain electronic systems and components to measure flow, transmit data and control critical system operating equipment

MAINTENANCE SERVICES

MISSION: To economically maintain WASA process equipment and facilities, ensuring that the operational and customer service objectives of the Authority are achieved.

BUDGET OVERVIEW: The revised FY 2004 budget declines \$0.4 million over the approved FY 2004 budget due to reduction of contractual services and related supplies which are now being performed in house. The budget also reflects a reduction of five positions in the revised FY 2004 budget and three positions in the approved FY 2005 budget per the Blue Plains Internal Improvement Plan (IIP).

	FY 2003 Revised	FY 2004 Approved	FY 2004 Revised	FY 2005 Approved
Positions: (FTE's)				
Number of authorized positions	194	190	185	182
Average number of positions filled	178			
Operating Expenses				
Personnel Services including Overtime	12,419	12,520	12,539	12,985
Overtime	815	800	800	800
Non-Personnel Services:				
Chemicals and Supplies	2,238	2,343	2,263	2,241
Utilities	65	65	66	73
Contractual Services, etc.	6,905	6,247	5,936	5,948
Small Equipment	110	140	140	140
Total Non-Personnel Services	9,318	8,795	8,405	8,402
Total Operations & Maintenance	21,738	21,315	20,944	21,387
Capital Equipment	2,793	1,830	2,360	1,875
Targeted Performance Measures				
	FY 2003 Projection	FY 2004 Budget	FY 2004 Projection	FY 2005 Projection
Critical Process trains available for service at Blue Plains	97%	98%	98%	99%

MAINTENANCE SERVICES

OVERVIEW

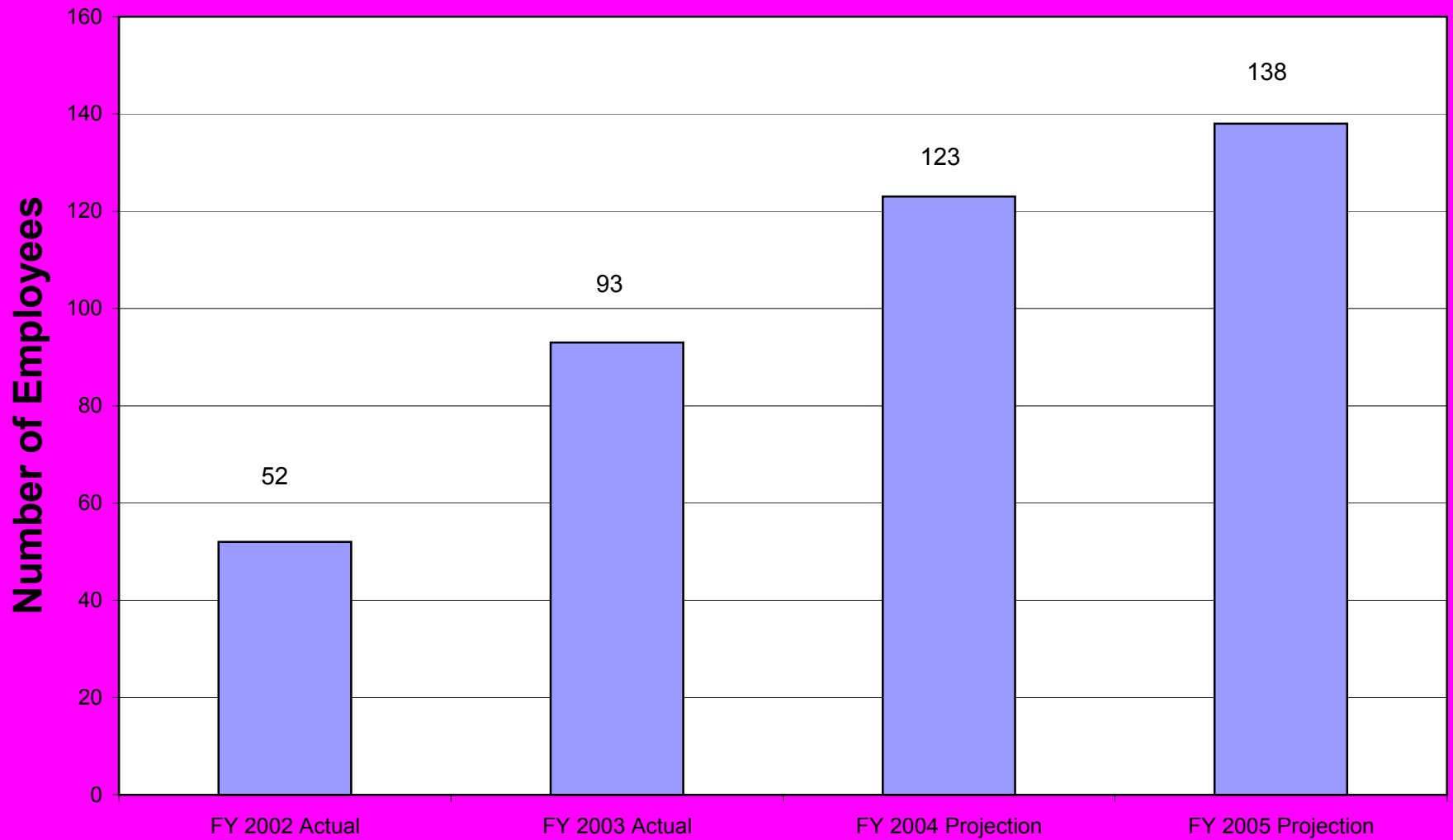
FY 2004 Major Recommended Activities and Changes

- Continue effective support of critical water, sewer, and wastewater treatment efforts
- Continue the maintenance training and certification program
- Continue the High Priority Rehabilitation Program (HPRP) as an interim measure to maintain the process systems reliability while the Capital Improvement Program is in progress WASA wide
- Reduce five positions in support of the Internal Improvement Program
- Reduce dependency on contractor maintenance, including elimination of mechanical and millwright contracts
- Incorporate new facilities into the Maintenance / Materials Management System
- In conjunction with Materiel Management, ensure proper stocking levels of critical spare parts
- Fully implement a predictive maintenance program to monitor equipment condition and improve equipment reliability
- Continue maintenance performance during construction of the following Capital Improvement Program (CIP) projects:
 - Alternate Disinfection Facility
 - Process Computer Control System (PCCS)
 - Primary Treatment Upgrades
 - Secondary Treatment Upgrades
 - Filtration and Disinfection Design
 - Additional Dewatering Facilities

FY 2005 Major Recommended Activities and Changes

- Reduce three positions in support of the Internal Improvement Program
- Continue maintenance training and certification program using in-house resources
- Continue the High Priority Rehabilitation Program WASA wide
- Continue predictive maintenance program to monitor equipment condition and improve equipment reliability
- Continue maintenance support during construction of the following CIP projects:
 - Process Computer Control System (PCCS)
 - Primary Treatment Upgrades
 - Secondary Treatment Upgrades
 - Filtration and Disinfection Upgrades
 - New Digester Construction

MAINTENANCE CERTIFICATION





**FY 2005 Budget
\$12,384,000**

**CHIEF
ENGINEER**

**ENGINEERING
and TECHNICAL
SERVICES
2 - Positions**

POSITIONS				
CURRENT			FY 2004	FY 2005
Authorized	Average Positions Filled	Year-End Positions Filled		
118	100	100	118	118

**Program
Management
Branch
10 - Positions**

FUNCTIONS

- Develop and maintain long-term facility planning process
- Generate bid documents for construction and rehabilitation projects
- Provide engineering data for production of the Capital Improvement Plan (CIP)
- Provide staff support for environmental policy issues affecting WASA
- Technical and policy coordination with other jurisdictions and federal agencies
- Manage outside professional engineering firms.
- Provide coordination and other related services in support of the District of Columbia's storm water permit and in conjunction with the Departments of Health, Public Works, and Transportation

**Planning and
Design
Branch
38 - Positions**

FUNCTIONS

- Perform system and facilities planning for the water and sewer system
- Review, create and maintain standards to ensure technical adequacy
- Accomplish water and sewer pipeline design
- Maintain engineering records of the water and sewer system and provide for customer access
- Review and issue permits for all new sewer and water connections and other construction affecting WASA facilities
- Provide technical engineering expertise to support operating departments

**Engineering
Management
Services Branch
19 - Positions**

FUNCTIONS

- Develop and maintain contract specifications and solicitations
- Manage and track the CIP
- Manage and track EPA Grants, applications and coordination
- Develop, prepare and coordinate DETS operating budget
- Manage DETS engineering systems hardware/software

**Water and Sewer
Construction
Branch
40 - Positions**

FUNCTIONS

- Administer contracts for new construction, major repairs, and modifications to water and sewer systems
- Inspect construction of WASA facilities by contractors, other District agencies and private developers

**Blue Plains
Project
Branch
9 - Positions**

FUNCTIONS

- Administer contracts for construction management, new, major repairs, modifications and start-up to the Blue Plains Advanced Wastewater Treatment Plant
- Perform design reviews and coordinate construction work with other departments at Blue Plains

ENGINEERING AND TECHNICAL SERVICES

MISSION: To perform engineering planning, design, and construction management necessary to execute the Authority's capital improvement program (CIP); to provide assistance and advice to WASA operating departments and management on engineering aspects of the Authority's operation and facilities; to develop and maintain engineering documentation of the Authority's facilities and systems; and to assist the Authority with environmental policy.

BUDGET OVERVIEW: There are no significant changes between the approved and revised FY 2004 budgets. The approved FY 2005 budget increases by \$0.7 million over the revised FY 2004 budget due primarily to projected compensation increases and the completion of the Board's regionalization study. These budgets also reflect WASA's administrative and coordination responsibilities for the District's storm water permit, totaling \$1.125 million annually, which will be funded by the District's storm water fee.

	FY 2003 Revised	FY 2004 Approved	FY 2004 Revised	FY 2005 Approved
Positions: (FTE's)				
Number of authorized positions	118	118	118	118
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	9,338	9,577	9,446	9,999
Overtime	425	425	425	425
Non-Personnel Services:				
Chemical and Supplies	130	130	110	110
Utilities	90	90	102	114
Contractual Services, etc.	2,014	1,913	1,910	2,078
Small Equipment	102	79	107	84
Total Non-Personnel Services	2,335	2,212	2,229	2,385
Total Operations & Maintenance				
	11,673	11,789	11,674	12,384
EMAP Phases 1 and 11	100	310	225	197
Engineering Plotters/Scanners	-	50	50	50
Field Laptops	-	-	75	-
Targeted Performance Measures				
Ensure capital disbursements are between 90-100% of forecast for Engineering and Technical Services managed projects; FY 2003 actual of 109%				
Complete 90% of projects on time and within budget				
Ensure fewer than 5% change orders to capital contracts				
Upgrade 700 engineering records in FY 2004 and FY 2005				
Utilize 100% of Clean Water Act grant funds - 100% in FY 2003				
Utilize 100% of Safe Drinking Water Act grant funds - 100% in FY 2003				

ENGINEERING & TECHNICAL SERVICES

OVERVIEW

FY 2004 Major Recommended Activities and Changes

- Complete capital projects on time and within budget (planning, design, construction, start-up)
- Accurately forecast capital project budget requirements
- Review and process plans and construction permits in a timely manner
- Effectively coordinate the activities of WASA, DPW, DOT and DOH in support of the District's storm water permit compliance program, including permit renewal process
- Continue sewer system planning and assessment program
- Coordinate efforts to assure compliance with EPA lead and copper rule, including sampling efforts and service line replacements
- Upon EPA and Department of Justice DOJ approval, begin implementation of CSO Long Term Control Plan including initial phase of early action items
- Coordinate WASA- wide compliance with Earth Justice, consent decree, including monitoring departmental requirements and ensuring deadlines are met
- Support development of WASA-wide asset management program, including coordination of engineering program management contract work and conversion of counter maps to vector format
- Continue High Priority Rehabilitation Program for Blue Plains and sewer pumping stations
- Reach agreement with DDOT on responsibility for storm water pumping stations
- Begin construction procurement phase for the new digester facility

FY 2005 Major Recommended Activities and Changes

- Continue implementation of CSO LTCP as approved by EPA and DOJ
- Continue implementing actions required by exceedance of lead action levels in water system
- Begin construction for the new digester facility
- Coordinate regionalization study per Board direction

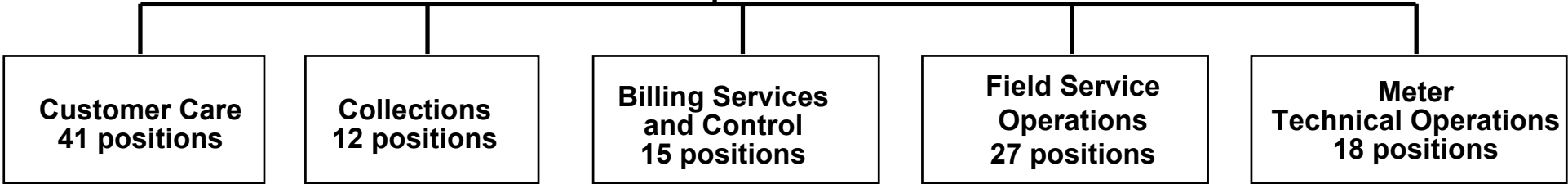


CHIEF FINANCIAL OFFICER

CURRENT POSITIONS			FY 2004	FY 2005
Authorized	Average Positions Filled	Year-End Positions Filled		
105	95	87	119	119

**FY 2005 Budget
\$11,886,000**

**CUSTOMER SERVICE
Office of the Director
6 positions**



FUNCTIONS

- Respond to customer calls and correspondence
- Assist customers in Business Office
- Coordinate field work crews and schedule work
- Manage WASA-wide consolidated dispatch function

FUNCTIONS

- Manage receivables and collections process on delinquent accounts, including multi-family service termination, property lien filing, and dunning process

FUNCTIONS

- Manage billing process and ongoing enhancements of customer information system
- Monitor and assist with large accounts issues
- Investigate, analyze, and resolve billing issues for large and small meters
- Manage service order process

FUNCTIONS

- Maintain all meters
- Perform interior inspections
- Perform terminations of service for non-payment of bills
- Rotate meters 2" or less
- Manage comprehensive meter replacement/automated meter reading project

FUNCTIONS

- Key account management
- Test and repair meters
- Develop meter specifications and requirements
- Develop preventive maintenance processes
- Repair, maintain, and install meter 3" or greater

CUSTOMER SERVICE

MISSION: To provide superior, equitable, and responsive customer service to the diverse community that we serve.

BUDGET OVERVIEW: The revised FY 2004 budget is \$1.1 million higher than the FY 2004 approved budget. This is due primarily to the increased staffing level associated with consolidation of WASA's dispatch activities within the Customer Service Department, adding \$0.7 million to the budget. (Thirteen positions were transferred from Water Services and Sewer Services.) The contractual services budget also increased by \$0.3 million due to inclusion of auto-check fees to expand payment options, and for costs associated with full implementation of monthly billing. The FY 2005 budget is \$0.7 million higher than the FY 2004 budget, due primarily to projected compensation increases.

	FY 2003 Revised	FY 2004 Approved	FY 2004 Revised	FY 2005 Approved
Positions: (FTE's)				
Number of authorized positions	110	105	119	119
Average number of positions filled	95			
Operating Expenses				
Personnel Services including Overtime	6,088	5,854	6,625	7,231
Overtime	300	300	200	200
Non-personnel Services:				
Chemicals and Supplies	182	183	177	177
Utilities	882	905	945	967
Contractual Services, etc.	3,101	3,057	3,363	3,426
Small Equipment	83	85	85	85
Total Non-Personnel Services	4,248	4,229	4,569	4,655
Total Operations & Maintenance	10,336	10,083	11,194	11,886
Automated Meter Reading (AMR)	24,500	5,600	10,000	6,103
Automated Call Distribution	-	200	200	-
Interactive Voice Response	-	40	150	20
Consolidated Command Center	-	-	507	-
Customer Information and Billing System (CIS)	857	500	950	674
Targeted Performance Measures				
	FY 2003 Projection	FY 2004 Budget	FY 2004 Projection	FY 2005 Projection
97 % of non-peak day calls answered within 2 minutes	84%	97%	97%	97%
98 % of bills based on actual reads ¹	99.9%	99.9%	99.9%	99.9%
Meter reading accuracy rate of 99.9% ¹	99.9%	99.9%	99.9%	99.9%
Answer correspondence within 30 days	30 days	30 days	30 days	15 days
Reduction of 90-day receivable balance	\$21.8 million	\$22.9 million	\$20.2 million	\$19.2 million

¹ Data are for meters with AMR capability (more than 106,000 meters installed as of 9/30/03)

CUSTOMER SERVICE

OVERVIEW

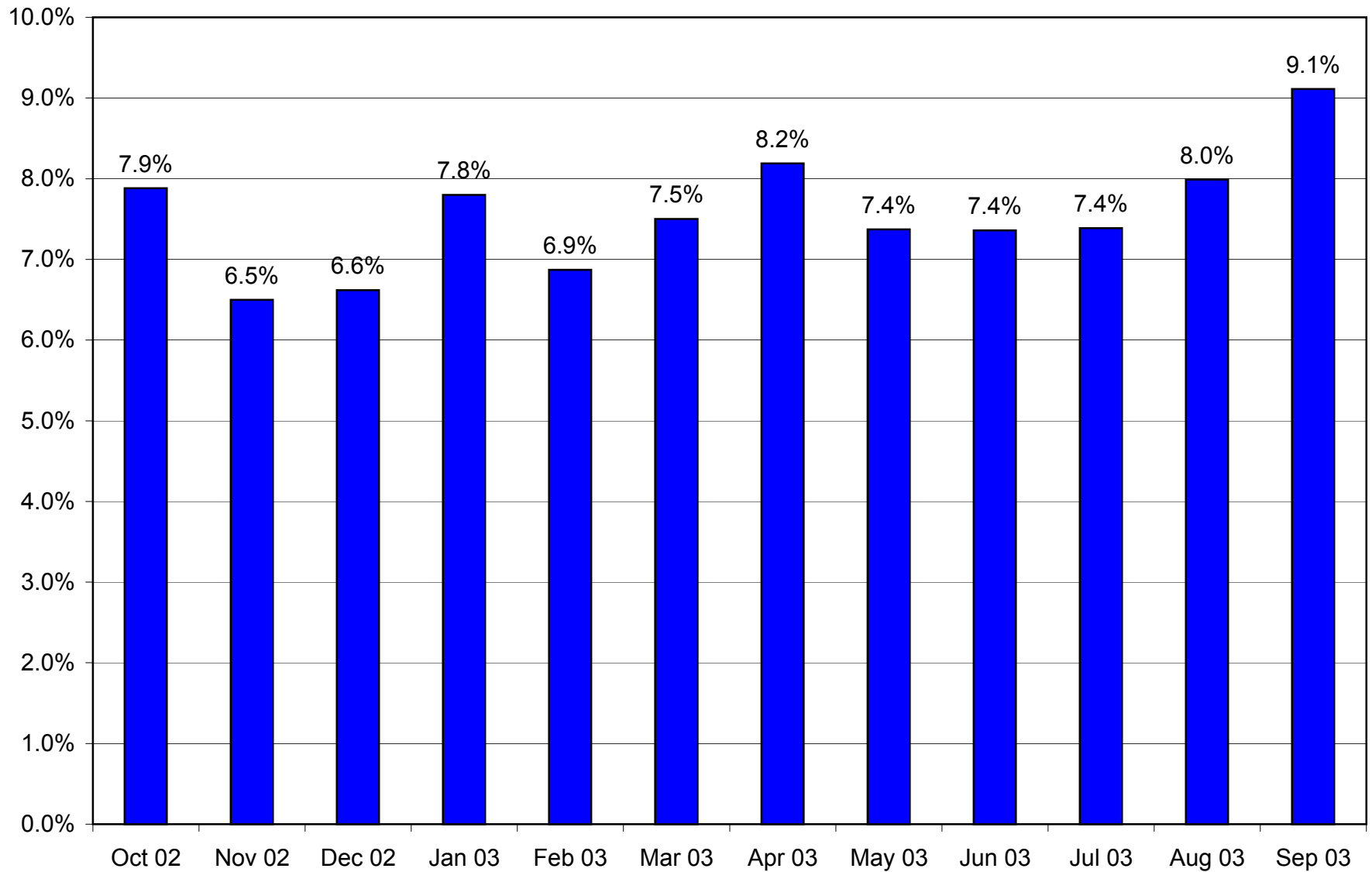
FY 2004 Major Recommended Activities and Changes

- Full implementation of WASA-wide consolidated dispatch center, incorporating 13 positions from Water and Sewer Services to perform dispatch functions
- Expand WASA's customer assistance program beyond homeowners, to water customers who rent their homes, and expand the voluntary contribution program (S.P.L.A.S.H.) by adding a roundup feature to the bill
- Continue implementation of the commercial phase of the AMR program, including the meter rightsizing initiative for WASA's largest customers
- Implement reorganization plan that emphasizes single contact resolution, including consolidation of WASA-wide dispatch functions into the Customer Service Department, and establishing reorganized Field Services and Meter Technical divisions
- Implement commercial cooling tower metering program and ancillary metering program
- Coordinate departmental participation in WASA-wide asset management system implementation
- Continued emphasis on reducing receivables and improving billing controls, including implementation of receiverships on multi-family accounts
- Redesign of WASA's bill to improve the clarity of information each customer receives
- Billing process enhancements including budget billing and automatic check payments

FY 2005 Major Recommended Activities and Changes

- Complete implementation of the commercial phase of the AMR program
- Customer information and billing system upgrade
- Continue system enhancements to improve service to our customers

Electronic Payment Transactions as a Percentage of Total Transactions FY 2003





**FY 2005 Budget
\$380,000**

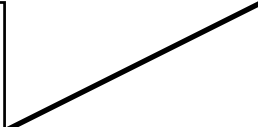
**BOARD
OF
DIRECTORS**

POSITIONS				
CURRENT			FY 2004	FY 2005
Authorized	Average Positions Filled	Year-End Positions Filled		
2	2	2	2	2



**OFFICE OF
THE
SECRETARY
2 - Positions**

**GENERAL
MANAGER**



FUNCTIONS

- Manage the logistics for Board of Directors and Committee meetings
- Manage and oversee the day-to-day operations of the Board of Directors
- Coordinate logistics for Board's strategic planning process
- Administer the subpoena process for the Authority

OFFICE OF THE SECRETARY

MISSION: To support the Board of Directors in developing and reviewing the Authority's strategic goals, providing executive level assistance in planning, coordinating, executing assignments, and ensuring that the Board's business and activities are effectively managed.

BUDGET OVERVIEW: There are no significant changes in the revised FY 2004 and approved FY 2005 budgets vs. prior years' budget. The revised budgets reflect funding for updates to the Board's Strategic Plan as required.

	FY 2003 Revised	FY 2004 Approved	FY 2004 Revised	FY 2005 Approved
Positions: (FTE's)				
Number of authorized positions	2	2	2	2
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	163	175	165	173
Overtime	2	2	2	2
Non-Personnel Services:				
Chemicals and Supplies	16	16	16	16
Utilities	3	3	3	3
Contractual Services, etc.	231	181	182	182
Small Equipment	6	6	6	6
Total Non-Personnel Services	256	206	207	207
Total Operations & Maintenance	419	381	372	380
Capital Equipment	-	-	-	-

Targeted Performance Measures

Ensure timely and accurate Board and Committee agendas, reports and minutes
Ensure follow-up and completion of all Board actions

OFFICE OF THE SECRETARY

OVERVIEW

FY 2004 Major Recommended Activities and Changes

- Assist Board committees in monitoring Committee Work Plan implementation
- Support logistics for coordination of update to Board Strategic Plan
- Continue evaluation for an electronic library for Board documents, in conjunction with WASA-wide document management strategy
- Finalize the Administrative Procedural Guide for the Office of the Secretary
- Continue to enhance the data dissemination process for both WASA employees and the general public by use of WASA's website

FY 2005 Major Recommended Activities and Changes

- No other major changes anticipated



**FY 2005 Budget
\$1,178,000**

**BOARD
OF
DIRECTORS**



**GENERAL
MANAGER
6 - Positions**

			POSITIONS	
CURRENT			FY 2004	FY 2005
Authorized	Average Positions Filled	Year-End Positions Filled		
6	5	5	6	6

FUNCTIONS

- Overall operational and policy direction in support of the Board of Directors' Strategic Plan

GENERAL MANAGER

MISSION: The General Manager's Office administers, plans, organizes, and directs the operations of the Authority.

BUDGET OVERVIEW: The revised FY 2004 budget reflects funding for one vacant position. FY 2005 approved budget reflects a \$0.1 million increase due to projected compensation increase.

	FY 2003 Revised	FY 2004 Approved	FY 2004 Revised	FY 2005 Approved
Positions: (FTE's)				
Average number of authorized positions	6	6	6	6
Number of positions filled				
Operating Expenses				
Personnel Services including Overtime	799	723	791	850
Overtime	15	15	15	15
Non-Personnel Services:				
Chemicals and Supplies	20	20	10	10
Utilities	8	8	12	12
Contractual Services, etc.	220	200	295	295
Small Equipment	11	11	11	11
Total Non-Personnel Services	259	239	328	328
Total Operations & Maintenance	1,058	962	1,119	1,178
Capital Equipment	-	-	-	-

Targeted Performance Measures

Implement all policies and directives of the Board of Directors

GENERAL MANAGER

OVERVIEW

FY 2004 Major Recommended Activities and Changes

- Continue major Customer Service improvement initiatives (e.g., Automatic Meter Reading, Consolidated Command Center implementation, billing enhancements) and leverage existing resources to improve customer service responsiveness
- Oversee the ongoing development, and projected initial implementation of the Combined Sewer Overflow (CSO) long term control plan, and related activities
- Continue to evaluate and improve organizational structure of the Authority
- Maintain Authority affiliations with industry, management and government professional organizations

FY 2005 Major Recommended Activities and Changes

- No major changes anticipated



**GENERAL
MANAGER**

**GENERAL
COUNSEL
10 - Positions**

**FY 2005 Budget
\$3,541,000**

POSITIONS				
CURRENT			FY 2004	FY 2005
Authorized	Average Positions Filled	Year-End Positions Filled		
10	9	8	10	10

Litigation

**Administrative
Law**

FUNCTIONS

- Appellate matters
- Bankruptcy
- Civil enforcement
- Construction claims
- Environmental defense and enforcement
- Procurement litigation
- Tort defense
- Receivership petitions
- Employment litigation
- Energy litigation

FUNCTIONS

- Board of Directors support
- Supply and Service Contract review and advise
- Clean Water Act compliance
- Clean Air Act compliance
- Employment law matters
- Intra-governmental and Inter-jurisdictional agreements
- Legislation review and support
- Municipal law matters
- Pretreatment enforcement support
- Procurement protests, claims, and internal appeals
- Real property matters
- Regulatory compliance support
- Draft and review Authority Policies

GENERAL COUNSEL

MISSION: To support the Authority's mission by providing legal advice and services to the Board of Directors, the General Manager and the Authority's departments.

BUDGET OVERVIEW: The revised FY 2004 revised is \$0.2 million higher than the FY 2004 approved budget due to increased utilization of outside legal services and increased litigation. The approved FY 2005 budget is in line with the revised FY 2004 budget.

	FY 2003 Revised	FY 2004 Approved	FY 2004 Revised	FY 2005 Approved
Positions: (FTE's)				
Number of authorized positions	10	10	10	10
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	762	778	817	951
Overtime	2	2	2	2
Non-Personnel Services:				
Chemicals and Supplies	7	12	12	12
Utilities	8	8	11	11
Contractual Services, etc.	2,765	2,625	2,752	2,552
Small Equipment	20	16	16	16
Total Non-Personnel Services	2,801	2,661	2,790	2,590
Total Operations & Maintenance	3,563	3,439	3,607	3,541
Capital Equipment	-	-	-	-
Targeted Performance Measures				
	FY 2003 Projection	FY 2004 Budget	FY 2004 Projection	FY 2005 Projection
Hours of employee time spent on direct work	1,400	1,400	1,400	1,400

GENERAL COUNSEL

OVERVIEW

FY 2004 Major Recommended Activities and Changes

- Provide assistance to departments to ensure compliance with the NPDES permit and Earth Justice Consent Decree
- Support ongoing CSO LTCP negotiations with DOJ and EPA
- Provide zoning and other regulatory assistance for new digesters and St. Elizabeth's water tank
- Assist Customer Service in supporting existing and implementing new receiverships on delinquent multi-family accounts
- Support the Authority's legislative initiatives

FY 2005 Major Recommended Activities and Changes

- Support ongoing CSO LTCP negotiations with DOJ and EPA
- No major changes from FY 2004 anticipated



**FY 2005 Budget
\$997,000**

**GENERAL
MANAGER**



**PUBLIC AFFAIRS
5 - Positions**

POSITIONS				
CURRENT			FY 2004	FY 2005
Authorized	Average Positions Filled	Year-End Positions Filled		
5	3	4	5	5

FUNCTIONS

- Coordinate and manage comprehensive public relations program
- Coordinate media relations
- Coordinate community and customer outreach activities

PUBLIC AFFAIRS

MISSION: To effectively market WASA to all of its customers and constituents through preparation and dissemination of external and internal communications and coordination of outreach efforts.

BUDGET OVERVIEW: There are no significant changes in the proposed budgets over previously approved levels.

	FY 2003 Revised	FY 2004 Approved	FY 2004 Revised	FY 2005 Approved
Positions: (FTE's)				
Number of authorized positions	5	5	5	5
Average number of positions filled	3			
Operating Expenses				
Personnel Services including Overtime	429	360	381	498
Overtime	2	2	2	2
Non-Personnel Services:				
Chemical and Supplies	23	23	23	23
Utilities	3	3	4	4
Contractual Services, etc.	460	390	430	410
Small Equipment	62	62	62	62
Total Non-Personnel Services	549	478	519	498
Total Operations & Maintenance	978	838	900	997
Capital Equipment	-	-		-

Targeted Performance Measures

On-schedule issuance of WASA publications: Annual Report; Employees' Newsletter; Consumer Confidence Report.

Provide content approval for WASA'S new website.

PUBLIC AFFAIRS

OVERVIEW

FY 2004 Major Recommended Changes and Activities

- Continue implementation of communications plan
- On schedule issuance of publications (i.e. annual report, customer newsletter, WASA employee newsletter, Earth Justice Consent Decree publications)
- Attend regular community and Advisory Neighborhood Commission (ANC) meetings, as well as civic and environmental group meetings
- Refine process to update WASA website in coordination with IT and other departments

FY 2005 Major Recommended Activities and Changes

- No other major changes anticipated



**FY 2005 Budget
\$484,000**

**GENERAL
MANAGER**



**INTERNAL
AUDIT
4 - Positions**

			POSITIONS	
CURRENT			FY 2004	FY 2005
Authorized	Average Positions Filled	Year-End Positions Filled		
4	3	4	4	4

FUNCTIONS

- Conduct financial, operational, compliance and information systems audits for all of WASA's operations in accordance with Board-approved Audit Plan
- Audit outside contractors
- Perform other audits as assigned by the Board and General Manager

INTERNAL AUDIT

MISSION: To assist the Authority's management and its Board of Directors in the effective discharge of their responsibilities by providing them with objective analyses, appraisals, recommendations, and pertinent comments on key Authority activities.

BUDGET OVERVIEW: There are no significant changes in the proposed base budget over previously approved levels; the \$ 0.1 million reduction in contractual services in the FY 2004 revised budget is offset by increases in compensation due to full staffing for authorized positions. These budgets reflect full funding of the Audit Committee's approved Audit Plan.

	FY 2003 Revised	FY 2004 Approved	FY 2004 Revised	FY 2005 Approved
Positions: (FTE's)				
Number of authorized positions	4	4	4	4
Average number of positions filled	3			
Operating Expenses				
Personnel Services including Overtime	334	235	361	378
Overtime	-	-	-	-
Non-Personnel Services:				
Chemicals and Supplies	6	6	6	8
Utilities	4	4	5	5
Contractual Services, etc.	226	226	89	92
Small Equipment	1	1	1	1
Total Non-Personnel Services	237	237	101	106
Total Operations & Maintenance	571	521	462	484
Capital Equipment	-	-	-	-
Targeted Performance Measures	FY 2003 Projection	FY 2004 Budget	FY 2004 Projection	FY 2005 Projection
Complete 12 audits annually	14	12	12	12

INTERNAL AUDIT

OVERVIEW

FY 2004 Major Recommended Activities and Changes

- Implement Audit Plan as approved by the Board's Audit Committee
- Restructure audit reporting process using web-based tools
- Implement Management Self-Assessment process into the audit process in order to limit amount of detailed fieldwork needed throughout the organization

FY 2005 Major Recommended Activities and Changes

- No other major changes anticipated



**FY 2005 Budget
\$5,798,000**

**CHIEF FINANCIAL
OFFICER
3 - Positions**

**FINANCE
AND
BUDGET**

			POSITIONS	
CURRENT			FY 2004	FY 2005
Authorized	Average Positions Filled	Year-End Positions Filled		
42	39	37	42	42

**Office of the
Controller
22 - Positions**

FUNCTIONS

- Prepare Comprehensive Annual Financial Report (CAFR)
 - Record and report financial transactions
 - Maintain financial records and an effective internal control structure
 - Establish accounting and reporting policies
 - Manage vendor payment operations
- Manage payroll operations
- Manage grants billing process
- Manage asset management process
- Prepare wholesale customer capital billings
- Manage special project billing process

**Finance and Budget
17 - Positions**

FUNCTIONS

- Manage WASA's short and long-range financial planning
- Prepare and monitor operating and capital budgets
- Manage Finance and Budget Committee reporting process
- Manage revenue forecasting and monitoring process
- Manage rate-setting process, including CSO and stormwater rates
- Manage WASA's debt issuance and existing debt portfolio, including commercial paper program
- Perform treasury functions, including investments and banking services
- Manage financial aspects of Inter-Municipal Agreement (IMA)
- Manage financial relationship with Washington Aqueduct
- Assistance on special projects, e.g. federal billing issues

FINANCE AND BUDGET

MISSION: Lead and coordinate all of WASA's financial activities to ensure that WASA's financial condition and performance meet the expectations of its Board of Directors and the broader financial community.

BUDGET OVERVIEW: The revised FY 2004 budget declines by \$0.2 million from the approved FY 2004 budget due to reduced contractual services spending. The approved FY 2005 budget increases slightly due to projected compensation increases.

	FY 2003 Revised	FY 2004 Approved	FY 2004 Revised	FY 2005 Approved
Positions: (FTE's)				
Number of authorized positions	42	42	42	42
Average number of positions filled	38			
Operating Expenses				
Personnel Services including Overtime	3,403	3,391	3,365	3,564
Overtime	40	40	40	40
Non-Personnel Services:				
Chemical and Supplies	20	20	20	20
Utilities	43	43	61	61
Contractual Services, etc.	2,318	2,235	2,020	2,080
Small Equipment	73	73	73	73
Total Non-Personnel Services	2,454	2,370	2,174	2,234
Total Operations & Maintenance	5,857	5,761	5,539	5,798
Financial Management System Upgrade	500	100	250	100
Payroll- Self Service Project	782	100	300	30

Targeted Performance Measures	FY 2003 Projection	FY 2004 Budget	FY 2004 Projection	FY 2005 Projection
Manage Authority's financial operations to ensure revenue is within 99% of projections and expenditures are within budget.	Revenue - 103% Expenditures - 98%	Within Budget	Within Budget	Within Budget
Comply with the Board's Investment Policy and exceed the three-month Treasury bill rate by 15 basis points.	45 points	15 points	15 points	15 points
Manage Authority's financial operations to ensure 140% debt service coverage.	507%	250%	401%	237%
Meet or exceed the 180 day operating & maintenance expense reserve target as set by Board policy - target was \$94.6 million in FY 2003.	\$118.7 million	\$95.5 million	\$95.5 million	\$96.6 million
Issue Comprehensive Annual Financial Report (CAFR) by February.	February	February	February	February
Pay 97% of all undisputed invoices within 30 days.	90%	97%	97%	97%

FINANCE AND BUDGET

OVERVIEW

FY 2004 Major Recommended Changes and Activities

- Continue to develop a strong budget management, procurement and internal control culture within WASA's management team to ensure that WASA meets the Board's and financial community's expectations for continued strong financial performance
- Improve capital budget forecasting process in conjunction with Department of Engineering and Technical Services to ensure projections meet expectations of the Board and are consistent with retail rate increase proposals
- Continue evaluation of CSO LTCP funding and rate options, including storm water fee options, based on feedback from Board and City Council
- Lead process to resolve outstanding rate and revenue issues with Soldiers' Home / Howard University and Potomac Interceptor users
- Complete next bond financing, with timing depending on capital financing
- Continue refinements to existing systems, including feasibility of upgrade to financial management system and development of employee self-service options for human resources / payroll system
- Continue to develop and build asset management group, including enforcement of uniform asset management policies across WASA
- Continue to review and improve internal controls to ensure accountability and safeguard of WASA's assets

FY 2005 Major Recommended Changes and Activities

- No other changes anticipated



CHIEF FINANCIAL OFFICER

			POSITIONS	
CURRENT			FY 2004	FY 2005
Authorized	Average Positions Filled	Year-End Positions Filled		
29	15	18	29	29

**FY 2005 Budget
\$4,377,000**

**INFORMATION TECHNOLOGY
Office of the
Director
3 - positions**

**Data Center
Infrastructure
and Security
Services
6 - positions**

FUNCTIONS

- Network infrastructure design and support
- Systems administration and system backups
- Information systems security monitoring and administration
- Develop and support electronic messaging environment

**Systems and
Operations
Services
10 - positions**

FUNCTIONS

- Day-to-day operations of central and remote systems sites
- Maintain WASA's technology standards
- Solutions Center (help desk)
- Install, operate, maintain and support new and existing telecommunication infrastructure and equipment
- Install, operate, and maintain audio/video systems and equipment
- Implement and support radio systems

**E-Business
Services
8 - positions**

FUNCTIONS

- Integrate and provide product support for the financial, payroll, maintenance and customer information and billing systems
- Design and maintain WASA's website to allow customer e-business access
- Database administration
- Develop and support WASA's intranet

**Project
Management
Services
1 - position**

FUNCTIONS

- Ensure successful project implementations
- Manage project prioritization process
- Support project planning, management, and implementation

**Process
Integration
Services
1 - position**

FUNCTIONS

- Provide implementation support for process computer control system

INFORMATION TECHNOLOGY

MISSION: Ensure that the Authority's mission is supported by state-of-the-art technology with an infrastructure capable of accommodating all traffic and connectivity demands, and a computing environment that encourages development of efficient business processes to serve internal and external customers.

BUDGET OVERVIEW: The revised FY 2004 is \$0.1 million higher than the FY 2004 approved budget due to increased contractual services for maintenance of new systems and infrastructure, offset by savings in personnel services. The approved FY 2005 reflects an increase of \$0.1 million due to projected compensation increases.

	FY 2003 Revised	FY 2004 Approved	FY 2004 Revised	FY 2005 Approved
Positions: (FTE's)				
Number of authorized positions	29	29	29	29
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	1,811	1,789	1,572	1,645
Overtime	50	50	50	50
Nonpersonnel Services:				
Chemicals and Supplies	109	109	111	111
Utilities	83	83	96	87
Contractual Services, etc.	2,141	2,073	2,431	2,457
Small Equipment	80	80	70	77
Total Non-Personnel Services	2,413	2,345	2,708	2,732
Total Operations & Maintenance	4,224	4,134	4,280	4,377
Capital Equipment	5,784	4,555	4,579	8,919
Targeted Performance Measures				
	FY 2003 Projection	FY 2004 Budget	FY 2004 Projection	FY 2005 Projection
98% Network uptime during peak hours	99.75%	99.75%	99.75%	99.75%
95% Network uptime during non-peak hours	99.75%	99.75%	99.75%	99.75%
95% of all high priority tickets completed within 4 hours	95.00%	95.00%	95.00%	95.00%

INFORMATION TECHNOLOGY

OVERVIEW

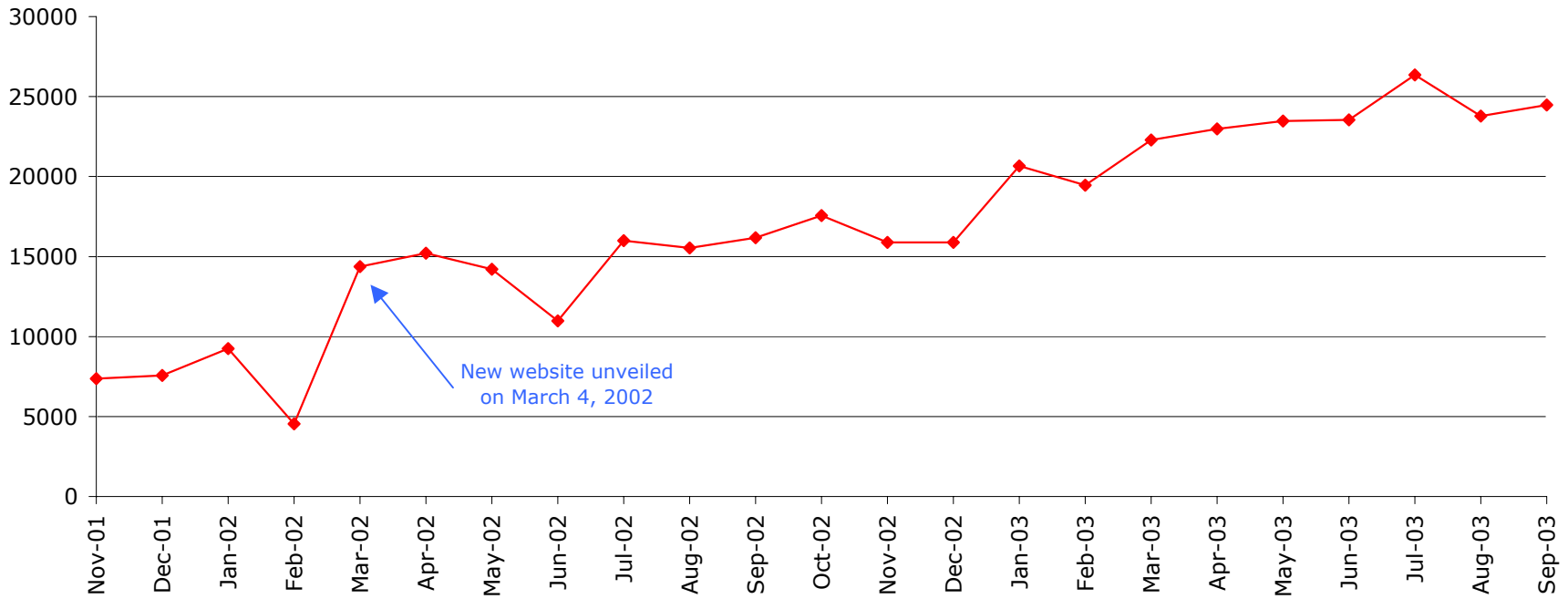
FY 2004 Major Recommended Activities and Changes

- Complete implementation of city-wide radio communications system
- Complete implementation of technology for consolidated command center
- Assume additional technical support for:
 - SCADA system during implementation
 - Automated meter reading project
 - Supporting additional functionality for customer information and billing system
- Provide project support for first phase of Asset Management system
- Provide technology guidelines/standards and project support for PCCS/SCADA
- Implement:
 - Early stages of the Disaster Recovery Plan
 - IT Training Plan for IT department employees in conjunction with Human Resources
 - Solution Center (Helpdesk) Long term Operational Plan
- Develop plan for "Next Stage" Authority wide phone system
- Coordinate with Public Affairs and other WASA departments to update the web site
- Hire and retain qualified staff as market conditions permit

FY 2005 Major Recommended Activities and Changes

- Update the Information Technology Strategic Plan
- Update Information System Security Strategic Plan
- Develop Authority-wide Wireless strategy
- Continue to provide technology guidelines/standards and project support for PCCS/SCADA
- Implement handheld inventory system
- Implement "Next Stage" Authority wide phone system
- Implement Call Recording for unified call center
- Implement Call Wait Time Announcement
- Provide project support for Asset Management system

VISITORS TO WWW.DCWASA.COM NOVEMBER 2001 - SEPTEMBER 2003





**CHIEF FINANCIAL
OFFICER**

**FY 2005 Budget
\$6,835,000**

**RISK
MANAGEMENT
3 - Positions**

POSITIONS				
Authorized	CURRENT		FY 2004	FY 2005
	Average Positions Filled	Year-End Positions Filled		
3	3	3	3	3

FUNCTIONS

- Manage all claims, including workers compensation and tort claims
- Procure and manage insurance contracts
- Develop and ensure adequate reserve levels
- Perform ongoing risk assessments of operations
- Coordinate loss prevention programs

RISK MANAGEMENT

MISSION: To manage and coordinate all risk management programs to reduce and cost effectively transfer the Authority's financial risk, protect its assets and reduce financial loss.

BUDGET OVERVIEW: The revised FY 2004 budget is \$1.2 million higher than the FY 2004 approved budget due to increased insurance premiums and increased workers' compensation and tort claims' reserves.

	FY 2003 Revised	FY 2004 Approved	FY 2004 Revised	FY 2005 Approved
Positions: (FTE's)				
Number of authorized positions	3	3	3	3
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	216	224	246	257
Overtime	-	-	2	2
Non-Personnel Services:				
Chemicals and Supplies	2	2	5	5
Utilities	3	3	3	3
Contractual Services, etc.	5,405	5,418	6,420	6,570
Small Equipment	-	-	-	-
Total Non-Personnel Services	5,410	5,423	6,428	6,578
Total Operations & Maintenance	5,625	5,647	6,674	6,835
Capital Equipment	-	-	-	-

Targeted Performance Measures

Accurately forecast reserve requirements
 Resolve tort claims within 45 days
 Reduce workers compensation cost by 10%
 Meet workers compensation filing requirements within 14 days

RISK MANAGEMENT

OVERVIEW

FY 2004 Major Recommended Activities and Changes

- Evaluate insurance program in light of changing insurance market, with focus on balancing risk transfers versus cost
- Improve reserves forecasting and management process to ensure all costs are adequately budgeted
- Review and improve claims management to reduce cost for workers' compensation and tort liability claims, including implementing new policies and training for WASA departments
- Determine feasibility of a sewer backup insurance program to offset homeowner claims
- Determine feasibility of an Owner Controlled Insurance Program (OCIP) for capital projects

FY 2005 Major Recommended Activities and Changes

- Continue efforts to identify and reduce financial risk related to claims
- Evaluate feasibility of a risk management information system
- Implement an Owner Controlled Insurance Program for major construction projects, dependent upon feasibility

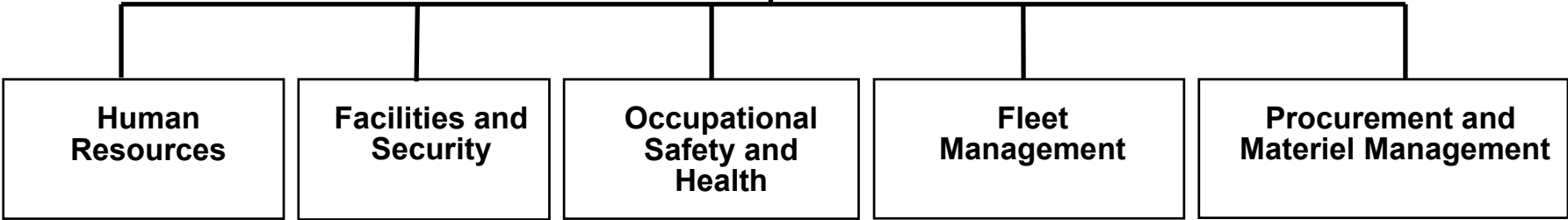


**GENERAL
MANAGER**

POSITIONS				
CURRENT			FY 2004	FY 2005
Authorized	Average Positions Filled	Year-End Positions Filled		
4	3	3	4	3

**FY 2005 Budget
\$429,000**

**ASSISTANT
GENERAL
MANAGER
3 - Positions**



FUNCTIONS

- Oversee and direct the department of Human Resources, Facilities and Security, Occupational Safety and Health, Fleet Management, and Procurement and Materiel Management
- Manage the Authority's annual workplan development process
- Direct Authority's productivity analysis and planning group

ASSISTANT GENERAL MANAGER

MISSION: To administer and direct the day-to-day operations of administrative and support services in the areas of human resources management, facilities and security services, fleet and equipment management, occupational safety and health services, and procurement and materiel management.

BUDGET OVERVIEW: There are no significant financial changes in the revised FY 2004 budget. The approved FY 2005 budget reflects the transfer of one position to the Department of Facilities & Security.

	FY 2003 Revised	FY 2004 Approved	FY 2004 Revised	FY 2005 Approved
Positions: (FTE's)				
Number of authorized positions	4	4	4	3
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	262	199	232	243
Overtime	0	0	2	2
Non-Personnel Services:				
Chemicals and Supplies	25	25	10	10
Utilities	4	3	4	4
Contractual Services, etc.	242	223	168	168
Small Equipment	4	4	4	4
Total Non-Personnel Services	275	255	185	186
Total Operations & Maintenance	537	454	417	429
Capital Equipment	0	0	0	0
Targeted Performance Measures				
	FY 2003 Projection	FY 2004 Budget	FY 2004 Projection	FY 2005 Projection
Direct the annual development of the Authority's work plan:				
Number of Work Plan Sessions	9	10	10	10

ASSISTANT GENERAL MANAGER

OVERVIEW

FY 2004 Major Recommended Activities and Changes

- Begin development of a productivity analysis and planning group
- Streamline the Work Plan metrics process
- Ensure that the Space Study is completed and a Master Facilities Plan is fully developed in conjunction with Department of Engineering and Technical Services (DETS)

FY 2005 Major Recommended Activities and Changes

- Develop and implement strategies to monitor Master Facilities Plan implementation
- No other major changes anticipated



**ASSISTANT
GENERAL
MANAGER**

**FACILITIES
AND SECURITY
Office of the Director
2 - Positions**

**FY 2005 Budget
\$8,584,000**

			POSITIONS	
CURRENT			FY 2004	FY 2005
Authorized	Average Positions Filled	Year-End Positions Filled		
63	57	56	63	64

**Security
6 - Positions**

FUNCTIONS

- Provides security services for WASA employees and property
- Responds to safety and security emergency situations
- Investigates theft incidents, illegal entries and other security concerns

**Office Services
7 - Positions**

FUNCTIONS

- Properly routes incoming mail and deliveries
- Provides WASA - wide copy services
- Provides in-house courier service
- Receives and directs people who call or visit the Authority
- Responsible for customer services survey

**Facilities
Operations
36 - Positions**

FUNCTIONS

- Responsible for building & grounds operations including landscaping and trash removal
- Coordinates workspace assignments and moves
- Provides janitorial services
- Responsible for procuring and assigning furniture
- Responsible for building maintenance
- Ensure adequate grounds direction and buildings signage
- Responsible for cafeteria operations

**Mechanical
Services
13 - Positions**

FUNCTIONS

- Responsible for predictive and preventive maintenance
- Responsible for adequate indoor air quality
- Responsible for elevator maintenance
- Engages in major construction and renovation projects
- Manages maintenance of HVAC systems

FACILITIES & SECURITY

MISSION: Support the operations of the Authority through routine maintenance, custodial, repair and improvement of its facilities, buildings, grounds and roadways and to develop and implement security policies and procedures, asset protection, loss prevention

BUDGET OVERVIEW: There are no significant changes between the approved FY 2004 and revised FY 2004 budget. The approved FY 2005 increases by \$0.4 million over the revised FY 2004 budget, reflecting projected compensation increases.

	FY 2003 Revised	FY 2004 Approved	FY 2004 Revised	FY 2005 Approved
Positions: (FTE's)				
Number of authorized positions	63	63	63	64
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	3,682	3,643	3,684	4,077
Overtime	142	142	142	142
Non-Personnel Services:				
Chemical and Supplies	443	443	423	443
Utilities	102	102	48	61
Contractual Services, etc.	3,864	3,863	3,908	3,910
Small Equipment	94	94	94	94
Total Non-Personnel Services	4,503	4,502	4,473	4,508
Total Operations & Maintenance	8,185	8,145	8,157	8,584
Document Management System	100	-	40	-
Facilities Management System	-	-	50	-
Capital Equipment	1,953	744	2,333	631
Targeted Performance Measures				
	FY 2003 Projection	FY 2004 Budget	FY 2004 Projection	FY 2005 Projection
Number of work orders closed within four days	4	3	3	2
Security inspections/patrols per day	3	3	3	6
Number of customer surveys done annually	4	6	6	6
Percentage of customer survey with level 4 or 80% rating	N/A	90%	90%	100%
Percentage of fire suppression units in code compliance	75%	90%	90%	100%
Percentage of HVAC system up-time	70%	85%	85%	95%
Percentage of annual building evaluations performed	N/A	50%	50%	100%

FACILITIES & SECURITY

OVERVIEW

FY 2004 Major Recommended Activities and Changes

- Ensure sufficient security at all WASA facilities
- Develop a comprehensive facilities preventative maintenance program
- Complete building improvements needed to meet Americans with Disability Act (ADA) requirements
- Continue renovations of Central Operations Facility which includes:
 - Completion of restrooms to meet ADA compliance
 - Complete replacement of the HVAC systems
 - Complete refurbishment of the elevators
 - Begin second and fifth floor renovations
- Evaluate facilities maintenance system, including utilization of existing maintenance management system
- Complete replacement of CMF roof
- In conjunction with Engineering and Technical Services, complete WASA-wide Master Facilities Plan
- Complete analysis of fire suppression and detection system upgrades in conjunction with Occupational safety and Health

FY 2005 Major Recommended Activities and Changes

- Continue renovations of the Central Operations Facility and adjacent facilities
- Implement and improve facilities predictive maintenance and planning program
- Complete feasibility analysis of copiers, including lease vs. purchase decision and number of copiers given WASA's operational needs



**FY 2005 Budget
\$735,000**

**ASSISTANT
GENERAL
MANAGER**

**OCCUPATIONAL
SAFETY
AND HEALTH
6 - Positions**

**Occupational Safety
&
Health Program**

**Health & Industrial
Hygiene Program**

FUNCTIONS

- Maintain an effective industrial hygiene program
- Coordinate the full implementation of the Respiratory Protection Program
- Expand and maintain the Medical Surveillance Program to comply with Occupational Safety and Health Act (OSHA) requirements in relation to asbestos, lead, low level radiation, etc.

FUNCTIONS

- Maintain an effective Accident Prevention Safety Awareness Program
- Conduct safety inspections of all Water and Sewer Authority (WASA) facilities
- Provide statistical data on safety performance
- Investigate, evaluate, and review all accident, injuries, and incidents, to ensure appropriate preventive measures are in place
- Maintain effective safety training guidelines and assistance so that WASA complies with mandated safety requirements
- Maintain Comprehensive Construction Safety Program

**Environmental Safety
Program**

FUNCTIONS

- Ensure WASA's compliance with environmental safety regulations promulgated by OSHA, Environmental Protection Agency, Department of Transportation, etc.
- Provide oversight and guidance of WASA's Hazardous Waste Program
- Generate and provide required safety reports to regulatory agencies in a timely manner
- Provide oversight and management of aboveground and underground storage tanks

POSITIONS				
CURRENT			FY 2004	FY 2005
Authorized	Average Positions Filled	Year-End Positions Filled		
6	5	6	6	6

OCCUPATIONAL SAFETY AND HEALTH

MISSION: To provide technical services and support that ensures a safe and healthy work environment for all WASA employees.

BUDGET OVERVIEW: The revised FY 2004 and approved FY 2005 budgets reflect an increase due to additional telecommunications devices for emergency preparedness. This department will continue to coordinate and direct safety-related contractual resources that are budgeted in other departments.

	FY 2003 Revised	FY 2004 Approved	FY 2004 Revised	FY 2005 Approved
Positions: (FTE's)				
Number of authorized positions	6	6	6	6
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	473	478	516	541
Overtime	1	1	1	1
Non-Personnel Services:				
Chemicals and Supplies	56	56	54	54
Utilities	7	7	38	38
Contractual Services, etc.	68	62	57	57
Small Equipment	41	46	46	46
Total Non-Personnel Services	172	170	194	194
Total Operations & Maintenance	644	648	711	735
Capital Equipment	-	-	-	-
Targeted Performance Measures				
	FY2003 Projection	FY2004 Budget	FY2004 Projection	FY2005 Projection
Conduct and complete Authority-wide safety inspections	100	100	100	100
Reduce vehicle accidents, Authority-wide	20%	15%	15%	15%
Reduce Lost Work Day Injuries (LWDI), Authority-wide	15%	15%	15%	15%

OCCUPATIONAL SAFETY & HEALTH

OVERVIEW

FY 2004 Major Recommended Activities and Changes

- Manage and update the comprehensive construction safety program
- Develop an information system to keep WASA informed of issues relating to Homeland Security
- Ensure safety initiatives are in place for new capital projects due to come on-line

FY 2005 Major Recommended Activities and Changes

- Implement an ergonomic enhancement program to reduce injuries related to repetitive motion
- Ensure safety initiatives are in place for new capital projects due to come on-line



DCWASA

**FY 2005 Budget
\$3,024,000**

**ASSISTANT
GENERAL
MANAGER**

**Procurement Services
Office of the Director
2 - Positions**

			<u>POSITIONS</u>	
<u>CURRENT</u>			FY 2004	FY 2005
Authorized	Average Positions Filled	Year-End Positions Filled		
40	38	36	39	38

**Procurement Operations
15 - Positions**

FUNCTIONS

- Manage WASA's purchasing process, including:
 - vendor bid listing
 - advertisement and solicitation process
 - website information
 - WASA's credit card purchasing program

FUNCTIONS

- Manage pre-award procurement process, including:
 - bids and proposal solicitation
 - contract negotiations
 - contract modifications
- Monitor all WASA's contracts including planning for future procurements
- Manage A&E contracts

**Contract Administration
4- Positions**

FUNCTIONS

- Manage post-award procurement process
- Manage A&E Contracts
- Investigate wage/labor issues
- Oversight and reporting on LSDBE issues

**Warehouse & Operations
17 - Positions**

FUNCTIONS

- Provide direction and guidance on inventory policies and procedure
- Administer WASA's uniform and Safety Shoe program
- Administer the materiel control system and associated functions including:
 - Inventory Reconciliation
 - Manage inventory closing process
- Conduct spot, cycle, and annual physical inventory
- Establish minimum and maximum inventory levels
- Manage Warehouse and associated functions
- Manage disposal of excess and obsolete inventory
- Manage Fixed Asset Program

PROCUREMENT AND MATERIEL MANAGEMENT

MISSION: To deliver, on a timely basis, the best value products and services to the Authority and its customers through excellent purchasing, inventory and contracting operations.

BUDGET OVERVIEW: The revised FY 2004 budget declines by \$0.1million from the approved FY 04 budget reflecting the reduction of one position from FY 2003, consistent with the goals laid out in the Internal Improvement Program (IIP). The FY 2005 budget increases slightly due to projected compensation increases, offset by the reduction of an additional position.

	FY 2003 Revised	FY 2004 Approved	FY 2004 Revised	FY 2005 Approved
Positions: (FTE's)				
Number of authorized positions	42	40	39	38
Average number of positions filled	38			
Operating Expenses				
Personnel Services including Overtime	2,590	2,691	2,542	2,615
Overtime	52	52	52	52
Non-Personnel Services:				
Chemical and Supplies	65	65	65	65
Utilities	30	30	32	32
Contractual Services, etc.	262	262	262	287
Small Equipment	26	26	26	26
Total Non-Personnel Services	383	384	385	410
Total Operations & Maintenance	2,973	3,075	2,927	3,024
e-Contract management system	-	-	100	-

Targeted Performance Measures	FY 2003 Projection	FY 2004 Budget	FY 2004 Projection	FY 2005 Projection
Award 50% of DCWASA actual discretionary spending to Local Small Disadvantage Business Enterprises (LSDBE) - FY 2002 actual of 49%; FY 2003 projection < 50%	< 50%	50%	50%	50%
Issued Purchase Orders within 10 business days	90%	95%	95%	97%
Issue and award Request For Quotation (RFQ) of \$100,000 or less within 30 calendar days	90%	95%	95%	97%
Complete and Issue Invitation for Bid (IFB) within 70 days	90%	95%	95%	97%

PROCUREMENT & MATERIEL MANAGEMENT

OVERVIEW

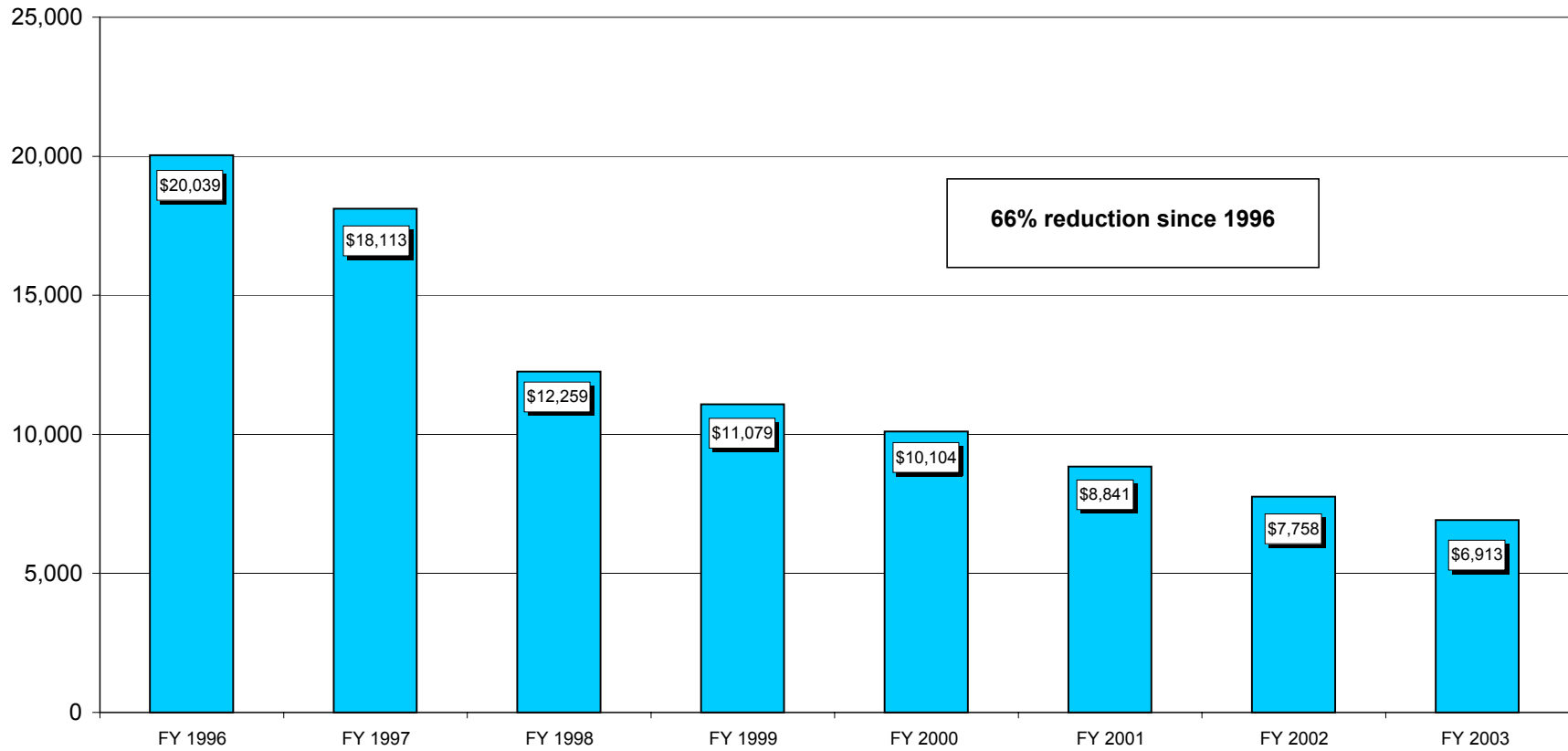
FY 2004 Major Recommended Activities and Changes

- Reduction of one position per Internal Improvement Program (IIP) and evaluate other organizational enhancements, such as merging small and large procurement operations
- Continue to improve procurement and materiel management efficiencies and customer support
- Ensure Board-established goals for Local Small Disadvantage Business Enterprise (LSDBE) participation are met or exceeded, including new out reach efforts
- Improve web-based procurement mechanisms
- Evaluate need for and feasibility of new contract management system
- Continue to improve Just-in-Time purchasing
- Evaluate inventory levels, including reduction of excess/ obsolete inventory and establishing new minimum/maximum inventory levels, especially in light of new CIP projects coming on line
- Close Potomac yard and consolidate remaining inventory at Anacostia yard

FY 2005 Major Recommended Activities and Changes

- Reduction of one position per Internal Improvement Program (IIP)
- In conjunction with IT, Maintenance and Accounting develop a bar coding system with handheld device inventory tracking systems
- Maintain effectiveness of inventory forecasting, managing and purchase practices

**Inventory Values
As of September 30
FY 1996 - FY 2003
(\$000's)**





**ASSISTANT
GENERAL
MANAGER**

**FLEET
MANAGEMENT
2 - Positions**

**Maintenance Coordination
2 - Positions**

**Acquisition Coordination
1 - Position**

**FY 2005 Budget
\$2,852,000**

			POSITIONS	
CURRENT			FY 2004	FY 2005
Authorized	Average Positions Filled	Year-End Positions Filled		
5	4	4	5	5

FUNCTIONS

- Preventive and repair maintenance
- Management of vehicles, equipment, and parts
- Manage fleet maintenance contractor and vendors
- Provide fuel service

FUNCTIONS

- Purchase new vehicles/equipment
- Manage the intra-WASA loaner pool program

FLEET MANAGEMENT

MISSION: To provide safe, reliable and cost effective vehicles and equipment to the Authority for use by all departments in performance of their missions.

BUDGET OVERVIEW: The FY 2004 revised budget is \$0.2 million lower than the FY 2004 approved budget due to decreased costs related to vehicle maintenance/repair.

	FY 2003 Revised	FY 2004 Approved	FY 2004 Revised	FY 2005 Approved
Positions: (FTE's)				
Number of authorized positions	5	5	5	5
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	407	423	391	424
Overtime	2	2	2	2
Non-Personnel Services:				
Chemicals and Supplies	8	8	9	8
Utilities	476	481	454	454
Contractual Services, etc.	1,975	1,936	1,746	1,861
Small Equipment	105	91	101	106
Total Non-Personnel Services	2,563	2,516	2,310	2,428
Total Operations & Maintenance	2,971	2,939	2,701	2,852
Capital Equipment	1,697	1,828	1,154	1,003
Targeted Performance Measures				
	FY 2003 Actual	FY 2004 Budget	FY 2004 Projection	FY 2005 Projection
Percentage of preventive maintenance	97%	95%	97%	98%
Fleet operational on a daily basis	96%	96%	96%	98%

FLEET MANAGEMENT

OVERVIEW

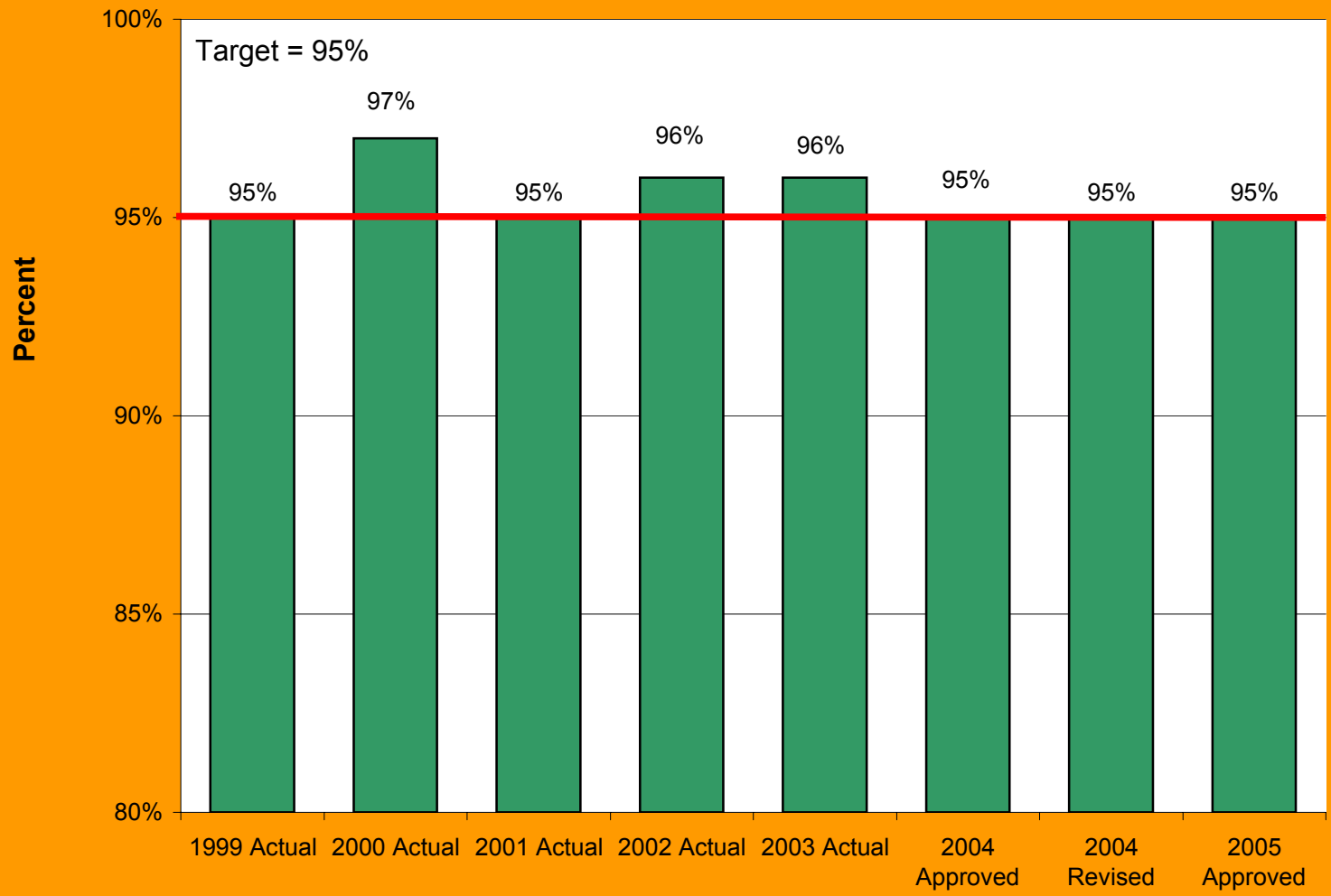
FY 2004 Major Recommended Activities and Changes

- Evaluate the size of fleet, vehicle maintenance cost levels, and replacement schedule to make sure they are aligned with WASA's business needs
- Evaluate maintenance and repair problems for "trends" that might be reoccurring or signal a need for more in-depth analysis involving equipment purchases, training, etc.
- Ensure that light vehicles remain well-maintained while focusing on replacing older medium/heavy vehicles and equipment
- Continue replacement of light vehicles with alternative fuel vehicles under the vehicle/equipment Replacement Plan
- Complete implementation of the fuel purchase program from the District of Columbia Government, to achieve cost savings
- In conjunction with Human Resources, coordinate commercial drivers license (CDL) training and practical driver training
- Continue implementation of Fleet's traffic violation policies
- Develop a Fleet Customer Services Improvement Plan to include: data from a website-based customer survey, general comments from customers, and the compliment/complaint hotline information

FY 2005 Major Recommended Activities and Changes

- Complete replacement of medium/heavy vehicles and equipment under the vehicle/equipment Replacement Plan
- Complete replacement of light vehicles with alternative fuel vehicles under the vehicle/equipment Replacement Plan

Vehicle In-Service Percentage





**ASSISTANT
GENERAL
MANAGER**

**HUMAN
RESOURCES**
2 - Positions

FY 2005 Budget
\$3,245,000

POSITIONS				
CURRENT			FY 2004	FY 2005
Authorized	Average Positions Filled	Year-End Positions Filled		
21	19	19	21	21

**Staffing &
Compensation**
8 - Positions

Benefits
4 - Positions

Labor Relations
4 - Positions

Training
3 - Positions

FUNCTIONS

- Compensation Program
- Job Evaluation Program
- Pay Incentive Programs
- Performance Management
- Records Management
- HR Information Systems
- Recruitment & Hiring
- Employee Relations

FUNCTIONS

- Health & Welfare Benefits Administration
- Pension Benefits Administration
- Employee Assistance Program
- Drug & Alcohol Testing
- Wellness Program
- Fit for Duty
- Americans with Disabilities Act (ADA) Compliance
- Leave Administration

FUNCTIONS

- Labor Relations
- Employee Counseling
- Employee Grievances/Complaints
- Affirmative Action Program
- Equal Employment Opportunity Commission (EEOC)
- Disciplinary Actions
- Arbitration

FUNCTIONS

- Management Training
- Employee Training
- Internship Program
- Education Reimbursement
- Service Awards
- Annual Awards
- Engineering Fellowship Program

HUMAN RESOURCES

MISSION: To deliver high quality, innovative, valued and timely human resource services that are responsive to the needs of employees and the departments of the Authority and enable them to reach their individual and organizational goals.

BUDGET OVERVIEW: The FY 2004 revised budget increase of \$0.2 million over the FY 2004 approved budget is due to projected compensation increases and increases in contractual services related to additional training and benefits consulting.

	FY 2003 Revised	FY 2004 Approved	FY 2004 Revised	FY 2005 Approved
Positions: (FTE's)				
Number of authorized positions	21	21	21	21
Average number of positions filled	20			
Operating Expenses				
Personal Services including Overtime	1,713	1,621	1,786	1,898
Overtime	25	25	25	25
Non-Personnel Services:				
Supplies	31	31	31	31
Utilities	17	18	18	18
Contractual Services, etc.	1,364	1,246	1,349	1,239
Equipment	57	57	59	59
Total Non-Personnel Services	1,470	1,351	1,457	1,347
Total Operations & Maintenance	3,182	2,972	3,243	3,245
Capital Equipment	-	-	-	-
Targeted Performance Measures				
	FY 2003 Projection	FY 2004 Budget	FY 2004 Projection	FY 2005 Projection
60 days from job posting to hire	60	60	60	60
10 days to initiate disciplinary action	10	10	10	10

HUMAN RESOURCES

OVERVIEW

FY 2004 Major Recommended Activities and Changes

- Negotiate new collective bargaining agreement
- Continue to evaluate health benefits programs and costs
- Implement Customer Service training for call center representatives and front-line employees
- Implement coaching and counseling skills training for Supervisors and Managers
- Implement improvements to the performance management program that provides for two-way communication of performance goals and expectations, with particular focus on expanding program to union employees
- Establish strategy in support of Internal Improvement Plan (IIP), particularly for training
- Develop and implement retirement counseling and communication program for participants in CSRS and WASA benefits programs
- Implement employee communications program, for delivery at each of the four major work facilities, to disseminate benefit program information and educate employees on plan provisions
- Implement the first phase of employee self-service on Ceridian in conjunction with the Finance and Budget department
- Implement training for directors, managers, and supervisors on changes to the new collective bargaining agreement

FY 2005 Major Recommended Activities and Changes

- Implement the basic skills and management development program, including transition to supervisor training
- Review non-union job descriptions for accuracy
- Continue implementation of employee self-service on Ceridian and test open enrollment of the benefits online

FY 2004 & FY 2005 TRAINING PLAN

TRAINING OVERVIEW

In FY 2003, the Authority continued to offer comprehensive training programs and classes to both supervisory and non-supervisory employees. Training continued to focus on regulatory safety, technical, Authority policies and mandatory skills improvement classes designed to improve employee's knowledge, skills, and abilities. Of particular importance for FY 2003 was certification training in wastewater, maintenance, sewer and water services; training on the employee performance management process for union employees; training on ethics in procurement for small purchases. Other New training initiative for FY 2003 included workforce diversity and workplace violence prevention.

Training will continue in FY 2004 and FY 2005 and is categorized as follows:

Contractual Training – primarily technical training that includes Wastewater Treatment and Maintenance, Water and Sewer Services Certification programs. This training also includes classes on occupational safety and the installation and operation of new equipment and processes.

In-house Training - courses designed and implemented by Authority training personnel. In-house training focuses on providing non-technical mandatory courses, basic skills development and skill enhancement courses, and general computer training for standard software applications. In-house training comprises courses that involve all or a large number of Authority employees. Another component of in-house training is WASA's tuition reimbursement program. .

Outside Training - utilized to respond to individual employee training and development needs and requirements. This is also the best means of providing highly specialized or special focus training to individuals or a small group of employees.

FY 2003 ACCOMPLISHMENTS (Revise)

Training classes offered during FY 2003 supported WASA's wastewater treatment operator certification program and certification programs for Maintenance, Sewer and Water Services, and safety initiatives. As of the third quarter of FY 2003, there were 109 wastewater treatment operators covered by the Authority's Wastewater Treatment Operator

Certification Policy. These operators continued to attend training to either obtain the initial certification required for their position or to upgrade their certification to prepare for the next promotional opportunity. Twelve (12) of the 109 operators have not received the required certification. These operators attended intensive training on wastewater treatment math, test-taking skills, and one-on-one coaching. Operators interested in obtaining a higher-level certification than required by their position, continued to train as well. Seventy-five (75) classes were offered for wastewater treatment operators during FY 2003. These classes were facilitated by outside consultants. Duty stations training continued to be offered to ensure that operators are more cross-functional and able to operate each of the plant's duty stations. Twelve (12) classes were offered throughout the year to give operators opportunities to learn new skills.

To ensure that wastewater treatment operator training is available on an on-going basis, operators also attended train-the-trainer classes to learn facilitation skills. As a result, two (2) of the twenty (20) operators that completed the train-the-trainer classes are now facilitating sessions.

In support of the Internal Improvement Plan, the pilot maintenance certification program continued for employees in the Department of Maintenance Services. This is the first program of its kind to be offered by a wastewater treatment facility. There are four (4) levels of certification, Certified Water/Wastewater Maintenance Technician I and II (CWWMT), Certified Water/Wastewater Maintenance Professional (CWWMP), and the Certified Water/Wastewater Maintenance Manager (CWWMM). In FY 2003, 85 classes were offered. The following table shows the number of employees who have a Maintenance Certification.

Employees with Maintenance Certifications

Certification	FY 2003	Year to Date
Certified Water/Wastewater Maintenance Technician I (CWWMT I)	29	81
Certified Water/Wastewater Maintenance Technician II (CWWMT II)	16	30
Certified Water/Wastewater Maintenance Professional (CWWMP)		15
Certified Water/Wastewater Maintenance Manager (CWWMM)	1	1

In FY 2003, fifty-eight (58) maintenance employees attended a total of four (4) train-the-trainer classes for ensure ongoing maintenance certification training. One employee has already begun facilitating the CWWMT I training classes.

Further support for the Internal Improvement program was evidenced with the implementation of certification training for the Departments of Sewer and Water services. The classes provide knowledge on wastewater collections and drinking water distribution. Both programs are designed to improve flexibility in staff deployment and provide broader individual employee capability. This program also has a Train-the-Trainer component to ensure long-term instruction. Ten (10) employees from Water Services and nine (9) employees from Sewer Services attended Train-The-Trainer classes.

In September 2003, management collaborated with the unions to design of a new performance evaluation system for union employees. The union performance evaluation process is similar to the nonunion performance evaluation process in that it contains performance factors that are essential to meeting the expectations of the job. The program is designed to promote employee development, plan work to assure that we meet our goals, coach and counsel employees and evaluate performance. All supervisors and managers of union employees attended training on the evaluation process in December 2002. Supervisors and managers also received training on giving and receiving feedback, and how to write effective performance evaluations. Employees attended training on the evaluation process in January and February 2003 to ensure an understanding of their roles in the process and also to understand the importance of giving and receiving feedback.

Employees attended outside training programs and seminars to fulfill unique skill requirements. Types of training classes attended are Public Bidding and Code, Financial Management, Concrete Field Technician, Hydraulics, Design Structure, Surveying and Stormwater Management, etc. A total of 103 employees participated in outside training at an average cost of \$404 per person.

Managers and supervisors attended mandatory in-house classes to learn new skills. Classes for this year included Workforce Diversity, Workplace Violence Prevention, Blueprint Reading, and Business Ethics in the Small Procurement Process. Both supervisors and employees attended refresher classes on Performance Management, Sexual

Harassment, Drug and Alcohol and the revised Commercial Drivers License (CDL) Drug and Alcohol. Employees also continued to attend specialized writing classes to improve the clarity and quality of written communication.

The Education Reimbursement program continues to provide a means for employees to acquire skills and develop careers through continued education at colleges and universities. One employee earned a Certificate in Facility Management as a result of participating in the program.

In FY 2003, The Authority's adult literacy program, WASA READS, comprised nine (9) employees. After an initial assessment to determine their literacy levels, the employees began to work on word and sound recognition and practical math applications. The employees also learned basic computer operations through the use of the Transformer. The Transformer is a mobile classroom that is available through the DC Board of Education. The Transformer contains state-of-the-art computers with software that is designed to improve literacy.

After six (6) months of training, employees in the program began to focus on enhancing spelling and writing skills. Employees practiced word recognition and phonetic word structure by working with computer teaching aids, dictionaries and actual work products. The employees also focused on reading comprehension and math using real-time applications that include tax preparation forms, performance evaluations and WASA's new benefits open enrollment materials.

The WASA READS program was recognized by several agencies that specialize in adult literacy programs. The Director of Literacy Volunteers of America, the Director of Academy of Hope and a representative from The State Literacy Agency audited classes to benchmark adult literacy instruction in the public sector with programs offered in an academic environment.

The Authority remains committed to ensuring that all levels of leadership fulfill their responsibilities with integrity and adhere to ethical standards when handling procurements. First-line supervisors and other employees with small procurement and purchase card responsibility attended full-day classes on ethics that provided guidance on how to handle ethical dilemmas and conflicting values. This class was similar to the one offered in September 2002 for managers and other employees with large procurement responsibility. Forty-eight (48) employees attended the classes that were facilitated by both in-house employees and consultants.

FY 2004 and FY 2005

The training budgets for FY 2003 and FY 2004 are summarized in the table below.

**Budget Expenditures for Training
(\$ in 000's)**

Training Type	FY 2004 Revised		FY 2005 Approved	
	Budget	Percent	Budget	Percent
Outside Training	729	46%	705	46%
In-House Training	256	16%	245	16%
Contractual Training	590	38%	590	38%
Total	1,575	100%	1,540	100%

In FY 2004, training will center on regulatory and safety, technical, Authority policy, and Authority-mandated skills improvement courses and programs. Regulatory and safety training will focus on refresher training classes since the majority of employees have completed their initial training requirements. Technical training will continue to focus on wastewater certification with the implementation of a Wastewater Operator Trainee Program. Training will also continue for the pilot certification programs in the Departments of Maintenance, Sewer and Water services. Classes will be offered to support the Authority's Comprehensive Safety Plan and will include Accident Investigation and Reporting, Confined Space Entry, CPR/First Aid, Work Zone Traffic Safety, Competent Person Excavation Safety, Hazard Communication, Emergency Response, and new initiatives surrounding Homeland Security.

Training on Authority policies will be offered routinely as policies and procedures are updated. Mandatory skills improvement training will continue to be offered to address performance deficiencies, new business initiatives, and compliance with federal, state and local laws. Safety training will be expanded to include more in-depth awareness of

emergency response as it relates to Homeland Security. A large-scale training effort for senior and mid-level managers will include follow-on work with the Leadership Development program. Ratification of a new collective bargaining agreement will require additional training for managers and supervisors on key features or changes in the contract for managers and supervisors. Managers, supervisors and employees will receive continue to attend training on Workplace Violence Prevention and Workforce Diversity initiatives. All employees will continue to upgrade skills by attending written communication and computer classes.

Also in FY 2004, first-line supervisors and employees who have responsibility for direct interactions with customers will attend a comprehensive program to provide essential skills for handling customer inquiries and problems. Call center employee will also attend training as internal improvements are implemented in the Department of Customer Service.

A new training effort scheduled will target employees with aspirations to become a manager or supervisor. The course will include skills training on communication, delegation, managing leave and discipline and other key supervisory skills.

FY 2005, there will be an increase in mandatory and skills improvement classes that support the Internal Improvement Plan, Capital Improvement Program, and changing job requirements as employees become more cross-functional. Additionally, ongoing classes on customer service will be offered to in-house employees as part of an Authority-wide customer service system. Other classes will focus on basic literacy, computer and communication skills to help broaden employee flexibility.

GLOSSARY

ACCRUAL BASIS: The method of accounting under which revenues are recorded when they are earned (whether or not cash is received at that time) and expenditures are recorded when goods and services are received (whether or not cash disbursements are made at that time).

A/E CONTRACT: Architectural and Engineering Contracts

AERATION: The process that forces compressed air into wastewater. The oxygen keeps the microorganisms alive and sets off a chain reaction; live, eat, and work. Oxygen is an essential ingredient in “activating” sludge

AMSA: Association of Metropolitan Sewerage Agencies

ANAEROBIC DIGESTION: A biological process using microorganisms that will reduce biosolids volume by up to 50 percent. WASA will be constructing nine egg-shaped digesters for anaerobic digestion.

APPROPRIATION: An authorization by Congress, which permits officials to incur obligations and expend Authority resources. Appropriations are usually made for fixed amounts, which extend for a fiscal year. Appropriations for capital improvement projects, however, extend until completion, which usually extends beyond the current fiscal year.

ASSETS: Property with monetary value owned by the Authority.

AUDIT: An independent systematic examination of resource utilization concluding in a written report. It is a test of management’s internal accounting records. It also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements.

AUTOMATED METER READING: System that will automatically read customers’ meters using radio frequencies, allowing for more accurate and frequent meter readings.

BIOCHEMICAL OXYGEN DEMAND (BOD): An indicator of the amount of biodegradable contaminants in wastewater.

BIOSOLIDS: Sludge that has been treated to reduce pathogens, organics, and odors, forming a reusable agricultural product.

BLUE PLAINS ADVANCED WASTEWATER TREATMENT PLANT: WASA’s wastewater treatment plant located in southwest Washington. Blue Plains is the world’s largest advanced wastewater treatment plant, and has a permitted capacity of 370 million gallons per day.

BOARD OF DIRECTORS: WASA's governing board, which includes 11 primary members, six members from the District of Columbia, two members each from Montgomery and Prince George's Counties in Maryland, and one member from Fairfax County, Virginia.

BOND: An obligation issued by WASA promising to pay a specified sum of money (called principal or face value) at a specified future date (called the maturity date) along with periodic interest paid at a specified percentage of the principal (interest rate). Bonds are typically issued to fund specific capital improvement expenditures

BUDGET: A plan of financial operations including an estimate of proposed expenditures and revenues for a fiscal period. The budget establishes funding levels for continuing service programs, operation and maintenance of public facilities, and principal and interest payments on bonded indebtedness. Recurring replacement of capital outlay and minor new capital outlay items are included.

CAPITAL BUDGET: A planned schedule of projects that acquire, improve, or construct property or facilities to enhance water and sewer services in WASA's service area.

CAPITAL EQUIPMENT: A capital asset with a useful life of at least 3 years, a cost exceeding \$5,000 and is financed with short-term debt or cash. Examples include rollingstock and computer equipment.

CAPITAL IMPROVEMENT PROGRAM (CIP): A plan, which identifies the nature, schedule and cost of long-term improvements to WASA's infrastructure. WASA's CIP covers a ten-year period, and totals \$1.6 billion (cash disbursements basis.)

CERIDIAN: WASA's fully integrated payroll and personnel system designed to meet various needs in accordance with a variety of pay, leave, and work rules and to provide a comprehensive set of human resource applications.

CHLORAMINATION: The process of adding chloramines to drinking water. Chloramine, a form of chlorine and ammonia, is used as a disinfectant by the Washington Aqueduct.

CLEAN WATER ACT (CWA): Act passed by the U.S. Congress to control water pollution.

COMBINED SEWER OVERFLOWS (CSO): Discharge of untreated wastewater (a mixture of storm water and sanitary waste) directly to waterways during periods of significant rainfall.

COMBINED SEWER OVERFLOW LONG-TERM CONTROL PLAN (CSO LTCP): Draft plan prepared by WASA and to be submitted to the EPA to address CSOs.

COMMERCIAL PAPER: Short-term (less than 270 days) notes issued by WASA to provide interim financing of its capital improvement program. Commercial paper typically carries lower interest rates than long-term debt and is issued on a subordinate basis.

CUSTOMER INFORMATION SYSTEM (CIS): New system which WASA utilizes for customer billing and information and other related services.

DEBT SERVICE: Amount of money necessary to pay principal and interest on outstanding notes and bonds in any given fiscal year.

DEBT SERVICE COVERAGE: Requirement of WASA's master trust indenture and Board policy that provides that annual revenue available to pay debt service must exceed annual debt service by a certain percentage. WASA's master trust indenture requires 120 percent senior debt service coverage; WASA Board policy requires 140 percent senior debt service coverage.

EFFLUENT: Treated wastewater discharged from the Blue Plains Advanced Wastewater Treatment Plant.

ENABLING ACT: Legislation which established WASA and defined its purpose and authority. WASA's enabling legislation was initially enacted in 1996.

ENCUMBRANCES: Obligations in the form of purchase orders, contracts or salary commitments which are chargeable to an appropriation and for which a part of the appropriation is reserved. They cease to be encumbrances when paid or when an actual liability is released.

ENTERPRISE FUND: A fund established to finance and account for the acquisition, operation, and maintenance of governmental facilities and services, which are entirely or predominantly self-supporting by user charges. This type of fund uses the accrual basis of accounting. WASA is responsible for two enterprise funds:

- 1) Water and Sewer Enterprise Fund
- 2) The District of Columbia Stormwater Enterprise Fund.

ENVIRONMENTAL PROTECTION AGENCY (EPA): Federal agency responsible for environmental regulations and enforcement.

EXPENDITURES: Payment for goods and services received.

FISCAL YEAR: The twelve-month period used by WASA which begins October 1 and ends September 30 of the following calendar year.

GFOA: Government Finance Officers Association.

INTER-MUNICIPAL AGREEMENT OF 1985 (IMA): This agreement outlines the operating and financial responsibilities for wholesale wastewater treatment services at Blue Plains. Signatories to the IMA include the District of Columbia, Montgomery and Prince George's Counties in Maryland, Fairfax County, Virginia, and the Washington Suburban Sanitary Commission.

INTERCEPTORS: The large pipes that convey wastewater from the collection system to WASA's wastewater treatment plant, Blue Plains.

INTERNAL IMPROVEMENT PLAN (IIP): Operational improvement plans for various operating departments across WASA that will result in improved service and cost savings to WASA's customers. Proposed improvements are a function of new capital projects, investments in technology, and new business processes. IIP's have been developed for the Departments of Wastewater Treatment, Maintenance Services, and Customer Service, and are in process for the Departments of Water and Sewer Services.

LOW IMPACT DEVELOPMENT (LID): Integrates ecological and environmental considerations into all phases of urban planning, design and construction in order to avoid encroaching on environmentally fragile or valuable lands, and to decrease runoff volumes and peak flow impacts.

MASTER FACILITIES PLAN: A twenty-year plan that outlines proposed capital improvements across WASA. This plan is updated every three to five years.

MGD: Million gallons per day

NATIONAL POLLUTANT DISCHARGE ELIMINATION SYSTEM (NPDES): A permit issued by the EPA that governs effluent discharges into various rivers and waterways by Blue Plains and WASA's sewer system.

NITRIFICATION: An aerobic process in which bacteria changes the ammonia and organic nitrogen in wastewater into oxidized nitrogen.

OPERATING RESERVE: Reserve established by the Board of Directors equivalent to approximately 180 days' operating and maintenance expenses.

OUTFALL: The place or structure where effluent is discharged into receiving waters.

PAYMENT IN LIEU of TAXES (PILOT): Amounts which WASA pays each fiscal year to the District and institutions in which its facilities are located. Consistent with the provisions of WASA's Enabling Act, these payments are based on past commitments.

POTOMAC INTERCEPTOR: Fifty-mile interceptor that carries wastewater from Loudoun and Fairfax Counties in Virginia and Montgomery County in Maryland to Blue Plains.

PRIMARY TREATMENT: A wastewater treatment process that takes place in a tank and allows those substances in wastewater that readily settle or float to be separated from the water being treated.

PROCESS COMPUTER CONTROL SYSTEM (PCCS): New system for Blue Plains that will electronically monitor and control all treatment processes and facilities.

RATE STABILIZATION FUND: A fund established by the Board of Directors, which is used to implement rate increases on a gradual and predictable basis.

REVENUE: An increase in (sources of) fund financial resources other than from inter-fund transfers and debt issue proceeds. Revenues should be classified by fund and source.

REVENUE BONDS: Bonds payable from specific source of revenue and which do not pledge the full faith and credit of the issuer

SAFE DRINKING WATER ACT (SDWA): Act passed by the U.S. Congress (most recently amended in 1996) to control drinking water quality.

SECONDARY TREATMENT: Usually following primary treatment, secondary treatment employs microorganisms to reduce the level of biochemical oxygen demand (BOD) in wastewater.

SLUDGE: Solid residue from wastewater treatment.

SPLASH: Serving people by lending a supporting hand

SUPERVISORY CONTROL AND DATA ACQUISITION (SCADA): Equipment and computer technology used to monitor and control the water distribution and wastewater conveyance systems.

WASHINGTON AQUEDUCT: A division of the U.S. Army Corps of Engineers which owns and operates the water treatment facilities for WASA and Arlington and Falls Church, Virginia. WASA purchases treated drinking water on a wholesale basis from the Washington Aqueduct, and is responsible for approximately 76 percent of the Aqueduct's costs.