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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

For the Fiscal Year Beginning

October 1, 2004

President

Executive Director

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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 21, 2004

Dear Chairman Gerstell and WASA Board Members:

I am pleased to present the District of Columbia Water and Sewer Authority's (WASA) revised FY 2005 and proposed FY 2006 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..."*

The next two years will be milestone years for WASA as we continue our newest initiatives in lead service line replacement and the proposed Combined Sewer Overflow Long-Term Control Plan (CSO LTCP). The budgets presented to you today contain the resources needed to meet our commitments in these new areas, as well as to continue meeting other priorities laid out by the Board in its Strategic Plan, including long-standing initiatives in the capital improvement program, and the internal improvement program, among others.

Among the most important of these initiatives is our water quality program. While a great deal of focus in FY 2005 and FY 2006 will be on the lead program, we will also continue our industry-leading efforts on simultaneous compliance issues in the water system as well as capital improvement projects, such as dead end elimination, main rehabilitation and replacement, and valve replacement, described in more detail under "Environmental Quality."

As in prior years, we have developed our operating and capital budgets using the Board's four Strategic Goal Areas as a framework, and in this document have highlighted the links among our budget, operating plans, and the Board's Strategic Plan. We look forward to supporting the Board in its efforts over the next two years to update the Strategic Plan and will ensure our budgets and operating plans reflect those priorities accordingly.

While we have made great progress since we began operations in October 1996 with many 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 the budgets and long-term plans developed and presented today give us the resources necessary to accomplish this goal. 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 2005 operating budget totals \$275.3 million, approximately the same level as the approved FY 2005 budget. We have held operation 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 2006 budget totals \$290.3 million, a \$15 million increase over the revised FY 2005 budget. A significant portion of this increase is due to additional debt service as the capital program progresses.

I am especially pleased to note that the revised FY 2005 operation and maintenance budget (excluding debt service and the payment in lieu of taxes and right of way fee) is only \$100,000 more than the FY 1998 approved budget of eight 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. 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, as well as our obligations to other stakeholders in the District and the greater Washington area.

CUSTOMER SERVICE INITIATIVES

In FY2004, WASA’s significant investments in its customer service employees and organization over the four prior years and in ‘state of the art’ technologies yielded dramatic customer service improvements:

- ***New Consolidated Command Center*** – On November 1, Customer Services implemented the consolidated command center on schedule and within budget. The command center provides customers with a single point of contact to address all their needs, avoiding transferring customers among different departments. The command center uses the customer information and billing system (ECIS) to initiate fieldwork and track customer issues. All water, sewer and customer service dispatching is done through the command center, allowing us to leverage our technology investments while capturing synergies among the different areas.

As a result of the consolidated command center implementation, we can now track the initial service request, the results of the initial investigation and the status of the temporary or permanent repair through ECIS. This enables the customer service representative to communicate complete and accurate information on the status of most emergency calls to our customers. It also allows the Water Services and Sewer Services foremen to quantify the number of repairs and to prioritize work assignments based on improved information.

- **New Radio System** – An adjunct to the new command center is WASA’s new radio system. WASA collaborated with the District’s Emergency Management Agency to participate in its 800 MHz radio system, resulting in expanded coverage for our field crews across the District and providing for better communication among departments. For customers, it means streamlined processes, resulting in better and faster service. For employees, it means enhanced safety as crews can better communicate with WASA. Finally, it allows WASA to better communicate with other District agencies, particularly the District’s public safety and emergency management employees.

- **Improved billing & customer information options** – The combination of our web site, www.dcwasa.com, and ECIS provide customers with new service offerings including on-line account information, meter reading information, and payment options via electronic funds transfer and credit and debit card transactions. For FY 2004, electronic payments totaled approximately 11 percent of all transactions. A comprehensive web page redesign was also completed in FY 2004 and will be implemented in 2005, making it easier for customers to navigate and transact business with WASA.
 - **Monthly billing** – With 115,000 meters installed, under our new automated meter reading (AMR) project, we transitioned all customers to monthly billing in FY 2004, well ahead of schedule. Many customers on fixed incomes and most commercial customers requested monthly billing for budgeting and leak detection purposes.
 - **Budget billing** – In FY 2004 we implemented a budget billing option, allowing our customers to pay a flat monthly bill. This allows customers with widely fluctuating bills due to higher summer use to budget accordingly and normalize their monthly payment.
 - **Customer assistance program expansions** – In response to the Board’s direction, we expanded our customer assistance program for low-income homeowners to include single-family home renters. Approximately 1,800 customers are now eligible for a water bill discount of \$84 annually, and we expect more participation when the discount signup period begins in earnest in October at Joint Utility Discount Day (JUDD). We also made it easier for people to donate to 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 by implementing an enhancement to our bill that allows customers to “round-up” their bill payment each month with the increment going to fund S.P.L.A.S.H.

New ECIS Upgrade – In FY 2004 we completed the transition to the newest version of ECIS, installed in June 2001. ECIS has facilitated major changes in our customer service operations as well as many enhancements. We needed to undertake the major upgrade to the system to integrate system enhancements implemented by WASA during the past three years into the base product. The upgrade provides archive and purge capabilities, which will enable us to streamline customer account records and improve data integrity. It also improves some major processes such as group billing and service order processing, allowing us to take better advantage of work scheduling and customer order functionality.

Bill Redesign – In FY 2004, led by the Board’s Customer and Community Services Committee, we completed a major redesign of the customer bill. The new bill is much easier to read, conveys additional information such as monthly usage and special messaging, and allowed us to implement the S.P.L.A.S.H. program “bill roundup” feature, a Board priority.

Improved metering – WASA is nearing completion of the comprehensive meter replacement and automated meter reading (AMR) project. This project replaces the approximately 124,000 meters in our system with meters that automatically transmit consumption data to our billing system via cellular technology. This technology ensures that our customers get accurate, timely, and consistent meter readings, and has yielded substantial cost savings – the average cost per meter read is now just over \$1, a significant reduction from the approximately \$3 it was costing us for each manual meter reading. Through September, we installed almost 115,000 meters and we now bill 50 percent of WASA revenue through AMR.

AMR generated an approximate six percent increase in residential billing in FY 2003, and we project similar increases for the small commercial meters. We project that large commercial meters will experience closer to 10 percent increases in billed consumption due to the age and condition of the old meters, and have increased our FY 2005 and FY 2006 revenue projections and ten-year plan accordingly.

The AMR benefit to customers is significant – in FY 2002, we were reading about 37,000 meters per month compared to the 115,000 per month we read today. We were estimating about 6 percent of our customer bills each month in FY 2002. Today, we obtain actual reads on three times the number of meters as in FY 2002 and estimate about 2 percent of meter readings. The number of meter readings will continue to increase in FY 2005 while the number of estimates will further decline as we complete the project. We have also seen a significant reduction in high bill complaints compared to prior years and we expect this trend to continue in FY 2005.

We completed about 40 percent of the installations on the 2,800 large commercial meters (three inches or greater) in FY 2004 and we plan to substantially complete the large meter installations in FY 2005. As previously discussed with the Board, this work is more difficult to complete because the aging infrastructure on most large meters requires ancillary work (such as plumbing, meter pit and box work, etc.). The additional ancillary costs will be recovered through the metering fee.

We completed the reorganization of the meter operations area in 2004 to better support our AMR investment. We established a field service technician (FST) position to support the smaller meters (2 inches or less). The FST is required to perform all the work related to these meters formerly done by three different positions. This avoids multiple trips to the same location to correct a problem further lowering our support, and thus our ratepayers’, costs. This is consistent with our one-stop shopping focus of providing a single point of contact to respond to most customer issues.

We also established a meter technical position to support our large-meter operations (3 inches or larger). We recognized that more technical skills are needed by staff to support the needs of WASA’s largest customers. The major emphasis for this part of the operation in FY 2005 will be to provide preventive maintenance services to ensure that we preserve the AMR investment. Our preventive maintenance

program will focus on an aggressive testing and repair program for FY 2005 and beyond with the expectation of testing 50 percent of our large meters that are less than six inches in size every year and 100 percent of six inch or larger meters annually by FY 2006.

Lead Hotline - Also in FY 2004, approximately 100 employees throughout WASA formed the team that successfully responded to the challenges of an unprecedented level of customer service and constituent requests for service and information about our lead service lines and lead in the drinking water. Virtually overnight, the WASA team of service and technical staff assembled a new 12-hour per day / 7-day per week lead hotline to respond to customer concerns. Within a few days, all calls were routinely answered on the first ring, and information on the entire spectrum of lead issues was successfully communicated to customers through the hotline. Our Information Technology staff developed a new Lead Management System to track customer contacts and to provide reporting capabilities on the number of sample test kits, sample pick-ups, filters and replacement cartridges that were distributed as well as the status of lead service line replacements. Over the course of FY 2004, over 71,000 calls and emails were handled, 38,000 requests for water samples were processed, and close to 34,000 water filters were distributed. The hotline staff was seamlessly transitioned into the Customer Services operation in March. This unique effort has left WASA with substantial expertise on setting up emergency communication operations on short notice with the appropriate technology in place to handle future emergencies.

Improved arrears management program- In FY 2002, our accounts receivable (A/R) over 90 days delinquent were \$25.06 million, down from a high of approximately \$34 million when WASA was formed in 1996. In FY 2004, A/R over 90 days was \$16.3 million, the lowest in WASA's brief history and about half of the 1996 level. Much of this reduction was attributable to the development and implementation of a comprehensive Arrears Management Plan that emphasizes improved performance in the daily administration of accounts receivable management. Because effective arrears management is not the sole responsibility of the Customer Services Collections work unit, the plan reinforces the need to integrate different areas of WASA within the collection cycle.

The plan focuses on data integrity controls, training and cross training initiatives, a strong focus on the receivership program, "dialing for dollars campaign", service level agreements, the reassignment of noncollection-related processes, the extension of service hours from 8 am to 7 pm for outbound calling, and participation in the District's tax sale. Going forward, with regular review and revisions to this plan, we expect continuing improvement in lowering A/R in FY 2005.

New FY 2005 & FY 2006 Initiatives - Our continuous customer service improvement efforts continue in FY 2005 and FY 2006 with the following initiatives:

- *Automatic notification of high usage patterns* – In FY 2004, we moved beyond "best in class" by implementing a "first-in-the-nation" consumption analysis tool that allows customers to access their daily, monthly and annual meter reading data. This new feature capitalizes on the automated meter reading (AMR) technology that we have been installing throughout the District. Customers can access this data through the web at www.dcwasa.com. In addition, we provide graphical illustrations of the AMR data that allow customers to pinpoint high usage on the exact day it occurred. We will be adding a new feature to this tool in FY 2005 that will send an email alert to customers if their usage spikes beyond a normal level. This will help customers manage their water consumption through

conservation measures and leak detection before a bill is rendered. This initiative will place WASA at the forefront of leak detection in the water industry.

- *Summary billing* -- We completed the conversion to monthly billing effective October 1, 2004, enabling us to offer summary billing to all customers with multiple accounts in FY 2005. Typically, we could only offer this service to the federal and municipal customers because they were billed monthly. Since most commercial customers were billed quarterly, we could not respond to their requests to provide summary billing. We will be promoting this service offering in FY 2005 and expect many commercial customers to take advantage of this service.
- *New functionality on ECIS to track lead services* - Customer Service is working with Engineering and Technical Services to design new ECIS screens that will track lead line replacement in both public and private space. These new screens will allow us to better track the lead replacement efforts and provide more accurate reporting to meet EPA filing requirements. In addition, new billing functionality has been implemented on ECIS that will allow WASA to bill customers in installments for their private property lead line replacement.
- *New telephone system* – We will be installing a new telephone system and integrated voice response system in 2005 to improve our voice communications and increase self-service options to customers. A focal point of this system will be to provide automatic notification of service interruptions and main repairs. We will also expand the telephone system to provide voice notification of high usage similar to the email alerts mentioned previously.
- *Language Line Services* - In FY 2005, we will implement a language line service that will enable all residents of the District to communicate with WASA. Currently, we can only communicate with our English speaking and Spanish-speaking population and require all others to seek out a translator if they require services or do not understand information distributed by WASA
- *Asset Management System* – In FY 2005, we will continue the implementation of our new asset management system (AMS), which will include geographic information system functionality. 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. In addition, the AMS will provide the foundation necessary to support the “Management, Operations, and Maintenance” requirements of pending EPA regulations. This project is projected to cost \$9.5 million over four years.

Initiatives in Water& Sewer Services to Customers

We have also begun significant initiatives to improve customer service on water and sewer service issues. We have made several changes to our organization and supervisory structure in the Department of Water Services that have resulted in improvements to customer service calls on water issues. These improvements include:

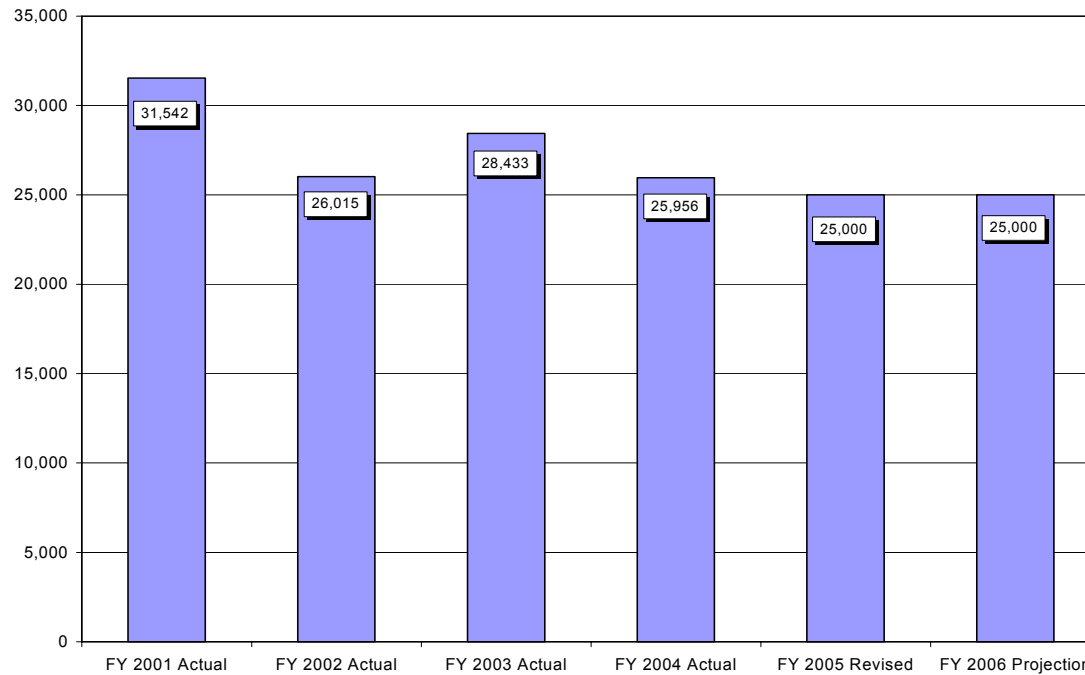
- *Field supervision of repair crews* -- We implemented a significant change to assure effective field supervision of repair crews, transitioning from “roving” field supervisors to a clearly designated working supervisor of each repair crew. This change was accomplished without an overall increase in staffing, and helps to ensure that customer calls are responded to in a timely manner
- *War Room* -- 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. This helps ensure that capital projects are completed on schedule, minimizing disruption to neighborhoods, and ultimately improving service reliability after project completion.
- *Distribution branch reorganization* – In FY 2005, we plan to reorganize our distribution branch into two separate divisions: 1) a distribution branch which will focus on scheduled system maintenance; and 2) an investigations & operations branch which will focus on responding to customer service calls. We believe this change will be a great improvement over the current structure, where the entire division reported to one manager.

We believe these organizational improvements will help us to improve our performance in this area, particularly to help us meet our service line and main repair response time goals. 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 2005 and FY 2006:

- Cleaned almost 26,000 catch basins in FY 2004, slightly exceeding our target of 25,000
- Cleaned approximately 95 miles of sewer lines
- Repaired or replaced close to 300 sewer laterals
- Collected over 600 tons of floatable debris from the Anacostia and Potomac Rivers

Actual and Projected Catch Basins Cleaned FY 2001 – FY 2006



INTERNAL & EXTERNAL COMMUNICATIONS

Our web site, www.dcwasa.com, and our monthly (formerly quarterly) 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 CSO Long-Term Control Plan, the lead service line 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 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.

WASA has also hosted or participated in dozens of community meetings on the lead service line replacement program as well as redoubled communication efforts with special publications under production and special media outreach, including WASA and Mayoral press briefings, and a national peer workshop on the Lead and Copper Rule, simultaneous compliance, and risk communication.

Internally, we enhanced efforts to keep employees informed through specialty individual mailings to employees' homes on safety, security, maintenance, special issues of interest to the public and employee relations. Additionally, the General Manager holds a monthly breakfast meeting with front-line supervisors to discuss concerns and report on initiatives.

GOVERNMENT RELATIONS

Over the last three years, we have greatly improved our inter-governmental relationships, with the addition of a full-time staff person focused on this area. We have built and solidified strategic alliances with a variety of stakeholders in WASA, including customers, businesses, associations, key environmental groups, and political and legislative leaders at the local, regional and federal levels. This success has been marked by the receipt of close to \$80 million in CSO funding in FY 2003 and FY 2004. We also successfully secured additional grant funding from federal agencies, including the Federal Emergency Management Agency and the Environmental Protection Agency. Our efforts over the next two years will focus on securing 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. To that end, we are adding an additional staff person to focus on government relations in FY 2005 and we will also execute the government relations plan recently presented to the Board's Customer and Community Services Committee.

COMMUNITY & PUBLIC SERVICE EFFORTS

As part of our strong emphasis on serving our customers, we strive to extend a helping hand to our community. Among the community service activities that WASA participates in are:

Keep DC Beautiful – WASA participated in the annual Keep DC Beautiful program along the Pennsylvania Avenue business section. WASA's 18 volunteers assisted with trash removal, planting flowers, painting fire hydrants, removal of graffiti from neighborhood buildings and walls and the cleaning of catch basins.

Christmas in April – For the fifth 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.

Annual Bread for the Soul – WASA employees participated in the 5th Annual Bread for the Soul campaign by donating more than 275 toys and books, and assembled and distributed food baskets to 40 families and children living with HIV/AIDS in the District of Columbia.

Adams Morgan Main Street organization and Americorp - WASA participated and donated paint and brushes to the Adams Morgan Main Street organization and Americorp to paint fire hydrants as part of a beautification and clean-up project throughout the Adams Morgan commercial corridor. Fire hydrants were painted along and near 18th Street, NW, from U Street to the Duke Ellington Bridge (Calvert Street), and Columbia Road, NW, from 16th Street to Connecticut Avenue.

Joint Utility Discount Day – November 2003 marked WASA's fourth year participation in the Joint Utility Discount Day, held at the Washington Convention Center. Approximately 7,000 residents attended the events in order to apply for discounted water, electric, gas, and telephone bills. WASA's program offers a monthly discount on water bills for the first four Ccf's of consumption to families who qualify, based on federal income guidelines. We have approximately 1,900 customers enrolled in our program, with FY 2003 available savings amounting to \$81 to each customer annually.

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

Stanton Elementary School Partnership – WASA rehabilitated a major water storage facility near the playground of Stanton Elementary School three years ago. After the work was completed, WASA planted and fenced in a flower garden to enhance the appearance of the school, 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 it in maintenance of the garden, supporting its science programs, providing IT upgrades, and performing general maintenance work.

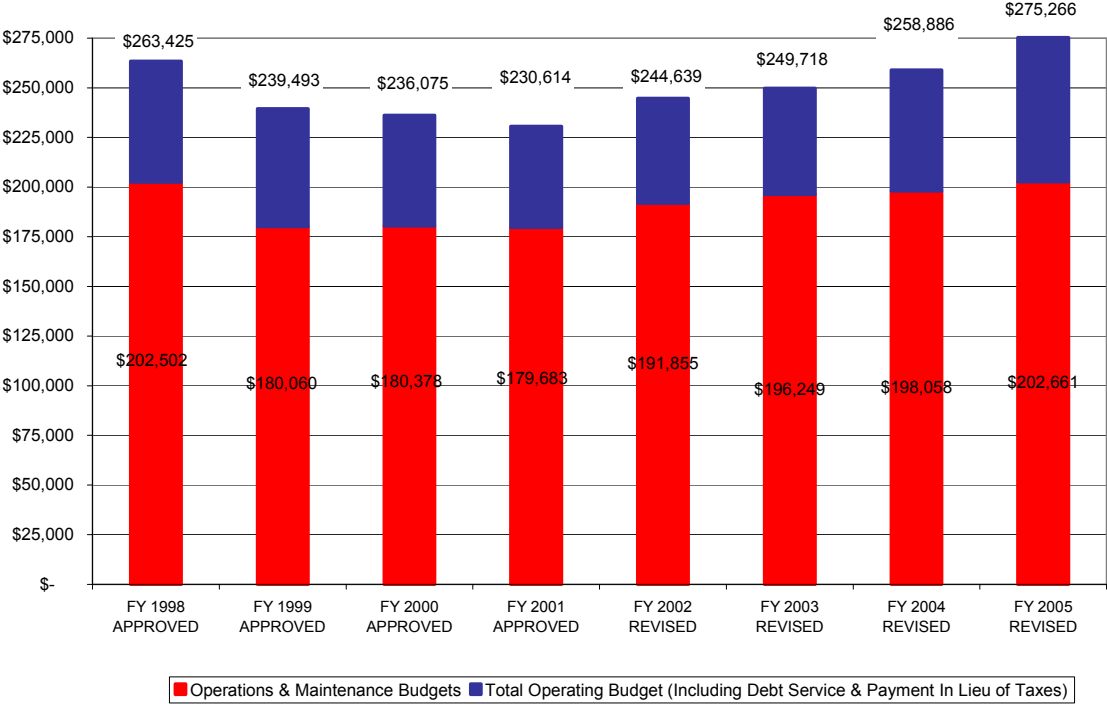
Project Harvest – WASA employees contributed food and clothing to this effort which is co-sponsored by WHUR-FM and Channel 4.

STRATEGIC GOAL AREA – FINANCIAL STABILITY

Operating Budget

Our revised FY 2005 operating budget totals \$275.3 million, in line with the approved FY 2005 budget as shown in the chart below. Our operation 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 \$202.7 million, only \$100,000 more than the first operation and maintenance budget approved by the WASA Board for FY 1998. In addition, the revised FY 2005 budget is essentially flat when compared to the approved FY 2005 budget. We were able to live within our original budget despite facing a number of issues that are outside of WASA's control, particularly in utilities where we may see significant increases in electric costs due to deregulation in the District. (See "Energy Management" later in this document.) This increase has been offset by savings in other areas, primarily in lower personnel service costs due to more realistic vacancy rates.

OPERATING BUDGET HISTORY
FY 1998 – FY 2005
(In 000's)



**FY 2005 & FY 2006 Operating Budgets
(In 000's)**

	FY 2005 Approved	FY 2005 Revised	Increase / (Decrease)	Percentage Change	FY 2006 Proposed	Increase / (Decrease)	Percentage Change
Operations & Maintenance Expenditures	\$ 202,684	\$ 202,661	\$ (23)	0.0%	\$ 210,850	\$ 8,189	4.0%
Payment in Lieu of Taxes / Right of Way Fee	16,307	16,307	-	0.0%	16,867	560	3.4%
Debt Service	56,298	56,298	-	0.0%	62,579	6,281	11.2%
Total Operating Budget	\$ 275,289	\$ 275,266	\$ (23)	0.0%	\$ 290,296	\$ 15,030	5.5%

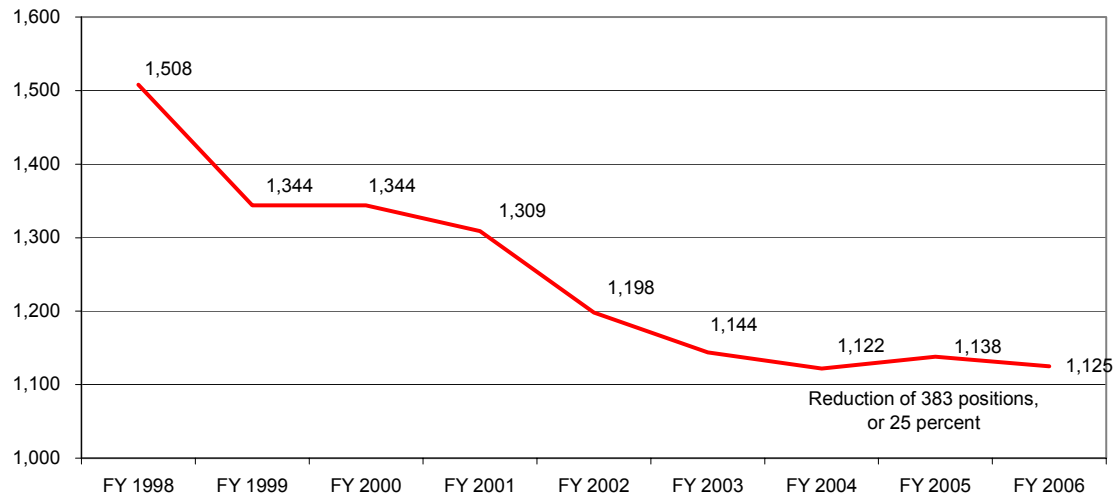
In FY 2004, we faced significant operating costs related to the lead program, including extensive water sampling, distribution of water filters, command center staffing for 12 hours per day / 7 days per week, communication costs, and legal costs, with projected costs totaling approximately \$11 million. The majority of these costs have been substantially reduced or eliminated for FY 2005 and beyond, and the remaining ongoing costs (primarily filters) for FY 2005 and FY 2006 have been included in the \$300 million capital program for lead as they are in direct support of the replacement program.

The proposed FY 2006 budget totals \$290.3 million, a \$15.0 million increase over the revised FY 2005 budget. As shown in the chart above, a significant portion 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 \$210.9 million, a \$8.2 million, or 4.0 percent, increase over the revised FY 2005 budget. This increase is due primarily to projected compensation increases for WASA's employees and the projected full year impact of deregulation on power 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 2006, our approved position level will total 1,125 positions, a 25 percent reduction since WASA was created. In FY 2005 we are adding 12 new positions to manage the Board-approved lead replacement program (see "Lead Service Line Replacement Program" later in this document); these positions will be eliminated upon completion of the lead program. In addition, we are adding a total of four positions to the Office of the General Counsel over the next two years. One position will focus exclusively on regulatory compliance across WASA, while the remaining new positions will more than pay for themselves by providing more internal, rather than outsourced, legal support for the Board and user departments. Finally, other significant additions to our staffing contingent are an energy manager; an employment manager in Human Resources; and two new positions in Public Affairs – a government relations specialist and a communications specialist who will focus on environmental communications, including lead, CSO and other environmental areas.

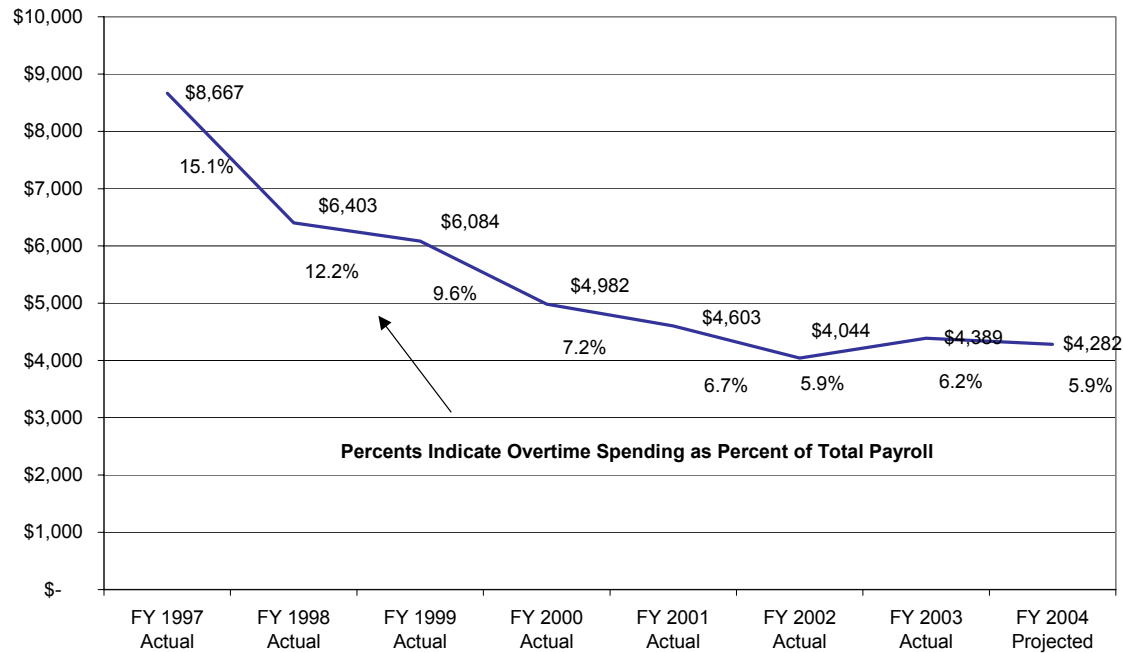
Full Time Positions FY 1998 – FY 2005



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 2004, overtime spending is projected to total \$4.3 million, a reduction of 51 percent. Similarly, overtime as percent of total payroll has been reduced from 15 percent in FY 1997 to a projected 5.9 percent in FY 2004. 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.

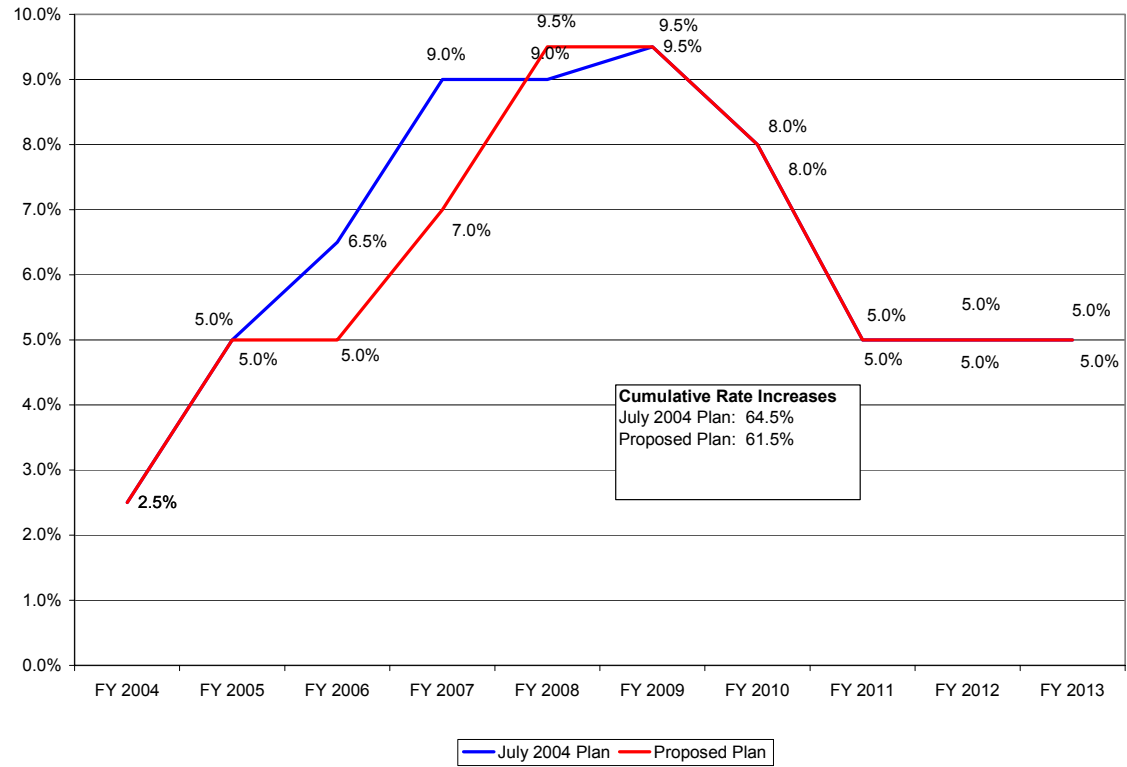
**Overtime Spending
FY 1997 – FY 2004
(In 000's)**



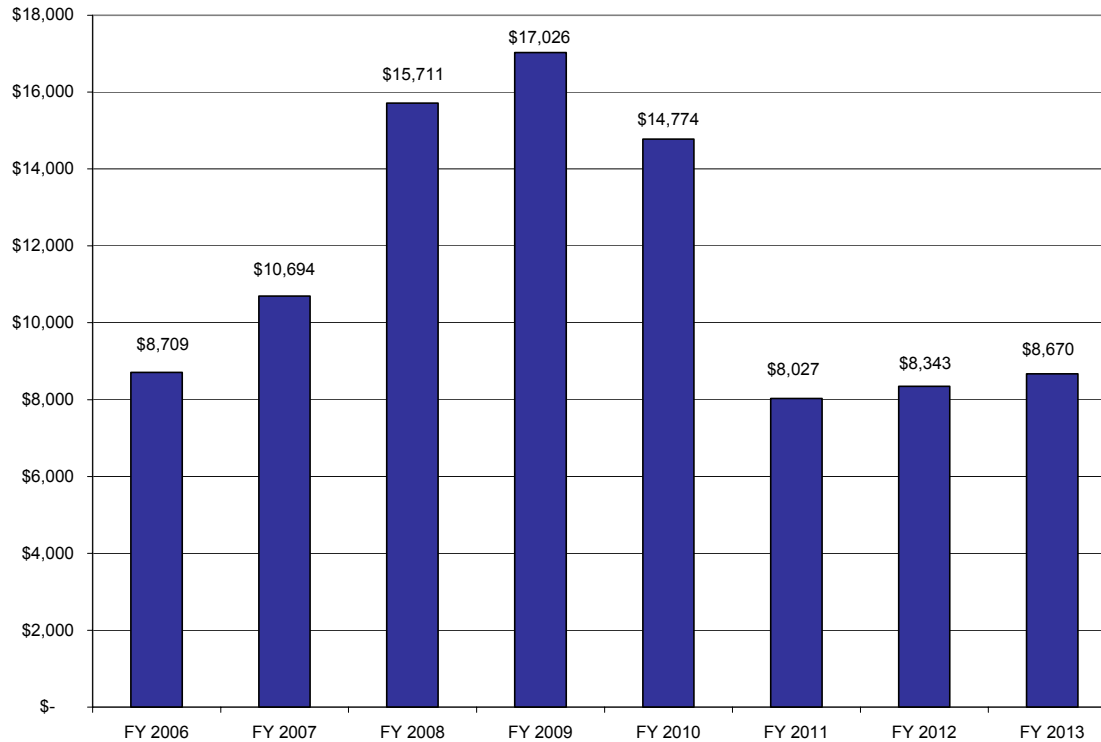
Retail Rates and Fees

We have carefully reviewed our ten-year financial plan and near-term proposed rate increases in light of the addition of the Board-approved lead program to the CIP, our recent variable rate bond financing, and other CIP and plan changes. At the time of the Board's adoption of the lead program in July 2004, we were projecting annual retail rate increases ranging from 6.5 to 9.5 percent over the next few years. Because of better than budgeted financing results on our bond sale this summer and better than anticipated financial performance in FY 2004 that allowed for a \$6 million contribution to the rate stabilization fund, I am proposing a five percent increase in FY 2006, below our projection last year and in the revised ten-year plan adopted by the Board in July along with the lead service line replacement program. Beyond FY 2006, we are projecting retail rate increases of 7.0 to 9.5 percent, slightly less than the revised ten year plan adopted by the Board in July 2004.

PROPOSED RATE INCREASES
Comparison of July 2004 Board-Adopted Plan vs. Proposed Plan
FY 2004 – FY 2013



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



In addition to proposed retail rate changes, we are also in the process of reviewing our existing metering, right of way / PILOT, and private lead service line replacement fees, analyzing whether we are over or under-recovering costs associated with these items. The results of this analysis will be presented to the Retail Rates Committee in December, with implementation proposed for FY 2006. Finally, as discussed in more detail below, in FY 2005 we will also be completing an analysis of stormwater and CSO rate structures that will be presented in spring 2005. These new rate structure alternatives have been delayed by one year due to the delays in finalizing an agreement with the EPA and Department of Justice on the proposed CSO LTCP and our work in FY 2004 on resolving the lead service line issue.

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), assuming a forty-year implementation schedule, consistent with prior years' Board approved ten-year capital and financial plans. As of the date of this document, we remain in litigation with the EPA and U.S. Department of Justice on the LTCP, with particular focus on the length of the implementation schedule. However, in the weeks prior to publication of this document, we have reopened settlement negotiations with the federal government as we are anxious to move forward with the proposed CSO LTCP. As part of these negotiations, we are discussing shorter implementation schedules, which will result in accelerated and higher rate increases than under our current proposed plan.

The projected impact on our customers' wastewater bills of more rapid implementation schedules is significant: under a forty year schedule, the typical residential customers' annual wastewater bill increases from \$310 today to \$505 in FY 2013, a 63 percent increase. Under an aggressive twenty-year schedule, the typical residential customer's annual bill increases to \$600 in FY 2013, a 93 percent increase. Similarly, a forty year schedule would require average annual rate increases of approximately 1.6 percent over already projected rate increases. An aggressive twenty-year schedule would require average annual rate increases of approximately 2.8 percent over our base plan. I would note that our ten-year plan and these rate analyses assume no external funding beyond the special Congressional appropriations we have already received and that are under consideration for FY 2005; if additional federal funding is secured, the impact on ratepayers will be less.

Additionally, it is important to note that the projected CSO LTCP rate increases shown above are based on WASA's current rate structure. WASA completed an evaluation of various rate structures for recovery of CSO costs (including impervious surface area rates and similar structures) that was presented to the Board in spring 2003. Based on feedback received from the Board at that time, our intent was to complete a more detailed analysis of certain preferred rate structures and related implementation and customer impact issues, with presentation to the Retail Rates Committee sometime in spring 2004. Because settlement negotiations stalled in 2004 and we began initial litigation steps, we delayed presentation of this analysis until we could better project the results of the litigation and impact on the ultimate LTCP implementation schedule. Our current plan is to complete this analysis over the next few months and present it to the Retail Rates Committee in spring 2005, subject to the negotiation and litigation progress. At the same time, we will also evaluate the District's stormwater rate structure and present this analysis to the Council's Committee on the Environment and Public Works. It is important to note, however, that 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.

Revenues

We continue to build on the progress we have made over the last few years in revenue forecasting and monitoring. Investments in the customer information and billing system and the 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 2005 revenue budget totals \$274.1 million and is projected to grow to \$287.3 million in FY 2006. These projections reflect the Board-approved 5.0 percent water and sewer rate increase in FY 2005, and a proposed 5.0 percent rate increase in FY 2006. 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 are addressing a number of revenue-related issues:

- **Howard University & Soldiers’ Home** – The District of Columbia entered into agreements with Howard University around 1900, and the Soldiers’ Home in 1929 to provide free water service to these institutions in exchange for use of their property. Prior to WASA’s formation in 1996, the District government also provided sewer service to both Howard University and the Soldiers’ Home, although sewer service was not a part of either agreement. The Board of Directors reviewed the agreements in 1996, and determined that sewer exemptions should be eliminated. As planned, bills for sewer, metering, and right-of-way fees were sent to both Howard University and the Soldiers’ Home. Howard University has responded that they do not intend to pay their bill. We will continue to brief the Board on this issue.
- **Potomac Interceptor** – WASA has separate agreements with each of the Potomac Interceptor users (the Town of Vienna, Metropolitan Washington Airports Authority (MWAA), 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 and periodic rate adjustments to both recover underbillings, if any, and to set new rates based on current costs. In FY 2004, we completed a review of these rates, the first to be done since 1979, resulting in an overall rate increase of 90 percent going forward, and an estimated \$1.8 million in historical underbillings. We have reached agreement with all four entities on implementation of the new rates effective October 1, 2004. Two entities, MWAA and the Town of Vienna, have requested that their consultant have an opportunity to review our study, and have agreed to finalize the backbilling and the new rate upon completion of their review. It should be noted that National Park Service has made payment in full on the backbilling, and that MWAA has made a \$250,000 initial payment on the backbilling.

Cash Reserves

WASA Board policy calls for cash reserves equivalent to approximately six months’ operating costs, or \$96.3 million in FY 2005. 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 2.1 percent on average after FY 2006. 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 2004, the rate stabilization fund amounted to \$27.5 million, including a contribution of \$6.0 million in FY 2004. 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 2010 under the proposed ten-year financial plan.

Bond Ratings

WASA’s bond ratings remain at the “AA” level, the second highest rating category available to state and local issuers, helping reduce the interest rates we pay on our debt borrowings, resulting in lower customers’ bills. In FY 2004, we provided detailed briefings to all three rating agencies, primarily on the lead issues, to clarify the short and long-term financial aspects of the issue. The result was an affirmation of our ratings.

Rating Agency	Senior Rating
Moody’s Investors Service	Aa3 Stable Outlook
Standard & Poor’s	AA- Stable Outlook
Fitch Ratings	AA - Stable Outlook

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 all outstanding Treasury notes, totaling \$59 million.
- *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. We expect that remaining Series 2004 proceeds (see below) will not be fully spent until the first quarter of FY 2006, when we will begin again utilizing our commercial paper program.
- *Issue permanent financing every twelve to 24 months to take out interim financing proceeds* – We successfully issued \$295 million of subordinate lien revenue bonds in August 2004. These bonds were issued as auction rate securities which carry short-term variable rates. Through the end of September, the simple average interest rate was 1.31 percent, significantly less than fixed rate debt. As noted above, based on current capital spending projections, we believe that Series 2004 proceeds will last through the first quarter of FY 2006, after which we will utilize our commercial paper program. We expect that our next permanent financing, which we anticipate issuing as senior lien, fixed rate revenue bonds, will be issued in summer 2006.

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 2003 marked our seventh consecutive unqualified audit opinion on our audited financial statements, and the seventh consecutive year that the Comprehensive Annual Financial Report received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association.

Grants – We continue to make progress in grants management. Approximately \$327 million, or 16 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 2005. 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 efforts of our Board and government relations staff:

- *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 received 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 grants financial management, we have dramatically improved our grants utilization as well as the grants close-out process. In FY 2004, we received record grant reimbursements of over \$50 million. In addition, 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. While two years ago Pentagon had indicated that it was interested in receiving water service from Arlington County, which also provides sewer service to Northern Virginia federal entities, although no discussions have been held with either Arlington or the Pentagon on this issue for the last two years. In FY 2004, revenues from the federally-owned system (including Ronald Reagan National Airport) totaled \$1.7 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 with 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 continue 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. This issue will become urgent over the next two years, as the Aqueduct has indicated that it is tentatively planning to execute a construction contract for the residuals disposal project that in excess of \$50 million in FY 2007.

Insurance Review – In FY 2004, we successfully renewed all of our insurance policies at approximately the same cost as FY 2003. We were able to maintain or expand coverage levels for all policies with two significant exceptions:

- *Liability coverage for lead-related issues* – As a result of the lead class action lawsuit that was filed in FY 2004, coverage of lead issues was removed for all claims alleging damages incurred after April 2004 under our two general liability policies and our public officials liability policy.
- *Flood coverage* – In FY 2004, our property insurance carrier performed a comprehensive facilities review, including our flood exposures. Because several major WASA facilities, including Blue Plains, O Street, 12th and Maine, the 14th St. Bridge, and the Potomac and Upper Anacostia pumping stations, are not protected to the 500 year flood level, the insurer reduced flood protection to only provide a total of \$10 million per year of coverage for all six facilities combined. (Locations not in high hazard areas will continue to be insured to the \$100 million limit.)

Rolling Owner-Controlled Insurance Program (ROCIP) – In FY 2004, we implemented another “industry-best practice” with our ROCIP program. We have identified close to 120 capital projects that we plan to cover under this program over the next five years, under which WASA will procure most insurance coverage for most contractors. The result is substantially higher insurance coverage levels for all contracts; the ability to qualify more small, LSDBE contractors who may have trouble obtaining insurance at levels required by WASA; and significant cost savings. The initial construction contracts under the Board’s lead service line replacement program were the first projects under the new ROCIP, and initial results indicate that project goals should be met. Cost savings are currently estimated at \$5 million over the next five years. A major reason for the cost savings is the implementation of a uniformly strong safety program for all contractors. This has been a goal of WASA, and an effort that has been in progress with our existing safety program. These efforts are now being accelerated as part of ROCIP.

STRATEGIC GOAL AREA – ENVIRONMENTAL QUALITY

The FY 2005 and FY 2006 operating budgets and ten-year capital program reflect our renewed commitment to meeting this goal, with significant initiatives in lead service line replacement and other water quality areas, combined sewer overflow reduction, and other wastewater-related projects. These initiatives are described in more detail below.

REGULATORY COMPLIANCE

As illustrated by events of the last year, WASA operates in an extremely complex regulatory environment, with compliance in the water system made especially challenging due to the dynamic nature of our water system, the Aqueduct’s treatment regimen, and the necessity of ensuring that we simultaneously comply with many drinking water standards that create known technical challenges. We have found that where the Aqueduct or we proactively take action to comply with one regulation, it often results in unanticipated results in other regulatory areas. Two specific examples of this are the Aqueduct’s conversion from chlorine to chloramines to comply with the Disinfection ByProduct Rule, which we believe contributed to the lead problems, and most recently, the addition of orthophosphate which resulted in a total coliform exceedance.

Until this past year, we had experienced very few problems in water quality and regulatory compliance, and so were focused on system reliability, particularly in addressing water main breaks and solving specific neighborhood service problems, such as in Anacostia. Because of our experience over the past year, we have refocused our energies on regulatory compliance across WASA, particularly in the water system. A primary area of concentration will be on “simultaneous compliance”, where we will more closely examine the impacts that certain water chemistry or operations changes made for regulatory reasons have on other aspects of the system, including compliance with other regulations. To that end, we will develop a special working group made up of international experts in water quality and regulatory compliance that will focus on all areas of water quality. We will continue to participate in the EPA-led working group that focuses on lead, but we believe we need to take a focused look at how good faith changes in water treatment intended to comply with federal standards affect other standards. We will continue to urge the federal government and other national industry groups to undertake more research on water quality and “simultaneous compliance issues.”

While clearly a great deal of our efforts over the next several years will focus on water quality issues, we also face similarly complex regulatory regimes in the wastewater and sewer areas. To that end, the FY 2005 operating budget includes a new position in the General Counsel’s office whose primary responsibility will be to coordinate compliance activities across WASA, including water quality, the Blue Plains NPDES permit, the three party Nine Minimum Controls consent decree, air quality, and other areas.

WATER SYSTEM INITIATIVES

Water Quality Efforts – While recent focus has been on lead, WASA has long been focused on water quality, and has budgeted over \$570 million for water distribution system improvements (including lead) over the ten year plan, a substantial portion of which are for water quality-related initiatives. Since our creation in 1996, we have completed the following projects:

- ***Water Storage Facility Rehabilitation*** – All WASA storage facilities were drained, cleaned, and inspected in 1997, and because of this process, five underground reservoirs and three elevated tanks were rehabilitated for a total cost of \$12 million. Going forward, our CIP anticipates draining and cleaning each storage facility on a 5-year basis, consistent with AWWA standards.
- ***Elimination of Dead Ends & Cross Connections*** – We successfully eliminated close to 4,300 cross connections for a total cost of approximately \$19.5 million, and no known cross connections remain in our system. We have also made good progress in eliminating dead ends, and expect to complete this work over the next two years. We will continue our annual flushing program to help ensure that good water quality is maintained while we complete this work.
- ***Cleaning & Lining & Replacement of Water Mains*** – We have completed cleaning and lining of 13 miles of water mains for a total cost of approximately \$9 million. In addition, we have replaced over 8 miles of unlined cast iron mains. Going forward, since many of the unlined cast iron mains may be reaching the end of their useful lives, it will be determined if replacement is more economical than cleaning and lining. Over the next ten years, we have budgeted approximately \$50 million for replacement and rehabilitation of water mains.

- *Flushing* – Each year, we unidirectionally flush approximately 500 miles of the water distribution system at high velocities to rid it of sediment and debris. As part of the lead program, in conjunction with the Aqueduct, we will have completed unidirectional flushing of the entire system this year. Based on the results of this year’s flushing program as well as the results of increased water quality monitoring, a revised flushing program will be developed before the next flushing season.
- *Valve Replacement* – Broken valves can create dead ends as well as delay critical capital projects that improve water quality. To date, we have replaced close to 2,500 valves at a cost of approximately \$12.5 million. Based on the number of old valves that continue to fail, it may be necessary to spend an additional \$10 million on this program over the next ten years. We intend to establish a comprehensive ongoing valve operations and maintenance program over the coming year.

Lead Service Line Replacement Program – Since the Board’s approval of the \$301 million lead service line replacement program in July 2004, implementation of this critical program has been our top priority. In FY 2004 alone, we replaced 1,793 lead service lines, in excess of our commitment and the Lead and Copper Rule requirement of 1,615 lines. We plan to increase this number through FY 2010 to comply with the lead administrative order and achieve the Board’s goal of replacing all known lead service lines in public space.

As part of this year’s budget process, we have spent significant time developing a detailed implementation plan for this program, identifying specific responsibilities and resources across WASA. In developing our near and long-term implementation plans and budget for the lead program, we carefully analyzed the administrative order entered into with EPA, and have ensured that all provisions continue to be accounted for and met. We also included recommendations of the Holder report in our plans. As a result of this effort, we have added 12 positions beginning in FY 2005 to manage the lead program, with new positions in Engineering, Customer Service, and the Office of the General Manager. We are also in the process of evaluating our Water Quality unit, including functions and staffing levels.

Clearly, the most labor-intensive and expensive part of this program is the physical replacement of lead service lines in public space. In order to ramp this program up quickly in FY 2004, we continued to use contract resources for general program and construction management and inspection services. After reviewing the six-year program in detail, we believe that a minimum of seven additional positions are required in the engineering area to oversee contractors’ work and perform inspections. Additionally, we are evaluating whether the construction and program management aspects of the program as well as the construction itself might be more effectively and economically performed in house, resulting in the potential addition of more engineering positions than the seven discussed above. We will present this analysis to the Environmental Quality and Operations Committee when complete.

We have also added four positions in Customer Service that will be dedicated to the lead command center and customer inquiries. I would note that this reflects a significant reduction from a high of 24 positions that were manning the lead command center, and that by bringing this function in-house vs. contracting out, we are doing it at a cost savings. We are also modifying our customer information and billing system to better track lead service line replacements and related data.

Finally, a critical part of the lead program is communication with our customers, the general public, and other key stakeholders. To that end, we have added a position in Public Affairs that will be dedicated to environmental communications across WASA, including lead-related communications such as customer mailings and letters, attendance at community events, and responsibility for implementation of communications aspects of the Community Water Pledge.

We are very aware of the public health aspects of the lead program and other water quality initiatives. We are pleased to continue our partnership with the Department of Health on not only lead but also on all water quality and health-related issues. The events of the last year have taken our relationship with DOH to a different, more positive level, and I look forward to continuing the open dialogue we have with DOH on breaking issues, similar to the recent successful approach we utilized with the total coliform exceedance. In addition, we are planning to continue our partnership with the George Washington University School of Public Health, building on the relationship we developed over the last six months. The national peer workshop, held less than two weeks ago, drew national and international water quality and utility experts, and is just one example of the very positive nature of this partnership.

In order to accomplish our aggressive annual service line replacement goals, continuation of the strong support we have received from DDOT over the last year will be essential, particularly as much of this work must be done outside of the standard construction season.

An additional benefit of our lead program is that it will allow to more rapidly evaluate the condition of mains and other water system infrastructure while we are making lead replacements.

In addition to physical replacement of lead service lines in public space, other ongoing components of our lead program include:

- **Washington Aqueduct treatment changes** – The Aqueduct began adding orthophosphate on a system-wide basis in August. We are working closely with the Aqueduct to monitor the impact of this change both in lead levels and in other unanticipated areas. Recently, we experienced an increase in positive test results for coliform, which may have been an unintended result of the addition of orthophosphate. We are taking steps to address this by increasing the unidirectional flushing program and continued sampling, as well as proactive communications with customers and others that is much more than required by the EPA.
- **Filter distribution** – We are continuing to distribute filters and replacement cartridges to all customers with a lead service line and whose test results exceed the EPA action level of 15 parts per billion (ppb) on the second draw. Through the end of September, we had distributed approximately 33,700 filters, and we have budgeted to continue distribution of replacement cartridges through the end of FY 2006, consistent with the terms of the administrative order.
- **Private property owner service line replacement** – We will also continue to encourage homeowners to replace their portion of the service line, and will continue our partnerships with Wachovia Bank and the District's Department of Housing and Community Development in their programs to assist low income property owners. We will also evaluate the private lead service line replacement fee using actual cost data and present the results of this analysis to the Retail Rates Committee in December.

As previously discussed under “Rates”, the financial impact of the lead program is significant, with total costs projected at \$300 million, including FY 2004 capital expenditures. We have budgeted all costs of the program beginning in FY 2005 in our capital improvement program. Virtually all ancillary costs for the lead program (i.e., command center, public relations, etc.) are in direct support of the capital portion of the lead program (service line replacement) and we believe are appropriately considered capital costs. We propose that the Board of Directors formally require that all these FY 2005 and FY 2006 lead-related costs be capitalized in order to ensure this accounting and budget treatment.

“Sold vs. Pumped” Ratio & Water Audit Results – Our sold vs. pumped ratio has remained steady over the last four 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 well underway, with approximately 115,000 meters (out of approximately 123,000 meters total) installed through September 2004, 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 a ten percent increase in billed consumption in our large commercial meters over the next two years. 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, 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. 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.

Water Services Organization – Distribution System Maintenance – Following an intensive review of our organization structure in the Department of Water Services, we plan to reorganize our distribution branch into two separate divisions: 1) a distribution branch which will focus on scheduled system maintenance; and 2) an investigations & operations branch which will focus on responding to customer service calls. We believe this change, which we plan to implement in FY 2005, will be a great improvement over the current structure, where the entire division reported to one manager. This reorganization follows another significant organizational change in FY 2003 when we transitioned from “roving” field supervisors to a clearly designated supervisor of each repair crew, which we believe has improved accountability, response times, and productivity.

Improvements to Anacostia Water Service – We developed a detailed facilities plan to improve water pressure and service reliability east of the Anacostia River. With completion of rehabilitation of the Anacostia water tanks No. 1 and No. 2 and the Ft. Stanton underground reservoirs No. 1 and 2, water storage projects to support the Anacostia area continue to progress. The next water storage project to benefit the southern area east of the Anacostia River is construction of an elevated tank at St. Elizabeth’s Hospital, which will improve water pressure. Construction is scheduled to be complete in 2006, assuming zoning approvals are obtained. The new elevated storage tank is dependent on several other projects before it can be put in service. We are close to completing an \$8 million replacement of a twenty-inch water main along Martin Luther King Boulevard in Anacostia that will eventually transport water to the new tank. 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. While we are making these improvements in Anacostia, we will also complete lead service line replacements so that neighborhood disruption is minimized.

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 began in 2004.

Water Conservation -- Water conservation will be an area of renewed focus in FY 2005 and FY 2006, 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. As part of our reorganization of the distribution system branch in the Department of Water Services, we are also dedicating specific crews to make sure fire hydrants are continually maintained. Over the next year, we will be revisiting our fire hydrant maintenance and replacement program and developing a long-term replacement program for presentation to the Board.

SEWER SYSTEM INITIATIVES

Combined Sewer Overflow Long-Term Control Plan (CSO LTCP) – As of the date of this letter, we remain in litigation with the EPA and the U.S. Department of Justice (DOJ) on our proposed CSO Long-Term Control Plan, originally submitted to the EPA in 2002. The focus of

the litigation remains the implementation schedule. However, in the weeks prior to publication of this document, we have reopened settlement negotiations with the federal government as we are anxious to move forward with the proposed CSO LTCP. As part of these negotiations, we are discussing shorter implementation schedules, which will result in accelerated and higher rate increases than under our current proposed plan. Pending conclusion of the negotiations (or if the negotiations are not successful, continuation of litigation against the federal government), we continue to include the early years of the proposed LTCP to our ten-year CIP and ten-year financial plan (totaling approximately \$190 million with inflation), assuming a forty year schedule. In addition, we continue to move forward with those projects that were already in the CIP. While we are currently discussing shorter implementation schedules with DOJ, until a final Board-approved settlement is reached, it is recommended that we continue to show a forty-year plan and that no funds beyond the \$143 million (disbursements basis) incorporated in the current CIP and initial facilities planning 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.

The impact on our ratepayers of the proposed LTCP is significant. The projected capital cost of the LTCP is \$1.265 billion in 2001 dollars; including inflation, this increases to \$2.6 billion (assuming an implementation period of 40 years). As discussed in more detail under "Financial Stability", shorter implementation schedules will result in accelerated and higher rate increases than under our current proposed plan.

While we continue these negotiations, we are aggressively moving forward with the \$143 million of projects that were included in the settlement of a lawsuit against WASA regarding implementation of the federal CSO Nine Minimum Controls program. These projects, which were previously budgeted and planned by WASA prior to the lawsuit, are projected to reduce combined sewer overflows by approximately forty percent when completed. We have completed the installation of new fabricidams at a total cost of approximately \$10.3 million, and are in design on three pumping stations (Main & O; Potomac, and Poplar Point) and in construction on the new East Side pumping station. We have also begun the procurement process to select a firm to begin facilities planning, with the selection scheduled to be complete in spring 2005.

Whatever the final implementation schedule is, the benefits of our long-term plan are significant -- when fully implemented, combined sewer overflows are projected to 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 will result in an approximately 40 percent reduction in combined sewer overflows, and the completion this past spring of the fabricidams alone are projected to result in a 24 percent reduction. The plan 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

Stormwater System and Management – We are entering our fourth 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 over the next two years will be developing an implementation plan for the District’s new five-year stormwater permit, issued by the EPA in August 2004. The new permit requires implementation of several new programs that have been in the planning phases for the last few years, including illicit connection detection and enforcement programs and industrial facility outreach programs, among others. The new permit also requires compliance with the total maximum daily load (TMDL) of pollutant reduction requirement allocated to stormwater by the District’s Department of Health. The reduction requirement for various pollutants (e.g., nutrients, toxics, oil & grease, sediment) is as high as 90 percent in some cases. This is a difficult task because of the limited technology available for such pollution control from diffuse sources, limitation of space in a densely urban area, and associated costs. The participating agencies are in the process of developing cost estimates for compliance with the new permit; the task force’s preliminary estimate of annual costs is approximately \$7 million per year, although this estimate will be refined over the next few months. Implementation plans for the Anacostia and Rock Creek watersheds must be developed within the next year. The near-term impact of these new requirements is that the proposed FY 2006 stormwater budget will increase to at least \$5.1 million, compared to \$3.8 million in FY 2005.

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. Over the next year, we will work with the stormwater taskforce to analyze the ultimate operating and capital requirements of the new permit, and develop rate increase proposals for the District’s consideration as needed. As noted earlier, the review of the District’s stormwater rate will include additional analysis on the previously-presented impervious surface-based rate ideas, and will be closely coordinated with our CSO rate review. In the interim, 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, in line with the provisions of the MOU with the District.

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 were recently informed by the District that maintenance of catch basins along federal thoroughfares will revert to WASA beginning in later summer 2005. We are currently in the process of analyzing the potential cost increases of this new requirement, although currently project that the cost could range from \$0.3 million to \$0.5 million annually, plus \$0.3 million in one-time new equipment costs. We are currently assuming that these costs will be recovered through the District’s stormwater rate. We have included \$22 million

(disbursements basis) in our existing capital program for improvements to the separate stormwater collection system. It is important to note this year's CIP reflects the removal of stormwater pumping station rehabilitation costs, assuming that these are taken over by the District or by the Stormwater Enterprise Fund. We have begun discussions with the District regarding transitioning all stormwater-related costs to the Stormwater Enterprise Fund.

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

- Cleaned almost 26,000 catch basins in FY 2004, slightly exceeding our target of 25,000
- Cleaned approximately 95 miles of sewer lines
- Repaired or replaced close to 300 sewer laterals
- Collected 600 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 2004 included a number of accomplishments in the wastewater collection system:

- **Floatable debris removal** -- We completed our first full year of operation with our new trash skimmer boat, which has substantially increased our capacity to collect debris on the Anacostia and Potomac Rivers.
- **Northeast Boundary Sewer** -- In response to customers' requests, we completed construction in 2004 on improvements to the sewer system to help relieve local area flooding issues in Northeast Washington along the Northeast Boundary sewer, including street regarding, adding new catch basins and replacing smaller basins with larger ones, and upgrading 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 six public meetings and did two special mailings to residents in the affected neighborhoods.
- **Dupont Circle flooding relief** -- In response to customer reports of localized flooding in this neighborhood, WASA undertook an 11 month project that identified and repaired several pipe deficiencies and a partially blocked sewer siphon. Several significant storms have occurred since the August 2004 completion date, and no widespread sewer back-ups or flooding has been reported.
- **Eastside Pumping Station** -- In September 2004, we broke ground on the construction of this new 45 MGD sewer pumping station. This new pumping station is part of the EarthJustice consent decree.
- **New tide gates** -- In FY 2004, we installed four new tide gates which are projected to reduce extraneous flows into the system. In FY 2005, we plan to begin design on an additional five gates, with construction currently anticipated to be complete in 2008.
- **Inspection of outfall sewers** -- In FY 2005, we will complete inspection of the four large diameters sewers that convey almost all of the District's sanitary and combined wastewater flow to Blue Plains. This effort involves specialty sonar and CCTV camera equipment.
- **Potomac Interceptor improvements** -- 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 2005, with construction



scheduled to begin thereafter. The costs of this project have increased 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. In addition to the odor control improvements, we are in the process of designing significant structural improvements to two large pipe segments of the Potomac Interceptor in Fairfax and Loudoun Counties. The project is scheduled to be bid in FY 2005, with completion of construction currently anticipated in late 2006.

In addition to these daily activities, we began our comprehensive assessment of the sewer system in FY 2003 and expect that it will be completed in FY 2007. The CIP contains funding for various priority sewer rehabilitation projects across the District that may be discovered during inspections in the sewer system assessment program, as well as a continued base level of funding pending the results of this assessment.

Evaluation of O St. Site Use – Prior to the recent announcement of the planned new baseball stadium on the Anacostia River, we had begun an assessment of the usage of our O Street site as part of the Mayor’s Anacostia initiative. We now plan to rethink use of this site in light of the new ballpark and the resulting impact on surrounding neighborhoods.

BLUE PLAINS INITIATIVES

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 fourth 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 close to \$500 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. With the Board’s February 2004 approval of the project and budget changes to include Class A digestion and other project changes, construction is tentatively scheduled to begin in 2005 on a contract for the construction of foundations, digester vessels and silos and in 2006 on a contract for the process facilities necessary to complete the digester complex. All of these construction dates are dependent 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 2005, and will include first in / first out storage silos.

We also continue our outreach efforts to the end user communities of our biosolids product, primarily farms, forest land, and mine reclamation projects 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 applying biosolids to titanium mine sites in Dinwiddie County. We 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. Additionally, DCWASA has gained certification from the National Biosolids Partnership (WEF, EPA, AMSA) recognizing a program that goes beyond mere regulatory compliance. DCWASA was the third organization certified nationally, and the first on the east coast.

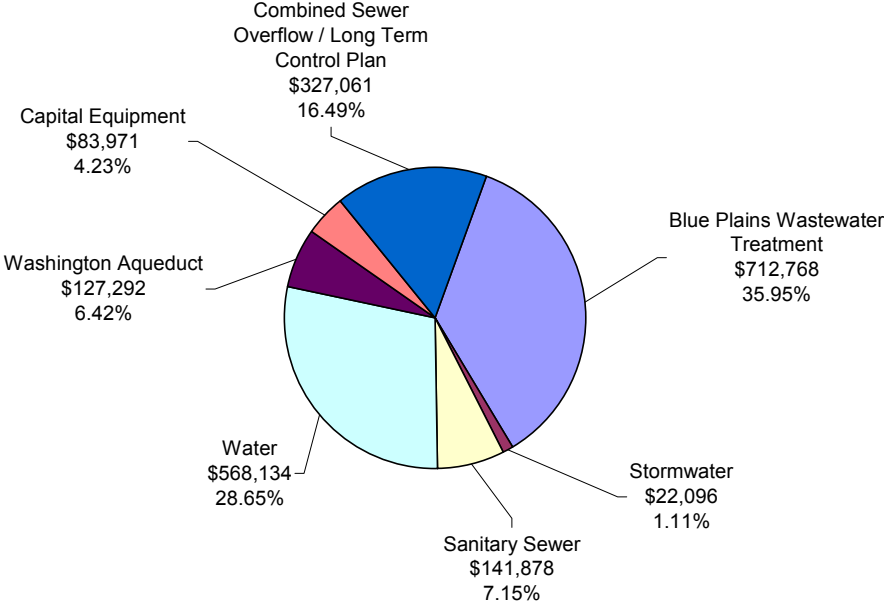
Energy Management – Electricity costs represent a significant portion of WASA's operating budget, totaling a projected \$17 million in FY 2004 out of our \$259 million operating budget. In February 2005, Pepco's cap on generation charges will be lifted, exposing us to potential rate increases of 45 percent or more. (Generation charges amount to approximately \$12 million annually.) We have been proactively addressing this issue via a number of avenues. First, we have been participating in a joint procurement for District of Columbia government agencies through a group called the Municipal Aggregation Program (MAP), led by the D.C. Office of Energy. Second, we have issued and received bids under a stand-alone power procurement for WASA only. We expect to enter into a one year (or shorter) agreement or agreements, for our generation and transmission services prior to the February 2005 expiration of the Pepco rate caps.

Because of the significant financial impact and the operational importance of this issue, we have added a new position to focus exclusively on energy management, including ongoing electricity procurements.

CAPITAL IMPROVEMENT PROGRAM

This year's ten-year capital improvement program (CIP) totals \$1.98 billion (cash disbursements basis), approximately \$220 million more than last year's plan, due primarily to the addition of the lead service line replacement program. 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 2004 - FY 2013 Capital Improvement Program
 (\$ in 000's)



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 2005. 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 2014, we have identified \$84 million in additional projects that will be added to the CIP as this year falls into the ten-year planning period. These projects include spent washwater treatment, to treat the recycled washwater from the Filtration and Disinfection Facility in a separate sidestream process rather than the current practice of returning the washwater upstream in the plant, upgrading Raw Wastewater Pump Station 2, and further additional chemical systems and process computer control systems work. The need for and extent of these projects will be defined by a strategic plan/facility planning effort currently under way for the plant, which will consider Chesapeake Bay Program initiatives, possible NPDES permit revisions, and treatment impacts due to the CSO LTCP pump out.
- **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), the results of this study, projected to be complete in FY 2007, 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.

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.

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 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, 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.

Sanitary Sewer Overflows & CMOM – The EPA is developing a sanitary sewer overflow (SSO) policy to regulate overflows of the sanitary sewer system, including dry weather overflows. A component of this policy is the development of minimum capacity, management, operation, and maintenance standards (CMOM) that potentially could be incorporated into NPDES permits. We are currently evaluating the proposed policy and potential impacts on WASA as part of our overall sewer system assessment.


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 2005 & FY 2006 budgets include funding for the following significant research efforts:

- In cooperation with other utilities in Maryland and Virginia, WASA is funding follow-up work for 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 sponsoring research with Virginia Tech and Bucknell University to quantify the effects of biosolids addition on crop production and drought resistance. Researchers believe that the microbes in the biosolids breakdown the organic matter and release essential plant hormones that help plants get through stressful conditions (such as drought).
- Blue Plains is sponsoring research to determine the optimum application rate for forest application sites. This work is being done in conjunction with the Virginia Department of Forestry.
- Work continues at the ERCO tree farm to research the movement (or lack thereof) of nitrogen below the trenched biosolids. Thus far, no nutrients have been seen moving out of the trenches, and it appears as if all the nutrients are being used by the trees.
- 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.

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 2006 has been reduced by 383 positions since the Congressionally-approved FY 1998 budget was adopted, a reduction of 25 percent. Even with these position reductions, WASA's service performance has improved across the organization as discussed in detail throughout this document.

It has been five years since we evaluated our progress on the largest of these plans, the Blue Plains IIP. In FY 2005, we will complete a review of the original IIP, evaluating progress on capital projects that were critical to achieving cost savings, and success in our training and other work rule changes.

Another initiative in FY 2005 is the creation of a productivity analysis and planning group. This group 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 2005 budget includes reallocation of an existing position to begin this function, and in FY 2006, an additional position is added to fully staff the unit.

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 2006 we will have reduced a total of 139 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.

As noted above, a major activity in FY 2005 will be a comprehensive review of our progress on the original 2000 IIP plan.

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 completed the reorganization of our customer service meter operations. We 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 added 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 began operation of our consolidated command center, which provides 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 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. Finally, in FY 2005, we will complete a reorganization of our distribution branch, splitting it into two units, one focused on scheduled maintenance, and another primarily on customer service calls.

Other Departments

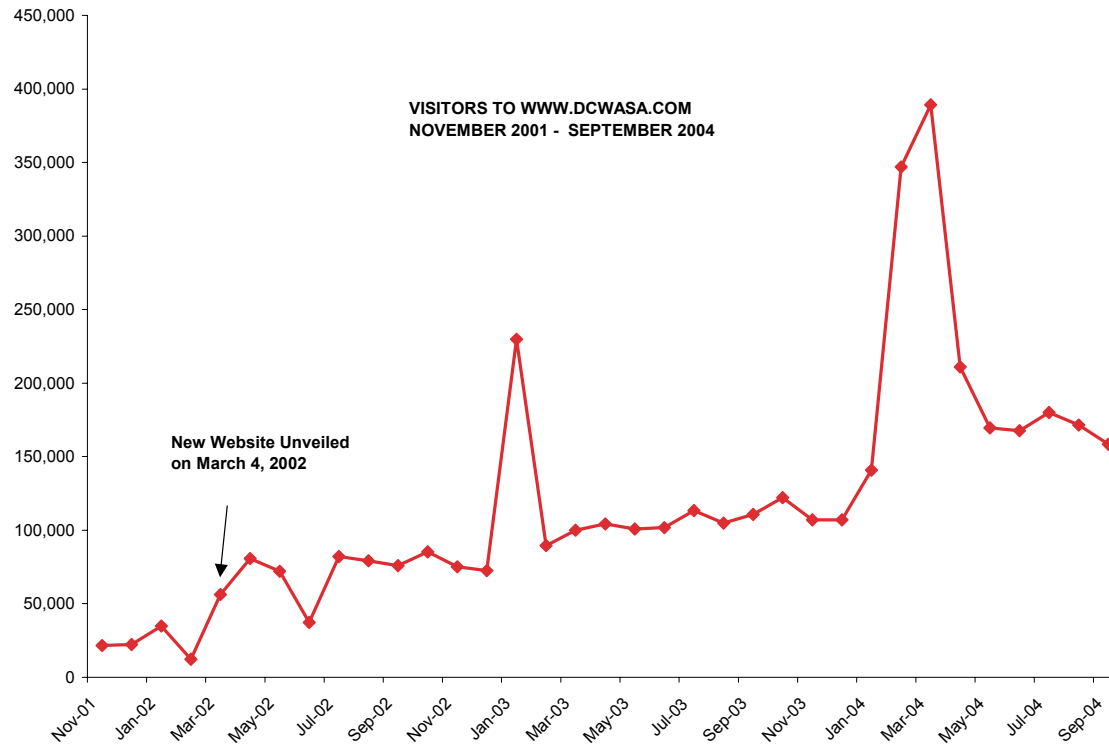
We have also undertaken similar IIP efforts in other departments, including:

- 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 the lead program. 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 2005 and FY 2006, we will be launching the redesigned DCWASA.com. The redesign is largely based on customer input and needs; in developing the new design, we completed surveys of current web site users, interviews with executive and senior management, input from key community members and Board members and a review of other similar web sites. Two new sections will be added to the site: 1) DCWASA.com For Kids, which will be dedicated to providing information to school-aged children regarding water usage and conservation; and 2) a Work Zones section that will provide customers with updated information on work in their neighborhood. 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.



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:

- *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 have developed a business continuity / data redundancy plan for all of our systems which we will be implementing over the next 2-3 years, 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.

Other major priorities over the next two years include the development of a new document management system and an upgrade to our existing telephone system, which was initially installed just after WASA was formed. As part of the strategic planning process, we will also be developing a wireless strategy for WASA.

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, our fleet operating costs remain flat in FY 2005 and FY 2006. We plan to continue this capital investment in our fleet, with \$10.1 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 reevaluated in light of the organizational changes laid out by the IIP as well as the cost-benefit of each individual vehicle replacement. Fleet will also continue coordination with Human Resources on providing defensive driving training to user departments.

Facilities

In FY 2003, we completed a reorganization of our Facilities department, including additional senior leadership in critical areas of facilities management: mechanical maintenance and general facilities operations and the reduction of ten authorized positions. Over the next two years, our Facilities' efforts will focus on the continued implementation of this reorganization, improving service to internal customers, and finishing critical renovation projects. In FY 2004, we made good progress on renovations to the Central Operations Facility (COF) at Blue Plains, including elevator replacement and renovations to bring all restrooms into ADA compliance. Over the next two years, we will complete these renovations and also complete an overhaul of the HVAC system at the Central Maintenance Facility. We also plan to begin

landscaping improvements at Blue Plains. Finally, a major accomplishment in FY 2004 was the purchase of new copiers for all WASA departments, which resulted in operating savings.

Procurement

A major emphasis in our procurement operations over the last few 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). Although we do not expect to meet the 50 percent target in FY 2004, we made significant strides in ensuring inclusion of protected class businesses in the procurement process. In FY 2004, WASA continued to attend major business outreach events, which were focused on increasing procurement opportunities for historically under-represented business enterprises

In FY 2005 and FY 2006, we plan to evaluate a reorganization of our procurement and materiel management organization including merging small and large procurement functions and enhanced contract administration. We will also be evaluating the consolidation of our inventory yards. We will be implementing a new procurement and contract management system as part of the financial system.

STRATEGIC GOAL AREA – ORGANIZATIONAL EFFECTIVENESS

REGIONALIZATION STUDY

In FY 2005, 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 employees are our most valuable asset and are key to accomplishing our mission and the Board's strategic goals. 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 July 2003, the Authority met with the unions to commence the negotiation of a successor Master Collective Bargaining Agreement (the Master Collective Bargaining Agreement expired on September 30, 2003). At that meeting, the unions informed the Authority of their intent to end joint negotiations of working conditions and negotiate separate agreements. This was unacceptable to the Authority. 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. The Authority petitioned the Public Employee Relations Board (PERB) to consolidate the five local unions into one

collective bargaining unit. Negotiations of a new Collective Bargaining Agreement were suspended until a decision is rendered on the unit modification petition. The PERB hearing began in August 2004 and ended on October 4, 2004. A PERB decision is expected within the next ninety days. It is anticipated that contract negotiations, whether with one consolidated unit or the five local unions, will begin during the second quarter of FY 2005.

Labor-Management Partnerships – 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. Currently, there are departmental labor-management partnerships in Maintenance Services, Sewer Services and Facilities and Security. The Facilities and Security Department won second place for its pothole project - enhancements to the department’s automated work order system recommended by the department’s Labor Management Partnership Committee. In departments with Labor Management Partnership Committees there are fewer grievances. During FY 2005, Labor Relations will assist in establishing committees in Wastewater Treatment, Water Services and Customer Service.

Union Performance Management – We have completed our second year of performance management for union employees in FY 2004. The process allows for union employees to mutually establish performance plans at the beginning of the performance year; receive two interim evaluations during the performance year and then a final evaluation at the end of the performance year. The union performance management process continues to be an effective tool for communication between supervisors and employees.

Employee Benefits – During FY 2004, two new employee benefits programs were introduced – long-term care insurance and a comprehensive wellness program. Voluntary long-term care insurance provided the employees and eligible family member with assistance with the cost of long term residential and home care. The wellness program is designed to provide employees with information that will assist them in optimizing their health. This is accomplished by presenting seminars and workshops on a variety of health topics, offering a free physical examination, providing various workplace health screenings and fitness tests and offering opportunities to participate in exercise activities and programs. In FY 2005, major activities will include retirement counseling for employees who are participants in the Civil Service Retirement System (CSRS), retirement planning and investment counseling for employees in the WASA 401(a) plan and piloting online changes in Ceridian Employee Self Service.

Training – We continue to invest in our employees by funding training and development efforts that provide skills training in the areas of safety, technology, government regulations, and professional and career development. In FY 2005, we have budgeted \$1.6 million dollars for skill training needs. We will provide approximately the same level of resources for FY 2005 to ensure a skilled, safe and competent workforce that is fully capable of supporting our customers needs.

In FY 2004, we marked the completion of the wastewater treatment operator certification program. All wastewater treatment operators have obtained the required certification for their current positions. We completed the design of a wastewater treatment operator trainee program to develop pool skilled and certified wastewater operators that will be available to fill vacancies, as they occur. The trainee program will be implemented during FY 2005.

In support of various internal improvement program efforts, we continued certification training in the Department of Maintenance Services and began certification pursuits in the Departments of Engineering and Technical Services, Facilities and Security, and Procurement and Materiel Management.

For FY 2005, we will implement a leadership development program for senior staff and mid-level managers, an Authority-wide Customer Service Training Program for call-center and front-line employees, a self-managed career development program for employee interested in enhancing or changing careers, a succession planning program to identify critical processes and key positions, and an employee satisfaction survey to gain deeper insight about our culture and our employee's values and opinions.

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 37 interns participating in our FY 2004 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.

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 2004, 9 audits were initiated and completed, centered on contractor billings, information technology projects, environmental compliance reviews, and contract compliance reviews. In addition, a number of audits will carryover into FY 2005, including additional contract compliance and information technology project reviews. 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, includes extensive electronic surveillance and remote monitoring devices, including cameras, automated gates, and intrusion detection devices, among other improvements. We have completed this project at all locations except for the Bryant St. pumping station, where it will be completed as part of the overall rehabilitation project. 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 2005 and FY 2006, with tabletop exercises and drills 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.

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 \$1.5 million annually in operating funds in FY 2005 and FY 2006, 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, the federal Department of Homeland Security and various federal agencies and regional to ensure proper coordination with their plans. These plans were put into action over the last years as we prepared for Hurricanes Frances and Ivan, and various IMF-World Bank meetings.

Given the magnitude of our capital program, we place particular emphasis on contractor and construction site safety. Safety staff hold quarterly review meetings with Engineering and other WASA departments to review construction contracts for safety issues upfront prior to the construction phase, and Safety has dedicated one staff person to focus exclusively on day-to-day contractor safety. A major activity in late FY 2004 that will continue into FY 2005 is development of WASA's OCIP program (described under "Financial Stability" earlier in this document.) Safety is a critical part of this program, and we have developed a detailed safety manual for all construction contractors that is distributed to potential contractors prior to a project going out to bid. In addition, the program manager will provide a dedicated safety expert to help monitor contractor safety.

We have also undertaken significant efforts to ensure that our employees are actively involved and committed to workplace safety. We created a union – management safety committees to focus on safety issues, and in FY 2004 provided specialized training in asbestos exposure and confined space, among others. A particular area of focus was excavation safety – we conducted specialized training through

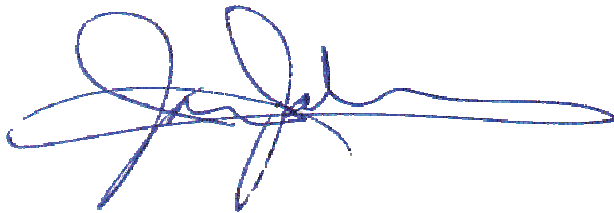
the union – management safety committee for the Departments of Water and Sewer Services, and also implemented a special excavation safety trailer to provide portable access to shoring devices. We also continued -up efforts to track the results of these efforts – we developed a benchmarking system to track the improvement we make in vehicle accidents, lost work day injuries, and other key performance measures.

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 the 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 (2003)
Over 1.6 million in Maryland and Virginia

Operation and Facilities:

No. of Positions: 1,138 (FY 2005)
1,125 (FY 2006)

Water Pumped: 129.0 million gallons per day average
(Preliminary FY 2004)

Treated Water Storage: 52 million gallons / 8 tanks

Miles of Water Lines: 1,300 miles

Wastewater Treated: 357.4 million gallons per day average
(Preliminary FY 2004)

Wastewater Capacity: 370 million gallons per day (permitted)

Miles of Sewer Lines: 1,800 miles

Financial Information:

Bond Ratings: Aa3/AA-/AA-

FY 2005 Revenue: \$274.1 million

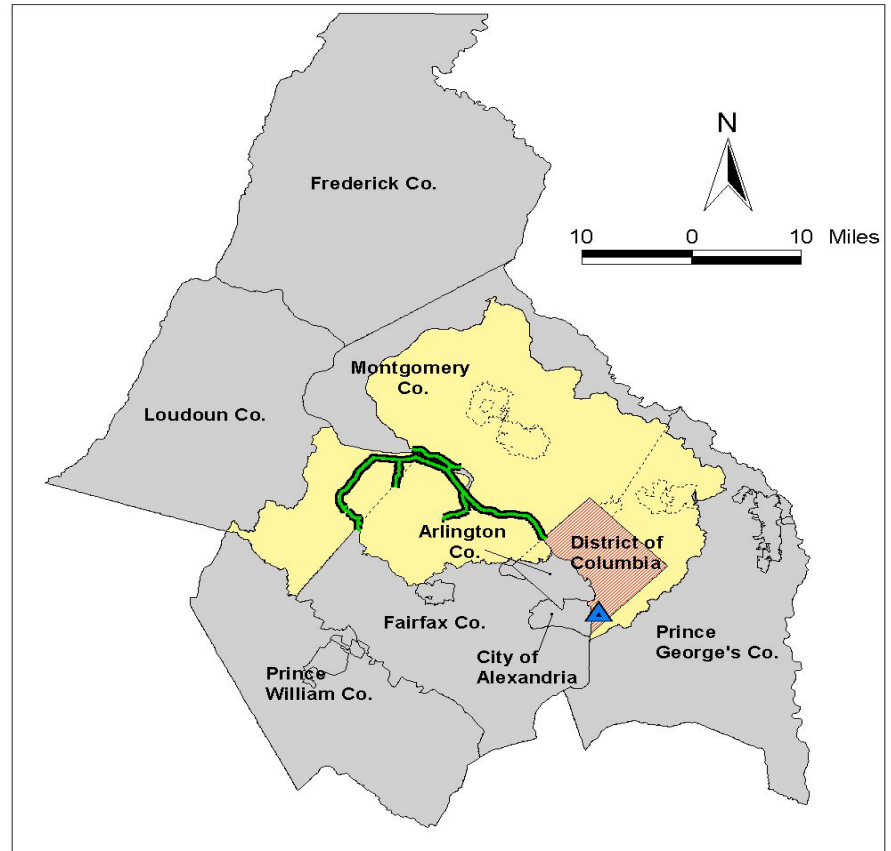
FY 2005 Operating Budget: \$266.3 million

FY 2005 Capital Budget: \$294.0 million



Service Area

District of Columbia-Water and Sewer Authority (DCWASA)



Legend Facilities managed by & Service Areas served by DCWASA

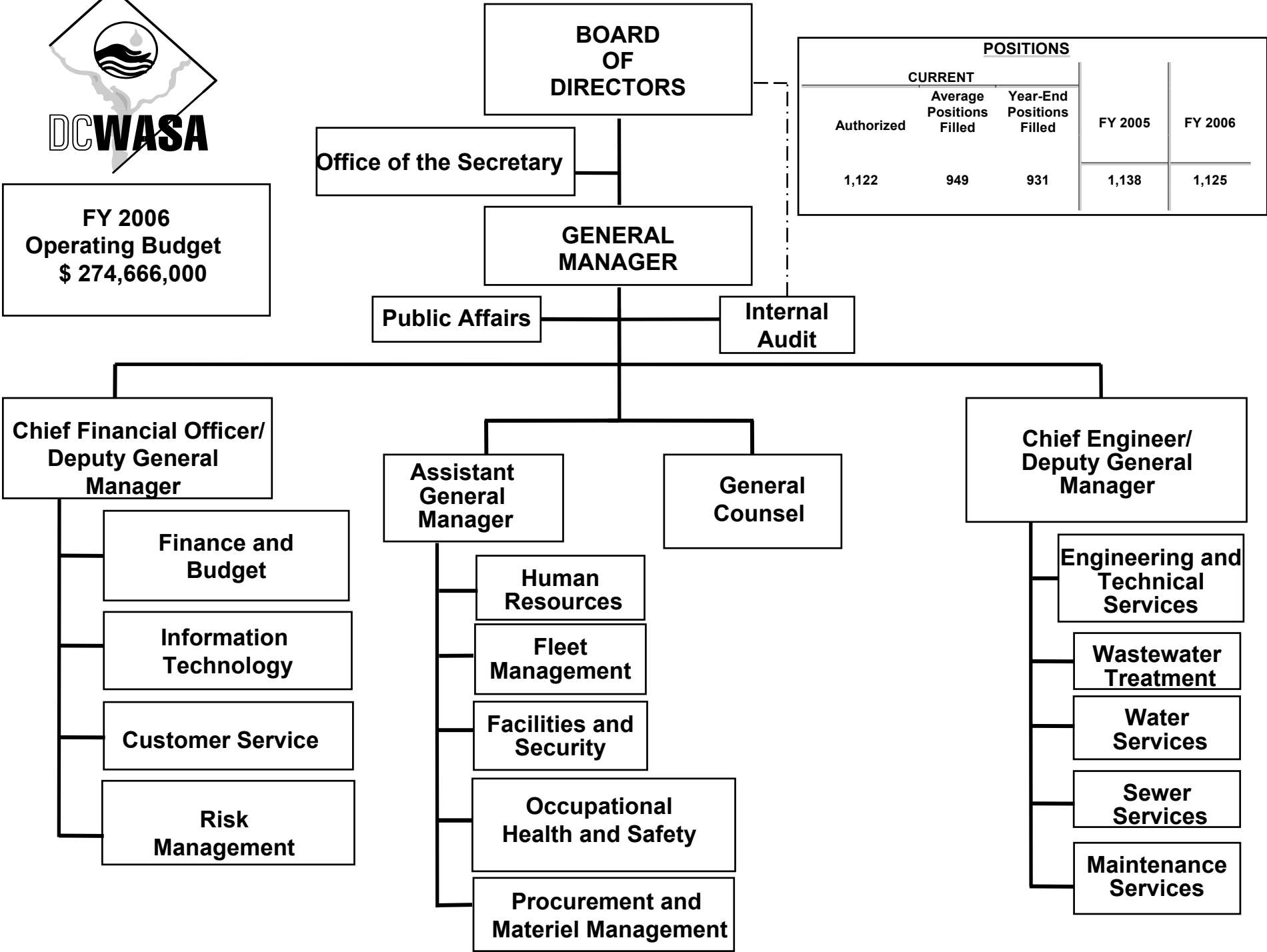
-  Blue Plains Wastewater Treatment Plant
-  Potomac Interceptor
-  Jurisdictional Boundaries
-  DC Water Distribution & Sewage Collection Systems
-  Blue Plains Service Area (suburban portion)
-  Blue Plains Service Area (DC portion)

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 2006
Operating Budget
\$ 274,666,000**



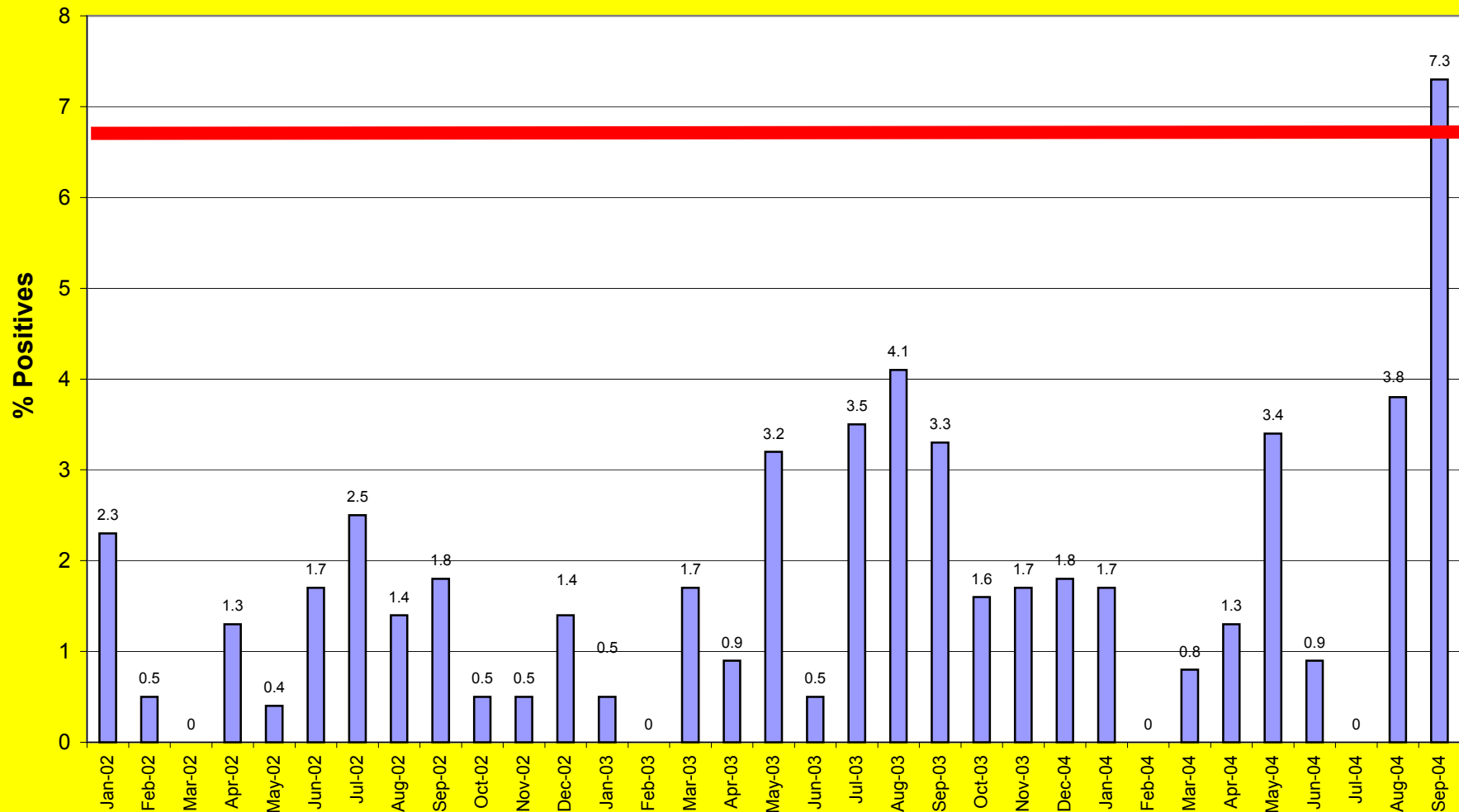
POSITIONS				
Authorized	CURRENT		FY 2005	FY 2006
	Average Positions Filled	Year-End Positions Filled		
1,122	949	931	1,138	1,125

PRIMARY WASA PERFORMANCE MEASURES & TARGETS

Description	Performance Target	FY 2004 Actual Performance	FY 2005 Target
<p>Customer Service</p> <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 • 79% serviced in 2 minutes 	<ul style="list-style-type: none"> • 99.9% • 97%
<p>Water System</p> <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"> • Action levels on Lead and Copper Rule continue to be an issue and experienced exceedance in total coliform in September 2004. Both issues appear to be related to simultaneous compliance with multiple regulatory requirements. • Respond to 59% within 45 minutes • 78% of mains repaired within 10 days • 99.2% 	<ul style="list-style-type: none"> • Expect action levels on Lead and Copper Rule to continue to be an issue and will proactively address simultaneous compliance issues where possible • Respond to 95% in less than 45 minutes • Repair 95% in ten days • 99.5%
<p>Wastewater System</p> <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"> • Compliance with EPA wastewater quality standards except February 2004 when total phosphorus effluent levels were exceeded on a single day due to dewatering equipment issues. • 25,956 per year 	<ul style="list-style-type: none"> • 100% compliance with EPA wastewater quality standards • 25,000 per year
<p>Financial</p> <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 <ul style="list-style-type: none"> – 401% - 2004 projection • 6 months O&M expenses – Board policy <ul style="list-style-type: none"> – \$95.4 million - 2004 projection • Surpass budget <ul style="list-style-type: none"> – \$8.6 million target 	<ul style="list-style-type: none"> • 460% (after transfer to rate stabilization fund) • \$106.4 million • \$20.5 million (budget \$8.6 million) 	<ul style="list-style-type: none"> • 462% • \$96.3 million • \$11.5 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. In FY 2005, WASA will be conducting an overall review of all water system operations and performance measures and will revise future years' measures as appropriate.

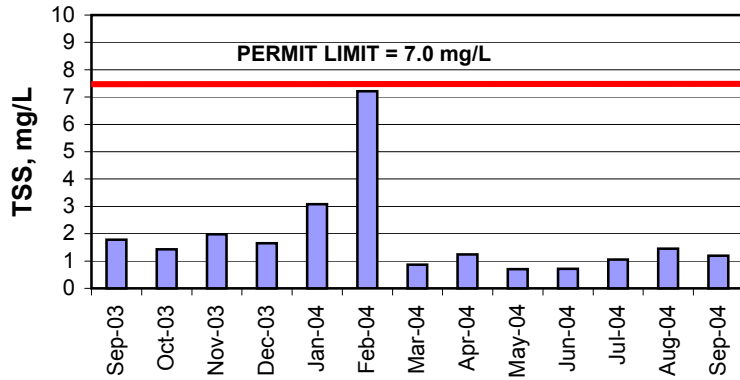
**DC DRINKING WATER TOTAL COLIFORM RESULTS
2002 - 2004**
EPA Maximum Contaminant Levels = 5% positives per month



NOTE: The September 2004 exceedance appears to be related to the Aqueduct's addition of orthophosphate to address lead in drinking water issues. In FY 2005, WASA will undertake an industry-leading analysis to address simultaneous compliance issues.

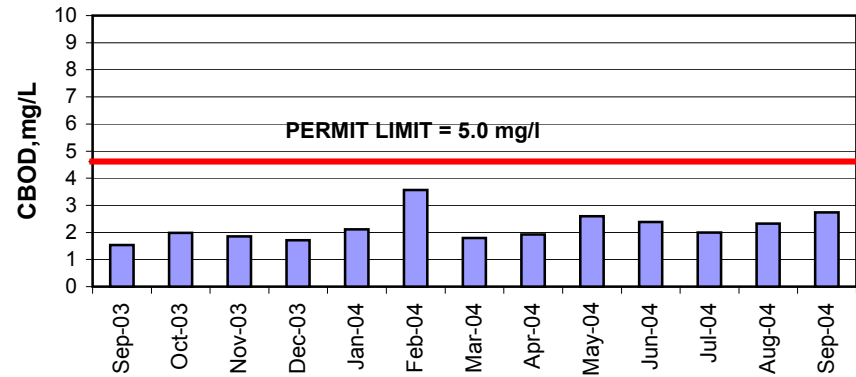
**BLUE PLAINS WASTEWATER TREATMENT PLANT
PLANT EFFLUENT QUALITY
SEPTEMBER 2003 - SEPTEMBER 2004**

**MONTHLY AVERAGE
EFFLUENT SUSPENDED SOLIDS**



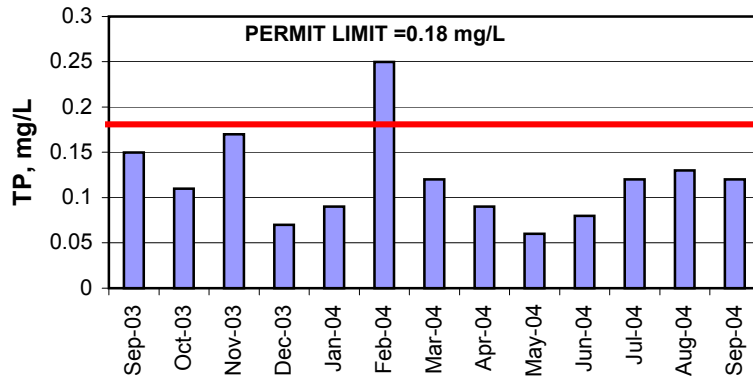
Effluent Total Suspended Solids (TSS) is a measure of the amount of solid material that remains suspended after treatment.

**MONTHLY AVERAGE
EFFLUENT CBOD**



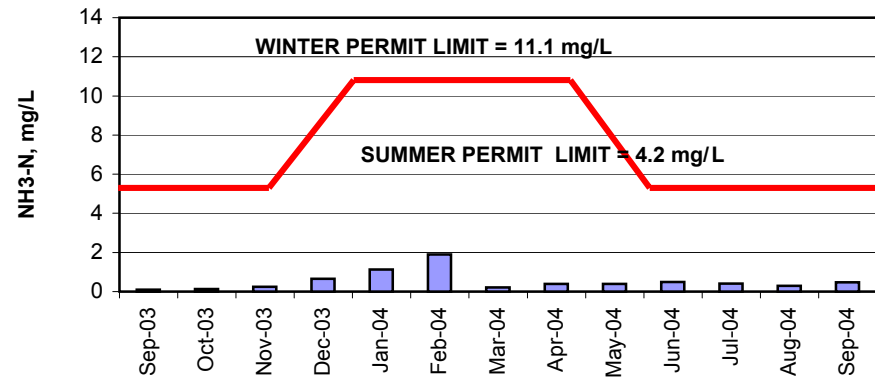
Carbonaceous Biochemical Oxygen Demand (CBOD) is a measure of the amount of dissolved oxygen required for the decomposition of organic materials.

**MONTHLY AVERAGE
EFFLUENT TOTAL PHOSPHORUS**



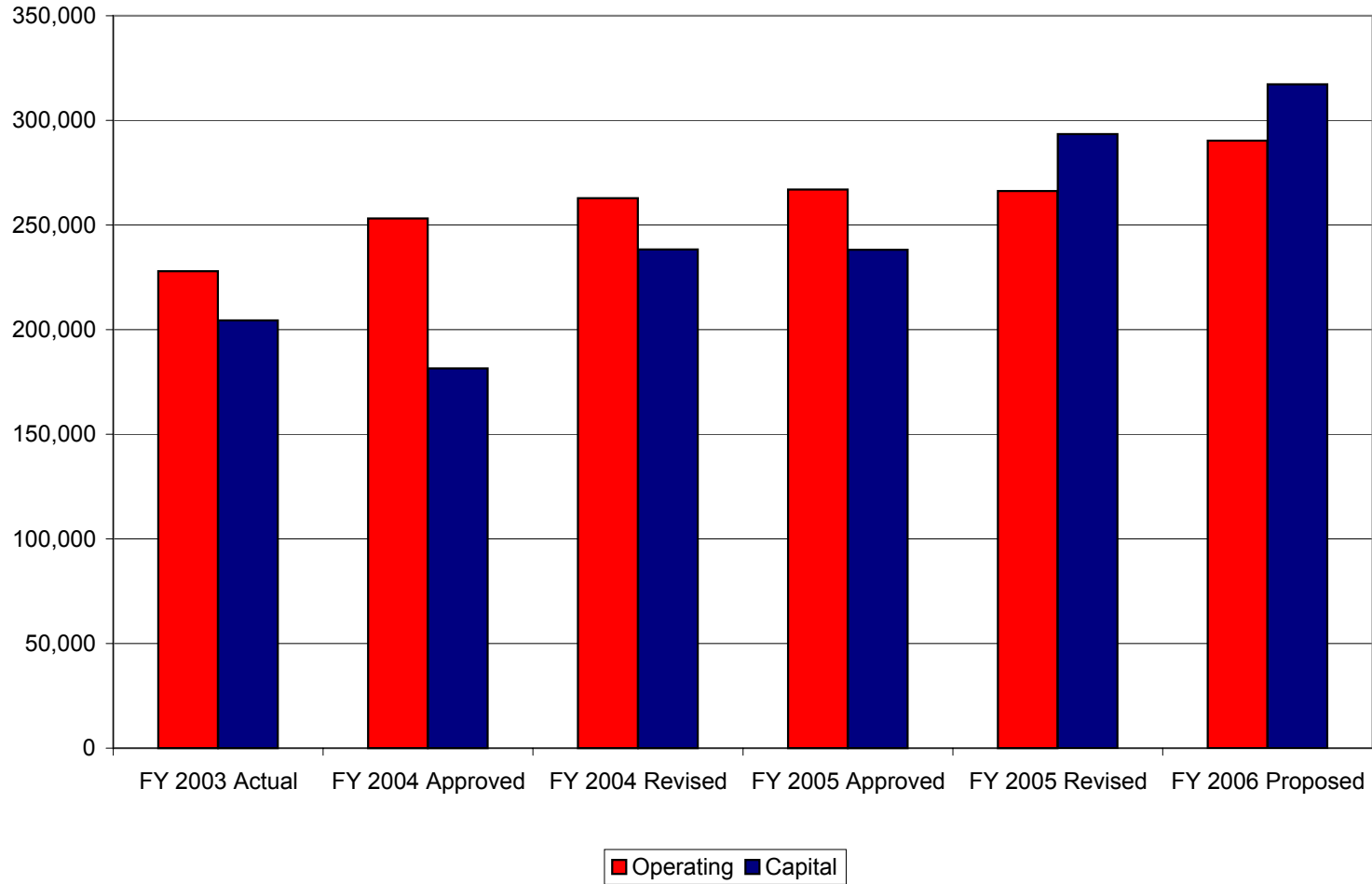
The total Phosphorus (TP) is a measure of the particulate and dissolved phosphorus in the effluent.

**MONTHLY AVERAGE
EFFLUENT AMMONIA NITROGEN**

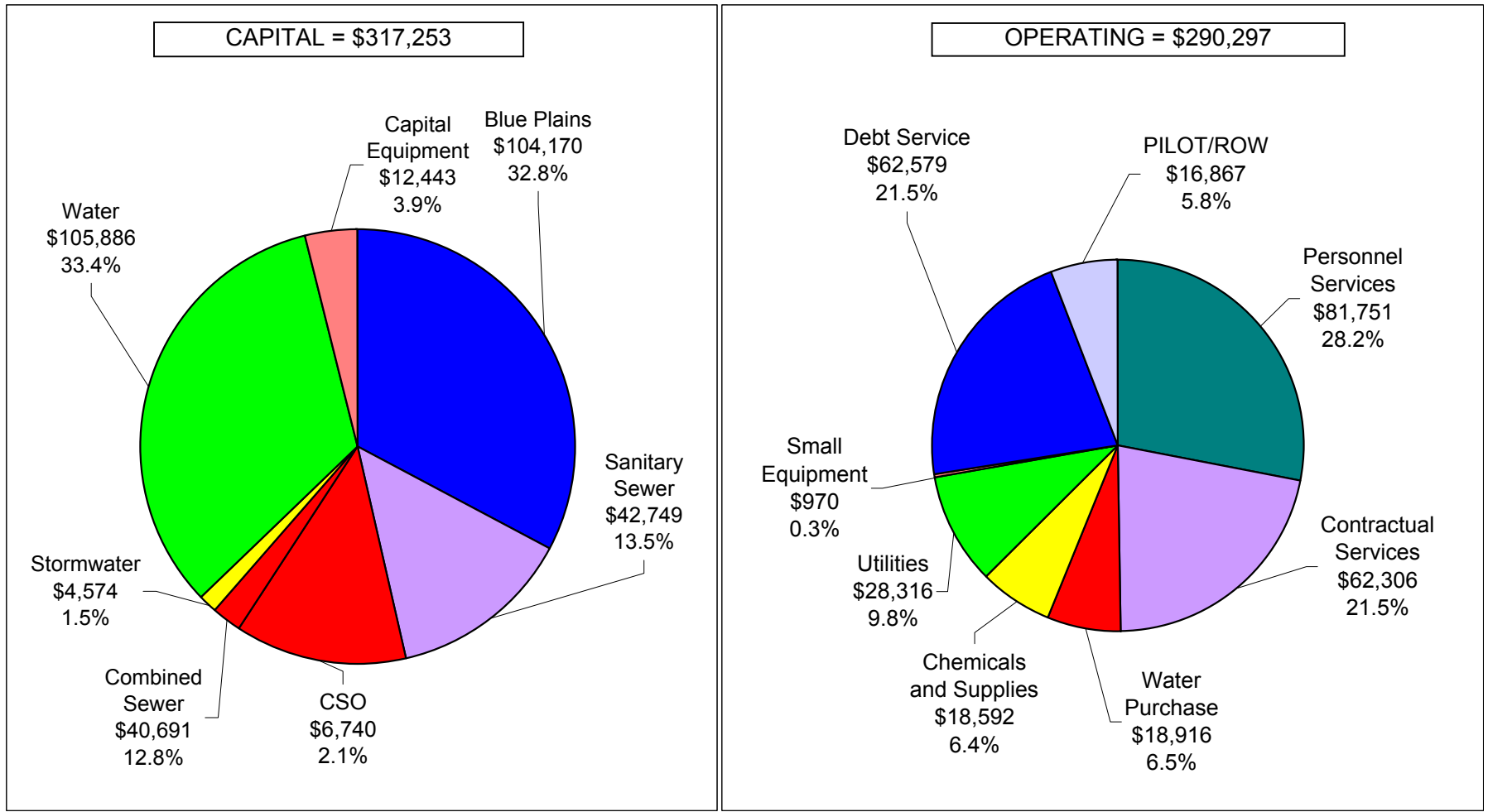


The Ammonia Nitrogen (NH3-N) is a measure of the nitrogen found in ammonia.

Operating and Capital Expenditures FY 2003 - FY 2006 (\$000's)



FY 2006 Proposed Budget (\$000's)



Comparative Expenditures
(\$000's)

	<u>FY 2004 REVISED</u>	<u>FY 2005 APPROVED</u>	<u>FY 2005 REVISED</u>	<u>FY 2006 PROPOSED</u>
<u>CAPITAL (Cash Disbursements Basis)</u>				
Blue Plains	123,118	104,291	121,596	104,170
Sanitary Sewer	10,919	22,625	25,181	42,749
Combined Sewer	17,069	16,737	27,424	40,691
Combined Sewer Overflow Long Term Control Plan	924	6,740	730	6,740
Stormwater	4,150	6,760	4,977	4,574
Water	72,745	66,591	99,764	105,886
Capital Equipment	9,343	14,496	13,799	12,443
Total Capital	<u>238,268</u>	<u>238,240</u>	<u>293,471</u>	<u>317,253</u>
<u>OPERATING</u>				
Personnel Services	74,549	79,313	77,113	81,751
Contractual Services	63,241	62,478	61,836	62,306
Water Purchases	18,365	18,365	18,365	18,916
Chemicals and Supplies	18,789	18,874	18,175	18,592
Utilities	21,806	22,376	26,228	28,316
Small Equipment	1,307	1,279	946	970
Lead Program	11,917	-	-	-
Total O&M	<u>209,974</u>	<u>202,684</u>	<u>202,663</u>	<u>210,851</u>
Debt Service	45,055	56,298	56,298	62,579
Payment in Lieu of Taxes/ Right of Way	15,773	16,307	16,307	16,867
Subtotal Operating	<u>270,803</u>	<u>275,289</u>	<u>275,268</u>	<u>290,297</u>
Personnel Services charged to Capital Projects	(8,000)	(8,376)	(9,005)	(9,349)
Total Operating	<u>262,803</u>	<u>266,913</u>	<u>266,263</u>	<u>280,948</u>

CASH FLOW SUMMARY

(\$000's)

	FY 2004 Actual	FY 2005 Approved Budget	FY 2005 Revised Budget	FY 2006 Proposed Budget
OPERATING BUDGET				
Operating Receipts:				
Residential, Commercial & Multi-Family	\$ 145,002	\$ 148,682	\$ 148,841	\$ 156,029
Federal	27,770	27,801	27,337	29,094
Municipal	6,770	7,646	7,131	7,671
D.C. Housing Authority	5,691	6,128	5,962	6,198
Metering Fee	5,074	5,300	5,100	5,300
<i>Subtotal Retail</i>	\$ 190,307	\$ 195,557	\$ 194,371	\$ 204,292
<i>Wholesale</i>	49,950	50,118	50,776	51,284
<i>Other Operating Receipts</i>	27,806	29,481	28,979	31,680
Total Operating Receipts	\$ 268,063	\$ 275,156	\$ 274,126	\$ 287,256
Operating Disbursements				
Personnel Services	\$ 66,496	\$ 70,937	\$ 68,108	\$ 72,402
Contractual Services	55,147	62,478	61,835	62,306
Chemicals & Supplies	16,162	18,874	18,175	18,592
Utilities & Rent	18,901	22,376	26,227	28,315
Water Purchases	19,549	18,365	18,365	18,916
Small Equipment	772	1,279	946	970
Lead	7,398			
<i>Subtotal Operations & Maintenance</i>	\$ 184,425	\$ 194,309	\$ 193,656	\$ 201,501
Payment in Lieu of Taxes / Right of Way Fee	18,216	16,307	16,307	16,867
Debt Service	44,958	56,298	52,666	53,079
Total Operating Disbursements	\$ 247,599	\$ 266,914	\$ 262,629	\$ 271,447
Operating Surplus	\$ 20,464	\$ 8,242	\$ 11,497	\$ 15,809
CAPITAL BUDGET (See Section 6 for more details)				
Sources of Capital Funds	\$ 221,833	\$ 233,549	\$ 283,439	\$ 312,381
Uses of Capital Funds	238,268	238,240	293,471	317,253
Pay-As-You-Go Financing	\$ (16,435)	\$ (4,691)	\$ (10,032)	\$ (4,872)
CASH RESERVES:				
Beginning O&M Reserve Balance (Net of Rate Stabilization Fund)	\$ 118,738	\$ 100,465	\$ 106,408	\$ 96,266
Operating Surplus	20,464	8,242	11,497	15,809
Wholesale Customer Refunds/Payments for Prior Years	(7,275)	-	(4,183)	-
Transfer to Rate Stabilization Fund	(6,000)	-	-	-
Prior Year Right of Way Payment	-	-	-	-
Prior Year Federal Billing Reconciliation	(1,923)	(7,424)	(7,424)	(7,015)
Prepayment of Aqueduct Treasury Loans	(1,161)	-	-	-
Pay-As-You-Go Capital Financing	(16,435)	(4,691)	(10,032)	(4,872)
Ending O&M Reserve Balance (Net of Rate Stabilization Fund)	\$ 106,408	\$ 96,592	\$ 96,266	\$ 100,188
Rate Stabilization Fund	\$ 27,500	\$ 27,500	\$ 27,500	\$ 27,500

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-14, 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, 2004) and a proposed budget for the next fiscal year (e.g., beginning October 1, 2005). 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, 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.

Revised FY 2005 & Proposed FY 2006 Budget Development Calendar

Month	Event
May 2004	<p>Budget Kick Off Meeting</p> <p>Business Planning</p> <ul style="list-style-type: none"> ▪ Update Ten Year Financial Plan ▪ Review FY 2005 Work Plan and Budget Priorities <p>Revised FY 2005 and Proposed FY 2006 Operating Budget and FY 2004 - 2013 Capital Improvement Program (CIP) Submission</p>
May – September 2004	<p>General Manager's Budget Reviews and Budget Decisions</p> <ul style="list-style-type: none"> ▪ Meetings with Finance & Budget Staff ▪ General Manager review of operating and CIP submissions
October 2004	<p>Submit Revised FY 2005 and Proposed FY 2006 Budget to:</p> <ul style="list-style-type: none"> ▪ Finance and Budget Committee ▪ Environmental Quality and Operations Committee ▪ Ten-year financial plan and retail rates review
October – November 2004	<p>Board Committee Review Sessions</p> <ul style="list-style-type: none"> ▪ Capital improvement program review ▪ Departmental operating budget review
December 2004	<p>Retail Rates Committee review of proposed rate and fee changes</p> <p>Board Committee recommendations to Board</p>
January 2005	<p>Board Adoption of Revised FY 2005 and Proposed FY 2006 Budget and CIP</p> <ul style="list-style-type: none"> ▪ Submission to the District of Columbia for inclusion in its budget
June 2005	<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 \$96.3 million in FY 2005.
- **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 2004, WASA’s rate stabilization fund totaled \$27.5 million.

FY 2004 - 2013 FINANCIAL PLAN

Overview

WASA's strong financial performance and its success in achieving and maintaining strong "Aa / AA" category bond rating 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 2004, WASA met or exceeded the goals set by Board policy and the FY 2003 - 2012 ten-year plan. This budget includes WASA's eighth comprehensive ten-year financial plan, covering FY 2004 – 2013.

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 2004 - 2013 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.

Financing and Reserve Policies

In FY 2004, the Board completed a review of its existing financing policies, reaffirming the core policies. Two modifications were made to the reserves policy, both in accordance with WASA's master trust indenture: 1) Changing the timing of when WASA is required to meet its overall operations and maintenance reserve requirement from September 1 to an average daily balance basis, resulting in a more conservative calculation that also more realistically reflects WASA's annual reserve levels; and 2) revising the indenture-required renewal and replacement reserve requirement from two percent of original plant in service to \$35 million, with a requirement to revisit this reserve level every five years in conjunction with the indenture-required system assessment prepared by WASA's independent rate consultants. These changes were reviewed and endorsed by WASA's bond counsel, financial advisors, and rate consultants.

WASA's financing policies are as follows:

1. WASA will maintain financial practices and policies that result in high quality investment grade bond ratings so as to ensure the lowest practical cost of debt necessary to finance WASA's long-term capital program.
2. WASA will maintain strong levels of operating cash reserves, equivalent to approximately six months' of budgeted operations and maintenance costs, calculated on an average daily balance basis. The annual reserve amount will be formally approved by the Board as part of its annual approval of the operating and capital budgets. The operating reserve will, at a minimum, include any reserve requirements contained in WASA's Master Indenture of Trust, excluding any debt service reserve funds and the rate stabilization fund, as follows:
 - *Operating Reserve* – equivalent to sixty days' operating costs
 - *Renewal & Replacement Reserve* - \$35 million. This reserve requirement will be evaluated every five years by WASA's independent rate consultant in conjunction with the Indenture-required system assessment.
 - *District of Columbia General Obligation Debt Reserve* – equivalent to ten percent of WASA's share of subsequent year's District general obligation bond debt service
3. WASA will maintain senior debt service coverage of 140 percent, in excess of WASA's Indenture requirement of 120 percent. Senior debt service coverage will be calculated in accordance with WASA's Indenture.
4. In general, WASA will utilize operating cash in excess of the Board's reserve requirement and any other significant one-time cash infusions for capital financing or for repayment of higher cost debt.
5. 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.
6. WASA will attempt to match the period of debt repayment, in total, with the lives of the assets financed by any such debt.

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 2004 was \$27.5 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

Major Accomplishments

The FY 2003 - 2012 financial plan and Board policy set out several financial and organizational goals to be accomplished in FY 2004. *During FY 2004, WASA met or exceeded the financial goals set out by the Board and the FY 2003 - 2012 financial plan*, as summarized below. A significant organizational focus in FY 2004 was lead-related activities and issues, which culminated in the Board's adoption of a \$300 million capital program to replace the publicly-owned portion of all lead service lines in the District. As described in more detail below, WASA's financial performance remained strong in FY 2004, with senior debt service coverage, reserve levels, and budget performance all meeting or surpassing Board policies in spite of the addition of approximately \$11 million in unbudgeted operating costs for the lead program.

- ★ 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 2004 is projected at 460 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 subordinated lien revenue bonds, WASA's share of District of Columbia general obligation debt, Little Seneca Reservoir debt, and Jennings Randolph Reservoir debt) in FY 2004 is projected at 178 percent. WASA is required to have 100 percent coverage of subordinate debt service.

- ★ **WASA contributed an additional \$6.0 million to the rate stabilization fund in FY 2004**, raising the balance in this fund to \$27.5 million.
- ★ WASA Board policy calls for cash reserves equivalent to 180 days' operating and maintenance expenses, or approximately \$95.5 million in FY 2004. **WASA consistently met this goal during FY 2004, with an average daily balance during the year of \$111 million, \$15.5 million greater than the Board's policy.** This year's plan provides for an increase in this reserve to \$96.3 million in FY 2005, in line with the revised FY 2005 operations and maintenance budget.
- ★ **WASA continued its strong operating budget performance in FY 2004.** Operating cash receipts surpassed budget by \$6.5 million, or 2.4 percent; operating expenditures are projected to exceed the original U.S. Congressionally-approved budget by approximately \$2-4 million, or less than two percent. By reducing other discretionary operating expenditures, WASA was able to absorb a significant portion of approximately \$11 million in unbudgeted operating costs for the lead program.
- ★ WASA successfully entered the variable rate debt market in August 2004 with the sale of \$295 million of subordinated lien revenue bonds, issued as auction rate securities. Through the end of September, the simple average interest rate was 1.31 percent, significantly less than fixed rate debt.
- ★ Overtime spending was reduced from a high of \$8.7 million in FY 1997 to \$4.3 million in FY 2004, or 5.9 percent of payroll. This reduction continues a seven-year trend of significant reductions in overtime costs, from a rate of 23 percent of payroll in the months before WASA was formed.
- ★ WASA developed a revised FY 2005 operations and maintenance budget that is in line with the originally proposed budget by management in spite of anticipated increases in power costs.
- ★ WASA implemented a water and sewer rate increase of 2.5 percent in FY 2004. In addition, the Board approved a retail rate increase of 5.0 percent effective October 1, 2004.
- ★ For the second consecutive year, WASA met its annual capital spending target, disbursing in excess of \$238 million on capital projects in FY 2004.

- ★ For the third consecutive year, WASA received the Government Finance Officers' Award for Distinguished Budget Presentation for its FY 2005 budget submission. WASA also received its seventh unqualified audit opinion for the fiscal year ended September 30, 2003 as well as GFOA's Certificate of Achievement for Excellence in Financial Reporting.
- ★ In FY 2004, we successfully renewed all of our insurance policies at approximately the same cost as FY 2003. We were able to maintain or expand coverage levels for all policies with two significant exceptions: 1) liability coverage for lead-related issues – As a result of the lead class action lawsuit that was filed in FY 2004, coverage of lead issues was removed for all claims alleging damages incurred after April 2004 under our two general liability policies and our public officials liability policy; and 2) *flood coverage* – In FY 2004, WASA's property insurance carrier performed a comprehensive facilities review, including flood exposures. Because several major WASA facilities, including Blue Plains, O Street, 12th and Maine, the 14th St. Bridge, and the Potomac and Upper Anacostia pumping stations, are not protected to the 500 year flood level, the insurer reduced flood protection to only provide a total of \$10 million per year of coverage for all six facilities combined. (Locations not in high hazard areas will continue to be insured to the \$100 million limit.)
- ★ 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 2006, we will have eliminated 139 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. In FY 2005, WASA will complete an update of the Blue Plains IIP, taking into account progress under the CIP and management changes to date, and the results of this analysis will be factored into next year's ten-year plan.
- ★ 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. WASA is nearing completion of this project, with approximately 115,000 new meters, or 94 percent of all meters, installed as of September 2004. The remaining meters to be installed are commercial meters, which WASA currently expects will be largely complete in FY 2005. WASA now bills 50 percent of revenue through AMR. 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.

- Improved billing and payment options. In conjunction with AMR implementation, WASA has converted all accounts to monthly billing in FY 2004, a significant accomplishment. WASA has introduced enhancements to its electronic payment options of on-line, telephone, and credit / debit card payments, resulting in approximately 11 percent of total payments being made via one of these options. WASA also introduced other billing options that are industry-leading in the water industry, including budget billing and a bill “round-up” option so that customers can donate to WASA’s customer assistance program.
- Improved collections efforts, which have resulted in a reduction of delinquent accounts receivable over 90 days from \$25.1 million in September 2002 to \$16.3 million in September 2004.
- Began operation of a new consolidated dispatching and command center, which provided customers with a single point of contact for all billing and water and sewer service needs.

Future Goals

The proposed FY 2004 - 2013 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.
- ★ Continue implementation of the Board-approved \$300 million lead service line replacement program with completion scheduled for FY 2010.
- ★ Continue implementation of the ten-year \$1.98 billion capital improvement program.
- ★ Begin initial implementation of the proposed CSO Long-Term Control Plan upon settlement of the associated litigation.
- ★ Continue implementation of internal improvement plan across WASA, including Blue Plains, Customer Service, and the Departments of Water and Sewer Services to ensure long-term operating cost reduction goals are met. In FY 2005, WASA will complete a comprehensive review of the status of our IIP for Blue Plains’ operations to ensure we can meet our ten-year plan commitments as the various capital projects and management changes are implemented.
- ★ Continue implementation of major improvements in customer service, including:
 - Complete AMR / meter replacement program.

- Implement other industry-leading billing and customer service options, including automatic notification of high usage patterns; summary billing for customers with multiple accounts; and other enhancements.
- ★ 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.

Rates

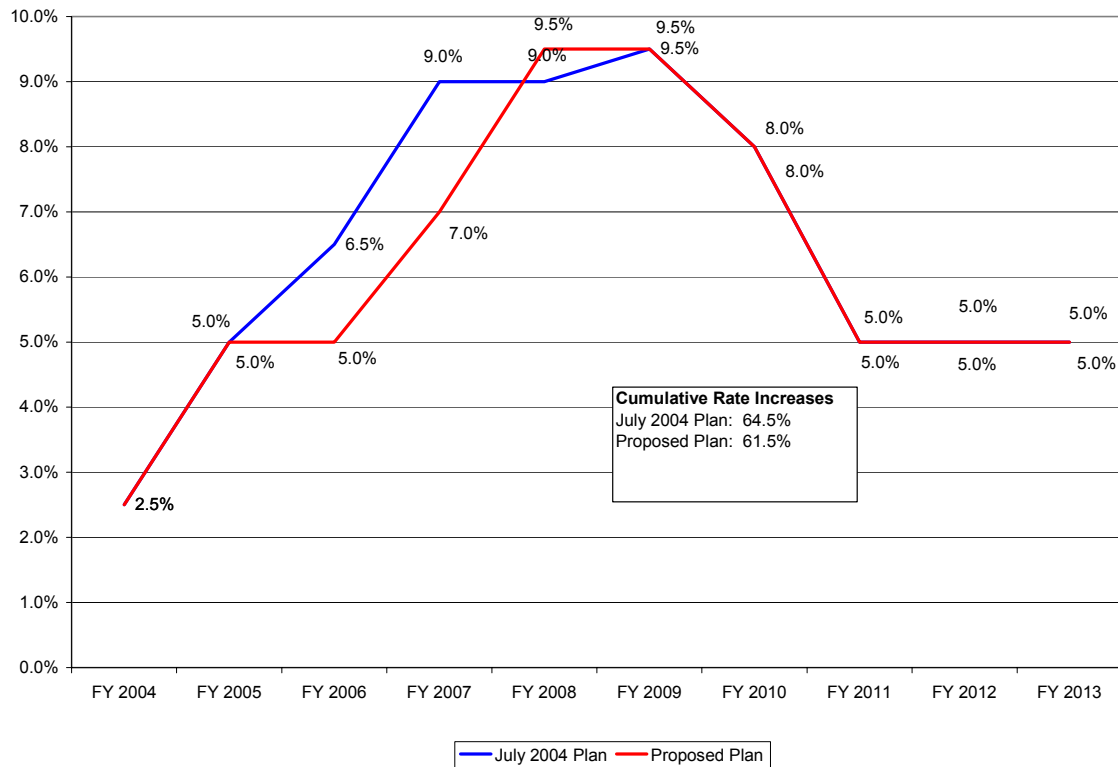
The proposed rate increases included in the FY 2004 – 2013 financial plan are driven by the following significant initiatives WASA has undertaken:

- *Continued implementation of WASA's \$1.98 billion capital improvement program*, which reflects an increase of approximately \$200 million over last year's ten-year plan due to the addition of the Board-approved \$300 million lead service line replacement program and increased digester costs, offset by reductions in other projects to mitigate the impact on retail rates.
- *Internal improvement programs* – These plans, currently being implemented at Blue Plains and the Departments of Water and Sewer Services, are projected to result in operating savings, in part due to capital improvements and in part due to management and operational changes. The largest of these plans is at Blue Plains and was originally adopted in 2000. In FY 2005, WASA will complete an update of the Blue Plains IIP, taking into account progress under the CIP and management changes to date, and the results of this analysis will be factored into next year's ten-year plan.
- The early years of WASA's *proposed CSO Long-Term Control Plan*, assuming a 40-year implementation schedule.

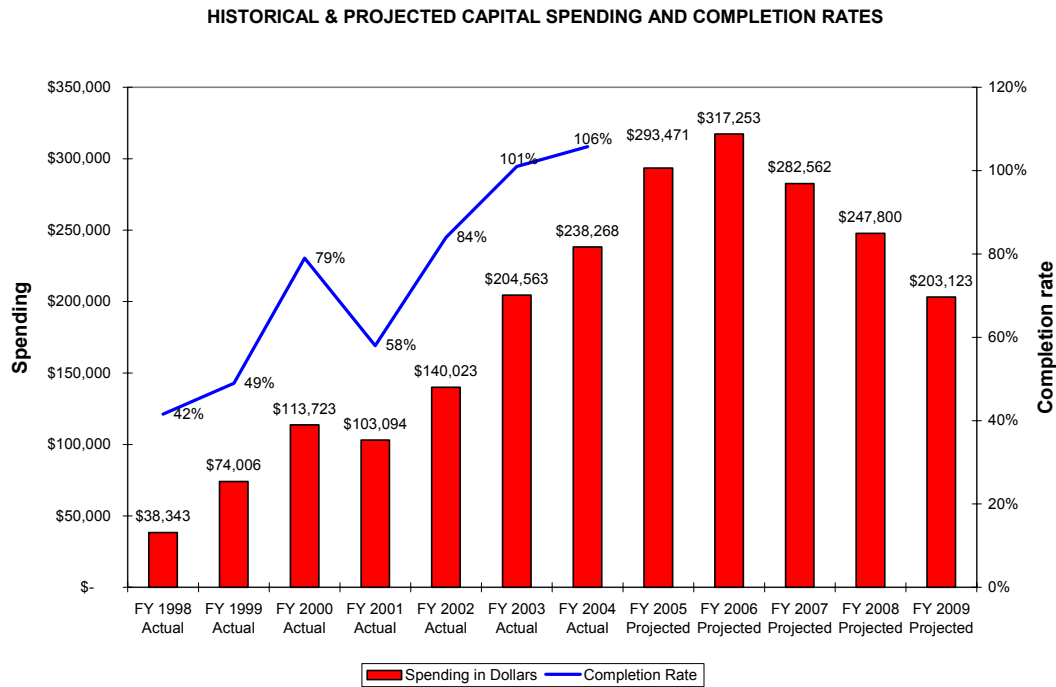
- *Meter replacement / AMR program* – The ten year plan reflects a six percent increase in residential and small commercial billed consumption, and a ten percent increase in large commercial billed consumption (three inches or greater) spread across FY 2005 and FY 2006.

Due to these ongoing and new initiatives, from FY 2004 – FY 2013, WASA’s water and sewer rates are projected to increase by 5.0 percent to 9.5 percent annually, with cumulative rate increases of 61.5 percent, as shown in the chart below. The capital program continues to be the driver of projected rate increases, with a peak in rate increases in FY 2007 – FY 2010 at the height of projected lead program spending. Debt service for the CIP is projected to increase on average by 11.6 percent per year, while operations and maintenance expenditures are only projected to increase by 2.1 percent due to IIP implementation.

**Projected Retail Rate Increases
FY 2004 – FY 2013**



In the first five years of WASA’s existence, capital improvement program spending lagged behind targeted levels as WASA built the management infrastructure to satisfactorily manage the program. This allowed the Board to adopt rate increases of approximately 2.5 percent annually, less than initial projections of five to six percent annually. As shown in the chart below, capital spending has accelerated over the past two years, 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 and WASA proceeds with the lead program.



This year’s plan also ensures compliance with key Board financial policies; projected senior debt service coverage ranges from 188 percent (FY 2013) to 462 percent (FY 2005), above the policy requirement of 140 percent. In addition, cash reserves are maintained at six months’ operations and maintenance expenses, growing from \$96.3 million in FY 2005 to \$114.9 million in FY 2013.

Proposed FY 2006 Rate & Fee Changes

Because of the significant historical and projected increases in capital spending and to ensure compliance with the Board's policy of gradual and predictable rate increases, a five percent increase in retail rates is proposed for FY 2006. In addition to the retail rate change, WASA will also be analyzing its existing metering, right of way / PILOT, and private lead service line replacement fees, analyzing whether associated costs for each item are being over or under-recovered. As noted below, no revenue increases have been assumed pending the results of this analysis.

Rate Comparisons to Other Utilities

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 in the charts in Section IV, WASA's current monthly residential bill including the District's stormwater rate and the PILOT / right of way fee rates is \$3.72, or approximately 8 percent, less than the average of other utilities in WASA's benchmark group. Without stormwater and the PILOT / right of way, WASA's average monthly residential bill is \$7.29, or 15 percent less. The proposed future rate increases over the ten-year planning period are also consistent with those being contemplated by 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 (the S.P.L.A.S.H. program); and a component funded by WASA and based on a bill credit for 400 cubic feet of water consumption per month (the Customer Assistance Program, or "CAP"). In 2004, the Board approved expanding the CAP program to single family tenants that meet certain federal income guidelines; previously, the program was limited to homeowners. The ten-year plan assumes a total impact of \$500,000 annually for the expanded program, or 0.2 percent of projected FY 2005 revenues.

Rate Stabilization Fund

This year's plan reflects continued funding of the rate stabilization fund, including a contribution of \$6.0 million in FY 2004 as a result of stronger than budgeted financial performance. The total balance in the fund is currently \$27.5 million. The fund is projected to be fully utilized in FY 2007 through FY 2009 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 will be made unless the Board's six month operating and maintenance reserve policy and all other bond indenture requirements are met.

Combined Sewer Overflow Long-Term Control Plan

Proposed rate increases over the next ten years reflect the implementation of the early years of the proposed CSO Long-Term Control Plan (LTCP), assuming a forty-year implementation schedule, consistent with prior years' Board approved ten-year capital and financial plans. As of the date of this document, WASA remains in litigation with the EPA and U.S. Department of Justice on the LTCP, with particular focus on the length of the implementation schedule. However, in the weeks prior to publication of this document, WASA has reopened settlement negotiations with the federal government. As part of these negotiations, WASA is discussing shorter implementation schedules, which will result in accelerated and higher rate increases than under the proposed plan. Plans ranging from 15 to 25 years in length will require additional funding of \$337 million to \$1.0 billion from our customers or other sources vs. funding required under a forty year implementation schedule.

The projected impact on customers' wastewater bills of more rapid implementation schedules is significant: under a forty year schedule, the typical residential customer's annual wastewater bill increases from \$310 today to \$505 in FY 2013, a 63 percent increase. Under an aggressive twenty-year schedule, the typical residential customer's annual bill increases to \$600 in FY 2013, a 93 percent increase. The proposed ten-year plan and these rate analyses assume no external funding beyond the special Congressional appropriations WASA has already received and that are under consideration for FY 2005, totaling approximately \$90 million; if additional federal funding is secured, the impact on ratepayers will be less.

Additionally, it is important to note that the projected CSO LTCP rate increases discussed above are based on WASA's current rate structure. WASA completed an evaluation of various rate structures for recovery of CSO costs (including impervious surface area rates and similar structures) that was presented to the Board in spring 2003, and based on feedback received from the Board, WASA will complete a more detailed analysis of certain preferred rate structures and related implementation and customer impact issues, with presentation to the Retail Rates Committee sometime in spring 2005, subject to progress on negotiations and litigation. At the same time, we will also evaluate the District's stormwater rate structure and present this analysis to the Council's Committee on the Environment and Public Works.

Revenues

Revised FY 2005 receipts projections total \$274.1 million, an increase of \$6.1 million over projected FY 2004 revenues:

- *Residential, commercial and multi-family revenues* are projected to increase by approximately \$3.8 million, or 2.6 percent.
- *Federal revenues* are projected to decrease by \$0.4 million, as described below.
- *Wholesale receipts* are projected to increase by \$0.8 million reflecting updated Potomac Interceptor rates and increases in non-District users' share of total flows to Blue Plains over the past two years.

- *Other revenues* are projected to increase by \$1.2 million due primarily to increased interest earnings due to higher cash balances, slightly higher interest rates than experienced in FY 2004, and earnings on the new debt service reserve fund associated with the auction rate securities issued in FY 2004.

Proposed FY 2006 revenues total \$287.3 million, approximately \$13.1 million, or 4.8 percent higher than revised FY 2005 projections. This increase is due primarily to:

- *Proposed water and sewer 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 2005 projections reflect an increase of \$3.8 million, or 2.6 percent, from FY 2004, due primarily to the following reasons.

- Board approved rate increase of 5.0 percent effective October 1, 2004.
- 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.
- One percent decrease in consumption due to projected conservation, in line with historical consumption declines.
- Conservatively assumes no additional increase in cash receipts due to improved collections performance, which has reduced accounts receivable balances by \$5.5 million in FY 2004 alone.
- Continued implementation of the customer assistance program, which reduces projected revenues by approximately \$0.5 million. This accounts for the Board-approved expansion of this program to low income single-family renters.

Proposed FY 2006 revenue projections reflect an increase of \$13.1 million, or 4.8 percent over FY 2005, 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.
- One percent decrease in consumption due to projected conservation.
- Continued implementation of the customer assistance program, which reduces projected revenues by approximately \$0.5 million.

Federal - Revised FY 2005 federal revenues are projected to total \$27.3 million, or \$0.4 million less than than FY 2004. 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 2005 billing was prepared in April 2003), 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 2005 estimated vs. actual consumption and rate increases will be included in the FY 2008 billing, prepared in April 2006.) 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 2005 federal revenues reflect the final billing sent to the federal government in April 2003, net of the adjustment for the prior year (FY 2002) 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 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 not taken any further action in the past two years on their expressed interest 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 due to no further requests from the Pentagon. In FY 2004, revenues from the federally-owned system (including Ronald Reagan National Airport) totaled \$1.7 million, or less than one percent of total retail revenues.

Municipal & D.C. Housing Authority - Representing 6.7 percent of FY 2005 retail receipts (excluding their share of the metering and right of way / PILOT fees), receipts from the District of Columbia government and the District of Columbia Housing Authority are projected at \$12.5 million, an increase of \$0.6 million, or 5.1 percent, reflecting the approved rate increase of 5.0 percent and projected increase in recorded consumption due to AMR for municipal accounts of 3.5 percent in FY 2005. In FY 2006, receipts from these organizations are projected to total \$13.1 million, an increase of \$0.8 million, or 5.9 percent, due to the proposed retail rate

increase of 5.0 percent along with a 3.5 percent increase in recorded consumption for municipal accounts due to the AMR program. These projections reflect the reduction in consumption of approximately 175,000 Ccf, or \$0.8 million, experienced in FY 2004 at St. Elizabeth's due to repairs made to their water tank and other facilities' improvements.

Metering Fee – This fee is projected at \$5.1 million in FY 2005, and 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.) As part of this year's budget process, WASA is analyzing whether we are under or over-recovering costs associated with this function, taking into account projected cost increases in the AMR program due to increased ancillary infrastructure repair costs. This analysis will be presented to the Retail Rates Committee in December 2004.

Right of Way / Payment In Lieu of Taxes Pass-Through Fee – Similar to other Washington area utilities, WASA has implemented a 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. As part of this year's budget process, WASA is analyzing whether we are under or over-recovering costs associated with this item. This analysis will be presented to the Retail Rates Committee in December 2004.

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. FY 2005 wholesale revenues are projected at \$50.8 million. Wholesale revenues are projected to increase by approximately one percent annually after FY 2006, 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.) As noted earlier, in FY 2005, WASA will complete an update of the Blue Plains IIP, taking into account progress under the CIP and management changes to date, and the results of this analysis will be factored into next year's ten-year plan. 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.

WASA has separate agreements with each of the Potomac Interceptor users (the Town of Vienna, Metropolitan Washington Airports Authority (MWAA), 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 and periodic rate adjustments to both recover underbillings, if any, and to set new rates based on current costs. In FY 2004, we completed a review of these rates, the first to be done since 1979, resulting in an overall rate increase of 90 percent going forward, and an estimated \$1.8 million in historical underbillings. We have reached agreement with all four entities on implementation of the new rates effective October 1, 2004. Two entities, MWAA and the Town of Vienna, have requested that their consultant have an

opportunity to review our study, and have agreed to finalize the backbilling and the new rate upon completion of their review. It should be noted that National Park Service has made payment in full on the backbilling, and that MWAA has made a \$250,000 initial payment on the backbilling.

Stormwater – WASA’s FY 2005 revenues include \$1.125 million from the District’s stormwater rate that will be used to fund WASA’s share of District stormwater permit compliance activities. The stormwater rate was implemented in July 2001, and appears as a separate line item on WASA’s retail customers’ bills. In FY 2004, the District received a new stormwater permit that will significantly increase compliance costs for all participating agencies, and accordingly, WASA’s FY 2006 share of stormwater revenues reflect an increase to \$1.8 million. In its role as stormwater administrator, WASA will be completing a review of the District’s existing stormwater rate for presentation to the Council’s Committee on the Environment and Public Works, taking into account the new costs associated with the permit and potential impervious surface-based structures. As described in more detail later in this document, the FY 2004 - 2015 financial plan assumes that all incremental costs borne by WASA for stormwater permit compliance activities will be covered by the stormwater rate approved by City Council, and that no WASA funds will be advanced to pay for these activities.

Howard University & Soldiers’ Home – The District of Columbia entered into agreements with Howard University around 1900, and the Soldiers’ Home in 1929 to provide free water service to these institutions in exchange for use of their property. Prior to WASA’s formation in 1996, the District government also provided sewer service to both Howard University and the Soldiers’ Home, although sewer service was not a part of either agreement. The Board of Directors reviewed the agreements in 1996, and determined that sewer exemptions should be eliminated. As planned, bills for sewer, metering, and right-of-way fees were sent to both Howard University and the Soldiers’ Home. WASA will continue to work with both Howard and the Soldiers’ Home to resolve this billing issue.

Other major assumptions underlying the revenue projections contained in the FY 2004 - 2013 financial plan include:

- 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 2013, a one percent reduction in water sales is assumed for all customer categories, based on historical trends in consumption levels.
- One percent annual increase in revenues from wholesale customers between FY 2006 and 2013, 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 2.25 percent earnings rate in FY 2005 and 3.5 percent in FY 2006 on operating funds. On debt service reserve funds associated with the Series 1998 and Series 2004 bond issues, we have assumed slightly higher interest rates as these generally are invested in investments with longer maturities, although projected earnings are not in excess of the projected arbitrage yield on the bonds. Beyond FY 2006, interest rates are assumed to return to the 5.0 percent range.

- The majority of other non-operating revenues, totaling \$10.7 million in FY 2005, 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 – \$3.0 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 \$1.98 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 11.6 percent, and from 19 percent of expenditures in FY 2005 to 31 percent in FY 2013. All other operations and maintenance expenses are projected to grow at an average annual rate of 2.1 percent after 2006, less than projected inflation, due to implementation of internal improvement plans that are projected to result in operating savings. 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. As noted earlier, in FY 2005, WASA will complete an update of the Blue Plains IIP, taking into account progress under the CIP and management changes to date, and the results of this analysis will be factored into next year's ten-year plan.

The following chart provides detail for the FY 2005 and FY 2006 operating budgets.

COMPARISON OF FY 2005 & FY 2006 OPERATING BUDGETS
(In \$000's)

	FY 2005 APPROVED	FY 2005 REVISED	Percent Change	FY 2006 PROPOSED	Percent Change
Personnel Services	79,313	77,113	-2.8%	81,751	6.0%
Contractual Services	62,478	61,836	-1.0%	62,306	0.8%
Water Purchases	18,365	18,365	0.0%	18,916	3.0%
Chemicals & Supplies	18,874	18,175	-3.7%	18,592	2.3%
Utilities	22,376	26,227	17.2%	28,315	8.0%
Small Equipment	1,279	946	-26.0%	970	2.5%
Subtotal Operations & Maintenance	202,685	202,662	0.0%	210,850	4.0%
Debt Service	56,298	56,298	0.0%	62,579	11.2%
PILOT / Right of Way Fee	16,307	16,307	0.0%	16,867	3.4%
Subtotal Debt Service & PILOT / ROW	72,605	72,605	0.0%	79,446	9.4%
TOTAL OPERATING	275,290	275,267	0.0%	290,296	5.5%
Less Personnel Services Charged to Capital Projects	(8,376)	(9,005)	7.5%	(9,349)	3.8%
TOTAL NET OPERATING	266,914	266,262	-0.2%	280,947	5.5%

The revised FY 2005 budget totals \$275.3 million, the same level as the approved FY 2005 budget, as described in more detail below. WASA has held operations and maintenance costs to original approved levels despite significant projected increases in power by reducing discretionary spending in other areas.

- **Personnel service expenditures** are \$2.2 million, or 2.8 percent less than the approved FY 2005 budget. This decrease is primarily due to more realistic vacancy rates based on historical filled position levels that have declined significantly over the last four years. These budgeted savings are slightly offset by projected 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. 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 2005 and FY 2006 as the capital program progresses and based on prior years' experience (projected personnel services to be charged to capital projects in FY 2004 is projected at \$7.1 million). In addition, new positions that are being added to WASA for lead program management will also be charged to capital.
- **Contractual service expenditures** decrease by \$0.6 million, or 1.0 percent, reflecting the following:

- Reductions of \$1.3 million in various contractual services, including \$0.6 million in outside legal service due to addition of in-house counsel; \$0.2 million in Wastewater Treatment due to implementation of a new capital project for biosolids dewatering; and other miscellaneous reductions in Engineering, Public Affairs, and Information Technology. Projected biosolids costs were also reduced in line with historical hauling levels.
- Offsetting increases in workers' compensation and tort claim reserves based on historical experience totaling \$0.7 million.
- Increases in certain departmental contractual service budgets, including increased customer service spending of \$0.3 million for additional customer information system support, mailing costs, and translation-related services; increased one-time human resources consulting services of \$0.3 million; and other miscellaneous increases in Facilities and Maintenance Services.
- **Chemicals and supplies expenditures** decrease by \$0.7 million in FY 2005, based on historical levels of chemical usage at Blue Plains.
- **Utilities expenditures** increase by \$3.8 million, or 17 percent. In February 2005, Pepco's cap on electricity generation charges will be lifted, exposing WASA to significant rate increases. WASA is pursuing multiple avenues to address this issue, including pursuing joint procurement with other District agencies as well as the issuance of a stand-alone RFP for power services. As of this date, we expect to enter into a one-year or shorter purchase agreement prior to the February 2005 expiration.

In FY 2004, WASA faced significant additional operating costs related to the lead program, totaling approximately \$11 million, including extensive water sampling, water filter distribution, command center staffing, and legal and public relations costs. Most of these costs were covered with savings in other areas of the operating budget. In FY 2005 and beyond, the majority of these costs have been substantially reduced or eliminated, and the remaining ongoing costs (primarily filters) have been included in the capital program for lead as they are in direct support of the replacement program.

The proposed FY 2006 budget totals \$290.3 million, a 5.5 percent increase over the revised FY 2005 budget, primarily due to increased debt service for the capital program. The FY 2006 operations and maintenance budget (net of debt service, the payment in lieu of taxes, and the right of way fee) increases by 4.0 percent, with the increase due primarily to projected compensation increases and the full year impact of deregulation on projected electricity costs. 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 2006 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 memorandum of understanding with the District.

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

The FY 2004 - 2013 financial plan funds total capital disbursements of \$1.98 billion, a \$200 million increase above last year's plan due primarily to the addition of the lead service line replacement program. 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:

- *Utilize available pay-as-you-go financing to pay down higher cost, taxable U.S. Treasury notes for the Washington Aqueduct*
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. At the end of FY 2004, WASA had prepaid all outstanding Treasury notes, totaling \$59 million.
- *Establish an interim financing program to finance construction* – 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. We expect that remaining Series 2004 proceeds will not be fully spent until the first quarter of FY 2006, when we will begin again utilizing our commercial paper program.
- *Issue permanent financing every twelve to 24 months to take out interim financing proceeds.*

Additional details on each financing source are described below.

	FY2004 - 2013 PLAN TOTAL	Percent of Total
EPA Grants	\$ 326,927,691	16.5%
Wholesale Capital Payments	461,651,442	23.3%
Revenue Bonds / Commercial Paper	1,027,736,775	51.8%
Pay-Go Financing	156,476,234	7.9%
Interest Income on Bond Proceeds	10,458,410	0.5%
TOTAL SOURCES	\$ 1,983,250,552	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 \$80 million in Congressional appropriations for the proposed CSO LTCP and expects to receive another \$10 million in FY 2005.

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 52 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 50 percent through FY 2013, 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 8 percent of total funding for the FY 2004 - 2013 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 2005 & 2006 Debt Issuance Plans & Debt Service Assumptions

WASA successfully issued \$295 million of subordinate lien revenue bonds in August 2004. These bonds were issued as auction rate securities which carry short-term variable rates. Through the end of September, the simple average interest rate was 1.31 percent, significantly less than fixed rate debt. As noted above, based on current capital spending projections, WASA projects that Series 2004 proceeds will last through the first quarter of FY 2006, after which the commercial paper program will be utilized. We expect that the next permanent financing, which we anticipate issuing as senior lien, fixed rate revenue bonds, will be issued in summer 2006.

Our interest rate assumption on new bond issues in FY 2006 and beyond is 6.5 percent, in line with historical interest rate trends although substantially higher than current market conditions. On variable rate debt (i.e., the Series 2004 auction rate securities and commercial paper), the ten year plan assumes interest rates of four percent through the life of the plan, plus ongoing fiscal charges for broker-dealers, ratings, etc. This assumption is based on average short-term rates since 1981. For appropriations purposes, we have assumed higher interest rates on variable rate debt than in the ten-year plan in order to provide us with sufficient flexibility to address short-term peaks in interest rates, if required, without going through the Congressional approval process, which can be lengthy.

Cash Position & Reserves

Cash balances totaled \$208.2 million at the end of FY 2004. As described below, this includes \$27.5 million for rate stabilization and \$74.3 million for the special Congressional appropriation WASA received in FY 2003 & FY 2004 for the proposed CSO LTCP, net of reimbursements to date. 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 \$96.3 million in FY 2005 and growing to approximately \$114.9 million in FY 2012, based on projected growth in operations and maintenance expenses.

In FY 2004, the Board completed a review of its existing financing policies, reaffirming the core policies. Two modifications were made to the reserves policy: 1) Changing the timing of when WASA is required to meet its overall operations and maintenance reserve requirement from September 1 to an average daily balance basis, resulting in a more conservative calculation; and 2) revising the indenture-required renewal and replacement reserve requirement from two percent of original plant in service to \$35 million, with a requirement to revisit this reserve level every five years in conjunction with the indenture-required system assessment prepared by WASA's independent rate consultants. These changes were reviewed by WASA's bond counsel, financial advisors, and rate consultants.

WASA's base six month operating reserve includes the following components:

PROJECTED FY 2005 YEAR-END CASH RESERVES (1)
(In 000's)

BOARD-ADOPTED OPERATING RESERVE (180 Days O&M)	
60 Day Operating Reserve (Indenture-Required)	\$ 32,089
Renewal & Replacement Reserve (Indenture-Required)	35,000
District of Columbia General Obligation Reserve	850
Undesignated Reserve	28,324
TOTAL OPERATING RESERVE	\$ 96,263
Reserve for Rate Stabilization Fund	27,500
TOTAL OTHER RESERVES	\$ 27,500
TOTAL CASH RESERVES	\$ 123,763

(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' operations and maintenance expenses, or approximately \$32.1 million in FY 2005.
- *Renewal & Replacement Reserve* - This reserve is funded at \$35.0 million based on the revisions approved by the Board to the financing policies in 2004. As noted above, the level of this reserve will be reviewed every five years by WASA's independent rate consultants in conjunction with the indenture-required assessment of the physical condition of the system.
- *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 \$0.9 million in September 2005.
- *Undesignated Reserve* - After allocating portions of the 180 day operating and maintenance reserve to the reserves listed above, the amount that remains (approximately \$28.3 million projected for FY 2005) 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 2007, the balance in this fund totaled \$27.5 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.
- *Debt Service Reserve Funds* - The supplemental bond indenture associated with each bond issue require WASA to maintain a debt service reserve fund for its Series 1998 senior lien bonds and its Series 2003 and Series 2003 and 2004 subordinated lien revenue bonds. The Series 1998 and Series 2004 reserves were funded with bond proceeds; the Series 2003 reserve was funded through the purchase of a surety bond. 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. 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. As of the date of this document, WASA remains in litigation with the EPA and U.S. Department of Justice on the LTCP, with particular focus on the length of the implementation schedule. However, in the weeks prior to publication of this document, WASA has reopened settlement negotiations with the federal government. As part of these negotiations, WASA is discussing shorter implementation schedules, which will result in accelerated and higher rate increases than under the proposed plan. Plans ranging from 15 to 25 years in length will require additional funding from our customers or other sources of \$337 million to \$1.0 billion vs. funding required under a forty year implementation schedule.

Stormwater – WASA has completed its fourth 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 permit, and the stormwater task force is currently analyzing it to determine financial and operating impacts. The FY 2004 - 2013 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.

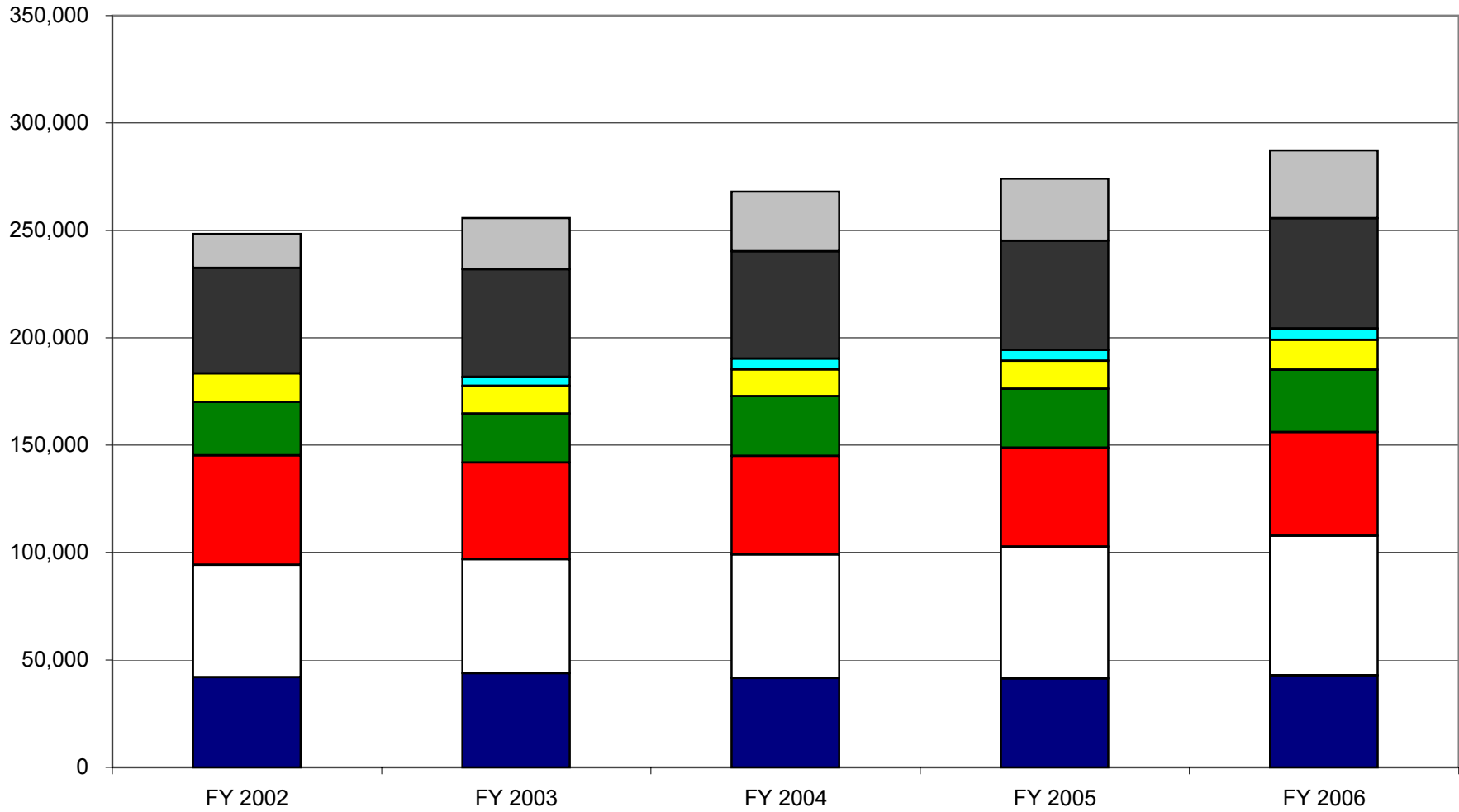
Other Issues – WASA faces a number of other regulatory issues that could result in significant new capital and operating costs, such as additional nutrient removal requirements as part of the Chesapeake Bay Program. These issues, which are described in more detail in Section 1 of this document, will 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, producing continuing reductions in WASA’s cost of capital which will be passed on to WASA’s customers.

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



■ Residential
 □ Commercial
 ■ Multi-family
 ■ Federal Government
 ■ Municipal & Housing
 ■ Metering Fee
 ■ Wholesale
 ■ Other Revenues

Historical and Projected Operating Cash Receipts

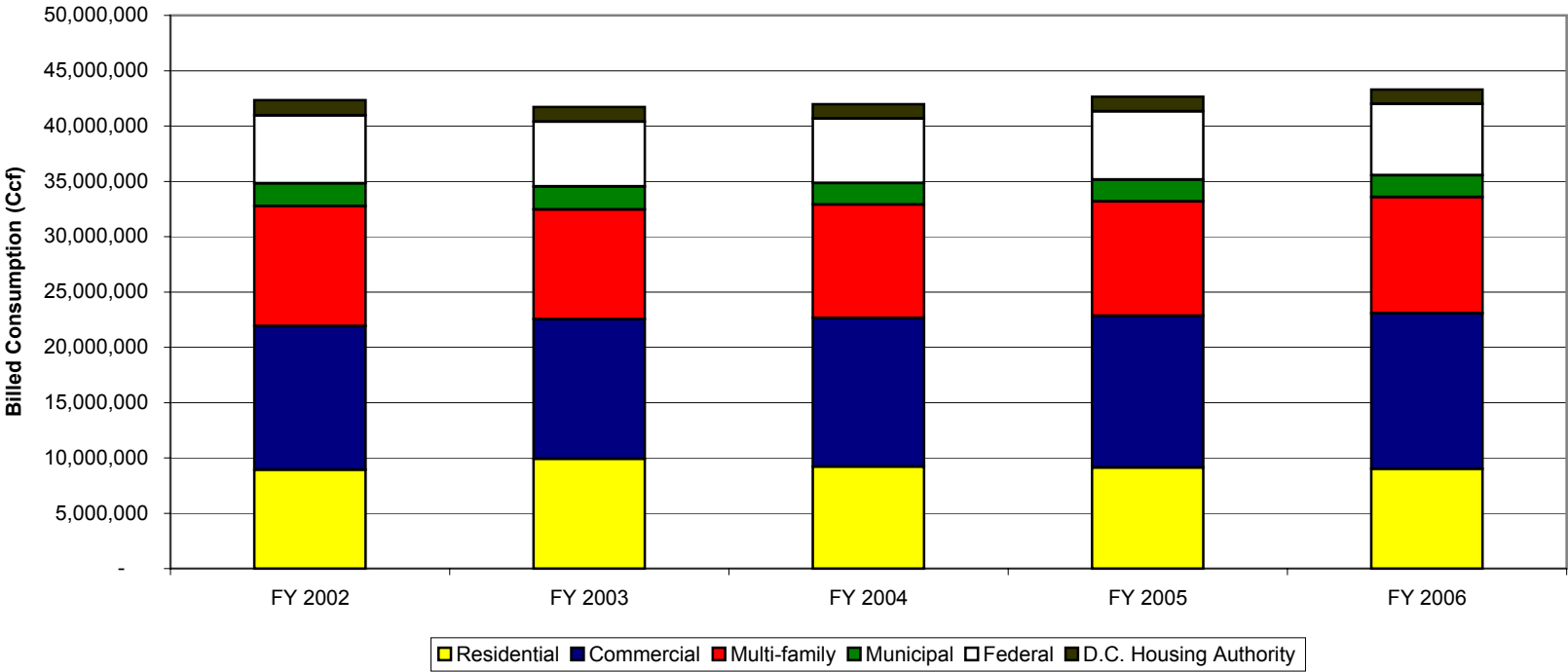
(\$ 000's)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
	Actual	Actual	Actual	Proposed	Proposed
Residential	41,917	43,842	41,633	41,341	42,857
Commercial	52,362	53,065	57,429	61,388	65,010
Multi-family	50,986	44,978	45,940	46,112	48,162
Federal Government (1)	24,788	22,777	27,770	27,337	29,094
District Government	7,063	7,208	6,770	7,131	7,672
D.C. Housing Authority	6,241	5,705	5,691	5,962	6,198
Metering Fee	-	4,240	5,074	5,100	5,300
Total Retail	<u>183,358</u>	<u>181,815</u>	<u>190,307</u>	<u>194,371</u>	<u>204,292</u>
IMA Wastewater Charges	45,590	46,289	45,512	46,695	47,162
Potomac Interceptor Wastewater Charges	3,479	3,761	4,438	4,081	4,122
Total Wholesale	<u>49,068</u>	<u>50,050</u>	<u>49,950</u>	<u>50,776</u>	<u>51,284</u>
District Stormwater Revenue (2)	394	840	633	1,125	1,800
Misc. Rev. (e.g. water tap installation, fire hydrant usage, etc.)	9,215	8,508	9,330	7,824	7,824
Washington Aqueduct Debt Service Revenue for Falls Church & Arlington	1,977	1,908	1,831	1,795	1,563
Interest Income (including interest on Bond Debt Service Reserve Fund)	4,373	2,776	1,930	3,837	6,093
Right of Way / PILOT Fee	-	9,866	14,082	14,400	14,400
Total Other	<u>15,960</u>	<u>23,898</u>	<u>27,807</u>	<u>28,981</u>	<u>31,680</u>
Total Operating Cash Receipts	<u><u>248,386</u></u>	<u><u>255,763</u></u>	<u><u>268,064</u></u>	<u><u>274,128</u></u>	<u><u>287,257</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 3 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)



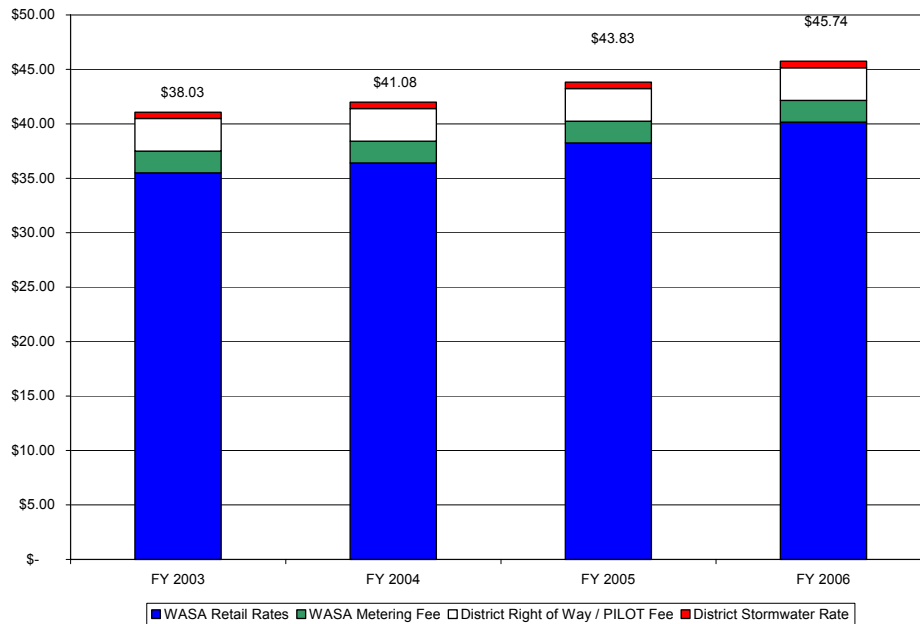
Historical and Projected Billed Consumption (Ccf)

	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Projected	FY 2006 Projected
Residential	8,710,801	8,927,739	9,923,906	9,209,899	9,118,000	9,027,000
Commercial (1)	13,174,786	12,987,578	12,617,502	13,431,527	13,720,000	14,051,000
Multi-family	11,254,723	10,846,297	9,902,788	10,262,286	10,357,000	10,505,000
Municipal (2)	2,002,108	2,062,721	2,079,107	1,928,743	1,947,000	1,980,000
Federal	6,161,145	6,128,184	5,861,776	5,834,218	6,195,000	6,440,000
D.C. Housing Authority	<u>1,423,964</u>	<u>1,386,339</u>	<u>1,328,779</u>	<u>1,311,775</u>	<u>1,299,000</u>	<u>1,286,000</u>
	42,727,527	42,338,858	41,713,858	41,978,448	42,636,000	43,289,000

- (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 2003 – FY 2006



FY 2004 RATE CHANGES

Effective October 1, 2003, the Board increased water and sewer rates, raising the typical residential customer's monthly bill by \$0.92, or 2.2 percent. This change increased WASA's overall retail revenues by approximately \$4.2 million.

Expansion of Customer Assistance Program (CAP)

In June 2004, the Board approved an expansion to the CAP program so that income-eligible tenants could qualify for the water discount (previously, only homeowners were eligible.) The average monthly credit under the program is approximately \$7.

FY 2005 RATE CHANGES

Effective October 1, 2004, the Board increased water and sewer rates, raising the typical residential customer's monthly bill by \$1.83, or 4.4 percent. This change is projected to yield approximately \$8.7 million in additional revenue.

PROPOSED FY 2006 RATE & FEE CHANGES

The FY 2006 budget and ten-year plan include the following proposed changes:

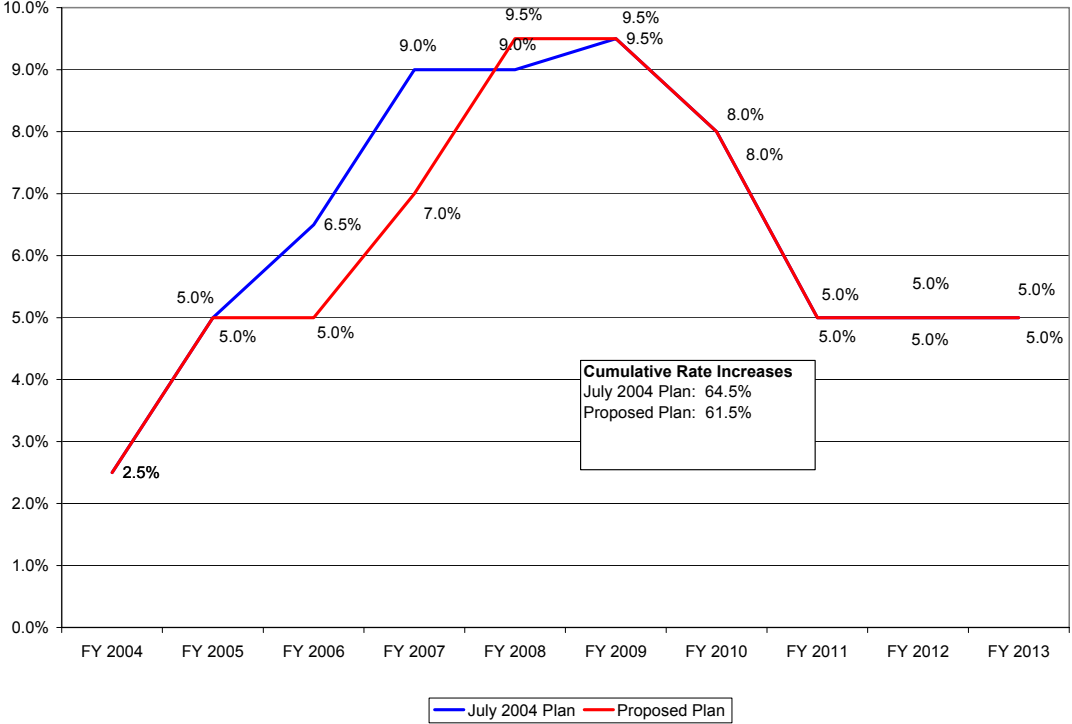
- Water & sewer rate usage increase of 5.0 percent (4.4% increase in total bill)
- Metering, right of way / PILOT & lead service line replacement fee reviews – This review, to be presented to the Retail Rates Committee in December, will analyze whether we are over or under-recovering the full costs associated with these items.

	FY 2003	FY 2004	FY 2005	FY 2006
WASA Retail Rates (1)	\$ 35.49	36.40	38.23	40.15
WASA Metering Fee	2.01	2.01	2.01	2.01
Subtotal WASA Rates & Charges	\$ 37.50	\$ 38.41	\$ 40.24	\$ 42.16
Increase / Decrease	\$ 0.05	\$ 0.92	\$ 1.83	\$ 1.92
District of Columbia Right of Way / PILOT Fee (1)	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00
District of Columbia Stormwater Fee	0.58	0.58	0.58	0.58
Subtotal District of Columbia Charges	\$ 3.58	\$ 3.58	\$ 3.58	\$ 3.58
Total Amount Appearing on WASA Bill	\$ 41.08	\$ 41.99	\$ 43.83	\$ 45.74
Increase / Decrease Over Prior Year	\$ 3.04	\$ 0.92	\$ 1.83	\$ 1.92
Percent Increase in Total Bill		2.2%	4.4%	4.4%

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

FY 2004 – 2013 FINANCIAL PLAN PROJECTED RETAIL RATE & FEE CHANGES

FY 2004 – 2013 Projected Rate Increases



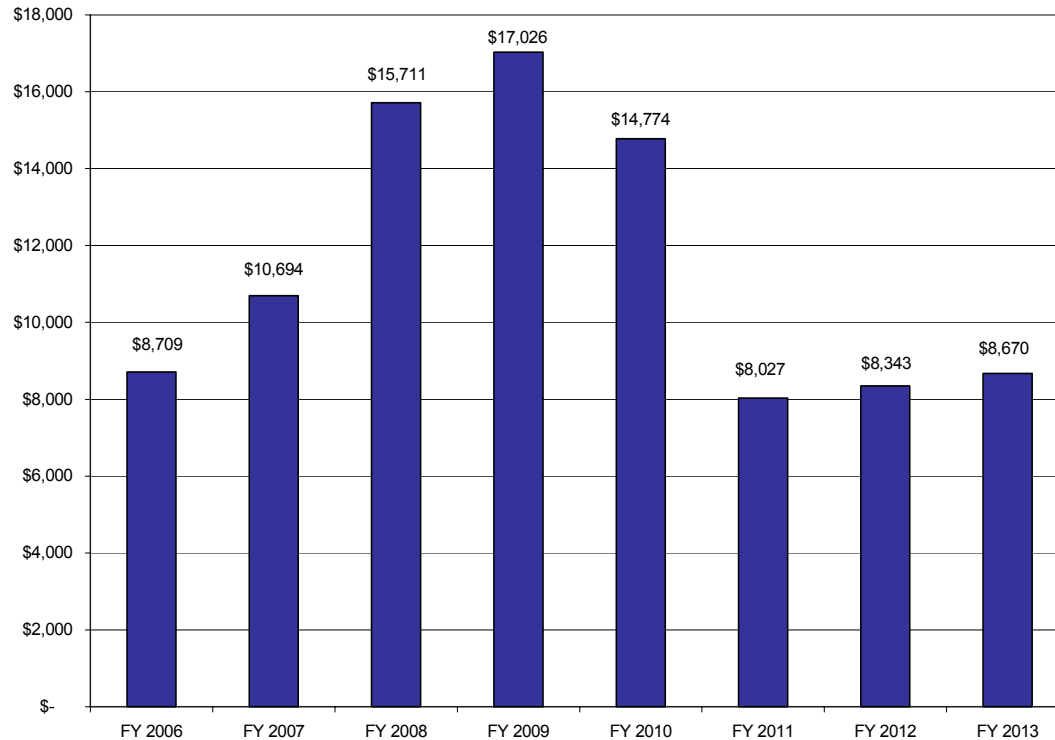
- Projected rate increases under this year’s plan total 61.5 percent.
 - If all projected rate increases are implemented as planned, the average residential customer’s bill will increase from \$43.83 in FY 2005 to \$70.05 in FY 2013

- Projected rate increases are driven almost entirely by WASA’s \$1.98 billion capital improvement program, which reflects the \$300 million increase for the lead service line replacement program, adopted by the Board in July 2004.

- 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), assuming a 40-year implementation schedule. If this program is accelerated without offsetting outside funding, rate increases will be higher than in the proposed ten-year plan.

FY 2004 – 2013 FINANCIAL PLAN PROJECTED RETAIL RATE & FEE CHANGES, cont.

**Incremental Increase In Revenues
Including Early Years of CSO Long-Term Control Plan
FY 2005 – FY 2013
(In \$000's)**



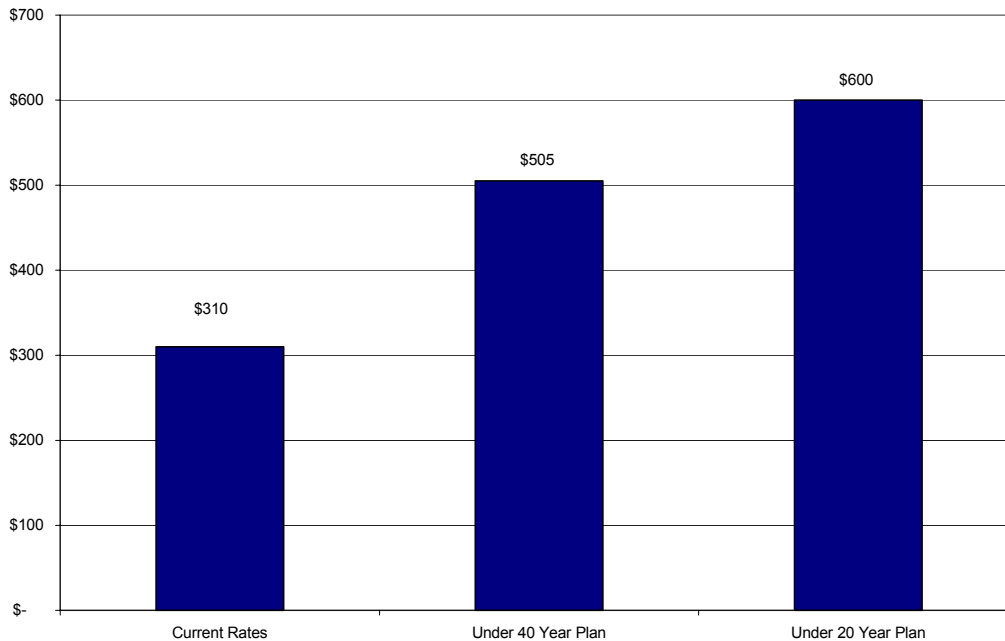
As shown in the chart at left, incremental increases in revenues are projected to range from \$8 million to \$17 million in FY 2005 – FY 2013, due to:

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

- Proposed rate increases ranging from 5.0 percent to 9.5 percent as described on the preceding page.

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

Current & Projected Annual Wastewater Bills in FY 2013 Under Varying CSO LTCP Schedules



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.)

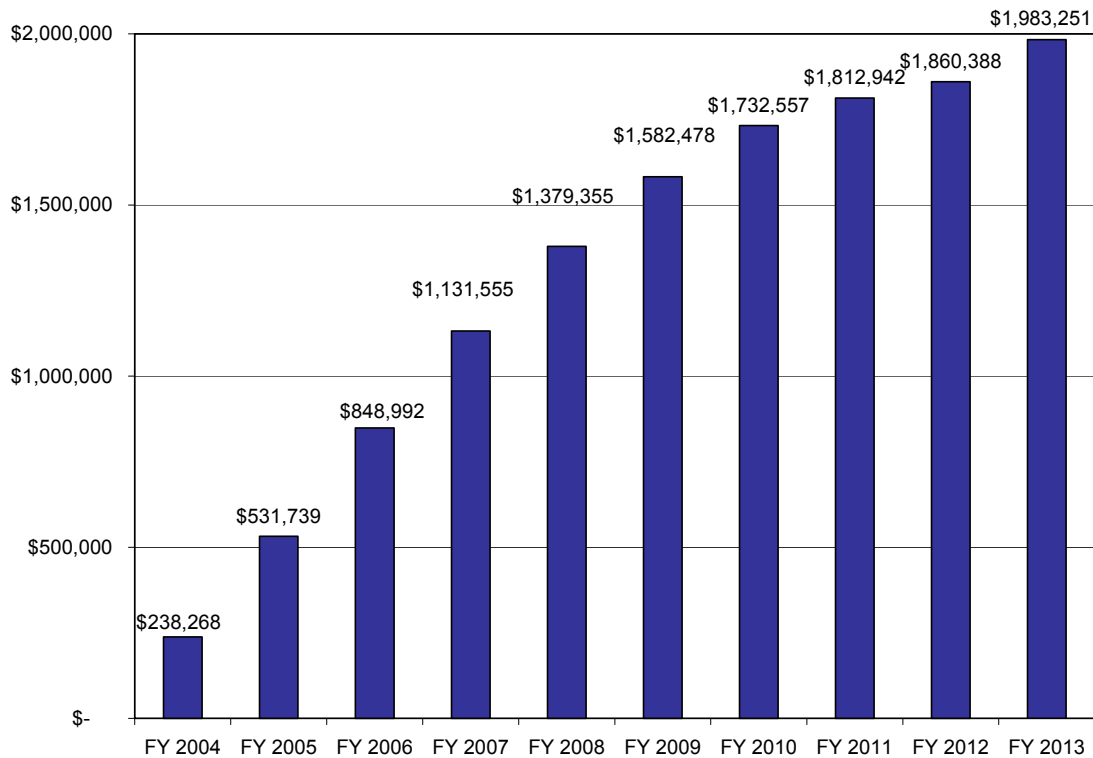
WASA is in litigation with the federal government on the LTCP, with a significant area of contention being the length of the implementation schedule.

- As shown in the chart at left, under a 40 year schedule, the typical residential customer's annual wastewater bill would increase from \$310 today to \$505 in 2013, a 63 percent increase. Under an aggressive 20 year schedule, it would increase to \$600 in 2013, a 93 percent increase.
- If significant federal assistance is provided, implementation over a shorter timeframe is possible.

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 and facilities planning efforts) until finalization of a Board and EPA-approved plan.

WHY RATE INCREASES ARE NEEDED

CUMULATIVE CAPITAL SPENDING
FY 2004 – 2013
(In \$000's)

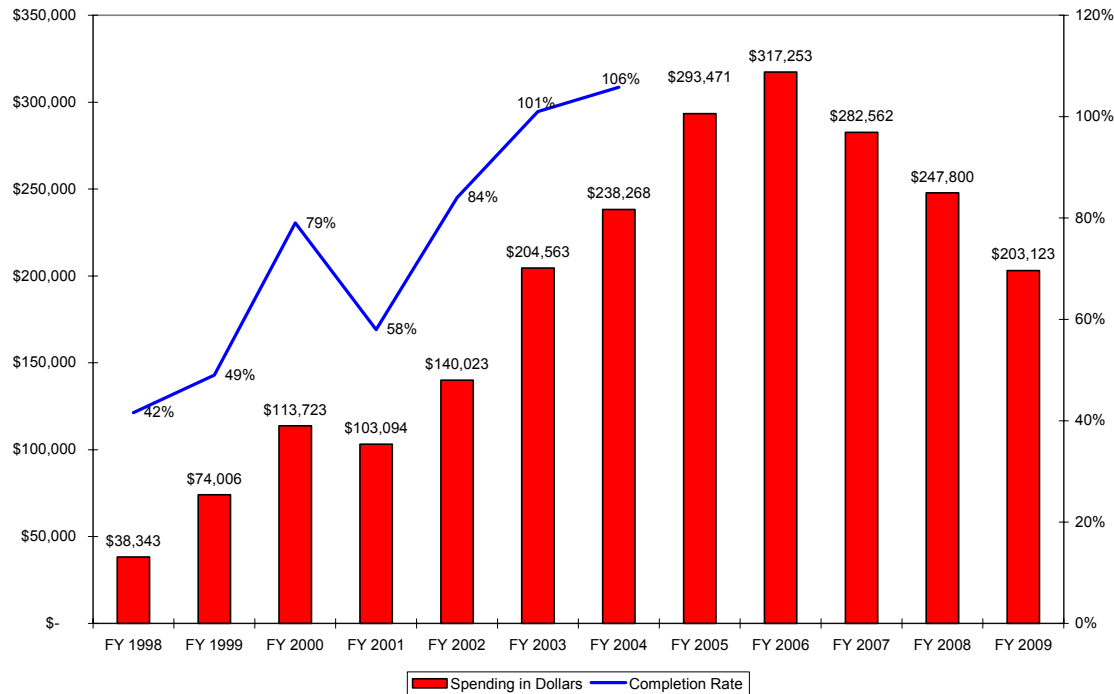


- WASA's ten-year capital improvement program totals \$1.98 billion, with annual spending ranging from \$48 million to \$317 million.
- Once completed, the ten-year capital improvement program will double the value of WASA's infrastructure.
- The ten-year plan includes only the early years of the proposed 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 - 2009 (In \$000's)

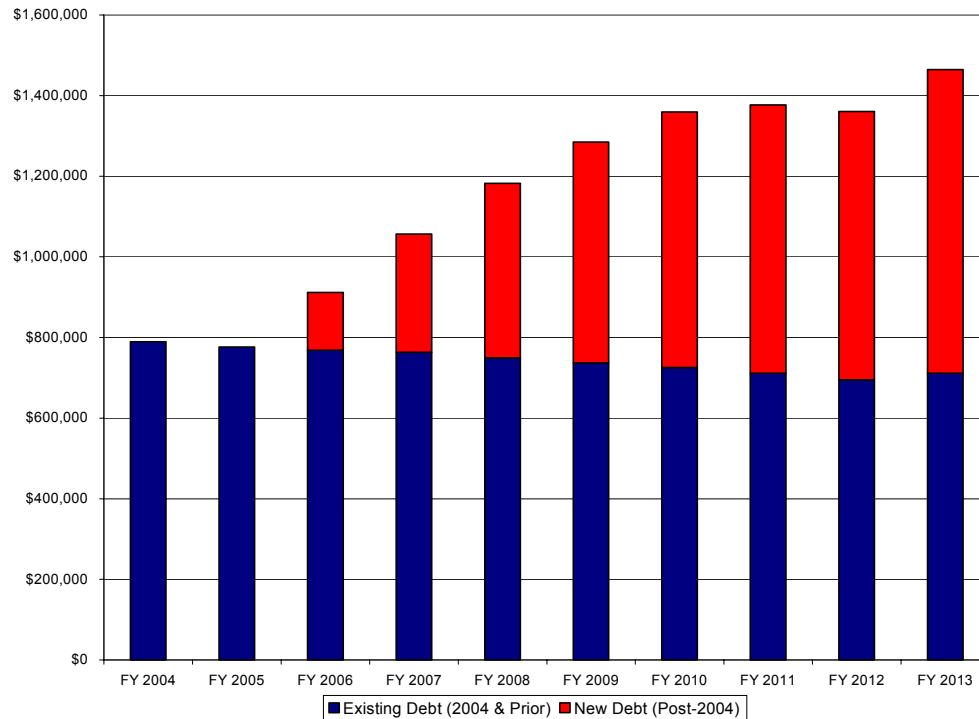
HISTORICAL SPENDING & COMPLETION RATES



- Capital spending has accelerated over the last two years, reaching targeted spending rates.
- This rate of spending is projected to continue through FY 2009, requiring annual rate increases of 5.0 to 9.5 percent.

WHY RATE INCREASES ARE NEEDED, cont.

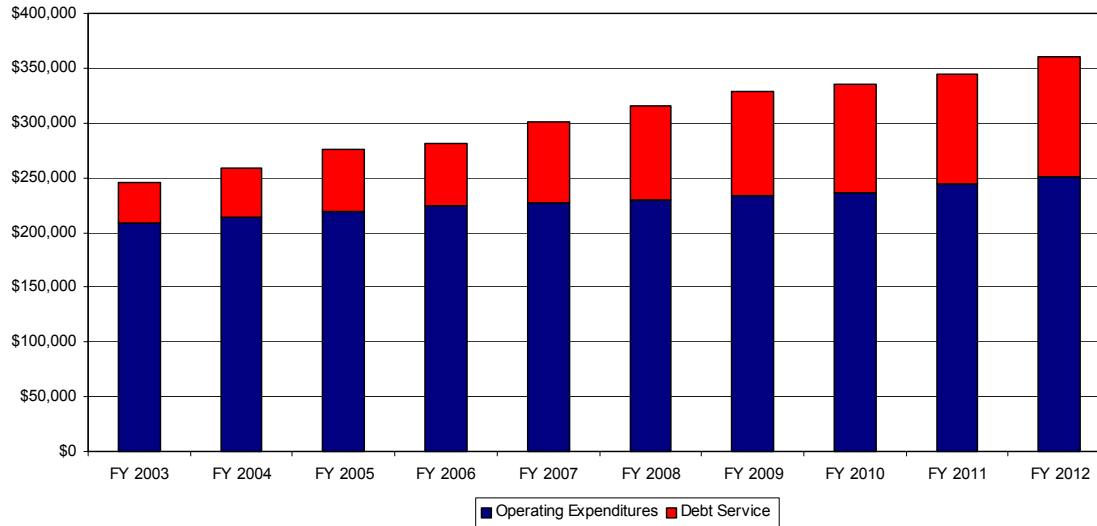
NEW & EXISTING DEBT OUTSTANDING
FY 2004 – 2013
(In \$000's)



- The largest source of funding for WASA's capital program is debt.
- Over the next ten years, WASA will issue approximately \$805 million in new debt (which includes the funding of reserves and costs of issuance), increasing total debt outstanding from \$790 million at the end of FY 2004 to \$1.4 billion at the end of FY 2013.

WHY RATE INCREASES ARE NEEDED, cont.

OPERATING & DEBT SERVICE EXPENDITURES FY 2004 – 2013 (In \$10's)



Over the ten-year period, total expenditures increase on average by 4.2 percent annually.

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

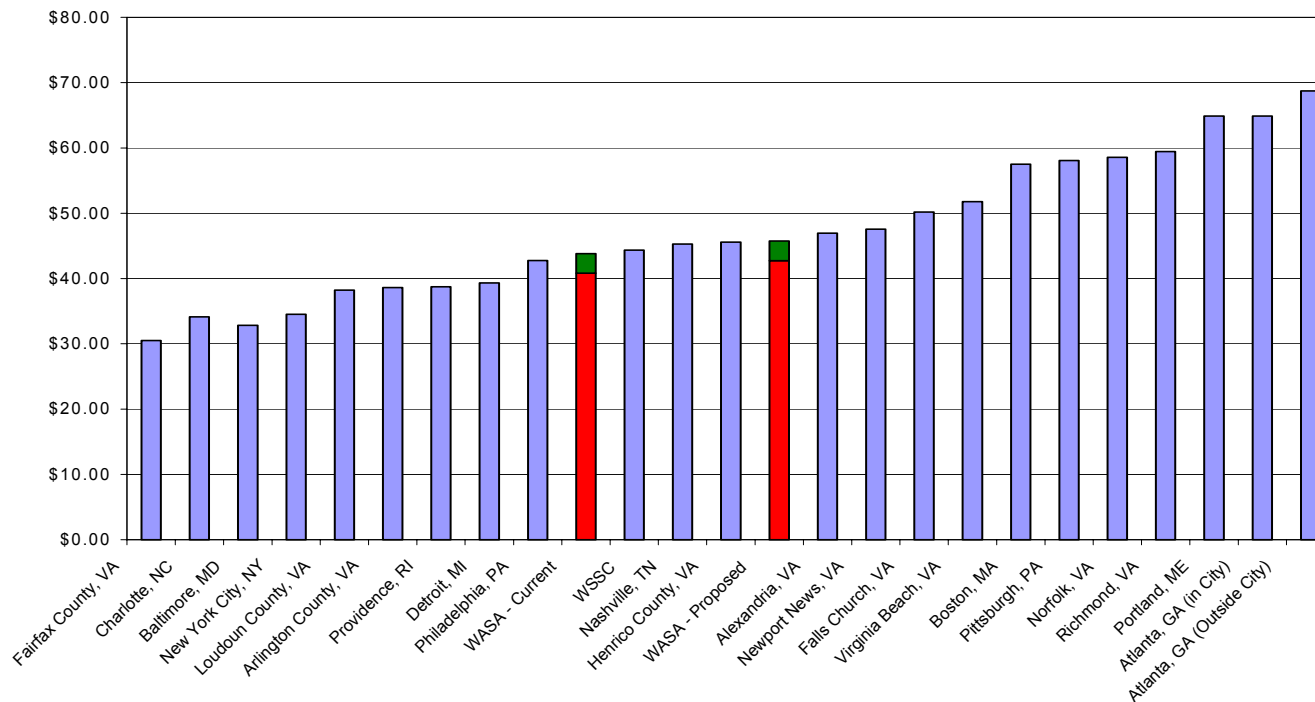
- Operations and maintenance expenditures (excluding the payment in lieu of taxes and right of way fee) increase on average by only 2.1 percent annually.
- Debt service expenditures grow at an annual average rate of 11.6 percent.

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
- Internal Improvement Program savings

WASA'S RETAIL RATES ARE COMPARABLE TO OTHER UTILITIES

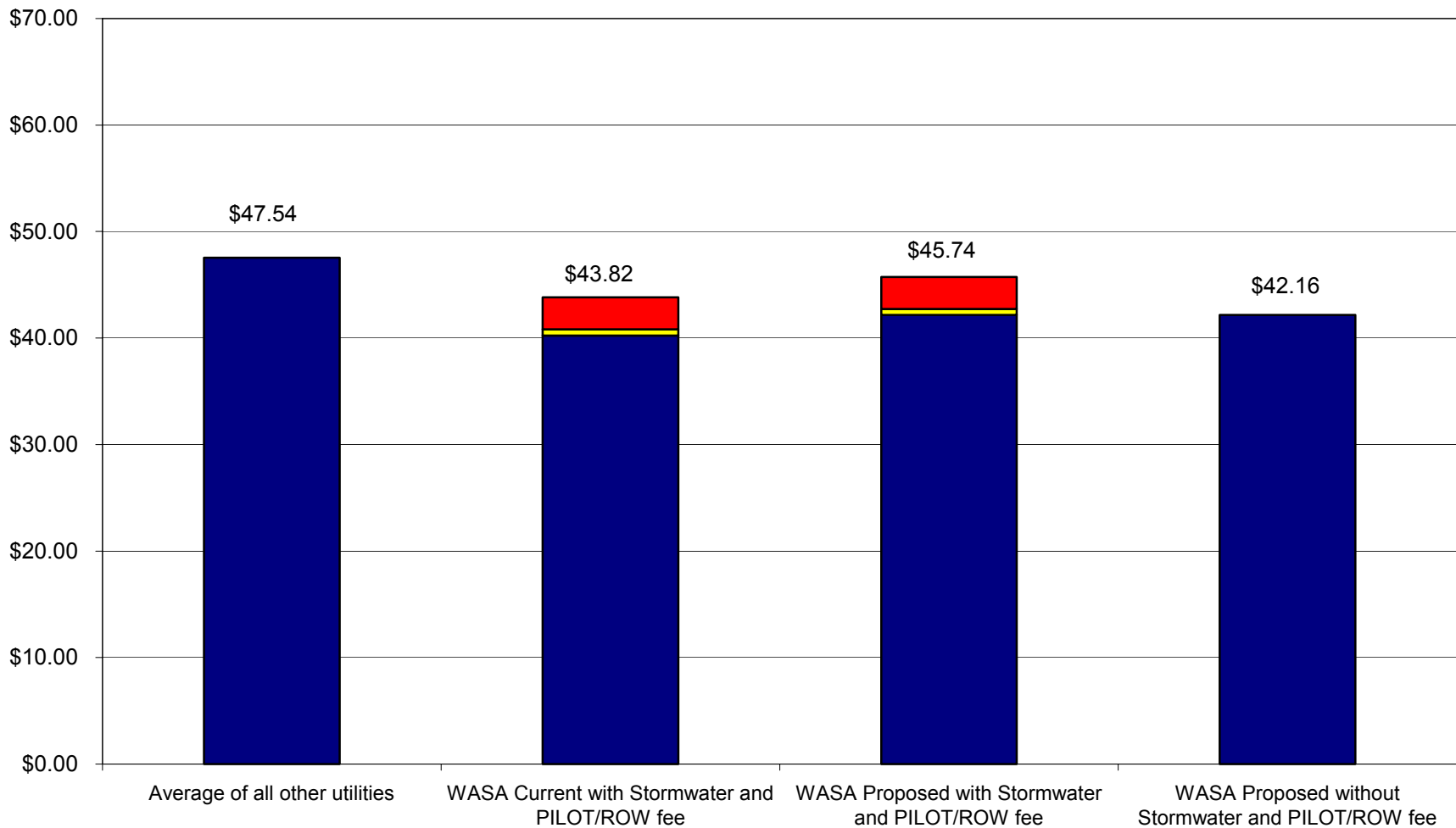
Average Monthly Residential Bill Comparison
(Based on September 2004 rates)



- (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 2006 while other utilities' rates are as of summer 2004. 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 and the residential stormwater rate of \$0.58 per month.

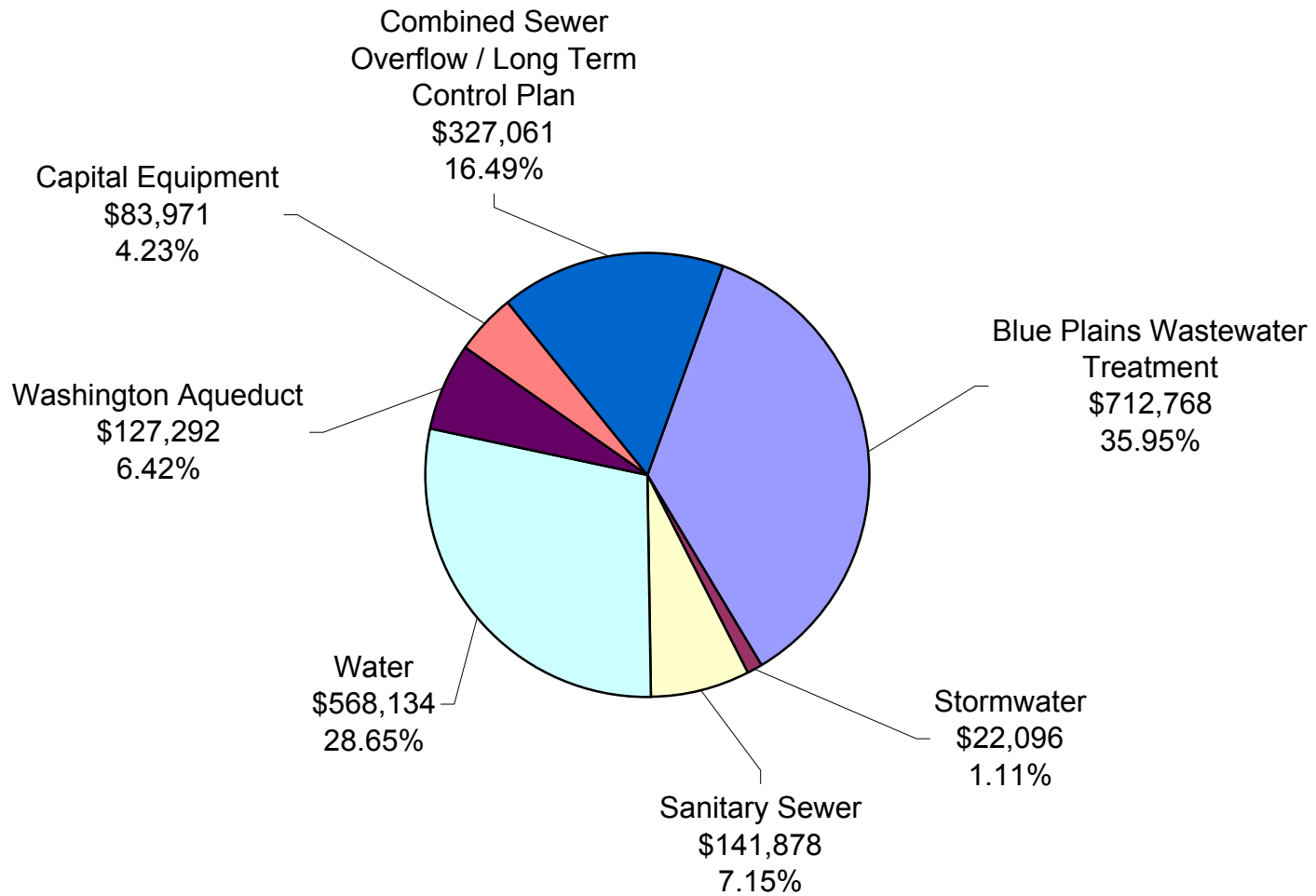
WASA'S RETAIL RATES ARE COMPARABLE TO OTHER UTILITIES, cont.

**WASA's Current and Proposed Monthly Residential Bill vs
Average Monthly Bill of All Other Utilities**



FY 2004 - FY 2013 Capital Improvement Program

(\$ in 000's)

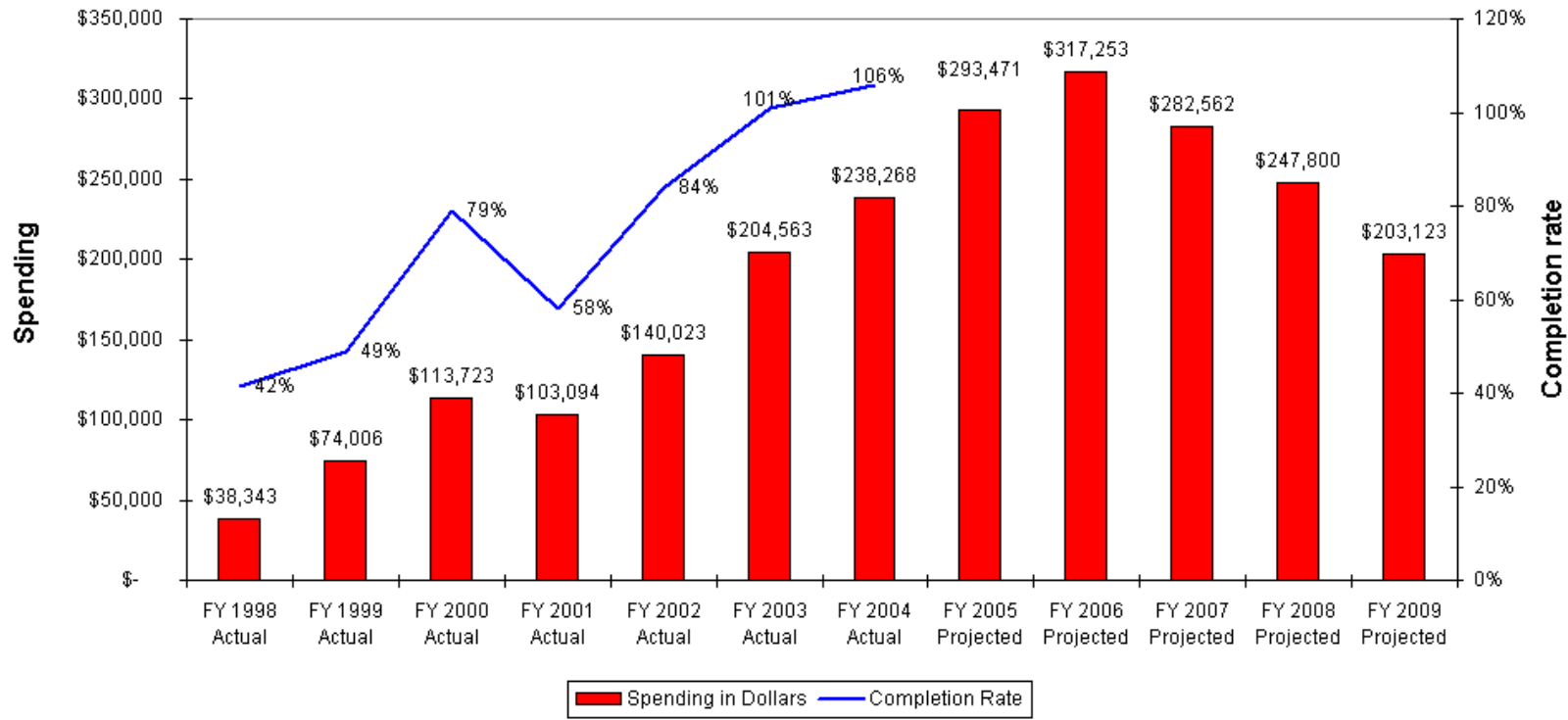


FY 2004 – 2013 CAPITAL IMPROVEMENT PROGRAM OVERVIEW

MAJOR CHANGES & INITIATIVES

We have made significant progress over the last two years on our ten-year capital improvement program. Capital spending reached record highs in FY 2003 & FY 2004, with cash disbursements surpassing targeted levels, as shown in the chart below. This success is due, in large part, to the direction provided by the Board, particularly through the detailed reviews performed by the Environmental Quality and Operations and Finance and Budget Committees. We expect that this high level of spending will continue for the next five years, as shown in the chart below.

HISTORICAL & PROJECTED CAPITAL SPENDING AND COMPLETION RATES



WASA's ten-year capital improvement program (CIP) totals \$2 billion (cash disbursements basis), approximately \$220 million more than last year's plan. As discussed in Section I and in more detail throughout the document, the increase is due primarily to the addition of the lead service line replacement program and increased digester costs, which were approved by the Board in two separate actions during FY 2004.

The most significant change in this year's CIP is the addition of the \$300 million lead service line replacement program, adopted by the Board in July 2004. Under this program, WASA will replace the publicly-owned share of all lead service lines over the next six years. In FY 2004 alone, we replaced 1,793 lead service lines, in excess of our commitment and the Lead and Copper Rule requirement. As described in more detail in Section I, we have developed a detailed implementation plan that continues to assure compliance with the lead administrative order, including filter distribution and customer communications, among other tasks, all of which are included in the \$300 million capital budget for this program.

As in prior years, the ten-year plan includes the early years of the proposed Combined Sewer Overflow Long-Term Control Plan (CSO LTCP), assuming a forty-year implementation schedule. As of the date of this document, we remain in litigation with the EPA and the U.S. Department of Justice (DOJ) on our proposed plan, originally submitted to the EPA in 2002. The focus of the litigation remains the implementation schedule. However, in the weeks prior to publication of this document, we reopened settlement negotiations with the federal government as we are anxious to move forward with the proposed CSO LTCP. As part of these negotiations, we are discussing shorter implementation schedules, which, if approved, will result in significantly higher capital disbursements over the ten year period and higher rate increases than under our current plan (See Sections I and IV for additional details). Until a final Board-approved settlement is reached, it is recommended that we continue to show a forty-year plan in our CIP, and that no funds be committed or spent beyond the \$143 million incorporated in the current CIP as well as initial facilities planning for the proposed plan.

The following sections summarize major projects and changes in each service area, with additional details for each project included in each service area section. 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 \$1.3 billion dollars, reflecting a \$75 million net increase over the July 2004 Board-approved budget, due primarily to the addition of several new projects in the late years of the plan for primary treatment facilities upgrades, nitrification / denitrification facilities upgrades, and grit chamber facility upgrades. The 10-year disbursement budget is \$713 million, an increase of \$13 million over the July plan. It is important to note that the budgets in this area reflect the \$53 million increase in digester costs due to Class A digestion that was approved by the Board in March 2004.

Major projects under construction in FY 2004 included Primary and Secondary Treatment Facilities Upgrades, Additional Chemical Systems, Additional Dewatering, Process Control Computer System, Gravity Thickener Facilities, and Grit and Screen Facilities.

Construction is scheduled to start in FY 2005 for the Nitrification/Denitrification Facilities Upgrade. The new digesters project is also proceeding, with construction tentatively scheduled to begin in 2005 on foundations, digester vessels and silos. In 2006, it is anticipated that construction will begin on the process facilities necessary to complete the digester complex. All of these construction dates are dependent on zoning and Board approval of the design plans and construction contracts.

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, although we are currently in litigation with EPA and DOJ on shorter implementation schedules. Similarly, on a disbursements basis, we have only included the early years of the proposed 40-year LTCP, totaling \$190 million; the majority of the LTCP costs on a disbursements basis are not reflected in the current CIP or rates projections. As noted above, pending settlement of the outstanding litigation, WASA does not intend to begin any additional LTCP work beyond previously planned and budgeted projects as well as initial facilities planning until an EPA and Board-approved plan is in place.

This year's CIP continues to reflect the \$143 million of projects that were included in the settlement of a lawsuit against WASA regarding implementation of the federal CSO Nine Minimum Controls program (the "EarthJustice" lawsuit). We have made good progress on these projects: we have completed the installation of new fabridams at a total cost of approximately \$10 million, are in design on three pumping stations (Main & O; Potomac, and Poplar Point) and in construction on the new East Side pumping station. When complete, these projects will result in an approximately 40 percent reduction in combined sewer overflows, and the completion this past spring of the fabridams alone are projected to result in a 24 percent reduction. We have also begun the procurement process to select a firm to begin facilities planning on the proposed CSO LTCP, with the selection scheduled to be complete in spring 2005.

STORMWATER

The lifetime budget for the Stormwater Service Area is \$46 million, a decrease of \$49 million from last year. This significant decrease is due primarily to the elimination of the stormwater pumping rehabilitation projects from WASA's CIP. Over the last 1-2 years, we have been in discussions with the District's Department of Transportation (DDOT) regarding responsibility for this infrastructure and all work had been deferred pending resolution of this issue. The balance of the reduction in stormwater lifetime budgets is in DDOT stormwater projects done on behalf of WASA. A portion of WASA's stormwater work is coordinated with DDOT when projects are made necessary by DDOT's work in the streets that often requires relocation of storm sewers, inlets, or other

structures. We have reduced the lifetime budgets in this area based on an analysis of actual spending and work completed over the last three to five years, which has been significantly less than budgeted. The remaining projects in the Stormwater Service Area are for replacing undersized, aged or deteriorated sewers, as well as installation of new sewers to serve new or redevelopment.

In FY 2005, we will continue the comprehensive sewer system assessment, begun in 2003. This assessment will determine the condition of the system, verify that we have adequate capacity, analyze potential new regulations and their impact on our infrastructure needs and CIP, and develop new capital projects as appropriate. This assessment is scheduled to be complete in FY2007.

SANITARY SEWER

Lifetime budgets in the Sanitary Sewer Service Area total \$195 million, approximately the same level as last year's plan. Increases in the Potomac Interceptor project have been offset by reductions in other sewer rehabilitation projects, pending completion of the comprehensive sewer system evaluation in FY 2007, as discussed in more detail below. The 10-year disbursements plan in this service area is \$142 million, a \$13 million increase over last year's plan as we enter into construction on a number of rehabilitation projects.

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 2005, with construction scheduled to begin thereafter. The costs of this project have increased 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. In addition to the odor control improvements, we are in the process of designing significant structural improvements to two large pipe segments of the Potomac Interceptor in Fairfax and Loudoun Counties. The project is scheduled to be bid in FY 2005, with completion of construction currently anticipated in late 2006. The total lifetime budget for Potomac Interceptor projects are \$40 million.

In FY 2005, we will continue the comprehensive sewer system assessment, begun in 2003. This assessment will determine the condition of the system, verify that we have adequate capacity, analyze potential new regulations and their impact on our infrastructure needs and CIP, and develop new capital projects as appropriate. This assessment is scheduled to be complete in FY2007. The CIP includes limited funding (approximately \$5 million annually) in the out-years to help address any new capital projects identified as a result of this assessment.

WATER

The lifetime budget for the Water Service Area is \$744 million, a decrease of \$103 million from the July 2004 Board approved plan. As noted earlier, the Board approved the addition of the \$300 million lead service line replacement program, resulting in a significant increase in our CIP at that time. This year's CIP reflects the reprioritization of a number of critical water quality projects into the beginning of the CIP, while projects in the later years have been deferred beyond the current ten-year plan to help mitigate the impact of the lead program on projected rate increases. In addition to the lead service line replacement program, critical water quality projects include elimination of dead ends, cleaning and lining and main replacement / rehabilitation, and valve replacement (which is necessary for other water quality construction projects to proceed).

Other major projects include the ongoing rehabilitation of the Bryant Street pumping station, with a lifetime budget of \$61 million. The Automated Meter Reading project, which began in FY 2002, is scheduled to be substantially complete in 2005, with the replacement of the largest commercial meters. To date, over 115,000 meters have been installed. The lifetime budget for this project is \$46.5 million, which includes ongoing upgrades of \$0.3 to \$0.5 million annually after initial implementation.

WASHINGTON AQUEDUCT

The lifetime budget for Washington Aqueduct projects totals \$155 million, a \$50 million decrease from last year's plan due to the completion of a variety of U.S. Treasury-note financed projects that were completed in FY 2003 and dropped from this year's CIP. The ten-year disbursements budget for WASA's share of Washington Aqueduct projects totals \$127 million, or \$8 million more than last year's plan, and includes funding for WASA's share of the proposed residuals disposal project.

CAPITAL EQUIPMENT

The FY 2006 proposed lifetime budget for Capital Equipment is \$91 million, compared to \$101 million in last year's plan. With the exception of some systems projects, lifetime budgets for capital equipment begin with FY 2004 actual disbursements and end with projected FY 2013 disbursements. This is due to the annual nature of the purchases that are made in this service area. The lifetime budget decrease in this area is due to the close-out of several projects, particularly, the initial implementation of the Financial system, High Priority Rehabilitation Projects at Blue Plains, and certain I.T. and Facilities department projects.

CIP DEVELOPMENT AND APPROVAL PROCESS

WASA's capital budget review process begins each year in the spring, as part of both our capital and operating budget review process. This process includes a review of major accomplishments, priorities, status of major projects and emerging regulatory and related issues impacting the capital program. Projections of changes in project lifetime budgets are also included. The review

process involves the WASA departments with responsibility for managing the capital projects as well as finance and budget staff and executive management. The CIP is integrated into WASA's ten-year financial plan; because of its size, it is the primary driver of WASA's projected rate increases over the next ten years.

This review process lasts over several months and culminates with the presentation of the updated CIP to WASA's Board of Directors' Environmental Quality & Operations and Finance & Budget Committees in October. The Committees complete their review from October through December. The operating budgets, capital improvement program, and ten-year financial plan are then forwarded to the full Board for its consideration in January.

After adoption by the Board of Directors, WASA is required to submit its annual operating and capital budgets to the Mayor and the District of Columbia Council for its review and comment; however, neither has power to change WASA's annual budgets. Final operating and capital budget numbers, along with the capital authority request will be forwarded to the District for inclusion in the District of Columbia's budget submission to Congress. WASA's request for capital authority is ultimately made to and approved by the U.S. Congress.

FACILITIES MASTER PLAN AND OTHER FACILITIES PLANNING TOOLS

The Water and Sewer Facilities Master Plan provides a twenty-year framework for developing, analyzing and evaluating changes to the CIP and includes projects currently in the ten-year CIP as well as proposed projects projected to begin after completion of the current ten-year planning period. It describes current conditions and presents a vision of the needs for the water and sewer systems and the actions planned to meet those needs. This plan is scheduled to be updated in FY 2005.

WASA has also developed more detailed facilities plans for specific areas including; a Biosolids Management Plan for dealing specifically with biosolids issues, and Water Systems and Liquid Processing Facilities Plans for use as project planning tools in those areas.

DISBURSEMENTS AND PROJECT LIFETIME BUDGETS

As in the past, we have presented the CIP on both a project lifetime basis and cash disbursement basis. During the CIP review process, we perform an extensive review of the total project, or "lifetime" budgets, which also reflect historical spending prior to the current ten-year period, projected spending beyond the current ten-year period and project contingencies. Project lifetime budgets are our primary area of focus in budget development and day-to-day monitoring. In addition to lifetime budgets, we also develop a cash disbursements forecast. Actual cash disbursements are critical to forecasting the anticipated level of rate increases and the amount and timing of capital financings. While cash disbursements are a function of project lifetime budgets, they reflect a more realistic projection of actual "cash out the door" excluding contingencies and taking into account historical and projected completion rates.

As in prior years, the budget document includes a comparison of this year's vs. last year's lifetime project budgets by program area for the Board's review. Changes have been made to some of the project lifetime budgets approved from last year due to a change in project scope, engineering cost estimates, site changes and other related issues. In addition, some projects are either closed or dropped from the CIP. In general, projects are closed or dropped from the CIP in the fiscal year following the end of project activity.

CAPITAL AUTHORITY

As part of WASA's enabling legislation, Congressional appropriations authority is required before any capital design or construction contract can be entered into. The FY 2006 request totals \$519 million, and reflects the following:

- Remaining authority from prior years' appropriations;
- Projected commitments in FY 2005 and FY 2006;
- Planned FY 2007 commitments to ensure adequate authority exists, in the event that any projects are accelerated

Due to the timing of the Congressional appropriations process, authority requests must be made well in advance of commitment execution. Including projected FY 2007 commitments in addition to FY 2006 commitments allows us adequate flexibility to continue with contract commitments in the event that the U.S Congress delays budget approval and allows us to quickly accelerate or reprioritize projects into earlier years as approved by the Board, as we did with lead this past year. While this gives us flexibility to reprioritize projects, it should be noted that such changes and execution of any contract still require General Manager approval, with major projects and contracts requiring Board approval.

The combined sewer projects' capital authority request is \$107 million. This includes projected commitments in FY 2005 – FY 2007 for all previously budgeted combined sewer projects, the majority of which are part of the EarthJustice consent decree. In addition, we have added \$100 million in projected commitments for facilities planning, geotechnical work, and other work needed to begin the CSO LTCP so that we have adequate capital authority to rapidly move forward with the plan once settlement is reached. However, we may revise this request prior to Board approval in January based on the status of the litigation with EPA and DOJ, potential new funding, or other related issues.

MAJOR ASSUMPTIONS

Inflation: All project costs are inflated at three percent annually to the mid-point of construction; personnel services are inflated at three percent per year throughout the 10-year plan.

Contingency: WASA capital projects include project contingencies ranging from 5 – 15 percent, based on the size of the project.

PROJECT PAGES

This document contains individual sections for each of WASA's seven service areas. Each service area is made up of specific projects. Within each service area section in this document, there are individual project sheets for each current capital project in that section. The capital project sheets contain general information for each project. The following information is included:

Service Area Title – currently, there are seven defined project service areas in WASA's CIP. The seven areas are: Wastewater Treatment, Combined Sewer Overflow / LTCP, Stormwater, Sanitary Sewer, Water, Washington Aqueduct and Capital Equipment. The service area categorization groups together like projects based on facility location and type of work being done in the project. Congressional capital authority is requested at this level.

Program Title – is a further categorization within the Service Area and groups projects by type of process. For example, in the Wastewater Treatment Service Area, there are three programs: Liquid Processing, Plantwide projects and Solids Processing.

Activity Group/Project Title – The activity group is the level at which WASA manages and monitors projects, including in the financial system and project management system. The project title reflects the descriptive name given to the project.

Service Area Manager – lists which department or organization manages the project. The majority of the projects in WASA's CIP are managed by an internal WASA operating department. WASA's CIP also includes some projects which are managed by outside organizations. It is advantageous for WASA to coordinate some of its capital work on the water and sewer infrastructure with the District's Department of Transportation (DDOT). The funding required for WASA's work is included in the CIP, but those projects are managed by DDOT. Approximately 75 percent of the Washington Aqueduct's capital program is funded by WASA, but the U.S. Army Corps of Engineers actually manages those projects.

Priority – WASA engages in and prioritizes capital projects based on specific criteria. The following is a list of definitions of the priorities shown on the individual project sheets:

National Pollutant Discharge Elimination (NPDES) Permit – The Blue Plains Wastewater Treatment Plant operates under the guidelines and restrictions of its NPDES permit issued by the EPA. This permit also includes provisions relating to the operation and improvement of the combined sewer system. It is anticipated that implementation of any approved CSO plan will be addressed in the NPDES permit and other legally enforceable agreements.

Administrative Order and Stipulated Agreement – WASA is under an administrative order that started in 2004 requiring lead service line replacements. In order to replace all of the lead services within the water distribution system, lead service line replacement contracts are scheduled over six years.

Consent Decree – This 1995 Consent Decree required a variety of operational reviews as well as implementation of pilot Biological Nitrogen Removal (BNR) and Return Sludge Chlorination projects at Blue Plains. Both of these projects have been completed. Although WASA is planning additional BNR Improvements that are still budgeted in this CIP, we are currently awaiting action by the federal government to terminate this agreement which related to the already completed projects.

Stipulated Agreement & Order – Wastewater Treatment Plant – This 1996 agreement required various operational activities and completion of upgrades to the Secondary Metal Salts facilities. This project was completed in FY 2002, and we are awaiting action by the federal government to terminate this agreement.

Good Engineering Practices – This category includes projects that are needed for rehabilitation and upgrading of facilities and pipelines required in order for WASA to fulfill its mission, as well as projects needed to resolve operational issues and inefficiencies (for example, the Process Computer Control System). Such projects utilize state of the art technology, will improve operations, and in some cases, will reduce operating costs.

Public Health and Safety – these are projects that are required to eliminate or mitigate a threat to human health or safety. These projects are also required to ensure that there is not a failure to comply with WASA's NPDES permit requirements.

District of Columbia Department of Transportation (Highway Projects) – projects managed by the D.C. Department of Transportation.

Project Description – general description of the work to be done within the project.

Impact on Operations – describes the anticipated impact on WASA's operations when the project is completed.

Design / Construction / Project Completion Dates– anticipated dates are shown.

Funding by User – lists the anticipated project funding, by source and is based on the current Intermunicipal Agreement and anticipates EPA funding where grants have been previously approved or in anticipation of that approval.

Life Budget – the full project budget is approved and reviewed each year by WASA’s Board of Directors. Proposed increases or decreases to the total project life budget are shown, if applicable. Lifetime budgets for program management have been reduced, and project budgets increased, to reflect the allocation of costs for program management services at the conclusion of the prior fiscal year.

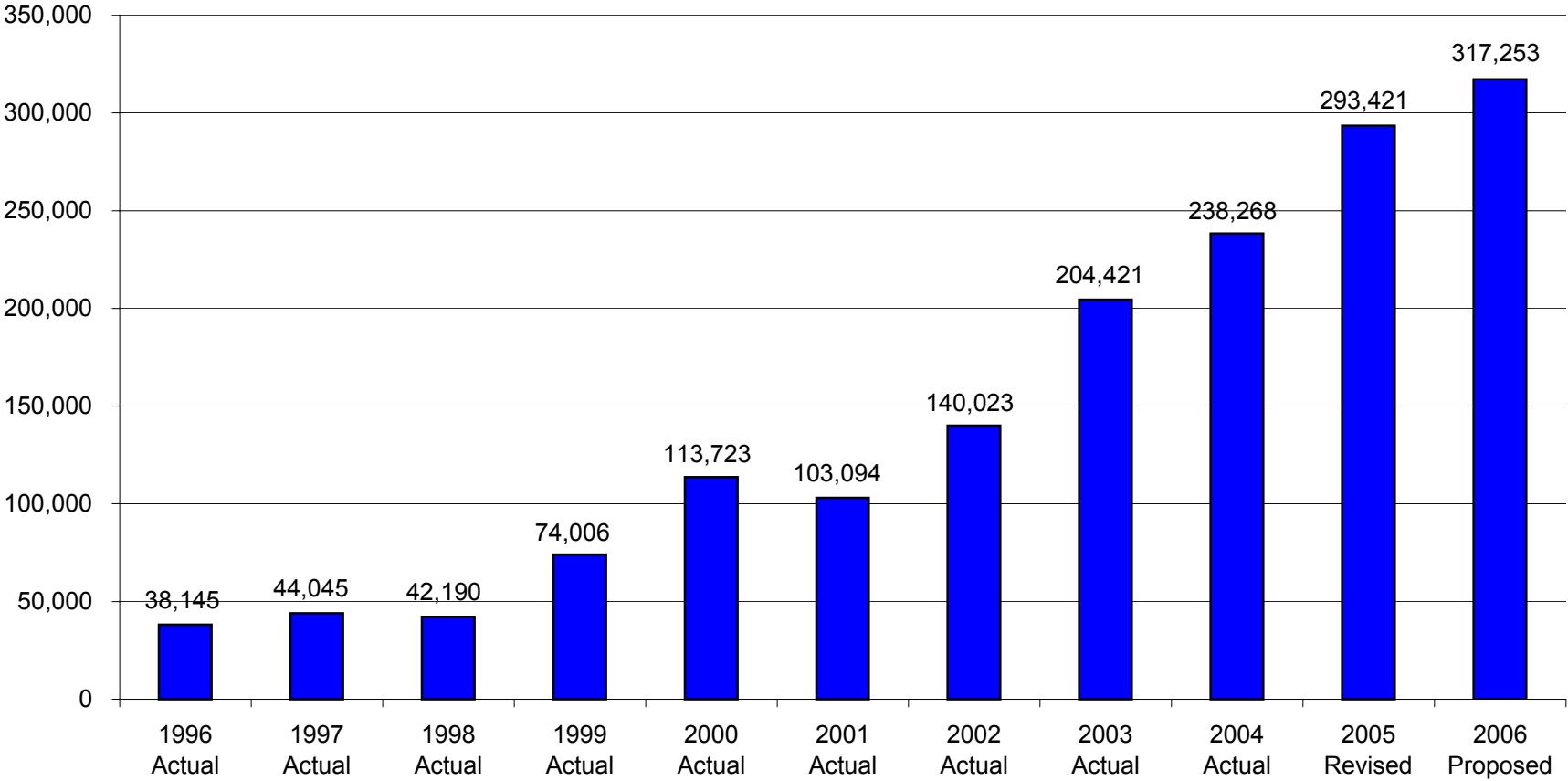
Disbursements / Commitments Budgets – projected project disbursements and commitments are shown by fiscal year in which they are anticipated. Commitments budgets are based on total project budgets, which reflect the fully loaded, anticipated costs of a project, including project contingencies. Contingencies are not included when calculating disbursement budgets.

CAPITALIZATION POLICY

WASA’s capitalization policy determines how expenditures will be recognized and accounted for. Because we also match the financing to the projected useful life of the item, it also determines how projects will be financed. The following guidelines are used to categorize items as capital, capital equipment or operating (maintenance):

- Maintenance related items – are routine, cost under \$5,000, and do not extend the life of the item more than 3 years,
- Capital Equipment – has a life of at least 3 years, a cost exceeding \$5,000 and is financed with short-term debt or cash,
- Capital Project – has a long life (average of 30 years), a minimum cost of \$500,000, and is financed with 30 year bonds.

Historical and Projected Capital Spending
FY 1996 - FY 2006
(\$ in 000's)



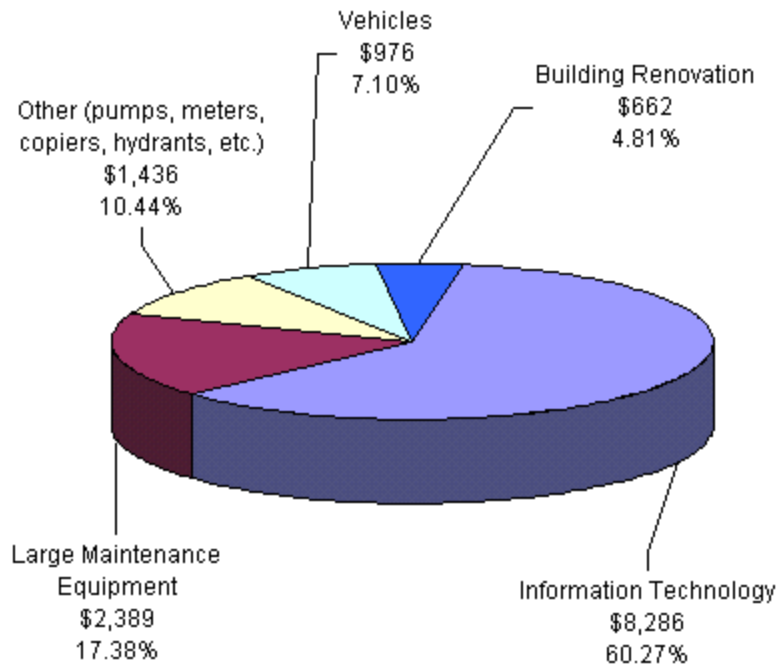
FY 2004 - FY 2013 PROJECTED CAPITAL IMPROVEMENT PLAN - DISBURSEMENTS BASIS (\$ in 000's)

	FY 2004 Actual	FY 2005 Revised	FY 2006 Proposed	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Total FY '04 -'13
Wastewater Treatment											
Liquid Processing Projects	69,394	65,076	68,199	50,790	16,809	2,207	455	555	2,471	3,190	279,146
Plantwide Projects	23,992	29,366	14,887	13,187	10,801	2,584	574	517	3,601	1,122	100,631
Solids Processing Projects	29,732	27,154	21,084	36,273	75,303	75,106	43,943	21,452	2,048	896	332,991
Sub-total	123,118	121,596	104,170	100,250	102,913	79,897	44,972	22,524	8,120	5,208	712,768
Stormwater											
Stormwater Extensions/Local Drainage	419	252	472	7	-	-	-	-	-	-	1,150
Stormwater On-Going Program	613	251	330	224	227	229	257	333	459	490	3,413
Stormwater Pumping Facilities	5	912	589	-	-	-	-	-	-	-	1,506
DDOT Stormwater Program	133	1,282	482	475	261	292	313	376	487	526	4,627
Stormwater Projects Program Management	1,309	1,024	1,020	603	238	122	54	54	51	14	4,489
Stormwater Trunk/Force Sewers	1,671	1,256	1,681	585	507	528	683	-	-	-	6,911
Sub-total	4,150	4,977	4,574	1,894	1,233	1,171	1,307	763	997	1,030	22,096
Sanitary Sewer											
Sanitary Collection Sewers	1,101	4,355	1,182	-	-	-	-	-	-	-	6,638
Sanitary On-Going Projects	4,358	6,059	4,999	3,775	3,739	2,883	4,332	5,186	6,308	7,189	48,828
Sanitary Pumping Facilities	819	2,665	7,288	5,162	41	170	-	-	-	-	16,145
Sanitary Sewer Projects Program Management	2,357	3,556	2,933	1,509	579	357	455	421	431	-	12,598
Sanitary Interceptor/Trunk Force Sewers	2,284	8,546	26,347	7,639	3,557	3,005	2,934	3,357	-	-	57,669
Sub-total	10,919	25,181	42,749	18,085	7,916	6,415	7,721	8,964	6,739	7,189	141,878
Water											
Water Distribution Systems	17,922	13,157	26,533	16,309	14,821	7,136	4,520	271	1,114	2,220	104,003
Water On-Going Projects	8,157	4,295	5,279	4,144	3,795	3,402	3,504	4,020	5,304	5,748	47,648
Water Pumping Facilities	15,669	18,423	13,417	9,633	5,296	-	-	-	-	-	62,438
DDOT Water Projects	3,274	8,033	1,852	1,147	1,212	1,063	1,051	1,429	1,967	2,054	23,082
Water Storage Facilities	118	247	250	1,567	2,320	-	-	-	102	146	4,750
Water Projects Program Management	6,264	4,142	2,635	2,703	2,786	2,772	1,060	-	-	-	22,362
Water Lead Program	-	31,783	46,870	51,931	47,996	49,641	42,741	9,236	-	-	280,198
Meter Replacement /AMR Installation	6,257	9,846	4,050	500	500	500	500	500	500	500	23,653
Sub-total	57,661	89,926	100,886	87,934	78,726	64,514	53,376	15,456	8,987	10,668	568,134
Washington Aqueduct	15,084	9,838	5,000	23,670	20,113	17,184	16,978	5,745	6,703	6,977	127,292
Capital Equipment	9,343	13,749	12,443	12,378	6,496	6,983	5,192	5,816	6,250	5,321	83,971
Sub-total	220,275	265,267	269,822	244,211	217,397	176,164	129,546	59,268	37,796	36,393	1,656,139
Combined Sewer Overflow / Long Term Control Plan											
CSO Program Management	924	1,835	828	128	-	-	-	-	-	-	3,715
Combined Sewer Projects	17,069	25,589	39,863	37,454	13,133	349	73	36	-	-	133,566
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	17,993	28,154	47,431	38,352	30,403	26,959	20,533	21,116	9,650	86,470	327,061
Total FY 2006 WASA Capital Improvement Program	238,268	293,421	317,253	282,563	247,800	203,123	150,079	80,384	47,446	122,863	1,983,200

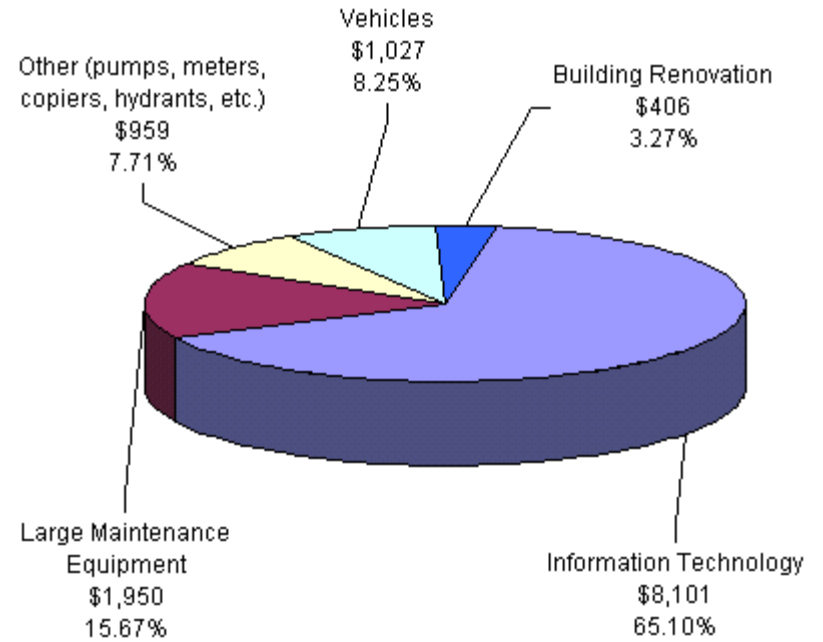
Note: As discussed in Section 1, the CSO LTCP was approved by the Board of Directors and forwarded to the EPA in August 2002. The total cost of this plan is \$1.265 billion in 2001 dollars, and increases to \$2.6 billion with assuming an implementation schedule of 40 years. WASA is currently in litigation with EPA and the Department of Justice over the CSO LTCP, and the focus of the litigation is the length of the implementation schedule. As in prior years, the CIP includes the early years of the proposed CSO LTCP (totaling \$190 million) assuming a 40-year implementation schedule. This amount has been included in the CIP due to receipt of Congress appropriations for combined sewer projects. WASA's CIP has also historically included approximately \$143 million of CSO-related projects for fabridams and pumping stations, which are currently underway. While we 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 of projects previously included in the CIP and in facilities planning for the LTCP until completion of an EPA and Board-approved LTCP, unless otherwise authorized by the Board. It should also be noted that if the litigation is settled and a shorter implementation schedule agreed to, the disbursements shown in the ten-year CIP will be significantly greater than currently shown.

CAPITAL DISBURSEMENTS BY MAJOR EXPENDITURE CATEGORIES
FY 2005 Revised vs. FY 2006 Proposed
(\$ in 000's)

FY 2005 Revised



FY 2006 Proposed



FY 2004 - FY 2013 Capital Equipment Disbursements
(\$ in 000's)

Department	Equipment Type	FY 2004 Actual	FY 2005 Revised	FY 2006 Proposed	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY '04 - FY '13 Total
Wastewater Treatment												
	Laboratory Equipment	\$43	\$34	\$33	\$27	\$27	\$25	\$25	\$32	\$32	\$32	\$310
	Safety Equipment	0	0	11	14	13	19	19	16	20	20	132
	Metering and Recording Devices	0	18	14	15	13	12	10	10	10	10	112
	Plant Model	0	50	0	0	0	0	0	0	0	0	50
Total		\$43	\$102	\$58	\$56	\$53	\$56	\$54	\$58	\$62	\$62	\$604
Water Services												
	Lab Equipment and Flow Monitors	\$0	\$50	\$50	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$100
	Fire Hydrant Replacements	107	267	250	250	250	250	250	250	250	250	2,374
	System Valve Replacements	0	150	73	81	89	98	100	100	100	100	891
	Water Service Replacement	13	250	300	300	300	300	300	300	300	300	2,663
Total		\$120	\$717	\$673	\$631	\$639	\$648	\$650	\$650	\$650	\$650	\$6,028
Sewer Services												
	Emergency Generator & Load Center	\$0	\$120	\$0	\$0	\$0	\$100	\$0	\$0	\$0	\$100	\$320
	Sewer Pipes/Fittings	190	30	30	30	30	30	30	30	30	\$30	460
	Regulator and Gate Rehabilitation	0	10	10	10	10	10	10	10	10	10	90
	Sewer Cleaning and Repair Equipment	0	55	55	55	55	55	55	55	55	55	495
	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	7	269	0	0	0	0	0	0	0	0	276
	Visitors' Center	2	0	0	0	0	0	0	0	0	0	2
Total		\$199	\$617	\$228	\$228	\$228	\$328	\$228	\$228	\$228	\$328	\$2,840
Fleet Management												
	Vehicles	1,340	976	1,027	1,000	1,000	1,000	1,000	1,000	1,680	1,000	11,023
Total		\$1,340	\$976	\$1,027	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,680	\$1,000	\$11,023

FY 2004 - FY 2013 Capital Equipment Disbursements
(\$ in 000's)

Department	Equipment Type	FY 2004 Actual	FY 2005 Revised	FY 2006 Proposed	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY '04 - FY '13 Total
Information Technology - continued												
	Web Development	72	121	75	75	75	75	75	200	75	75	918
	Network System Renewal	108	650	250	250	650	250	250	650	250	250	3,558
	Desktop Replacements	504	511	500	500	640	500	500	500	640	500	5,295
	Cable Renewal	253	200	200	200	200	200	200	200	200	200	2,053
	Telephone System Renewal/Replacem	140	450	740	265	100	100	100	100	100	100	2,195
	Messaging Services	(3)	30	165	70	10	10	70	10	10	70	442
	Windows 2003 Migration	6	140	30	30	30	30	30	30	30	30	386
	Total	\$4,285	\$8,286	\$8,101	\$8,532	\$2,745	\$2,301	\$2,110	\$2,730	\$2,480	\$2,231	\$43,801
Maintenance Services												
	Shop Equipment and Plant Lighting	\$0	\$175	\$50	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$225
	Centrifuge Repair/Replace	152	200	200	300	300	300	300	300	300	300	2,652
	VFD Replacement-Nitrification Pumping	77	0	0	0	0	0	0	0	0	0	77
	Pump Repair/Replacement	505	500	500	400	400	300	200	200	200	200	3,405
	Large Electric Motors	921	700	700	500	400	200	200	200	200	200	4,221
	High Priority Rehab Program	603	814	500	300	300	200	100	100	100	0	3,017
	Total	\$2,258	\$2,389	\$1,950	\$1,500	\$1,400	\$1,000	\$800	\$800	\$800	\$700	\$13,597
Total Capital Equipment		\$9,343	\$13,749	\$12,443	\$12,378	\$6,496	\$6,983	\$5,192	\$5,816	\$6,250	\$5,321	\$83,971

FY 2004 - FY 2013 Capital Improvement Plan

Project Lifetime Budgets by Program Area (\$000's)

	FY 2005 Revised	FY 2006 Proposed	Variance
<u>Wastewater Treatment</u>			
Liquid Processing Projects	436,807	521,907	85,100
Plantwide Projects	288,577	276,217	(12,360)
Solids Processing Projects	513,156	515,197	2,041
Sub-total	1,238,540	1,313,321	74,781
<u>Stormwater</u>			
Stormwater Extensions/Local Drainage	6,599	2,270	(4,330)
Stormwater On-Going Program	6,718	6,241	(477)
Stormwater Pumping Facilities	24,550	3,108	(21,442)
DDOT Stormwater Program	28,507	14,647	(13,860)
Stormwater Projects Program Managemer	7,260	5,830	(1,430)
Stormwater Trunk/Force Sewers	21,081	13,580	(7,501)
Sub-total	94,715	45,676	(49,039)
<u>Sanitary Sewer</u>			
Sanitary Collection Sewers	15,231	12,024	(3,207)
Sanitary On-Going Projects	60,569	66,074	5,505
Sanitary Pumping Facilities	20,171	21,978	1,807
Sanitary Sewer Projects Program Manage	14,930	14,930	-
Sanitary Interceptor/Trunk Force Sewers	82,100	79,826	(2,274)
Sub-total	193,001	194,831	1,830
<u>Water</u>			
Water Distribution Systems	262,957	181,613	(81,344)
Water Lead Program	300,750	300,750	-
Water On-Going Projects	52,085	59,740	7,655
Water Pumping Facilities	83,053	85,488	2,435
DDOT Water Projects	40,256	31,772	(8,484)
Water Storage Facilities	36,663	14,140	(22,523)
Water Projects Program Management	25,044	24,480	(564)
Meter Replacement /AMR Installation	46,000	46,500	500
Sub-total	846,808	744,483	(102,325)

FY 2004 - FY 2013 Capital Improvement Plan

Project Lifetime Budgets by Program Area (\$000's)

	FY 2005 Revised	FY 2006 Proposed	Variance
Washington Aqueduct	204,570	154,498	(50,072)
Capital Equipment	101,449	90,589	(10,860)
Sub-total	2,679,083	2,543,398	(135,685)
<u>Combined Sewer Overflow</u>			
CSO Program Management	15,254	17,254	2,000
Combined Sewer Projects	150,176	149,034	(1,142)
Long-Term Control Plan (see note 1)	2,457,000	2,457,000	-
Sub-total	2,622,430	2,623,288	858
Total WASA CIP Lifetime (see notes)	5,301,513	5,166,686	(134,827)

Notes:

- As discussed in Section 1, the CSO LTCP was approved by the Board of Directors and forwarded to the EPA in August 2002. The total cost of this plan is \$1.265 billion in 2001 dollars, and increases to \$2.6 billion with inflation, assuming an implementation schedule of 40 years. WASA is currently in litigation with EPA and the Department of Justice over the CSO LTCP, and the focus of the litigation is the length of the implementation schedule. As in prior years, the CIP includes the early years of the proposed CSO LTCP (totaling \$190 million) assuming a 40-year implementation schedule. This amount has been included in the CIP due to receipt of Congressional appropriations for combined sewer projects. WASA's CIP has also historically included approximately \$143 million of CSO-related projects for fabridams and pumping stations, which are currently underway. 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 of projects previously included in the CIP and initial facilities planning for the approved LTCP, unless otherwise authorized by the Board. It should also be noted that if the litigation is settled and a shorter implementation schedule is agreed to, the disbursements shown in the ten-year CIP will be significantly greater than currently shown.
- 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 2004 will be dropped from the CIP next year.
- 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 2006 Capital Authority Request
(\$000's)**

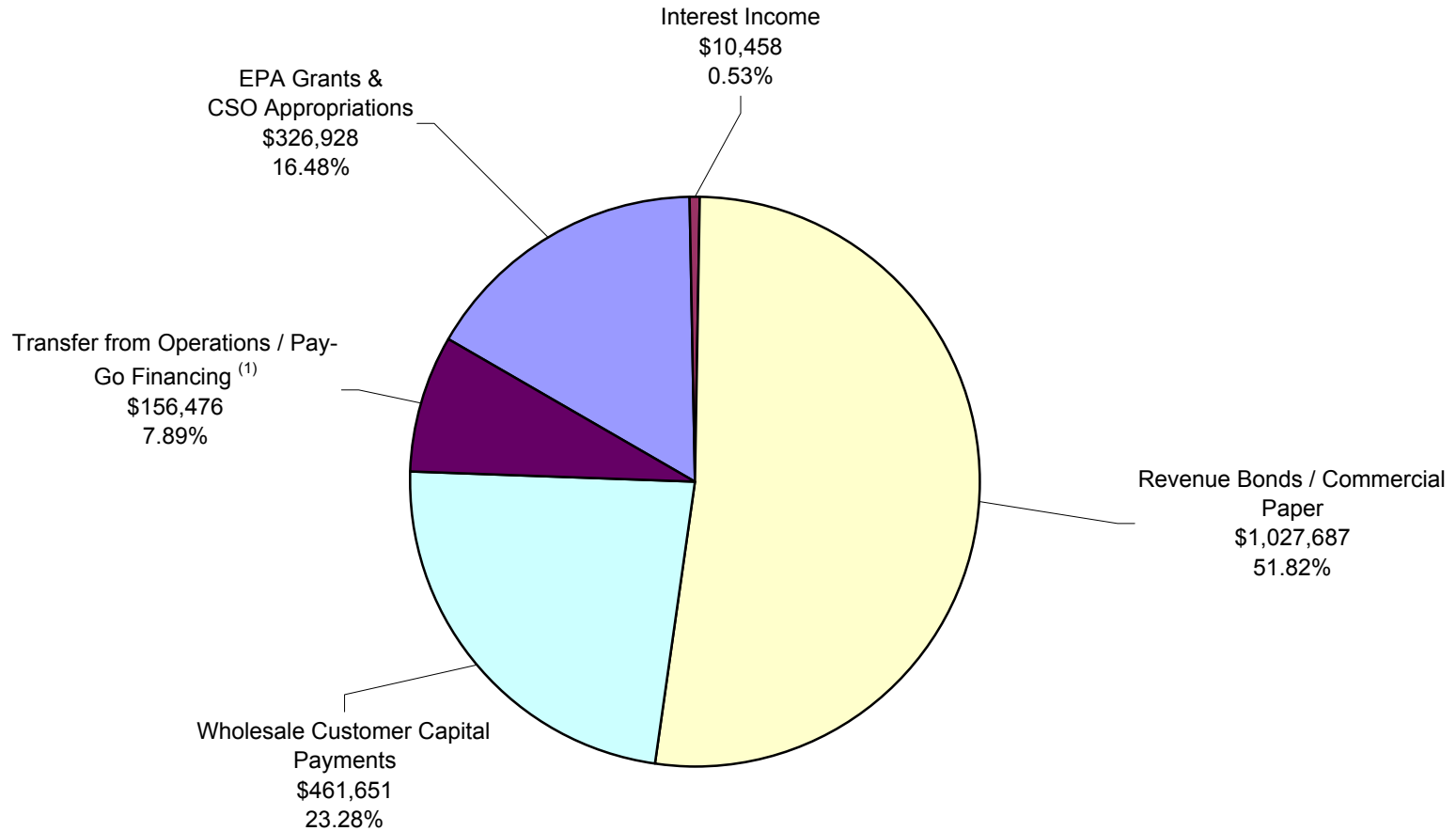
<u>Program Areas</u>	<u>Fiscal Year 2006 Capital Authority Request</u>
Blue Plains Wastewater Treatment	120,130
Sanitary Sewer System	21,485
Combined Sewer Projects	107,146
Stormwater ¹	0
Water System	224,634
Washington Aqueduct (WASA share)	34,463
Capital Equipment	<u>22,136</u>
Total	<u>529,994</u>

¹ The Stormwater projects' authority request is zero, as, existing (currently available) capital authority in this service area is in excess of projected commitments in FY 2005, FY 2006, and FY 2007.

FY 2004 - FY 2013 CAPITAL IMPROVEMENT PROGRAM

Sources of Funds

(In 000's)



(1) Pay-go financing is any funds available after funding the 180 day, or approximately \$96.3 million in FY 2005, 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 2004 - FY 2006
SOURCES & USES
(In \$000's)

	FY 2004	FY 2005	FY 2006
SOURCES			
Commercial Paper / New Debt Proceeds (1)	\$ 77,374	\$ 159,449	\$ 179,485
Pay-Go Financing (2)	16,436	10,032	4,872
EPA Grants	50,281	34,825	36,006
CSO Appropriations (3)	8,126	8,855	14,123
Wholesale Customer Capital Payments	85,961	79,243	81,052
Interest Income	91	1,017	1,716
TOTAL SOURCES	\$ 238,269	\$ 293,421	\$ 317,253
USES			
Blue Plains Projects	\$ 123,118	\$ 121,596	\$ 104,170
Combined Sewer Projects	17,993	27,424	40,691
Combined Sewer LTCP Projects (4)	-	730	6,740
Sanitary Sewer Projects	10,919	25,181	42,749
Stormwater Projects	4,150	4,977	4,574
Water Projects	57,661	89,926	100,886
Washington Aqueduct	15,084	9,838	5,000
Capital Equipment	9,343	13,749	12,443
TOTAL USES	\$ 238,268	\$ 293,421	\$ 317,253

(1) Remaining Series 2004 bond proceeds will fund non-grant or IMA-funded capital spending requirements into the first quarter of FY 2006, based on current capital spending projections. WASA will then use its \$100 million commercial paper program, with the next take-out financing projected to occur in summer 2006.

(2) Pay-go financing is cash available after meeting the six month operating reserve requirement, which totals \$96.3 million in FY 2005.

(3) Reflects spenddown of a portion of already-received FY 2003 & FY 2004 Congressional appropriations for the CSO LTCP.

(4) 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.

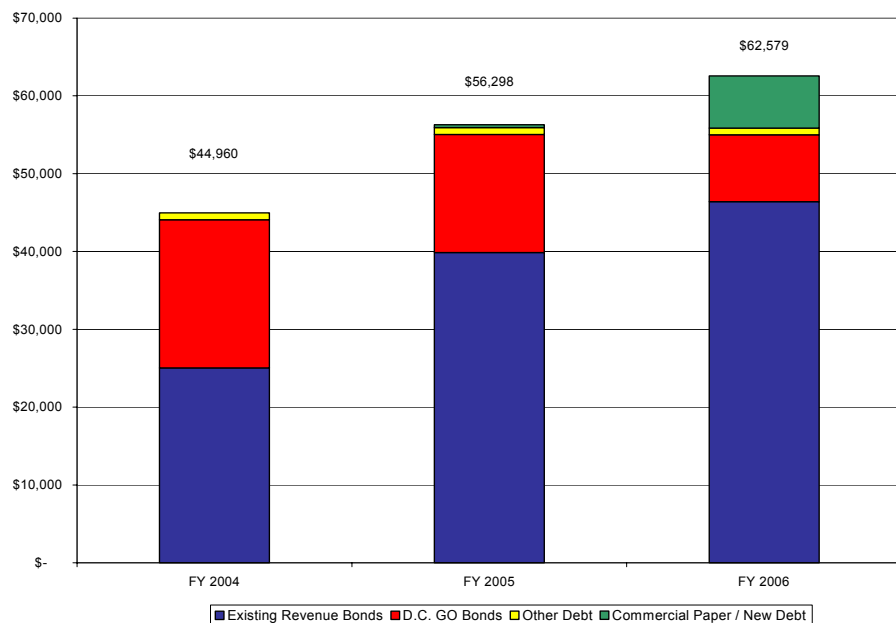
CASH RESERVES SUMMARY

(In \$000's)

	FY 2004 Actual	FY 2005 Approved Budget	FY 2005 Revised Budget	FY 2006 Proposed Budget
Beginning O&M Reserve Balance (Net of Rate Stabilization Fund)	\$ 118,738	\$ 100,465	\$ 106,408	\$ 96,266
Operating Surplus	20,464	8,242	11,497	15,809
Wholesale Customer Refunds/Payments for Prior Years	(7,275)	-	(4,183)	-
Transfer to Rate Stabilization Fund	(6,000)	-	-	-
Prior Year Right of Way Payment	-	-	-	-
Prior Year Federal Billing Reconciliation	(1,923)	(7,424)	(7,424)	(7,015)
Prepayment of Aqueduct Treasury Loans	(1,161)	-	-	-
Pay-As-You-Go Capital Financing	(16,435)	(4,691)	(10,032)	(4,872)
Ending O&M Reserve Balance (Net of Rate Stabilization Fund)	\$ 106,408	\$ 96,592	\$ 96,266	\$ 100,188
Rate Stabilization Fund	\$ 27,500	\$ 27,500	\$ 27,500	\$ 27,500

MAJOR HIGHLIGHTS & ISSUES IN DEBT IN FY 2004 - 2006

PROJECTED DEBT SERVICE FY 2004 – 2006 (In \$000's)



Due to WASA's \$1.98 billion capital improvement program (cash disbursements basis), debt service represents the fastest growing area of WASA's operating budget.

- ✓ *FY 2005 projected debt service is \$11.3 million higher than FY 2004 debt service due primarily to the August 2004 issuance of the Series 2004 subordinated lien revenue bonds, offset by a scheduled \$3.5 million reduction in District general obligation debt service.*
- ✓ *FY 2006 projected debt service is approximately \$6.3 million higher than FY 2005 due primarily to the issuance of new debt and utilization of the commercial paper program, offset by a scheduled \$6.7 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 2004, WASA had prepaid all outstanding U.S. Treasury notes, totaling \$59 million*

BOND RATINGS

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

OUTSTANDING DEBT

DEBT OUTSTANDING AS OF SEPTEMBER 30, 2004 (1)

	INTEREST RATES	FINAL MATURITY	AMOUNT OUTSTANDING
SENIOR DEBT			
Public Utility Revenue Bonds, Series 2003	5.50 - 6.00	2028	266,120
SUBORDINATE DEBT			
Public Utility Subordinated Lien Revenue Bonds, Series 2003	5.0 - 5.25	2033	176,220
Public Utility Subordinated Lien Revenue Bonds, Series 2004 (Auction Rate)	variable	2034	295,000
Notes payable to the federal government for Jennings Randolph Reservoir	3.25	2041	16,640
Notes payable to WSSC for Little Seneca Reservoir	5.98 - 6.60	2014	357
District of Columbia general obligation bonds - varying series -reflects prepayment	4.55 - 6.75	2012	35,282
TOTAL SUBORDINATE DEBT			523,499
TOTAL DEBT OUTSTANDING			<u>789,619</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 (Subordinated Lien): Subordinate lien debt issued under WASA's master trust indenture; WASA has issued two subordinate series to date 1) Series 2003 issued as fixed rate debt and 2) Series 2004 issued as auction rate securities. Both series are insured and 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 2004, WASA prepaid FY 2005 debt service.

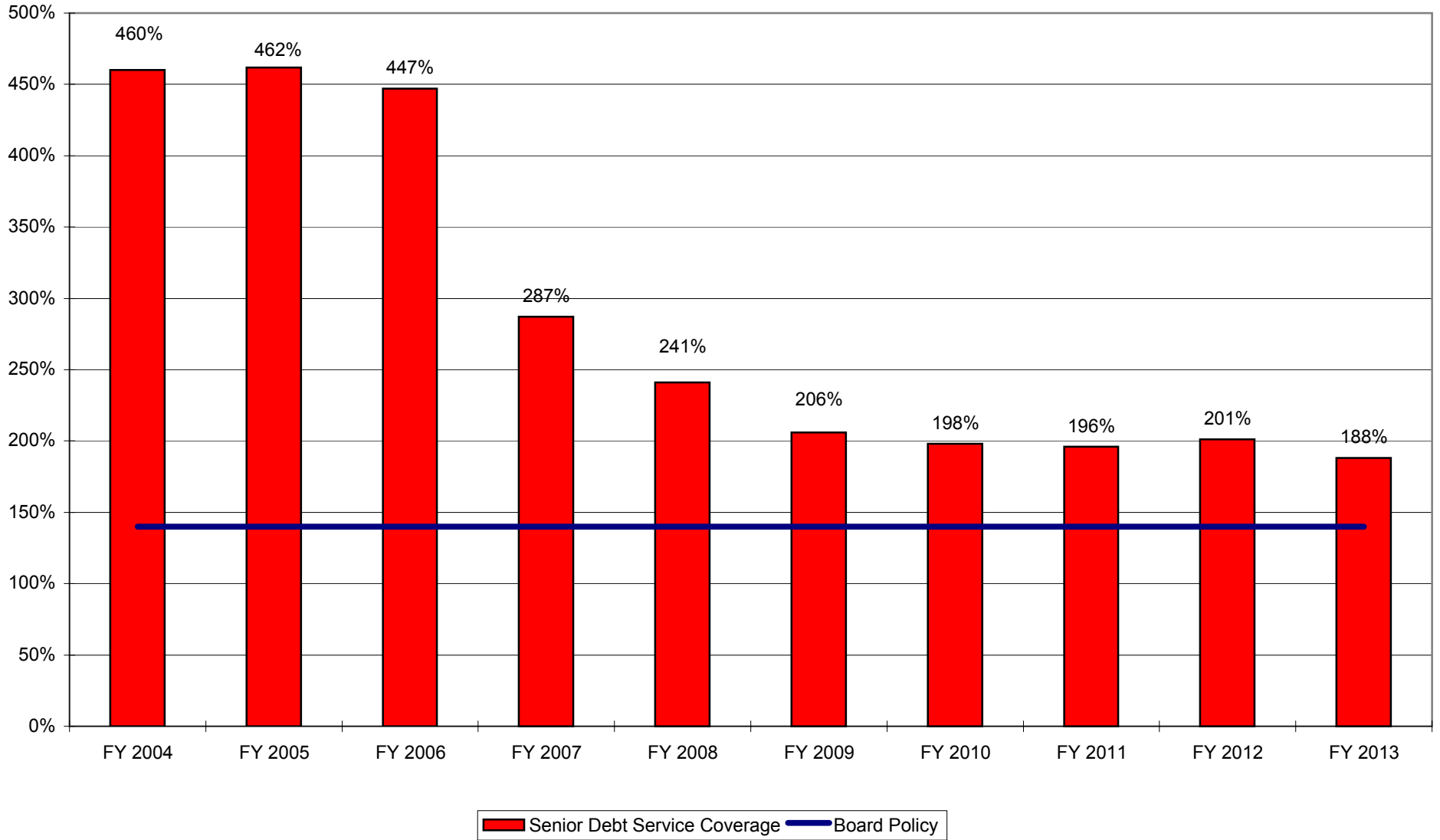
NOTES FOR JENNINGS RANDOLPH RESERVOIR: Debt issued by the federal government for construction of this backup water supply facility; WASA's share of operating and capital costs is 30 percent.

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.

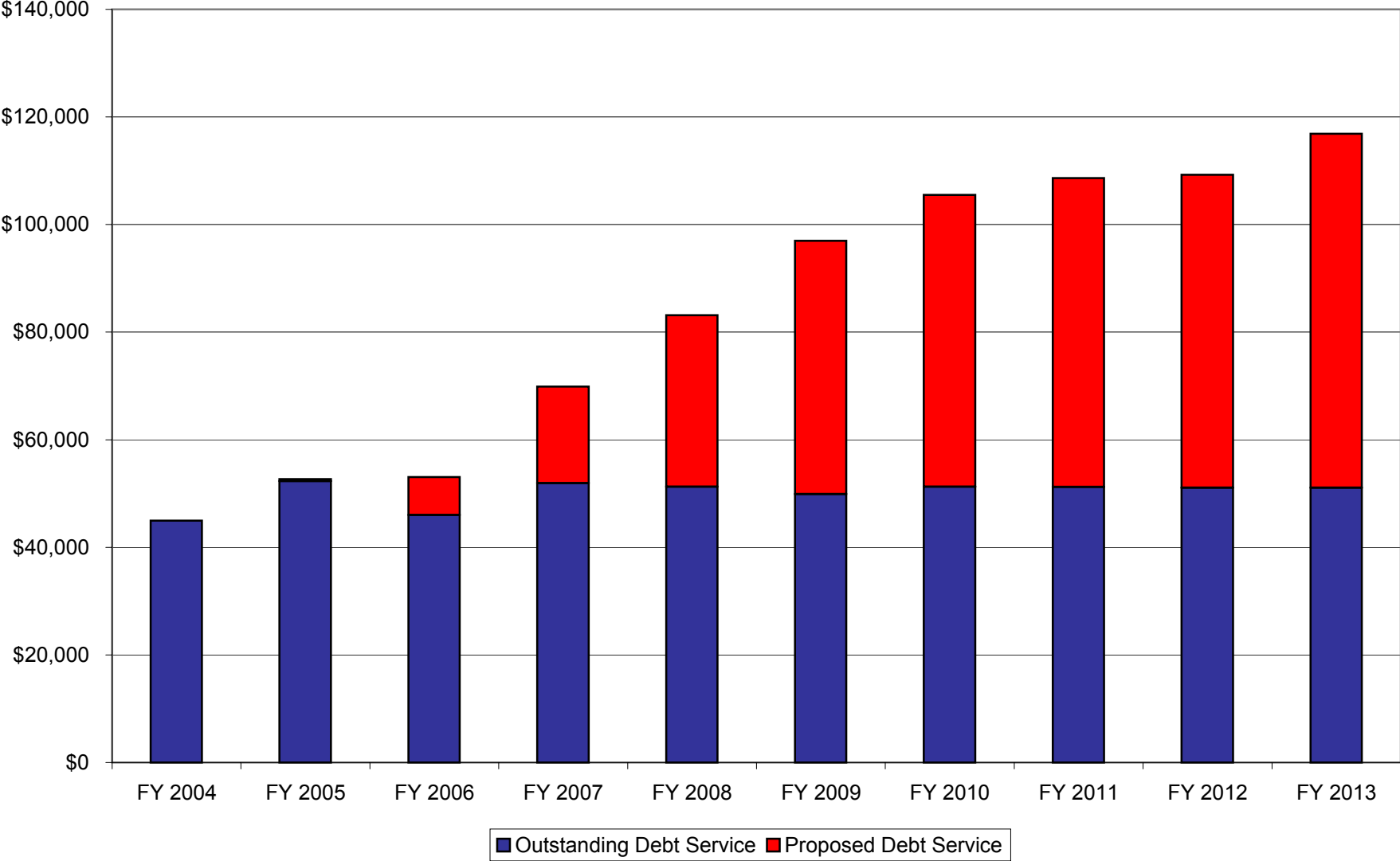
U.S. TREASURY NOTES FOR THE WASHINGTON AQUEDUCT: A portion of the Washington Aqueduct's capital program is financed by U.S. Treasury notes, and WASA is responsible for approximately 76 percent of this debt. Because these notes are issued on a taxable basis (and thus carry higher interest rates), WASA 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 subordinated lien revenue bonds in 2004. 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).

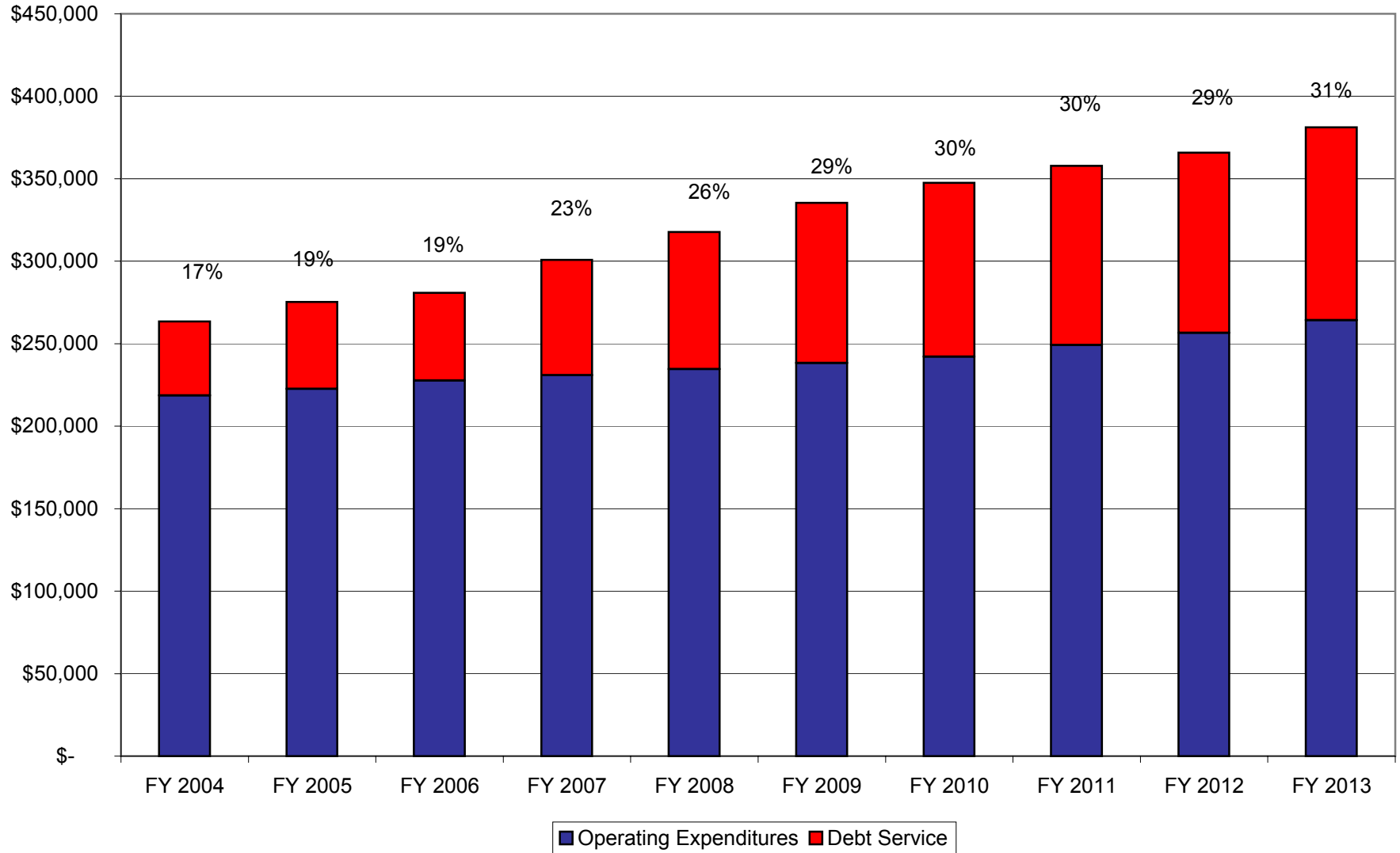
**SENIOR DEBT SERVICE COVERAGE
FY 2004 - 2013**



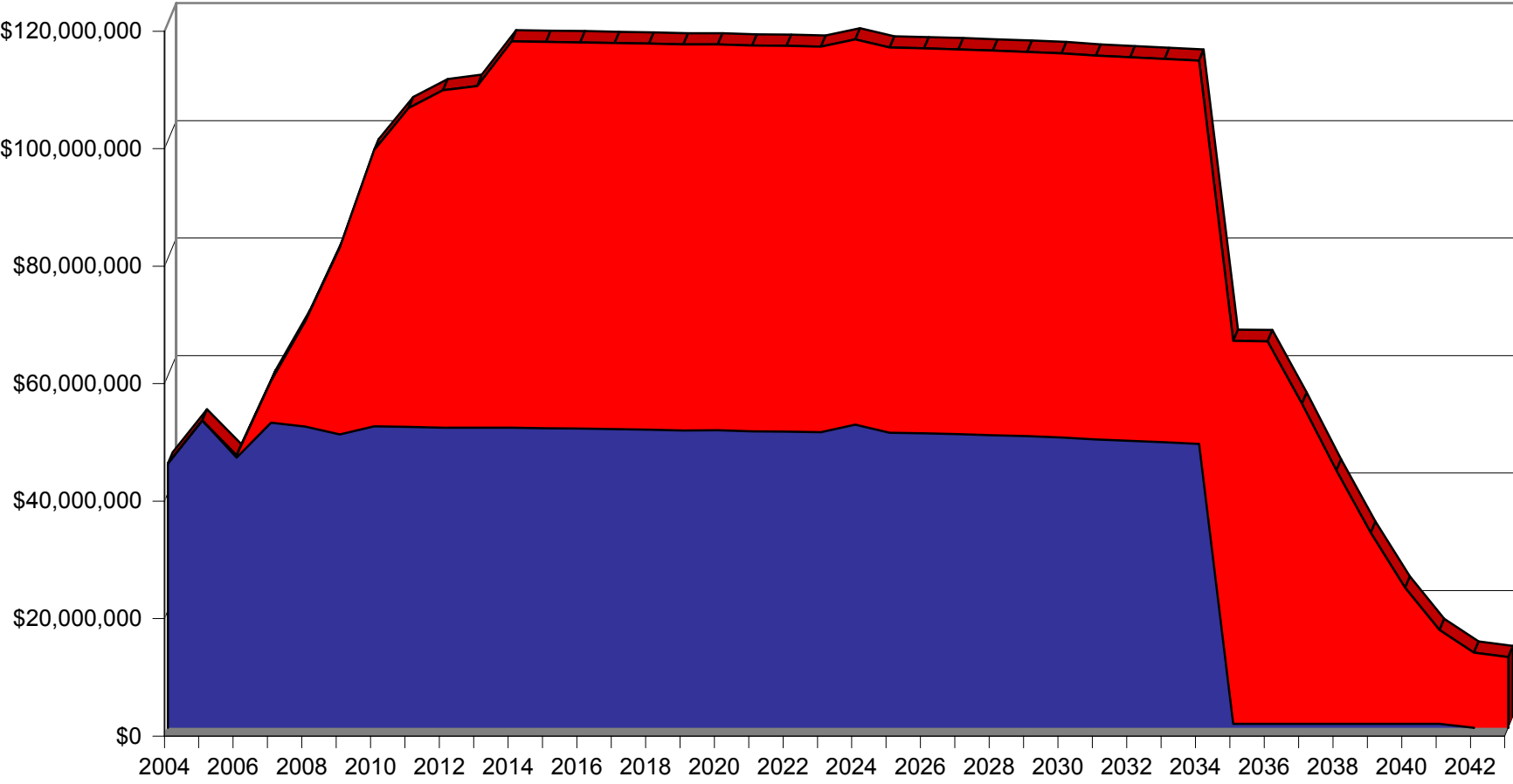
OUTSTANDING & PROPOSED DEBT SERVICE
FY 2004 - 2013
(In \$000's)



DEBT SERVICE AS PERCENTAGE OF TOTAL OPERATING EXPENDITURES
FY 2004 - 2013
(In \$000's)

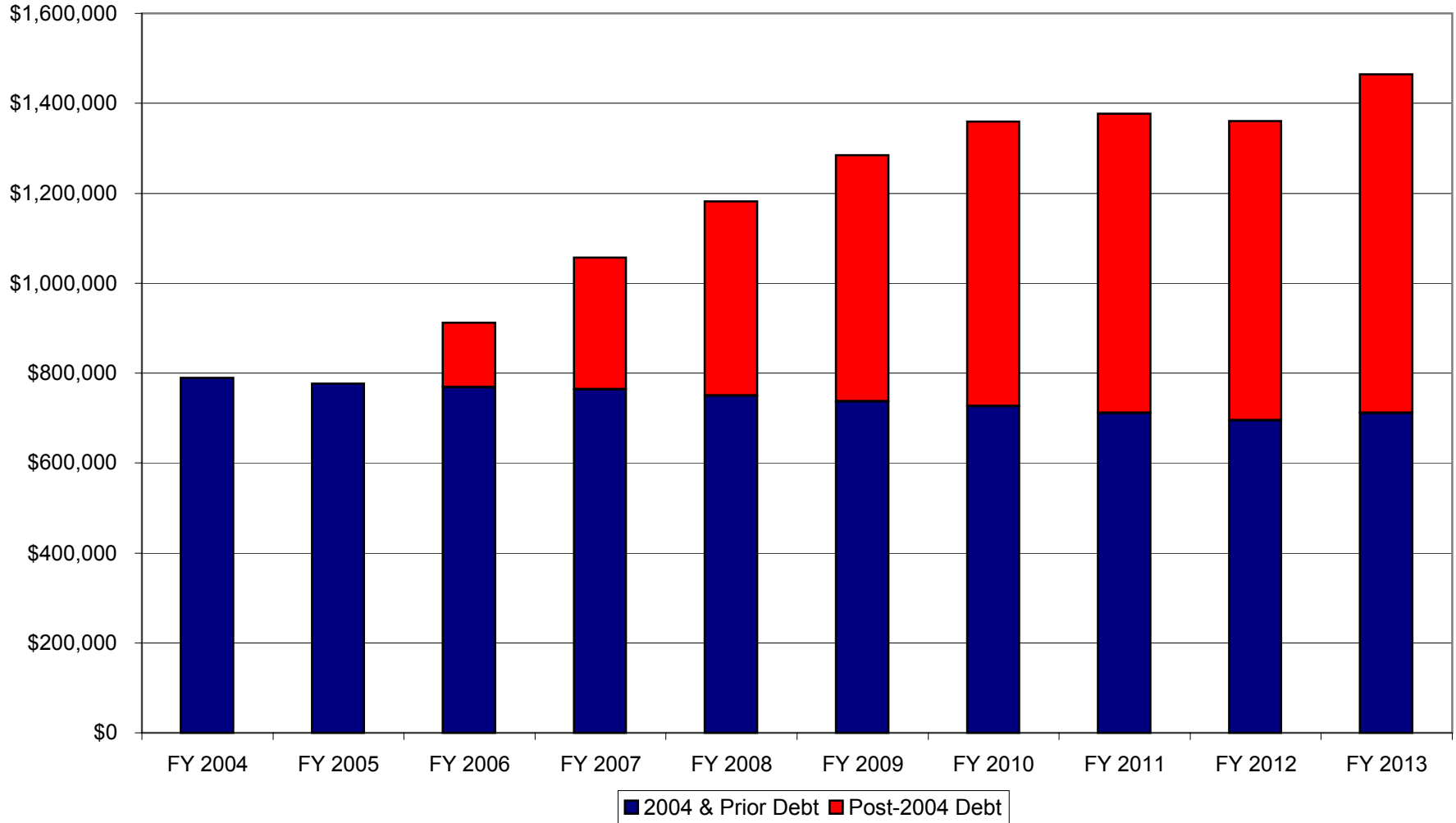


OUTSTANDING & PROPOSED DEBT SERVICE
FY 2004 - 2042
Based on FY 2004 - 2013 Financial Plan

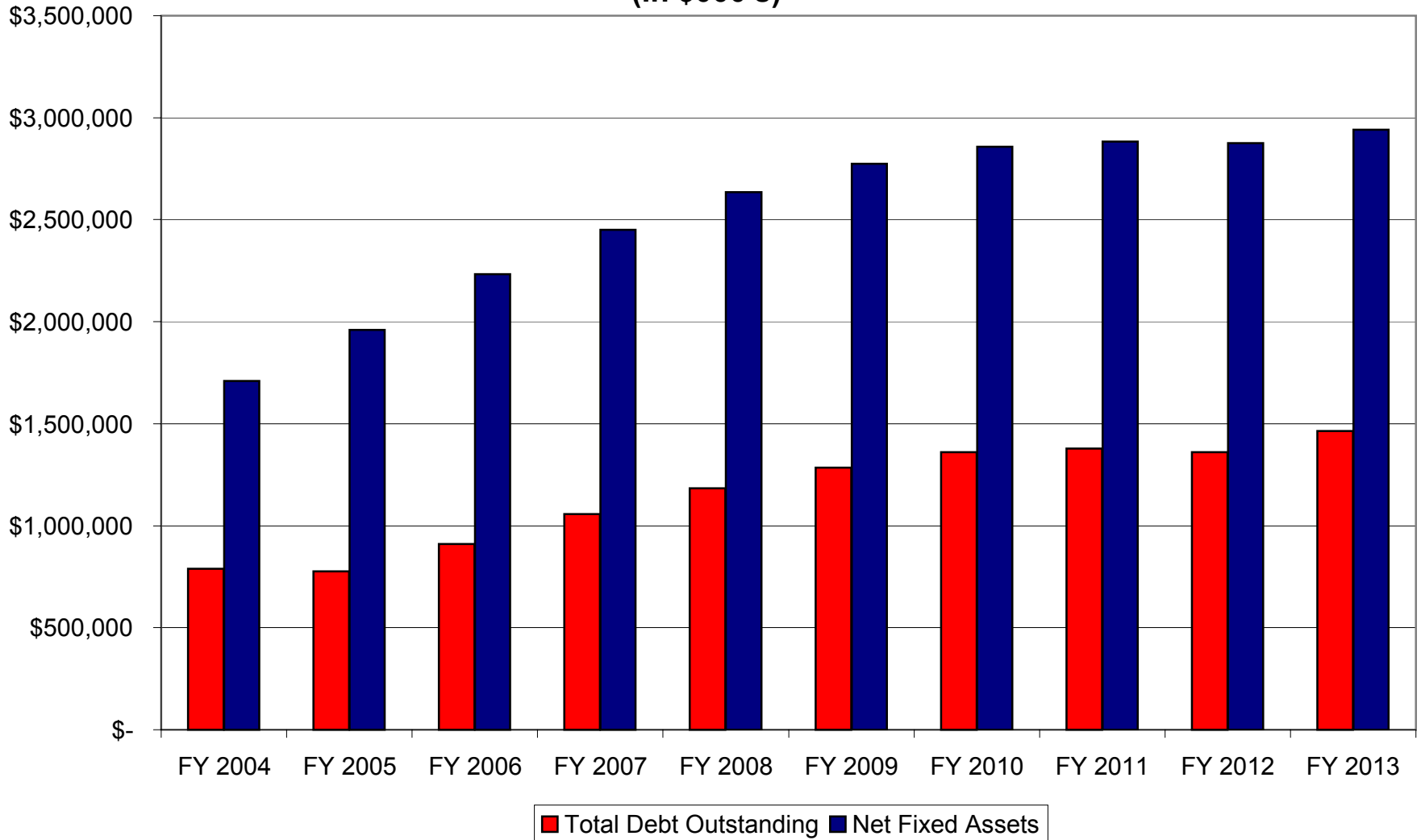


■ Outstanding Debt Service ■ Proposed Debt Service

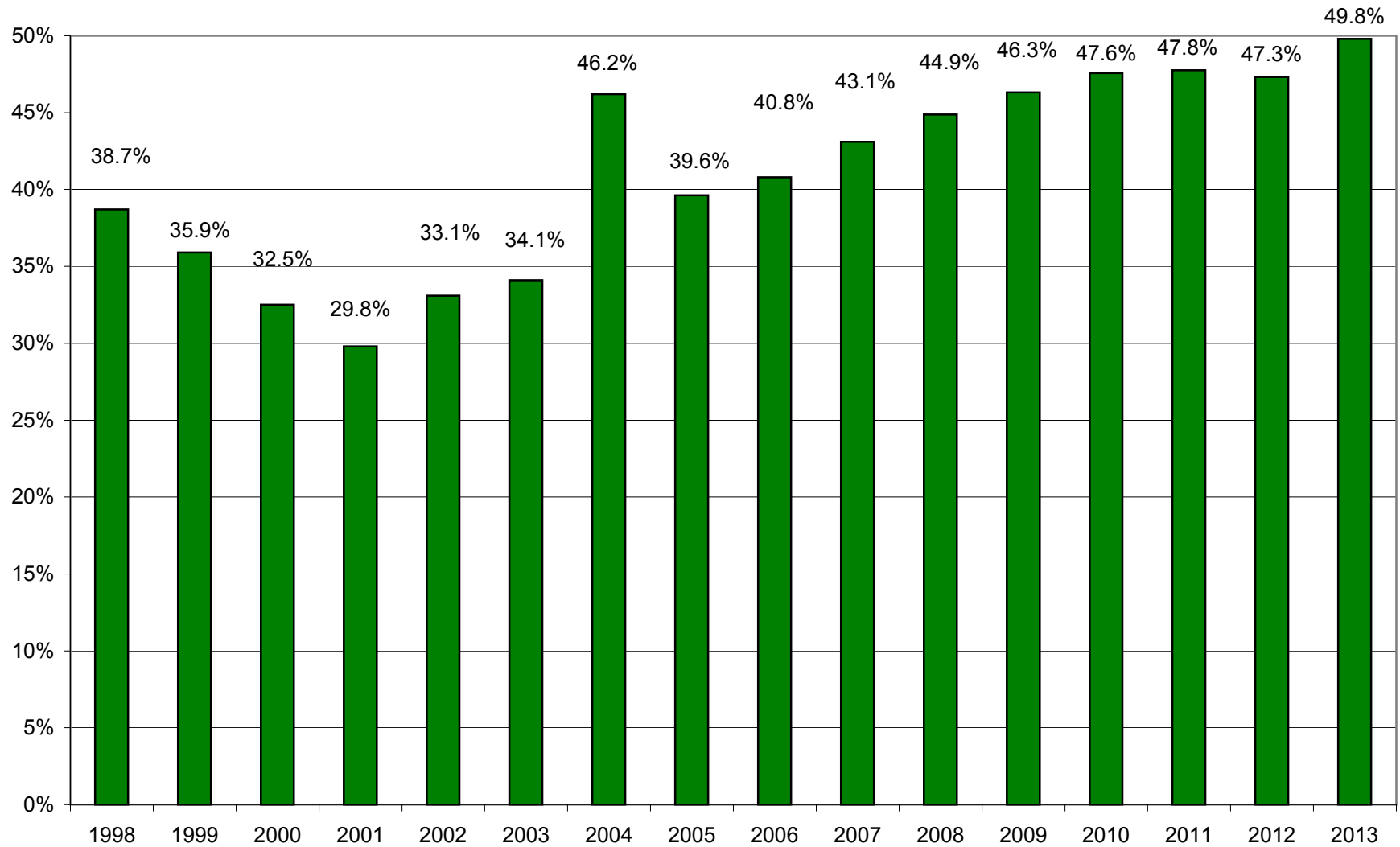
TOTAL PRINCIPAL OUTSTANDING
Existing and Projected Based on FY 2004 - 2013
Capital Improvement Program
(In \$000's)



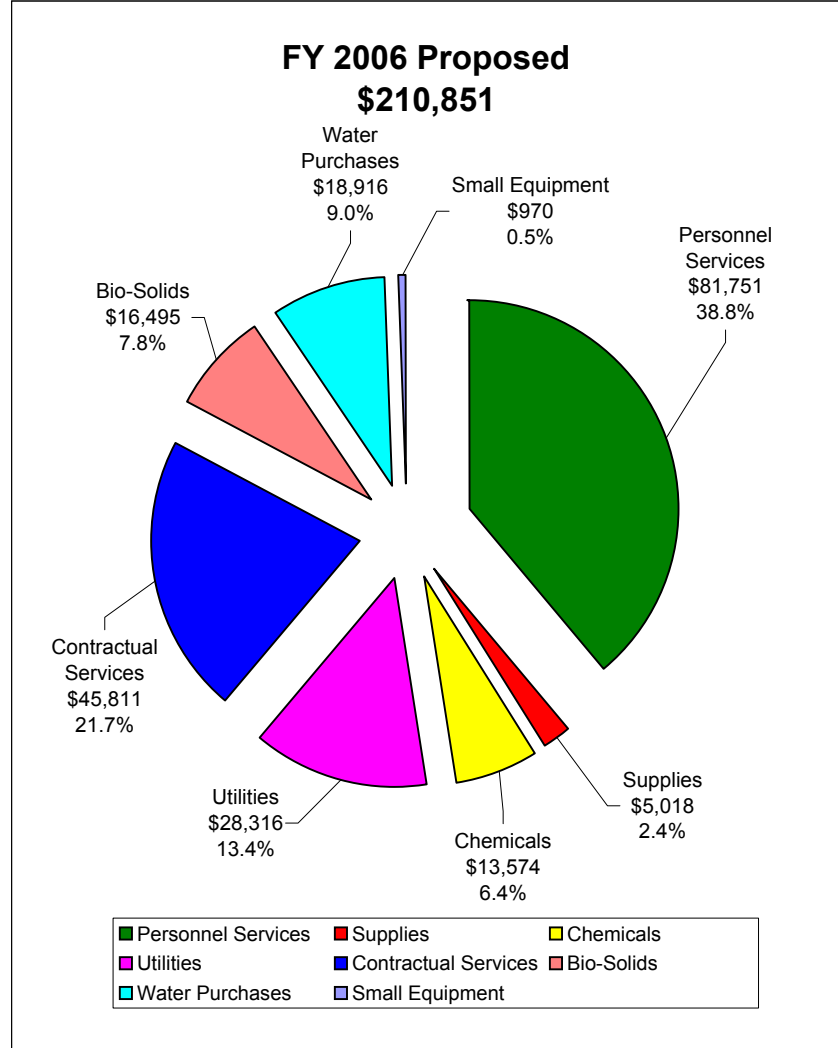
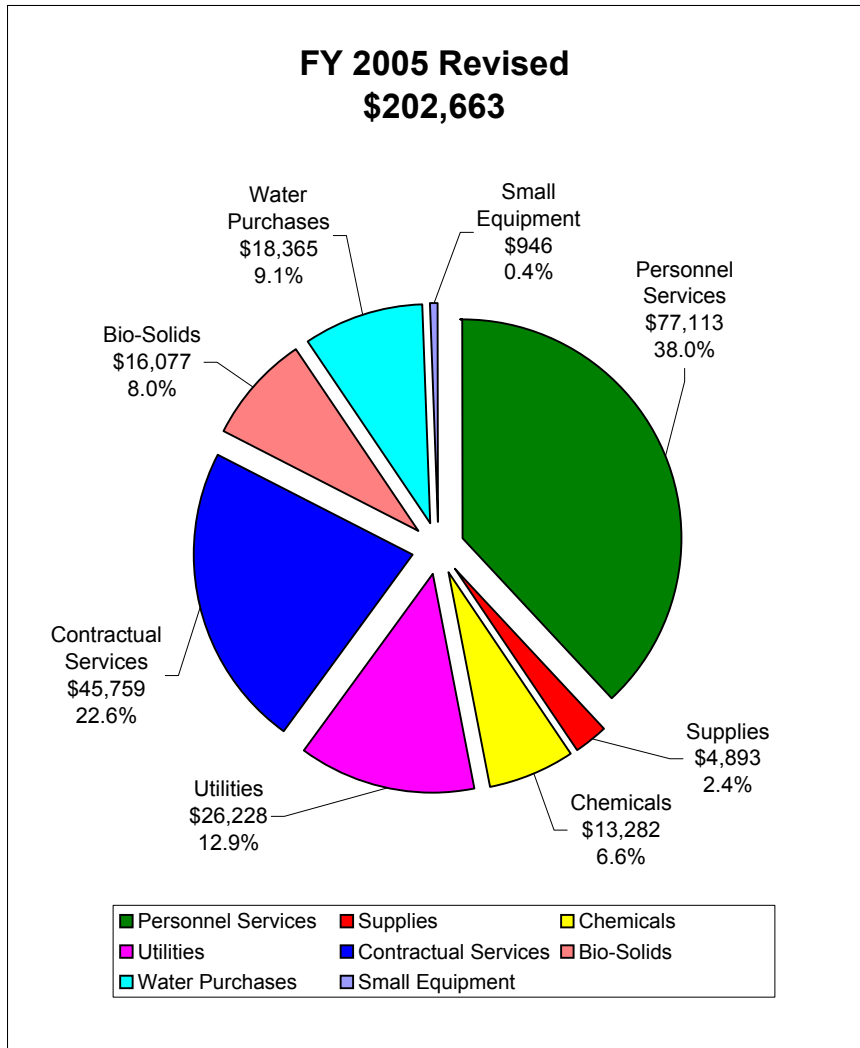
PROJECTED TOTAL DEBT VS. PROJECTED TOTAL FIXED ASSETS
FY 2004 - 2013
(In \$000's)



**DEBT TO NET FIXED ASSETS RATIO
FY 1998 - 2013**



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



Comparative Operating Expenditure Budgets
(\$000's)

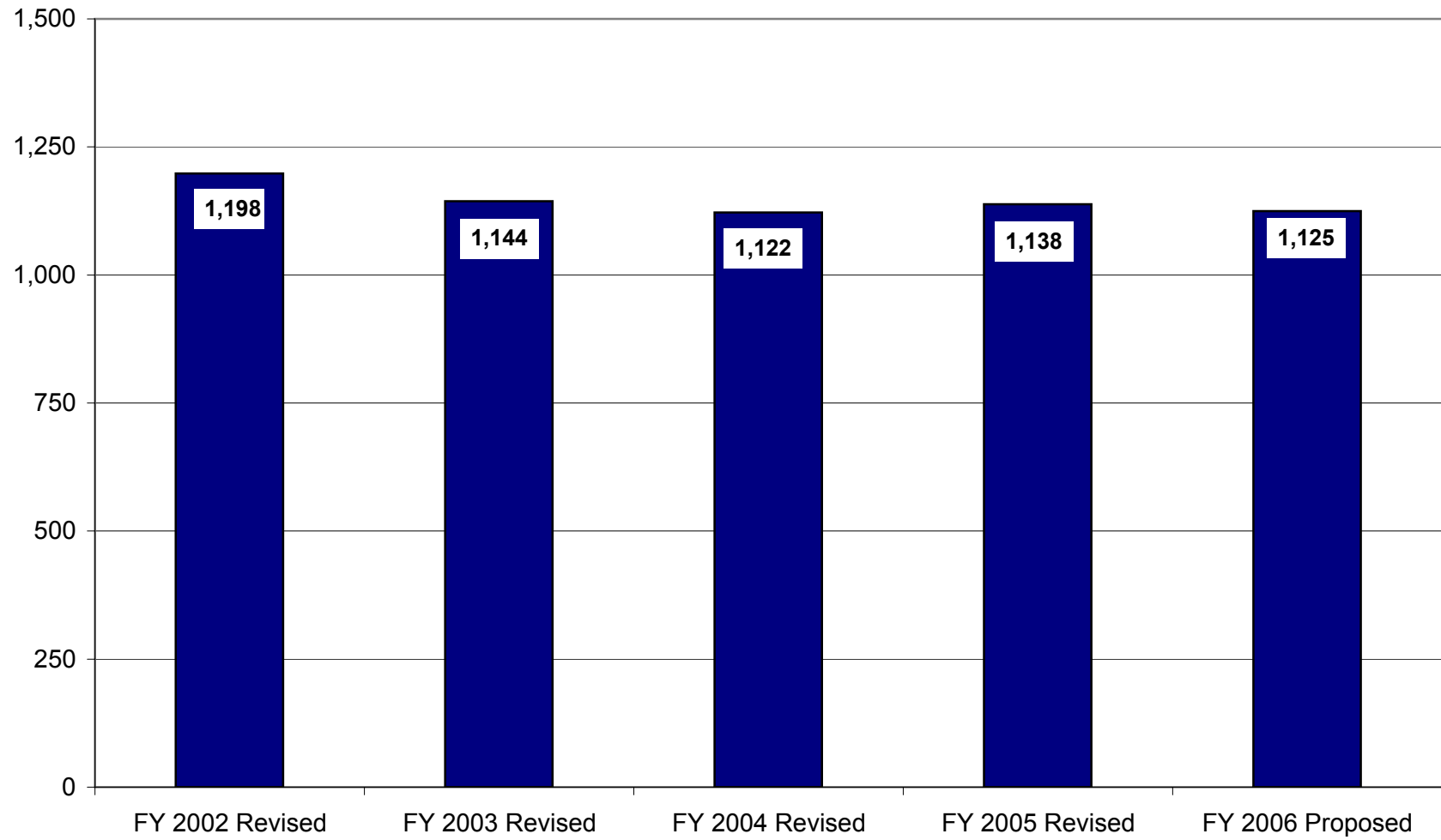
	<u>FY 2004 REVISED</u>	<u>FY 2005 APPROVED</u>	<u>FY 2005 REVISED</u>	<u>FY 2006 PROPOSED</u>
<u>OPERATING</u>				
Personnel Services	74,549	79,313	77,113	81,751
Contractual Services	63,241	62,478	61,836	62,306
Water Purchases	18,365	18,365	18,365	18,916
Chemicals and Supplies	18,789	18,874	18,175	18,592
Utilities	21,806	22,376	26,228	28,316
Small Equipment	1,307	1,279	946	970
Lead Program	11,917	-	-	-
Subtotal O & M Expenditures	<u>198,057</u>	<u>202,685</u>	<u>202,663</u>	<u>210,851</u>
Debt Service	45,055	56,298	56,298	62,579
Payment in Lieu of Taxes/ Right of Way	15,773	16,307	16,307	16,867
Total O & M Expenditures	<u>270,803</u>	<u>275,289</u>	<u>275,268</u>	<u>290,297</u>
Personnel Services charged to Capital Projects	(8,000)	(8,376)	(9,005)	(9,349)
Total Net Operating Expenditures	<u><u>262,803</u></u>	<u><u>266,913</u></u>	<u><u>266,263</u></u>	<u><u>280,948</u></u>

Comparative Operating Expenditures by Department

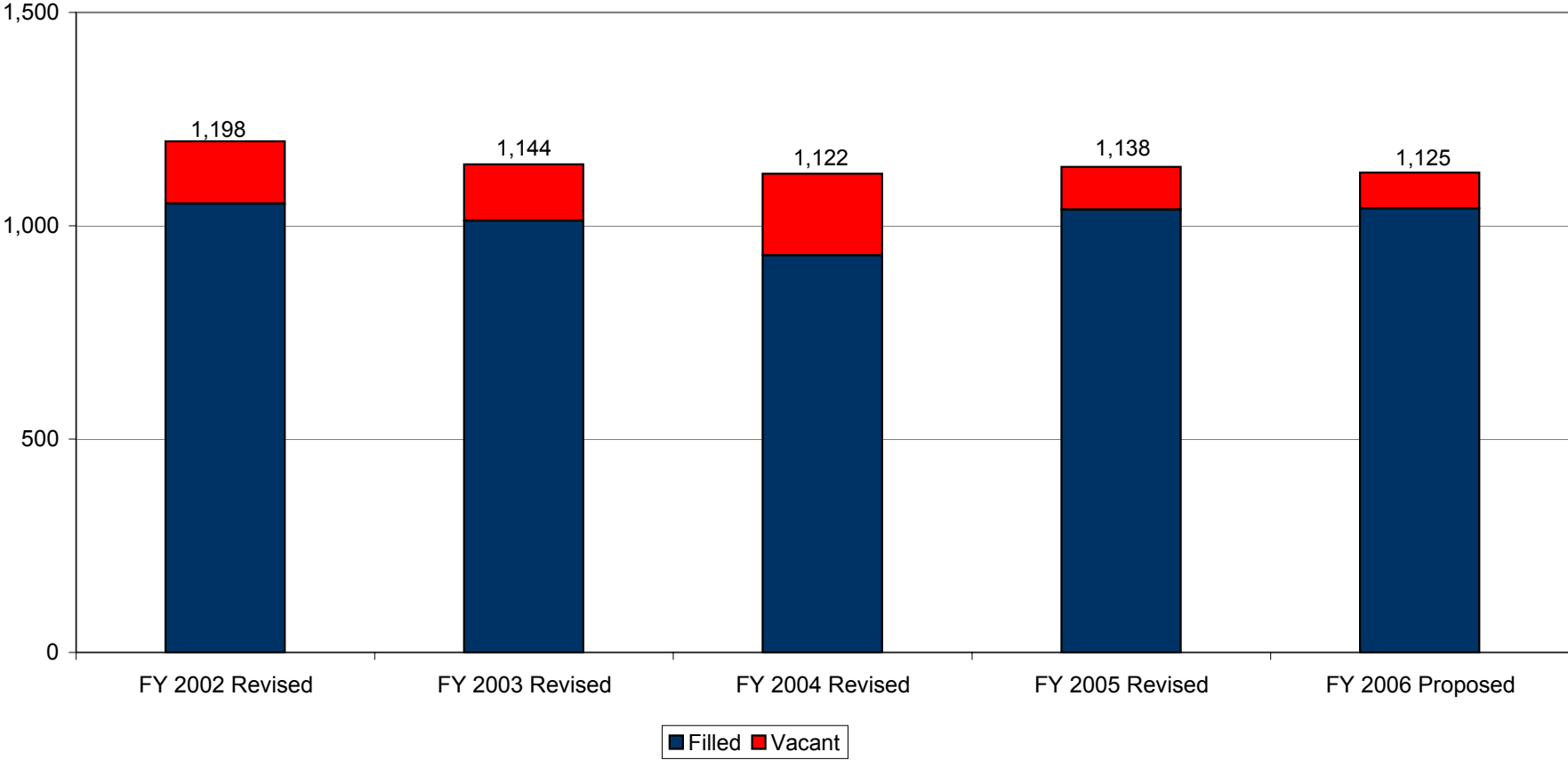
(\$000's)

		FY 2004 Revised	FY 2005 Approved	FY 2005 Revised	FY 2006 Proposed
O p e r a t i o n s	Wastewater Treatment	63,274	62,846	62,644	64,855
	Water Services	36,659	37,814	37,674	38,989
	Sewer Services	13,203	13,906	14,183	14,955
	Maintenance Services	20,945	21,386	21,157	21,679
	Engineering & Technical Services	11,674	12,384	12,245	13,642
	Customer Service	11,194	11,886	11,985	12,626
	Subtotal	<u>156,949</u>	<u>160,222</u>	<u>159,888</u>	<u>166,746</u>
A d m i n i s t r a t i o n	Office of the Secretary	372	380	538	399
	General Manager	1,119	1,178	1,281	1,337
	General Counsel	3,607	3,541	2,992	3,256
	Public Affairs	900	997	1,119	1,165
	Internal Audit	462	484	481	508
	Finance and Budget	5,539	5,798	5,817	6,063
	Information Technology	4,280	4,377	4,449	4,708
	Risk Management	6,674	6,835	7,493	7,551
	Assistant General Manager	417	429	422	540
	Facilities & Security	8,157	8,585	8,011	8,265
	Occupational Safety and Health	710	735	740	771
	Procurement & Materiel Management	2,927	3,025	3,001	3,134
	Fleet Management	2,701	2,852	2,839	2,904
	Human Resources	3,243	3,245	3,592	3,504
	Subtotal	<u>41,108</u>	<u>42,461</u>	<u>42,775</u>	<u>44,105</u>
	Subtotal O & M Expenditures	198,057	202,684	202,663	210,851
	Debt Service	45,055	56,298	56,298	62,579
Payment in Lieu of Taxes/ Right of Way	15,773	16,307	16,307	16,867	
Total O & M Expenditures	258,885	275,289	275,268	290,297	
Personnel Services charged to Capital Projects	(8,000)	(8,376)	(9,005)	(9,349)	
Total Net Operating Expenditures	<u>250,885</u>	<u>266,913</u>	<u>266,263</u>	<u>280,948</u>	

Authorized Positions FY 2002 - FY 2006



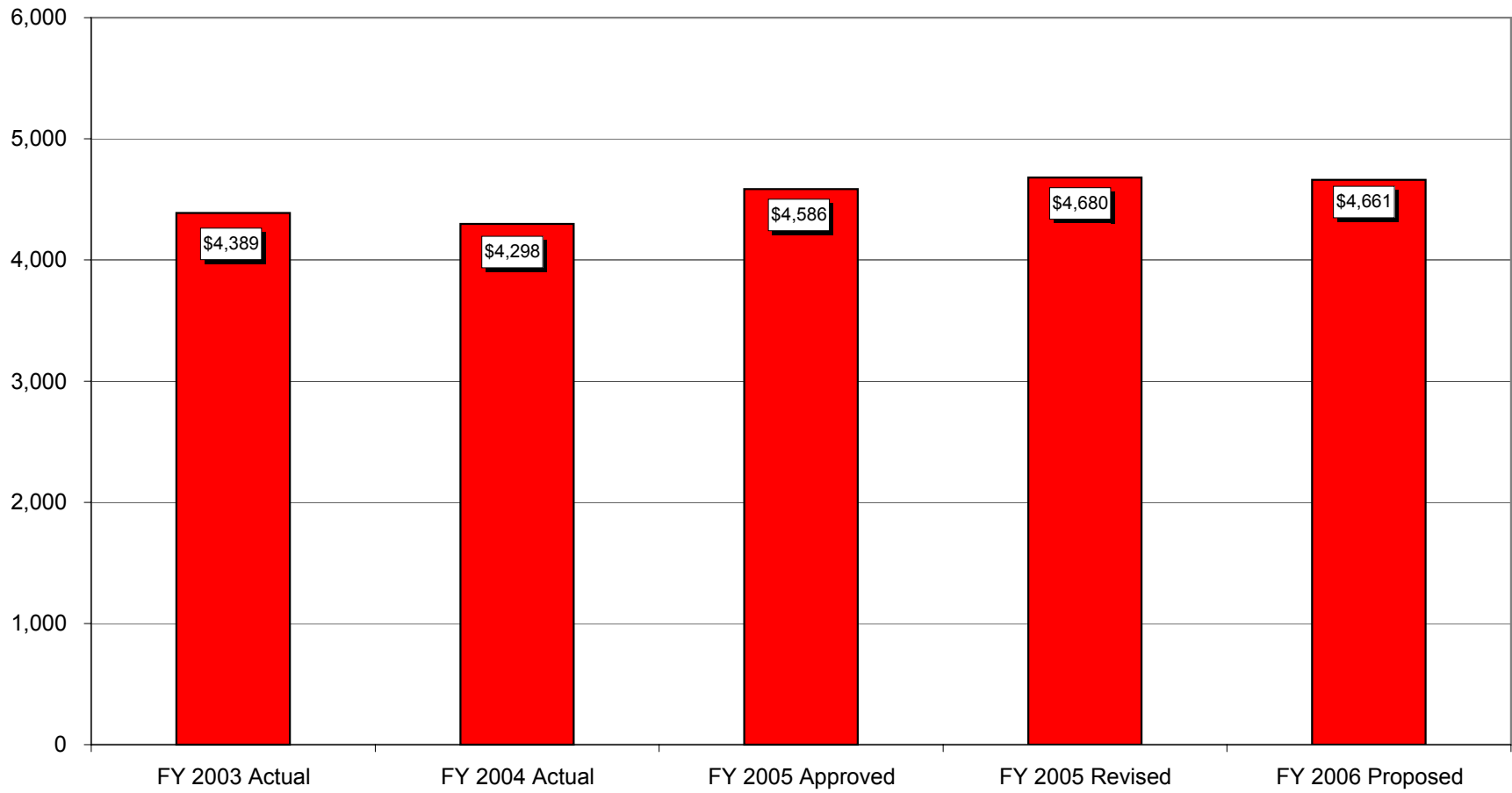
**Filled vs. Vacant Positions
FY 2002 - FY 2006**



FY 2005 Revised & FY 2006 Proposed Position Request

	Fiscal Year 2003			FY 2003	Fiscal Year 2004			FY 2004	Fiscal Year 2005		Fiscal Year 2006	
	Authorized	Average Filled	Average Vacant	Year-End Filled	Authorized	Average Filled	Average Vacant	Year-End Filled	Authorized	Revised	Proposed	
O p e r a t i o n s	Wastewater Treatment	152	141	11	135	144	124	14	117	144	145	133
	Water Services	170	145	25	134	170	130	36	129	158	158	158
	Sewer Services	160	145	15	144	160	134	(9)	130	159	159	159
	Maintenance Services	194	178	16	176	190	169	90	163	182	181	178
	Engineering & Technical Services	118	100	18	100	118	100	26	101	118	125	125
	Customer Service	110	94	16	87	105	92	105	94	119	123	123
	Subtotal	904	803	101	776	887	749	138	734	880	891	876
A d m i n i s t r a t i o n	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	7	7
	General Counsel	10	9	1	8	10	7	3	8	10	12	14
	Public Affairs	5	3	2	4	5	4	1	4	5	8	8
	Internal Audit	4	3	1	4	4	3	1	3	4	4	4
	Finance	42	38	4	37	42	36	6	34	42	43	43
	Information Technology	29	15	14	18	29	16	13	14	29	29	29
	Risk Management	3	3	-	3	3	2	1	2	3	3	3
	Assistant General Manager	4	3	1	3	4	3	1	3	3	4	4
	Facilities and Security	63	60	3	56	63	54	9	57	64	64	64
	Occupational Safety and Health	6	6	-	6	6	6	-	6	6	6	6
	Procurement & Materiel Management	40	38	2	36	40	37	3	35	38	38	38
	Fleet Management	5	5	-	4	5	5	-	5	5	5	5
	Human Resources	21	19	2	19	21	20	1	19	21	22	22
	Subtotal	240	209	31	205	240	200	40	197	238	247	249
	Total Positions	1,144	1,012	132	981	1,127	949	178	931	1,118	1,138	1,125

Overtime Expenditures
FY 2003 - FY 2006
(\$000's)

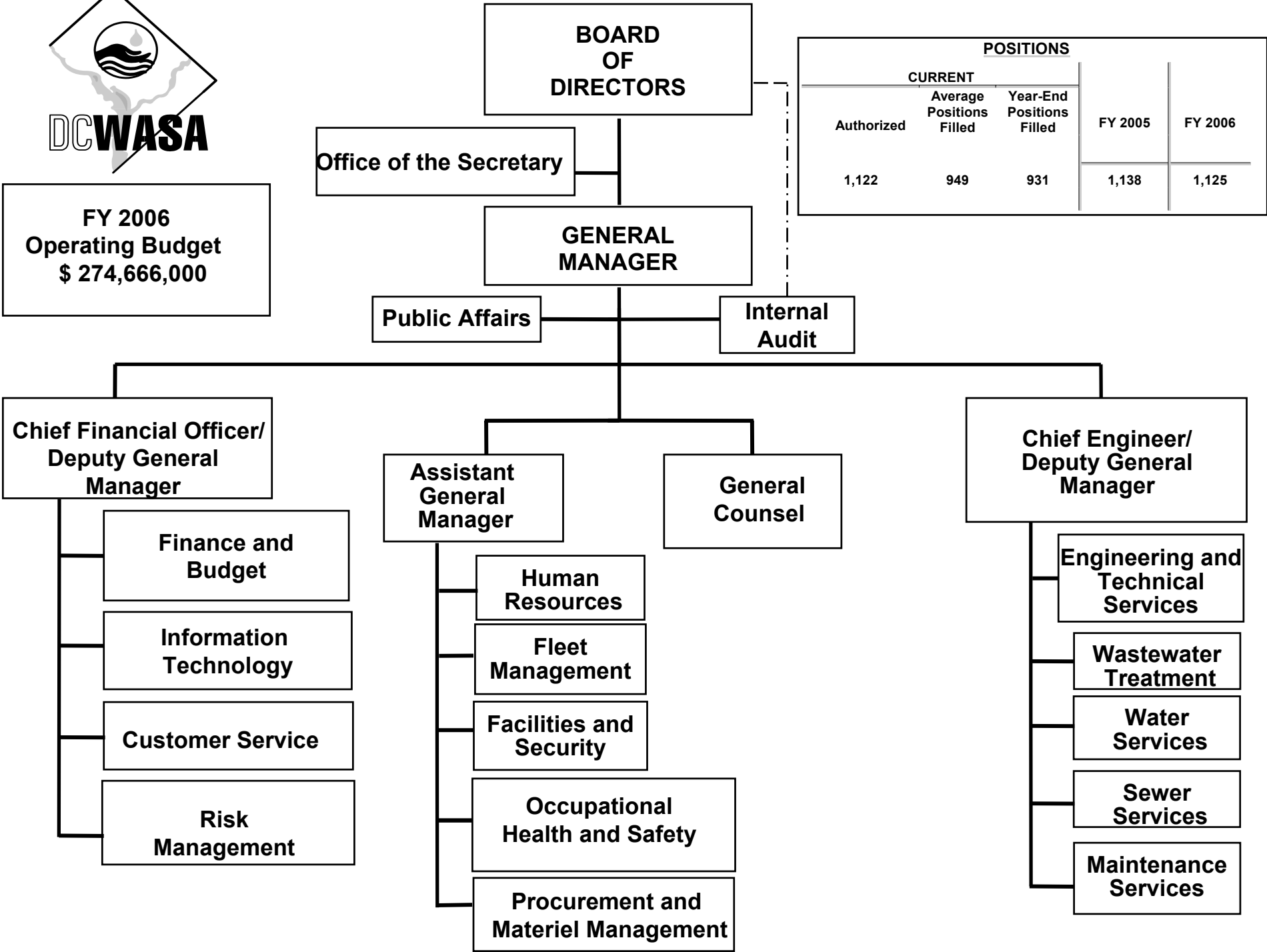


OVERTIME BY DEPARTMENT
(\$000's)

Department	FY 2003 Actual	FY 2004 Revised	FY 2004 Actual	FY 2005 Approved	FY 2005 Revised	FY 2006 Proposed
Wastewater Treatment	890	1,021	837	964	948	929
Water Services	1,001	978	874	978	978	978
Sewer Services	854	882	869	882	882	882
Maintenance Services	909	800	827	800	800	800
Engineering & Technical Services	237	425	328	425	425	425
Customer Service	190	200	217	200	300	300
Secretary to the Board of Directors	2	2	2	2	2	2
General Manager	13	15	28	15	25	25
General Counsel	1	2	1	2	2	2
Public Affairs	1	2	0	2	2	2
Internal Audit	0	0	0	0	0	0
Finance & Budget	30	40	39	40	40	40
Information Technology	22	50	30	50	50	50
Risk Management	2	2	0	2	2	2
Assistant General Manager	1	2	2	2	1	1
Facilities & Security	192	142	156	142	142	142
Occupational Safety & Health	1	1	0	1	1	1
Procurement & Materiel Management	38	52	32	52	52	52
Fleet Management	1	2	0	2	3	3
Human Resources	2	25	5	25	25	25
Lead Services	-	-	50	-	-	-
Total	4,389	4,643	4,298	4,586	4,680	4,661



**FY 2006
Operating Budget
\$ 274,666,000**



POSITIONS				
Authorized	CURRENT		FY 2005	FY 2006
	Average Positions Filled	Year-End Positions Filled		
1,122	949	931	1,138	1,125



**FY 2006 Budget
\$ 64,855,000**

**CHIEF
ENGINEER**

**WASTEWATER
TREATMENT
4- Positions**

POSITIONS				
Authorized	CURRENT		FY 2005	FY 2006
	Average Positions Filled	Year-End Positions Filled		
144	125	124	145	133

**General Foremen
4- Positions**

FUNCTIONS

- Plant shift supervision (24/7)

**Process Engineering
8- Positions**

FUNCTIONS

- Process control, coordination with design and construction, plant automation (PCS)

**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
34 - Positions**

FUNCTIONS

- Biosolids conditioning, thickening, dewatering, and stabilization

**Wastewater
Treatment
Branch
66 - Positions**

FUNCTIONS

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

**Biosolids
Management
Branch
6 - 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 2005 budget is approximately \$0.2 million less than the approved FY 2005 budget due to lower personnel service costs because of higher vacancy rates in line with prior years' actual staffing level and lower biosolids costs. These reductions are offset by higher electricity costs due to deregulation in the District. The FY 2006 proposed budget is \$1.7 million higher due to higher electricity costs, scheduled biosolids contract increases, and projected compensation increases.

	FY 2004 Revised	FY 2005 Approved	FY 2005 Revised	FY 2006 Proposed
Positions: (FTE's)				
Number of authorized positions	144	144	145	133
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	9,951	10,392	9,463	9,968
Overtime	1,021	964	948	929
Non-Personnel Services:				
Chemicals & Supplies	14,299	14,299	13,625	13,967
Utilities	14,614	14,934	17,718	19,360
Contractual Services, etc.	7,302	5,911	5,665	4,970
Biosolids	16,952	17,171	16,077	16,495
Small Equipment	156	140	96	95
Total Non-Personnel Services	53,323	52,455	53,181	54,887
Total Operations	63,274	62,847	62,644	64,855
Capital Equipment	112	52	102	58

Targeted Performance Measures	FY 2004 Projection	FY 2005 Budget	FY 2005 Projection	FY 2006 Projection
Achieve AMSA Award Status	Silver	Gold	Gold	Gold
Compliance with disposal of biosolids regulations (%)	100% Compliance	100% Compliance	100% Compliance	100% Compliance
Inspection and Sampling of Pretreatment Permittees (%)	100 % Complete	100 % Complete	100 % Complete	100 % Complete
Obtain 90% acceptable results on discharge monitoring report quality assurance samples	90% Acceptable results	90% Acceptable results	90% Acceptable results	90% Acceptable results

WASTEWATER TREATMENT

OVERVIEW

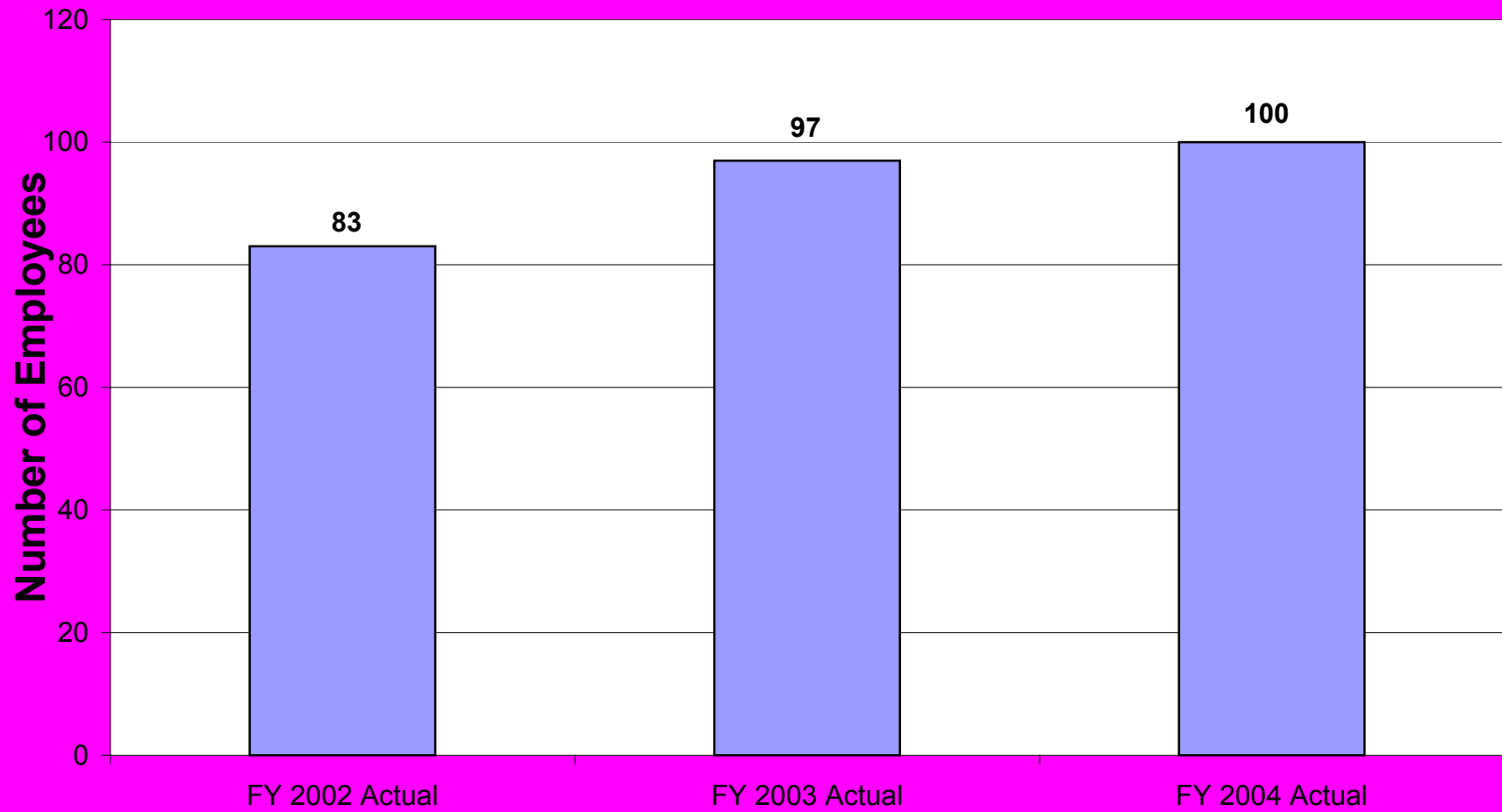
FY 2005 Major Recommended Activities and Changes

- Maintain full compliance with NPDES permit
- Actively participate in new digester gas use alternative analysis and decision making
- Evaluate specific IIP staffing and operational requirements, by year, to fully implement CIP and management changes
- Actively participate in electric procurement to ensure lowest cost and reliability of service, including the addition of a new position to focus on energy management
- Continue phased Implementation of additional dewatering facilities which are scheduled to be completed in early FY 2005 and which will reduce contractual dewatering costs
- 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 Upgrade
 - Process Control Computer System
 - Additional Chemicals System
 - Primary Treatment Upgrades
 - Filtration and Disinfection Upgrades
 - Digester Construction
 - Grit and Screens Facilities upgrade
- Continue to work with Maryland and Virginia on 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

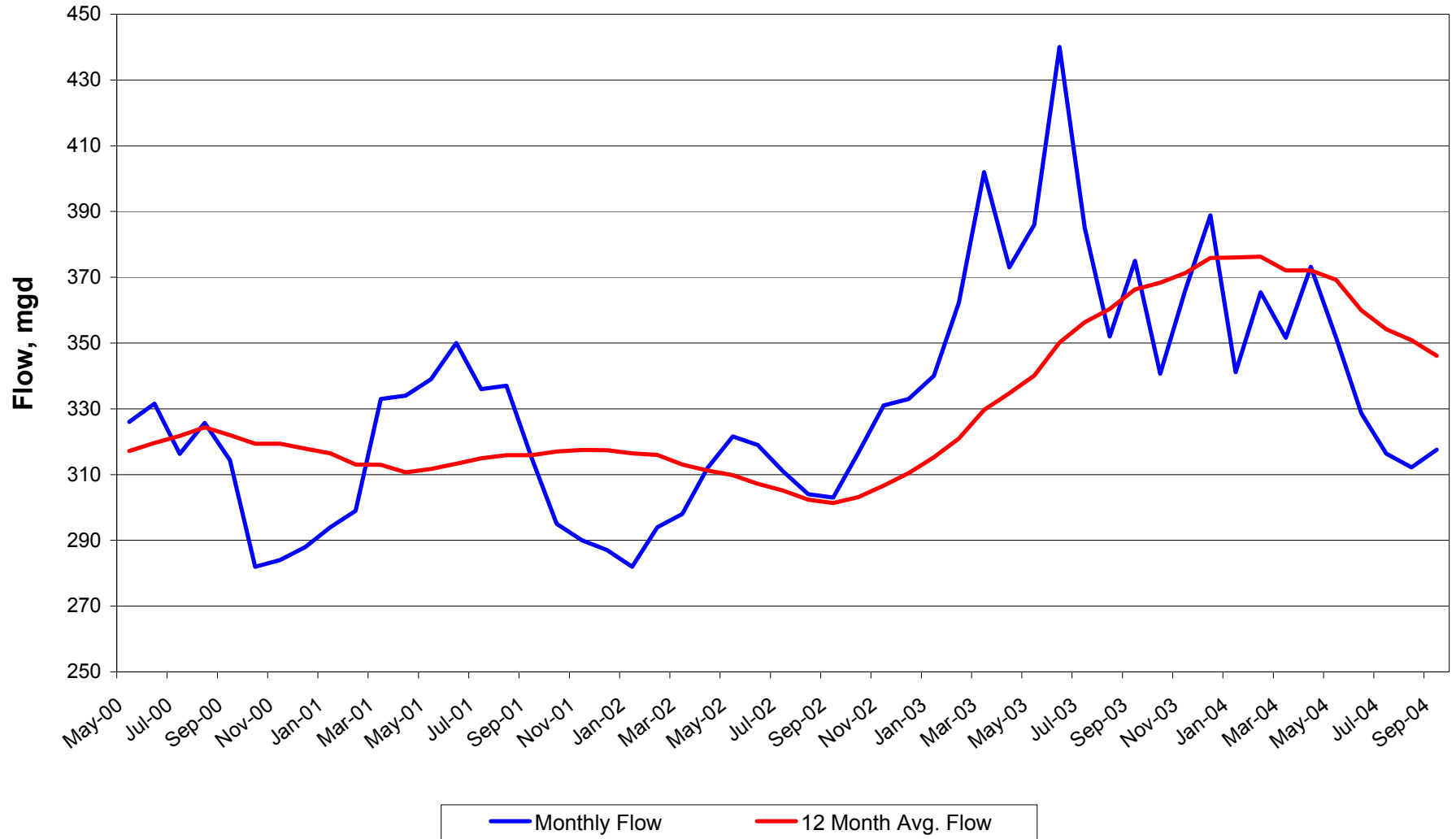
FY 2006 Major Recommended Activities and Changes

- Continue to implement IIP based on results of 2005 evaluation
- Continue conducting wastewater treatment process research to enhance plant performance
- Continue to implement the upgrade of influent screen facilities by replacing the coarse screens with fine screen technology
- Continue operation of treatment facilities during construction of the following CIP projects:
 - Secondary Treatment Upgrades
 - Process Control Computer System
 - Filtration and Disinfection Upgrades
 - Digester Construction
 - Grit and Screens Facilities upgrade

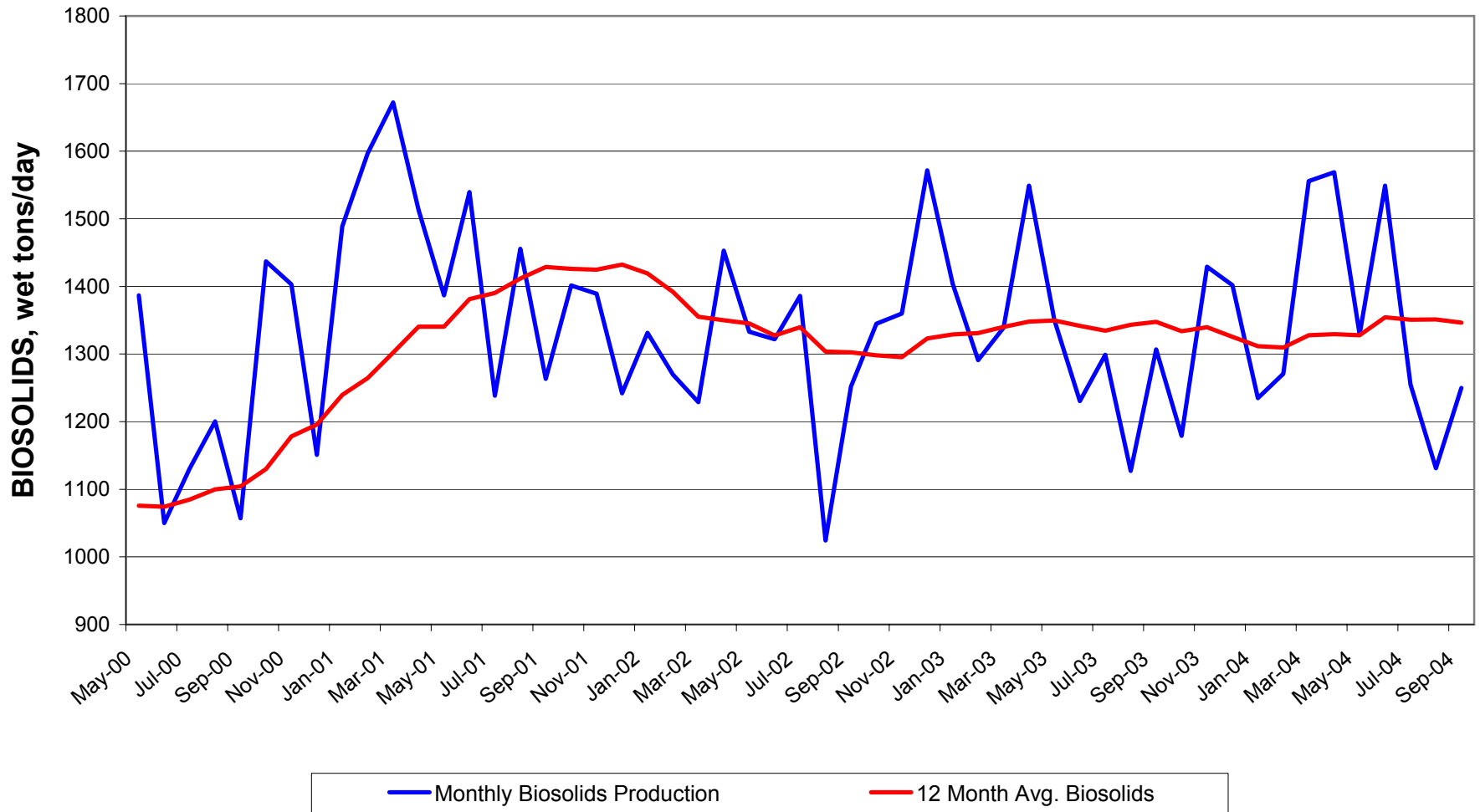
CERTIFIED OPERATORS



**BLUE PLAINS WASTEWATER TREATMENT PLANT
EFFLUENT FLOW PRODUCTION
MAY 2000 - SEPTEMBER 2004**

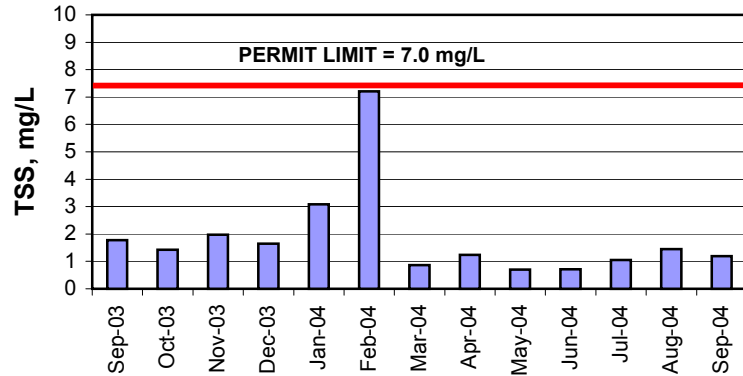


**BLUE PLAINS WASTEWATER TREATMENT PLANT
BIOSOLIDS PRODUCTION
MAY 2000 - SEPTEMBER 2004**



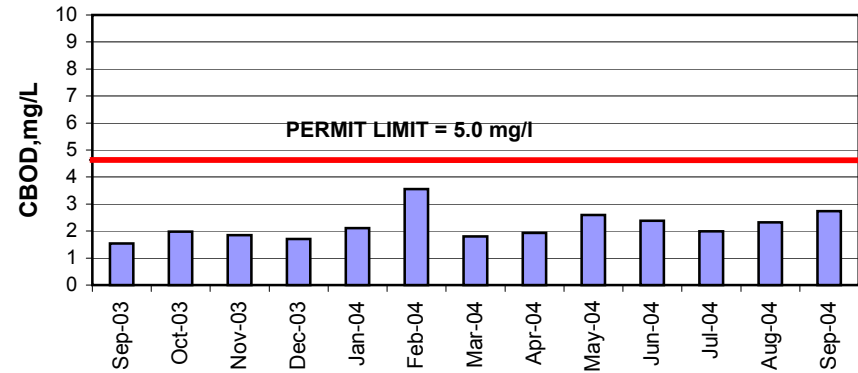
**BLUE PLAINS WASTEWATER TREATMENT PLANT
PLANT EFFLUENT QUALITY
SEPTEMBER 2003 - SEPTEMBER 2004**

**MONTHLY AVERAGE
EFFLUENT SUSPENDED SOLIDS**



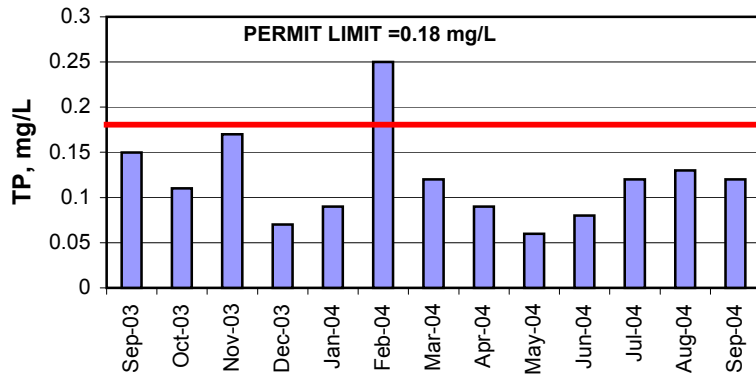
Effluent Total Suspended Solids (TSS) is a measure of the amount of solid material that remains suspended after treatment.

**MONTHLY AVERAGE
EFFLUENT CBOD**



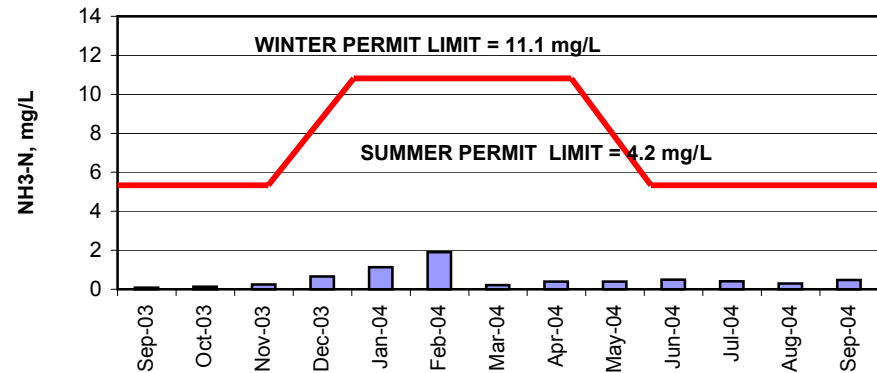
Carbonaceous Biochemical Oxygen Demand (CBOD) is a measure of the amount of dissolved oxygen required for the decomposition of organic materials.

**MONTHLY AVERAGE
EFFLUENT TOTAL PHOSPHORUS**



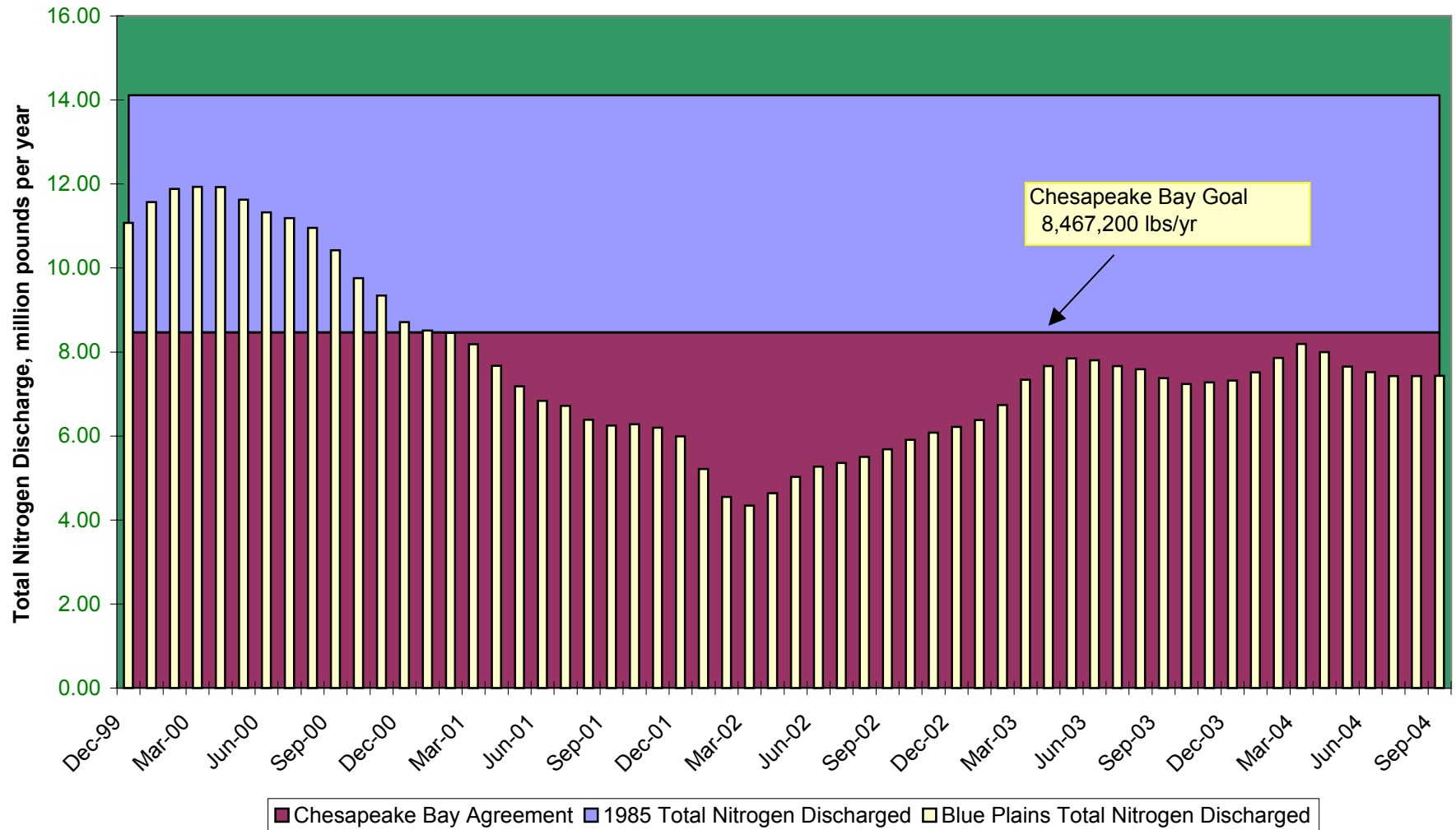
The total Phosphorus (TP) is a measure of the particulate and dissolved phosphorus in the effluent.

**MONTHLY AVERAGE
EFFLUENT AMMONIA NITROGEN**



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

Annual Total Nitrogen Load, pounds per year





**FY 2006 Budget
\$38,989,000**

**CHIEF
ENGINEER**

**WATER
SERVICES
4 - Positions**

POSITIONS				
CURRENT			FY 2005	FY 2006
Authorized	Average Positions Filled	Year-End Positions Filled		
158	130	129	158	158

**Pumping
Services
14 - Positions**

**Distribution
Branch
61 - Positions**

**Investigation &
Operations
44 - Positions**

**Technical
Support Services
6 - Positions**

**Water Quality
29 - Positions**

FUNCTIONS

- Operate and maintain pumping stations, water storage, and high pressure boilers
- 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
- Support departmental safety efforts

FUNCTIONS

- Water main repair, replacement and extension
- Water service line repair and replacement
- Valve replacement
- Tap / tap abandonment
- Contract support for Capital Improvement Program (CIP) projects
- Hydrant replacement
- Inventory management
- Support departmental safety efforts

FUNCTIONS

- Investigation and servicing of customer issues
- Work order and service order coordination
- Hydrant operation and maintenance
- Valve operation and maintenance
- Exercise valves
- Minor leak repairs
- Scheduled & emergency shuts
- Contract support for Capital Improvement Program (CIP) projects
- Inventory management
- Support Departmental safety efforts

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
- Manage the Fire Hydrant Program
- Track all valve closures in the system
- Support departmental safety efforts

FUNCTIONS

- Lead service line replacement program and ongoing lead and copper testing
- Environmental Protection Agency (EPA) compliance monitoring
- Corrosion control and monitoring
- Unidirectional flushing program
- Cross connection program
- Chloramination treatment monitoring
- Co-operative water quality ventures and outreach
- Conduct studies of corrosion issues
- Overall water quality monitoring
- Publication of annual Consumer Confidence report
- Public notification and regulatory monitoring
- Support departmental safety efforts
- Implement a comprehensive, customer oriented water conservation program

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 2005 budget is approximately \$0.1 million less than the approved FY 2005 budget, due to reduced personnel services costs reflecting historically high vacancy rates. This decrease is offset by increased electricity charges. The proposed FY 2006 budget increases by \$1.3 million due to projected compensation increases and higher water purchases costs at the Washington Aqueduct.

	FY 2004 Revised	FY 2005 Approved	FY 2005 Revised	FY 2006 Proposed
Positions: (FTE's)				
Number of authorized positions	158	158	158	158
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	9,770	10,765	10,079	10,640
Overtime	978	978	978	978
Non-personnel Services:				
Chemicals and Supplies	704	789	809	809
Utilities	3,637	3,711	4,258	4,461
Contractual Services, etc.	4,051	4,053	4,053	4,053
Water Purchases	18,365	18,365	18,365	18,916
Small Equipment	132	132	110	110
Total Non-Personnel Services	26,889	27,050	27,595	28,349
Total Operations & Maintenance	36,659	37,814	37,674	38,989
Capital Equipment	658	667	717	673

Targeted Performance Measures	FY 2004 Projection	FY 2005 Budget	FY 2005 Projection	FY 2006 Projection
Maintain full compliance with Safe Drinking Water Act standards for positive coliform results (less than 5%) ¹	>5%	< 5%	< 5%	< 5%
Flush 500 - 1,300 miles of distribution system annually ²	597	500	500 - 1,300	500 - 1,300
Exercise 10,000 - 15,000 valves annually ²	10,456	15,000	15,000	15,000
Maintain a 99.5% fire hydrant operational rate ²	99.20%	99.0%	99.0%	99.0%
Respond to all water leaks within 45 minutes ²	59% within 45 minutes	within 45 minutes	within 45 minutes	within 45 minutes
Repair 90% of reported main leaks within 10 days ²	78%	90%	90%	90%

Notes:

1. In September 2004, WASA experienced an exceedance of the total coliform maximum contaminant level due to the Aqueduct's addition of orthophosphate to the water system to address lead issues. In FY 2005, WASA is undertaking an analysis of simultaneous compliance issues, an example of which is the total coliform exceedance which occurred because of efforts to comply with regulations regarding lead levels.

2. In FY 2005, WASA will be conducting an overall review of all water system operations and performance measures and will revise future years' measures as appropriate.

WATER SERVICES

OVERVIEW

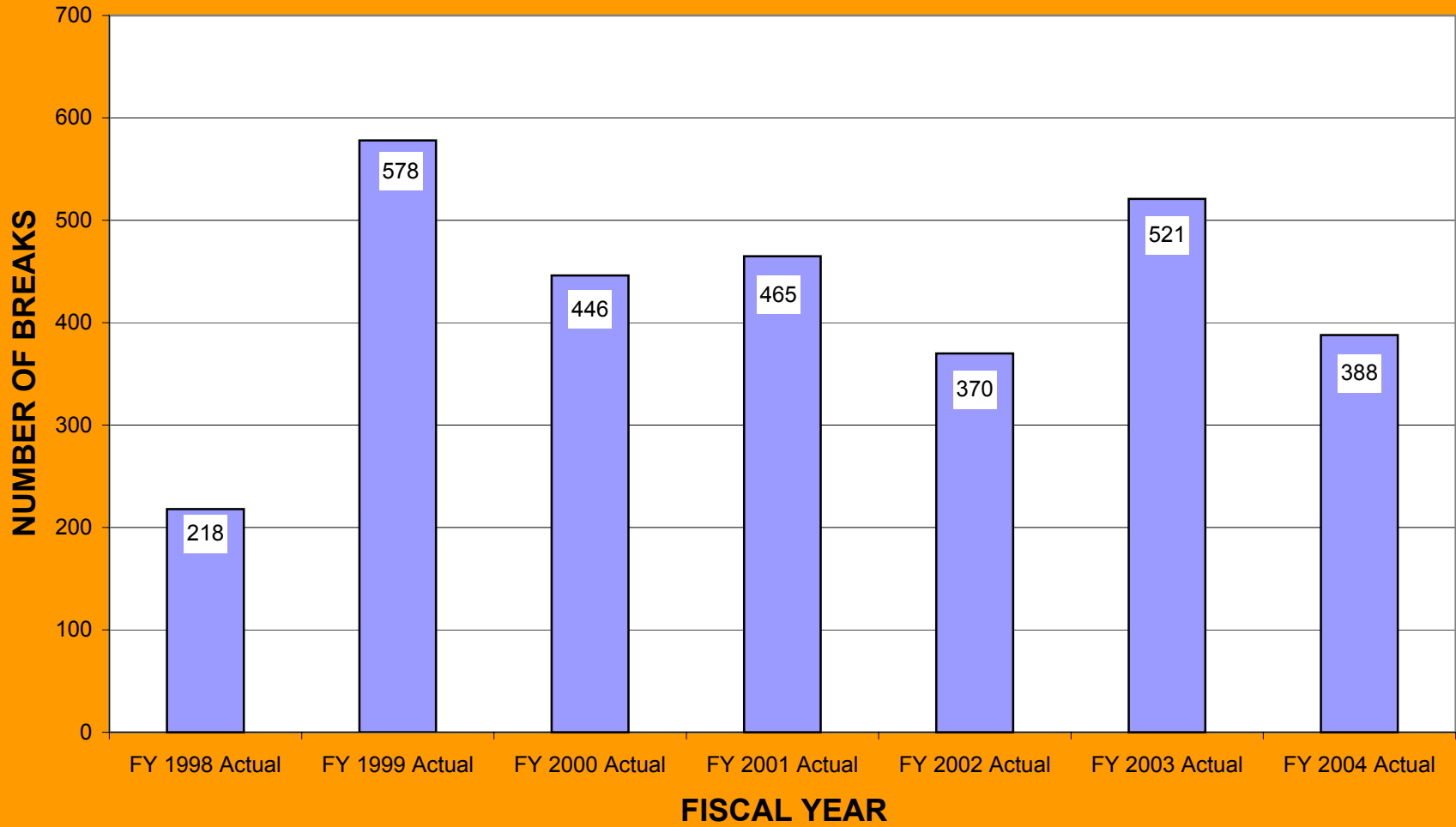
FY 2005 Major Recommended Activities and Changes

- Participate in WASA's lead service line replacement program
- Determine a more optimal chemical treatment regime for the portable water system in conjunction with the WASA's Water Quality Program (WQP) has initiated bench scale corrosion studies, loop testing and analysis, and pipe profiling to support this effort
- Assume a more active role in collecting and analyzing water samples, a function currently performed by the Washington Aqueduct, including increasing in-house lab capabilities for supplemental water quality monitoring
- Research into new strategies and testing new technologies will also be a priority
- Utilize advance technology, including toxicity meters, to monitor water quality for chemical contamination in the event of terrorist threats
- Redirect and administer the Authority's water conservation program
- Continue unidirectional flushing activities as part of WASA's water quality focus and devise new flushing program based on results of lead related flushing in FY 2004
- Reorganize the water distribution section. The reorganized system will consist of consist of a distribution branch, and an investigation and operations branch
- Initial implementation of a new asset management system
- Support Capital Improvement (CIP) efforts, including Bryant Street pumping station, valve replacement, dead-end elimination, and main rehabilitation
- Reevaluate and implement ongoing valve exercise operation program

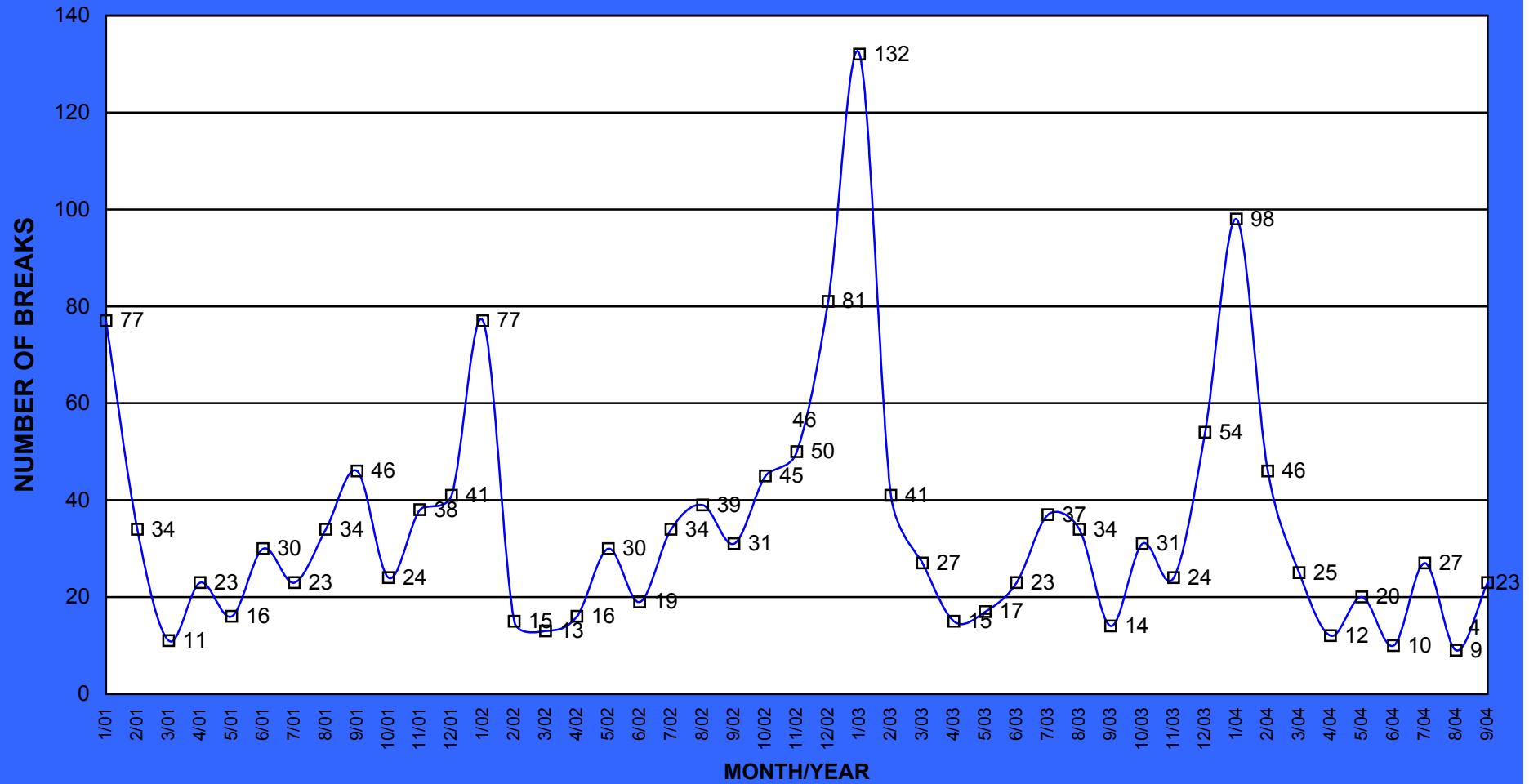
FY 2006 Major Recommended Activities and Changes

- Continue to implement IIP recommendations:
 - Develop employees' technical competency and customer relations' skills and their understanding of safe work practices
 - Continue training program development
 - Develop and implement Standard of Procedure
 - Continue the development of flexible work force
 - ✓ Update job descriptions in alignment with transition goals
 - ✓ Benchmark with other utilities on transition efforts
- Continue Asset Management System, including location of inventory, utilizing GPS coordinates on all distribution system valves and other assets
- Continue to restore the baseline condition status of the Fire Hydrants
- Monitor and enforce the cross connection control program (commercial and residential)
- Review and address chloramines treatment and related issues
- Implement Automatic Flushing program in conjunction with dead-end elimination program
- Install dedicated flushing devices to address system specific positives (contamination)
- 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
- Continue to support the SCADA system upgrade program
- Participate in WASA's lead service line replacement program
- Reevaluate and implement water audit and leak detection program as part of efforts to reduce solid-pumped ratio

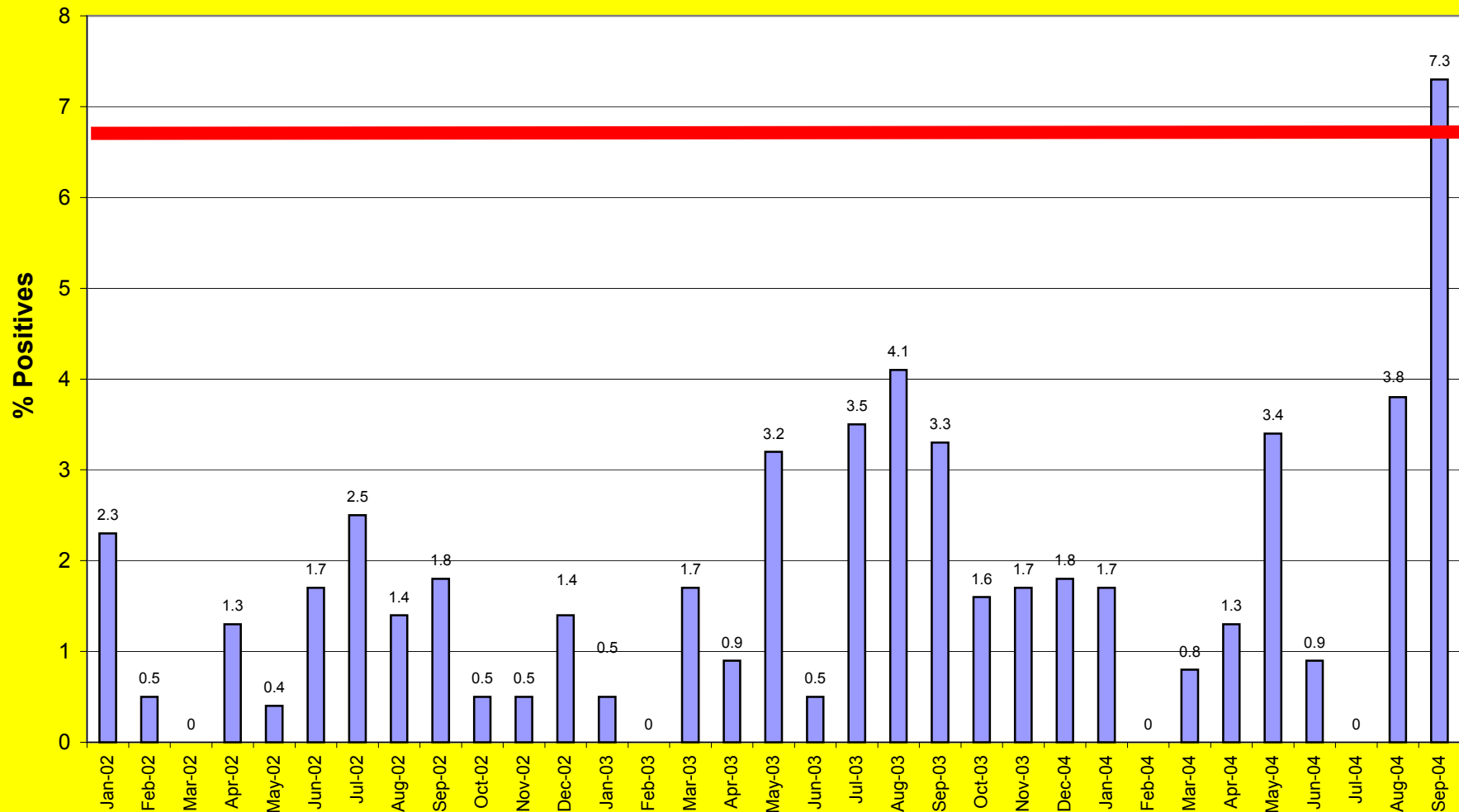
HISTORICAL WATER MAIN BREAKS FY 1998 - FY 2004



HISTORICAL MONTHLY MAIN BREAKS 2001 - 2004



**DC DRINKING WATER TOTAL COLIFORM RESULTS
2002 - 2004**
EPA Maximum Contaminant Levels = 5% positives per month



NOTE: The September 2004 exceedance appears to be related to the Aqueduct's addition of orthophosphate to address lead in drinking water issues. In FY 2005, WASA will undertake an industry-leading analysis to address simultaneous compliance issues.



**CHIEF
ENGINEER**

**SEWER
SERVICES**

**FY 2006 Budget
\$14,955,000**

CURRENT POSITIONS			FY 2005	FY 2006
Authorized	Average Positions Filled	Year-End Positions Filled		
159	149	149	159	159

**Sewage Pumping
34 - 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
46 - Positions**

FUNCTIONS

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

**Potomac Interceptor
4 - 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 2005 budget is approximately \$0.3 million higher than the approved FY 2005 due to projected increases in electricity costs deregulation in the District. The FY 2006 proposed budget increases by \$0.8 million due to projected compensation increases and increased electricity costs.

	FY 2004 Revised	FY 2005 Approved	FY 2005 Revised	FY 2006 Proposed
Positions: (FTE's)				
Number of authorized positions	159	159	159	159
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	9,368	9,829	9,672	10,213
Overtime	882	882	882	882
Non-Personnel Services:				
Chemicals & Supplies	442	442	442	442
Utilities	1,656	1,785	2,240	2,423
Contractual Services, etc.	1,619	1,732	1,739	1,775
Small Equipment	118	118	90	102
Total Non-Personnel Services	3,835	4,077	4,511	4,742
Total Operations & Maintenance	13,203	13,906	14,183	14,955
Capital Equipment	1,151	768	617	228

Targeted Performance Measures	FY 2004 Projection	FY 2005 Budget	FY 2005 Projection	FY 2006 Projection
Number of catch basins cleaned annually	25,956	25,000	25,000	25,000
Number of laterals investigated or relieved annually	2,412	2,000	2,000	2,000
Tonnage of floatable debris removed from rivers	613	500	500	500
Number of sewer laterals repaired or replaced annually	326	300	300	300
Feet of sewer main repaired or replaced annually	1,127	500	500	500
Number of inspections completed on Potomac				
Interceptor meters	409	350	350	350

SEWER SERVICES

OVERVIEW

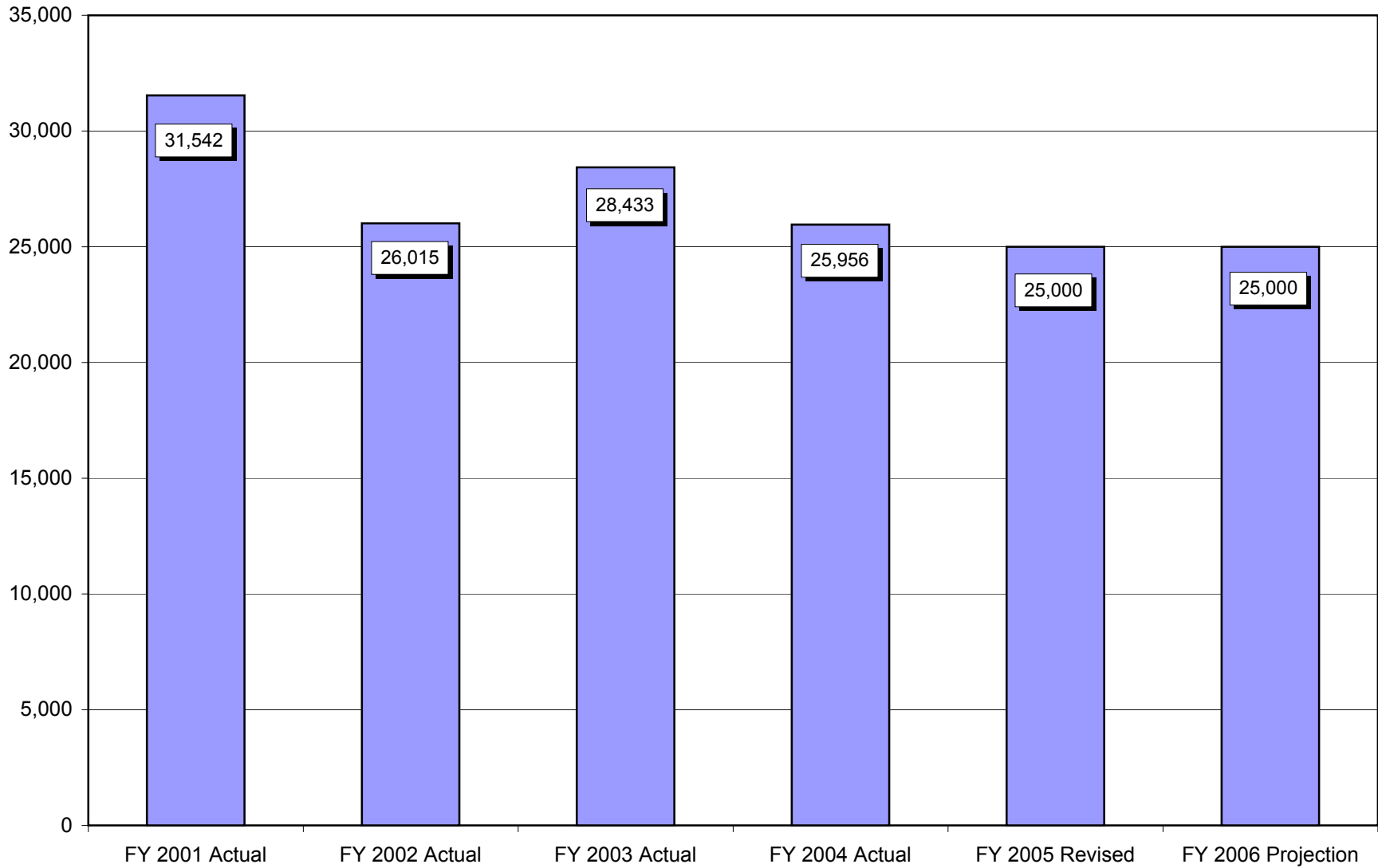
2005 Major Recommended Activities and Changes

- Implement operational projects as required by the Earth Justice Consent Decree and support related capital projects
- Continue implementation of Internal Improvement Program (IIP) including evaluation of performance, productivity, upgrade of personnel skills, cross training and the impact of new technology on labor force.
- Continue effective operations during high priority rehabilitation activities at pumping stations
- Work with DETS on overall assessment condition of sewer systems
- Continue implementation of interim odor control projects on Potomac Interceptor and support construction of permanent odor control and rehab projects
- Evaluate the impact of the proposed Sanitary Sewer Overflow (SSO) regulations
- Actively participate in new asset management system for water and sewer infrastructure in conjunction with Department of Water Services, Information Technology and other departments
- Work with DETS to resolve the flooding problem in stormwater lines in various areas in the District
- Evaluate operational and financial impact of elimination of the District's Virginia Maintenance Services (VMS) contract

2006 Major Recommended Activities and Changes

- Implement operational projects as required by the Earth Justice Consent Decree and support related capital projects
- Implement the Public Notification System for CSO events, operate and maintain the system
- Continue to work with DETS/DMS/IT to upgrade SCADA to include new equipment and improvements installed as part of the High Priority Rehab Project
- Begin operation of Eastside Pumping Station scheduled for August 2006
- Begin the rehabilitation of Potomac Pumping Station
- Begin the rehabilitation of Upper Anacostia Pumping Station
- Support construction of permanent odor control and rehabilitation projects on the Potomac Interceptor

FY 2001 - FY 2006 Catch Basins Cleaned





**FY 2006 Budget
\$21,679,000**

**CHIEF
ENGINEER**

**MAINTENANCE
SERVICES**

POSITIONS				
CURRENT			FY 2005	FY 2006
Authorized	Average Positions Filled	Year-End Positions Filled		
185	169	162	181	178

**Electrical
Maintenance
55 – 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.

**Mechanical
Maintenance
76 – Positions**

FUNCTIONS

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

**Maintenance
Management
21 – Positions**

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.

**Instrumentation and
Telemetry
26 – Positions**

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's process equipment and facilities, ensuring that the operational and customer service objectives of the Authority are achieved.

BUDGET OVERVIEW: The revised FY 2005 budget declines by \$0.2 million below the FY 2005 approved budget due to higher historical vacancy rates and related reduction in personnel service costs. The FY 2006 proposed budget reflects a reduction of three positions per the Blue Plains Internal Improvement Plan (IIP), with related savings offset by projected compensation increases.

	FY 2004 Revised	FY 2005 Approved	FY 2005 Revised	FY 2006 Proposed
Positions: (FTE's)				
Number of authorized positions	185	182	181	178
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	12,539	12,985	12,631	13,148
Overtime	800	800	800	800
Non-Personnel Services:				
Chemicals and Supplies	2,263	2,241	2,201	2,201
Utilities	66	73	73	73
Contractual Services, etc.	5,936	5,948	6,112	6,117
Small Equipment	140	140	140	140
Total Non-Personnel Services	8,405	8,402	8,526	8,531
Total Operations & Maintenance	20,944	21,387	21,157	21,679
Capital Equipment	2,360	1,875	2,389	1,950

Targeted Performance Measures	FY 2004 Projection	FY 2005 Budget	FY 2005 Revised	FY 2006 Projection
Critical Process trains available for service at Blue Plains	92%	97%	97%	97%
Critical Process trains available for service at Water and Sewer Pumping Facilities.	98%	97%	97%	97%

MAINTENANCE SERVICES

OVERVIEW

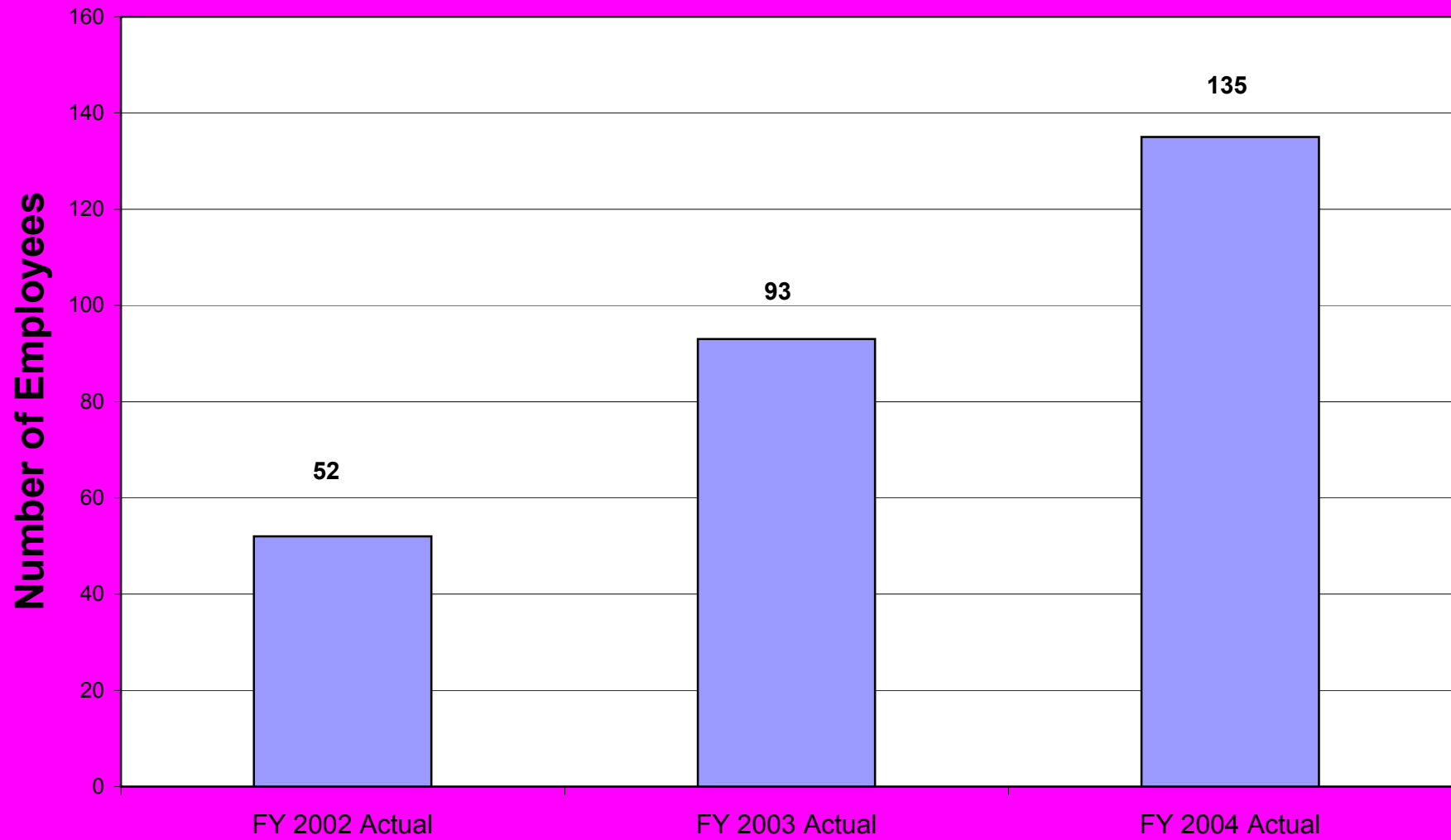
FY 2005 Major Recommended Activities and Changes

- Reduce total positions by four positions from the FY 2004 revised budget in support of the Internal Improvement Program
- Reduce the dependency on contractor maintenance
- Continue maintenance training and certification program using in-house and outside resources
- Evaluate specific IIP staffing and operational requirements, by year, to fully implement CIP and management changes
- Continue the High Priority Rehabilitation Program (HPRP) as an interim measure to maintain the process systems reliability while the Capital Improvement Program is in process WASA wide
- Continue predictive maintenance / condition monitoring program to improve equipment reliability
- Support the Process Computer Control System and SCADA project
- Continue maintenance support during construction of the following Capital Improvement Program (CIP) projects:
 - Secondary Treatment Upgrade
 - Process Control Computer System
 - Additional Chemicals System
 - Primary Treatment Upgrades
 - Filtration and Disinfection Upgrades
 - Digester Construction
 - Grit and Screens Facilities Upgrades

FY 2006 Major Recommended Activities and Changes

- Reduce total positions by three positions in support of the Internal Improvement Program
- Reduce the dependency on contractor maintenance
- Continue maintenance training and certification program using in-house and outside resources
- Continue the High Priority Rehabilitation Program WASA wide
- Support the Process Computer Control System and SCADA project
- Continue predictive maintenance program / condition monitoring program to improve equipment reliability
- Continue maintenance support during construction of the following CIP projects:
 - Secondary Treatment Upgrade
 - Process Control Computer System
 - Filtration and Disinfection Upgrades
 - Digester Construction
 - Grit and Screens Facilities Upgrades

MAINTENANCE CERTIFICATION





**CHIEF
ENGINEER**

**ENGINEERING
and TECHNICAL
SERVICES
2 - Positions**

**FY 2006 Budget
\$13,642,000**

POSITIONS				
Authorized	CURRENT		FY 2005	FY 2006
	Average Positions Filled	Year-End Positions Filled		
125	100	100	125	125

**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
37- 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
41- 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

**Lead Program
Branch
7 - Positions**

FUNCTIONS

- Responsible for construction and program management of lead service line replacements

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: The revised FY 2005 budget is approximately \$0.1 million less than the approved FY 2005 budget due to lower contractual service costs offset by higher personnel costs due to the addition of seven positions to manage the lead program. The proposed FY 2006 budget increases by approximately \$1.4 million due to increased stormwater permit compliance costs of \$0.8 million and projected compensation increases of \$0.6 million.

	FY 2004 Revised	FY 2005 Approved	FY 2005 Revised	FY 2006 Proposed
Positions: (FTE's)				
Number of authorized positions	118	118	125	125
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	9,446	9,999	10,228	10,832
Overtime	425	425	425	425
Non-Personnel Services:				
Chemical and Supplies	110	110	107	107
Utilities	102	114	139	139
Contractual Services, etc.	1,910	2,078	1,722	2,515
Small Equipment	107	84	49	49
Total Non-Personnel Services	2,229	2,385	2,017	2,810
Total Operations & Maintenance	11,674	12,384	12,245	13,642
Capital Equipment			274	54

Targeted Performance Measures

Ensure capital disbursements are between 90-100% of forecast for Engineering and Technical Services managed projects; FY 2004 actual of 106 %
 Complete 90% of projects on time and within budget
 Ensure fewer than 5% change orders to capital contracts
 Upgrade 700 engineering records
 Utilize 100% of Clean Water Act grant funds
 Utilize 100% of Safe Drinking Water Act grant funds

ENGINEERING & TECHNICAL SERVICES

OVERVIEW

FY 2005 Major Recommended Activities and Changes

- Effective and timely implementation of capital improvement program including the following key projects:
 - Advertise vessels and foundation contract for the new digesters facility
 - Advertise nitrification and disinfection facilities upgrades
 - Award construction contracts for Potomac Station and Main & O Street Pumping Stations
 - Continue to provide construction and program management of lead services replacement plan, including analysis of performing more work in-house vs. through contracts
- Upon EPA and Board approval, begin implementation of CSO Long Term Control Plan
- Manage the District's storm water permit compliance program, include analysis of operational and financial impact of new permit
- Complete conversion of counter maps to vector format
- Continue High Priority Rehabilitation Program for Blue Plains
- Reach agreement with DDOT on responsibility for storm water pumping stations
- Increase effort at generating required Standard Operating Procedure
- Continue comprehensive sewer system assessment
- Support new asset management system implementation
- Support Earth Justice Consent Decree Compliance efforts

FY 2006 Major Recommended Activities and Changes

- Effective and timely implementation of capital improvement program including the following key projects:
 - Advertise digester mechanical and process contracts
 - Continue to provide construction and program management of lead services replacement plan, including analysis of performing more work in-house vs. through contracts
- Continue implementation of CSO LTCP, as approved by Board and EPA
- Manage the District's storm water permit compliance program
- Maintain as-built and EMAPS system with in-house staff
- Continue comprehensive sewer system assessment
- Support new asset management system implementation
- Support Earth Justice Consent Decree Compliance efforts



CHIEF FINANCIAL OFFICER

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

**FY 2006 Budget
\$12,626,000**

CURRENT POSITIONS			FY 2005	FY 2006
Authorized	Average Filled Positions	Year-End Positions Filled		
119	92	94	123	123

**Customer Care
44 - positions**

**Credit & Collections
12- positions**

**Billing Services &
Control
16- positions**

**Meter & Field
Services
45 - positions**

FUNCTIONS

- Respond to customer calls and correspondence
- Assist customers in Business Office

FUNCTIONS

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

FUNCTIONS

- Manage billing process and ongoing implementation of customer information system
- Manage interface between Automated Meter Reading system and Customer Information and Billing system to produce monthly bills for all customers
- Monitor and assist large accounts
- Provide planning and project management for future systems implementations

FUNCTIONS

- Maintain, install, test, repair, and replace meters
- Manage comprehensive Meter Replacement / Automated Meter Reading project
- Perform interior inspections
- Perform terminations of service for non-payment of bills

CUSTOMER SERVICE

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

BUDGET OVERVIEW: The revised FY 2005 budget is \$0.1 million higher than the approved FY 2005 budget. The revised FY 2005 budget reflects the addition of four call center positions to address lead-related call volume, the cost of which is offset by vacancy savings. The proposed FY 2006 budget reflects an increase of \$0.6 million over the revised FY 2005 budget due primarily to projected compensation increases.

	FY 2004 Revised	FY 2005 Approved	FY 2005 Revised	FY 2006 Proposed
Positions: (FTE's)				
Number of authorized positions	119	119	123	123
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	6,625	7,231	6,984	7,396
Overtime	200	200	300	300
Non-personnel Services:				
Chemicals and Supplies	177	177	177	177
Utilities	945	967	971	1,024
Contractual Services, etc.	3,363	3,426	3,767	3,944
Small Equipment	85	85	85	85
Total Non-Personnel Services	4,569	4,655	5,001	5,230
Total Operations & Maintenance	11,194	11,886	11,985	12,626
AMR and other Metering Improvements	10,000	6,103	9,846	4,050
Automated Call Distribution	200	-	-	-
Interactive Voice Response	150	20	205	20
Consolidated Command Center	507	-	-	-
Customer Information & Billing System (CIS)	950	674	774	100
Total Capital	11,807	6,797	10,825	4,170

Targeted Performance Measures	FY 2004 Projection	FY 2005 Budget	FY 2005 Projection	FY 2006 Projection
Calls Answered within 40 seconds	68%	85%	85%	85%
Percentage of all Meters Read	99%	99%	99%	99%
Accuracy of Meter Reads	99.9%	99.9%	99.9%	99.9%
Compliance Rate on Preventive Maintenance Program (to begin in FY 2005)	N/A	99%	99%	99%
Greater than 90 days accounts receivable balance	\$16.3 Million	\$19.2 Million	\$15.3 Million	\$14.3 Million
Percentage of Top 100 Accounts Billed as Scheduled	94%	95%	95%	97%

CUSTOMER SERVICE

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

BUDGET OVERVIEW: The revised FY 2005 budget is \$0.1 million higher than the approved FY 2005 budget. The revised FY 2005 budget reflects the addition of four call center positions to address lead-related call volume, the cost of which is offset by vacancy savings. The proposed FY 2006 budget reflects an increase of \$0.6 million over the revised FY 2005 budget due primarily to projected compensation increases.

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Interactive Voice Response	150	20	205	20
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Customer Information & Billing System (CIS)	950	674	774	100
Total Capital	11,807	6,797	10,825	4,170

Targeted Performance Measures	FY 2004 Projection	FY 2005 Budget	FY 2005 Projection	FY 2006 Projection
Calls Answered within 40 seconds	68%	85%	85%	85%
Percentage of all Meters Read	99%	99%	99%	99%
Accuracy of Meter Reads	99.9%	99.9%	99.9%	99.9%
Compliance Rate on Preventive Maintenance Program (to begin in FY 2005)	N/A	99%	99%	99%
Greater than 90 days accounts receivable balance	\$16.3 Million	\$19.2 Million	\$15.3 Million	\$14.3 Million
Percentage of Top 100 Accounts Billed as Scheduled	94%	95%	95%	97%

CUSTOMER SERVICE

OVERVIEW

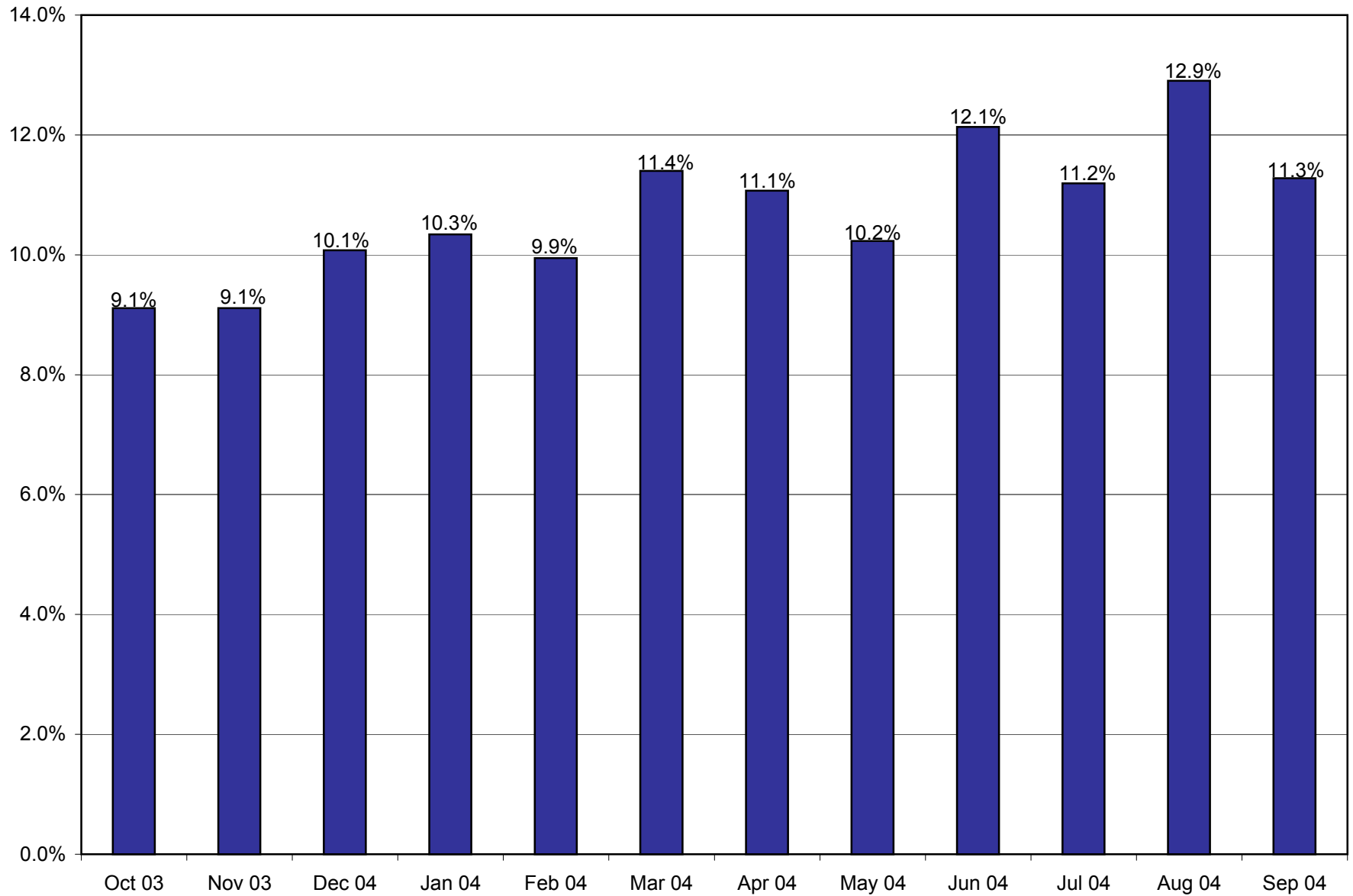
FY 2005 Major Recommended Activities and Changes

- Continue call center and related support for the lead program, including the addition of four positions dedicated to lead-related inquiries and new functionality in CIS to track lead replacements
- Substantially complete AMR program
- Manage implementation of expanded Customer Assistance Program
- Continuing emphasis on reducing receivables and improving billing controls, including implementation of receiverships on multi-family accounts and improved hearing process
- Coordinate departmental participation in WASA-wide asset management system implementation
- Begin implementation of cooling tower metering program
- In conjunction with Public Affairs, complete customer survey

FY 2006 Major Recommended Activities and Changes

- Complete the AMR program
- Continuing system enhancements
- Substantially complete cooling tower meters program

**Electronic Payment Transactions as a Percentage of Total Transactions
FY 2004**





**FY 2006 Budget
\$ 399,000**

**BOARD
OF
DIRECTORS**

			POSITIONS	
CURRENT			FY 2005	FY 2006
Authorized	Average Positions Filled	Year-End Positions Filled		
2	2	2	2	2

**OFFICE OF
THE
SECRETARY (BOARD)
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: The revised FY 2005 budget is \$0.15 million higher than the approved FY 2005 budget due to the transfer of funding for the regionalization study from the Department of Engineering and Technical Services. The proposed FY 2006 budget reflects a \$0.15 million decrease from the revised FY 2005 budget due to completion of the regionalization study.

	FY 2004 Revised	FY 2005 Approved	FY 2005 Revised	FY 2006 Proposed
Positions: (FTE's)				
Number of authorized positions	2	2	2	2
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	165	173	181	192
Overtime	2	2	2	2
Non-Personnel Services:				
Chemicals and Supplies	16	16	16	16
Utilities	3	3	3	3
Contractual Services, etc.	182	182	332	182
Small Equipment	6	6	6	6
Total Non-Personnel Services	207	207	357	207
Total Operations & Maintenance	372	380	538	399
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 2005 Major Recommended Activities and Changes

- Direct logistics for development of Board's regionalization study and update of the Board's strategic plan
- Assist Board Committees in monitoring Committee Work Plan implementation
- Continue to enhance the data dissemination process for both WASA employees and the general public by use of WASA's website

FY 2006 Major Recommended Activities and Changes

- No major changes anticipated



**FY 2006 Budget
\$ 1,337,000**

**BOARD
OF
DIRECTORS**



**GENERAL
MANAGER
7 - Positions**

			POSITIONS	
CURRENT			FY 2005	FY 2006
Authorized	Average Positions Filled	Year-End Positions Filled		
6	5	5	7	7

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 2005 budget reflects the addition of a new position for coordination of the lead program.

	FY 2004 Revised	FY 2005 Approved	FY 2005 Revised	FY 2006 Proposed
Positions: (FTE's)				
Average number of authorized positions	6	6	7	7
Number of positions filled				
Operating Expenses				
Personnel Services including Overtime	791	850	945	1,001
Overtime	15	15	25	25
Non-Personnel Services:				
Chemicals and Supplies	10	10	10	10
Utilities	12	12	13	13
Contractual Services, etc.	295	295	298	298
Small Equipment	11	11	15	15
Total Non-Personnel Services	328	328	336	336
Total Operations & Maintenance	1,119	1,178	1,281	1,337
Capital Equipment	-	-	-	-
Targeted Performance Measures				
Implement all policies and directives of the Board of Directors				

GENERAL MANAGER

OVERVIEW

FY 2005 Major Recommended Activities and Changes

- Oversee the Authority's lead service line replacement program
- Continue major Customer Service improvement initiatives (e.g., Automatic Meter Reading, billing enhancements, asset management, etc.) and leverage existing resources to improve customer service responsiveness
- Oversee the ongoing development, and 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
- Addition of position for lead replacement coordination

FY 2006 Major Recommended Activities and Changes

- No major changes anticipated



**GENERAL
MANAGER**

**GENERAL
COUNSEL
14 - Positions**

**FY 2006 Budget
\$3,256,000**

POSITIONS				
CURRENT			FY 2005	FY 2006
Authorized	Average Positions Filled	Year-End Positions Filled		
10	7	8	12	14

Litigation

**Administrative
Law**

FUNCTIONS

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

FUNCTIONS

- Board of Directors support
- Supply and Service Contract review and advise
- Clean Water Act compliance
- Clean Air Act compliance
- Safe Drinking Water 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 2005 budget reflects a \$0.5 million decrease from the approved FY 2005 budget. The addition of two professional staff in FY 2005 results in reduced reliance on outside legal services. In addition, legal costs related to capital projects have been moved to the respective capital projects, for example, digesters. The proposed FY 2006 budget is approximately the same as the revised FY 2005 budget, with an addition of two attorneys offset by reduced outside legal services.

	FY 2004 Revised	FY 2005 Approved	FY 2005 Revised	FY 2006 Proposed
Positions: (FTE's)				
Number of authorized positions	10	10	12	14
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	817	951	1,028	1,408
Overtime	2	2	2	2
Non-personnel Services:				
Chemicals and Supplies	12	12	12	12
Utilities	11	11	12	12
Contractual Services, etc.	2,752	2,552	1,916	1,801
Small Equipment	16	16	24	23
Total Non-Personnel Services	2,790	2,590	1,964	1,848
Total Operations & Maintenance	3,607	3,541	2,992	3,256
Capital Equipment	-	-	-	-

GENERAL COUNSEL

OVERVIEW

FY 2005 Major Recommended Activities and Changes

- Addition of two new positions results in reduced reliance on outside legal services
- Enhanced focus on regulatory compliance across WASA

FY 2006 Major Recommended Activities and Change

- Addition of two new positions results in reduce reliance on outside legal services
- Overall regulatory compliance coordination
- No other major changes anticipated



**GENERAL
MANAGER**

**PUBLIC
AFFAIRS
8 - Positions**

			POSITIONS	
CURRENT			FY 2005	FY 2006
Authorized	Average Positions Filled	Year-End Positions Filled		
5	4	4	8	8

**FY 2006 Budget
\$1,165,000**

**Community/Employee
Outreach**

Publications

FUNCTIONS

- General information dissemination to the public and customers
- Develop relationships with Advisory Neighborhood Commission's (ANC's), civic and environmental groups, schools and churches
- Specialized training for employees (i.e. media training)
- Provide departmental support for special projects
- Coordinate media relations
- Coordinate and manage comprehensive public relations program
- Coordinate community and customer outreach activities
- Develop Internal/External communications program

FUNCTIONS

- Produce newsletters and brochures
- Produce annual report
- Publish CCR on water quality
- Publish customer newsletter and bill inserts
- Write Op-Ed articles
- Produce articles for community newspapers/ letters
- Produce press releases, Public Service Announcements (PSAs), etc.
- Coordinate production of monthly Board report
- Coordinate CSO publications

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: The revised FY 2005 budget is \$0.1 million higher than the FY 2005 approved budget, due primarily to increased staffing associated with government relations and to improve all environmental communication efforts. There are no significant changes in the FY 2006 budget.

	FY 2004 Revised	FY 2005 Approved	FY 2005 Revised	FY 2006 Proposed
Positions: (FTE's)				
Number of authorized positions	5	5	8	8
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	381	498	727	772
Overtime	2	2	2	2
Non-Personnel Services:				
Chemical and Supplies	23	23	23	23
Utilities	4	4	12	12
Contractual Services, etc.	430	410	340	341
Small Equipment	62	62	17	17
Total Non-Personnel Services	519	498	393	393
Total Operations & Maintenance	900	996	1,120	1,165
Capital Equipment	-	-	-	-

Targeted Performance Measures

On-schedule issuance of WASA publications: Annual Report; Employees' Newsletter; Consumer Confidence Report; Lead Administrative Order reports.
Provide content approval for WASA's website

PUBLIC AFFAIRS

OVERVIEW

FY 2005 Major Recommended Changes and Activities

- Continue implementation of comprehensive communications plan
- Improve all environmental communications (e.g. lead, water quality, CSO). One position has been added to address this issue
- On schedule issuance of publications (i.e. annual report, customer newsletter, WASA employee newsletter, Earth Justice Consent Decree and lead-related publications)
- Direct regular community and Advisory Neighborhood Commission (ANC) meetings, as well as participation in civic and environmental group meetings
- Enhance governmental relations with addition of one position
- Refine process to update WASA website in coordination with IT and other departments
- Design and implement customer satisfaction survey

FY 2006 Major Recommended Activities and Changes

- Continuing implementation of comprehensive communications plan
- Direct communications pertaining to lead-related matters
- On schedule issuance of publications
- Continuing participation in community, civic and environmental group meetings



**FY 2006 Budget
\$508,000**

**GENERAL
MANAGER**



**INTERNAL
AUDIT
4 - Positions**

POSITIONS				
Authorized	CURRENT		FY 2005	FY 2006
	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 approved and revised FY 2005 budget. The FY 2006 budget increases slightly due to projected compensation increases.

	FY 2004 Revised	FY 2005 Approved	FY 2005 Revised	FY 2006 Proposed
Positions: (FTE's)				
Number of authorized positions	4	4	4	4
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	361	378	375	398
Overtime	-	-	-	-
Non-Personnel Services:				
Chemicals and Supplies	6	8	8	8
Utilities	5	5	5	5
Contractual Services, etc.	89	92	92	96
Small Equipment	1	1	1	1
Total Non-Personnel Services	101	106	106	110
Total Operations & Maintenance	462	484	481	508
Capital Equipment	-	-	-	-
Targeted Performance Measures	FY 2004 Projection	FY 2005 Budget	FY 2005 Projection	FY 2006 Projection
Audits Complete Annually	11	11	11	11

INTERNAL AUDIT

OVERVIEW

FY 2005 Major Recommended Activities and Changes

- Execute Board's Audit Committee-approved work plan
- Increase current administrative personnel's role in audit process as a means of increasing productivity and better utilizing staff resources
- Initiate improved ethics hotline awareness efforts

FY 2006 Major Recommended Activities and Changes

- Execute Board's Audit Committee-approved work plan



**FY 2006 Budget
\$6,063,000**

**CHIEF FINANCIAL
OFFICER
3 - Positions**

**FINANCE
AND
BUDGET**

POSITIONS				
Authorized	CURRENT		FY 2005	FY 2006
	Average Positions Filled	Year-End Positions Filled		
43	36	33	44	43

**Office of the
Controller
23 - 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 and county billing operations
- Manage asset management process
- 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 2005 budget increases slightly from the FY 2005 approved budget due to increases in personnel services. The FY 2006 budget increases by \$0.2 million due to projected compensation increases.

	FY 2004 Revised	FY 2005 Approved	FY 2005 Revised	FY 2006 Proposed
Positions: (FTE's)				
Number of authorized positions	42	42	44	43
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	3,365	3,564	3,621	3,842
Overtime	40	40	40	40
Non-Personnel Services:				
Chemical and Supplies	20	20	20	20
Utilities	61	61	60	60
Contractual Services, etc.	2,020	2,080	2,075	2,100
Small Equipment	73	73	41	41
Total Non-Personnel Services	2,174	2,234	2,196	2,221
Total Operations & Maintenance	5,539	5,798	5,817	6,063
Financial Management System Upgrade	250	100	100	100
Payroll System Enhancements	300	30	30	30

Targeted Performance Measures	FY 2004 Projection	FY 2005 Budget	FY 2005 Projection	FY 2006 Projection
Manage Authority's financial operations to ensure revenue is within 99% of projections and expenditures are within budget.	Receipts - 2.5% above budget Expenditures - projected 100% due to lead issues	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.	27 basis points	15 basis point	15 basis point	15 basis point
Manage Authority's financial operations to ensure 140% debt service coverage.	460%	237%	462%	442%
Meet or exceed the 180 day operating & maintenance expense reserve target as set by Board policy - target was \$95.5 million in FY 2004.	\$106.4 million	\$96.3 million	\$96.3 million	\$100.2 million
Issue Comprehensive Annual Financial Report (CAFR) by February.	February	February	February	February
Pay 97% of all undisputed invoices within 30 days.	94%	97%	97%	97%

FINANCE AND BUDGET

OVERVIEW

FY 2005 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 the 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 rate 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
- Continue to develop and build an 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 2006 Major Recommended Changes and Activities

- Complete next bond financing, depending on capital financing requirements



CHIEF FINANCIAL OFFICER

POSITIONS				
CURRENT	CURRENT		FY 2005	FY 2006
	Authorized	Average Positions Filled		
	29	15	15	
			29	29

**FY 2006 Budget
\$4,708,000**

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

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

**Systems and
Operations
Services
7 - positions**

**E-Business
Services
10 - positions**

**Project
Management
Services
2 - position**

**Process
Integration
Services
3 - position**

FUNCTIONS

FUNCTIONS

FUNCTIONS

FUNCTIONS

FUNCTIONS

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

- 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

- 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

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

- Provide implementation support for process computer control system

INFORMATION TECHNOLOGY

MISSION: To 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 2005 is \$0.2 million higher than the FY 2005 approved budget due to increased contractual services for systems infrastructure and supplies. The proposed FY 2006 budget reflects an increase of \$0.2 million due primarily to projected compensation increases.

	FY 2004 Revised	FY 2005 Approved	FY 2005 Revised	FY 2006 Proposed
Positions: (FTE's)				
Number of authorized positions	29	29	29	29
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	1,572	1,645	1,680	1,780
Overtime	50	50	50	50
Non-personnel Services:				
Chemicals and Supplies	111	111	154	178
Utilities	96	87	96	97
Contractual Services, etc.	2,431	2,457	2,422	2,536
Small Equipment	70	77	97	117
Total Non-Personnel Services	2,708	2,732	2,769	2,928
Total Operations & Maintenance	4,280	4,377	4,449	4,708
Capital Equipment	7,099	8,919	8,286	8,101
Targeted Performance Measures				
	FY 2004 Projection	FY 2005 Budget	FY 2005 Projection	FY 2006 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%
96% of all high priority tickets completed within 4 hours	96.00%	96.00%	96.00%	96.00%

INFORMATION TECHNOLOGY

OVERVIEW

FY 2005 Major Recommended Activities and Changes

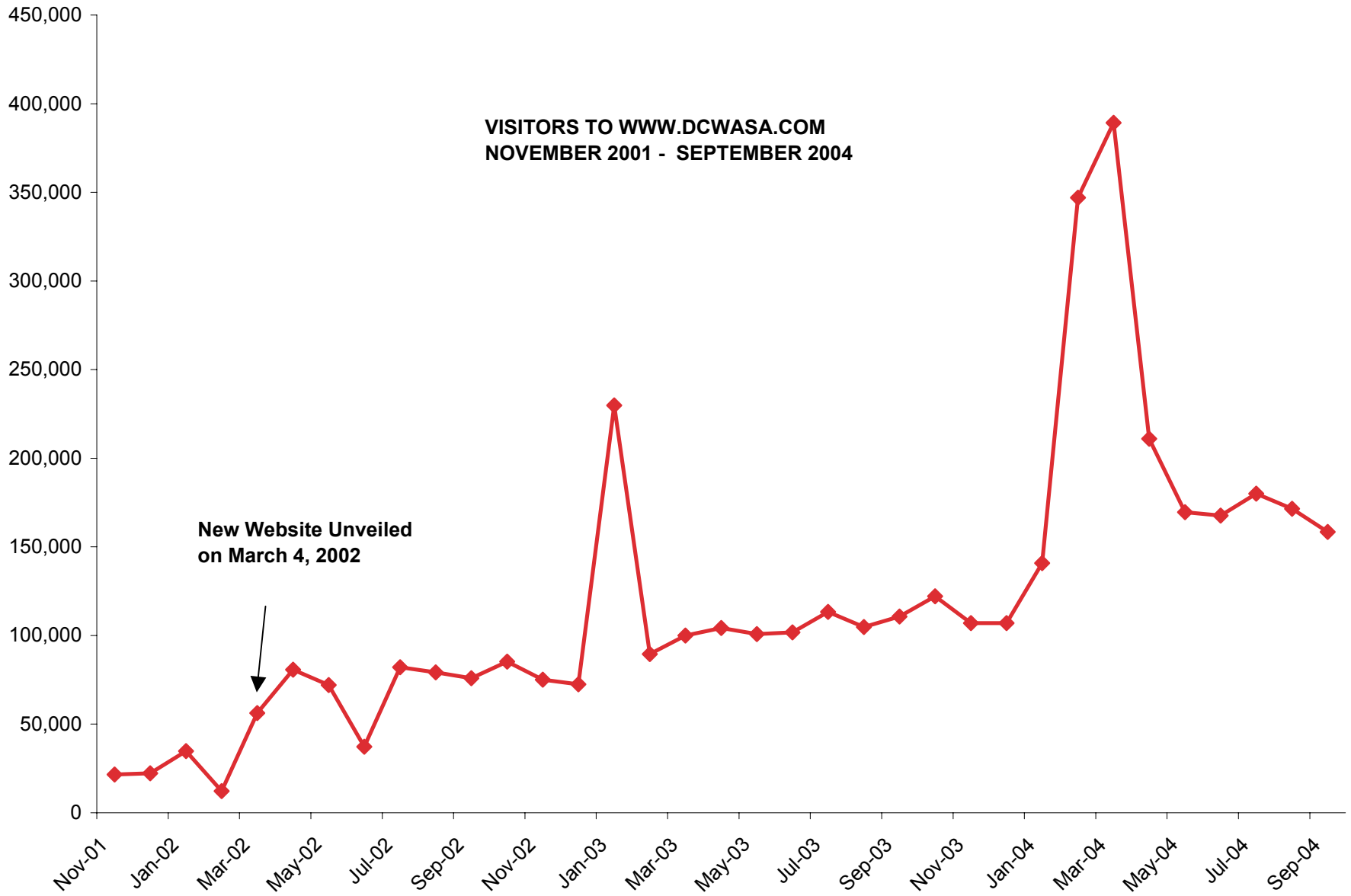
- Continue support for SCADA system, Automated Meter Reading program, and supporting additional functionality for Customer Information and Billing system
- Implement Disaster Recovery Plan and systems security
- Integrate engineering and plant-related technology with other IT projects and functions
- Provide project support for Infrastructure Asset Management system for Departments of Water and Sewer Services
- Provide technology guidelines/standards and project support for PCCS/SCADA
- Continue hardware replacement program according to the three-year schedule
- Update the Information Technology Strategic Plan, and continue development of project prioritization as outlined in the plan to meet WASA-wide organizational and technology goals
- Implementation of:
 - Begin “Next Stage” Authority wide phone system
 - Interactive Voice Response System
 - Skill Based Call Routing
- Update Information System Security Strategic Plan
- Develop Authority-Wide Wireless Strategy
- Begin Enterprise Document Management system implementation

FY 2006 Major Recommended Activities and Changes

- Continue hardware replacement program according to three-year schedule
- Continue implementation of “Next Stage” Authority wide phone system
- Provide project support for Infrastructure Asset Management system and Enterprise Document Management System
- Implement handheld inventory system

**VISITORS TO WWW.DCWASA.COM
NOVEMBER 2001 - SEPTEMBER 2004**

**New Website Unveiled
on March 4, 2002**





**CHIEF FINANCIAL
OFFICER**

**FY 2006 Budget
\$7,551,000**

**RISK
MANAGEMENT
3 - Positions**

POSITIONS				
Authorized	CURRENT		FY 2005	FY 2006
	Average Positions Filled	Year-End Positions Filled		
3	2	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 2005 budget is \$0.7 million higher than the FY 2005 approved budget due to increased insurance premiums and increased litigation contingency costs. There are no significant changes between the FY 2006 proposed budget and FY 2006 revised budget.

	FY 2004 Revised	FY 2005 Approved	FY 2005 Revised	FY 2006 Proposed
Positions: (FTE's)				
Number of authorized positions	3	3	3	3
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	246	257	234	248
Overtime	2	2	2	2
Non-personnel Services:				
Chemicals and Supplies	5	5	5	5
Utilities	3	3	3	3
Contractual Services, etc.	6,420	6,570	7,245	7,295
Small Equipment	-	-	6	-
Total Non-Personnel Services	6,428	6,578	7,259	7,303
Total Operations & Maintenance	6,674	6,835	7,493	7,551
Capital Equipment	-	-	-	-
Targeted Performance Measures				
	FY 2004 Projection	FY 2005 Budget	FY 2005 Projection	FY 2006 Projection
Resolve tort claims within 45 days				
Reduce workers compensation cost by 10%				
Meet workers compensation filing requirements within 14 days				

RISK MANAGEMENT

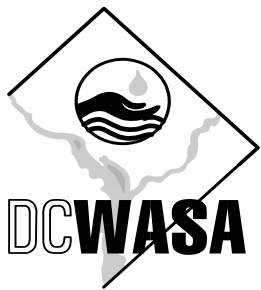
OVERVIEW

FY 2005 Major Recommended Activities and Changes

- Continue to 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; develop benchmarks and torts performance goals for each department
- Develop sewer backup insurance program to offset homeowner claims
- Continue implementation of the Owner Controlled Insurance Program (OCIP) for capital projects, which will yield savings in insurance and claims costs

FY 2006 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 sewer backup insurance program, if feasibility is proven in FY 2006

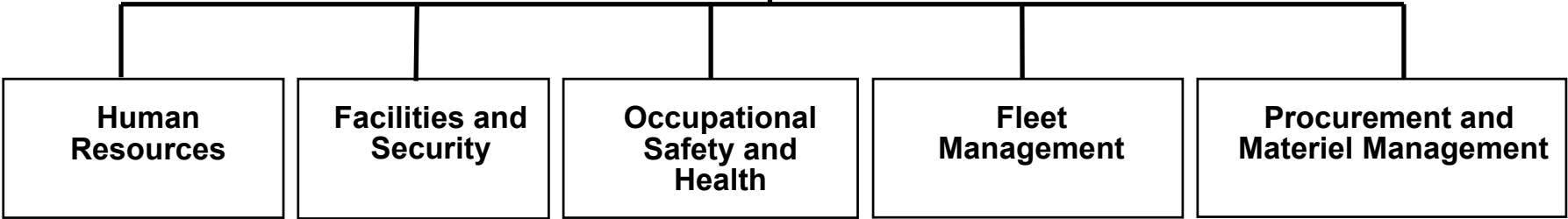


**FY 2006 Budget
\$ 540,000**

**GENERAL
MANAGER**

**ASSISTANT
GENERAL
MANAGER
4 - Positions**

POSITIONS				
CURRENT			FY 2005	FY 2006
Authorized	Average Positions Filled	Year-End Positions Filled		
3	3	3	3	4



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 changes in the revised FY 2005 compared to the approved FY 2005 budgets. The FY 2006 proposed budget reflects increased funding for additional productivity analysis.

	FY 2004 Revised	FY 2005 Approved	FY 2005 Revised	FY 2006 Proposed
Positions: (FTE's)				
Number of authorized positions	4	3	3	4
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	232	243	238	346
Overtime	2	2	1	1
Non-Personnel Services:				
Chemicals and Supplies	10	10	10	10
Utilities	4	4	3	3
Contractual Services, etc.	168	168	167	177
Small Equipment	4	4	4	4
Total Non-Personnel Services	185	186	184	194
Total Operations & Maintenance	417	429	422	540
Capital Equipment	-	-	-	-
Targeted Performance Measures	FY 2004 Projection	FY 2005 Budget	FY 2005 Projection	FY 2006 Projection
Direct the annual development of the Authority's work plan:				
Sessions with senior staff & supervisors	6	6	6	6
Work Plan Breakfast Sessions with the GM	4	4	4	4

ASSISTANT GENERAL MANAGER

OVERVIEW

FY 2005 Major Recommended Activities and Changes

- Coordinate Work Plan Goal process to ensure alignment with Board of Directors' Strategic Plan, the Authority's budget priorities, and departmental goals
- Completion of the Space Study Initiative in accordance with the Master Facilities Plan
- Ensure the rightsizing of WASA fleet, and vehicle utilization

FY 2006 Major Recommended Activities and Changes

- Continue Work Plan process



**ASSISTANT
GENERAL
MANAGER**

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

**FY 2005 Budget
\$8,265,000**

			POSITIONS	
CURRENT			FY 2005	FY 2006
Authorized	Average Positions Filled	Year-End Positions Filled		
63	54	55	64	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
6 - 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
12 - 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 system, and other security measures necessary for WASA's operations.

BUDGET OVERVIEW: The revised FY 2005 budget declines by \$0.5 million from the approved FY 2005 budget reflecting a reduction in personnel service costs due to historic high vacancy rates. The FY 2006 budget increases slightly due to projected compensation increases.

	FY 2004 Revised	FY 2005 Approved	FY 2005 Revised	FY 2006 Proposed
Positions: (FTE's)				
Number of authorized positions	63	64	64	64
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	3,684	4,077	3,478	3,683
Overtime	142	142	142	142
Non-Personnel Services:				
Chemical and Supplies	423	443	392	442
Utilities	48	61	67	67
Contractual Services, etc.	3,908	3,910	4,059	4,058
Small Equipment	94	94	15	15
Total Non-Personnel Services	4,473	4,508	4,533	4,582
Total Operations & Maintenance	8,157	8,585	8,011	8,265
Capital Equipment	2,423	631	662	406
Targeted Performance Measures				
	FY 2004 Projection	FY 2004 Budget	FY 2005 Projection	FY 2006 Projection
Number of work orders closed within four days	3	3	5	5
Security inspections/patrols per day	3	3	9	9
Number of customer surveys done annually	6	6	4	4

FACILITIES & SECURITY

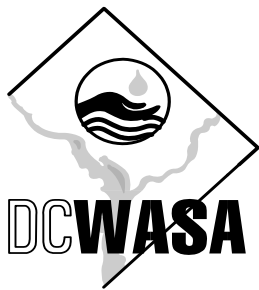
OVERVIEW

FY 2005 Major Recommended Activities and Changes

- Ensure sufficient security at all WASA facilities
- Finalize security policies and procedures
- Implement facility audits and continue facilities preventive maintenance program
- Finalize Central Operations Facility (COF) renovations and begin improvements to adjacent facilities
- Continue to identify improvements needed to meet Americans with Disability Act (ADA) requirements
- Evaluate facilities maintenance system, including utilization of existing maintenance management system
- 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
- Complete installation of HVAC system in Central Maintenance Facility (CMF)

FY 2006 Major Recommended Activities and Changes

- Implement security policies and procedures and monitor to ensure compliance
- Continue facility audits and preventive maintenance program
- Continue facility renovations including those required to meet Americans with Disability Act (ADA) requirements



**FY 2006 Budget
\$ 771,000**

**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, to ensure WASA complies with mandated safety requirements
- Expand the 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 2005	FY 2006
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 and contractors.

BUDGET OVERVIEW: There are no significant changes in the FY 2005 and FY 2006 budgets. This department will continue to coordinate and direct safety-related contractual resources that are budgeted in other departments.

	FY 2004 Revised	FY 2005 Approved	FY 2005 Revised	FY 2006 Proposed
Positions: (FTE's)				
Number of authorized positions	6	6	6	6
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	516	541	549	582
Overtime	1	1	-	-
Non-Personnel Services:				
Chemicals and Supplies	54	54	54	54
Utilities	38	38	38	38
Contractual Services, etc.	57	57	57	55
Small Equipment	46	46	42	42
Total Non-Personnel Services	194	194	191	189
Total Operations & Maintenance	710	735	740	771
Capital Equipment	-	-	-	-
Targeted Performance Measures				
	FY 2004 Projection	FY 2005 Budget	FY 2005 Projection	FY 2006 Projection
Authority-wide safety inspections of facilities and crews	150	180	180	190
Accidents Investigated	150	140	140	130
WASA Incidence Rate for LWDI	6.66	6.00	6.00	5.50

OCCUPATIONAL SAFETY & HEALTH

OVERVIEW

FY 2005 Major Recommended Activities and Changes

- Manage the implementation of the Board of Director's approved Comprehensive Safety Program and work with departments to develop an ongoing safety culture
- Ongoing development of management reporting of WASA safety performance and benchmarking against national peers
- Investigate, evaluate and analyze all accidents, occupational injuries and incidents to ensure that effective corrective and preventive measures are in place
- Coordinate WASA's Emergency Response Plan and related activities with the District of Columbia and the Council of Government regional emergency planning
- Provide support necessary to fulfill the permit requirements for operation of the Blue Plains wastewater treatment plant.
- Provide safety guidance and criteria for the planning and design of new facilities in the Capital Improvement Program (CIP)
- Provide oversight of an effective safety-training program to comply with OSHA, EPA, DOT and other applicable safety regulations
- Continue an ongoing plan and program to educate, train and conduct drills to remain current with the national and local Homeland Security programs
- Participate in implementation of an Owner Controlled Insurance Program (OCIP) for capital projects

FY 2006 Major Recommended Activities and Changes

- Conduct an internal audit of the Comprehensive Safety Program to ensure established programs and policies are effectively satisfying the organizations needs, safety goals and meeting employee expectations
- Ensure safety initiatives are in place for new capital improvement projects due to come on-line and/or enter the early design phase

OCCUPATIONAL SAFETY & HEALTH

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DCWASA

**FY 2006 Budget
\$ 3,134,000**

**ASSISTANT
GENERAL
MANAGER**

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

POSITIONS				
CURRENT			FY 2005	FY 2006
Authorized	Average Positions Filled	Year-End Positions Filled		
39	37	35	38	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
- 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: There are no significant changes in the revised FY 2005 budget compared to the approved FY 2005 budget. The proposed FY 2006 budget increases by approximately \$0.1 million due to projected compensation increases.

	FY 2004 Revised	FY 2005 Approved	FY 2005 Revised	FY 2006 Proposed
Positions: (FTE's)				
Number of authorized positions	39	38	38	38
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	2,542	2,615	2,602	2,760
Overtime	52	52	52	52
Non-Personnel Services:				
Chemical and Supplies	65	65	65	65
Utilities and Rent	32	32	32	32
Contractual Services, etc.	262	287	287	262
Small Equipment	26	26	15	15
Total Non-Personnel Services	385	410	399	374
Total Operations & Maintenance	2,927	3,024	3,001	3,134
Capital Equipment	100	-	-	-

Targeted Performance Measures	FY 2004 Actual	FY 2005 Budget	FY 2005 Projection	FY 2006 Projection
Award 50% of DCWASA actual discretionary spending to Local Small Disadvantage Business Enterprises (LSDBE)	40%	50%	50%	50%
Issued Purchase Orders within 10 business	95%	95%	95%	95%
Issue and award Request For Quotation (RFQ) of \$100,000 or less within 30 calendar	95%	95%	95%	95%
Complete and Issue Invitation for Bid (IFB) within 70 days	95%	95%	95%	95%

PROCUREMENT & MATERIEL MANAGEMENT

OVERVIEW

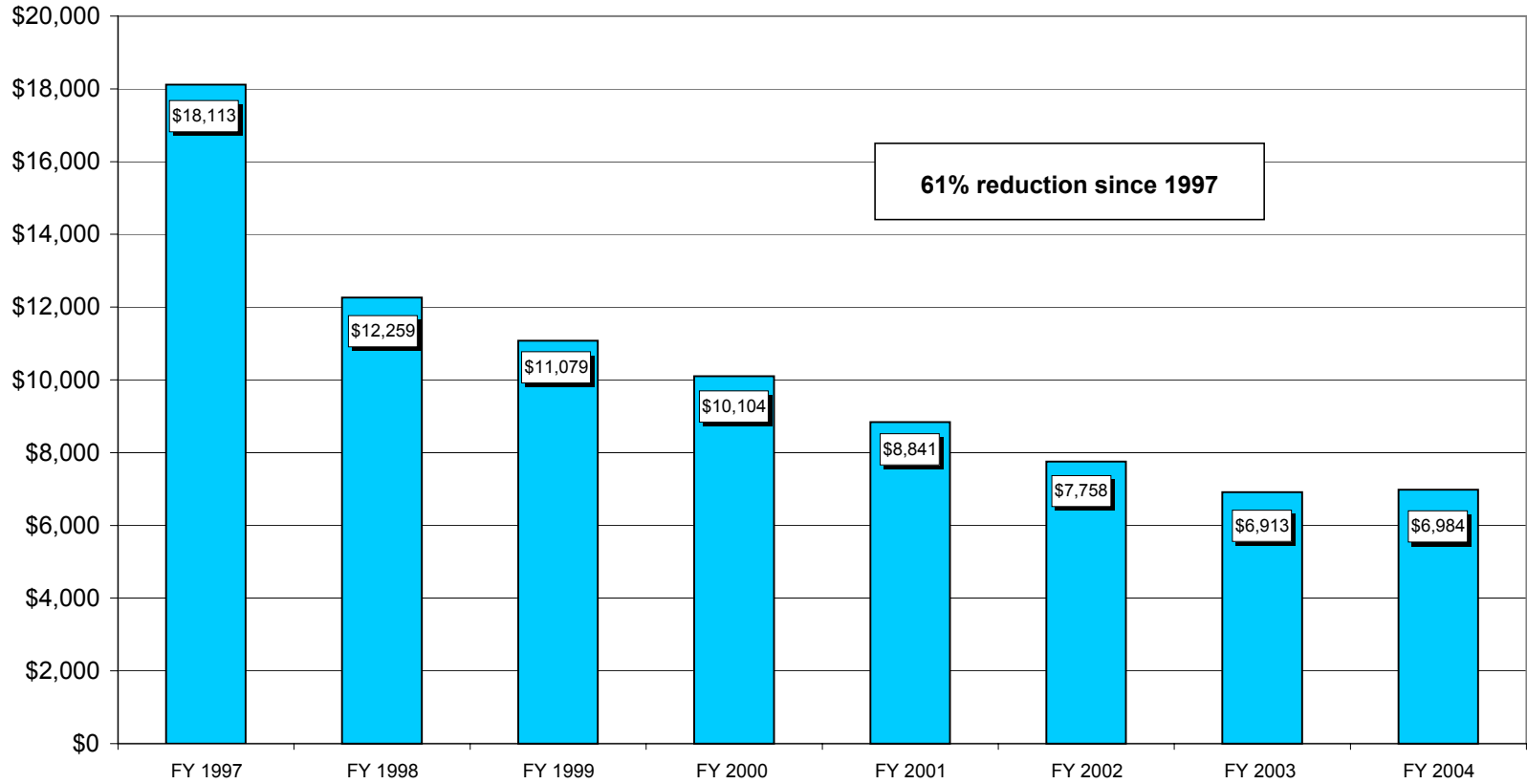
FY 2005 Major Recommended Activities and Changes

- Continue to improve procurement and materiel management efficiencies and customer support
- Ensure Board-established goals for Local Small Disadvantaged Business Enterprise (LSDBE) participation are met or exceeded, including new out reach efforts
- Continue meeting WASA's Business Development Plan expectations, including any revisions as approved by the Board of Directors
- Evaluate inventory levels, including 1) reduction of excess/obsolete inventory, and 2) establish new minimum/maximum inventory levels in light of new CIP projects coming on line and, 3) supplier-managed inventories, as available and cost effective
- Implement new procurement contract management system module as part of financial system upgrade
- In conjunction with Controller, implement improved controls over credit and travel card program, including daily and monthly audits, to ensure compliance with WASA credit card use expectations

FY 2006 Major Recommended Activities and Changes

- Develop the Contracting Officer's Technical Representative (COTR) program, which will include formal training for departmental COTRs responsible for administering and managing term contracts
- Direct the Council of Governments (COG) regionalized cooperative procurement program for common goods and services

**Inventory Values
As of September 30
FY 1997 - FY 2004
(\$000's)**





**ASSISTANT
GENERAL
MANAGER**

**FLEET
MANAGEMENT
2 - Positions**

**Maintenance
2 - Positions**

**Acquisition
1 - Position**

**FY 2006 Budget
\$2,904,000**

			POSITIONS	
CURRENT			FY 2005	FY 2006
Authorized	Average Positions Filled	Year-End Positions Filled		
5	5	5	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: There are no significant changes in the revised FY 2005 operating budget compared to the approved FY 2005 budget. The proposed FY 2006 operating budget reflects a slight increase due to projected compensation increases.

	FY 2004 Revised	FY 2005 Approved	FY 2005 Revised	FY 2006 Proposed
Positions: (FTE's)				
Number of authorized positions	5	5	5	5
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	391	424	413	437
Overtime	2	2	3	3
Non-personnel Services:				
Chemicals and Supplies	9	8	10	10
Utilities	454	454	466	472
Contractual Services, etc.	1,746	1,861	1,884	1,919
Small Equipment	101	106	66	66
Total Non-Personnel Services	2,310	2,428	2,426	2,467
Total Operations & Maintenance	2,701	2,852	2,839	2,904
Capital Equipment	1,154	1,003	976	1,027
Targeted Performance Measures				
	FY 2004 Projection	FY 2005 Budget	FY 2005 Projection	FY 2006 Projection
Percentage of PM completed on schedule	99.0%	98.0%	98.0%	98.0%
Percentage of vehicles available	96.0%	96.0%	98.0%	98.0%

FLEET MANAGEMENT

OVERVIEW

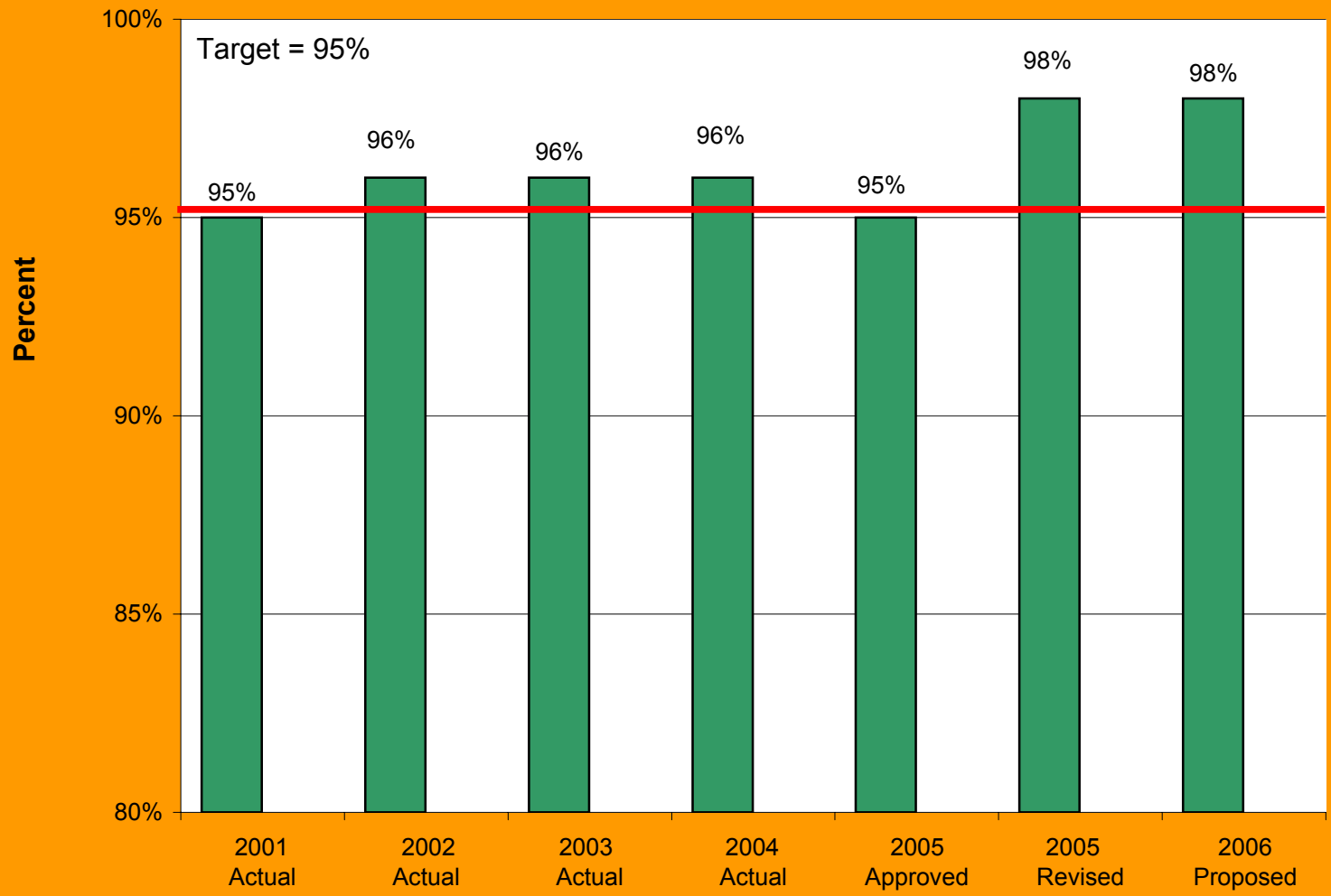
FY 2005 Major Recommended Activities and Changes

- Continue to evaluate the size of fleet, vehicles 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 recurring or signal a need for more in-depth analysis involving equipment purchases, training, etc.
- Ensure that light vehicles remain well maintained and customers are served while the focus remains on replacing medium/heavy equipment. Complete replacement of light vehicles with alternative fuel vehicles under the replacement plan.
- Develop a Fleet Customer Services Improvement Plan and track the implementation of customer service improvements and evaluate the impact of those improvements
- Continue purchasing fuel from the DC Government to achieve cost savings; conduct quarterly fuel analysis
- In conjunction with Human Resources, coordinate commercial driver's license (CDL) training and practical driver training
- In conjunction with safety, work with departments to reduce preventable vehicle accidents
- Continue to monitor the Government endorsement drivers license program with the Department of Motor Vehicles to ensure that WASA personnel are properly licensed to drive Authority vehicles

FY 2006 Major Recommended Activities and Changes

- Complete replacement of equipment and light vehicles under the Vehicle/Equipment Replacement Plan
- Continue to rightsize, strengthen, and balance personnel and assignments

Vehicle In-Service Percentage





**FY 2006 Budget
\$3,504,000**

**ASSISTANT
GENERAL
MANAGER**

**HUMAN
RESOURCES
2 - Positions**

POSITIONS				
CURRENT			FY 2005	FY 2006
Authorized	Average Positions Filled	Year-End Positions Filled		
22	20	19	22	22

**Employment
5 - Positions**

**Compensation
4 - Positions**

**Benefits
4 - Positions**

**Labor Relations
4 - Positions**

**Training
3 - Positions**

FUNCTIONS

- Recruitment & Hiring
- Employee Relations
- Employment Forecasting & Planning
- Unemployment Compensation
- Skills Assessment & Testing

FUNCTIONS

- Compensation Program
- Job Evaluation Program
- Pay Incentive Programs
- Performance Management
- Records Management
- HR Information Systems

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
- Employee Recognition Awards

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 2005 revisions is \$0.4 million over the FY 2005 approved budget due to projected increases in contractual services related to additional compensation, benefits and labor/employment consulting and training branch initiatives. A new position was added for employment services.

	FY 2004 Revised	FY 2005 Approved	FY 2005 Revised	FY 2006 Proposed
Positions: (FTE's)				
Number of authorized positions	21	21	22	22
Average number of positions filled				
Operating Expenses				
Personnel Services including Overtime	1,786	1,898	1,985	2,105
Overtime	25	25	25	25
Non-personnel Services:				
Chemicals and Supplies	31	31	35	35
Utilities	18	19	19	19
Contractual Services, etc.	1,349	1,239	1,526	1,318
Small Equipment	59	59	27	27
Total Non-Personnel Services	1,458	1,314	1,607	1,399
Total Operations & Maintenance	3,244	3,212	3,592	3,504
Capital Equipment	-	-	-	-
Targeted Performance Measures				
	FY 2004 Projection	FY 2005 Budget	FY 2005 Projection	FY 2006 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 2005 Major Recommended Activities and Changes

- Validate the nonunion job descriptions and conduct market survey to validate pay ranges
- Implement the following programs: Transition to Supervision, Career Development and Knowledge Management/Replacement Planning
- Implement the Wastewater Treatment Operator Trainee program
- Determine the feasibility of implementing a defined contribution retirement medical program
- Identify additional tools for assessing candidates for Authority positions
- Develop Total Compensation Statements for the year ending December 31, 2004
- Negotiate new collective bargaining agreement
- When finalized, provide training to supervisory personnel on new collective bargaining agreement

FY 2006 Major Recommended Activities and Changes

- Complete market assessment of union positions
- Continue implementation of employee self-service on Ceridian and test open enrollment of the benefits online

FY 2005 AND FY 2006 TRAINING PLAN

TRAINING OVERVIEW

Since 1999, the Authority has offered comprehensive training programs and classes to all employees. The categories of training that were offered are regulatory safety, technical, Authority policies and mandatory skills improvement. In FY 2004, training was offered to support the Authority's internal improvement and comprehensive safety programs, new policy and procedure implementation and skill needs for changing job requirements.

Training will continue in FY 2005 and FY 2006 and will be provided in the following categories.

Contractual Training – primarily technical classes that support the Authority's internal improvement program. This training also includes classes on occupational safety and the installation and operation of new equipment and processes.

In-house Training – classes and 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 – classes and programs that support 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 2004 ACCOMPLISHMENTS

In January 2001, the D.C. Water and Sewer Authority (WASA) implemented a Wastewater Treatment Operator Certification Program that required all Wastewater Treatment Operators and employees in related positions to become certified by the Association or Board of Certification (ABC), the Commonwealth of Virginia or the State of Maryland.

Certification ensures that our operators have achieved a minimum level of knowledge and competency in the field of Wastewater Treatment. Wastewater Treatment Operators are required to be certified in all 50 states in the United States

During the certification training process, the Authority offered 1,360 hours of training and 14 opportunities for onsite testing. With the certification requirement now fully in effect, all new operators must the appropriate certification prior to being hired. In FY 2004, the Authority designed a Wastewater Treatment Operator Trainee program to ensure that there are sufficient numbers of qualified operators to fill future vacancies. The program will cover a three-year period and will be implemented in FY 2005.

The Department of Maintenance Services continued its pilot Maintenance Certification program. This program 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 2004, three (3) 16-week classes were offered. In-house personnel facilitated all classes with seventy-six (76) employees in attendance. The following table shows the number of employees who attended training this fiscal year and those that have obtained a Maintenance Certification, to date.

Employees with Maintenance Certifications

Certification	FY 2004	Year to Date
Certified Water/Wastewater Maintenance Technician I (CWWMT I)	25	106
Certified Water/Wastewater Maintenance Technician II (CWWMT II)	39	69
Certified Water/Wastewater Maintenance Professional (CWWMP)		15
Certified Water/Wastewater Maintenance Manager (CWWMM)	1	1

For the past two years, the Water Environmental Federation has recognized the Maintenance Certification program as a new and innovative approach to maintenance management. In FY 2004, the Operations and Maintenance Training and Certification program received the Grand Prize for Operations and Management from the American Academy of Environmental Engineers.

In early FY 2004, the Human Resources Department revised the training classes for the nonunion performance evaluation process to include more specifics on level 1 requirements, performance improvement plans, and the appeal process. These are areas that had caused managers, supervisors, and employees some concern during the past performance year. As a result of these changes, all managers, supervisors, and employees attended refresher training to ensure that the process was understood and implemented, fairly and consistently.

Due to the truncated implementation of the first year of union performance management, managers, supervisors, and union employees attended refresher classes on the evaluation process. Managers and supervisors received training on writing effective evaluations and guidance on the appropriate phrases and language to use. Managers and supervisors also received training on how to use the on-line evaluation system for developing performance plans and interim evaluations. Employee training consisted of reminders about the overall process and their role in the process.

Employees attended outside training programs and seminars to fulfill unique skill requirements. These classes included quantitative methods, activated sludge, biological nutrients, auto cad, and electrical safety, etc. A total of 135 employees participated in outside training during FY 2004 at an average cost of \$501 per person.

Mandatory safety training classes for FY 2004 primarily focused on competent person excavation and trenching, powered industrial trucks, hazardous and universal waste management, confined space, low voltage electrical, and emergency response planning. The Occupational Health and Safety department added a new class this fiscal year called Safety Orientation for the New Supervisor. This class provides new supervisors with a general overview of how to develop and maintain a safe work environment for employees. Newly hired or promoted supervisors and managers receive this training as part of the mandatory training for new employment orientation.

Skills improvement classes for managers and supervisors during FY 2004 consisted of basic communication skills that focused on how to communicate effectively when delegating and conducting performance reviews; diversity training to facilitate teamwork; and report writing. Employee skills improvement sessions included computer training on Microsoft Office, diversity, communication skills, backflow prevention, basic writing, and time and stress management. The Authority also provided specialized skills training to the Board of Director's Audit Committee to assist them in benchmarking best practices in understanding the roles and responsibilities of their function.

All employees continued to attend mandatory training on new changes and newly written Authority policies. These classes included Sexual Harassment Prevention refresher and workplace violence. New employees received training on all applicable Authority policies and procedures during new hire orientation.

In FY 2004, the Authority designed a Career Development program to provide employees with opportunities to achieve business-related career goals. This is a self-managed program that requires the employee to identify future goals and collaborate with his or her supervisor on the best approach to achieve the goals.

The Education Reimbursement program continues to provide a means for employees to obtain undergraduate and advanced degrees from local colleges and universities. In FY 2004, six (6) employees participated in the program. Of the six (6) employees, three (3) employees are pursuing associate degrees, two (2) are pursuing bachelors degrees and one (1) is pursuing a masters degree. The Authority reimbursed employees \$4858 for educational expenses.

WASA READS, the Authority's adult literacy program, ended its second year with fifteen (15) employees enrolled. Participants continue to practice reading and writing comprehension. Some employees have begun to incorporate job-related skills such as measurements and perimeter calculations as part of their curriculum. During the summer months, participants use workbooks to keep their skills current. Many of the employees in the WASA Reads program are now enrolling in basic computer classes to improve their computer literacy.

The Authority's FY 2004 Summer Internship Program was the largest ever with 37 interns from 18 different colleges and universities. Nineteen (19) interns were pursuing degrees in Engineering or Information Sciences. The remaining 18 students were pursuing degrees in Business, Political Science or Liberal Arts. In addition to their work assignments, the interns participated in teambuilding exercises, community service activities, and observed environmental issues that impact the Potomac River and the Chesapeake Bay.

For the second year, the Authority expanded its educational outreach efforts to the surrounding community. To demonstrate its commitment as a good corporate citizen, the Authority partnered with Covenant House Washington and gave seven (7) at-risk youth the opportunity to learn skills in facilities maintenance, landscaping, and administration. Covenant House is a privately funded, non-profit childcare agency that provides food, shelter and support services to at-risk youth in the metropolitan area. In FY 2003, WASA received an award for Outstanding Participation in a Work Experience Internship Program from Covenant House Washington. In FY 2004, the Authority provided opportunities to six (6) Covenant House Washington participants who will also learn skills that will prepare them for independent living.

In FY 2004, the Authority implemented its Employee Recognition Program. The program recognizes employee's positive work performances that are readily observed and that can be rewarded in a timely manner. There are seven (7) categories for which employees are eligible to receive awards. The award categories are Attendance, Illegal Hydrant Connection Notification, Housekeeping, Safety, Customer Service, Outstanding Manager of the Year, and the General Manager's Award for Outstanding Performance. Employees are eligible to receive an Employee Recognition Award on a quarterly and/or annual basis.

In addition to the standard training and development offerings, the Authority also conducted two organization interventions that focused on improving teamwork, communication and collaboration. Employees in the Office of the General Counsel and the Department of Information Technology participated in activities that identified processes and other issues that impacted both individual and organizational performance. The interventions resulted in action plans that will help each unit function as high performance teams.

FY 2005 and FY 2006

The training budgets for FY 2005 and FY 2006 are summarized in the table below.

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

Training Type	FY 2005		FY 2006	
	Budget	Percent	Budget	Percent
Outside Training	726	45%	737	46%
In-House Training	245	15%	200	13%
Contractual Training	649	40%	649	41%
Total	1,620	100%	1,586	100%

In FY 2005, training will continue to center on regulatory and safety, technical, Authority policy, and Authority-mandated skills improvement courses and programs. Regulatory and safety training will focus on OSHA and the District of Columbia Regulatory Agency mandated requirements. With the completion of the Authority's Wastewater Treatment Operator Certification Program, technical training will focus on the implementation of the Wastewater Treatment Operator Trainee Program. Training as part of the Authority's Internal Improvement Program will also continue for the Department of Maintenance, Sewer, and Water Services.

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. Managers and supervisors will receive refresher training on Workplace Violence Prevention, performance management, written communication and computer classes. Employees will attend classes on Workplace Violence awareness, communication and interpersonal skills and have the opportunity to pursue new career aspirations through the Career Development Program.

Implementation of the Authority's Customer Service training will begin in FY 2005. Employees that have responsibility for direct interactions with customers will attend classes that provide skills training to deliver stellar service when confronted with customer inquiries and problems.

FY 2005, the Authority will continue with mandatory and skills improvement classes that support the Internal Improvement Plan, Capital Improvement Program, and changing job requirements as employees become more cross-functional in meeting their goals. Budget/training plan – adopted 2005-2006

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 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): 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.