Update on Integrated Comments and Recommendations on the MWRA's Proposed FY11 CIP and CEB

April 15, 2010

Presentation to the
Advisory Board

FY11 CEB Challenge

- October 2009: Letter sent to BOD
- November 2009: First BOD discussion
- December 2009: Presentation to BOD
- January 2010: MWRA options presented
- February 2010: Preliminary/final assessments approved with 1.49% increase

Starting Point

Final FY10 Budget

Original Planning Projections

($ millions)

	FY2010	FY2011	FY2012
Direct Expenses	$209.6	$217.6	$226.6
Indirect Expenses	39.8	47.6	48.5
Capital Financing (before offsets)	347.2	389.8	395.2
TOTAL EXPENSES	**$596.6**	**$655.0**	**$670.3**
Debt Service Assistance	(0.4)	(0.4)	(0.4)
Bond Redemption Savings	0.0	(17.0)	(2.7)
Variable Rate Savings	0.0	0.0	0.0
(less offsets)	**$596.3**	**$637.7**	**$667.3**
Non-Member and Other Revenue	$12.3	$12.0	$12.8
Interest Income	15.2	12.5	12.1
Rate Stabilization	7.3	15.8	6.8
	$34.8	**$40.3**	**$31.6**
Total Rate Revenue	**$561.4**	**$597.4**	**$635.7**
Rate Revenue Increase		$36.0	$38.3
	3.80%	6.41%	6.41%

FY10 “Toolbox”

- Debt Service
  - Updated borrowing assumptions
  - Variable rate debt
  - Additional FY10 defeasance
  - Local Pipeline Assumptions
  - Current revenue for capital
  - Chelsea Lease renegotiation
  - Bond covenant reserve releases
- Indirects
  - Pension fund additional payments
  - OPEB
  - Operating reserve recalculation
- Revenue
  - DSA/Bottle Bill
  - System expansion
  - Investment income assumptions
  - Advertising revenue
- Directs
  - New union contract
  - Fringe benefits legislation
  - Reclassification of projects from CEB to CIP
  - Favorable utilities trends
  - CTG wet weather assumptions
  - Sludge quantities
  - Chemical pricing updates
  - Potential dosage modifications
  - Elimination of outfall monitoring (interim and long-term)

Tools to Get There

- No FY11 COLA increases
- Pension fund expense reduction
- Defeasance from FY10 projected surplus
- Reduction of direct and indirect expenses
- “Targeted Rate Relief Restructuring”

Proposed FY11 CEB

Updated Projections

($ millions)

	FY2010	FY2011	FY2012	FY2013
Direct Expenses	$209.6	$209.0	$214.7	$222.6
Indirect Expenses	39.8	38.5	40.6	47.2
Capital Financing (before offsets)	347.2	355.3	369.9	382.8
TOTAL EXPENSES	**$596.6**	**$602.8**	**$625.2**	**$652.7**
Debt Service Assistance	(0.4)	0.0	0.0	0.0
Bond Redemption Savings	0.0	0.0	0.0	0.0
Variable Rate Savings	0.0	0.0	0.0	0.0
(less offsets)	**$596.3**	**$602.8**	**$625.3**	**$652.7**
Non-Member and Other Revenue	12.3	11.8	13.0	13.3
Interest Income	15.2	14.5	17.6	22.1
Rate Stabilization	7.3	6.8	2.4	1.5
	$34.8	**$33.0**	**$32.9**	**$37.0**
Total Rate Revenue	**$561.4**	**$569.8**	**$592.3**	**$615.7**
Rate Revenue Increase		$8.4	$22.5	$23.4
	3.80%	**1.49%**	**3.96%**	**3.95%**

Accomplishments

- Lowest rate increase since 1996
- Preliminary assessments = final assessments
- Projections more realistic
  - Inflation
  - Variable rate debt interest rate
- Tools Used
  - Tight budget
  - “Targeted Rate Relief Restructuring”

Proposed FY11 CIP

Background and Challenges

- Total capital spending = $7.9 billion
  - Outstanding debt = 5.8 billion

“You control rates in the future by controlling capital spending now.”

- Upcoming challenges:
  - No Debt Service Assistance
  - Debt service climbs until 2022
  - FY20 Expenses = 65% debt service

“Max Cap”

- FY10 Recommendation: reduce capital spending through FY13 by $100 million
- Realistic projections
  - FY13 and ±20% rule
  - “Cap beyond the cap”
- Recommended: No future capital spending cap can exceed $1.0 billion
  - CSOs decline
  - Updated Master Plan to prioritize remaining projects

System Expansion Overview

1) Streamlining application process
2) Withdrawals/Releases/Reserves (12 MGD)
3) Smart Growth
4) Hatchery Pipeline Project
5) Incentives to join MWRA

System Expansion
Recommendations

- Revisit withdrawal/release/reserve estimates from 2006 numbers
- Quabbin Release project (hatchery) should be funded by the first entrance fee received under the new streamlined process

Personnel Study

- MWRA has reduced staff by 31% since FY97
- Agency transitioning from construction to maintenance
- Recommended: set and establish updated levels of staff needed to execute MWRA's core mission

NPDES Permit

- Approaching five years beyond current permit expiration date
- Recommended: do not co-permittee with communities

Revenue

- Rate Revenue approaching $1 billion by 2020
  - 68% increase over FY10
- Additional sources of funding needed
  - State/federal funding
    - Debt Service Assistance
  - System expansion
    - Entrance Fees (one-time)
    - New members (spreading base)
  - Advertising

Only The Beginning

- Economic landscape still uncertain
- Tight budget
- Short-term problem (FY11-13)
  - Cities and towns lose state aid
  - Ratepayers continue to struggle
- Long-term problem (FY14-22)
  - “Mountain of debt”