Proposed FY16 CEB Highlights

Table 18

MWRA Current Expense Budget
($ millions)

	FY15 Budget	FY16 Proposed	$ Change	% Change
Expenses				
Direct Expenses	217.1	223.8	6.6	3.0%
Indirect Expenses	47.5	47.8	0.2	0.5%
Capital Financing	417.4	439.2	21.8	5.2%
Subtotal Expenses	***$682.1***	***$710.7***	***$28.7***	***4.2%***
Offsets				
Bond Redemption	(6.7)	(3.5)	3.2	-47.4%
Debt Service Assistance	(0.9)	0.0	0.9	-100.0%
Subtotal Offsets	***-$7.6***	***-$3.5***	***$4.1***	***-53.3%***
Net Expenses	**$674.5**	**$707.2**	**$32.7**	**4.8%**
Revenues				
Other User Charges	7.6	8.0	0.4	5.0%
Other Revenue	6.8	12.7	5.9	86.2%
Rate Stabilization	0.0	0.0	0.0	-
Investment Income	9.7	9.5	-0.2	-2.4%
Subtotal Non-Rate Revenue	***$24.2***	***$30.2***	***$6.0***	***24.9%***
Rate Revenue	***$650.3***	***$677.0***	***$26.7***	***4.10%***
Total Revenue and Income	**$674.5**	**$707.2**	**$32.7**	**4.85%**

$6.5 million ≈ 1% rate increase

- Proposed FY16 CEB: $707.2 million
- Wholesale rate revenue increases 4.1% or $26.7 million
- Direct expenses increase 3.0%
- Capital financing expense[25] is the largest portion of the proposed CEB
  - Totals $439.2 million (over 61%)
  - Increases by 5.2% ($21.8 million)
- Much of the debt service is for ongoing payments of principal and interest on outstanding borrowings for completed projects, notably the Boston Harbor Project and the Integrated Water Supply Improvement Program

[25] Before offsets

Proposed FY16 CEB by Major Category

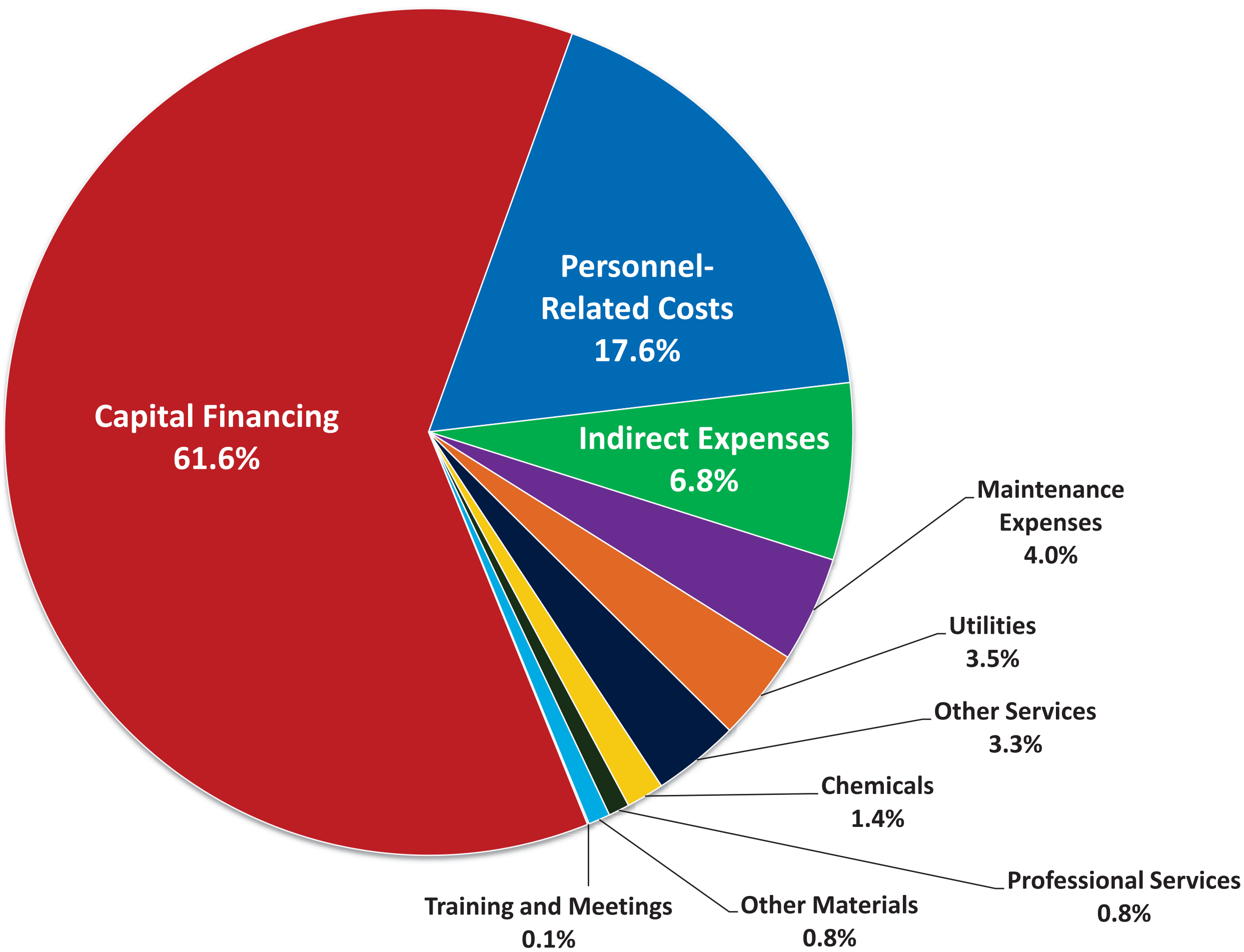

Figure 8

<u>Direct Expenses</u>

- Direct expenses: $223.8 million
  - 32% of proposed CEB
- Personnel-related costs: $124.8 million
  - 56% of all direct expenses and include:
    - Wages and salaries
    - Overtime
    - Fringe benefits
    - Workers' compensation
- Maintenance: $28.6 million
  - 12.8% of direct expenses
  - Second largest category
  - Larger maintenance projects are part of the capital budget
- Utilities: $24.9 million
  - 11.1% of all direct expenses
  - Electricity: $18.1 million (almost 73% of utilities)
  - Increases $1.4 million from FY15
    - Driven by increases in electricity and diesel fuel
- Other services: $23.4 million

    - 10.5% of direct expenses
    - Primarily for sludge pelletization at the Fore River plant
- Chemicals expense: $10.1 million
    - 4.5% of direct expenses
- Remaining direct expenses: $12.0 million
    - 5.4% of direct expenses and includes:
        - Professional services
        - Other materials
        - Training and meetings

Indirect Expenses

- Total: $47.8 million
    - Makes up 6.7% of total expenses
- Largest components are:
    - Watershed-related expenses ($28.1 million)
    - Pension fund deposit ($8.2 million)
    - Optional pension fund deposit/Other Post-Employment Benefits ($5.1 million)

Capital Financing Expense

- Total: $439.2 million[26]
    - Makes up 62% of all expenses
- Debt service: $414.0 million
    - Makes up 94.3% of capital financing
    - Includes principal and interest payments on:
        - State Revolving Fund (SRF) borrowings
        - Senior debt
        - Subordinate debt
- Remaining capital financing expenses: $25.2 million
    - Supports:
        - Water pipeline commercial paper program ($4.15 million)
        - Current revenue for the capital program ($11.2 million)
        - Capital lease payments for the debt portion of the Chelsea facility ($3.2 million)
        - A deposit of $6.7 million to the Community Obligation and Revenue Enhancement (CORE) Fund

[26] Before $3.5 million in bond redemption offsets

Total Spending Increases $23.7 Million

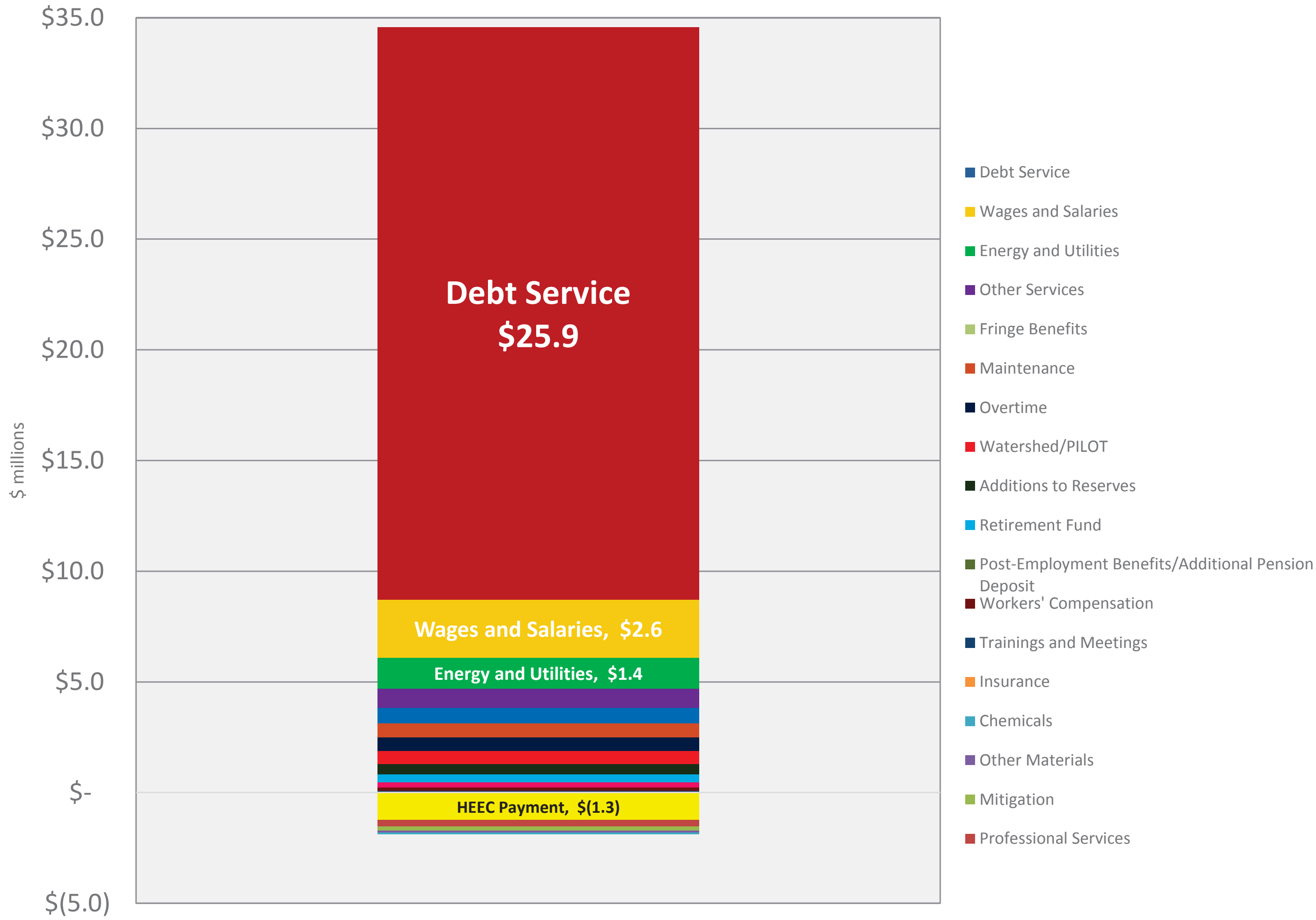

Figure 9

- Debt Service: $25.9 million (net)
  - Largest increase
  - Actual increase: $21.8 million
  - Offset by:
    - $3.2 million in lower use of bond redemption funds
    - $0.9 million in lower Debt Service Assistance[27]
- Wages and Salaries increase: $2.6 million
  - Second largest increase
- Decreases partially offsetting total "delta" include:
  - HEEC payment
  - Professional services
  - Mitigation
  - Chemicals
  - Other materials

[27] FY15 DSA received was $0.9; FY16 DSA anticipated: $0

Revenues

- Rate revenue requirement: $677 million
  - Increase from FY15: $26.68 million (4.1%)
  - Makes up 95.7% of total revenue
  - Raised through wholesale water and sewer rates
- Non-rate revenue: $30.2 million
  - Increase from FY15: $6.0 million
  - Makes up 4.3% of total revenue
  - Sources include:
    - Investment income
    - Other revenue
    - Other user charges
- As proposed, the FY16 wholesale rate increase would be above $25 million for the first time in ten years
- FY11 increase of 1.49% ($8.4 million) was the lowest in the previous 15 years, since 1996 when the Authority received $31.5 million in state debt service assistance
- Rates are currently projected to increase by over $25 million for six of the next seven years ahead (See Figure 10)

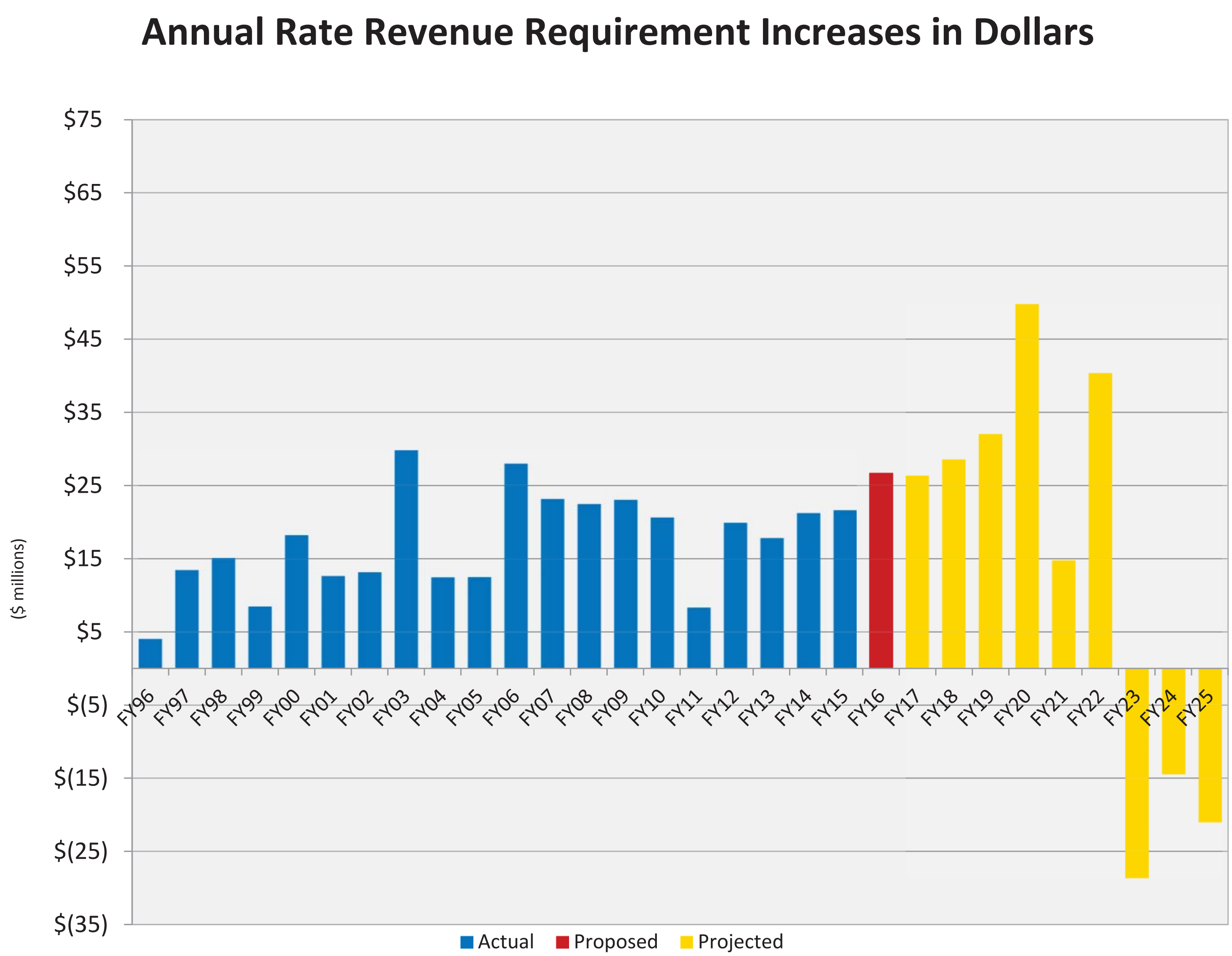

Figure 10

- After FY2022, the Authority projects that rates will start to trend down, as debt service peaks
- The rate increases, lower than previous projections, reflect a multi-year rates management strategy to keep rates at sustainable levels during these continued challenging times
- These rates reflect the significant benefits of reduced debt service payments (as compared to earlier projections) resulting from:
    - January 2007 restructuring transaction
    - Spring 2008 defeasance transaction
    - February 2009 refunding
    - Restructuring of targeted amounts of debt service that had been due in FY09-15
        - Benefits seen through FY 2019
- Defeasance: the prepayment of a portion of a future year's debt service using current-year surplus funds.
    - This tool has been used consistently and strategically
- Proposed FY10 CEB was the first proposed budget to assume benefits of a planned defeasance transaction.
- This assumption allows proposal of lower rate revenue increases than earlier projected
- Total defeased debt between 2006 and projected FY15 defeasance: $335 million (See Figure 16)
- The Authority has also continued to work to tighten direct expenses in the proposed FY16 CEB, continuing to absorb more risk in the budget assumptions and reflect updated historical spending patterns

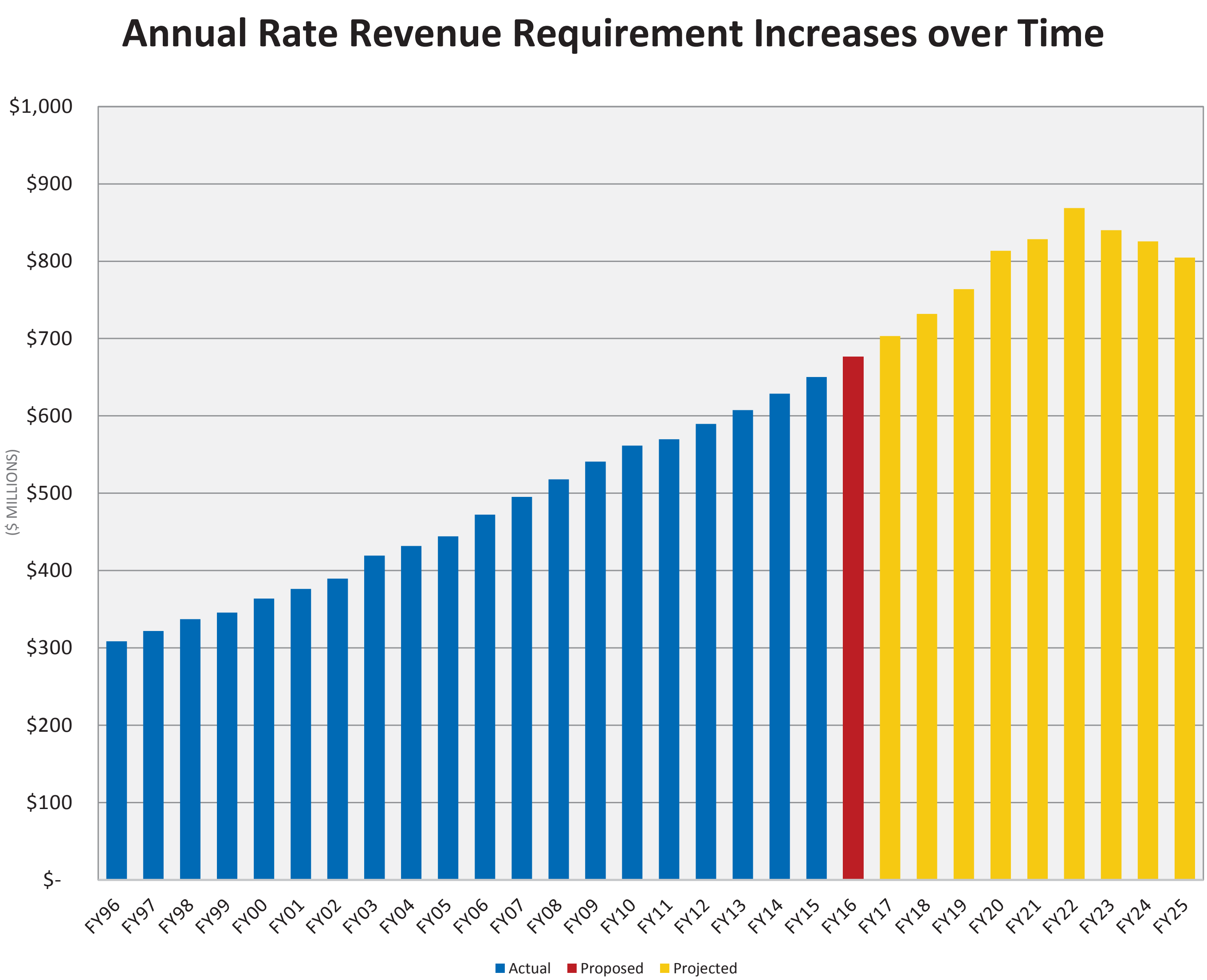

Figure 11

FY16 Current Expense Budget Recommendation

Last year, the Advisory Board challenged the Authority to keep assessment increases below 4% through FY20. To its credit, the Authority has embraced this "Four No More" concept, and has incorporated it as a context for many of their presentations and handouts related to planning projections and rates management. In fact, the Authority's updated projections presented to the MWRA Board of Directors in April 2015 achieves projected rate increases of 3.9% through FY 2021.[28] If rates match these projections moving forward, the Authority will more than achieve the Advisory Board's initial goal, which was to keep assessment increases below 4% for ten years in a row (from FY10-FY20). The Advisory Board applauds the Authority for attaining this goal so quickly, and for working with the Advisory Board and Long-Term Rates Management Committee to do so. This sub-4% level of rate increases provides a wonderful starting point as the Advisory Board and Authority look for the next goal to set and work together to similarly achieve them in the next few years.

The Advisory Board has recommended or identified nearly $8.4 million in net line item reductions,[29] and has recommended that some of these reductions be offset by removing the intended use of bond redemption funds (approximately $3.5 million) for an actual reduction of $4.8 million. **Therefore, the Advisory Board recommends this $4,811,604 be used to reduce the rate revenue requirement for the FY16 Current Expense Budget, resulting in a 3.36% wholesale rate increase.** The specific reductions are identified and explained in the subsequent chapters.

<u>Major Categories of Spending</u>

Detailed discussion of the major categories of spending follows in order of highest to lowest levels of spending:

Table 19

Proposed FY16 CEB Major Categories of Spending ($ millions)	
Capital Financing	$435.7
Personnel-Related Costs	124.8
Indirect Expenses	47.8
Maintenance Expenses	28.6
Utilities	24.9
Other Services	23.4
Chemicals	10.1
Professional Services	5.7
Other Materials	5.9
Training and Meetings	0.4
TOTAL EXPENSES	**$707.2**
REVENUE	**$707.2**

[28] "With the application of the $36.5 million in released reserves, strategic utilization of available Rate Stabilization and Bond Redemption funds." April 2015 MWRA Board of Directors staff summary (http://mwraadvisoryboard.com/wp-content/uploads/2015/05/BOD-Pack-2015-04-15.pdf)

[29] Note: $8.4 million reduction includes $2.2 million in anticipated increased expenses. (See Appendix C)