Table 20

Line Item/Description	Final FY14	Proposed FY15	Δ ($s)	Δ (%)
Proposed Fiscal Year 2015 Capital Financing Summary ($ millions)				
Total Senior Debt Service	**$204.47**	**$221.34**	**$16.87**	**8.2%**
Outstanding	204.07	213.82	9.75	4.8%
New FY14/FY15	1.13	8.30	7.17	632.8%
Potential Defeasance/Restructuring	-0.73	-0.79	-0.06	8.2%
Fixed rate debt service, existing and new borrowings during FY13/14.				
Total Subordinate Debt Service	**100.12**	**99.69**	**-0.43**	**-0.4%**
Outstanding	100.35	99.69	-0.66	-0.7%
New FY14/FY15	0.00	0.00	0.00	-
Potential Defeasance/Restructuring	-0.23	0.00	0.23	-100.0%
Variable rate debt service: 3.25% interest rate assumption.				
Total SRF Debt Service	**75.96**	**78.46**	**2.50**	**3.3%**
Outstanding	75.96	71.93	-4.03	-5.3%
New FY14/FY15	0.00	6.53	6.53	-
Low-interest loans from the Commonwealth. 2.0% interest rate (Water); 2.5% (Sewer).				
TOTAL DEBT SERVICE	**380.55**	**399.48**	**18.93**	**5.0%**
Water Pipeline Commercial Paper	**4.13**	**4.15**	**0.02**	**0.5%**
Debt service supporting $25 million/year for the Local Water Pipeline Improvement and Local Water System Assistance Loan Programs.				
Current Revenue/Capital	**9.20**	**10.20**	**1.00**	**10.9%**
Amount of current revenue used to fund ongoing capital projects and to meet coverage requirements.				
Capital Lease	**3.22**	**3.22**	**0.00**	**0.0%**
Chelsea facility lease payment.				
CORE Fund Deposit	**0.13**	**1.60**	**1.47**	**1109.9%**
The CORE Fund is 10% of Senior Debt Service for the fiscal year per the Bond Resolution.				
TOTAL OTHER CAPITAL EXPENSES	**16.68**	**19.17**	**2.49**	**14.9%**
Bond Redemption	**0.00**	**-1.30**	**-1.30**	**-**
Bond Redemption funds used to reduce capital financing expense.				
Debt Service Assistance (offset)	**0.00**	**0.00**	**0.00**	**-**
The state-wide program providing assistance with wastewater debt service is not expected in the Commonwealth's FY14 budget.				
TOTAL CAPITAL FINANCING EXPENSES	**$397.23**	**$417.31**	**$20.08**	**5.1%**

Other Highlights

- Outstanding principal: $5.574 billion[10]
  - Lower than one year ago (See Figure 16.)
- Planned FY15 borrowings:
  - MWRA: $100 million
  - SRF: $53.8 million and $42.5 million
- Budgeted spring 2014 borrowing of $100 million will be combined with a refunding transaction assumed for fall 2014
- No new Debt Service Assistance is assumed (See Policy Chapter, page 79.)

[10] Through December 31, 2013

Capital Financing Expenses Increase $21.4 Million [11]

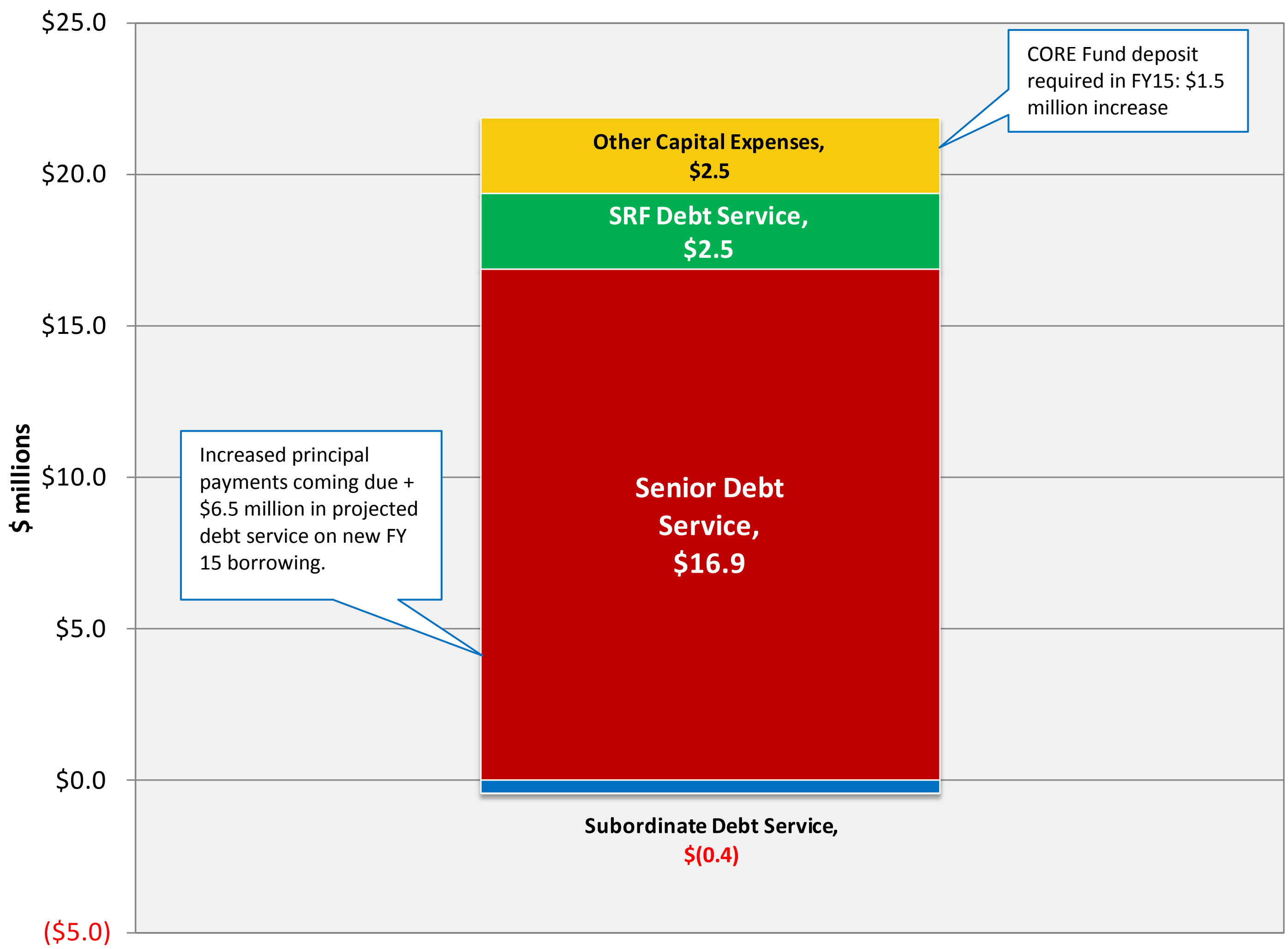

Figure 11

MWRA Debt Financing and Principal

- The Authority relies heavily on debt financing to fund its capital program.
- The Authority has spent $7.74 billion on its capital improvement program.[12]
- For FY15, capital financing expense as a percent of all expenses is 61.1%. (For reference see Figure 12.)

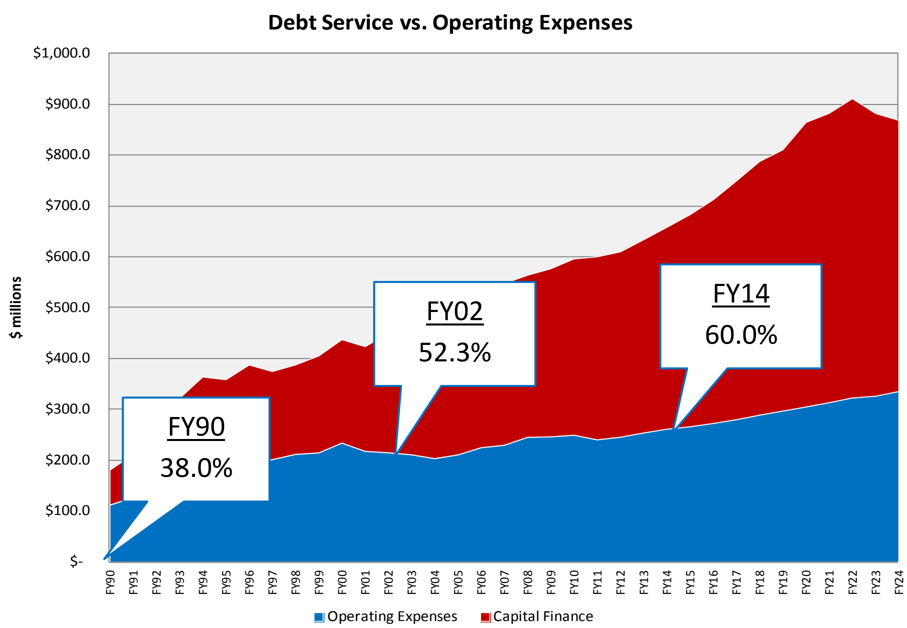

Figure 12

[11] Before offsets
[12] Through FY13

Outstanding principal borrowed totals $5.574 billion[13] and includes four categories:

- State Revolving Fund (SRF)
- Pure Variable (subordinate debt)
- Swap Notional (subordinate debt)
- Senior Debt

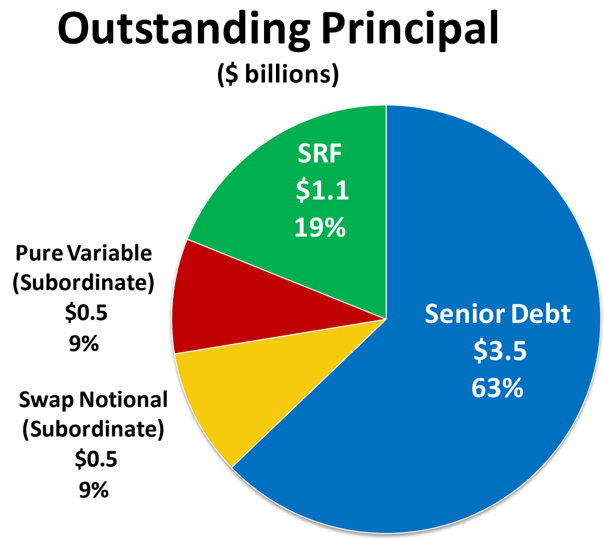

Figure 13

- Commercial paper (CP) outstanding: $144 million
  - Including CP, total outstanding principal = $5.718 billion
- Outstanding principal is declining and is $112 million less than the prior year (See Figure 16.)

Debt Service on Senior Debt

- FY15 debt service on senior debt is $221.34 million including:
  - $6.5 million for full first-year costs of planned spring 2014 borrowing of $100 million
  - $1.8 million for partial year debt service on new borrowing of $100 million next spring 2015
  - $0.79 million in estimated reduced debt service in FY15 from planned defeasance transaction in June 2014

Debt Service on Subordinate MWRA Debt

- FY15 debt service on subordinate debt: $99.69 million
- Variable rate debt interest rate assumption: 3.25%
  - Same as the last four fiscal years
  - Based on a 20-plus year average
  - Federal Reserve Board has indicated that rates will continue to be kept low for some time ahead
- While the Authority cannot guarantee in its budget approach that lower interest rates will actually occur, it can be expected that the actual expense for subordinate debt will remain low for some time.
- One factor rating agencies consider when updating the Authority's bond rating is how much variable rate debt exposure the Authority has.
- Outstanding variable rate debt: $1.019 billion
  - Makes up 17.8% of all outstanding debt.
  - Percentage has been declining over the last several years: just two years earlier it was 21% of all outstanding debt.
- The Authority expects its total variable rate debt exposure to decrease to 16.1% by the end of FY16, and to 14.9% by the end of FY18.

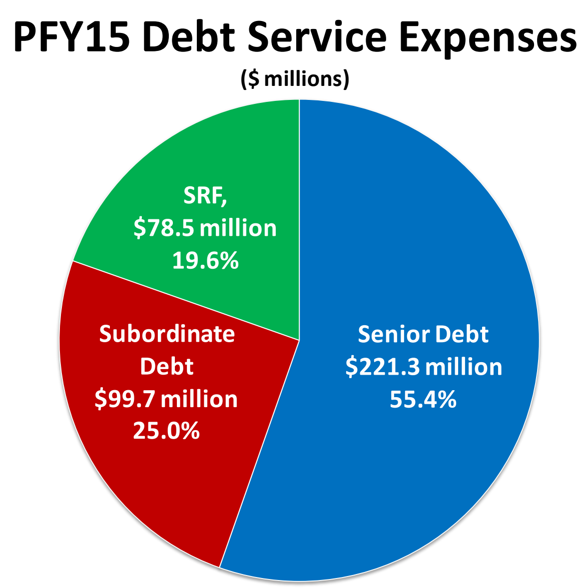

Figure 14

[13] As of December 31, 2013.

SRF Borrowings

- FY15 debt service on SRF borrowings: $78.46 million
  - $6.53 of this is for Pool 18 and Pool 19 new borrowings
  - These amounts may be updated in the final FY15 CEB
- Outstanding SRF debt: $1.05 billion
  - 19% of total outstanding debt[14]

Bond Defeasance and Refunding

- Proposed FY15 CEB assumes a defeasance transaction of $17.55 million
  - The funds represent underspending during FY14, particularly for variable rate debt
  - Total estimated benefit in future years: $19.9 million
    - Over 90% of benefit in FY17
    - Remaining benefit seen in FY15 and FY16
- Updated June 2014 defeasance transaction is $29.7 million
  - Total benefit is estimated at $31.3 million
- Since 2006, through the planned spring 2014 defeasance, MWRA will have defeased $303.2 million for targeted debt service reductions over multiple years. (See Figure 15.)
- The Authority continues to look for opportunities for refunding and refinancing to reduce projected debt service.

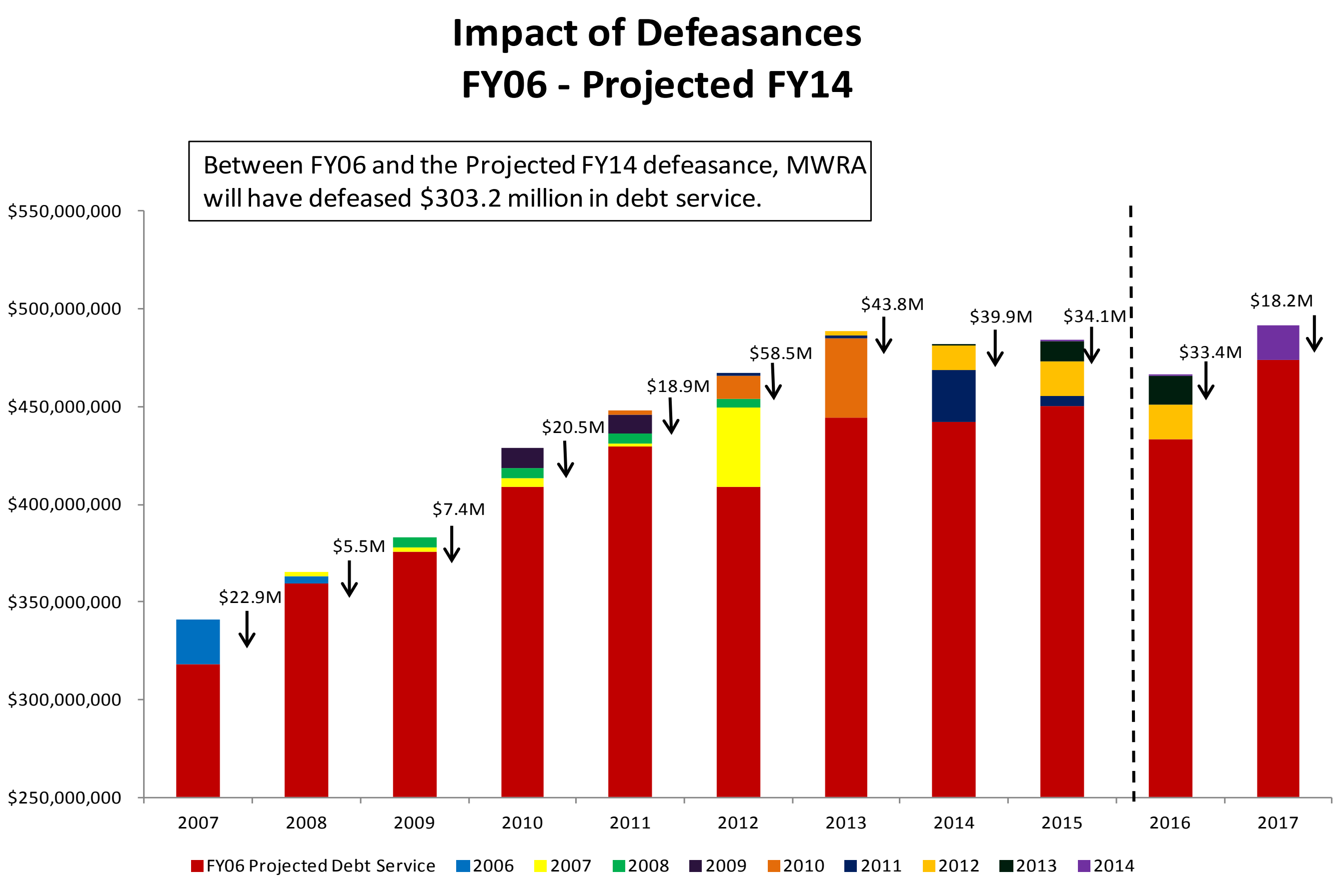

Figure 15

[14] As of December 31, 2013

- The Board has authorized the continuation of the defeasance account to receive surplus funds raised for capital financing expenses to manage future rates. The account ensures that these funds are used in a manner consistent with the purpose for which they were budgeted and raised from the ratepayers. [15]
- ***The Advisory Board supports the continued use of the defeasance account strategy, which clearly identifies a use of variable rate debt service savings that is consistent with the original intended use of the funds that were raised.***
- ***The Advisory Board expects the Authority to reduce capital financing by $501,000 to reflect the spring 2014 defeasance transaction.***
- ***The Advisory Board anticipates that the Authority will updated its borrowing assumptions to reflect any updated amounts for new SRF borrowings and for the next new borrowing and refunding.***

Other Components of Capital Financing Expense

- Water Pipeline Commercial Paper: $4.15 million
    - Interest payments on commercial paper borrowings for:
        - Local Pipeline Assistance Program (LPAP)
        - Local Water System Assistance Program (LWSAP)
    - Assumptions include:
        - 3.25% interest rate (same as past four years)
        - $127.6 million average balance of commercial paper outstanding (same as FY14 budget)
        - Chelsea facility capital lease payment: $3.217 million
            - The amount has remained the same since 2002
            - The current portion of the annual payment is included in the CEB (See Policy Chapter, page 86.)
- Current revenue for the capital program: $10.2 million
    - FY14 budget: $9.2 million
    - FY13 budget: $8.2 million

Policy Discussion

Current revenue for the capital program ("Current Revenue") has been a line item of great concern for the Advisory Board. Given its continued growth in recent years, finding new approaches related to this category of expense are always on the Advisory Board's list of considerations.

This year, the Advisory Board is focusing on Current Revenue, not specifically for FY15, but as it relates in future years to the capital program. Specifically, **the Advisory Board recommends that the Authority use the $4,645,464 dedicated for water quality improvements relating to the Town of Clinton as part of the "current revenue for the capital program" line item to fund this project as expenditures occur in future years.**

The idea behind this recommendation is to continue to fund Current Revenue as required by the Authority's coverage tests, but to provide rate relief and/or preserve rate stabilization funds by identifying a non-rate revenue source of funds.

Community Obligation and Revenue Enhancement (CORE) Fund Deposit

- As senior debt service has increased, the requirement to fund the CORE fund has reappeared in the budget after a number of years when the conditions for fund deposits had been met.
- Funding is proposed at $1.56 million.

[15] Figure 15 does not include the final FY14 defeasance transaction approved at the May 2014 MWRA Board of Directors meeting.

Debt Service Offsets

- Bond redemption funds
  - FY14 budget: use of $1.3 million
  - Current balance: $32.853 million (including the $1.3 million above)
- Debt Service Assistance funds from the Commonwealth have been a critical tool in managing sewer (and some water) revenue increases for MWRA communities.
  - Proposed FY15 budget assumes $0 funding (See discussion in Policy Chapter, page 86.)
- The Advisory Board's goal is to keep the line item funded in the state budget. Staff will continue to work to support inclusion in the FY15 state budget.

Bond Covenant Changes

- Bond covenant changes from January 2007 will allow certain reserves balances to be released when two-thirds of outstanding principal has been issued or restructured pursuant to the revised covenants.
  - Current projected release is during FY16.
- Current projected release total: $111.87 million less $10.34 million of funds eligible to be released due to final maturity (as compared to changes to the bond covenants) for a net total of $101.5 million.
- Funds eligible for release before FY16 are included in ongoing defeasance transactions.

Policy Discussion

In accordance with the Advisory Board's recommendation, a Long-Term Rates Management Committee had been created to review and discuss the various options for using the released reserves. At the time, Authority staff presented various options to the committee, and the committee – representing the Advisory Board, MWRA Board of Directors, and staff from both – considered the alternatives and ran different scenarios. At that time, it was decided that with the release of the reserves still some years off, that the committee should be put on hiatus until closer to the expected release of reserves.

Current projections place the release during FY16, making this the ideal time to reconvene the Long-Term Rates Management Committee to reexamine the options for using the reserves. As such**, the Advisory Board recommends that the Long-Term Rates Management Committee be reconvened with updated membership according to the original makeup present on the committee, and that meetings begin in September 2014.**

Longer-Term Outlook for Principal and Interest Payments

- Debt Service payments increase rapidly in the coming years and are currently projected to peak in 2022.
- Current projections indicate that debt service payments will not return to today's levels until 2027.
- FY13 debt service: $368.5 million[16]
    - FY13 principal paid: $116.2 million
    - FY13 new borrowing: $40.6 million[17]
    - First year more principal was repaid than amount of new borrowings
- FY17 debt service: $479.4 million[18]
    - FY17 principal paid: $259.4 million
    - FY17 interest: $220 million
    - First year more principal being paid than interest (See Figure 16.)

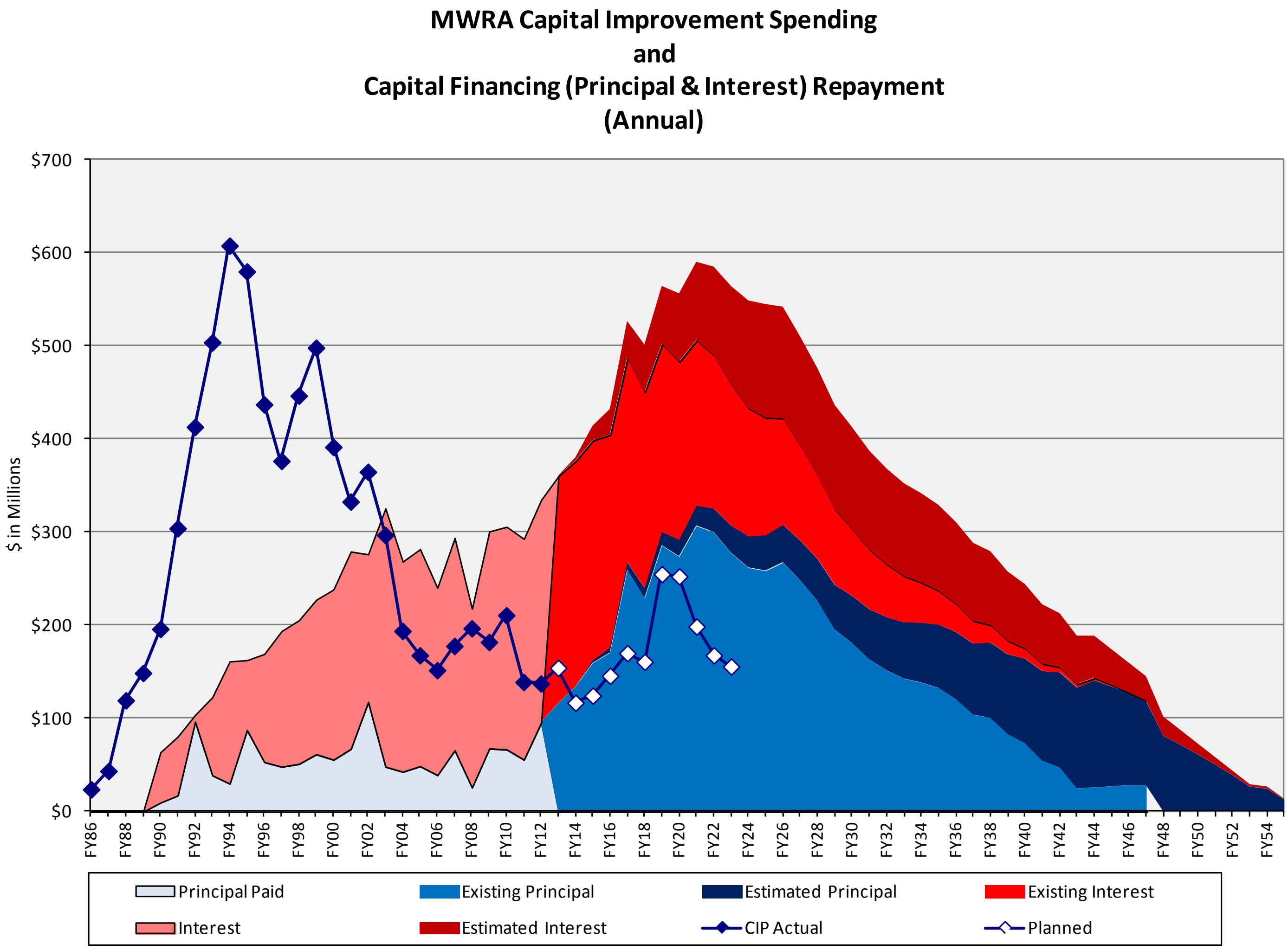

Figure 16

[16] Actual spending. Does not include commercial paper, current revenue for the capital program, or capital lease costs.
[17] SRF borrowing. Does not include commercial paper, current revenue for the capital program, or capital lease costs.
[18] Projected spending.

- During the FY14-18 cap period, total outstanding debt is projected to decrease by $351 million. (See Figure 17.)[19]

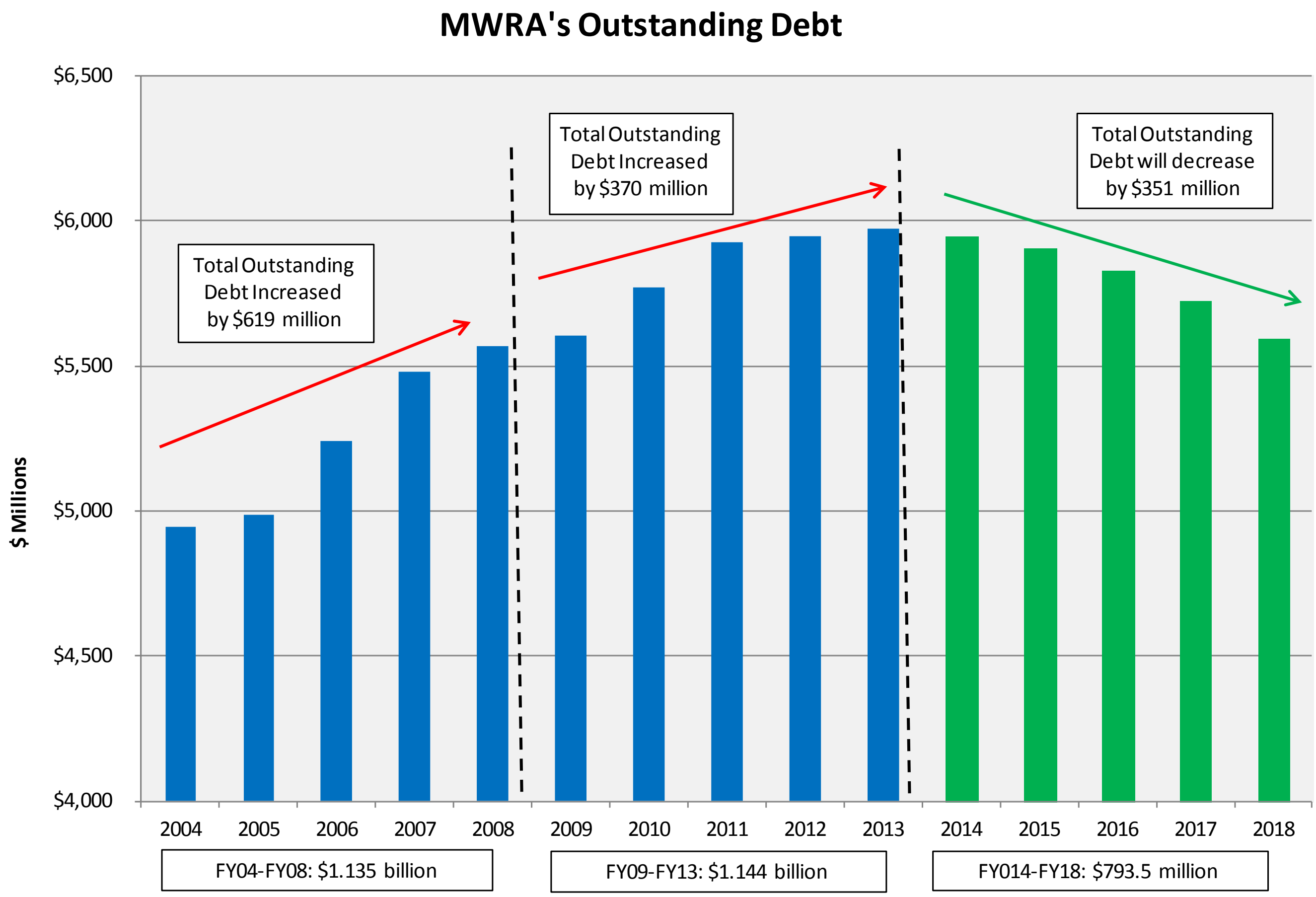

Figure 17

[19] Note: Figure 17 reflects data from FY14.