Table 22

Line Item/Description	Final FY14	Proposed FY15	Δ ($s)	Δ (%)
Proposed Fiscal Year 2015 **Indirect Expenses Summary** ($s)				
Pension	$7,455,103	$7,808,155	$353,052	4.7%
Scheduled updated contribution to retirement fund. Required annual contribution = $5.9 million. Updated mortality tables impact = $2.2 million.				
Post-Employment Benefits/Additional Pension Deposit	4,976,411	4,821,320	-155,091	-3.1%
All other benefits for retirees (e.g. health insurance). Line item relabeled to reflect expectation of transfer into the pension fund consistent with long-term strategy.				
Insurance	2,093,618	2,128,155	34,537	1.6%
Insurance and payments/claims.				
Mitigation Payments	1,566,797	1,605,967	39,170	2.5%
Mitigation payments to Quincy and Winthrop.				
HEEC Payments	3,346,854	3,198,174	-148,680	-4.4%
Cross harbor cable to Deer Island (includes both debt service and O&M components).				
Watershed Reimbursements	27,214,833	27,541,836	327,003	1.2%
Supports the operations and related costs of the state's Department of Conservation and Recreation, Office of Watershed Management.				
Additions to Reserves	169,304	661,660	492,356	290.8%
1/6th of all planned Operating Expenses.				
TOTAL INDIRECT EXPENSES	**$46,822,920**	**$47,765,267**	**$942,347**	**2.0%**

Other Highlights

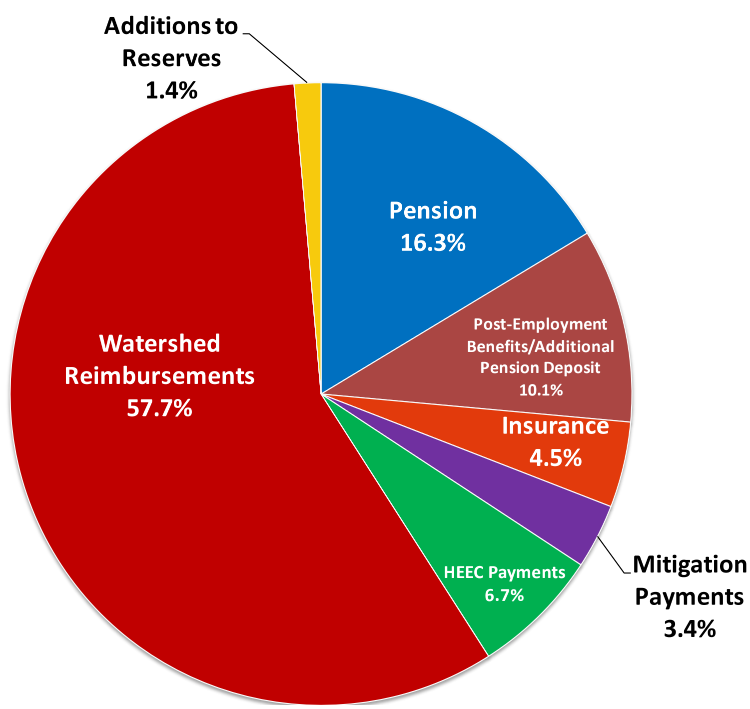

Figure 21

- Pension is 94.1% funded.[20]
- FY15 Pension annual required contribution (ARC) of $7.8 million is based on:
  - o A valuation report as of January 2013
  - o A FY24 funding schedule
- Other Post-Employment Benefits (OPEB) are treated together with pension obligations and will be actively funded when the pension is fully funded.
- The OPEB/Additional Pension Deposit line item ($4.8 million) is expected to be made as an optional payment to the pension rather than a deposit toward OPEB in FY15.
- Insurance expense based on five-year average.
- HEEC payments for O&M and debt service charges decline. The current agreement runs until May 2015.
- Costs of the Office of Watershed Management are treated as a reimbursement to the state and include PILOT payments and debt service on watershed land purchases, as well as direct operating expenses.

[20] As of January 1, 2014

"DELTA REPORT" Indirect Expenses Increase $943 Thousand

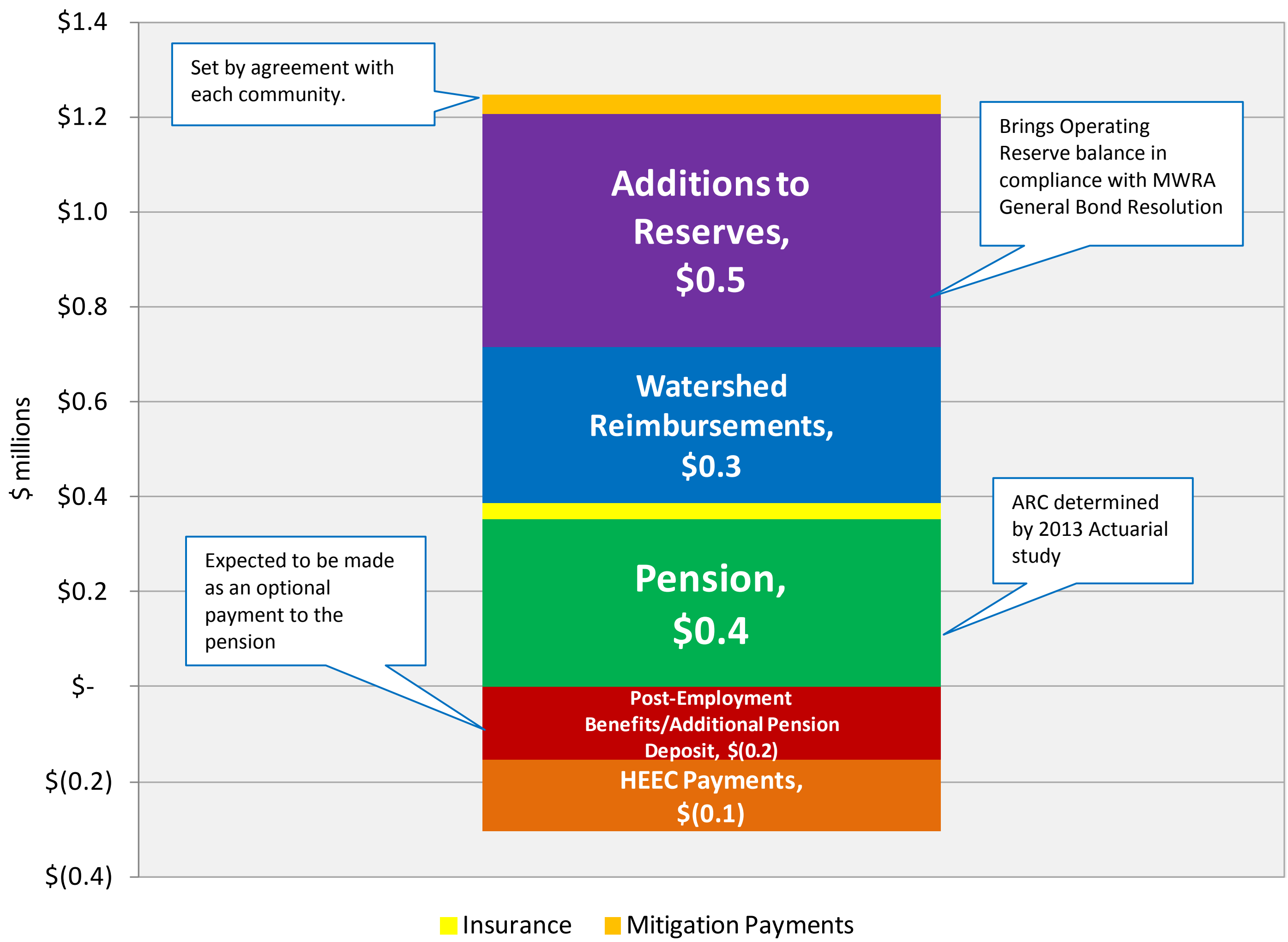

Figure 22

<u>Other Post-Employment Benefits (OPEB) and Pension</u>

- The retirement fund is currently scheduled to be fully funded by 2024
- FY14 pension expense: $12.4 million
  - o $7.45 million = annual required contribution
  - o $4.98 million = optional contribution
- Proposed FY15 pension expense: $12.6 million
  - o $7.81 million = annual required contribution
  - o $4.82 million = optional contribution
- Proposed FY15 OPEB expenses: $0.0
  - o Authority will begin to use "Other Post-Employment Benefits/Additional Pension Deposit" for OPEB contributions when the pension system is fully funded.
- Governmental Accounting Standards Board (GASB) Statement No. 45 governs the accounting and financial reporting of OPEB.
  - o Governmental entities are not currently required to fund OPEB
  - o All entities comply with GASB 45 by accounting and reporting on its OPEB liability
- The Authority has met all current provisions of GASB 45

Policy Discussion

The topic of Other Post-Employment Benefits (OPEB) and approaches toward funding this liability have been ongoing not only at the Authority, but also throughout the Commonwealth. In recent years, the Authority has adopted a "two-sides-of-the-same-coin" approach to its OPEB and pension liability, acknowledging that funding the pension before turning to OPEB is a fiscally responsible approach. In fact, the Advisory Board concurs with this approach and has many times praised the Authority for maintaining a funding schedule far more aggressive than the Commonwealth has allowed.

Prior to last fiscal year, the OPEB line item was funded but the MWRA Board of Directors typically voted to transfer the funds into the retirement fund as an optional payment. Beginning last year, the Authority renamed the line item for "Post-Employment Benefits" to "Post-Employment Benefits/Additional Pension Deposit" to clearly indicate the intention of transferring these funds to the pension, while still maintaining a placeholder for eventual OPEB expenses. Given the level of optional payments made in recent years and projected in the future, the retirement fund may be fully funded as early as 2018, six years ahead of the official 2024 amortization schedule. Because these additional payments, combined with the volatility of actual investment returns, make a specific date of funding difficult to determine, the Advisory Board believes it is important to begin looking at the transition from funding the pension to beginning to address its OPEB liability.

Toward this end, the Advisory Board reaffirms its support of the current approach toward the combined pension/OPEB liability, and further recommends that 100% funding of the retirement fund be used as the specific "trigger" to begin the process of establishing an irrevocable trust for its OPEB liability.

While an increasing number of governmental entities are establishing irrevocable trusts to begin addressing their OPEB liabilities, the Advisory Board remains wary of creating this vehicle for the Authority prior to full funding of the pension. The concern is that the very existence of an irrevocable trust would establish an expectation to begin depositing funds into it; moreover, that the Authority may be penalized by the credit rating agencies for *not* depositing funds. Currently, the financial advisors and credit rating agencies have acceded to the Authority's combined liability approach, and the Advisory Board recommends maintaining this course of action.

As noted above, achieving full funding is not a precise endeavor given all of the variables involved, so **the Advisory Board further recommends that in the event the amount budgeted for the retirement fund deposit would exceed the amount needed for full funding, that any excess funds be placed in a dedicated reserve account that is exempt from any Operating Reserve requirement until an irrevocable trust is established.**

As noted before, unlike the pension, there is no definitive requirement or set of protocols with regard to funding an agency's OPEB liability. There will be many critical decisions made in the absence of such guidelines or guidance as the Authority begins funding this liability. As such, **the Advisory Board recommends that the Authority create a working committee, including representatives from the Advisory Board, to discuss the schedule, structure, and management of funding the Authority's OPEB liability and make a recommendation to the MWRA Board of Directors.**

Insurance

- Based on a five-year average
- Increase due to severity of claims
- Insurance program is out for bid with award anticipated spring 2014.
    - Remains on an annual renewal schedule

Additions to Reserves

- The Operating Reserve level requirement: 1/6th of all designated expenses

- Proposed FY15: $662 thousand
- Final FY14: $169 thousand

- Throughout these *Comments*, the Advisory Board is recommending updates and other modifications to the proposed budget, which will result in the need to update the proposed budget for increased deposits to the Operating Reserve.
- ***The Advisory Board anticipates that the Authority will recalculate the Operating Reserve Requirement for FY15 to reflect reductions to applicable expenses and reduce accordingly.***
- ***The Advisory Board questions whether the optional payment to the pension should be subject to the operating reserve requirement, given the expense is not necessary to the Authority's operations and, in fact, could be redirected toward any other purpose by a vote of the MWRA Board of Directors.***

Watershed Reimbursement

- Other costs relating to watershed management have been added in recent years to both the Authority's CEB and CIP budgets. These include funding for new acquisition of watershed lands, dam repairs and PCB removal, as well as dam inspections and invasive species surveys and control.
- Watershed reimbursement expense rises for the costs of the Office of Watershed Management by 3.1% or $442 thousand to $14.8 million. PILOT payments decrease by $100 thousand to $8.1 million.
- Watershed related debt service reflects an even, multi-year payment schedule and remains at $5.6 million per year.

Table 23

Watershed Reimbursement

EXPENSES	FY14 Budget	FY15 Proposed	Δ ($s)	Δ (%)
Operating Expenses	$14,391,000	$14,833,003	$442,003	3.1%
Debt Service	5,608,833	5,608,833	0	0.0%
Revenue	985,000	1,000,000	15,000	1.5%
SUBTOTAL	$19,014,833	$19,441,836	$427,003	2.2%
Payment in Lieu of Taxes (PILOT)	8,200,000	8,100,000	(100,000)	-1.2%
TOTAL	**$27,214,833**	**$27,541,836**	**$327,003**	**1.2%**

Table 24

Watershed Revenues

EXPENSES	FY14 Budget	FY15 Proposed	Δ ($s)	Δ (%)
Interment Fees	$0	$0	$0	0.0%
Fish & Boating/Deer Hunt	260,000	260,000	0	0.0%
Rents	0	0	0	0.0%
Forestry Sales	110,000	125,000	15,000	13.6%
Miscellaneous	15,000	15,000	0	0.0%
Prior Year Refunds	0	0	0	0.0%
Hydropower/Tr Lines	600,000	600,000	0	0.0%
TOTAL	**$985,000**	**$1,000,000**	**$15,000**	**1.5%**

- ***The Advisory Board anticipates that the Authority will reduce the watershed reimbursement line item consistent with the Division of Water Supply Protection's final FY15 Workplan, currently estimated at a $75,000 reduction.***