STAFF SUMMARY

TO: Board of Directors
FROM: Frederick A. Laskey, Executive Director
DATE: May 6, 2020
SUBJECT: Amendments to Community Loan Agreements

COMMITTEE: Administration, Finance & Audit

_X_ VOTE
____INFORMATION

Matthew R. Horan, Deputy Director, Finance/Treasurer
Preparer/Title

Thomas J. Durkin
Director of Finance

As a result of the economic impacts of the COVID-19 pandemic, MWRA and Advisory Board staff have undertaken several initiatives to provide cash flow relief to MWRA's member communities. In response to a request from the Advisory Board Executive Committee, this staff summary proposes a one-time exemption to the Program Guidelines for the Community Financial Assistance Programs. This one-time exception would allow communities the flexibility to request restructuring of payments coming due in FY20, FY21 and/or FY22 to provide cash flow relief and assist with local rates management. The amount and duration of what loans will be restructured will vary by community and the limitations under Massachusetts General Laws Chapter 44 (if applicable).

RECOMMENDATION:

To authorize the Executive Director, or his designee, to execute and deliver all necessary documents to provide a one-time exemption to the Program Guidelines for the Community Financial Assistance Programs to amend the existing loans with payment coming due in FY20, FY21, and/or FY22 and to extend the final maturity of each loan by one year.

DISCUSSION:

The COVID-19 pandemic has caused great strain on the world-wide economy and has caused an uncertain economic climate. In order to assist MWRA's Member Communities manage the cash flow associated with water and sewer payments, MWRA and Advisory Board staff have worked together on a number of initiatives. One of those initiatives is to allow Member Communities with outstanding Community Financial Assistance Program loans to restructure payments coming due in FY20, FY21 and/or FY22. MWRA has three Community Financial Assistance Programs including the Local Water Pipeline, Lead Service Removal, and Inflow/Infiltration loans. The Local Water Pipeline and Lead Service Removal loans are for a term of 10 years at zero percent interest. The Inflow/Infiltration program is a combination loan/grant program with loans issued prior to FY15 being 45% grant and 55% five-year interest free loans. Since FY15, the program has been 75% grant and 25% ten-year interest free loan. MWRA currently has $34.4 million in

Inflow/Infiltration loans and $158.2 million in Water System Loans outstanding. The following table details the payments due by utility during FY20 through FY22.

Fiscal Year	Inflow/Infiltration Loans	Water System Loans	Total
2020	$ 1,551,770	$ 7,634,802	$ 9,186,572
2021	$ 6,212,359	$ 26,172,777	$ 32,385,136
2022	$ 5,213,404	$ 24,285,761	$ 29,499,165

While this table details the full amount of payments due in each fiscal year, as discussed below, the total available by for a community to restructure is limited by Massachusetts General Laws Chapter 44.

In 2015, the Town of Stoneham requested assistance from MWRA with managing the loss of a large water user, Kraft Foods, and the significant rate pressure due to the timing difference between the revenue loss and MWRA's assessment methodology. At that time, in consultation with the Advisory Board, MWRA offered to restructure its Community Loans to provide rate relief in FY16.

As MWRA and Advisory Board staff examined options to provide cash flow relief, the community loan restructuring utilized by Stoneham was presented as an option. The Advisory Board Executive Committee voted to request that MWRA allow for restructuring of the existing loans at its April 10, 2020 meeting.

Restructuring of the loans will allow for cash flow relief to MWRA's Member Communities by reducing the principal payments due during the fiscal year. While it reduces the amount of money a community would have to pay to MWRA, it only has a nominal impact on MWRA's Current Expense Budget (CEB) or Capital Improvement Program (CIP). The principal repayments are deposited into MWRA's Construction Fund and are used to offset the amount of money borrowed to fund the CIP. Restructuring of these payments would result in increased borrowings during the FY21 and FY22 period, which would be offset by lower debt issuance in future years as the principal was repaid. MWRA would also experience a reduction in investment income as result of the restructured loans, which would be approximately $75,000 for the year based on an estimated $30 million in payments restructured at the projected FY21 short-term interest rate of 25 basis points.

Staff have discussed this proposed loan restructuring with its financial advisor, bond counsel and the analysts from Moody's Investor Service, Fitch Ratings, and S&P Global. The general consensus is that this program will provide cash flow relief to the communities with minimal impact to the CEB.

The restructuring of the loan agreements for Cities and Towns are subject to the refunding provisions in Massachusetts General Laws Chapter 44, as applicable. These conditions will include the following:

- Amendment will require approval of the city council, selectboard, or commissioners.

- There must be a principal payment in each year of the loan ($500 was used as a minimum in Stoneham's case).
- The weighted average life of the restructured bonds has to be equal or less than a level principal refunding.

Below is an example of the restructuring of an existing loan to meet the requirements under MGL Chapter 44. MWRA will work with each community to develop a loan amortization schedule that meets its needs within the statutory restrictions. This is an example of what a restructuring of a 10-year loan with eight years remaining might look like with a one-year extension.

Level Principal Refunding					Adjusted Principal Refunding					
Fiscal Year	Year	Cummlative Years	Principal Amortization	Weighted Principal	Fiscal Year	Year	Cummlative Years	Principal Amortization	Weighted Principal	Annual Difference
2021	0.872	0.872	$ 33,383.00	$ 29,117.39	2021	0.872	0.872	$ 500.00	$ 436.11	$ (32,883.00)
2022	1.000	1.872	$ 33,383.00	$ 62,500.39	2022	1.000	1.872	$ 37,243.00	$ 69,727.17	$ 3,860.00
2023	1.000	2.872	$ 33,383.00	$ 95,883.39	2023	1.000	2.872	$ 47,243.00	$ 135,692.39	$ 13,860.00
2024	1.000	3.872	$ 33,383.00	$ 129,266.39	2024	1.000	3.872	$ 49,243.00	$ 190,679.84	$ 15,860.00
2025	1.000	4.872	$ 33,383.00	$ 162,649.39	2025	1.000	4.872	$ 47,243.00	$ 230,178.39	$ 13,860.00
2026	1.000	5.872	$ 33,383.00	$ 196,032.39	2026	1.000	5.872	$ 37,243.00	$ 218,699.17	$ 3,860.00
2027	1.000	6.872	$ 33,383.00	$ 229,415.39	2027	1.000	6.872	$ 37,243.00	$ 255,942.17	$ 3,860.00
2028	1.000	7.872	$ 33,383.00	$ 262,798.39	2028	1.000	7.872	$ 34,243.00	$ 269,568.51	$ 860.00
2029	1.000	8.872	$ 33,383.00	$ 296,181.39	2029	1.000	8.872	$ 10,246.00	$ 90,904.79	$ (23,137.00)
		Total	$ 300,447.00	$1,463,844.55			**Total**	$ 300,447.00	$1,461,828.55	$ -
		Average Life	**4.8722**				**Average Life**	**4.8655**		

Staff will work closely with each community, in conjunction with its financial advisors and bond counsel to determine the restructuring that meets its needs and complies with applicable laws.

BUDGET/FISCAL IMPACT:

The cost for reducing these payments cannot be completely determined until number of interested communities and the amount restructured is known. The restructuring will likely result in increased borrowing in FY21 and FY22, which will be offset by lower issuance in the future. The restructuring could also potentially result in a reduction of $75,000 in investment income based on FY21 projected short-term investments. MWRA's Draft Final FY21 CEB includes the impacts of the proposed loan restructuring.

STAFF SUMMARY

TO: Board of Directors
FROM: Frederick A. Laskey, Executive Director
DATE: May 6, 2020
SUBJECT: Bond Defeasance of Future Debt Service

COMMITTEE: Administration, Finance & Audit

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____ INFORMATION

Matthew R. Horan, Deputy Director, Finance/Treasurer
Preparer/Title

Thomas J. Durkin
Director of Finance

As a result of the economic impacts of the COVID-19 pandemic, MWRA and Advisory Board staff have undertaken several initiatives to provide cash flow relief to MWRA's member communities. Consistent with MWRA's multi-year rates management strategy, MWRA staff are recommending the execution of an approximately $30.6 million defeasance in June 2020 to reduce future year rate increases. The $30.6 million in available funds is derived from the use of $25.3 million of the FY20 surplus, the $5.0 million Debt Prepayment included in the FY20 CEB and $294,020 surplus funds from FY19. These funds will be used to prepay debt service coming due in FY21 through FY24 ($28.1 million in principal and $2.5 million in interest).

RECOMMENDATION:

To authorize the Executive Director or his designee, on behalf of the Authority, to enter into, execute and deliver all necessary agreements and other instruments and to take such other actions necessary to effectuate the redemption and defeasance of an aggregate principal amount of $28,140,000 of outstanding MWRA senior bonds including to cause the escrow of cash and/or securities in an amount necessary to fund such redemption and defeasance, in order to reduce the debt service requirement by $31,057,000 in the FY21 through FY24 timeframe.

DISCUSSION:

Since FY12, the MWRA has utilized the budgetary defeasance account strategy to set aside surplus funds associated with the capital finance budget to defease outstanding debt. In order to mitigate rate increases, staff reflected the impact of a $15.0 million defeasance in the Proposed FY21 CEB comprised of the projected FY20 surplus as well as the FY20 CEB Debt Prepayment. Now, based on current year-end projections, the proposed defeasance has increased to approximately $30.6 million, consisting of $25.3 million from the projected FY20 surplus, $5.0 million of FY20 Debt Prepayment and $294,020 from FY19 for even greater debt service reductions in future years.