



## STAFF SUMMARY

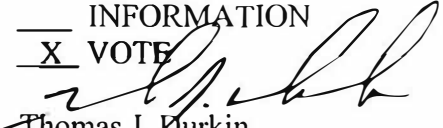
**TO:** Board of Directors  
**FROM:** Frederick A. Laskey, Executive Director   
**DATE:** June 19, 2019  
**SUBJECT:** Final FY20 Current Expense Budget

**COMMITTEE** Administration, Finance & Audit

  
Michael Cole Budget Manager  
Preparer/Title

     INFORMATION

  X   VOTE

  
Thomas J. Durkin  
Director, Finance

*The Proposed FY20 Current Expense Budget (CEB) submitted to the Advisory Board at the February 2019 Board meeting included a 3.74% combined assessment increase.*

*MWRA received the Advisory Board comments and recommendations in May 2019, which recommended a combined assessment increase of 3.15% representing a \$4.3 million reduction to the Proposed FY20 Rate Revenue Requirement. At the same time, the Authority updated the Proposed Budget with the latest information, incorporated the majority of the Advisory Board recommendations and was able to achieve a 3.15% combined assessment increase which was presented to the Board during the May 29<sup>th</sup> budget hearings.*

*Per the Board's direction at the hearing, staff revisited all major line items of the budget and evaluated options to further reduce the Rate Revenue Requirement by \$0.6 million to achieve a 3.07% assessment increase for FY20.*

*As every year, the main focus is on next year's budget, but always with the goal of continuing to utilize MWRA's multi-year rate management strategy to provide sustainable, and predictable assessment increases to its member communities. To achieve this goal again this year, MWRA has continued to employ conservative budgeting and fiscal discipline which includes controlled spending and use of historical variable rate assumptions. The combination of these measures resulted in assessments increase projections below 3.7% for the next several years.*

### RECOMMENDATION:

1. To adopt the Final FY20 Current Expense Budget (CEB) set forth in Attachment A, B and C with current revenue and expense of \$792,248,420.
2. To adopt the Final FY20 Operating Budget (Trustee's Budget) set forth in Attachment D.

## **DISCUSSION:**

This staff summary presents the Final FY20 CEB. On May 29<sup>th</sup>, the Board of Directors held a hearing on the Draft Final FY20 CEB. Discussions and material provided at the hearing outlined changes to the budget since the transmittal of the FY20 Proposed CEB in February 2019. Per the Board's direction at the hearing, staff revisited all major line items of the budget and evaluated options to further reduce the Rate Revenue Requirement.

For a line item comparison between the FY20 Proposed CEB and the Final FY20 CEB, please refer to Attachment A.

### **Summary**

The Final FY20 Budget recommends a combined increase in rates and charges of 3.07%. Capital Financing costs remain the largest component of the CEB and account for 62.2% of total expenses. Total expenses are \$792.2 million, an increase of \$24.3 million or 3.2% over the FY19 Budget. The Final FY20 Budget assumes an offset of \$890,239 for the Debt Service Assistance (DSA) received in May 2019.

Total expenses include \$493.1 million for Capital Financing costs and \$299.2 million for operating expenses, of which \$248.3 million is for Direct Expenses and \$50.9 million is for Indirect Expenses. The \$24.3 million increase in total expenses is mainly due to higher Capital Financing costs of \$10.7 million, higher Direct Expenses of \$8.7 million due to contractual salary increases for staff, higher costs within Other Services largely due to an increase in sludge palletization, higher utility costs, and higher chemical costs.

The Final FY20 Budget revenues, excluding rate revenue, total \$30.5 million, an increase of \$1.6 million or 5.5% from the FY19 Budget. The Final FY20 Budget for non-rate revenue includes \$15.0 million in Other User Charges and Other Revenue and \$15.5 million for Investment Income.

The Final FY20 Rate Revenue Requirement is \$761.8 million, an increase of \$22.7 million or 3.07% over the FY19 Budget.

*Table 1 on the following page provides a comparison of the Final FY20 CEB and FY19 Budget by major categories. Additional detail by line item and by Division is provided in Attachments B and C.*

**Table 1**  
**MWRA Current Expense Budget**  
**FY20 Final Budget versus FY19 Approved Budget**

(\$ in Millions)	FY19 Approved Budget	Final FY20 Budget	\$ Change	% Change
Directs	\$ 239.6	\$ 248.3	\$ 8.7	3.6%
Indirects	46.0	50.9	4.9	10.7%
<b>Sub-Total Operating Expenses</b>	<b>\$ 285.6</b>	<b>\$ 299.2</b>	<b>\$ 13.6</b>	<b>4.8%</b>
Capital Financing (before Offsets)	483.3	494.0	10.7	2.2%
Offsets: Bond Redemption <sup>1</sup>	-	-	-	
Variable Debt Savings	-	-	-	
Debt Service Assistance	(0.9)	(0.9)	0.1	0.0%
<b>Sub-Total Capital Financing</b>	<b>\$ 482.4</b>	<b>\$ 493.1</b>	<b>\$ 10.7</b>	<b>2.2%</b>
<b>Total Expenses</b>	<b>\$ 767.9</b>	<b>\$ 792.2</b>	<b>\$ 24.3</b>	<b>3.2%</b>
Investment Income	\$ 13.6	\$ 15.5	\$ 1.9	14.3%
Non-Rate Revenue	15.3	15.0	(0.4)	-2.4%
Rate Stabilization <sup>1</sup>	-	-	-	
<b>Sub-Total Non-Rate Revenue</b>	<b>\$ 28.9</b>	<b>\$ 30.5</b>	<b>\$ 1.6</b>	<b>5.5%</b>
Rate Revenue	739.0	761.8	22.7	3.1%
<b>Total Revenue &amp; Income</b>	<b>\$ 767.9</b>	<b>\$ 792.2</b>	<b>\$ 24.3</b>	<b>3.2%</b>
<b>FY20 Rate Revenue Increase</b>			<b>3.07%</b>	
<b>Combined Use of Reserves</b>	<b>\$ -</b>	<b>\$ -</b>		

<sup>1</sup> MWRA has two reserve funds (Bond Redemption and Rate Stabilization) which can be used at the discretion of the Authority to manage the rate revenue requirement. Use of the Bond Redemption Fund reduces total expenses and the Rate Stabilization Fund increases total revenue. Under the terms of the General Bond Resolution the annual use of Rate Stabilization funds cannot exceed 10% of the year's senior debt service. Bond Redemption funds can be used only to retire or prepay outstanding debt. There is no annual limit on the amount of Bond Redemption funds used in a year, however the use is tied to the bonds' maturity dates and it is utility specific.

**EXPENSES:**

Direct Expenses

FY20 Direct Expenses total \$248.3 million, an increase of \$8.7 million, or 3.6% from the FY19 Budget.

FY20 FINAL CURRENT EXPENSE BUDGET				
MWRA DIRECT EXPENSES BY LINE ITEM				
LINE ITEM	FY19 Approved Budget	FY20 Final Budget	Change FY20 vs FY19	
WAGES AND SALARIES	\$ 107,032,021	\$ 109,953,483	\$ 2,921,462	2.7%
OVERTIME	4,447,554	4,898,965	451,411	10.1%
FRINGE BENEFITS	21,173,571	21,717,533	543,962	2.6%
WORKERS' COMPENSATION	2,422,609	2,354,256	(68,353)	-2.8%
CHEMICALS	10,830,452	11,811,222	980,770	9.1%
ENERGY AND UTILITIES	22,868,633	24,454,796	1,586,163	6.9%
MAINTENANCE	32,258,727	32,726,954	468,227	1.5%
TRAINING AND MEETINGS	455,770	504,394	48,624	10.7%
PROFESSIONAL SERVICES	7,675,976	8,295,315	619,339	8.1%
OTHER MATERIALS	7,381,098	6,867,239	(513,859)	-7.0%
OTHER SERVICES	23,065,410	24,683,370	1,617,960	7.0%
<b>TOTAL</b>	<b>\$ 239,611,821</b>	<b>\$ 248,267,527</b>	<b>\$ 8,655,706</b>	<b>3.6%</b>

- Wages and Salaries* – The budget includes \$110.0 million for Wages and Salaries versus \$107.0 million in the FY19 Budget, an increase of \$2.9 million or 2.7%. Regular Pay, which is 98.4% of total Wages and Salaries, increased \$3.1 million primarily for wage increases associated with collective bargaining agreements and additional staff, offset by lower salaries for new hires compared to retirees. The FY20 Budget funds 1,158 FTEs, three more than the FY19 Budget. The three additional FTEs will support the Metropolitan Tunnel Redundancy Program. As always, new hires and backfilling of vacant positions will be managed at the agency level and addressed on a case-by-case basis by senior management.
- Overtime* – The budget includes \$4.9 million for Overtime, an increase of \$451,000 or 10.1% as compared to the FY19 Budget mainly due to collective bargaining increases and more than expected spending in Wastewater Operations on wet weather events.
- Fringe Benefits* – The budget includes \$21.7 million for Fringe Benefits, an increase of \$544,000 or 2.6% from the FY19 Budget. Health Insurance premiums total \$18.3 million, an increase of \$53,000 or 0.3% from the FY19 Budget largely due to an increase in the rates for the structure of the health plans offset by a change to the number and mix of plans based on FY19 enrollment changes. The FY20 Final Budget also includes \$357,000 for the new Paid Family Medical Leave Act (PFML), which represents the minimum employer share as required by law.
- Workers' Compensation* – The budget includes \$2.4 million for Workers' Compensation, an decrease of \$68,000 or 2.8% from the FY19 Budget and is based on a three-year average of actual spending.

- *Chemicals* – The budget includes \$11.8 million for Chemicals, an increase of \$981,000 or 9.1% over the FY19 Budget mainly due to increased prices for Ferric Chloride at the Deer Island Wastewater Treatment Plant, increased prices for Sodium Hypochlorite, and higher quantities of Activated Carbon at several wastewater facilities. The FY20 Budget does not include any funding for the new Deer Island National Pollutant Discharge Elimination System (NPDES) permit, which is projected to have more stringent requirements for enterococcus treatment compliance.
- *Utilities* – The budget includes \$24.5 million for Utilities, which is an increase of \$1.6 million or 6.9% from the FY19 Budget. The budget funds \$18.7 million for Electricity; \$2.6 million for Diesel Fuel; \$2.4 million for Water; and \$632,000 for Natural Gas. The change to Utilities is driven by Electricity, which has increased by \$1.6 million or 9.3% over the FY19 Budget, due to new contract pricing effective November 2018.
- *Maintenance* – The budget includes \$32.7 million for Maintenance projects, an increase of \$468,000 or 1.5% from the FY19 Budget. The increase is largely driven by software maintenance in MIS. The largest drivers are the software maintenance component of the Managed Security Service Provider contract for \$392,000 and for Management Consoles (infrastructure monitoring) in MIS for \$148,000.
- *Training and Meetings* – The budget includes \$504,000 for Training and Meetings, an increase of \$49,000 or 10.7% from the FY19 Budget. This reflects the actual costs of programs scheduled for FY20, plus participation in industry conferences for the Metropolitan Tunnel Program team.
- *Professional Services* – The budget includes \$8.3 million for Professional Services, an increase of \$619,000 or 8.1% over the FY19 Budget. The increase is largely driven by the Computer Systems Consultant line item in the MIS budget, which includes the monitoring component of the Managed Security Service Provider contract in the amount of \$684,000.
- *Other Materials* – The budget includes \$6.9 million for Other Materials, a decrease of \$514,000 or 7.0% from the FY19 Budget. The decrease is driven by reductions in Vehicle Purchases and Replacements of \$400,000 based on assessed need and Computer Hardware of \$298,000, offset by an increase to Lab and Testing Supplies of 139,000.
- *Other Services* – The budget includes \$24.7 million for Other Services, an increase of \$1.6 million or 7.0% from the FY19 Budget. The budget includes funding of \$14.7 million for Sludge Pelletization, \$4.0 million for Space/Lease Rentals and related lease cost for the Charlestown Navy Yard, and Chelsea Facility, \$1.9 million for Voice and Data costs, \$1.3 million for Other Services, and \$1.1 million for Grit and Screenings removal. The increase to Other Services is driven by Sludge Pelletization, which has increased by \$1.4 million or 10.6% from the FY19 Budget, due to an increase of 8.5 dry tons per day.

## Indirect Expenses

Indirect Expenses for FY20 total \$50.9 million, an increase of \$4.9 million or 10.7% from the FY19 Budget. Below are the highlights of major changes:

- The budget includes \$2.6 million for Insurance, an increase of \$512,000 or 24.4% from the FY19 Budget. The FY20 Budget was based on actual average spending for claims for the past five years, FY14-18, and bids received for the insurance premiums. It should be noted that at the May 29<sup>th</sup> meeting, the Board of Directors approved the MWRA FY20 Insurance program with a not to exceed amount of \$2,249,851 for premiums.
- The budget includes \$26.8 million for the Watershed Management budget, an increase of \$427,000 or 1.6% over the FY19 Budget. The budget includes \$17.9 million for reimbursement of operating expenses net of revenues, and \$8.5 million for Payment in Lieu of Taxes (PILOT). The largest increases are for operating expenses net of revenues of \$472,000 mainly for contractual increases and healthcare costs. The FY20 operating capital budget includes the Clinton crew headquarters construction and several smaller projects.
- The budget includes \$4.4 million for the Harbor Energy Electric Company (HEEC), an increase of \$3.0 million or 219.4% over the FY19 Budget due to the new cable projected to be placed into service in December 2019. The budget reflects updated calculations for the Operations and Maintenance component of the HEEC payment obligations and capital improvements to the electrical substations providing electricity to the Deer Island Wastewater Treatment Plant. The \$4.4 million is level to the planning estimate. The \$6.5 million reserve is projected to be used between FY21-25.
- The budget includes \$1.7 million for Mitigation payments to the cities of Quincy and Winthrop in accordance with mitigation agreements, which expire in FY25.
- Funding for the Operating Reserve for FY20 is \$2.1 million. The Operating Reserve balance is in compliance with MWRA General Bond Resolution which requires a balance of one-sixth of annual operating expenses. Based on the FY20 Final Budget, the required balance is \$44.0 million versus the \$41.9 million required in FY19.
- The budget includes \$7.3 million for the Retirement Fund, the minimum required contribution for FY20 based on the May 14, 2018 actuarial report. The FY20 required contribution is an increase of \$315,000 or 4.5% over the FY19 Budget. The planning estimates presented reflect the estimated funding requirements for FY21 (\$11.0 million) and beyond. These annual estimates include changes to the actuarial assumptions used in the recent draft valuation report as of January 1, 2019. The assumed rate of return has been reduced from 7.5% to 7.25% and the time to full

amortization of the unfunded liability has been extended by four years, from 2026 to 2030.

- The Authority has complied with the GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB)*, by disclosing this liability in the year-end Financial Statements. As part of the multi-year strategy to address its unfunded liabilities for OPEB and pension holistically, the Board approved a plan to pay down the pension liability and upon reaching full funding, move to address the OPEB obligation. Based on the latest actuarial evaluation, MWRA's pension fund is at a 95.0% funding level. To maximize the benefits in terms of returns and accounting treatment, an irrevocable OPEB Trust was established with Board approval and funding started on April 23, 2015. The current Trust balance is \$31.0 million. Starting in FY18, GASB 75 is the governing regulation for employee OPEB contributions. The proposed \$6.0 million budget is based on 50% of the contribution determined in the January 1, 2018 actuarial report.

### Capital Financing

As a result of the Authority's Capital Improvement Program, capital financing as a percent of total expenses (before offsets) has increased from 36% in 1990 to 62.2% in FY20. Much of the capital financing expenses are for debt service for completed projects, primarily the Boston Harbor Project and the Integrated Water Supply Improvement Program. The MWRA's capital spending, from its inception, had been dominated by projects mandated by court ordered or regulatory requirements, which in total have accounted for ~80% of capital spending to date. Going forward, the majority of spending will be focused on asset protection and water system redundancy initiatives.

The Authority has actively managed its debt structure to take advantage of favorable interest rates. Tools used by the MWRA to lower borrowing costs and manage rates include refunding of outstanding debt, maximizing the use of the subsidized State Revolving Fund (SRF) debt, issuance of variable rate debt, swap agreements, and the use of surplus revenues to defease debt. The MWRA also uses tax exempt commercial paper to minimize the financing cost of construction in process.

The FY20 Final Budget capital financing costs total \$493.1 million and remain the largest portion of the MWRA's budget.

The FY20 Final Budget includes the benefit of a planned defeasance of \$24.4 million which will reduce debt service by approximately \$5.4 million in FY20, and \$11.0 million in FY21, and \$10.5 million in FY22.

The FY20 Budget assumes a 3.5% interest rate for variable rate debt which is the same as the rate in FY19. The Authority's variable rate debt assumption is comprised of three separate elements: the interest rate for the daily and weekly series; liquidity fees for the Standby Bond Purchase Agreement, Letter of Credit, and Direct Purchase providers; and remarketing fees.

The FY20 Final Budget capital financing costs increased by \$10.7 million or 2.2% compared to the FY19 Budget. This increase in the MWRA's debt service is the result of projected FY20 borrowings, the structure of the existing debt, and increased current revenue for capital partially offset by the impact of the defeasance and a reduction in debt prepayment levels as compared to FY19. The FY20 capital financing budget includes:

- \$202.3 million in principal and interest payments on MWRA's senior fixed rate bonds. This amount includes \$5.1 million to support issuance of \$125 million in May 2020. Also it includes a reduction of \$5.4 million for the effect of the FY19 defeasance;
- \$169.6 million in principal and interest payments on subordinate bonds;
- \$92.8 million in principal and interest payments on SRF loans. This amount includes \$8.2 million to support issuances of \$52.5 million of loans during 2019 and \$55 million in 2020;
- \$15.2 million to fund ongoing capital projects with current revenue;
- \$5.0 million in debt prepayment.
- \$5.8 million to fund the interest expense related to the Local Water Pipeline Assistance Program; and
- \$3.2 million for the Chelsea Lease.

The budget also includes \$890,239 offset to Debt Service for the Debt Service Assistance received in FY19.

## **Revenue**

FY20 non-rate revenue totals \$30.5 million, which is an increase of \$1.6 million or 5.5% versus the FY19 Budget. The FY20 non-rate revenue budget includes:

- \$5.8 million in Other Revenue, a decrease of \$253,000 or 4.2% from the FY19 Budget. Other Revenue includes \$2.4 million in TRAC permits and fees as well as \$2.2 million from the sale of the Authority's Renewable Portfolio Credits, revenue from participating in load response program and sale of generated power to the grid. The balance of the Other Revenue is made up of various rebates and fees.
- \$15.5 million in Investment Income, an increase of \$1.9 million or 14.3% from the FY19 Budget, reflecting higher interest rate assumptions. The short-term interest rate assumption is at 2.25% which is 50 basis points above the FY19 Budget level.
- \$9.2 million in Other User Charges, including \$5.1 million for the Chicopee Valley Aqueduct (CVA) communities, \$1.8 million for Deer Island water usage, \$615,000 for entrance fees from member communities, and \$500,000 for the Commonwealth's partial



reimbursement for Clinton Wastewater Treatment Plant expenses. Other User Charges are \$112,000 or 1.2% less than the FY19 Budget.

The Rate Revenue Requirement for FY20 is \$761.8 million, an increase \$22.7 million or 3.07% over the FY19 Budget. The Rate Revenue Requirement is the difference between total expenses of \$792.2 million, less non-rate revenue of \$30.5 million.

### Planning Estimates and Future Rate Projections

MWRA’s planning estimates are projections based on a series of assumptions about future spending (operating and capital), interest rates, inflation, and other factors. MWRA uses the planning estimates to model and project what future rate increases might be based upon these assumptions, as well as to test the impact of changes to assumptions on future rate increases. The planning estimates are not predictions of what rate increases will be but rather they provide the context and framework for guiding MWRA financial policy and management decision making that ultimately determine the level of actual rate increases on an annual basis. Historically, the planning estimates were based on conservative financial assumptions. Conservative projections of future rate increases benefit the MWRA by providing assurance to the rating agencies that MWRA anticipates to raise revenues sufficient to pay for its operations and outstanding debt obligations now and over the long-term. Additionally, conservative forecasts of rate revenue increases enable member communities to adequately plan and budget for future payments to MWRA. In FY14 the Authority tightened certain planning estimate assumptions such as inflation on direct expenses and limiting the annual capital improvement spending.

Table 3 below presents the combined estimated future rate increases and household charges based on the Final FY20 Budget. The planning estimates shown below assume no Debt Service Assistance from the Commonwealth and no use of Rate Stabilization and Bond Redemption reserves through FY25.

**Table 3**

<b>Rates &amp; Budget Projections</b>						
<b>Draft Final FY20 CEB</b>	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>	<b>FY2022</b>	<b>FY2023</b>	<b>FY2024</b>
Total Rate Revenue (\$000)	\$ 739,042	\$ 761,767	\$ 789,510	\$ 817,439	\$ 844,689	\$ 872,627
Rate Revenue Change from Prior Year (\$000)	\$ 21,988	\$ 22,725	\$ 27,743	\$ 27,928	\$ 27,250	\$ 27,938
Rate Revenue Increase	3.07%	3.07%	3.6%	3.5%	3.3%	3.3%
Use of Reserves (\$000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Estimated Household Bill</b>						
Based on annual water usage of 61,000 gallons	\$1,157	\$1,205	\$1,259	\$1,314	\$1,371	\$1,430
Based on annual water usage of 90,000 gallons	\$1,707	\$1,778	\$1,857	\$1,939	\$2,022	\$2,110

### CEB Review and Adoption Process

In February, the MWRA transmitted the Proposed FY20 Budget to the Advisory Board for its review and comment. In May the Advisory Board submitted its *Integrated Comments and Recommendations*. Responses to the Advisory Board’s review and comments are attached as Attachment F.

**ATTACHMENTS:**

- Attachment A FY20 Final Budget vs. FY20 Proposed Budget
- Attachment B FY20 Final Budget vs. FY19 Approved Budget
- Attachment C FY20 Final Direct Expense Budget by Division
- Attachment D FY20 Final Operating Budget (Trustee's Budget)
- Attachment E FY20 Final Budget vs. FY19 Projections
- Attachment F MWRA Responses to Advisory Board's FY20 Integrated CIP and CEB  
Comments and Recommendations

## Attachment A

### FY20 Final Budget vs. FY20 Proposed Budget

TOTAL MWRA	FY20 Proposed Budget	FY20 Final Budget	Change	% Change
<b>EXPENSES</b>				
WAGES AND SALARIES	\$ 110,520,570	\$ 109,953,483	\$ (567,087)	-0.5%
OVERTIME	4,898,965	4,898,965	-	0.0%
FRINGE BENEFITS	21,965,210	21,717,533	(247,677)	-1.1%
WORKERS' COMPENSATION	2,354,256	2,354,256	-	0.0%
CHEMICALS	12,087,530	11,811,222	(276,308)	-2.3%
ENERGY AND UTILITIES	24,199,103	24,454,796	255,693	1.1%
MAINTENANCE	32,784,793	32,726,954	(57,839)	-0.2%
TRAINING AND MEETINGS	504,394	504,394	-	0.0%
PROFESSIONAL SERVICES	8,324,491	8,295,315	(29,176)	-0.4%
OTHER MATERIALS	7,186,700	6,867,239	(319,461)	-4.4%
OTHER SERVICES	23,925,385	24,683,370	757,985	3.2%
<b>TOTAL DIRECT EXPENSES</b>	<b>\$ 248,751,397</b>	<b>\$ 248,267,527</b>	<b>\$ (483,870)</b>	<b>-0.2%</b>
INSURANCE	\$ 2,081,406	\$ 2,611,222	\$ 529,816	25.5%
WATERSHED/PILOT/DEBT	27,194,708	26,833,600	(361,108)	-1.3%
HEEC PAYMENT	4,429,316	4,429,316	-	0.0%
MITIGATION	1,654,618	1,654,618	-	0.0%
ADDITIONS TO RESERVES	2,086,626	2,094,284	7,658	0.4%
RETIREMENT FUND	7,315,000	7,315,000	-	0.0%
POSTEMPLOYMENT BENEFITS	5,962,457	5,962,457	-	0.0%
<b>TOTAL INDIRECT EXPENSES</b>	<b>\$ 50,724,131</b>	<b>\$ 50,900,497</b>	<b>\$ 176,366</b>	<b>0.3%</b>
STATE REVOLVING FUND	\$ 93,138,692	\$ 92,797,295	\$ (341,397)	-0.4%
SENIOR DEBT	204,715,571	202,299,609	(2,415,962)	-1.2%
SUBORDINATE DEBT	170,587,702	169,609,844	(977,858)	-0.6%
LOCAL WATER PIPELINE CP	5,846,823	5,846,827	4	0.0%
CURRENT REVENUE/CAPITAL	15,200,000	15,200,000	-	0.0%
CAPITAL LEASE	3,217,060	3,217,060	-	0.0%
DEBT PREPAYMENT	4,850,000	5,000,000	150,000	3.1%
DEBT SERVICE ASSISTANCE	-	(890,239)	(890,239)	0.0%
<b>TOTAL DEBT SERVICE</b>	<b>\$ 497,555,847</b>	<b>\$ 493,080,396</b>	<b>\$ (4,475,451)</b>	<b>-0.9%</b>
<b>TOTAL EXPENSES</b>	<b>\$ 797,031,375</b>	<b>\$ 792,248,420</b>	<b>\$ (4,782,955)</b>	<b>-0.6%</b>
<b>REVENUE &amp; INCOME</b>				
RATE REVENUE	\$ 766,657,500	\$ 761,767,000	\$ (4,890,500)	-0.6%
OTHER USER CHARGES	9,239,263	9,216,425	(22,838)	-0.2%
OTHER REVENUE	5,630,638	5,761,022	130,384	2.3%
RATE STABILIZATION	-	-	-	0.0%
INVESTMENT INCOME	15,503,973	15,503,973	0	0.0%
<b>TOTAL REVENUE &amp; INCOME</b>	<b>\$ 797,031,374</b>	<b>\$ 792,248,420</b>	<b>\$ (4,782,954)</b>	<b>-0.6%</b>
<b>Rate Revenue Increase over FY19</b>	<b>3.74%</b>	<b>3.07%</b>		

## Attachment B

### FY20 Final Budget vs. FY19 Approved Budget

TOTAL MWRA	FY19 Final Budget	FY20 Final Budget	Change	% Change
<b>EXPENSES</b>				
WAGES AND SALARIES	\$ 107,032,021	\$ 109,953,483	\$ 2,921,462	2.7%
OVERTIME	4,447,554	4,898,965	451,411	10.1%
FRINGE BENEFITS	21,173,571	21,717,533	543,962	2.6%
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OTHER MATERIALS	7,381,098	6,867,239	(513,859)	-7.0%
OTHER SERVICES	23,065,410	24,683,370	1,617,960	7.0%
<b>TOTAL DIRECT EXPENSES</b>	<b>\$ 239,611,821</b>	<b>\$ 248,267,527</b>	<b>\$ 8,655,706</b>	<b>3.6%</b>
INSURANCE	\$ 2,099,064	\$ 2,611,222	\$ 512,158	24.4%
WATERSHED/PILOT/DEBT	26,406,427	26,833,600	427,173	1.6%
HEEC PAYMENT	1,386,832	4,429,316	3,042,484	219.4%
MITIGATION	1,614,262	1,654,618	40,356	2.5%
ADDITIONS TO RESERVES	1,881,797	2,094,284	212,487	11.3%
RETIREMENT FUND	7,000,000	7,315,000	315,000	4.5%
POSTEMPLOYMENT BENEFITS	5,574,152	5,962,457	388,305	7.0%
<b>TOTAL INDIRECT EXPENSES</b>	<b>\$ 45,962,534</b>	<b>\$ 50,900,497</b>	<b>\$ 4,937,963</b>	<b>10.7%</b>
STATE REVOLVING FUND	\$ 89,380,358	\$ 92,797,295	\$ 3,416,937	3.8%
SENIOR DEBT	272,633,979	202,299,609	(70,334,370)	-25.8%
SUBORDINATE DEBT	92,032,294	169,609,844	77,577,550	84.3%
LOCAL WATER PIPELINE CP	4,750,393	5,846,827	1,096,434	23.1%
CURRENT REVENUE/CAPITAL	14,200,000	15,200,000	1,000,000	7.0%
CAPITAL LEASE	3,217,060	3,217,060	-	0.0%
DEBT PREPAYMENT	7,100,000	5,000,000	(2,100,000)	-29.6%
DEBT SERVICE ASSISTANCE	(944,726)	(890,239)	54,487	-5.8%
<b>TOTAL DEBT SERVICE</b>	<b>\$ 482,369,358</b>	<b>\$ 493,080,396</b>	<b>\$ 10,711,038</b>	<b>2.2%</b>
<b>TOTAL EXPENSES</b>	<b>\$ 767,943,713</b>	<b>\$ 792,248,420</b>	<b>\$ 24,304,707</b>	<b>3.2%</b>
<b>REVENUE &amp; INCOME</b>				
RATE REVENUE	\$ 739,042,200	\$ 761,767,000	\$ 22,724,800	3.1%
OTHER USER CHARGES	9,328,768	9,216,425	(112,343)	-1.2%
OTHER REVENUE	6,013,635	5,761,022	(252,613)	-4.2%
RATE STABILIZATION	-	-	-	0.0%
INVESTMENT INCOME	13,559,110	15,503,973	1,944,863	14.3%
<b>TOTAL REVENUE &amp; INCOME</b>	<b>\$ 767,943,713</b>	<b>\$ 792,248,420</b>	<b>\$ 24,304,707</b>	<b>3.2%</b>
<b>Rate Revenue Increase over FY19</b>	<b>3.07%</b>	<b>3.07%</b>		

**ATTACHMENT C**

**FY20 Final Direct Expense Budget by Division**

Division	FY20 Proposed Budget	FY20 Final Budget	Change FY20 Final Budget vs. FY20 Proposed Budget	
			\$	%
Executive	\$1,441,574	\$1,440,170	-\$1,404	-0.1%
Emergency Preparedness	3,751,945	3,620,065	-\$131,880	-3.5%
Administration	51,545,891	52,225,556	\$679,665	1.3%
Finance	4,430,058	4,421,411	-\$8,647	-0.2%
Law	2,087,231	2,083,362	-\$3,869	-0.2%
Affirmative Action	684,800	683,252	-\$1,548	-0.2%
Internal Audit	717,268	715,649	-\$1,619	-0.2%
Public Affairs	1,146,532	1,144,090	-\$2,442	-0.2%
Operations/Planning	182,946,099	181,933,971	-\$1,012,128	-0.6%
<b>Total Authority</b>	<b>\$248,751,397</b>	<b>\$248,267,527</b>	<b>-\$483,870</b>	<b>-0.2%</b>

**ATTACHMENT D**

**Massachusetts Water Resources Authority  
Fiscal Year 2020 Operating Budget for Filing with the Trustee  
Pursuant to Section 712 of General Bond Resolution Adopted January 24, 1990**

(\$000s)

Projected Monthly Deposits:

Fund	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
Operating	\$20,825	\$26,031	\$20,825	\$20,825	\$26,031	\$20,825	\$20,825	\$26,031	\$20,825	\$20,825	\$26,031	\$20,825	\$270,720
Debt Service & Coverage	37,929	47,412	37,929	37,929	47,412	37,929	37,929	47,412	37,929	37,929	47,412	37,929	493,080
Debt Service Reserve	---	---	---	---	---	---	---	---	---	---	---	---	0
CORE	---	---	---	---	---	---	---	---	---	---	---	---	0
Commonwealth Obligations	---	---	4,463	---	---	4,463	---	---	12,963	---	---	4,463	26,354
Operating Reserve	161	201	161	161	201	161	161	201	161	161	201	161	2,094
Insurance Reserve	---	---	---	---	---	---	---	---	---	---	---	---	0
Renewal & Replacement Reserve	---	---	---	---	---	---	---	---	---	---	---	---	0
Rate Stabilization Reserve	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>\$58,915</b>	<b>\$73,644</b>	<b>\$63,378</b>	<b>\$58,915</b>	<b>\$73,644</b>	<b>\$63,378</b>	<b>\$58,915</b>	<b>\$73,644</b>	<b>\$71,878</b>	<b>\$58,915</b>	<b>\$73,644</b>	<b>\$63,378</b>	<b>\$792,248</b>

## Attachment E

### FY20 Final Budget vs. FY19 Projections

TOTAL MWRA	FY19 Projection	FY20 Final Budget	Change	% Change
<b>EXPENSES</b>				
WAGES AND SALARIES	\$ 101,960,858	\$ 109,953,483	\$ 7,992,625	7.8%
OVERTIME	5,079,147	4,898,965	(180,182)	-3.5%
FRINGE BENEFITS	20,256,723	21,717,533	1,460,810	7.2%
WORKERS' COMPENSATION	2,422,609	2,354,256	(68,353)	-2.8%
CHEMICALS	10,942,534	11,811,222	868,688	7.9%
ENERGY AND UTILITIES	24,491,122	24,454,796	(36,326)	-0.1%
MAINTENANCE	31,619,639	32,726,954	1,107,315	3.5%
TRAINING AND MEETINGS	484,135	504,394	20,259	4.2%
PROFESSIONAL SERVICES	6,952,719	8,295,315	1,342,596	19.3%
OTHER MATERIALS	6,969,797	6,867,239	(102,558)	-1.5%
OTHER SERVICES	23,952,108	24,683,370	731,262	3.1%
<b>TOTAL DIRECT EXPENSES</b>	<b>\$ 235,131,392</b>	<b>\$ 248,267,527</b>	<b>\$ 13,136,135</b>	<b>5.6%</b>
INSURANCE	\$ 2,967,643	\$ 2,611,222	\$ (356,421)	-12.0%
WATERSHED/PILOT/DEBT	23,695,654	26,833,600	3,137,946	13.2%
HEEC PAYMENT	1,203,255	4,429,316	3,226,061	268.1%
MITIGATION	1,614,262	1,654,618	40,356	2.5%
ADDITIONS TO RESERVES	1,881,798	2,094,284	212,486	11.3%
RETIREMENT FUND	7,000,000	7,315,000	315,000	4.5%
POSTEMPLOYMENT BENEFITS	5,574,152	5,962,457	388,305	7.0%
<b>TOTAL INDIRECT EXPENSES</b>	<b>\$ 43,936,764</b>	<b>\$ 50,900,497</b>	<b>\$ 6,963,733</b>	<b>15.8%</b>
STATE REVOLVING FUND	\$ 84,227,800	\$ 92,797,295	\$ 8,569,495	10.2%
SENIOR DEBT	270,379,599	202,299,609	(68,079,990)	-25.2%
SUBORDINATE DEBT	92,032,294	169,609,844	77,577,550	84.3%
LOCAL WATER PIPELINE CP	2,504,172	5,846,827	3,342,655	133.5%
CURRENT REVENUE/CAPITAL	14,200,000	15,200,000	1,000,000	7.0%
CAPITAL LEASE	3,217,060	3,217,060	-	0.0%
DEBT PREPAYMENT	7,100,000	5,000,000	(2,100,000)	-29.6%
VARIABLE RATE SAVINGS	(7,324,342)	-	7,324,342	-100.0%
DEFEASANCE ACCOUNT	17,118,194	-	(17,118,194)	-100.0%
DEBT SERVICE ASSISTANCE	(1,834,965)	(890,239)	944,726	-51.5%
<b>TOTAL DEBT SERVICE</b>	<b>\$ 481,619,813</b>	<b>\$ 493,080,396</b>	<b>\$ 11,460,583</b>	<b>2.4%</b>
<b>TOTAL EXPENSES</b>	<b>\$ 760,687,969</b>	<b>\$ 792,248,420</b>	<b>\$ 31,560,451</b>	<b>4.1%</b>
<b>REVENUE &amp; INCOME</b>				
RATE REVENUE	\$ 739,042,200	\$ 761,767,000	\$ 22,724,800	3.1%
OTHER USER CHARGES	9,328,768	9,216,425	(112,343)	-1.2%
OTHER REVENUE	6,544,796	5,761,022	(783,774)	-12.0%
RATE STABILIZATION	-	-	-	0.0%
INVESTMENT INCOME	16,759,110	15,503,973	(1,255,137)	-7.5%
<b>TOTAL REVENUE &amp; INCOME</b>	<b>\$ 771,674,874</b>	<b>\$ 792,248,420</b>	<b>\$ 20,573,546</b>	<b>2.7%</b>

**ATTACHMENT F**

**MWRA's Responses to the Advisory Board's FY2020 Integrated CIP and CEB Recommendations and Comments**

Advisory Board Recommendations	MWRA Responses
<p>Therefore, the Advisory Board recommends reducing the FY20 Rate Revenue Requirement by \$4,327,312 resulting in a combined wholesale assessment increase of 3.15%</p> <p><b>1.</b></p>	<p>Agree. The MWRA has reduced the FY20 Rate Revenue Requirement by \$4,335,500 resulting in a combined wholesale assessment increase of 3.15% and further reduced to 3.07% after the May Board of Directors budget hearing.</p>
<p>The Advisory Board recommends reducing the variable rate debt interest rate assumption to 3.50%, and the variable rate debt line item by \$1 million to reflect this change.</p> <p><b>2.</b></p>	<p>Agree.</p>
<p>The Advisory Board recommends that the Authority continue explore the potential financial gains from using taxable bonds on appropriate capital projects, particularly when analyzing the funding structure of the HEEC cable replacement costs.</p> <p><b>3.</b></p>	<p>Agree.</p>
<p>The Advisory Board recommends that the Authority adjusts its attrition/vacancy rate assumptions by \$950,000 (includes associated fringe benefits). Advisory Board also recommends a reduction of \$450,000 for fringe benefits based on GIC actual rates and enrollment and another \$250,000 for sick leave accrual.</p> <p><b>4.</b></p>	<p>Partially agree. MWRA has reduced regular pay by \$318,513. The regular pay budget does include a vacancy adjustment of -\$2,154,195. The net reduction in fringe benefits (excluding PFML) is \$604,219. Leave Balance Accrual was not adjusted, and remains in the FY20 CEB at \$500,000. Additionally, based on the consensus of the Board of Directors at the May budget hearing, staff have further reduced the Rate Revenue Requirement to reflect an increase of 3.07% over FY19. To achieve this reduction, in recognition of the Advisory Board's strong recommendation, staff have further reduced Wages and Salaries by \$248,574.</p>
<p>The Advisory Board recommends that no payment be made towards the Commonwealth's new Paid Family and Medical Leave (M.G.L. Chapter 175M) the following steps have been taken: (1) Authority should sit with unions to determine if a private plan option is preferable, which may avoid the MWRA paying into a State system that does not benefit its employees but instead uses ratepayer dollars to subsidize other businesses in the Commonwealth. (2) Look at 3rd party administrators of a private plan option to determine the cost savings that may be available through opting out of the Commonwealth's program.</p> <p><b>5.</b></p>	<p>Disagree. Payments are required by law. MWRA staff have budgeted the minimum employer share of the Paid Family Medical Leave and plan to negotiate the employee share with the collective bargaining units as soon as possible.</p>
<p>The Advisory Board recommends increasing the "additions to reserves" line item for FY20 by \$99,113 to correspond to the recommended reductions in eligible line items.</p> <p><b>6.</b></p>	<p>Based on the MWRA Spring revisit changes that require "additions to the operating reserves" is \$49,082</p>



**ATTACHMENT F**

**MWRA's Responses to the Advisory Board's FY2020 Integrated CIP and CEB Recommendations and Comments**

Advisory Board Recommendations	MWRA Responses
<p>7. The Advisory Board recommends MWRA funding for the Watershed Division be reduced by a minimum of \$500,000 due to historically budgeted but unfilled positions. The Advisory Board also assumes that the Authority will use the staffing study, that was proposed by DCR in the Fall of 2018 and purported to be the basis of Watershed staffing needs, to adjust the FY20 Watershed Salaries &amp; Wages.</p>	<p>Partially agree. Reduced by \$361,108. FY20 CEB includes 150 FTEs per DCR Staffing Study (reduced from 156.3).</p>
<p>8. The Advisory Board recommends that the Authority work toward a target of 2.4% rate increases by the year 2024.</p>	<p>Partially agree. While our planning projections indicate a year-over-year increase to assessments greater than 2.4%, staff will work towards reducing the rate revenue increases. As always, MWRA will continue to evaluate all tools available to ensure predictable and sustainable assessments to our member communities.</p>
<p>9. The Advisory Board recommends: (1) the MWRA officially request that Massport rescind their easement charges; (2) the MWRA request that the Legislature withhold final bond authorized payment for the dredging until resolved, and/or; (3) the MWRA jointly file a bill with the Advisory Board to add a surcharge on all tonnage to be assessed on all cargo and assess a per head charge for cruise ships until such time that the cable costs have been recovered.</p>	<p>Staff are waiting to see Massport's response to the Advisory Board's letter.</p>
<p>10. The Advisory Board recommends: (1) the MWRA assess Massport for Operations and Maintenance (O&amp;M) of the Wiggins Pump Station dating back to the inception of the MWRA which would be \$280,000 in inflation-adjusted dollars, and to begin charging Massport for O&amp;M costs on a monthly basis moving forward, and (2) the MWRA remove the Wiggins Pump Station capital improvements project from its 5-year CIP until such time that an MOU is in place between the MWRA and Massport in which Massport agrees to pay for the design, construction and project management of the Wiggins Pump Station capital improvements.</p>	<p>Staff are waiting to see Massport's response to the Advisory Board's letter.</p>

**ATTACHMENT F**

**MWRA's Responses to the Advisory Board's FY2020 Integrated CIP and CEB Recommendations and Comments**

Advisory Board Comments	MWRA Responses
<p>1. The Advisory Board expects that the Authority will be prepared to solicit any available new federal infrastructure funding for Metropolitan Tunnel Redundancy.</p>	<p>Agree. MWRA will monitor opportunities to receive federal grants and funding for the Metropolitan Tunnel Redundancy and other capital projects.</p>
<p>2. 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.</p>	<p>Agree. This strategy proved to be an effective tool for achieving the multi-year sustainable and predictable community assessment goal.</p>
<p>3. The Advisory Board expects the MWRA to increase the proposed Fringe Benefits line due to the Commonwealth's new Paid Family and Medical Leave (M.G.L. Chapter 175M) which begins on July 1, 2019.</p>	<p>Agree. MWRA has budgeted \$356,542 which represents the minimum amount the Authority (the employer) is responsible for.</p>
<p>4. The Advisory Board reiterates its recommendation that OPEB and Pension be treated as "two sides of the same coin" – any significant swings in the annual contribution to the Pension system related to maintaining "virtual full funding" should be offset with a reduction to the optional contributions to the OPEB Trust Fund.</p>	<p>Partially agree. MWRA staff will work to minimize the impact that "significant swings" in the annual contribution might have on the overall CEB. MWRA has a practice of contributing 50% of the ADC for OPEB and staff recommend maintaining that contribution level.</p>
<p>5. The Advisory Board expects the MWRA to work with the Watershed Division and the Executive Office of Administration and Finance to insure that there is a seamless hiring process in the future, and not lose sight of the fact that the fundamental reason the Watershed Division operates outside of the Commonwealth's budget is to insulate them from the restraints of the Commonwealth's finances.</p>	<p>Agree.</p>
<p>6. The Advisory Board expects the MWRA to decrease its "maintenance" category of expense by \$57,839 in the final FY20 CEB.</p>	<p>Agree.</p>
<p>7. The Advisory Board expects the Authority will increase the "other services" category of expense by \$757,985 to account for an increase in residuals flows.</p>	<p>Agree.</p>
<p>8. The Advisory Board expects the Authority to increase its FY20 CEB "utilities" expenses by an estimated \$255,664.</p>	<p>Agree.</p>
<p>9. The Advisory Board expects that the MWRA will decrease the "chemicals" category of expense by \$276,308 to reflect updated pricing and usage assumptions.</p>	<p>Agree.</p>

**ATTACHMENT F**

**MWRA's Responses to the Advisory Board's FY2020 Integrated CIP and CEB Recommendations and Comments**

Advisory Board Comments	MWRA Responses
<p>10. The Advisory Board expects the MWRA to decrease of the “other materials” category of expense by \$319,461 in its final budget.</p>	<p>Agree.</p>
<p>11. The Advisory Board thanks the MWRA staff for meeting the FY19 recommendation that TRAC fees should be updated with an automatic escalator to make fee increases sustainable and predictable for the permittees for FY20-24.</p>	<p>Agree.</p>
<p>12. The Advisory Board expects to work closely with the MWRA and all stakeholders to help MassDEP assume NPDES delegation.</p>	<p>Agree. MWRA staff will continue to engage with the Advisory Board, MassDEP, and other stakeholders as appropriate to evaluate the best fee structure and regulatory mechanisms that would support MassDEP being authorized by EPA to successfully administer the NPDES program. In relation to its own NPDES permit requirements, the MWRA intends to vigorously object to any attempt by EPA or MassDEP to include co-permittees in its DITP NPDES permit.</p>
<p>13. The Advisory Board expects that the MWRA will not make substantial changes to the monitoring program without other stakeholders also contributing to long-term testing.</p>	<p>MWRA is working with the Outfall Monitoring Science Advisory Panel to identify monitoring program changes and improvements, including MWRA collaborating with others for monitoring. Currently we are participating in studies of emerging contaminants and pharmaceuticals with UMass Lowell, the University of Rhode Island, EPA’s Narragansett research Lab and the Stellwagen Bank National Marine Sanctuary. All of these projects are funded by other entities. Additionally, we are hoping to participate on a project studying micrplastics in the environment that (if selected) will be funded almost entirely by the Sea Grant Program and other entities, as well as a study to be conducted by the Water Research Foundation. That said, while the concept of contributions from other stakeholders is good, it will take time to develop and implement, and even then will be very difficult to guarantee.</p>