

In the opinion of Bond Counsel, under existing law and assuming continued compliance with the Internal Revenue Code of 1986, as amended, interest on the Series 2011 Bonds is not included in gross income for federal income tax purposes and is not an item of tax preference for the purpose of computing the alternative minimum tax imposed on individuals and corporations, although such interest will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed upon certain corporations. In the opinion of Bond Counsel, the Series 2011 Bonds, their transfer and the income therefrom, including any profit made on the sale thereof, are exempt from Massachusetts personal income taxes and the Series 2011 Bonds are exempt from Massachusetts personal property tax. For federal and Massachusetts tax purposes, interest includes original issue discount. See "Tax Exemption" herein.



MASSACHUSETTS WATER RESOURCES AUTHORITY

\$327,160,000

General Revenue Refunding Bonds, 2011 Series C

Dated: Date of Initial Delivery

Due: August 1, as shown on the inside cover

The Series 2011 Bonds will be issued as fully registered bonds in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York. Purchases of the Series 2011 Bonds will be made in book-entry form only, in the denominations of \$5,000 or any integral multiple thereof, and no physical delivery of the Series 2011 Bonds will be made to purchasers. So long as Cede & Co. is the registered owner of the Series 2011 Bonds, principal and interest on the Series 2011 Bonds are payable to DTC by U.S. Bank National Association, as Trustee. See "The Series 2011 Bonds – Book-Entry-Only System."

The Series 2011 Bonds will bear interest at the fixed rates and mature in the years and in the principal amounts set forth on the inside cover hereof. Interest on the Series 2011 Bonds will accrue from their date of delivery and will be payable on February 1 and August 1, commencing on February 1, 2012. The Series 2011 Bonds will be subject to optional and mandatory redemption prior to maturity, including redemption at par in circumstances as more fully described herein.

The Series 2011 Bonds will constitute general obligations of the Massachusetts Water Resources Authority (the "Authority"). In addition, the Series 2011 Bonds will be secured by a lien on and pledge of certain revenues and other moneys of the Authority, as described herein. Neither The Commonwealth of Massachusetts (the "Commonwealth") nor any political subdivision thereof shall be obligated to pay the principal of, premium, if any, or interest on any Series 2011 Bond, and neither the faith and credit nor the taxing power of the Commonwealth or any political subdivision thereof is pledged to such payment. The Authority has no taxing power.

The Series 2011 Bonds are offered when, as and if issued by the Authority and received by the Underwriters, subject to the approval of legality by McCarter & English, LLP, Boston, Massachusetts, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Authority by its Disclosure Counsel, Greenberg Traurig, LLP, Boston, Massachusetts, and for the Underwriters by their counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts. Delivery of the Series 2011 Bonds to DTC or its custodial agent is expected in New York, New York on or about December 8, 2011.

BofA Merrill Lynch Barclays Capital Citigroup J.P. Morgan Jefferies & Company
Fidelity Capital Markets Janney Montgomery Scott Morgan Stanley
Ramirez & Co., Inc. Wells Fargo Securities

November 9, 2011

* See, "Ratings" herein.

\$327,160,000
Massachusetts Water Resources Authority
General Revenue Refunding Bonds, 2011 Series C
Maturities, Amounts, Rates and Yields

<u>Maturity (August 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price/ Yield</u>	<u>CUSIP[†]</u>
2018	\$10,000,000	4.000%	1.910%	576051EH5
2018	20,000,000	5.000	1.910	576051EJ1
2021	1,780,000	4.000	2.540*	576051DU7
2022	4,220,000	4.000	2.770*	576051DV5
2022	11,535,000	5.000	2.770 [‡]	576051EK8
2023	31,250,000	5.000	2.940 [‡]	576051DW3
2024	4,100,000	3.125	3.190	576051DX1
2024	34,290,000	5.000	3.090 [‡]	576051EL6
2025	40,235,000	5.000	3.210 [‡]	576051DY9
2026	3,135,000	3.250	3.400	576051DZ6
2026	22,185,000	5.000	3.320 [‡]	576051EM4
2027	11,570,000	5.000	3.430 [‡]	576051EA0
2028	12,145,000	5.000	3.530 [‡]	576051EB8
2029	12,755,000	5.000	3.630 [‡]	576051EC6
2030	13,390,000	5.000	3.700 [‡]	576051ED4
2031	1,520,000	3.750	3.850	576051EE2
2031	12,545,000	5.000	3.770 [‡]	576051EN2
2032	14,740,000	4.000	100.00	576051EF9

\$65,765,000 5.25% Term Bond Due August 1, 2042 to Yield 4.100%[‡] CUSIP 576051EG7[†]

[†] The CUSIP numbers have been assigned by an independent company not affiliated with the Authority and are included solely for the convenience of the holders of the Series 2011 Bonds. None of the Authority, the Trustee or the Underwriters are responsible for the selection or uses of the CSUIP numbers, and no representation is made as to their correctness on the Series 2011 Bonds or as indicated above. The CUSIP numbers are subject to being changed after the issuance of the Series 2011 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of the Series 2011 Bonds as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the Series 2011 Bonds.

* Yield to first call date of August 1, 2016.

[‡] Yield to first call date of August 1, 2021.

The information set forth herein has been obtained from the Authority, The Depository Trust Company and other sources that are deemed to be reliable but, as to information from sources other than the Authority, it is not to be construed as a representation of the Authority. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Series 2011 Bonds shall under any circumstances create any implication that there has been no change in the affairs of the Authority since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representation other than as contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the Authority. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2011 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The Underwriters may offer and sell the Series 2011 Bonds to certain dealers (including dealers depositing the Series 2011 Bonds into investment trusts) and certain dealer banks and banks acting as agents at prices lower or yields higher than the public offering prices or yields stated on the inside cover page hereof and said offering prices or yields may be changed from time to time by the Underwriters.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS TO STABILIZE OR MAINTAIN THE MARKET PRICES OR YIELDS OF THE SERIES 2011 BONDS AT A LEVEL ABOVE THAT WHICH MAY OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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MASSACHUSETTS WATER RESOURCES AUTHORITY

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Greenberg Traurig, LLP

Bond Trustee

U.S. Bank National Association

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OFFICIAL STATEMENT
OF THE
MASSACHUSETTS WATER RESOURCES AUTHORITY
RELATING TO

\$327,160,000
General Revenue Refunding Bonds, 2011 Series C

INTRODUCTION

Purpose. This Official Statement provides certain information concerning the Massachusetts Water Resources Authority (the “Authority” or “MWRA”) in connection with the sale of \$327,160,000 aggregate principal amount of the Authority’s General Revenue Refunding Bonds, 2011 Series C (the “Series 2011 Bonds”). The Series 2011 Bonds are to be issued under and secured by the Authority’s General Revenue Bond Resolution, adopted January 24, 1990, as amended and supplemented (the “General Bond Resolution”). In addition, the Series 2011 Bonds will be issued and secured under the Authority’s Sixty-First Supplemental Resolution, approved by the Authority by resolution adopted on October 12, 2011 (the “Supplemental Resolution” and, collectively with the General Bond Resolution, the “General Resolution”). The Series 2011 Bonds will constitute valid and binding general obligations of the Authority and will be further secured by a pledge of certain revenues of the Authority in accordance with the terms of the General Resolution. See “Security for the Series 2011 Bonds – General,” “– Outstanding Indebtedness” and “– Additional Indebtedness.” Terms used, and not otherwise defined, in this Official Statement are defined in Appendix C – “Summary of Certain Provisions of the General Resolution.”

The Series 2011 Bonds are secured on a parity basis with all other senior revenue Bonds issued under the General Resolution. The proceeds of the Series 2011 Bonds will be used to refund certain of the Authority’s Outstanding Secured Bonds (the “Refunded Bonds”). See “Application of Series 2011 Bond Proceeds and Other Moneys.”

The Authority. The Authority, established by the Massachusetts Water Resources Authority Act, Chapter 372 of the Acts of 1984 of The Commonwealth of Massachusetts (as amended, the “Act”), is a body politic and corporate, a public instrumentality and an independent public authority of The Commonwealth of Massachusetts (the “Commonwealth”). In 1985, the Authority assumed possession and control from the Metropolitan District Commission, a department of the Commonwealth (the “MDC”) (which became part of the Department of Conservation and Recreation (the “DCR”) in July 2003), of a water distribution system (the “Waterworks System”) and a sewer system (the “Sewer System”) (collectively, the “Systems”), which provide wholesale services in service areas encompassing, in whole or in part, 61 communities located primarily in eastern Massachusetts, including most of the metropolitan Boston area. Forty-nine cities, towns and special purpose entities currently are authorized to receive water from the Waterworks System. Forty-three cities, towns and special purpose entities connect their local sewer systems to the regional sewage collection and treatment facilities constituting the Sewer System. Approximately 2.8 million people, or approximately 43% of the total population of the Commonwealth, live in the Authority’s service areas. See “The Authority and its Service Areas.”

The Capital Improvement Program. In addition to its operating responsibilities, the Authority is responsible for rehabilitating, repairing and maintaining the Systems and for operating them in compliance with applicable environmental laws, including major facilities construction to comply with the requirements of the federal Safe Drinking Water Act (the “SDWA”) and the federal Clean Water Act. Since its assumption of the ownership and operations of the Systems in 1985, the Authority has undertaken an ambitious program of capital improvements to the Systems through the implementation of rolling five-year capital improvement programs (the “CIP”). Capital expenditures since the Authority’s inception through June 30, 2011 totaled more than \$7.4 billion. The Authority has completed most of the major projects in the CIP, including the Deer Island Wastewater Treatment Plant (the “Deer Island Treatment Plant”) and related facilities (collectively, the “Boston Harbor Project”), the MetroWest Water Supply Tunnel, the Norumbega Covered Storage Reservoir, the John J. Carroll Water Treatment Plant, and several large sewer interceptor projects. The results of the Authority’s efforts are demonstrated improvements to the

environment as well as to the delivery of its services. Environmental improvements in Boston Harbor since the completion of the Boston Harbor Project include decreased bacteria levels in the water and increases in dissolved oxygen. Changes to the ecosystem include healthier communities of animals in the bottom sediments and less excess growth of algae. The water of Boston Harbor is visibly cleaner, with dramatically fewer floatables.

In December 2006, the Authority completed a master plan (the “Master Plan”) for the repair, maintenance, rehabilitation, replacement and additional construction of its infrastructure. With the completion of the majority of its court-mandated projects, the Master Plan is intended to assess Authority-wide needs, identify and prioritize projects to address those needs, and establish timeframes for the rehabilitation and replacement of existing facilities and infrastructure, as well as construction of new projects. The Master Plan forms the basis for the CIP. The Authority’s current capital improvement program (the “FY12 CIP”) for its Fiscal Year 2012 (July 1, 2011 through June 30, 2012) incorporates the highest priority projects identified in the Master Plan that have projected spending in the Fiscal Year 2009 to Fiscal Year 2018 timeframe. The FY12 CIP includes a five-year capital spending cap for the five Fiscal Years 2009 through 2013 of approximately \$954.7 million. See “Capital Improvement Program – Capital Improvement Planning” herein.

The largest component of the Authority’s current CIP is related to the implementation of a long-term plan for control of combined sewer overflows (the “CSO Control Plan”). Combined sewer overflows (“CSOs”) are discharges of combined wastewater and stormwater flows that exceed the capacity of the Sewer System during heavy wet weather events. The CSO Control Plan is intended to bring CSOs in the metropolitan Boston area into compliance with an order (the “District Court Order”) of the Federal District Court for the District of Massachusetts (the “District Court”) in the matter of *U.S. v. M.D.C. et al., No. 85-0489-RGS* (the “Clean Water Act Case”). In April 2006, the District Court approved a joint motion filed by the U.S. Department of Justice (the “DOJ”) and the Authority, which incorporated into the District Court Order changes to the CSO Control Plan and a related implementation schedule agreed to by the U.S. Environmental Protection Agency (“EPA”), the Massachusetts Department of Environmental Protection (“DEP”) and the other parties to the Clean Water Act Case. The joint motion, accepted by the District Court in April 2006, provides greater certainty as to the scope of the Authority’s CSO obligations through 2020. The District Court subsequently issued Schedule Seven in the District Court Order incorporating the approved project and schedule changes. See “The Systems – The Sewer System – Combined Sewer Overflows; Infiltration and Inflow” and “Capital Improvement Program – Major Capital Projects – Wastewater Projects.”

The Authority reviews and reevaluates the current CIP at least twice per year and adjusts it, as necessary, to respond to changing factors, such as changing environmental law and mandates, including requirements of the Clean Water Act and the SDWA, construction industry costs, and unforeseen physical conditions that can affect both the cost and timing of particular projects.

For further information on the CIP, see “Capital Improvement Program” and “Environmental Regulation and Litigation.”

Rates and Charges. In Fiscal Year 2012, approximately 95.4% of the Authority’s revenues are budgeted to be derived from wholesale rates and charges assessed to the cities, towns and special purpose entities (collectively, the “Local Bodies”) that are served by the Systems. One Local Body, the Boston Water and Sewer Commission (the “BWSC”), a public instrumentality of the Commonwealth providing retail water and sewer services within the City of Boston, will account for approximately 30.8% of the Authority’s combined water and sewer charges in Fiscal Year 2012. The obligation to pay the Authority’s rates and charges for services rendered is a general obligation of each Local Body, supported by its full faith and credit and payable from all available revenue sources, including local retail user charges and, in the case of city and town Local Bodies (“Municipal Local Bodies”) only, real and personal property taxes and financial aid distributed to such Municipal Local Bodies by the Commonwealth (“local aid”). No specific revenues of the Local Bodies, however, are pledged for the payment of the Authority’s wholesale rates and charges. Since its inception, the Authority has collected 100% of its rates and charges within the fiscal year in which they were due.

The Authority is required by the Act to set its rates and charges at levels sufficient to pay, among other things, its current expenses and its debt service, and is required by the General Resolution to provide debt service coverage at specified levels. In accordance with the Act, the Authority’s rate-setting responsibility is exercised by its Board of Directors independent of the approval of any department, agency or other instrumentality of the

Commonwealth or any other governmental body. The Authority's rate-setting is not subject to certain limitations imposed by the Massachusetts law, commonly known as "Proposition 2½," on the rate of growth of assessments by state and other governmental entities on municipalities. See "Local Bodies – Municipal Sources of Revenue."

From Fiscal Year 2008 through Fiscal Year 2012, the average annual increase in the Authority's rates and charges was approximately 3.55%, with a 3.49% increase in Fiscal Year 2012. See "Rates and Charges – Historical Rates and Charges" and "Management's Review of Operating Results – Fiscal Year 2012 Current Expense Budget." From Fiscal Year 2012 to Fiscal Year 2017, the Authority projects that future rates and charges will continue to increase due to increases in debt service costs and the annual operating expenses of the Systems. The Authority believes that economic and environmental benefits of an improved infrastructure help to maintain public support for its capital improvement program and its services and expects that these considerations, together with the statutory enforcement mechanisms available to it for collection of its rates and charges, will continue to assure that the Authority's revenue requirements are met. See "Rates and Charges – Future Rates and Charges" and "– Enforcement."

Appendices. Attached hereto as Appendix A are the Authority's audited financial statements at June 30, 2011 and 2010 and for the Fiscal Years then ended. Attached hereto as Appendix B is the Consulting Engineer's Report, dated as of October 31, 2011, prepared by Camp Dresser & McKee Inc., the Authority's consulting engineer (the "Consulting Engineer"). Attached hereto as Appendix C is a Summary of Certain Provisions of the General Resolution prepared by Bond Counsel to the Authority. Attached hereto as Appendix D is the proposed form of legal opinion of Bond Counsel. Attached here as appendix E is a table of Refunded Bonds prepared by Bond Counsel to the Authority.

THE SERIES 2011 BONDS

The following is a summary of certain provisions of the Series 2011 Bonds. Reference is hereby made to the Series 2011 Bonds and the General Resolution, each in their entirety, for detailed provisions of the Series 2011 Bonds. For definitions of certain terms and additional detailed information relating to the Series 2011 Bonds, see Appendix C – "Summary of Certain Provisions of the General Resolution."

GENERAL

The Series 2011 Bonds will be issued in the aggregate principal amount of \$327,160,000. The Series 2011 Bonds will be dated as of their dates of initial delivery and will mature in the years set forth on the inside cover of this Official Statement. The Series 2011 Bonds will be offered in Authorized Denominations of \$5,000 and integral multiples thereof.

Interest on the Series 2011 Bonds will be payable on February 1 and August 1, commencing February 1, 2012 at the interest rates set forth on the inside cover of this Official Statement. The record date for payment of interest on the Series 2011 Bonds is the fifteenth (15th) day of the calendar month preceding the date on which interest is to be paid. Interest will accrue on the basis of a 360-day year consisting of twelve months of thirty days each.

REDEMPTION

Mandatory Sinking Fund Redemption. The Series 2011 Bonds maturing on August 1, 2042 shall be subject to mandatory sinking fund redemption and shall be redeemed by sinking fund installments on August 1 of each of the years and in the amounts set forth in the following tables at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the date of redemption:

SERIES 2011 BONDS DUE AUGUST 1, 2042

<u>Year</u>	<u>Sinking Fund Installment</u>
2037	\$9,755,000
2038	10,270,000
2039	10,805,000
2040	11,370,000
2041	11,970,000
2042*	11,595,000

*Maturity.

Optional Redemption. The Series 2011 Bonds maturing on August 1, 2021 and on August 1, 2022 bearing interest at a rate of 4.0% shall be subject to optional redemption prior to maturity, commencing on August 1, 2016, in whole or in part on any Business Day, at the option of the Authority, at a redemption price of par plus accrued interest to the date of redemption. All other Series 2011 Bonds maturing after August 1, 2021 shall be subject to optional redemption prior to maturity commencing on August 1, 2021, in whole or in part on any Business Day, at the option of the Authority and in such order of maturity and sinking fund installments within a maturity as may be determined by the Authority, at a redemption price of par plus accrued interest to the date of redemption.

Notice of Redemption and Other Notices. So long as DTC, or its nominee is the Bondholder, the Authority and the Trustee will recognize DTC or its nominee as the Bondholder for all purposes, including notices and voting. Conveyance of notices and other communications by DTC to Direct Participants (hereinafter defined), by Direct Participants to Indirect Participants (hereinafter defined), and by Direct Participants and Indirect Participants to Beneficial Owners (hereinafter defined) will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time.

The Trustee shall give notice of redemption to the Bondholders at least once and not less than thirty (30) days prior to the date fixed for redemption. Failure to mail notice to a particular Bondholder, or any defect in the notice to such Bondholder, shall not affect the redemption of any other Bond. So long as DTC or its nominee is the Bondholder, any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a Direct Participant or otherwise) to notify the Beneficial Owner so affected, shall not affect the validity of the redemption.

Notice of optional redemption of any Series 2011 Bonds may and, if the Authority shall so instruct the Trustee, shall be given conditionally. If and to the extent that any conditions specified or referred to in a notice of redemption are not satisfied on or prior to the proposed redemption date and, if not satisfied, are not waived by the Authority, then such Series 2011 Bonds shall not be redeemed pursuant to such notice and shall remain outstanding in accordance with their terms.

Purchase in Lieu of Redemption. In the event that the Authority exercises its right to optionally redeem any Series 2011 Bonds, the Authority may purchase some or all of the Series 2011 Bonds called for redemption if it gives written notice to the Trustee that it wishes to purchase the principal amount of Series 2011 Bonds specified in the notice, at a purchase price equal to the Redemption Price. On the date specified as the redemption date, the Authority shall cause to be furnished to the Trustee funds in an amount and at the time necessary to permit the Trustee to purchase such Series 2011 Bonds on the redemption date. Any such purchase of Series 2011 Bonds by the Authority shall at the option of the Authority, as designated in the written notice delivered to the Trustee, either be credited against sinking fund installments and such Series 2011 Bonds so purchased shall be delivered to the Trustee for cancellation, or shall not be deemed to be a payment or redemption of the Series 2011 Bonds or any portion thereof and such purchase shall not operate to extinguish or discharge the indebtedness evidenced by such Series 2011 Bonds.

Selection for Redemption. In the event that less than all of the Series 2011 Bonds of any series and maturity within the series are to be redeemed and for so long as the Book-Entry-Only System remains in effect for the Series 2011 Bonds, the portion of any Series 2011 Bond of a particular series and maturity to be redeemed shall be selected by DTC in such manner as DTC may determine. If the Book-Entry-Only System for the Series 2011 Bonds is no longer in effect, selection for redemption of less than all the Series 2011 Bonds of any one maturity will

be made by the Trustee by lot or in any other manner of selection the Trustee in its discretion shall deem appropriate and fair.

BOOK-ENTRY-ONLY SYSTEM

DTC will act as securities depository for the Series 2011 Bonds. The Series 2011 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2011 Bond certificate will be issued for each maturity within a series of the Series 2011 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of the regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtc.org and www.dtcc.com.

Purchases of Series 2011 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2011 Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2011 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2011 Bonds, except in the event that use of the book-entry system for the Series 2011 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2011 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2011 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2011 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2011 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2011 Bonds within a series and maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2011 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2011 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2011 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2011 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2011 Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2011 Bond certificates will be printed and delivered to DTC.

The information contained in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but neither the Authority nor the Underwriters take responsibility for the accuracy thereof. Neither the Trustee nor the Authority will have any responsibility or obligation to such DTC Participants or the persons for whom they act as nominees with respect to the payments to the DTC Participants, the Indirect Participants or Beneficial Owners.

EXCHANGE AND TRANSFER

If for any reason the Book-Entry-Only System is discontinued, the Series 2011 Bonds will be exchangeable and transferable on the registration books of the Authority at the designated corporate trust office of the Trustee in Authorized Denominations of \$5,000 and integral multiples thereof. Upon presentation and surrender of any Series 2011 Bond for transfer or exchange, the Trustee will authenticate and deliver in the name of the designated transferee or transferees or the registered owner, as appropriate, one or more new fully registered Series 2011 Bonds of the same series in any Authorized Denomination or Denominations. For every exchange or transfer of Series 2011 Bonds, the Authority or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer. The Authority shall not be obligated to make any transfer or exchange of any Series 2011 Bonds during the 15-day period preceding an interest or principal payment date. Neither the Authority nor the Trustee shall be required to transfer or exchange the Series 2011 Bonds for a period of 15 days next preceding the mailing of any notice of redemption or to transfer or exchange any Series 2011 Bond called for redemption.

APPLICATION OF SERIES 2011 BOND PROCEEDS AND OTHER MONEYS

GENERAL

The proceeds of the Series 2011 Bonds are expected to be applied on the date of issue of the Series 2011 Bonds in the estimated amounts as follows (rounded to the nearest dollar):

Sources of Funds:

Principal Amount of Series 2011 Bonds	\$327,160,000
Net Original Issue Premium	40,273,682
Transfer from Debt Service Reserve Fund and Bond Fund	<u>30,641,031</u>
TOTAL	\$398,074,713

Use of Funds:

Deposit to the Refunding Trust Fund	\$375,966,873
Deposit to Debt Service Reserve Fund	20,059,202
Costs of Issuance	503,408
Underwriters' Discount	<u>1,545,230</u>
TOTAL	\$398,074,713

PLAN OF REFUNDING

A portion of the proceeds of the Series 2011 Bonds, together with certain amounts available under the General Resolution, will be deposited into the Refunding Trust Fund established under a Refunding Trust Agreement (the "Refunding Trust Agreement") to be entered into between the Authority and U.S. Bank National Association, as trustee for the Refunded Bonds listed in Appendix E hereto, exclusive of the 2002 Series C Bonds. Such amounts will be invested in Defeasance Obligations, and will be applied on the redemption dates set forth in Appendix E, at the redemption prices set forth in Appendix E, plus accrued interest to such redemption dates. A portion of the proceeds of the Series 2011 Bonds will be deposited in the redemption account of the Debt Service Fund established for the 2002 Series C Bonds maturing on August 1, 2020 and will used to redeem such 2002 Series C Bonds on the redemption date set forth in Appendix E, at the redemption price set forth in Appendix E, plus accrued interest to the redemption date. Any refunding is contingent upon delivery of the Series 2011 Bonds.

SECURITY FOR THE SERIES 2011 BONDS

GENERAL

The following summary of the security for the Series 2011 Bonds is qualified in its entirety and reference is hereby made to Appendix C hereto and to the General Resolution, which set forth in further detail provisions relating to the security for the Series 2011 Bonds. For definitions of certain capitalized terms used but not defined herein, see Appendix C – "Summary of Certain Provisions of the General Resolution."

The Series 2011 Bonds constitute valid and binding general obligations of the Authority and the full faith and credit of the Authority is pledged to the payment of the principal and redemption price of and interest on the Series 2011 Bonds. The Authority is subject to suit, but its property is not generally subject to attachment or levy by execution to satisfy a judgment on the Series 2011 Bonds. The Authority has no taxing power.

Neither the Commonwealth nor any political subdivision thereof shall be obligated to pay the principal of, or premium or interest on any Series 2011 Bond, and neither the faith and credit nor taxing power of the Commonwealth or of any political subdivision thereof is pledged to such payment.

The General Resolution provides for the issuance of senior revenue bonds and subordinated revenue bonds thereunder. The Authority may issue additional bonds on a parity with the Series 2011 Bonds and the other senior revenue bonds issued to date (collectively, "Bonds") upon the satisfaction of certain conditions. See "Security for

the Series 2011 Bonds – Outstanding Indebtedness,” and “– Additional Indebtedness” and Appendix C – “Summary of Certain Provisions of the General Resolution – Additional Indebtedness,” “– Conditions Precedent to Delivery of a Series of Bonds,” and “– Conditions Precedent to Delivery of a Series of Parity or Senior Secured Bonds.” All Bonds are equally and ratably secured under the provisions of the General Resolution and by the Funds and Accounts established thereunder, and all Bonds will be on parity with the Series 2011 Bonds. See “Debt Service Reserve Fund” below.

The General Resolution also permits the issuance of Subordinated Bonds which are referred to herein, together with the Bonds, as “Secured Bonds.” Subordinated Bonds are secured by a pledge of the Revenues of the Authority subordinate to that securing Bonds (although only the interest on tax exempt commercial paper, which constitute Subordinated Bonds, is secured by the subordinated revenue lien). In the event of any Event of Default under the General Resolution, so long as there are any Bonds Outstanding, directions to the Trustee with respect to remedies shall be given by a majority of the holders of the Outstanding Bonds, excluding the holders of the Subordinated Bonds. See Appendix C – “Summary of Certain Provisions of the General Resolution – Events of Default,” “– Proceedings Brought by Trustee” and “– Restrictions on Action by Holders of Secured Bonds.”

The Act limits the total amount of the Authority’s unrefunded bonds and notes that may be Outstanding at any time. See “Financial Operations – Debt Limitation.” For a table showing the debt service on Outstanding Secured Bonds, see “Financial Operations – Outstanding and Proposed Indebtedness.”

The Authority has approved proposed modifications to the General Resolution, which, if and when consented to by the requisite numbers of Bondholders and certain third parties, would materially change a number of the provisions of the General Resolution discussed below. These modifications are expected to become effective at a time when the Series 2011 Bonds will still be Outstanding. At the time of issuance of the Series 2011 Bonds, the Underwriters, as the initial purchasers of all of the Series 2011 Bonds, will consent to all of the proposed modifications on their own behalf and on behalf of all subsequent holders of the Series 2011 Bonds. The proposed modifications will not become effective with respect to any Secured Bonds of the Authority, whether or not consent to the proposed modifications has been granted with respect to such Secured Bonds, until the requisite numbers of holders of Secured Bonds and certain third parties have consented to such proposed modifications, as further described below. See “Proposed Modifications to the General Resolution” below and Appendix C – “Summary of Certain Provisions of the General Resolution.”

NET REVENUE PLEDGE

In the General Resolution, the Authority pledges as security for Bonds, including the Series 2011 Bonds, (i) its Revenues, (ii) all moneys or securities held in any Fund or Account established under the General Resolution (except the Operating Fund, the Note Payment Fund, the Rebate Fund and any Subordinated Debt Service Reserve Fund) together with all investment earnings thereon (except to the extent such earnings are required to be deposited into the Rebate Fund), and (iii) all other moneys and securities to be received by the Authority or by any Fiduciary pursuant to the General Resolution. In the General Resolution, the Authority further pledges as security for the Subordinated Bonds the property described in clauses (i) through (iii) of the preceding sentence (except monies or securities in the Debt Service Fund and the Debt Service Reserve Fund), subject to the prior pledge for the payment of Bonds described in the preceding sentence. Such pledges are subject to the provisions of the General Resolution regarding the application of Revenues and the other moneys pledged as security for Secured Bonds. For the definition of Revenues see Appendix C – “Summary of Certain Provisions of the General Resolution.”

The General Resolution provides that the Authority shall promptly cause all Revenues received to be deposited in the Revenue Fund held by the Trustee and that prior to application to the Debt Service Fund, the Subordinated Debt Service Fund and the other Funds and Accounts established under the General Resolution, the Revenues on deposit in the Revenue Fund are to be applied to the Authority’s expenses of maintaining, repairing and operating the Systems and engaging in other activities authorized by the Act.

The General Resolution provides that the funds on deposit in the Revenue Fund be transferred by the Trustee on the last Business Day of each month to the following funds and accounts in the following order:

First, to the Operating Fund, an amount necessary to make the amount on deposit therein equal to the Operating Expenses for the next succeeding three months as shown in the Operating Budget of the Authority on file with the Trustee.

Second, to the Debt Service Fund, the amounts necessary on a pro rata basis (i) to make up any deficiency in any Subaccount resulting from an increase in the applicable interest rate on any Variable Rate Bonds over the rate assumed in calculating the amount required for a prior deposit pursuant to the General Resolution, (ii) to increase the amount on deposit in each Subaccount of the Interest Account to equal interest included in Adjusted Debt Service next coming due on Outstanding Bonds of the applicable Series accrued and unpaid and to accrue to and including the last day of the next succeeding month after taking into account any available moneys in the corresponding Subaccount of the Capitalized Interest Account, (iii) to increase the amount on deposit in each Subaccount of the Principal Account to equal that portion of the Principal Installment included in Adjusted Debt Service next coming due (within twelve months) on Outstanding Bonds of the applicable Series accrued and unpaid and to accrue to and including the last day of the next succeeding month, and (iv) to increase the amount on deposit in each Subaccount of the Redemption Account to equal the Redemption Price of Outstanding Bonds of the applicable Series then called for redemption (other than Sinking Fund Installments) as of any date on or prior to the last day of the next succeeding month.

Third, to the Subordinated Debt Service Fund, the amounts with respect to Subordinated Bonds determined in the same manner as the amounts in the Debt Service Fund set forth in the preceding paragraph with respect to Bonds; provided, that there are also deposited to the Subordinated Debt Service Fund any amounts necessary to increase each Subaccount of the Interest Account providing for the Authority's obligations to counterparties for regularly scheduled payments under interest rate swap agreements or other hedge agreements relating to Series of Subordinated Bonds designated by the Authority to equal the amount of such obligations next coming due with respect to such Series accrued and unpaid and to accrue to and including the last day of the next succeeding month.

Fourth, to the Debt Service Reserve Fund, (i) one-twelfth of the amount necessary to increase the amount on deposit in each Series Subaccount of the Common Account to equal the applicable Series Debt Service Reserve Fund Requirement, and (ii) the deposit required by any Supplemental Resolution to any Special Account.

Fifth, to the Subordinated Debt Service Reserve Fund, (i) an amount necessary to increase the amount on deposit in each Series Subaccount of the Common Account to equal the level required by any Supplemental Resolution, and (ii) the deposit required by any Supplemental Resolution to any Special Account.

Sixth, to each Series Subaccount of the General Account of the Community Obligation and Revenue Enhancement Fund, one-twelfth of the difference between the Supplemental Bond Coverage Requirement with respect to such Series of Bonds and the amount on deposit in such Subaccount on the first day of the Fiscal Year.

Seventh, to the Commonwealth Obligation Fund, an amount equal to the amount of Commonwealth Obligations payable during the next succeeding month.

Eighth, to the Rebate Fund, the amount of the Rebate Fund Requirement, if any, determined in accordance with the applicable Supplemental Resolution.

Each fund and account must be funded from Revenues to the amount required under the General Resolution before Revenues are transferred to funds and accounts lower in the flow of funds.

On each December 31 and June 30 or, if such day is not a Business Day, on the next preceding Business Day, the Trustee is required under the General Resolution to transfer funds in the Revenue Fund to the Operating Reserve Fund, the Insurance Reserve Fund, the Renewal and Replacement Reserve Fund and the Water Pollution Abatement Fund in the amounts specified in the General Resolution, then to the Revolving Fund, as directed by the Authority, and the remainder to the General Fund except to the extent that the Authority directs that the remainder be retained in the Revenue Fund.

See Appendix C – “Summary of Certain Provisions of the General Resolution – Flow of Funds from the Revenue Fund” for a more detailed explanation of the flow of funds.

The proposed modifications of the General Resolution would modify the flow of funds described above by (i) in paragraph *Second*, adding to the deposits to the Debt Service Fund designated amounts for obligations owing under interest rate swap agreements or other hedge agreements relating to Series of Bonds designated by the Authority, in a manner similar to that already provided with respect to such agreements relating to Subordinated Bonds and described in paragraph *Third*, (ii) changing paragraph *Fourth* to require deposits to the Common Account in the Debt Service Reserve Fund equal to one-twelfth (1/12) the amount necessary to increase the amount on deposit in such Account, determined as of the first day of the current Fiscal Year, to the Debt Service Reserve Fund Requirement (a new term representing an aggregate debt reserve requirement for Bonds, which would replace the existing per-Series requirement and would reduce the total of debt service reserves required with respect to the Authority’s Bonds); provided that no such deposit would be required in a Fiscal Year following the funding of the Common Account in connection with the issuance of a Series of Bonds, and (iii) deleting paragraph *Sixth*, because the Community Obligation and Revenue Enhancement Fund would be eliminated. See “Debt Service Reserve Fund,” “Community Obligation and Revenue Enhancement Fund” and “Proposed Modifications to the General Resolution” below and Appendix C – “Summary of Certain Provisions of the General Resolution.”

COVERAGE COVENANTS

Under the Act and the General Resolution, the Authority is required to meet the following three covenants with respect to Rates and Charges (collectively, the “Coverage Covenants”).

Rate Covenant. Pursuant to the General Resolution, and as required by the Act, the Authority covenants that for each fiscal year it will maintain Revenues sufficient to pay Current Expenses, debt service on Indebtedness, required deposits to reserves, costs of maintenance, replacement or improvement of the Systems to be funded as Current Expenses, and all amounts which the Authority may be obligated to pay by any law or contract (the “Rate Covenant”).

Combined Debt Service Coverage Ratio Covenant. In addition to the Rate Covenant, the Authority is required under the General Resolution to fix and adjust Rates and Charges sufficient to provide Revenues Available for Bond Debt Service in each fiscal year at least equal to (i) debt service for such fiscal year on all Outstanding Bonds (which term excludes Subordinated Bonds) times the Primary Bond Coverage Ratio of 1.2 (the “Primary Bond Coverage Requirement”) plus (ii) the amount necessary to fund the Community Obligation and Revenue Enhancement Fund so that the balance thereof equals debt service for such fiscal year on Bonds Outstanding as of the beginning of such fiscal year times the Supplemental Bond Coverage Ratio of 0.1 (the “Supplemental Bond Coverage Requirement”). This requirement to fix Rates and Charges is referred to herein as the “Combined Debt Service Coverage Ratio Covenant.” Pursuant to modifications of the Act and the General Resolution made in 1996, for purposes of calculating compliance with the Combined Debt Service Coverage Requirement for any fiscal year the Authority may treat debt service assistance received by it either as Revenues or as a deduction from debt service requirements. Since Fiscal Year 1997, the Authority has elected the latter alternative with respect to debt service assistance received.

The Primary Bond Coverage Ratio and the Supplemental Bond Coverage Ratio may be adjusted by the Authority provided that such adjustment will not adversely affect the then current ratings, if any, assigned to any series of Outstanding Secured Bonds by each Rating Agency. In any event, the Primary Bond Coverage Ratio shall not be less than 1.1, and no such adjustment shall cause the sum of the Primary Bond Coverage Ratio and the Supplemental Bond Coverage Ratio to be less than 1.2.

The proposed modifications to the General Resolution would eliminate the Community Obligation and Revenue Enhancement Fund and would remove the Supplemental Bond Coverage Requirement component of the Combined Debt Service Ratio Covenant. The effect would be to reduce the requirement of this covenant to the amount described in clause (i) of the first paragraph under this subheading. The Authority would remain obligated to observe the Primary Bond Coverage Requirement, and the Primary Bond Coverage Ratio would remain subject to adjustment by the Authority as described above. See “Community Obligation and Revenue Enhancement Fund” and “Proposed Modifications to the General Resolution” below and Appendix C – “Summary of Certain Provisions of the General Resolution.”

Subordinated Combined Debt Service Coverage Ratio Covenant. In addition, under supplemental resolutions authorizing the issuance of Subordinated Bonds, including Subordinated Bonds issued to the Massachusetts Water Pollution Abatement Trust (the “SRF”), the Authority is required to fix and adjust Rates and Charges sufficient to provide Revenues Available for Bond Debt Service in each fiscal year at least equal to (i) 1.1 times debt service on all Outstanding Secured Bonds (which term includes the Series 2011 Bonds and all Secured Bonds issued on a parity with or subordinate to the Series 2011 Bonds) (the “Subordinated Primary Bond Coverage Requirement”) plus (ii) the amount necessary to fund the Community Obligation and Revenue Enhancement Fund to the Supplemental Bond Coverage Requirement (the “Subordinated Combined Debt Service Coverage Ratio Covenant”). For purposes of budgeting debt service deposits, calculating the Subordinated Combined Debt Service Coverage Ratio Covenant, and satisfying tests for the issuance of Additional Secured Bonds, the debt service requirements on the Subordinated Bonds issued to the SRF (the “SRF Bonds”) are based on the net debt service requirements determined after application of loan subsidies to be provided by the program and earnings on certain moneys.

The proposed modifications to the General Resolution would relocate the Subordinated Primary Bond Coverage Requirement from the applicable supplemental resolutions to the General Resolution and would remove the Supplemental Bond Coverage Requirement component of the Subordinated Combined Coverage Ratio Covenant. The effect would be to reduce the requirement of this covenant to the amount described in clause (i) of the preceding paragraph. See “Community Obligation and Revenue Enhancement Fund” and “Proposed Modifications to the General Resolution” below and Appendix C – “Summary of Certain Provisions of the General Resolution.”

Covenant as to Establishment of Rates; Failure to Comply with Covenants. Under the General Resolution the Authority covenants to adopt its Rates and Charges strictly in accordance with the Act as in effect on the original effective date of the General Resolution, which establishment shall be conclusive and final and not subject to supervision or regulation by the Commonwealth or any of its political subdivisions, at a level sufficient to satisfy the Coverage Covenants.

If in any fiscal year the Authority shall not comply with the Coverage Covenants, then the Authority shall not be deemed to be in default under the General Resolution so long as it shall specify to the Trustee the corrective steps that it has taken to ensure compliance with the Coverage Covenants for the then current fiscal year; retain the Consulting Engineer or Rate Consultant to review the adequacy of the Authority’s charges with respect to the Systems and to recommend changes necessary for the Authority to be in compliance with the Coverage Covenants; and use its best efforts to effect such changes as recommended by the Consulting Engineer or Rate Consultant. See Appendix C – “Summary of Certain Provisions of the General Resolution – Covenants of the Authority – Covenant as to Rates and Charges; Debt Service Coverage Ratio.”

Operating Reserve Fund and Rate Stabilization Fund Transfers. The Authority may include moneys transferred from the Operating Reserve Fund and the Rate Stabilization Fund as Revenues Available for Bond Debt Service in meeting the Coverage Covenants, subject to certain limitations. See the definition of “Revenues Available for Bond Debt Service” in Appendix C – “Summary of Certain Provisions of the General Resolution.”

DEBT SERVICE RESERVE FUND

The General Resolution establishes a Debt Service Reserve Fund to be funded in an amount that equals the Debt Service Reserve Fund Requirement. The Debt Service Reserve Fund Requirement is equal to the aggregate of the Series Debt Service Reserve Fund Requirements for all Outstanding Series of Bonds. The Series Debt Service Reserve Fund Requirement means, for any Series of Bonds, an amount equal to the least of (i) 100% of the Average

Annual Adjusted Debt Service for such Series of Bonds, (ii) 10% of the original net proceeds of such Series of Bonds, (iii) 125% of the average annual Debt Service for such Series of Bonds, or (iv) the maximum amount of Debt Service due on such Series of Bonds in any succeeding Bond Year. The General Resolution requires, as a condition to the issuance of a Series of Bonds thereunder, that the Debt Service Reserve Fund be fully funded in an amount equal to the Debt Service Reserve Fund Requirement. A portion of the proceeds of the Series 2011 Bonds is expected to be deposited in the Debt Service Reserve Fund such that at the time of issuance of the Series 2011 Bonds, the amount on deposit in the Debt Service Reserve Fund will equal approximately \$238.9 million. See Appendix C – “Summary of Certain Provisions of the General Resolution.”

Moneys in the Debt Service Reserve Fund are available for the payment of principal of and premium and interest on all Bonds, but not Subordinated Bonds, equally and ratably. See “Financial Operations – Outstanding and Proposed Indebtedness” for a table setting forth the debt service requirements on the Authority’s Outstanding Bonds and Subordinated Bonds upon the issuance of the Series 2011 Bonds. In the event that moneys are withdrawn from the Debt Service Reserve Fund, such withdrawal shall be replenished as nearly as practicable in twelve equal monthly installments commencing in the fiscal year following such withdrawal. See Appendix C – “Summary of Certain Provisions of the General Resolution – Flow of Funds from the Revenue Fund.”

The proposed modifications to the General Resolution would eliminate the Series Debt Service Reserve Fund Requirements and amend the Debt Service Reserve Fund Requirement to mean, as of the first day in each Fiscal Year or the date of issuance of a Series of Bonds, the amount equal to the least of (i) 50% of the maximum amount of Adjusted Debt Service due in any succeeding Fiscal Year on all Bonds Outstanding on such date, (ii) 10% of the original net proceeds of such Bonds, (iii) 125% of the average annual Debt Service on such Bonds, or (iv) the maximum amount of Debt Service due on such Bonds in any succeeding Fiscal Year. See “Proposed Modifications to the General Resolution” below and Appendix C – “Summary of Certain Provisions of the General Resolution.”

COMMUNITY OBLIGATION AND REVENUE ENHANCEMENT FUND

The General Resolution establishes a Community Obligation and Revenue Enhancement Fund as security for Secured Bonds. The General Resolution requires that the Community Obligation and Revenue Enhancement Fund be funded in monthly installments over a fiscal year with respect to each Series of Bonds (but not Subordinated Bonds) in an aggregate amount necessary to bring the balance therein up to the Supplemental Bond Coverage Requirement. The Supplemental Bond Coverage Requirement is subject to adjustment from time to time by the Authority. See “Coverage Covenants” above. Moneys in the Community Obligation and Revenue Enhancement Fund are available only for the payment of principal of, premium, if any, and interest on all Secured Bonds in the event of a Local Body Default (as such term is defined in Appendix C).

In the event that a Local Body fails to pay any Rates and Charges, the Authority has covenanted to exercise its statutory power to certify to the State Treasurer the amount of such unpaid Rates and Charges. The Act provides that upon such certification, the State Treasurer shall promptly intercept any amounts then payable by the Commonwealth to such Local Body and pay them to the Authority in satisfaction of such unpaid Rates and Charges. See “Rates and Charges – Enforcement.” Should a Local Body’s default continue, the Authority is required, by no later than twelve months from the date of such failure, to declare such failure a Local Body Default. Upon such declaration the Authority must send to each Local Body receiving services from the Authority a notice specifying the default and the amount thereof, and stating that, unless such default is cured, Rates and Charges to each Local Body will be increased so as to cover the default. There have been no Local Body Defaults, although the Authority made use of the local aid intercept (described above) on six occasions between 1990 and 1993, and has not used the local intercept since 1993.

The proposed modifications to the General Resolution would eliminate the Community Obligation and Revenue Enhancement Fund. See “Proposed Modifications to the General Resolution” below and Appendix C – “Summary of Certain Provisions of the General Resolution.”

OTHER RESERVES

The General Resolution also establishes an Operating Reserve Fund, an Insurance Reserve Fund and a Renewal and Replacement Reserve Fund. The annual requirement for each such reserve is funded in two

installments on each December 31 and June 30. Under certain circumstances, moneys on deposit in each of these reserves are available to pay debt service on Secured Bonds. Additionally, other reserves and funds established under the General Resolution are generally available, with certain exceptions, to pay debt service on Secured Bonds in the event Revenues are insufficient. See Appendix C – “Summary of Certain Provisions of the General Resolution – Debt Service Fund,” “– Subordinated Debt Service Fund,” “– Priority of Funds in the Event of Debt Service Fund Shortfall” and “– Priority of Funds in the Event of Subordinated Debt Service Fund Shortfall.”

Operating Reserve Fund. The Operating Reserve Fund is funded from Revenues in the amount of the Operating Reserve Fund Requirement which must be at least one-sixth (1/6th) of the annual Operating Expenses set forth in the Operating Budget. Moneys in the Operating Reserve Fund may be transferred to the Operating Fund for the payment of Operating Expenses upon delivery of a Certificate of an Authorized Representative of the Authority. See Appendix C – “Summary of Certain Provisions of the General Resolution – Operating Reserve Fund.”

Insurance Reserve Fund. The Insurance Reserve Fund is funded from Revenues in the amount of the Insurance Reserve Fund Requirement. Moneys in the Insurance Reserve Fund may be applied by the Authority in the same manner as insurance proceeds, as provided in the General Resolution. See Appendix C – “Summary of Certain Provisions of the General Resolution – Insurance Reserve Fund.”

Renewal and Replacement Reserve Fund. The Renewal and Replacement Reserve Fund is funded from Revenues in the amount of the Renewal and Replacement Reserve Fund Requirement. Moneys in the Renewal and Replacement Reserve Fund shall be applied to the Cost of any Capital Improvement that is not provided for by moneys available in the Construction Fund or the Operating Fund in accordance with the procedures set forth in the General Resolution. See Appendix C – “Summary of Certain Provisions of the General Resolution – Renewal and Replacement Reserve Fund.”

The adequacy of each of the Operating Reserve Fund Requirement, the Insurance Reserve Fund Requirement and the Renewal and Replacement Reserve Fund Requirement is reviewed annually by the Authority and every third fiscal year by the Consulting Engineer or, in the case of the Insurance Reserve Fund Requirement, an insurance consultant. The adequacy of the funding requirements have been confirmed for the Insurance Reserve Fund by the Authority’s insurance consultant in a report dated February 2011, and for the Operating Reserve Fund and the Renewal and Replacement Reserve Fund by the Consulting Engineer in its most recent triennial report dated October 31, 2011 with respect to the Systems, prepared and delivered in accordance with the General Resolution. See Appendix B - “Consulting Engineer’s Report.”

The proposed modifications to the General Resolution would amend language relating to insurance requirements to explicitly permit insurance carried by the Authority to be subject to deductibles customary among water or sewer utility systems similar to the Authority and would amend language relating to the Renewal and Replacement Reserve Fund Requirement to specify that the purpose of such Requirement is to fund emergency repairs and replacements and other expenditures for repairs and replacements not provided for in the Operating Budget and the Capital Budget. In addition, the Consulting Engineer would evaluate the Renewal and Replacement Fund Requirement at five-year intervals instead of three-year intervals. See “Proposed Modifications to the General Resolution” below and Appendix C – “Summary of Certain Provisions of the General Resolution.”

OUTSTANDING INDEBTEDNESS

Upon the issuance of the Series 2011 Bonds, the Authority will have Outstanding approximately \$3.39 billion of Bonds, \$1.10 billion of SRF Bonds, \$1.20 billion of Multi-Modal Subordinated General Revenue Bonds and Subordinated General Revenue Bonds (which, together with the SRF Bonds, constitute Subordinated Bonds), and \$144 million of tax-exempt commercial paper notes issued by the Authority (the “CP Notes”) (which CP Notes constitute Subordinated Parity Bond Anticipation Notes). The interest on the CP Notes, but not the principal thereof, is secured by a lien on a parity with other Subordinated Bonds. In addition to the bonds and notes listed above, in November 2007 the Authority received a loan from the Massachusetts Development Finance Agency of Clean Renewable Energy Bond proceeds, which loan was outstanding in the approximate amount of \$0.23 million as of September 1, 2011 and is payable from the General Fund.

For a further description of such Outstanding Indebtedness and a table setting forth the debt service requirements on the Authority's Outstanding Secured Bonds following the issuance of the Series 2011 Bonds, see "Financial Operations – Outstanding and Proposed Indebtedness."

ADDITIONAL INDEBTEDNESS

The General Resolution contains certain conditions precedent to the issuance of additional Bonds, including that the Authority shall have met its Combined Debt Service Coverage Ratio Covenant for the most recent period of 12 consecutive months for which data is available and that the Consulting Engineer shall certify that for the fiscal year of issuance and the fiscal year thereafter either (i) projected Revenues Available for Bond Debt Service will be sufficient to satisfy the Combined Debt Service Coverage Ratio Covenant (taking into account the Series of Bonds to be issued and any other Series of Bonds to be issued in such Fiscal Year), or (ii) projected Revenues Available for Bond Debt Service, including only increases in Rates and Charges then approved and including increases in Operating Expenses to the extent required by the General Resolution, will be sufficient to pay debt service on all Bonds (taking into account the Series of Bonds to be issued) and certain required reserve deposits, including required deposits to the Community Obligation and Revenue Enhancement Fund. The foregoing requirements need not be met for Bonds issued to refund other Bonds so long as debt service is not increased in any fiscal year and the latest maturity date of Secured Bonds is not extended. The General Resolution requires that upon the issuance of Bonds, for refunding purposes or otherwise, the Debt Service Reserve Fund be fully funded to its applicable requirement.

The General Resolution provides certain conditions precedent to the issuance of Secured Bonds secured on a subordinate basis to the Series 2011 Bonds and on parity with other outstanding Subordinate Bonds, including SRF Bonds, which are similar to the conditions in connection with the issuance of additional Bonds. In addition, the General Resolution permits the Authority to issue other Indebtedness including, but not limited to, revenue, grant and bond anticipation notes, Indebtedness secured by the General Fund and certain non-recourse Indebtedness. See Appendix C – "Summary of Certain Provisions of the General Resolution – Additional Indebtedness," "– Conditions Precedent to Delivery of a Series of Bonds" and "– Conditions Precedent to Delivery of a Series of Parity or Senior Secured Bonds."

The proposed modifications to the General Resolution would amend the additional Bonds test described above to take account of the elimination of the Community Obligation and Revenue Enhancement Fund by substituting for the Combined Debt Service Coverage Ratio Covenant the Primary Bond Coverage Requirement and by deleting from the test described in clause (ii) of such paragraph the reference to deposits to the Community Obligation and Revenue Enhancement Fund. Corresponding modifications would be made to the additional debt test relating to the issuance of additional Subordinated Bonds. See "Proposed Modifications to the General Resolution" below and Appendix C – "Summary of Certain Provisions of the General Resolution."

PROPOSED MODIFICATIONS TO THE GENERAL RESOLUTION

The General Resolution provides that it may be amended by the Authority subject to certain conditions. With certain exceptions, an amendment of the General Resolution requires the consent of the holders of at least two-thirds of the aggregate outstanding principal amount of the Series of Secured Bonds that would be affected by such amendment, measured at the time such amendment becomes effective. Principal exceptions include the following: (i) certain specified amendments may be made by the Authority acting alone or by the Authority with the consent of the Trustee, (ii) no amendment of the General Resolution may permit a reduction of principal or Redemption Price of or a change in the terms of redemption, maturity of principal or resolution of principal or Redemption Price of any Secured Bond, a reduction of the interest rate on any Secured Bond or a change in the terms of redemption or maturity of principal of any installment of interest on any Secured Bond, in each case without the consent of the holder of such Secured Bond, (iii) no amendment of the General Resolution may reduce the percentages or otherwise affect the classes of Secured Bonds required to consent to modifications to the General Resolution without the consent of the holders of all the Secured Bonds, and (iv) no amendment of the General Resolution may change or modify any of the rights or obligations of the Trustee unless the Trustee assents thereto. For a more complete description of the amendment provisions of the General Resolution, see Appendix C – "Summary of Certain Provisions of the General Resolution – Supplemental Resolutions" and "– Amendments." In addition, certain modifications to the General Resolution may also be subject to consent by other financial institutions, such as credit

enhancers and liquidity providers, pursuant to the terms of contracts between such financial institutions and the Authority.

In the resolution authorizing the Series 2011 Bonds, the Authority approved proposed modifications to the General Resolution. The principal effects of these modifications would include the following:

Reserve Requirements and Reserve Funds

- The Debt Service Reserve Fund Requirement for Bonds would be changed from a per-Series basis to an aggregate basis, and one of the standards of the test would be changed from 100% of Average Annual Adjusted Debt Service to 50% of Maximum Annual Adjusted Debt Service. See “Debt Service Reserve Fund” above.
- Investments permitted in the Debt Service Fund, Subordinated Debt Service Fund, Debt Service Reserve Fund and Subordinated Debt Service Reserve Fund would be expanded to include more permitted investments, including securities repurchase agreements (“repos”), and investments in the Debt Service Reserve Fund and the Subordinated Debt Service Reserve Fund would no longer be limited to 15 years. Amounts released from the Debt Service Reserve Fund or the Subordinated Debt Service Reserve Fund on account of the reduction in a debt service reserve requirement or the use of a financial guaranty in place of funding would be used to redeem Bonds or Subordinated Bonds, as applicable.
- The purpose of the Renewal and Replacement Reserve Fund would be redefined more narrowly as a fund for emergency needs, and other expenditures for repairs and replacements not provided for in the Operating Budget and the Capital Budget. In addition, any portion of the new Renewal and Replacement Reserve Fund Requirement in excess of \$10 million may be covered by a line of credit (such as the Authority’s current commercial paper programs) rather than having to be funded with cash and investments.
- The Supplemental Coverage Ratio Requirement and the Community Obligation and Revenue Enhancement Fund would be eliminated.

Rate Covenants and Additional Debt Tests

- The requirement that Rates and Charges cover deposits to the Community Obligation and Revenue Enhancement Fund would be eliminated.
- The calculation of debt service requirements for Bonds would take into account certain interest rate swap arrangements (as already provided in the General Resolution with respect to Subordinated Bonds).

Amendments

- The general Bondholder consent requirement would be reduced from the holders of two-thirds of the outstanding principal amount of each Series of Secured Bonds affected by a proposed amendment to the holders of 51% of each such amount.
- Bond insurers and other providers of credit enhancement would be authorized to vote on amendments in place of the holders of the Secured Bonds that they insure or secure (excluding amendments that would require a unanimous consent or the consent of every holder of affected Secured Bonds).

Other

- The provision permitting removal of the Trustee at the option of the Authority would operate at two-year intervals instead of five-year intervals.

- Refunding and defeasance escrows would be permitted to be funded not only with obligations issued or guaranteed by the United States and pre-refunded municipal bonds, but also with obligations of the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other agencies established by the federal government.

For further details of the proposed modifications, see Appendix C – “Summary of Certain Provisions of the General Resolution.”

Most of the proposed amendments will require the consents of the holders of two-thirds of the Outstanding Secured Bonds of the Authority, but this general rule is subject to several exceptions. Amendments that affect the holders of Bonds but not the holders of Subordinated Bonds, such as the proposed modification of the Combined Debt Service Coverage Ratio Requirement with respect to Bonds, will not require the consent of any holders of Subordinated Bonds. Similarly, amendments that affect the holders of Subordinated Bonds but not the holders of Bonds, such as the proposed modifications of the tests permitting the issuance of additional Subordinated Bonds, will not require the consent of any holders of Bonds. In certain cases, issuers of municipal bond insurance policies may vote on amendments in place of the holders of the Subordinated Bonds insured by such policies. One amendment, that is, the reduction of the general Bondholder consent requirement for future amendments of the General Resolution from holders of two-thirds of the Secured Bonds in applicable Series to the holders of 51% of the Secured Bonds in applicable Series, will require the consent of the holders of 100% of the Secured Bonds Outstanding at the time such amendment becomes effective.

In addition, third parties, including, for example, providers of credit enhancement and liquidity enhancement for Series of Subordinated Bonds of the Authority, pursuant to the terms of separate contracts between such providers and the Authority, are entitled to consent to certain of the proposed modifications to the General Resolution or have the benefit of contractual provisions that mirror provisions of the General Resolution that the Authority is seeking to modify. In either case, the Authority will have to obtain the consents of such providers (or its contracts with such providers will have to expire or be terminated) before the Authority can effect or realize the benefits of certain of the proposed modifications to the General Resolution.

At the time of issuance of the Series 2011 Bonds, the Underwriters, as the initial purchasers of all of the Series 2011 Bonds, will consent to all of the proposed modifications on behalf of themselves and all subsequent holders of the Series 2011 Bonds. Each of the proposed modifications will apply to the Series 2011 Bonds only when and if such proposed modification becomes effective upon the consent of the requisite number of holders as described above. The Authority intends to request the initial purchasers of future Series of its Secured Bonds to consent to the proposed modifications at the time of original issue of each Series. As new issues of Secured Bonds are sold and as existing issues are retired, the Authority expects eventually to achieve the two-thirds consent of holders of Secured Bonds required to approve most of the proposed modifications. The Authority cannot be certain when this process will be completed; it expects it to take several years with respect to the Authority’s Bonds. With respect to its Subordinated Bonds, this process will be supplemented by efforts to obtain consents from the Massachusetts Water Pollution Abatement Trust, which holds approximately 47% of the aggregate principal amount of Subordinated Bonds currently Outstanding (not including CP Notes), and from financial institutions that have insured Subordinated Bonds and are entitled to approve certain amendments of the General Resolution in place of the holders of such Subordinated Bonds. With this assistance, it may be possible to complete the bondholder approval process for amendments that affect only the Subordinated Bonds in a shorter period of time. Upon the issuance of the Series 2011 Bonds, approximately 58.4% of the owners of the Bonds and approximately 55.2% of the owners of the Subordinated Bonds will have consented to the proposed modifications.

The Authority has not yet requested consents to the proposed modifications from the Massachusetts Water Pollution Abatement Trust or from any of the third parties that have consent rights.

By their acceptance of the Series 2011 Bonds, the owners thereof (i) agree to all the terms of the General Resolution as currently in effect and all proposed modifications approved by the Authority in connection with the issuance of the Series 2011 Bonds, (ii) waive the applicability of the provisions of the General Resolution affected by such modifications, and (iii) agree to any amendments to the General Resolution that may be necessary, in the opinion of Bond Counsel, to effect such modifications.

THE AUTHORITY AND ITS SERVICE AREAS

PURPOSES AND POWERS

The Authority was created by the Act, effective January 1, 1985. Pursuant to the Act, the Authority has several main objectives: to construct and maintain sewage treatment facilities which ensure that the Sewer System's wastewater discharges meet federal and state pollution control requirements; to maintain, operate and improve an adequate water supply distribution system and provide water in conformance with all applicable state and federal regulations; to establish programs for leak detection and reduction of infiltration and inflow within its service areas; to repair, replace, rehabilitate and extend the Systems and to finance the capital and operating expenses arising from their operations on a self-sustaining basis; to provide professional management and Systems-wide planning; and to establish and administer charges on a basis that will foster the conservation of water and improve the quality of the environment.

The Authority owns all personal property constituting the Systems. Real property, including all watersheds, reservoirs and other water rights relating to the Systems (the "DCR Watershed System"), is owned by the Commonwealth and administered by DCR. Under the Act, the Authority has an exclusive right to utilize such quantities of water as may be safely yielded from the DCR Watershed System that are necessary to provide the Authority's water supply. See "The Systems."

Under the Act, the Authority may: issue revenue bonds and notes (subject to the debt limitation contained in the Act) (see "Financial Operations – Debt Limitation"); hire personnel and engage consultants and other experts; adopt budgets for its operations and capital improvement programs and establish, after it has held public hearings, rates and charges for its services; expand the service areas of the Waterworks System and the Sewer System subject to certain approvals and other conditions (see "The Systems"); acquire property by purchase, lease or, under certain limitations, eminent domain (other than water and water rights) and lease, sell, transfer or otherwise encumber its property (subject to legal restraints on the disposition of certain public property); and establish rates and charges for its services and commodities without supervision by other agencies of the Commonwealth or any other governmental body and enforce the collection thereof (see "Rates and Charges").




The Act provides that the Authority's existence shall continue until terminated by law, provided that no such law shall take effect so long as any bonds or notes of the Authority are outstanding unless adequate provision has been made for the payment or satisfaction of such obligations.

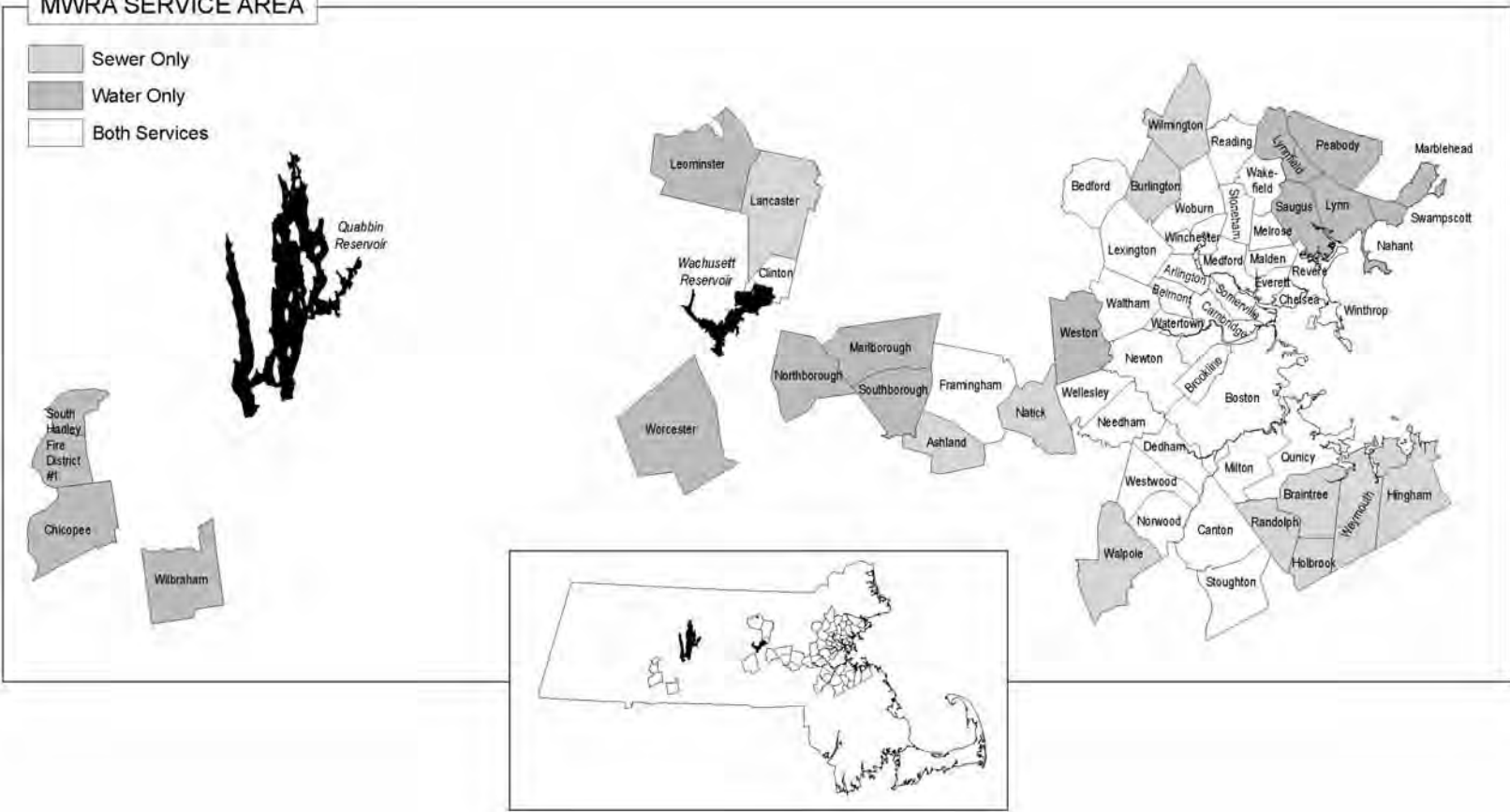
SERVICE AREAS AND MAP

The Authority currently provides wholesale water and sewer services in service areas encompassing, in whole or in part, 61 communities located primarily in eastern Massachusetts, including most of the cities and towns in the metropolitan Boston area. Approximately 2.8 million people, or approximately 43% of the total population of the Commonwealth, live in the Authority's service areas. Under certain circumstances, the Authority's service areas may be expanded to include additional communities. See "The Systems."

The map on the following page shows the Authority's current service areas for water and sewer services.

MWRA SERVICE AREA

-  Sewer Only
-  Water Only
-  Both Services



CHARGES TO LOCAL BODIES

The percentage of the Authority’s revenues that has been derived from the rates and charges paid by the Local Bodies for the Authority’s wholesale water and sewer services has varied over time. On average, more than 80% of the Authority’s revenues have been derived from such rates and charges, and in Fiscal Year 2012, approximately 95.4% of the Authority’s revenues are expected to be derived from such rates and charges. The Local Bodies in turn fund payment of the Authority’s rates and charges from a variety of local sources. The obligation to pay the Authority’s rates and charges is a general obligation of each Local Body, supported by its full faith and credit and payable from all revenue sources. See “Local Bodies.”

The Act originally authorized 46 Local Bodies to be served by the Waterworks System, 32 of which derive their entire municipal water supply from the Waterworks System. Eleven receive a portion of their water supply from the Waterworks System. Two – Leominster and Worcester – historically have received virtually no water from the Authority (although Worcester did receive limited water from the Authority as a result of extremely dry weather in the summer of 1999). In addition to those Local Bodies originally authorized by the Act to be served by the Waterworks System, the Authority’s Board of Directors has approved additional members of the Waterworks System – the Towns of Bedford (which receives its water through the Town of Lexington), Stoughton, Reading, Wilmington and the Dedham-Westwood Water District (which previously had received a portion of its water supply from the Waterworks System). The Authority also is considering the further addition of members to the Waterworks System. The allocation among Local Bodies of the Authority’s water charges for each fiscal year generally is based upon water consumption in the preceding calendar year. See “Rates and Charges – General.”

The Act authorizes 43 Local Bodies to be served by the Sewer System, all of which currently receive service from the Authority. No new communities have become members of the Sewer System. The Authority’s sewer charges are allocated on a proportional basis utilizing, among other factors, total metered flow, contributing population and census population. See “Rates and Charges – General.”

Five Local Bodies, of which the BWSC is the largest, are budgeted to account for approximately 47.3% of the aggregate rates and charges assessed in Fiscal Year 2012 as follows:

	<u>Percent of Total FY 2012 Authority Water Charges</u>	<u>Percent of Total FY 2012 Authority Sewer Charges</u>	<u>Percent of Total FY 2012 Authority Charges</u>
Boston Water & Sewer Commission	36.2%	28.4%	30.82%
City of Newton	4.9	4.8	4.83
City of Quincy	5.1	4.4	4.57
City of Cambridge	0.0	5.3	3.65
City of Waltham	<u>4.2</u>	<u>3.0</u>	<u>3.40</u>
Total	50.4%	45.9%	47.27%

The following table sets forth the Fiscal Year 2012 charges assessed by the Authority to each Local Body, except charges to certain Local Bodies and certain governmental users with special arrangements with the Authority. See Footnote 1 to the following table and “Local Bodies – Special Arrangements.”

FISCAL YEAR 2012 SYSTEMS CHARGES BY LOCAL BODY¹

<u>Local Body</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Percent of Total FY 2012 Charges</u>
Arlington	\$ 4,111,254	\$ 7,190,694	\$ 11,301,948	1.92%
Ashland	0	1,996,318	1,996,318	0.34
Bedford	0	2,951,458	2,951,458	0.50
Belmont	2,253,543	4,490,781	6,744,324	1.14
Boston Water and Sewer Commission ²	66,577,763	115,180,467	181,758,230	30.82
Braintree	0	7,226,112	7,226,112	1.23
Brookline	5,175,607	12,047,440	17,223,047	2.92
Burlington	0	4,736,577	4,736,577	0.80
Cambridge	0	21,495,855	21,495,855	3.65
Canton	2,215,262	3,250,840	5,466,102	0.93
Chelsea	3,056,409	6,315,106	9,371,515	1.59
Dedham	0	4,809,110	4,809,110	0.82
Dedham-Westwood Water District ⁴	47,238	0	47,238	0.01
Everett	4,157,781	6,907,659	11,065,440	1.88
Framingham	6,859,304	10,365,277	17,224,581	2.92
Hingham Sewer District	0	1,501,652	1,501,652	0.25
Holbrook	0	1,425,395	1,425,395	0.24
Leominster	0	0	0	0.00
Lexington	5,049,999	6,802,875	11,852,874	2.01
Lynn Water & Sewer Commission ³	202,576	0	202,576	0.03
Lynnfield Water District ⁴	424,008	0	424,008	0.07
Malden	5,428,405	10,847,823	16,276,228	2.76
Marblehead	1,829,892	0	1,829,892	0.31
Marlborough	2,966,308	0	2,966,308	0.50
Medford	5,063,263	10,794,857	15,858,120	2.69
Melrose	2,278,579	5,382,210	7,660,789	1.30
Milton	2,367,833	4,797,042	7,164,875	1.22
Nahant	323,512	0	323,512	0.05
Natick	0	4,460,551	4,460,551	0.76
Needham	610,028	5,291,080	5,901,108	1.00
Newton	8,939,785	19,546,086	28,485,871	4.83
Northborough	747,515	0	747,515	0.13
Norwood	3,181,474	5,770,472	8,951,946	1.52
Peabody	666,251	0	666,251	0.11
Quincy	9,306,539	17,658,232	26,964,771	4.57
Randolph	0	5,177,242	5,177,242	0.88
Reading	1,772,389	4,128,058	5,900,447	1.00
Revere	4,159,759	9,203,347	13,363,106	2.27
Saugus	2,896,537	0	2,896,537	0.49
Somerville	5,834,796	13,719,348	19,554,144	3.32
Southborough	727,775	0	727,775	0.12
Stoneham	2,877,398	4,253,379	7,130,777	1.21
Stoughton	628,192	4,438,406	5,066,598	0.86
Swampscott	1,474,802	0	1,474,802	0.25
Wakefield	1,477,779	5,414,681	6,892,460	1.17
Walpole	0	3,252,627	3,252,627	0.55
Waltham	7,698,671	12,347,461	20,046,132	3.40
Watertown	2,658,770	5,542,951	8,201,721	1.39
Wellesley	1,043,230	4,999,950	6,043,180	1.02
Weston	1,751,901	0	1,751,901	0.30
Westwood	0	2,268,632	2,268,632	0.38
Weymouth	0	9,865,795	9,865,795	1.67
Wilmington	493,375	2,187,544	2,680,919	0.45
Winchester	1,014,617	3,605,752	4,620,369	0.78
Winthrop	1,240,299	3,125,822	4,366,121	0.74
Woburn	2,295,113	9,041,505	11,336,618	1.92
Total	<u>\$183,885,531</u>	<u>\$405,814,469</u>	<u>\$589,700,000</u>	<u>100.00%</u>

- ¹ This chart excludes six communities, the revenues received from which are accounted for by the Authority as other charges for services, rather than as rates and charges. These excluded communities include four of the 23 communities that receive water pursuant to contracts: Chicopee, South Hadley (served by South Hadley Fire District No. 1), Wilbraham and Worcester. Worcester currently only receives water services on an emergency basis. The fifth excluded community is Clinton, which receives its first 800 million gallons of water per year at no charge pursuant to a special act, and typically consumes less than 800 million gallons annually, but would be charged generally applicable rates for any amounts in excess thereof. Clinton also receives wastewater services provided by the Clinton Wastewater Treatment Plant and charges for this service are excluded from this chart. The sixth excluded community, Lancaster (served by the Lancaster Sewer District), receives wastewater services provided by the Clinton Wastewater Treatment Plant. The six excluded communities are budgeted to account for approximately \$4.7 million in Authority revenues for Fiscal Year 2012. The chart also excludes Leominster, which, although named in the Act to be served by the Authority's Waterworks System, has taken no water from the Authority since January 1991.
- ² The Authority's services to the City of Boston are provided through and assessed to the BWSC. The BWSC is a body politic and corporate and independent political subdivision of the Commonwealth. The City of Boston is not liable for the rates and charges imposed on the BWSC by the Authority.
- ³ The Authority's services to a single large industrial user in Lynn are provided through and assessed to the Lynn Water and Sewer Commission (the "LWSC"). The LWSC provides service to the rest of Lynn from its own resources without obtaining service from the Authority. The LWSC is a body politic and corporate and independent political subdivision of the Commonwealth. Neither the City of Lynn nor the retail industrial user is liable for the rates and charges imposed on the LWSC by the Authority.
- ⁴ The Authority provides water services to a portion of the population of Lynnfield through the Lynnfield Water District, a body corporate of the Commonwealth, and to the Towns of Dedham and Westwood through the Dedham-Westwood Water District, a body politic and corporate of the Commonwealth. The Town of Lynnfield and the Towns of Dedham and Westwood are not liable for the rates and charges imposed by the Authority on the Lynnfield Water District and the Dedham-Westwood Water District, respectively.

Subject to applicable federal and state regulations and certain regulatory powers of the Authority, Local Bodies continue to exercise control over their respective retail water distribution and wastewater collection systems. Except in an emergency, written notice of any proposed local rules and regulations regarding use of the retail systems must be furnished to the Authority prior to adoption. Regulatory powers for monitoring and regulating Local Bodies conferred by the Act upon the Authority relate to matters such as water conservation and development of local water supply sources, implementation of federal and state toxic waste and pretreatment laws, reduction of infiltration and inflow of ground and surface waters into the Sewer System, and installation of water meters. See "The Systems."

By state legislative action or with the Authority's approval, Local Bodies currently served by the Authority could seek to develop alternative water or wastewater delivery systems, although such systems would need to comply with all applicable federal and state environmental standards. The Authority believes that such alternatives are likely to be prohibitive in cost for most of the Local Bodies and, particularly in the case of alternative sewage treatment facilities, would take many years to implement.

RATES AND CHARGES

GENERAL

For Fiscal Year 2012, approximately 95.4% of the Authority's budgeted revenues are expected to be derived from wholesale rates and charges assessed to the Local Bodies. The remaining revenues are expected to be derived primarily from investment income and miscellaneous income, including assessments to certain Local Bodies not included as rates and charges. The Act requires that the Authority set its rates and charges at levels sufficient to pay, among other things, its current expenses and its debt service, and to provide the debt service coverage required by the General Resolution. See "Security for the Series 2011 Bonds – Coverage Covenants."

In accordance with the Act, the Authority's rate setting is exercised independently by its Board of Directors without being subject to the approval of any department, agency or other instrumentality of the Commonwealth or any other governmental body. The Authority's rates and charges are adopted annually in June after notice and public hearing, and review of non-binding recommendations by the Authority's Advisory Board. The level of the Authority's rates and charges assessed to Local Bodies is not subject to the limitations set forth in Proposition 2½. For a discussion of the effect of Proposition 2½ on the ability of Municipal Local Bodies to raise revenues to pay assessed rates and charges through property tax levies, see "Local Bodies – Municipal Sources of Revenue."

The Authority's charges for services are billed directly to Local Bodies on a wholesale basis. The Authority currently certifies annual charges to each Local Body on or about July 1 of each year. To assist Local Bodies with their respective annual budget or rate-setting processes, the Authority furnishes them with preliminary estimates of their respective rates and charges for the following fiscal year in February of each year. Authority charges are payable in ten equal installments due on or before the first business day of each month, excluding January and July, of each fiscal year. There is an interest charge of 1% per month for late payments.

As required by the Act, the Authority establishes charges of general application separately for the services provided by the Waterworks System and the Sewer System. In setting water rates, the Authority first identifies through its budgeting process the total amount of revenue that must be raised through water rates in a given fiscal year, net of other anticipated sources of revenue, such as investment income, receipts from water supply contracts and other special arrangements. Generally, charges for water services are computed by the Authority on the basis of the proportional metered water use of each Local Body for the immediately preceding calendar year. Accordingly, with certain exceptions, the Fiscal Year 2012 water charges are based on the Local Bodies' metered water use in calendar year 2010.

Sewer charges are computed on a proportional allocation basis utilizing, among other things, total flow, contributing population and census population for each Local Body. Consistent with the initial step in setting water rates, the Authority first determines the total amount of revenue required to be raised from sewer charges. The total amount of required revenue for the Sewer System is allocated either to operating costs or capital costs. Operating costs are allocated to each Local Body based on the average of the prior three calendar years' total flow, with adjustments for strength of flow to take into account above-average concentrations of total suspended solids and biochemical oxygen demand. Capital costs, including debt service, are allocated to each Local Body based on a combination of (i) average of the prior three years' peak month wastewater flow and average concentrations of total suspended solids and biochemical oxygen demand, (ii) the proportion of the population of the Local Body that is served by the local sewer system (the "contributing population") to the total contributing population in the Sewer System, and (iii) the proportion of the Local Body's U.S. census population, based upon the Commonwealth's most recent bi-annual update (the "census population"), to the total census population in the Sewer System.

HISTORICAL RATES AND CHARGES

The Authority's rates and charges have increased at an average annual rate of approximately 3.55% for the period from Fiscal Year 2008 through Fiscal Year 2012. To date during this period, 100% of the Authority's rates and charges were collected within 30 days of their due dates, except for one instance in which the Authority made special arrangements with a town to extend its due date. The following table sets forth the aggregate budgeted charges of the Authority from Fiscal Year 2008 through Fiscal Year 2012, and the percentage change from the prior Fiscal Year.

**HISTORICAL RATE REVENUE
AND PERCENTAGE INCREASES¹**
(dollar amounts in millions)

Fiscal Year	<u>Water</u>		<u>Sewer</u>		<u>Combined</u>	
	<u>Amount</u>	<u>Increase</u>	<u>Amount</u>	<u>Increase</u>	<u>Amount</u>	<u>Increase</u>
2008	\$168.3	--	\$349.5	--	\$517.8	--
2009 ²	180.2	7.10%	360.6	3.20%	540.8	4.45%
2010	179.1	(0.60)	382.3	6.00	561.4	3.80
2011	180.2	0.63	389.6	1.89	569.8	1.49
2012	183.9	2.03	405.8	4.17	589.7	3.49

¹ Does not include revenues received by the Authority from Local Bodies pursuant to contracts or special acts that are accounted for as other charges for service rather than as rates and charges.

² Fiscal Year 2009 rate increase, when adopted by the Authority's Board of Directors, reflected the then-anticipated receipt of \$11.25 million in debt service assistance, which subsequently was eliminated from the Commonwealth's budget for Fiscal Year 2009.

The Authority has completed most of the major projects in the CIP, including the Boston Harbor Project, the MetroWest Water Supply Tunnel and the John J. Carroll Water Treatment Plant, and is currently undertaking the remaining court-mandated projects, most notably the long-term CSO Control Plan, as well as ongoing rehabilitation, repair and maintenance of its infrastructure. The costs of the CIP projects primarily have been funded through the proceeds of long-term indebtedness, and the debt service on such indebtedness is a significant and increasing portion of the Authority's Current Expense Budget. Approximately 57.3% of total expenses included in the Fiscal Year 2012 Current Expense Budget (the "FY12 CEB") is for debt service. In recent years, the Authority has managed rate increases through the use of commercial paper, refinancing existing debt at lower interest rates, issuance of variable rate debt, additional borrowing at subsidized interest rates from the SRF, use of reserves to defease debt and various efficiency and cost control strategies, including significant reductions in staffing levels. Notwithstanding its success in mitigating rate increases, due to its debt service requirements, the Authority currently projects that, absent unanticipated new sources of revenue or other unexpected changes to its programs, its future rates and charges will experience larger annual increases than in the most recent fiscal years.

The Authority is eligible to receive funding from the Commonwealth's Water and Sewer Rate Relief Fund (the "Fund") in order to mitigate increases in rates. The amount of such debt service assistance is subject to annual appropriation by the Commonwealth and varies annually. The Commonwealth's budget for fiscal year 2012 includes an appropriation of \$500,000 to the Fund. In the FY12 CEB, the Authority assumes that it will receive \$350,000 of this amount in debt service assistance. The Current Expense Budget for each of Fiscal Years 2009 and 2010, when adopted by the Authority's Board of Directors, assumed that the Authority would receive debt service assistance in each fiscal year; however, subsequent amendments to the Commonwealth's budget for each of fiscal year 2009 and 2010 eliminated the appropriations to the Fund. The Authority received \$17 million in debt service assistance in Fiscal Year 2008. In Fiscal Year 2007 debt service assistance was eliminated, but subsequently restored. The Authority has assumed that it will receive \$350,000 of debt service assistance annually in estimating the Authority's rate revenue requirements and rate increases for future periods, as described below. See "Future Rates and Charges" below. The Authority cannot predict the amount, if any, of debt service assistance that will be appropriated in future years.

FUTURE RATES AND CHARGES

While the Authority expects to continue to seek and adopt measures to moderate its rate increases in the future, the Authority's rates and charges are expected to continue to increase to meet the increased debt service costs necessary to finance the facilities included in the CIP, and to fund increased operating expenses resulting from the operation of such facilities.

The table below sets forth the Authority's estimates of its rate revenue requirements for Fiscal Years 2012 through 2017, based on the FY12 CEB and assuming the Authority will receive debt service assistance of \$350,000

annually during the projection period. The estimates also assume an inflation rate of 2.5% for capital projects that are not yet under contract, an annual capital budget expenditure rate of 85%, with two-thirds of the remaining 15% assumed to be spent three years later, and that the costs of the capital program will be as currently set forth in the FY12 CIP. The planning estimates assume that all of the Authority's future long-term bond financings will consist of 30-year debt with a fixed interest rate of 5.5% in Fiscal Year 2012, 40-year debt with a fixed interest rate of 5.75% in Fiscal Year 2013, 40-year debt with a fixed interest rate of 6.0% in Fiscal Year 2014, and 40-year debt with a fixed interest rate of 6.25% from Fiscal Year 2015-2017. Variable rate indebtedness of the Authority is assumed to bear interest at 3.75% in Fiscal Year 2013 and at 4.0% thereafter during the projection period. Operating expenses are inflated at 4.0% beginning in Fiscal Year 2013. The Authority also has assumed it will not use more than \$12 million per year in the aggregate of funds from the Rate Stabilization Fund and the Redemption Account within the Debt Service Fund. The Authority believes that the estimates are based upon realistic cost estimates and other assumptions, and include adequate provision for contingencies. See "Historical Rates and Charges," above, and "Management's Review of Operating Results - Proposed Fiscal Year 2012 Current Expense Budget." Moreover, as discussed below, there can be no assurance that actual revenue requirements or expenditures will not vary from current estimates and cause actual rates and charges to be different from current estimates. For a discussion of risk factors that could lead to higher costs in the CIP, see "Capital Improvement Program – Factors Affecting the Capital Projects."

**ESTIMATED FUTURE RATE REVENUE REQUIREMENTS
AND PERCENTAGE INCREASES**
(dollar amounts in millions)

<u>Fiscal Year</u>	<u>Rate Revenue</u>	<u>Percentage Increase</u>
2012	\$589.7	--
2013	613.0	3.9%
2014	650.9	6.2
2015	706.9	8.6
2016	744.4	5.3
2017	804.4	8.1

For the Authority's estimate of its future rate increases based on the Proposed Fiscal Year 2012 Current Expense Budget, see "Management's Review of Operating Results – Proposed Fiscal Year 2012 Current Expense Budget" and Appendix B.

Actual retail rate increases of specific Local Bodies vary considerably because of different practices among Local Bodies to the extent to which the Authority's rates and charges are incorporated into retail user charges and the disparity in levels of the local water and sewer costs of the Local Bodies. Based upon the most recent survey conducted by the Authority's Advisory Board of Local Bodies' rates and charges (the "2010 Survey") and the Authority's budgeted rates and charges for Fiscal Year 2010, and assuming annual household water usage of 90,000 gallons, the annual average household combined water and sewer bill in those Local Bodies that receive full water and/or sewer services from the Authority is estimated to be approximately \$1,254. Actual annual bills vary from this average, in part due to the fact that there are certain Local Bodies that in the past raised their own retail rates at paces different from the Authority's rate increases and to the fact that actual annual household usage in many Local Bodies is less than 90,000 gallons.

The Local Bodies fund their payment of the Authority's rates and charges in a variety of ways, so that it is difficult to generalize about the effect of the Authority's future rate increases on retail ratepayers, including households and businesses in the service area. Provision for and payment of increasing rates and charges will depend on a number of factors, including the Local Bodies' methods of funding Authority charges and the availability of local sources of revenue.

From time to time, public concern is expressed regarding the increasing level of the Authority's rates and charges. The Authority believes that public awareness of several factors will assist to mitigate public opposition. These factors include: (i) the federal and state legal and regulatory mandates (including legal enforcement orders issued by courts or administrative agencies) to which much of the CIP responds, (ii) the importance of

improvements to the Systems to support future regional economic growth, (iii) public support for meeting environmental protection and public health goals, and (iv) the Authority's success in mitigating rate increases during the past five Fiscal Years, resulting in an average annual increase of approximately 3.55% in Fiscal Years 2008 through 2012 and a rate increase of 3.49% in Fiscal Year 2012.

The Authority believes that the considerations described above have contributed to the Authority receiving substantial financial assistance, from both the federal and state governments, to help finance the CIP. This financial assistance – in the form of capital grants, SRF loans at subsidized interest rates, and debt service assistance – helped in the past to mitigate rate increases. The Authority believes that such financial assistance will continue to be necessary in order to mitigate future rate increases and to assure that revenue requirements continue to be met. Accordingly, the Authority will continue to pursue such financial assistance for its programs through legislative and other avenues. There can be no assurance, however, as to the receipt or continuation of state and federal support.

ENFORCEMENT

The Authority has adopted, and is authorized by the Act to enforce, billing and collection procedures and regulations, including requirements for the submission to the Authority of relevant information regarding the provision of retail services by Local Bodies. In the event any charge to a Local Body is not paid when due, the Act authorizes the Authority to recover the amount due, together with interest and other actual damages, by action in the state superior court.

Without suit, the Authority may use an intercept mechanism (the "local aid intercept") established by the Act to recover amounts unpaid by a Local Body. To trigger this mechanism, the Authority must certify to the State Treasurer the amount of any unpaid charge, whereupon the State Treasurer is required by the Act to deduct such unpaid charge from all amounts payable to the Local Body by the Commonwealth, if any, regardless of their intended use (including state reimbursements, grants and general local aid funds) and to pay such amount over to the Authority. For a description of general local aid funds as a source of revenue available to Local Bodies to pay Authority charges, see "Local Bodies – Municipal Sources of Revenue." The Authority has covenanted in the General Resolution to use this enforcement mechanism in the event that a Local Body fails to make timely payment. See "Security for the Series 2011 Bonds – Community Obligation and Revenue Enhancement Fund" and Appendix C – "Summary of Certain Provisions of the General Resolution – Community Obligation and Revenue Enhancement Fund." The Authority has successfully used the local aid intercept six times since 1990, including, in one case, following a Local Body's protesting of the Authority's rates and charges. The amounts intercepted represented less than one-tenth of one percent of all rates and charges assessed and collected in the applicable fiscal year. The Authority has not used the local aid intercept since Fiscal Year 1993.

Distributions of local aid payable to the municipalities served by Special Purpose Local Bodies, including the BWSC, would not be available to meet unpaid charges due the Authority through the local aid intercept. Municipalities served by such Special Purpose Local Bodies account for approximately 30.9% of the Authority's combined rates and charges assessed for Fiscal Year 2012.

Under the laws of the Commonwealth, there are currently several other similar local aid intercept mechanisms that may affect the amounts available for intercept on behalf of the Authority. The State Treasurer is authorized to deduct from a Local Body's local aid distributions amounts owed by such Local Body to the Commonwealth for certain assessments and charge-backs. In addition, under the so-called Qualified Bond Act, cities and towns in the Commonwealth, including certain Local Bodies, may secure their bonds and notes by authorizing the State Treasurer to intercept from their respective local aid distributions the amount necessary to pay principal and interest on such debt. Under state law, the amounts available for intercept on behalf of the Authority also may be affected by actions taken by or on behalf of the state Department of Revenue, the Department of Education, any public transportation authority or a regional transit authority, among others, with respect to amounts owed to or by a Local Body. Finally, under the Commonwealth legislation establishing the SRF, the State Treasurer may, under certain circumstances, deduct from a community's local aid distribution (i) the amount of charges owed by the community to the SRF, (ii) the amount of charges owed by the community to any entity that provides wastewater or drinking water service to the community and has a repayment obligation to the SRF (a "Regional Unit") that the Regional Unit has not fulfilled by reason of the default of such community in its payment obligations to the Regional Unit, and (iii) the community's pro rata share of any payment obligation of a Regional Unit to the SRF that has not been fulfilled but not due to the default of any particular community or communities served by the Regional Unit. Since the Authority is a Regional Unit under the SRF statute, failure by the Authority to pay debt

service on its loans from the SRF would permit the SRF to exercise its intercept against the Local Bodies. As of September 1, 2011, the Authority had outstanding \$1.1 billion in aggregate principal amount of loans from the SRF. The SRF also has made loans to or purchased local governmental obligations from 43 Local Bodies in an approximate aggregate principal amount of \$332.7 million outstanding as of September 1, 2011, the debt service on which also is subject to intercept.

In addition to the possibility of a Municipal Local Body's local aid being accessed by another offset mechanism prior to the Authority's attempt to intercept it, the availability of local aid in the future to satisfy unpaid charges imposed by the Authority will be dependent upon, among other things, the aggregate amount actually appropriated by the state Legislature and distributed by the Governor in a fiscal year. For a discussion of these and other factors affecting local aid, see "Local Bodies – Municipal Sources of Revenue."

OTHER SOURCES OF REVENUE

The Authority receives revenues from other sources, including water supply contracts and other arrangements between the Authority and certain Local Bodies under which amounts paid to the Authority are not accounted for by the Authority as rates and charges (although such contract revenues are included in the definition of Rates and Charges for purposes of the General Resolution). See "Local Bodies – Special Arrangements." Revenue under such contracts is budgeted to be approximately \$7.1 million in Fiscal Year 2012. The Authority also receives investment earnings on various funds that it holds, which are budgeted to total approximately \$15.4 million in Fiscal Year 2012. Revenues from permits, fines, fees and other miscellaneous sources are budgeted to total approximately \$4.9 million in Fiscal Year 2012.

LOCAL BODIES

GENERAL

The Authority provides services to Local Bodies on a wholesale basis. The obligation of the Local Bodies to pay for these services is a general obligation payable from any and all sources of revenue available to the Local Bodies. The legal structure of a Local Body determines which revenue sources are available to it under state law. The revenues available to Special Purpose Local Bodies, each a retail system operator, are limited primarily to retail user fees and charges and investment income. Such entities have no taxing power and do not ordinarily receive distributions of local aid. Revenues of Municipal Local Bodies used to pay the Authority's rates and charges are derived primarily from retail user charges, property taxes, and local aid. All Municipal Local Bodies have instituted retail user charges, although there are substantial differences in the proportion of its full costs that each Municipal Local Body recovers through its retail user charges.

BOSTON WATER AND SEWER COMMISSION

The BWSC is budgeted to account for approximately 30.8% of the Authority's combined rates and charges assessed for Fiscal Year 2012. Established in 1977 as a public instrumentality, a body politic and corporate and a political subdivision of the Commonwealth, the BWSC is responsible for the retail operation of the water distribution and wastewater collection and storm water drainage systems of the City of Boston (the "City") and for the maintenance and improvement of such systems. The BWSC purchases its water in bulk from the Authority. Such water is delivered through 29 active metered connections located at various points throughout the BWSC's water distribution system. The BWSC's sewer system transports the City's wastewater to the Authority's interceptor sewers, which convey the wastewater to the Authority's Deer Island Treatment Plant for treatment and disposal.

The Authority's charges to the BWSC constitute general obligations of the BWSC. The BWSC has no taxing power but funds its operations through the collection of user fees and charges. Chapter 436 of the Acts of 1977 of the Commonwealth (the "BWSC Act") requires the BWSC to establish its rates and charges at levels sufficient to (i) pay the current expenses of the BWSC (including the Authority's rates and charges), (ii) pay all BWSC debt service, (iii) create and maintain reasonable reserves required by any bond resolution, (iv) provide funds for paying the cost of all necessary repairs, replacements and renewals of the BWSC's systems, and (v) pay or provide for any and all amounts that the BWSC may be obligated to pay or provide for by law or contract. The BWSC's rates and charges are independently set by the BWSC and are not subject to regulation or approval by any

other governmental body. However, the BWSC is required to give written notice to the Authority of its proposed rules and regulations, including its rates, relating to its water and sewer services prior to adoption.

The BWSC serves approximately 87,000 accounts. Its 20 largest users as of June 30, 2011 are estimated to account for approximately 20% of the BWSC's aggregate retail user charges. Its customers include many large commercial entities, governmental agencies and not-for-profit institutions including its five largest customers: the Boston Housing Authority, the City of Boston, Boston University, the Massachusetts Port Authority, and Veolia Energy Corp. The BWSC has realized surpluses from its operations in each year since its inception.

As of September 1, 2011, the BWSC had approximately \$376 million aggregate principal amount of revenue bonds outstanding. The BWSC has granted a security interest on its revenues as security for its revenue bonds. The BWSC's bond resolutions also provide that debt service on the BWSC's revenue bonds and operating expenses of the BWSC shall be paid prior to the Authority's rates and charges. As of September 1, 2011, the BWSC had loans from the SRF outstanding in the amount of \$8.5 million and combined loans/grants from the Authority outstanding in the amount of \$35.2 million.

The single largest component of the BWSC's expenses has been assessments to the BWSC by the Authority. Authority assessments for the costs of water supply and wastewater treatment services provided to the BWSC have continued and, based on BWSC projections, will continue to increase as a percentage of the BWSC's total expenses. The BWSC estimates that the Authority's assessments to the BWSC will be 61.6% of the total costs of operation of the BWSC in calendar year 2011.

MUNICIPAL SOURCES OF REVENUE

General. Cities and towns in the Commonwealth are limited by state law as to the types of revenues that they can raise to support local spending, including for the rates and charges of the Authority. Under current state law, the Municipal Local Bodies may derive their revenues from several sources, including water and sewer user charges, property taxes, local aid distributions, certain excise receipts (including motor vehicle excises, local option excises on hotel and motel room occupancy and aircraft fuel), departmental revenues (including parking fines and building permit fees), and investment income. Some of the revenue sources discussed in this subsection are not available to Special Purpose Local Bodies, including the BWSC.

User Fees and Charges. Each Municipal Local Body owns and operates a distribution system of pipes for water and a collection system for sewage. Each Municipal Local Body is authorized by state law to charge just and equitable retail user charges to cover the respective costs of providing these municipal services, including operation and maintenance of the Municipal Local Body's system, replacement of capital components of the system over time, and the Authority's annual charges to such Municipal Local Body. These retail user charges are not subject to the limitations of Proposition 2½. See "Legislative and Other Developments." Under the Act, Local Bodies may establish rates and charges for retail services on a flat rate basis or on an ascending unit rate based on quantity, and may permit adjustments in their local rates for the age, infirmity or poverty of their retail customers.

The Act also permits the Authority, subject to federal and state constitutional restrictions on the impairment of contracts in effect on the effective date of the Act, to require Local Bodies to adopt systems of rates and charges that comply with applicable federal and state law and with Authority policies designed to promote water conservation, full local cost recovery, the elimination of infiltration and inflow of ground and surface waters, and the pretreatment of industrial wastes.

The revenues received by a Municipal Local Body through its retail user charges are not pledged to the payment of any costs of the local systems, including the payment of the rates and charges of the Authority. A Municipal Local Body may elect, however, to segregate such retail user charges and apply them only to the costs of the respective local systems.

Enforcement remedies are available under state law to Municipal Local Bodies to collect unpaid retail user charges. A Municipal Local Body may terminate water and sewer service to any retail user who has not paid the respective charges. In addition, if a Municipal Local Body accepts the applicable statutory sections, unpaid water and sewer charges become a lien upon the associated real estate by operation of law and are added to the property tax bill for such real estate. In general, the laws relating to the imposition of interest on unpaid real estate taxes and the foreclosure of title to real estate for nonpayment of taxes apply equally to unpaid water and sewer charges.

Among the Municipal Local Bodies, different local policies, including each Municipal Local Body's decision about the extent to which the costs of operating its local system are recovered through its retail rates, and the complexity of its rate structure and its accounting methodologies, result in divergent retail user charges. Currently, while all Municipal Local Bodies have instituted retail user charges, certain Municipal Local Bodies may not recover the entire cost of providing retail services through user charges. The Authority is able to offer technical assistance to the Municipal Local Bodies to help them establish systems of retail user charges and identify costs that can be recovered through such charges.

Property Taxes. Property taxes are raised through assessments against real and personal property in a municipality. State law mandates a revaluation of all taxable property every three years. These revaluations are reviewed and certified by the Commonwealth. In the years between the revaluation, the Commonwealth permits municipalities to establish new values for year-to-year increases in assessments on the basis of market trends, using the most recent revaluation as a basis. These new values, together with the municipalities' proposed tax rates, are subject to annual certification by the Commonwealth. The property tax levy generally is certified by the Commonwealth in the fall. Most municipalities adopt a quarterly payment schedule for property taxes, with installments due on August 1, November 1, February 1 and May 1.

Proposition 2½ generally constrains levels of property taxation, one of the primary sources of revenue for cities and towns in the Commonwealth, and limits the charges and fees imposed on cities and towns by certain governmental entities. The law is not a constitutional provision and accordingly is subject to amendment or repeal by the state Legislature. Proposition 2½ contains limitations on the revenues that may be collected by certain governmental entities, including a limitation on the property taxes that may be levied by any city or town in any fiscal year to the lesser of (i) 2.5% of the full and fair cash valuation of the real estate and personal property therein, and (ii) 2.5% over the previous year's levy limit plus any growth in the tax base from certain new construction and parcel subdivisions. Proposition 2½ also limits any increase in the charges and fees assessed by certain governmental entities on cities and towns to the sum of (i) 2.5% of the total charges and fees imposed in the preceding fiscal year, and (ii) any increase in charges for services customarily provided locally or services obtained by the city or town at its option.

Any property tax increase in excess of the limits imposed by Proposition 2½ must be approved by a vote of the municipality. However, amendments to Proposition 2½ enacted in 1994 permit a Municipal Local Body, and a Special Purpose Local Body through agreement with the municipalities it serves, to offset increases in user charges resulting from increases in water and sewer debt service costs (including increases in the Authority's debt service costs incorporated into the Authority's rates and charges to such Local Body) through the assessment of property taxes in excess of the limits imposed by Proposition 2½, subject to certain conditions, without requiring a vote of the municipality.

Local Aid. Local aid is the generic term used to describe all distributions made by the Commonwealth to cities and towns. Certain local aid distributions are earmarked for specific programs, *e.g.*, a large portion of local aid has been earmarked for public education, but the bulk of such distributions are available to the municipality to be applied to any authorized expenditures. Except for amounts distributed to municipalities pursuant to state law from state lottery receipts, all local aid is subject to annual appropriation by the state Legislature. The major formula used by the state Legislature in determining the payment level to each city and town tends to provide proportionately more local aid to communities with relatively lower per capita income and with higher service cost levels in order to compensate for the gap between certain fixed costs incurred by a municipality and its revenue-raising capacity. The bulk of the local aid distributions are, by state law, made quarterly. From time to time legislation and voter initiative petitions are approved that affect the amount of local aid to be distributed by the Commonwealth.

Under the Massachusetts Constitution and state finance law, the State Treasurer and the Governor have the authority to withhold or delay local aid payments under certain circumstances. Any available moneys in the state treasury, including amounts appropriated for local aid, may be used as a matter of last resort by the State Treasurer if required to pay Commonwealth notes. Moreover, the statute governing the Commonwealth distribution of school aid (which constitutes a portion of the local aid distribution) provides that such payments are due only to the extent that sufficient funds are available therefor.

The Commonwealth has reduced local aid distributions in recent fiscal years due to the Commonwealth's budget constraints, and there can be no assurance that local aid will not be further reduced in the future. However, the Authority believes that the availability of its various enforcement mechanisms, including its statutory authority

to intercept local aid distributions, will adequately provide for the payment of its rates and charges. For a comparison of the Authority's rates and charges with respect to each Municipal Local Body, see "The Authority and Its Service Areas – Charges to Local Bodies." For a discussion of the Authority's enforcement mechanisms and the possible limits on the availability of the local aid intercept, see "Rates and Charges – Enforcement."

SPECIAL ARRANGEMENTS

Twenty-four Local Bodies are charged for water services pursuant to contracts between the Local Bodies and the Authority or by special legislative acts. Of these Local Bodies, 18 pay for water services at the full water rates. Various arrangements are in effect for five communities, which in the aggregate account for approximately 4.7% of total consumption in Fiscal Year 2012, not including the Town of Bedford, which is not metered by the Authority and receives its water through the Town of Lexington. Clinton receives its first 800 million gallons of water per year at no charge pursuant to a special act, and typically consumes less than 800 million gallons annually, but would be charged generally applicable rates for any amounts in excess thereof.

Pursuant to Authority regulations, continuation of water supply services to any Local Body under special acts or contracts shall be made on such reasonable terms and charges as the Authority shall determine, provided in each instance the Authority determines that (i) the safe yield of the DCR Watershed System, on advice of the DCR Division of Water Supply Protection, is sufficient to meet the projected demand (provided that any Local Body previously receiving water supply services on a contract basis shall not be denied continuation of service if it has no other local water supply capable of being developed), (ii) no existing or potential local water supply has been abandoned, (iii) the Local Body has adopted a water management plan approved by the state Water Resources Commission, (iv) the Local Body has adopted effective demand management, leak detection and water system rehabilitation measures, (v) a local water source feasible for development has not been identified by the Local Body or the DEP, and (vi) a water use survey has been completed identifying all local users in the Local Body consuming in excess of 20 million gallons per year.

The provision of sewer services by the Sewer System, in contrast to the special acts and contractual arrangements governing a portion of the services provided by the Waterworks System, is governed solely by the Act and other applicable federal and state environmental quality laws and regulations.

MANAGEMENT AND ORGANIZATION OF THE AUTHORITY

BOARD MEMBERSHIP

The Authority is governed by an eleven-member Board of Directors (the "Board") chaired by the Secretary of Energy and Environmental Affairs for the Commonwealth. The Secretary and two other members are appointed by the Governor – one resident of a Connecticut River basin community and one resident of a Merrimack River basin community who represent water resources protection interests (terms coterminous with the Governor). At least one of the three gubernatorial appointments must be a representative of a minority group. One member is appointed by the Mayor of Quincy (term coterminous with the Mayor) and one member is appointed by the Winthrop Town Council by majority vote (four-year term). Three members of the Board are appointed by the Mayor of Boston (terms coterminous with the Mayor), and three are appointed by the Advisory Board (staggered three-year terms). See "Advisory Board" below. Six members of the Board constitute a quorum, and the affirmative vote of six members is required to approve any matter put to a vote of the Board. The members of the Board continue to serve until a successor is appointed.

The present members of the Board, their occupations, appointment categories, the dates of their original appointment and the dates of expiration of their terms as members of the Board are set forth on the following table.

BOARD OF DIRECTORS

<u>Member</u>	<u>Occupation</u>	<u>Date and Source of Original Appointment</u>	<u>Current Term Expires</u>
Richard K. Sullivan, Jr., <i>Chairman</i>	Secretary of Energy and Environmental Affairs <i>Ex Officio</i>	January 5, 2011	Coterminous with term as Secretary
John J. Carroll, <i>Vice Chairman</i>	General Manager, Town of Norwood	February 27, 1985; Advisory Board	June 30, 2014
Joseph C. Foti, <i>Secretary</i>	Director of Public Works, City of Chelsea	June 21, 2001; Advisory Board	June 30, 2013
Joel A. Barrera	Deputy Director, Metropolitan Area Planning Council	December 10, 2007; Governor	Coterminous with Governor
Kevin L. Cotter	Business Manager/Treasurer, Plumbers and Gasfitters Local 12	September 3, 2002; Mayor of Boston	Coterminous with Mayor
Michael S. Gove	Attorney, Cooley, Shrair P.C.	December 10, 2007; Governor	Coterminous with Governor
James W. Hunt, III	Chief, Environmental/Energy Services, City of Boston	May 10, 2005; Mayor of Boston	Coterminous with Mayor
Vincent G. Mannering	Executive Director, Boston Water and Sewer Commission	June 19, 1995; Mayor of Boston	Coterminous with Mayor
Andrew M. Pappastergion	Commissioner, Town of Brookline, Department of Public Works	June 25, 1997; Advisory Board	June 30, 2012
Marie T. Turner	Former Chairperson, Town of Winthrop Board of Selectmen	December 6, 1996; Winthrop Town Council	February 15, 2015
John J. Walsh	Manufacturing Engineer (Retired)	June 3, 2009; Mayor of Quincy	Coterminous with Mayor

ORGANIZATION, MANAGEMENT AND STAFF

The staff of the Authority is headed by an Executive Director who is responsible for the implementation of Authority programs, policies and procedures at the direction of the Board. There are four divisions and several departments that report directly to the Executive Director, including the Office of Emergency Preparedness, the Affirmative Action Compliance Unit, the Internal Audit Department and Public Affairs.

The Chief Operating Officer (“COO”) heads the Operations Division together with two Deputy Chief Operating Officers. One deputy is responsible for Operations, Engineering and Construction and the other deputy is responsible for Programs, Policy and Planning. Although the Operations Division provides some services on a consolidated basis to more efficiently support both Water and Sewer Systems, the costs for providing water and sewer services are separately tracked in order to comply with the Act.

The Administration and Finance Division comprises ten departments – Treasury, Rates and Budget, Controller, Risk Management, Human Resources, Management Information Systems, Procurement, Real Property

and Environmental Management, Fleet Services, and Facilities Management. The Director of Administration and Finance heads the division, which provides supervision and coordination of the finance and support service functions of the Authority.

The Law Division addresses legal and regulatory issues involving the Authority.

Brief resumes of the Authority's senior management appear below:

Frederick A. Laskey, *Executive Director*

Mr. Laskey was appointed Executive Director in May 2001. Before joining the Authority in June 2001, Mr. Laskey served as Commissioner of the Massachusetts Department of Revenue from 1999 to 2001, managing the Commonwealth's tax administration, child support enforcement and local services. He served as Secretary of Administration and Finance from 1998 to 1999. As Secretary, he was the Governor's chief fiscal advisor, with oversight of the state's \$20 billion annual budget and managed the Cabinet Secretariat that oversees the entire state workforce. Before joining the Cabinet, Mr. Laskey served as Senior Deputy Commissioner of the Massachusetts Department of Revenue from 1994 to 1998, and was designated by the Commissioner to serve on the Board of Bank Incorporation. From 1993 to 1994, he served as Assistant Secretary in the Executive Office for Administration and Finance. Mr. Laskey holds a Bachelor of Arts degree in political science and history from University of Massachusetts, Boston. Mr. Laskey has a contract with the Authority that expires in June 2014.

Michael J. Hornbrook, *Chief Operating Officer*

Mr. Hornbrook was appointed the first Chief Operating Officer of the Authority in June 2000. Prior to this appointment, from 1995 to 2000, Mr. Hornbrook was responsible for the overall management of the Authority's CSO, Infiltration/Inflow, and Wastewater System planning programs. Previously, he directed the development and administration of the Sewerage Division's capital projects (1994-1995), and was responsible for the management of individual wastewater capital projects (1989-1994). From 1980 to 1989, Mr. Hornbrook held various engineering positions within the Massachusetts Department of Environmental Protection, Divisions of Waterways, Water Supply and Water Pollution Control. Mr. Hornbrook received a Bachelor's degree in civil engineering from the University of Massachusetts, Amherst. Mr. Hornbrook has a contract with the Authority that expires in May 2014.

Rachel C. Madden, *Director of Administration and Finance*

Ms. Madden was appointed Director of Administration and Finance in February 2010, formerly serving as Chief Financial Officer of the Authority since November 2007. Prior to her appointment as Chief Financial Officer, Ms. Madden served as Acting Treasurer and was the Authority's Budget Director. Ms. Madden has held several senior management positions within the Commonwealth's Registry of Motor Vehicles, Executive Office of Health and Human Services, and the Department of Revenue. Early in her career Ms. Madden worked in the Commonwealth's Executive Office for Administration and Finance. Ms. Madden holds a Bachelor of Arts degree from the University of Rochester.

Thomas Durkin, *Treasurer*

Mr. Durkin was appointed Treasurer in January 2008. Prior to his appointment, Mr. Durkin was the Deputy City Manager for the City of Chelsea, Massachusetts. Mr. Durkin also served as Finance Director for the Cities of Chelsea and Beverly, Massachusetts and as Treasurer for the City of Peabody, Massachusetts. Mr. Durkin holds a Master of Science in Corporate Finance from Bentley College and a Bachelor of Arts from the University of Massachusetts, Lowell.

Steven A. Remsberg, *General Counsel*

Mr. Remsberg was appointed General Counsel in May 2004. Prior to joining the Authority, Mr. Remsberg served in the position of Acting General Counsel with the Massachusetts Department of Revenue from March 2003 to May 2004. Between April 2000 and March 2003, Mr. Remsberg served as the Associate General Counsel and from January 1997 to April 2000, as Chief of the Litigation Bureau at the Department

of Revenue. Between 1989 and 1997, Mr. Remsberg practiced law with the Boston firm of Hinckley, Allen & Snyder and between 1979 and 1989 with the Boston firm of Snyder, Tepper & Comen. Mr. Remsberg holds a law degree from the University of Pittsburgh Law School and a bachelor's degree in economics from Dickinson College.

EMPLOYEES

As of September 1, 2011, the Authority had approximately 1,194 employees, including persons with professional qualifications in the fields of construction, engineering, environmental science, accounting, finance, law and management. The Authority believes that future staffing needs to support facilities constructed under the CIP are adequately reflected in its projected revenue requirements.

Under Massachusetts law, employees of the Authority have certain organizational and representational rights which include the right to organize, to bargain collectively by representatives of their choosing on questions of wages, hours and other terms and conditions of employment and to engage in lawful concerted activities for bargaining or other mutual aid or protection. The law prohibits strikes by Authority employees.

As of September 1, 2011, approximately 1,131 of the Authority's employees were organized into five collective bargaining units: Unit 1 is represented by United Steelworkers Local Union 9358; Unit 2 is represented by the American Federation of State, County and Municipal Employees Council 93 Local 1242; Unit 3 is represented by the National Association of Government Employees, Local R1-168; Unit 6 is represented by United Steelworkers Local Union 9360; and Unit 9 is represented by the Massachusetts Organization of State Engineers and Scientists.

The Authority's collective bargaining agreements with the above named unions have expired. The contract with AFSCME Council 93 (Unit 2) expired on March 30, 2010. The contracts with the remaining four units expired on June 30, 2010. All five agreements have "evergreen" clauses that purport to extend the contracts indefinitely until successor agreements are reached. The Authority currently is in negotiations with all five unions for successor agreements. Despite the "evergreen" clauses, under recent ruling of the Massachusetts Supreme Judicial Court confirming a statutory provision limiting the term of collective bargaining agreements between public employers and employees to three years, the collective bargaining agreements, all of which were for three years, have expired and are no longer in effect. However, in accordance with Massachusetts law, all material terms and conditions of employment under the expired agreements remain in effect until successor agreements are negotiated or an impasse occurs.

The Act provides that no collective bargaining agreement entered into by the Authority shall limit inherent management rights including (i) employment, assignment and promotion of employees, (ii) termination and discharge of employees on reasonable grounds, (iii) determination of the Authority's levels of service and staffing and the methods, means and personnel for performing operations, (iv) supervision, evaluation and establishment of productivity standards, and (v) use of part-time regular employees and independent contractors and vendors.

The Authority believes that its relationships with its employees and their representatives are generally good.

ADVISORY BOARD

The Advisory Board to the Authority was established by the Act to serve as a liaison between the Authority and the Local Bodies. It is composed of one representative from 60 of the 61 Local Bodies (Lancaster is not represented on the Advisory Board), one from the Metropolitan Area Planning Council (a legislatively-created, comprehensive regional planning organization), and six persons appointed by the Governor to include an expert in environmental protection, one representative each from the Connecticut River basin, the Quabbin/Ware watershed areas and the Wachusett watershed area, and two persons qualified by membership or affiliation in organizations directly concerned with the recreational or commercial uses of Boston Harbor.

The Advisory Board, whose staff is headed by an executive director and includes a budget analyst and other professionals, is empowered by the Act to do the following:

- Name three members to the Authority's Board;
- Approve, subject to other requirements of the Act, extension of service to additional communities;

- Make recommendations to the Authority on annual expense budgets, capital facility programs and expenditure budgets and user charges;
- Hold hearings on matters relating to the Authority; and
- Make recommendations to the Governor and the Legislature regarding the Authority.

The Advisory Board actively monitors the Authority's programs from the perspective of the Authority's rate payers. In addition to participating in the process of formulating the Authority's current expense budgets and capital improvement programs, the Advisory Board has pursued legislative support for debt service assistance, watershed protection and other measures of interest to the Local Bodies. The Advisory Board works with the Authority to enhance community assistance programs and share technical information and resources. The Advisory Board also developed the sewer rate methodology upon which the Authority's Sewer System annual rates and charges are based. See "Rates and Charges – General."

The Authority and Advisory Board share the goals of improved service to the Local Bodies and additional financial assistance for the Authority's programs.

RETIREMENT SYSTEMS AND EMPLOYEE BENEFITS

All employees of the Authority are members of a contributory retirement system for public employees. The Act provides that all employees transferred to the Authority from the MDC on July 1, 1985 who were members of the State Employees' Retirement System (the "State System") shall remain members of the State System. All other employees of the Authority are members of a separate retirement system established in the Act known as the Massachusetts Water Resources Authority Retirement System (the "Authority System"). The Authority System is managed by a five-member board consisting of the Secretary of the Authority, *ex officio*, two members elected each for three-year terms by the present and retired members of the Authority System, a member appointed by the Authority for a three-year term, and another member selected by the other four members.

Neither the Authority nor the Authority System has any liability for retirement benefits paid to members of the State System. For these individuals, the total cost of benefits earned while employed by the Authority is paid by the Commonwealth and by the employees' own contributions. As of September 1, 2011, 105 employees of the Authority were members of the State System. While employees of the DCR Division of Water Supply Protection are not members of the Authority System and the Authority is not directly responsible for the payment of benefits, the cost of such benefits can be included in the computation of the expenses of the Division that are reimbursable in part by the Authority. See "The Systems – The Waterworks System."

The retirement benefits of employees of the Authority System are funded in part by employee contributions and investment returns, and in part by the Authority. As of September 1, 2011, there were 1,124 active members, 93 inactive members, and 364 retirees in the Authority System. The Act requires the Authority to pay annually to the Authority System any amounts needed to finance any pension benefits earned by its members. The Authority System undertakes an actuarial study every two years, the most recently completed study being as of January 1, 2011. In connection with the January 1, 2007 actuarial study, the Authority System changed its actuarial cost method to one that is more widely used. The new actuarial cost method resulted in an unfunded accrued liability, which in the January 1, 2011 study was estimated to be approximately \$42.2 million, resulting in the Authority System being approximately 87.6% funded. The Authority's contributions to the Authority System for Fiscal Years 2009, 2010 and 2011 were approximately \$8.6 million, \$5.6 million and \$5.3 million, respectively. The FY12 CEB includes a \$7.3 million contribution to the Authority System, including an optional payment of \$1.9 million. The Authority is scheduled to make the necessary contributions so that the Authority System will be fully funded by Fiscal Year 2024.

Employee contributions to both the State and Authority Systems range from 5% of salary to not more than 11% of salary depending upon salary and the initial date of becoming a member of a system. Employees of the Authority do not participate in the federal Social Security Administration System.

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was effective for the fiscal year ending June 30, 2007. The Authority began to implement GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* for the fiscal year ending June 30, 2008.

In addition to providing the pension benefits described above, the Authority provides other postemployment health care and life insurance benefits (“OPEB”) for retired employees through the Group Insurance Commission (“GIC”). GIC is a quasi-independent state agency that administers an agent multi-employer defined benefit OPEB plan (the “OPEB Plan”). The benefits, benefit levels, employee contributions and employer contributions are governed by and can be amended by the Authority. As of January 1, 2010, the most recent actuarial evaluation date, approximately 368 retirees and survivors and 1,105 active employees met the eligibility requirements for the OPEB Plan. As of January 1, 2010, the OPEB Plan was completely unfunded with an actuarial accrued liability that was estimated to be approximately \$192 million. The Authority segregated \$800,000 toward its OPEB liability in Fiscal Year 2010. The Authority did not make any contribution to the OPEB Plan or segregate any funding for OPEB liability in Fiscal Year 2011, nor has any amount been budgeted for these purposes in Fiscal Year 2012. The Authority pays current OPEB liabilities through the CEB.

PUBLIC AFFAIRS

The Authority maintains strong relationships with the various constituencies it serves, including the Local Bodies, the Advisory Board, elected and appointed officials, interest groups, and the public at-large. Public outreach and education – critical to building support for the Authority’s operational and environmental objectives – are accomplished through a wide variety of activities, including community assistance programs, technical assistance to industrial customers, the Authority’s web site, rapid response to public inquiries, facility tours, informational publications, school education programs, intergovernmental and media liaisons, and targeted programs for communities impacted by Authority facilities.

FINANCIAL OPERATIONS

GENERAL

As required by the Act, the Authority’s operations for sewage collection, treatment and disposal and for delivery of water are treated separately for accounting and billing purposes, and revenues, expenses, assets and funds pertaining to these two operations are segregated by function. Indirect administrative costs and capital costs are allocated to water or sewer operations, as appropriate. The Authority’s fiscal year commences on July 1.

The Authority uses a budgetary system of accounting in setting its rates and charges and preparing its annual budget (the “Current Expense Budget” or “CEB”) for its current expenses, including operating costs and direct and indirect administrative costs (collectively, “Current Expenses”). United States of America generally accepted accounting principles (“GAAP”) are used by the Authority in preparing its monthly internal and annual audited financial statements.

Current and Capital Expense Budgets. In accordance with the Act, the Authority adopts annually a Current Expense Budget, which may be amended from time to time. While the Authority’s Current Expense Budget must be submitted to the Advisory Board for comment and recommendation not less than 60 days prior to its adoption, and amendments to the budget must be submitted to the Advisory Board no less than 30 days prior to their adoption, the Authority’s Current Expense Budget is not subject to approval by any board (including the Advisory Board), department, agency or other instrumentality of the Commonwealth or any other governmental body.

The Act requires that the Authority adopt and update capital facilities programs for the Systems and capital expense budgets to implement and finance such programs. See “Capital Improvement Program.”

MANAGEMENT AND FINANCIAL CONTROLS

The Authority uses a performance-based budgeting format for its Current Expense Budget, which provides a basis for measuring operating activities, strengthens managerial accountability for each of the departments and provides a framework for the apportionment of resources. The Authority also uses a system of monthly and quarterly reports on key management indicators. Presentation formats allow for month-to-month, year-to-date, and year-to-year comparisons.

The Authority uses a variety of fiscal management systems to monitor and control Current Expenses. In addition to weekly cash reports, the Authority monitors its spending through monthly variance reports for each of its

cost centers. Variance explanations are prepared at the end of the first three quarters of the fiscal year. At the end of the second and third fiscal quarters, the budget variance report includes updated forecasts of year-end expenditures.

The Authority has instituted a set of fiscal controls for the CIP. The Authority prepares monthly and quarterly reports on capital budget performance and semi-annual variance analysis reports on the capital budget. From time-to-time, as necessary, the Authority follows its established budget amendment policy to make adjustments to the capital budget. Procurements are processed by a central department to ensure uniform contract language, standard safeguards and competitive bids for the Authority. Contract amendments and construction change orders are subject to critical review and evaluation by field and budget staff, procurement officers, and legal counsel. The Authority also has instituted audit procedures to examine wage, overhead and profit rates on professional service contracts. Resident inspectors monitor all construction in progress to ensure quality of material and workmanship. Claims by contractors are reviewed and negotiated by the Authority's inspection and legal staff.

The Authority has an integrated management information system for its financial functions, including general ledger, budget, accounts receivable, debt management, cash management, procurement, accounts payable, and payroll systems. The Authority regularly upgrades and enhances this system to ensure the ongoing efficiency of its operation.

The Authority's business plan defines critical operational goals and objectives, as well as related activities and improvements in support of these objectives. The Authority also has developed annual performance targets that provide a quantifiable standard against which to measure progress towards achieving these objectives.

OUTSTANDING AND PROPOSED INDEBTEDNESS

The following table sets forth debt service on the Authority's Outstanding Secured Bonds for each fiscal year in which such Secured Bonds will be Outstanding.

SECURED BOND DEBT SERVICE

(in thousands of dollars)

Fiscal Year	Debt Service On General Revenue Bonds		Debt Service On Subordinated Bonds ¹		Total Secured Bond Debt Service
	Principal	Interest	Principal	Interest ²	
2012	\$ 32,910	\$ 143,344	\$ 58,588	\$72,709	\$ 307,550
2013	14,660	169,609	86,714	70,567	341,550
2014	18,580	168,971	90,607	67,694	345,852
2015	37,210	167,196	100,427	65,186	370,019
2016	71,485	164,310	113,898	61,565	411,259
2017	96,800	160,024	99,825	56,753	413,402
2018	117,750	154,527	124,992	53,371	450,641
2019	123,580	148,415	97,458	50,099	419,551
2020	146,695	141,677	130,767	48,839	467,977
2021	89,480	135,654	176,059	44,529	445,723
2022	159,080	129,166	139,148	37,841	465,236
2023	158,365	121,087	134,778	33,484	447,714
2024	172,010	112,790	96,892	29,190	410,882
2025	162,170	104,344	90,636	23,858	381,009
2026	148,340	96,477	100,785	20,849	366,451
2027	156,465	88,790	104,446	17,245	366,946
2028	162,340	80,758	81,910	13,411	338,419
2029	155,750	72,724	66,440	10,071	304,985
2030	148,890	65,024	42,247	9,840	266,001
2031	139,195	57,724	33,608	8,701	239,229
2032	119,720	51,202	35,928	8,187	215,037
2033	112,995	45,447	30,794	7,079	196,315
2034	105,550	40,025	29,674	6,025	181,273
2035	101,515	34,813	29,343	4,847	170,519
2036	97,795	29,816	26,783	3,597	157,991
2037	87,600	25,160	25,024	2,320	140,104
2038	80,780	20,983	14,470	1,045	117,278
2039	86,975	16,891	-	-	103,866
2040	72,370	13,034	-	-	85,404
2041	62,090	9,828	-	-	71,918
2042	43,905	7,272	-	-	51,177
2043	36,380	5,353	-	-	41,733
2044	24,835	3,988	-	-	28,823
2045	25,915	2,907	-	-	28,822
2046	27,045	1,779	-	-	28,824
2047	28,225	601	-	-	28,826
Total	\$3,425,450	\$2,791,709	\$2,162,241	\$828,903	\$9,208,303

Totals may not add due to rounding.

¹ Includes debt service on SRF Bonds, net of subsidy amounts. Does not include debt service on CP Notes.

² The Authority has entered into several interest rate swap contracts, pursuant to which the Authority pays interest to the swap counterparty at a fixed rate and receives interest at a variable rate. The Authority's current payment obligations under its swap agreements are secured on a parity basis with the Subordinated Bonds; however, any termination obligations would be payable only from amounts in the Commonwealth Obligation Fund. The table assumes the fixed rate of interest payable under these swap contracts, inclusive of fees, with respect to a related portion of Subordinated Bonds for the periods in which the swap contracts are in effect. Variable rate indebtedness not covered by an interest rate swap agreement is included at 4%.

Based on the FY12 CIP, the Authority currently projects that it will issue approximately \$800 million of additional Secured Bonds, including the Series 2011 Bonds, from Fiscal Year 2012 through Fiscal Year 2017 to finance the CIP. This projection incorporates various assumptions, including assumptions as to interest rates on indebtedness and investments, inflation rates and the size and timing of capital expenditures, and it assumes legislative approval of adequate and timely increases in the Authority's debt limit. See "Debt Limitation" below. Although this Official Statement does not contain rate projections beyond Fiscal Year 2017, the Authority expects to issue additional Secured Bonds beyond Fiscal Year 2017.

Additionally, the Commonwealth has issued bonds to finance certain watershed preservation projects. The debt service on such bonds is payable annually by the Authority to the Commonwealth as a charge for the costs of the DCR Division of Water Supply Protection. Such charges constitute Commonwealth Obligations under the General Resolution. These charges are included in the Authority's estimates of its future rates and charges.

From time to time the Authority has entered into interest rate hedge agreements ("swaps") with respect to certain of its outstanding variable rate Subordinated Bonds. The Authority currently has five swaps in effect, pursuant to which the Authority pays a fixed rate of interest in exchange for a floating rate of interest paid by the swap counterparty, and one swap with a forward starting date in 2030, pursuant to which the Authority will pay a fixed rate of interest in exchange for a floating rate of interest to be paid by the swap counterparty. The floating rate of interest under three of the swaps is based on the SIFMA Municipal Swap Index, under two of the swaps is based on 67% of three-month LIBOR plus 13 basis points, and under one swap is based on 67% of one-month LIBOR. Two of the swaps include a credit support annex, but neither the Authority nor the applicable counterparty currently is required to post collateral thereunder. The counterparties to the swaps, the approximate outstanding notional amounts of the swaps as of September 1, 2011, the fixed rate payable or to be paid by the Authority under the swaps, and the year in which the swaps terminate are as follows: (i) Citigroup Financial Products, Inc., \$112.3 million, 3.994%, 2026; (ii) Morgan Stanley Capital Services Inc., \$74.88 million, 4.032%, 2026; (iii) Barclays Bank PLC, \$133.3 million, 4.12%, stepping up to 5.144% and 6.585%, in 2013 and 2019, respectively, 2030; (iv) Wells Fargo Bank, NA, \$133.3 million, 4.470%, stepping up to 5.494% and 6.935% in 2013 and 2019, respectively, 2030; (v) Goldman Sachs Capital Markets LP, \$190.15 million, 4.127%, 2015; and (vi) (commencing in 2030) Barclays Bank PLC, \$70.4 million, 6.585%, 2037.

DEBT LIMITATION

The Act contains a limitation on the total amount of unrefunded bonds and notes of the Authority that may be outstanding at any one time. The debt limit is currently \$6.45 billion. Without giving effect to the issuance of the Series 2011 Bonds, the Authority will have outstanding approximately \$5.82 billion of bonds and notes.

The Authority periodically has requested and received increases in its debt limit to allow for the issuance of bonds to finance the CIP. The Authority expects to seek additional increases in the limit as necessary in order to finance the CIP in the future. Any such increase is subject to legislative approval. Failure to secure increases in the debt limit sufficient to finance the CIP as planned would require the Authority to adjust its construction plans and schedules and seek alternative sources of funding.

REPORTS

In accordance with the Act, the Authority submits annual financial reports and five-year progress reports to the Governor, the President of the state Senate, the Speaker of the state House of Representatives, the Advisory Board and the Chairpersons of the state Senate and House Committees on Ways and Means. The annual reports contain financial statements relating to its operations maintained in accordance with GAAP and audited by independent certified public accountants. The five-year progress report is prepared with the participation of an independent citizen panel, documenting activities of the prior period, and anticipated challenges for the future. The most recent five-year report was prepared in December 2010.

The Authority has retained KPMG LLP as its independent accountants, to audit the financial statements of the Authority. Included in Appendix A are the audited financial statements of the Authority at June 30, 2011 and June 30, 2010 and for the fiscal years then ended.

Pursuant to the General Resolution, the Authority files with the Trustee a triennial report of the Consulting Engineer, setting forth a detailed analysis of the Authority's Systems, Current Expense Budget and CIP, including recommendations as to reserve requirements and other matters. The most recent triennial report was completed in October 2011. See Appendix B - "Consulting Engineer's Report."

The Authority also files other reports and information from time to time with federal and state governmental authorities in accordance with legislative and regulatory requirements.

MANAGEMENT'S REVIEW OF OPERATING RESULTS

HISTORICAL REVENUES, EXPENSES AND FUND DEPOSITS

The following table is prepared in accordance with the General Resolution and sets forth a summary of the Authority's historical revenues, expenses and fund deposits for Fiscal Years 2007 through 2011. For financial statements prepared in accordance with GAAP regarding Fiscal Year 2011, see Appendix A - "Financial Statements of the Authority." For a discussion of estimated future revenues, expenses and fund deposits for Fiscal Years 2012 through 2017, see Appendix B.

**HISTORICAL REVENUES, EXPENSES AND
FUND DEPOSITS**
(in thousands of dollars)

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Revenues					
Rates and Charges	\$495,359	\$517,798	\$540,819	\$561,431	\$569,800
Investment Income ¹	40,262	33,517	19,769	15,223	15,193
Transfer from Rate Stabilization Fund	0	0	0	7,312	5,030
Other Income ²	<u>15,117</u>	<u>22,611</u>	<u>73,191</u>	<u>12,866</u>	<u>14,554</u>
Total Revenues	\$550,738	\$573,926	\$633,779	\$596,832	\$604,577
Operating Expenses ³	\$226,966	\$244,728	\$298,107	\$244,729	\$240,678
Capital Lease	<u>3,217</u>	<u>3,217</u>	<u>3,217</u>	<u>3,217</u>	<u>3,217</u>
Net Operating Revenues	\$320,555	\$325,981	\$332,455	\$348,886	\$360,682
Debt Service on Bonds	\$182,703	\$153,746	\$179,463	\$199,368	\$224,746
Other Debt Service ⁴	<u>125,247</u>	<u>154,975</u>	<u>142,507</u>	<u>136,677</u>	<u>124,656</u>
Amount Available After Operations and Debt Service	<u>\$ 2,605</u>	<u>\$ 17,260</u>	<u>\$ 10,485</u>	<u>\$ 12,841</u>	<u>\$ 11,280</u>
Fund Deposits					
Reserve Funds	\$ 3,119 ⁵	\$ 472 ⁵	\$ 1,743 ⁵	\$ (653)	\$ (407)
Construction Fund ⁶	\$ 7,294	\$ 6,945	\$ 5,634	\$ 5,967	\$ 7,539

¹ Unrealized gains or losses recorded on investments are excluded.

² Includes approximately \$53.7 million in Fiscal Year 2009 representing the payments received in connection with replacement swap agreements relating to the termination of swap transactions with subsidiaries of Lehman Brothers Holdings Inc. ("LBH"), following the filing for bankruptcy protection by LBH in September 2008 (the "Lehman swap transactions"). See "Fiscal Year 2009," below.

³ Includes payment of certain Commonwealth Obligations, that are paid after Debt Service on Secured Bonds and that are not included in Operating Expenses for purposes of calculating certain Coverage Covenants; excludes depreciation. In Fiscal Year 2009 includes the termination payment due with respect to the Lehman swap transactions.

⁴ Includes debt service on variable rate Subordinated Bonds, including SRF Bonds. Excludes amortized issuance expenses, refinanced principal payments and interest on CP Notes.

⁵ Addition to Operating Reserve Fund.

⁶ Includes deposits from current revenue to fund capital projects.

FISCAL YEAR 2007

The Fiscal Year 2007 CEB (the "FY07 CEB") was adopted by the Board of Directors in June 2006 after Advisory Board comment and adjustments by staff to the proposed budget. The FY07 CEB totaled \$557.1 million. Non-rate revenue totaled \$61.8 million, resulting in a rate revenue requirement of \$495.3 million, an increase of 4.9% compared to the FY06 CEB. The FY07 CEB included \$18.75 million of debt service assistance, which was included in the budget as an offset to debt service, resulting in a lower rate revenue requirement.

Total expenses in Fiscal Year 2007 were \$548.5 million, \$8.6 million or 1.5% less than budgeted. Direct expenses of \$193.9 million were \$9.8 million or 4.8% less than budgeted, debt service expenses of \$318.5 million were \$4.2 million or 1.3% higher than budgeted, and indirect expenses were \$3 million or 7.8% less than budgeted.

Total revenues in Fiscal Year 2007 were \$6.4 million or 1.2% less than budgeted.

FISCAL YEAR 2008

The Fiscal Year 2008 CEB (“FY08 CEB”) was adopted by the Board of Directors in July 2007 after Advisory Board comment and adjustments by staff to the proposed budget. The FY08 CEB totaled \$564.5 million. Non-rate revenue totaled \$46.7 million, resulting in a rate revenue requirement of \$517.8 million, an increase of 4.5% over Fiscal Year 2007. The Authority included the receipt of approximately \$17.25 million in debt service assistance in Fiscal Year 2008, and the Authority reduced the rate revenue requirement for Fiscal Year 2008 by this amount. Actual debt service assistance received was approximately \$17 million.

Total expenses in Fiscal Year 2008 were \$564.5 million, or 0.1% less than budgeted. Direct expenses of \$202.4 million were 2.0% less than budgeted, debt service expenses of \$318.9 million were 1.8% greater than budgeted, and indirect expenses of \$42.8 million were 3.8% less than budgeted. Direct expenses were under budget primarily due to fewer than budgeted filled positions, lower than budgeted diesel fuel usage, delays in the Harbor Outfall monitoring contract and less than budgeted sludge quantities. Approximately \$6.5 million of the increase in debt service expenses was attributable to increased variable rate interest costs resulting from lowered debt ratings of bond insurers that previously had insured certain of the Authority’s Subordinated Bonds, and related impacts on the municipal auction rate securities market.

Total revenues in Fiscal Year 2008 were \$573.9 million or 1.7% more than budgeted, and included a one-time entrance fee of \$7.8 million from the Town of Reading.

FISCAL YEAR 2009

The Fiscal Year 2009 CEB as adopted by the Board in June 2008 (the “Original FY09 CEB”) totaled \$590.5 million (before offsets). Non-rate revenue totaled \$38.5 million, resulting in a rate revenue requirement of \$540.8 million, an increase of 4.5% over Fiscal Year 2008. When the Original FY09 CEB was adopted, the Authority expected to receive approximately \$11.25 million in debt service assistance in Fiscal Year 2009 and the Authority reduced the rate revenue requirement for Fiscal Year 2009 by this amount. In October 2008, Governor Patrick announced cuts in the Commonwealth’s budget for its Fiscal Year 2009 to address shortfalls in tax revenues resulting in a corresponding anticipated deficit in the Commonwealth’s budget for Fiscal Year 2009. Included among the reductions in the Commonwealth’s budget was the full appropriation for debt service assistance for Fiscal Year 2009. Consequently, the Authority adopted an amendment to the Original FY09 CEB (as amended, the “FY09 CEB”) to adjust for this elimination of debt service assistance. The FY09 CEB, as adopted by the Board in January 2009, did not increase rate revenue, but rather decreased direct and indirect operating expenses to make up the deficiency due to the eliminated debt service assistance. The FY09 CEB used \$5.1 million of rate stabilization funds.

In addition to adjusting for the elimination of debt service assistance, the FY09 CEB included both the expense and revenue associated with the termination and replacement by the Authority of certain interest rate swap transactions between the Authority and certain subsidiaries of Lehman Brothers Holdings Inc. (“LBH”), following the filing for bankruptcy protection by LBH in September 2008 (the “Lehman swap transactions”). The FY09 CEB, without regard to the effect of these terminations, included approximately \$579.3 million in current expenses for Fiscal Year 2009, consisting of approximately \$209.6 million in direct expenses, \$44.4 million of indirect expenses, and \$325.3 million of capital financing expenses.

Total expenses in Fiscal Year 2009 were approximately \$630.7 million, or 0.4% less than budgeted. Direct expenses of \$205.7 million were 1.9% less than budgeted, debt service expenses of \$330.8 million were 1.7% less than budgeted, and indirect expenses of \$94.1 million were 4.1% less than budgeted. Total expenses include the termination payments due with respect to the Lehman swap transactions. Direct expenses were under budget primarily due to lower than budgeted costs and usage of electricity and diesel fuel, and delays in maintenance projects.

Total revenues for Fiscal Year 2009 were \$633.8 million or 0.1% greater than budgeted. Approximately \$1.5 million of this amount was due to higher than budgeted emergency water sales, surplus property sales, operating grant receipts and miscellaneous revenue receipts, offset by lower than budgeted interest income.

FISCAL YEAR 2010

The Fiscal Year 2010 Current Expense Budget (the "FY10 CEB") was adopted by the Board of Directors in June 2009. The FY10 CEB totaled \$596.3 million. Non-rate revenue totaled \$34.8 million, resulting in a rate revenue requirement of \$561.4 million, an increase of 3.8% over Fiscal Year 2009.

The FY10 CEB included approximately \$596.3 million in current expenses for Fiscal Year 2010, consisting of approximately \$209.6 million in direct expenses, \$39.8 million of indirect expenses, and \$347.2 million of capital financing expenses. The Authority budgeted to receive approximately \$350,000 in debt service assistance in Fiscal Year 2010 and reduced the rate revenue requirement for Fiscal Year 2010 by this amount, although subsequent to the adoption of the FY10 CEB, the Commonwealth eliminated all debt service assistance for its fiscal year 2010 as part of the Commonwealth's efforts to balance its fiscal year 2010 budget.

Total actual expenses in Fiscal Year 2010 were approximately \$589.3 million, or approximately 1.2% less than budgeted. Direct expenses of approximately \$206.2 million were approximately 1.6% less than budgeted, debt service expenses of approximately \$345.2 million were approximately 0.5% less than budgeted, and indirect expenses of approximately \$37.9 million were approximately 4.6% less than budgeted.

Total actual revenues for Fiscal Year 2010 were \$596.8 million or 0.1% greater than budgeted.

FISCAL YEAR 2011

The Fiscal Year 2011 CEB (the "FY11 CEB") was adopted by the Board of Directors in June 2010. The FY11 CEB totaled \$601.9 million. Non-rate revenue totaled \$32.1 million, resulting in a rate revenue requirement of \$569.8 million, an increase of 1.49% over Fiscal Year 2010. The Authority budgeted to receive no debt service assistance in Fiscal Year 2011. The FY11 CEB used \$5.0 million of rate stabilization funds.

The FY11 CEB included \$601.9 million in current expenses for Fiscal Year 2011, consisting of approximately \$209.6 million in direct expenses, \$38.0 million of indirect expenses, and \$354.3 million of capital financing expenses.

Total actual expenses in Fiscal Year 2011, were \$600.4 million, or 0.2% less than budgeted, direct expenses of \$204.3 million were 2.5% less than budgeted, debt service expenses of \$360.2 million were 1.6% higher than budgeted, and indirect expenses of \$35.9 million were 5.2% less than budgeted. Direct expenses were under budget primarily due to fewer than budgeted filled positions, less electricity and diesel fuel usage than budgeted, delayed timing of maintenance work, and lower than projected usage and pricing of chemical purchases, primarily sodium hypochlorite at the Deer Island Treatment Plant.

Total actual revenues for Fiscal Year 2011 were \$604.6 million; \$2.7 million or 0.4% higher than budgeted.

FISCAL YEAR 2012 CURRENT EXPENSE BUDGET

In June, 2011 the Board adopted the FY12 CEB. The FY12 CEB totals \$618.2 million. Non-rate revenue totals \$28.5 million, resulting in a rate revenue requirement of \$589.7 million, an increase of 3.49% over Fiscal Year 2011. The FY12 CEB assumes that the Authority will receive \$350,000 of state debt service assistance during the planning period in Fiscal Year 2012. The FY12 CEB uses \$1.1 million of rate stabilization funds.

Total expenses in the FY12 CEB are budgeted to increase by \$16.3 million over the FY11 CEB, with an increase in capital financing expenses of \$13.7 million and an increase in indirect operating expenses of \$2.9 million, partially offset by a \$326,192 decrease in direct expenses. The FY12 CEB includes \$209.3 million of direct expenses, \$40.9 million of indirect expenses, and \$368 million of capital financing expenses.

Based on the FY12 CEB, the Authority has established a rate increase of 3.49% in Fiscal Year 2012.

DEBT SERVICE COVERAGE

The Authority has met or exceeded the Coverage Covenants, as required by the General Resolution, in each of the last five fiscal years, as shown in the following table. For a discussion of projected debt service coverage, see Appendix B.

HISTORICAL COVERAGE
(in thousands of dollars)

	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>FY2011</u>
Operating Revenues	\$ 510,476	\$ 540,409	\$ 555,193	\$ 574,297	\$ 584,354
Interest Income	40,262	33,517	19,769	15,223	15,193
Special Payment Obligation ¹			53,744	0	--
Transfers from Rate Stabilization Fund ²	<u>0</u>	<u>0</u>	<u>5,073</u>	<u>7,312</u>	<u>5,030</u>
Total Revenues	\$ 550,738	\$ 573,927	\$ 633,779	\$ 596,832	\$ 604,577
Operating Expenses	\$(226,966)	\$(251,060)	\$(260,171)	\$(260,765)	\$(254,846)
Special Payment Obligation			53,744		--
Commonwealth Obligations ³	20,901	23,217	22,440	23,349	24,709
OPEB	0	13,426	15,808	16,838	14,169
Capital Lease	<u>(3,217)</u>	<u>(3,217)</u>	<u>(3,217)</u>	<u>(3,217)</u>	<u>(3,217)</u>
Net Revenues	\$ 341,456	\$ 356,293	\$ 354,895	\$ 373,037	\$ 385,392
CORE Fund Deposits	0	0	0	0	0
Revenues Available for Primary and SRF Primary Coverage (Before Provision for Transfer to Rate Stabilization Fund)(A)	<u>\$341,456</u>	<u>\$356,293</u>	<u>\$354,895</u>	<u>\$373,037</u>	<u>\$385,392</u>
Provision for Transfer to Rate Stabilization Fund ²	<u>(2,192)</u>	<u>0</u>	<u>3,108</u>	<u>7,527</u>	<u>4,148</u>
Revenues Available for Primary and SRF Primary Coverage (After Provision for Transfer to Rate Stabilization Fund)(B)	<u>\$339,264</u>	<u>\$356,293</u>	<u>\$351,787</u>	<u>\$365,510</u>	<u>\$381,244</u>
Required Senior Debt Service Fund Deposits(C) ⁴	<u>\$161,189</u>	<u>\$153,746</u>	<u>\$171,958</u>	<u>\$179,440</u>	<u>\$199,294</u>
Required Subordinated Debt Service Deposits(D)	<u>\$119,262</u>	<u>\$151,267</u>	<u>\$132,032</u>	<u>\$129,667</u>	<u>\$117,656</u>
Coverage:					
Before Provision for Transfer to Rate Stabilization Fund:					
Primary ⁵	212%	232%	206%	208%	193%
SRF Primary ⁶	122%	117%	117%	121%	122%
After Provision for Transfer to Rate Stabilization Fund:					
Primary ⁷	210%	232%	206%	204%	191%
SRF Primary ⁸	121%	117%	116%	118%	120%
Required CORE Fund Deposits ⁹	0	0	0	0	0
CORE Fund Deposits	0	0	0	0	0

¹ Represents the payments received by the Authority from replacement swap agreements and paid by the Authority as termination payments in connection with the LBH swap transactions in Fiscal Year 2009.

² Amounts transferred from the Rate Stabilization Fund to the Revenue Fund are included as Revenues for coverage purposes in the year of such transfer up to an amount equal to 0.1 times Required Debt Service Fund Deposits for such year. Consistent with this treatment, in calculating coverage for a fiscal year, moneys transferred to the Rate Stabilization Fund are not included as Revenues.

³ Commonwealth Obligations are paid after debt service on Bonds and are, therefore, excluded from Operating Expenses in calculating coverage.

⁴ Fiscal Year 2007 includes \$42.7 million of escrow deposits to pay debt maturing in future years.

⁵ A divided by C.

⁶ A divided by the sum of C and D.

⁷ B divided by C.

⁸ B divided by sum of C and D.

⁹ The CORE Fund is required to be funded at the end of each fiscal year in the amount of at least 10% of the Required Debt Service Fund Deposits for all Bonds Outstanding as of the beginning of such fiscal year.

THE SYSTEMS

THE WATERWORKS SYSTEM

History. Boston and surrounding communities have one of the oldest public water supply systems in the United States, dating to 1652 when the “Water Works Company” was incorporated to construct Boston’s first waterworks facility. Facilities were added over the years to meet increasing demand, and by the mid-1800s, a large scale water supply system utilizing cast iron pipes from a series of area reservoirs had been fully developed. In 1895, after a major study of the existing Boston metropolitan water supply and demand forecasts, work was begun on a major expansion project, the Wachusett Reservoir and Aqueduct. Construction of the Wachusett Reservoir, finished in 1908, more than doubled the System’s yield. In 1919, after the state Legislature commissioned a second major water supply study, planning was begun for the Quabbin Reservoir. Construction of the Quabbin Reservoir, completed in 1939 and filled to capacity by 1946, represented the last major expansion of the System’s water supply, increasing the reservoirs’ total storage capacity from 78 billion gallons to approximately 490 billion gallons, and the watershed area from approximately 185 square miles to approximately 467 square miles.

Water Supply. The Act granted to the Authority the exclusive right to utilize for water supply purposes all of the water from the existing DCR Watershed System as may be safely yielded. The safe yield is defined to be the average quantity of water that can be supplied on a continuous basis through a drought period. Under present operating rules the Authority’s water sources can supply a safe yield of approximately 300 million gallons per day (“mgd”). The Authority’s statutory right to utilize water derived from the DCR Watershed System includes the delivery, distribution and sale of water and the receipt by the Authority of revenues from charges relating to such delivery, distribution and sale.

DCR’s Division of Water Supply Protection (the “Division”) is responsible for management and maintenance of the DCR Watershed System, including a mandate to construct, maintain and operate a system of watersheds, reservoirs, water rights and rights in sources of water supply, and to supply a sufficient supply of pure water to the Authority. Other DCR responsibilities include forestry and wildlife management; conservation of water, land and other natural resources; preservation of the environment; and operation of a visitor’s center at the Quabbin Reservoir.

The Authority must pay the Commonwealth for the Division’s watershed management and maintenance costs, including the cost of debt service on certain Commonwealth bonds issued to finance the acquisition of development rights and other interests in land within the DCR Watershed System. See “Financial Operations—Outstanding and Proposed Indebtedness.”

The present major sources of water to the Waterworks System are the watersheds of the Quabbin Reservoir, the Ware River and the Wachusett Reservoir. Other standby sources include the Sudbury Reservoir and the Framingham Reservoir No. 3. The Quabbin Reservoir, located approximately 65 miles west of Boston, is one of the largest reservoirs in the world built exclusively for water supply purposes, covering 39 square miles with a capacity of 412 billion gallons. Water for the Quabbin Reservoir is derived from the impounded Swift River, a tributary of the Connecticut River, with a runoff from 186 square miles of watershed. In addition, a limited quantity of the runoff from 98 square miles of the Ware River watershed is diverted to the Quabbin Reservoir.

The Wachusett Reservoir is located in central Massachusetts, approximately 35 miles west of Boston. The Wachusett Reservoir has a capacity of 65 billion gallons and a surface area of approximately 6.5 square miles. The Sudbury Reservoir, in the Sudbury River watershed, has a 8.4 billion gallon capacity and a surface area of approximately two square miles. Framingham Reservoir No. 3, also in the Sudbury River watershed, has a capacity of 1.2 billion gallons and a surface area of approximately one-half of a square mile. The Sudbury and Framingham Reservoirs are currently maintained off-line for emergency use only.

In close conjunction with the Authority, the DCR has developed and implemented Watershed Protection Plans for the Quabbin, Wachusett and Ware watershed areas to protect water quality in the reservoirs. Components of this program include a land acquisition program funded by the Authority targeting critical lands over 15 years, a completed sewer project to improve tributary water quality, public access controls around the reservoir, state regulations on development in critical areas along tributaries, and a substantial water quality

monitoring and research program. Updated five-year protection programs for all three watersheds, covering the 2009-2014 period, are being finalized with DEP. The plans focus on continuing protection efforts to minimize the level of pathogens entering the reservoir.

Water Transmission and Distribution. Because of the variety of local conditions and elevations, six water pressure zones are required for the Authority's waterworks service area. These six zones are supplied through tunnels and aqueducts from the two active source water reservoirs and water is distributed through pumping and major transmission and storage facilities, all of which are owned and maintained by the Authority. Major system components include approximately 350 miles of aqueducts, tunnels and mains, eleven active distribution storage reservoirs and standpipes, ten active pumping stations, and three active hydro-electric power stations.

Water from the Quabbin Reservoir, which has an elevation 530 feet above the base elevation of Boston, is delivered to the Wachusett Reservoir by the Quabbin Aqueduct, a 24.6-mile tunnel. From the Wachusett Reservoir, water is delivered through the eight-mile Cosgrove Tunnel, built in the 1960s, and the Wachusett Aqueduct, first used in 1898, to the Hultman Aqueduct intake structure in Marlborough and to the Weston Reservoir via the Weston Aqueduct. The Hultman Aqueduct, in service since the 1940s, connects with the Cosgrove Tunnel and continues the delivery of water 17.8 miles into the Boston area. Water from the Wachusett Reservoir and the back-up Sudbury Reservoir can be delivered in an emergency through the 17.5-mile Sudbury Aqueduct, built in 1878, to the Chestnut Hill Reservoir which is now off-line. With the completion of the 17.6-mile MetroWest Water Supply Tunnel, the Hultman Aqueduct is being rehabilitated in phases and now provides redundancy for large segments of the MetroWest Water Supply Tunnel. In addition, the Authority has a contingency plan to expedite repairs and provide emergency water services to the best of its water supply capabilities in the event of a failure of the Hultman Aqueduct. See "Capital Improvement Program – Major Capital Projects – Waterworks Projects."

The major links of the water supply distribution system in the Boston area are the Authority's 5.4-mile City Tunnel, a 7.1 mile City Tunnel Extension serving communities north of Boston, and the Dorchester Tunnel, a 6.4-mile tunnel providing distribution to communities south of Boston. The Authority provides water supply to each Local Body through one or more metered connections and through certain non-metered connections that are used on an emergency basis only. Less than 5% of monthly water consumption is estimated, rather than metered, due to the necessary use of an emergency connection or to a faulty meter or other system malfunction. The water distribution system has a total of 160 metered connections and approximately 73 non-metered emergency connections. The Authority is responsible for the maintenance of the water distribution system to and including the metered connection or, in the case of an emergency connection, the emergency valve. Local communities served by the Authority distribute water to their retail customers through approximately 6,000 miles of community-maintained water pipelines.

Water Quality. The Authority received a waiver from DEP of filtration requirements for water supplied from Wachusett Reservoir to the metropolitan Boston area. To meet the waiver requirements and to comply with the applicable SDWA regulations, the Authority constructed the John J. Carroll Water Treatment Plant (previously referred to as the Walnut Hill Water Treatment Plant) in Marlborough. The Authority currently is in the construction phase of a second primary disinfection treatment process at the John J. Carroll Water Treatment Plant. See, "Environmental Regulation and Litigation – Water Supply – Drinking Water Regulation."

The Authority has eliminated the use of open distribution reservoirs by constructing covered storage facilities, because existing uncovered distribution reservoirs are vulnerable to airborne contaminants and allow the growth of bacteria, plants and algae. Approximately 2.4 billion gallons of open reservoirs have been replaced with more than 200 million gallons of covered storage downstream of the John J. Carroll Water Treatment Plant.

The Authority received a conditional waiver from DEP of filtration requirements for water supplied to three communities in western Massachusetts by the Chicopee Valley Aqueduct from the Ware River/Quabbin Reservoir supply system. To meet the waiver conditions and improve disinfection and corrosion control to assure water quality and SDWA compliance, the Authority constructed a disinfection facility at Ware (the "Ware Disinfection Facility"), and two 12.5 million gallon concrete water storage tanks to replace the open Nash Hill Reservoir. The Authority currently is in the design phase of a second primary disinfection treatment process for

the Ware Disinfection Facility. See, “Environmental Regulation and Litigation – Water Supply – Drinking Water Regulation.”

The Authority’s Local Water Infrastructure Rehabilitation Assistance Program provides interest free loans to eligible water communities to replace, rehabilitate, and maintain components of their waterworks systems. The 13-year program, which began in Fiscal Year 2001, offers approximately \$25 million per year in ten-year interest free loans to assist member communities with pipeline rehabilitation.

The Authority works with state and local officials to increase awareness of water quality issues affecting the water distribution systems operated by the Authority and the Local Bodies. In addition, the Authority collaborates with Local Bodies to deal with local water quality problems as they arise.

Water Demand. At the time the Authority assumed responsibility for the Waterworks System in 1985, the average daily withdrawal of water from the system had exceeded the safe yield of 300 mgd in each year since 1969. To address the problem, the Authority established programs for detecting and repairing leaks, encouraging conservation and reduced water use, preserving and developing local supply sources, and implementing a drought response plan. In large part as a result of the Authority’s programs, water use declined by over 100 mgd since 1987, and since 1989 average daily withdrawals have been within the safe yield. Demand continues to decline due to continued improvements in water use efficiency changes in plumbing fixtures and appliances. Barring a drought more severe than any on record and assuming continuing conservation efforts and proper maintenance of the transmission and distribution system, the Authority projects that its existing supplies will be more than sufficient for its water supply needs through at least the year 2030. The Authority currently has no plans to develop any new sources of water. For a description of certain of the environmental and regulatory constraints involved in the process of augmenting the Authority’s water supply, see “Environmental Regulation and Litigation – Water Supply – Expansion of Water Supplies.”

Extension and Contraction of Waterworks Service Area. Under the Act, the Authority may extend the Waterworks System to additional communities not currently served on such reasonable terms as the Authority may determine. Such an extension of service requires that the Authority first make certain findings similar to those required to be made in connection with the continuation of water supply services to communities currently served under special acts or contracts. See “Local Bodies – Special Arrangements.” Any extension of the Waterworks System is subject to the approval of the Governor, the state Legislature, the Advisory Board, and the regulatory bodies within the Commonwealth’s Executive Office of Energy and Environmental Affairs (“EOEEA”) having jurisdiction. Extension of the Waterworks System to any community not currently served by the Authority also requires the approval by majority vote of its city council or town meeting, as the case may be. The Authority also is authorized to enter into arrangements not involving an extension of the Waterworks System to provide water supply services to any community or any agency or facility of the Commonwealth or the United States not currently served, provided (i) no such arrangement shall extend for a period greater than six months without the approval of the Advisory Board, and (ii) the Authority finds that the arrangement will not jeopardize its ability to service its existing statutory and contractual supply agreements. In cases of water supply emergency, as determined by DEP, the Authority may approve a connection to an adjoining community.

The Authority is aware that certain other communities are considering requesting admission to the Waterworks System’s service area in order to receive supplemental water from the Authority for seasonal, occasional, or emergency use of water from the Waterworks System. The Authority does not expect that admission to the service area of any of these communities would result in a substantial increase in the use of water and demand will remain significantly below the safe yield of 300 mgd.

A community requesting admission to the Waterworks System is required to pay an entrance fee for its proportional share of historic investments in the system, a connection fee to cover all costs associated with establishing a connection to the Waterworks System, and the prevailing water rate for all annual water consumption pursuant to the Authority’s policy. The policy further requires a community that requests a temporary connection to the Waterworks System to pay a cost per million gallons which includes the prevailing water rate, a proportional asset value contribution, and, in certain recurring cases, a surcharge on the then-prevailing water rate (as well as the asset value contribution) of up to 10%. Should such a community ultimately seek admission to the Waterworks System, any asset value contribution would be credited to its entrance fee, but the surcharge would be non-refundable and would not be credited to other costs.

A Local Body specified in the Act as eligible for receiving water supply services could seek to withdraw from the Waterworks System by state legislative action. However, in the opinion of the Authority and its Consulting Engineer, the cost and time required to implement adequate alternative water supply sources in accordance with existing and anticipated state and federal environmental laws and regulations generally would preclude this course of action as a practical matter for any substantial portion of the Waterworks System's service area.

THE SEWER SYSTEM

History. The Authority's existing wastewater facilities include certain components constructed as early as 1884, when the Boston Main Drainage System was originally placed in operation. At that time, combined sewage was pumped by a pump station constructed in 1884 to Moon Island in Boston Harbor, where sewage was held in storage tanks before being released on the outgoing tides. In 1898, the Neponset Valley Sewer System was completed, with flows sent to Moon Island through the Boston Main Drainage System. Also in 1898, a pump station was constructed on Deer Island in Boston Harbor to pump sewage from the metropolitan area north of Boston to Deer Island, where it was held in storage tanks before being released on the outgoing tides. In 1904, the original South Sewerage System was completed, conveying flow from the Charles River Watershed, the Neponset River Watershed and areas south of the Boston Main Drainage System. After screening at Nut Island, flows from the South Sewerage System were discharged into Boston Harbor. Some flow from the Boston Main Drainage System also was redirected to Nut Island. In response to concerns about water pollution, a primary wastewater treatment plant was constructed on Nut Island in 1952 to treat the discharge from the South Sewerage System and, in 1968, a second primary wastewater treatment plant at Deer Island was completed and flow from the Boston Main Drainage System began to be diverted to Deer Island.

Wastewater Collection. The 43 communities within the Authority's sewer service area own and operate approximately 5,400 miles of local sewers, which connect to the Authority's approximately 240 miles of large interceptor sewers located to parallel the natural drainage patterns of the Mystic, Charles and Neponset River Watersheds. Approximately one-third of the sewage treated by the Authority originates in the BWSC's wastewater conveyance system. The Authority operates and maintains the regional wastewater transport and treatment system, including 230 miles of interceptor sewer, 11 pumping stations, five headworks, four CSO treatment facilities and the treatment plants at Deer Island and Clinton. The Local Bodies' sewer collection systems, some of which are combined sanitary and storm sewers, connect to the Authority's wastewater transport system through more than 1,800 connections.

The Sewer System is divided into a northern system and southern system. The northern system serves 26 communities with a total population of approximately 1.3 million. The four pumping stations in the northern system serve to pump wastewater into interceptors that carry the wastewater to four headworks where large debris is screened out and grit is removed. From the headworks, the wastewater flows down vertical shafts into one of two deep rock tunnels 300 feet under Boston Harbor, through which the wastewater is carried to Deer Island. Flow also is conveyed to Deer Island by means of a 10-foot diameter interceptor through Winthrop. At Deer Island a large pumping station, substantially rehabilitated in 1995, lifts the flow from the tunnels into the treatment plant.

The southern system serves a total population of approximately 700,000. The wastewater is pumped by seven pumping stations into interceptors that carry the wastewater to the High Level Sewer and ultimately to the Nut Island Headworks. At Nut Island, the headworks facility removes grit and screenings before the flow enters the Inter-Island Tunnel for transport to Deer Island, where it is lifted by pumps at the South System Pump Station to the treatment plant.

Wastewater Treatment. The Deer Island Treatment Plant includes, at Deer Island, pumping, headworks, odor control, disinfection, primary and secondary treatment and residual facilities and utilities (including a hydropower plant), a 4.8-mile deep rock inter-island tunnel that brings south system flows from Nut Island to Deer Island for treatment, and a 9.5-mile deep rock outfall tunnel. Primary treatment design capacity at the Deer Island Treatment Plant allows for an average daily flow of approximately 361 mgd and a peak hourly flow of 1,270 mgd. Since the startup of the new primary treatment facilities at Deer Island in 1996, the Authority has consistently been in compliance with the discharge limitations specified in its National Pollutant Discharge Elimination System ("NPDES") permit issued under the Clean Water Act. Effluent wastewater is disinfected and

discharged into Massachusetts Bay through a series of diffusers located at the end of the 9.5 mile effluent outfall tunnel, which has a maximum discharge capacity of 1,270 mgd at mean high tide. Sludge resulting from the treatment process is anaerobically digested and then piped to and processed at the dewatering and pelletization facility located at the Fore River Shipyard in Quincy. See “Residuals Management” below.

The wastewater treatment plant in Clinton serves an area adjoining the Wachusett Reservoir watershed lands in central Massachusetts made up of the towns of Clinton and Lancaster (served by the Lancaster Sewer District) and includes an advanced secondary treatment facility with a design capacity for an average flow of 3 mgd.

The Authority’s Toxics Reduction and Control Department administers a permitting and inspection effort that allows for control and limitation of the volume and type of industrial waste discharged into the Sewer System so that both sludge and effluent from the treatment plants meet applicable environmental standards.

The Authority’s sewer use regulations, which give the Authority the ability to assess civil and financial penalties directly against violators of its regulations and permits, have been coupled with vigorous enforcement measures. As of March 1, 2011, the Authority has assessed penalties against industrial dischargers to its Sewer System in an aggregate amount of approximately \$11.6 million since its inception.

Residuals Management. The Authority operates sludge dewatering and pelletization facilities located on a portion of the site of the former Fore River Shipyard in Quincy. Digested liquid sludge is piped to the site from Deer Island and is processed for use as fertilizer in agriculture, horticulture and turf management. Sludge cake or pellets that are not used as fertilizer are landfilled. The Authority has entered into a contract with New England Fertilizer Company (“NEFCo”) for both the operation and management of the plant and the disposition, through sale or otherwise, of the sludge. The current NEFCo contract expires in 2015.

NEFCo has a subcontract with a landfill operator for use in the event of emergencies. The Authority also maintains an emergency preparedness plan that identifies out-of-state landfills that could be utilized in the event that NEFCo is not able to dispose of the wastewater residuals. The Authority acquired a site in Walpole to construct an in-state landfill in the event that capacity or other issues emerged with the other landfills.

Combined Sewer Overflows; Infiltration and Inflow. Many older areas of Boston, Cambridge, Chelsea and Somerville are served by combined sewers, which are pipes that carry both sanitary flow and stormwater runoff. These sewers, built mostly before 1910, were designed to discharge CSOs into nearby waterways during heavy rainstorms to protect the system, as well as homes and businesses connected to it, from flooding. The Authority’s and communities’ interceptors, trunk sewers, and pumping systems serving the combined sewer areas are not capable of fully handling flows generated by large storm events. Combined flows in excess of the sewer systems’ capacities are currently diverted and discharged through overflow conduits into Boston Harbor, Dorchester Bay, Mystic River, Charles River Basin and Alewife Brook. These overflows are a source of pollution in Boston Harbor and its tributary rivers. At many outfalls, overflow events result in the discharge of diluted, but untreated, sewage, although the Authority currently operates four facilities that provide screening and disinfection to the majority of the CSO discharge volume. The Authority is designing and implementing remedial system improvements for CSOs in connection with the Clean Water Act Case. Since 1987, the Authority’s investments in the Sewer System have reduced the total annual volume of CSO discharge by approximately 84%, from 3.3 billion gallons to 0.52 billion gallons in a typical year, with 81% of the remaining overflow receiving treatment at the Authority’s four CSO facilities. Through its recently completed CSO project for North Dorchester Bay and the South Boston beaches, the Authority has effectively eliminated CSO discharges from the five outfalls along these beaches. In addition, 33 of the 84 CSO outfalls addressed by the CSO Control Plan have been closed to CSO discharges through completed projects, and other community actions. See “Capital Improvement Program – Major Capital Projects – Wastewater Projects.”

Further increasing the burden on the Sewer System are infiltration of groundwater into the Sewer System through leaks in pipes, joints and connections, and inflow of storm water from a number of sources into otherwise separate, local sewer systems (“infiltration and inflow”). The Authority has developed programs, including an Infiltration/Inflow Local Financial Assistance Program (a combined grant and interest-free loan program) to provide more than \$220 million in funding for local sewer improvements, to encourage and assist efforts to reduce infiltration and inflow within the local collection systems of the Local Bodies.

Extension and Contraction of Wastewater Service Area. The Act authorizes the Authority to provide sewer service for a limited term to any person within or outside its service area not currently connected to the Sewer System, provided any such arrangement does not entail an extension of the Sewer System or have a term in excess of six months (unless a longer term is approved by the Advisory Board). The Act authorizes the Authority to extend the Sewer System to additional local bodies, provided such extension is approved by the Governor, the state Legislature, the Advisory Board and DEP. Extension of the Sewer System to any community not currently served by the Authority also requires the approval by majority vote of its city council or town meeting, as the case may be. Prior to extending the Sewer System to any new local body, the Authority must determine that (i) the safe capacity of the Sewer System as so extended will be sufficient to meet ordinary wet weather demand, (ii) all feasible measures have been taken by the local body to limit infiltration and inflow of surface and ground waters into the Sewer System, and (iii) the local body has adopted an industrial pretreatment program in accordance with applicable law. At the present time, the Authority does not anticipate adding any communities to the Sewer System.

Although a Local Body could withdraw from the Sewer System by state legislative action, in the opinion of the Authority and its Consulting Engineer, existing and anticipated state and federal environmental laws and regulations would cause any alternative to the Authority's wastewater collection services for a Local Body to be prohibitively expensive as a practical matter since it would require the construction of new treatment facilities in accordance with state and federal environmental laws.

SECURITY

The Authority's Office of Emergency Preparedness is responsible for the protection of critical water and wastewater infrastructure, and the coordination of all security, emergency planning and response efforts. The Authority has completed a Vulnerability Assessment and Emergency Response Plan, both mandated by the federal Bioterrorism Act of 2002, and maintains individual Emergency Action Plans for each facility, and event-driven plans for every contingency. An Emergency Services Unit, established and funded through several Homeland Security grants, is trained and equipped to provide rapid response to any incidents of water system contamination. This Unit is equipped with boats, a boom deployment unit and a mobile laboratory, enabling it to respond to spills at any of the Authority's open reservoirs and facilities. The Authority's facilities are patrolled by the Massachusetts State Police, and a private security service provides additional protection at the Deer Island Wastewater Treatment Plant, Chelsea and Charlestown facilities, and the John J. Carroll Water Treatment Plant. Guards also monitor cameras, intrusion alarms, key card access and fire alarms for major waterworks facilities at a central security monitoring point in Chelsea.

CAPITAL IMPROVEMENT PROGRAM

CAPITAL IMPROVEMENT PLANNING

The Act requires the Authority to adopt and update capital facilities programs for the Systems and capital expense budgets to implement and finance such programs. The Authority annually prepares and updates the CIP. In June 2011, the Board of Directors approved the FY12 CIP, which includes spending for Fiscal Years 2009 through 2013, and projections through Fiscal Year 2013 and beyond. The FY12 CIP reflects the Authority's ongoing efforts to manage rate increases to the Local Bodies while continuing to upgrade and maintain the Systems, and the Authority's effort to align its project prioritization process with the Master Plan. The current baseline spending cap is \$1.144 billion for Fiscal Years 2009 through 2013.

The CIP describes all capital projects ongoing at the time of its adoption and new projects to be initiated during a ten-year planning period. The costs shown for each project in the CIP include any payments made on such project prior to the commencement of the ten-year planning period, the expected costs for such project for each year of the CIP budget period, and the expected balance of such costs through completion of the project. Capital project spending is forecast annually over the ten-year planning period. The scope and anticipated cost of the projects included in the CIP are reviewed periodically during the course of the fiscal year by the Authority, and revised as necessary. In addition, the CIP has been updated and readopted on an annual basis and rolled forward for an additional year each time.

During the course of the fiscal year, the Authority's financial information system produces monthly statements of capital spending compared to the budget plan. The Authority reports on capital program progress in its monthly management indicators report and dollar variances in its monthly financial update. At mid-year and at year-end progress, project schedules and variances are summarized and reported.

FISCAL YEAR 2012 CIP

The FY12 CIP represents updated spending and schedules for projects included in the prior year's CIP, and 13 new water and wastewater projects. Included are 114 projects/subphases from the Authority's Master Plan with the highest priority ratings, totaling approximately \$1.1 billion. The FY12 CIP reflects total project costs of approximately \$5.5 billion (FY12 dollars), excluding contingency, with approximately \$211.4 million spent in Fiscal Year 2010, \$151.9 million spent in Fiscal Year 2011, \$165.5 million, excluding contingency, of expected spending in Fiscal Year 2012, \$225.6 million, excluding contingency, of expected spending in Fiscal Year 2013, \$936.7 million, excluding contingency, of total expected spending in Fiscal Years 2009 through 2013, and \$1,561.7 million, excluding contingency, of total expected spending for Fiscal Years 2014 through 2018. The CSO Control Program represents the largest program initiative in terms of spending, with a Fiscal Year 2012 budget of \$34.7 million, accounting for more than 32.6% of Authority spending during the Fiscal Years 2009 through 2013.

FISCAL YEAR 2012 CAPITAL IMPROVEMENT PROGRAM EXPENDITURE FORECAST FOR FISCAL YEARS 2009-2013 (in millions of dollars)

	Total Contract Amount	Project Payments through FY10	Balance as of 06/30/10	FY09 Actual	FY10 Actual	FY11 Actual	FY12 Budget	FY13 Budget	5-Year Total FY09 -FY13	Beyond FY13
Wastewater System Improvements	\$2,625.4	\$1,494.0	\$1,131.4	\$123.7	\$152.6	\$100.6	\$87.6	\$110.2	\$574.9	\$ 682.3
Waterworks System Improvements	2,735.7	1,705.4	1,030.3	52.8	50.1	40.0	67.6	103.8	314.3	862.6
Business & Operations Support	107.1	57.3	49.9	5.7	8.7	11.2	10.3	11.6	47.4	16.8
Contingency	129.4	--	129.4	--	--	--	8.4	11.9	20.3	<u>109.1</u>
Total with Contingency	\$5,597.6	\$3,256.7	\$2,341.0	182.2	\$211.4	\$151.9	\$173.9	\$237.5	\$956.9	\$1,670.8

MAJOR CAPITAL PROJECTS INCLUDED IN FY12 CIP

Waterworks Projects

Capital projects for the Waterworks System are designed to upgrade and extend the useful life of the water supply, transmission and distribution system in order to assure a satisfactory and consistent level of water quality and distribution throughout the Waterworks System. Certain of these projects also are mandated by federal regulatory requirements.

Drinking Water Quality Improvements. The Authority's Integrated Water Supply Improvement Program for drinking water improvement consists of watershed protection, modernized treatment facilities, and distribution system improvements including construction of covered storage facilities and pipeline rehabilitation. This program is based on current engineering practices, up-to-date technology and drinking water standards resulting from state and federal laws. See "Environmental Regulation and Litigation – Water Supply."

Transmission. Critical needs of the Authority's aqueduct system include correction of structural conditions to reduce leakage and provision of redundancy for critical sections of the transmission system, particularly in the areas to the north and south of Boston.

Distribution and Pumping. The FY12 CIP continues the rehabilitation, upgrade or new construction of pipelines, pumping facilities, valves and meters. Pursuant to the Master Plan, over the next 30 years, approximately 200 miles of unlined pipe will be rehabilitated or replaced at a rate of approximately seven miles of pipe each year. These projects will provide improved reliability and safety of water delivery.

Other Waterworks Projects. These projects include expansion of the Waterworks System's central monitoring system, various system rehabilitation projects and two local community waterworks assistance programs.

Wastewater Projects

Combined Sewer Overflows. Discharges of combined wastewater and stormwater runoff from CSO outfalls in the Authority's system and four of the service area community systems (Boston, Cambridge, Chelsea and Somerville) can impact water quality in Boston Harbor, Dorchester Bay, the Charles and Mystic Rivers, and Alewife Brook. Pursuant to the First CSO Stipulation entered in the Clean Water Act Case in 1987 and the Second CSO Stipulation that replaced it in 2006, the Authority has the responsibility for developing and implementing a long-term plan for CSO control at all discharge locations regardless of ownership.

The CSO Control Plan addresses all of the CSO outfalls hydraulically related to the Authority's wastewater system. It includes 35 projects that cover a range of control technologies, including sewer separation, hydraulic relief, storage and treatment. Each of the projects addresses site-specific sewer system and receiving water conditions and goals. The schedule for implementing the 35 projects is driven by design and construction milestones in Schedule Seven of the District Court Order in the Clean Water Act Case ("Schedule Seven"), which calls for the Authority to complete construction of the last of the 35 CSO projects (sewer separation projects for the Reserved Channel and Alewife Brook) by December 2015. Schedule Seven also requires the Authority to conduct a three-year performance assessment of the CSO Control Plan commencing in 2018 to verify that the specified levels of control have been achieved and to submit a report on the results of the assessment by December 2020.

Twenty-nine of the 35 projects in the Authority's CSO Control Plan are complete, four projects are in construction, and the Authority plans to commence the design of the remaining two projects by April 2012. The Authority obtained District Court approval for the 35th project, relating to Alewife Brook, in June 2011, which replaced a previously proposed project that was determined not to be feasible or effective in reducing CSOs.

In May 2011, the Authority commenced operating its new North Dorchester Bay CSO storage tunnel and related pump-out and ventilation facilities, bringing into full service the last piece of its \$267 million CSO control plan for North Dorchester Bay and the South Boston beaches. The North Dorchester Bay project includes a 10,832-foot long, 17-foot diameter near-surface (soft-ground) storage tunnel that provides CSO and separate stormwater storage capacity of nearly 19 million gallons, a 15 million gallon per day tunnel dewatering pump station, and related facilities. The project combines with a new 2,800 foot long, 12-foot by 12-foot storm drain and related outfall constructed by the BWSC to improve the water quality of North Dorchester Bay and enhance and protect South Boston beaches and area shellfish beds. Since it commenced operating, the storage tunnel has captured approximately 125 million gallons of CSOs and stormwater that otherwise would have discharged to the beaches. Since tunnel operations began, there have been no CSO discharges to the beaches, and the Authority closed the stormwater gates to the storage tunnel, allowing separate stormwater to discharge to North Dorchester Bay, only once, during Hurricane Irene in August 2011.

Interceptor Sewers and Pumping. The Authority is undertaking, and in some cases has completed, several major projects to extend, enlarge and rehabilitate large sewer interceptors to alleviate sewer surcharging and overflow problems. These projects are necessitated by the age of the systems and their inadequate capacity to serve existing or projected populations. The most significant project, the Braintree-Weymouth Relief Facilities project, was completed in March 2008.

Treatment and Residuals. The FY11 CIP includes funds for maintenance and capital improvements at the Deer Island Treatment Plant, including equipment and system replacement and upgrades over the next ten years through the Deer Island Treatment Plant Asset Protection project (the "DITP Asset Protection Project") and for the Residuals Asset Protection project. Approximately 22% of total spending included in the five-year cap

period contained in the FY12 CIP is for the costs of the DITP and Residuals Asset Protection Project. The bulk of spending on the Residuals Asset Protection project is anticipated to occur in Fiscal Year 2015 and beyond.

BUSINESS AND OPERATIONS SUPPORT AND CONTINGENCY

Business and Operations Support. Business and operations support projects are generally directed to improvement of the Authority's centralized services, including leasehold improvements to the Chelsea facility, which houses personnel and equipment servicing the metropolitan Boston portion of the Systems, funds for technical assistance contracts, funds for the upgrade of the Authority's Management Information Systems, and security improvements.

Contingencies. In each budget cycle project contingency is estimated for a ten-year period. The contingency is established as a percentage of the expected capital expenditure cash outlays in each of the fiscal years: 15% for tunnel construction and 7% for all other projects. According to the Consulting Engineer, these contingency levels are prudent and well proportioned and properly recognize that many large scale construction projects are now underway that have potential for significant cost changes due to unanticipated circumstances. See Appendix B - "Consulting Engineer's Report."

FACTORS AFFECTING THE CAPITAL PROJECTS

The following is not intended as a complete summary, but describes some of the uncertainties that may affect the Authority's capital programs. Unforeseen circumstances affecting the projects may result in delays or cost escalations not currently provided for in the Authority's projections.

The Authority must complete its capital projects in a complex legal and political environment. Many of its projects require special coordination among engineering, legal, and regulatory activities requiring the assistance and cooperation of federal, state and local governmental agencies. They may be governed by court-ordered or administrative deadlines or requirements. Many of the Authority's projects also involve impacts on surrounding communities, extensive permitting and concerns for environmental mitigation.

The scope and complexity of many of the Authority's capital projects makes the timetable and expenditure forecasts for the CIP subject to change. Such factors as future environmental mandates, as well as traditional construction risks could alter the Authority's forecasts. In preparing estimates of future revenue requirements for the CIP, the Authority has included inflation assumptions for the purposes of projecting the level of project expenditures when expected to be made or contracted for in accordance with each project's cash flow projections.

SOURCES AND USES OF CAPITAL FUNDS

The Authority expects to finance its capital expenditures principally from the proceeds of revenue bonds issued under the General Resolution. Certain capital improvements are eligible for federal grants and loans under the Clean Water Act and other federal programs. The Authority expects that certain waterworks projects will be eligible for loans under the SDWA's revolving fund program. The Authority also plans a gradual increase in the use of current revenues to fund certain capital projects.

ENVIRONMENTAL REGULATION AND LITIGATION

The Authority's Waterworks System and Sewer System are subject to significant regulation under federal and state environmental laws.

WATER SUPPLY

In the maintenance and expansion of water supply, the Authority is subject to environmental and regulatory oversight chiefly in the following respects:

Drinking Water Regulation. Under the SDWA, EPA regulates the level of contaminants allowed in drinking water by establishing national drinking water standards so that drinking water will be protected against microbiological or chemical contaminants. Standards include maximum levels for contaminants such as coliform bacteria and lead and copper, treatment techniques, and other performance standards. Enforcement of drinking water standards in Massachusetts under the SDWA has been delegated to DEP, which also acts under authority of state law and has adopted Massachusetts Drinking Water Standards.

In accordance with SDWA requirements, the Authority eliminated all uncovered distribution storage and, based on annual reviews, DEP continues to find that the Authority's water supply meets federal criteria for unfiltered sources. The Authority has adopted a staged compliance schedule for capital improvements to modify treatment processes at the John J. Carroll Water Treatment Plant and the Ware Disinfection Facility, adding ultraviolet light disinfection ("UV disinfection") to meet regulations promulgated in January 2006 under the SDWA that require all unfiltered water systems to have two means of primary disinfection prior to 2014. Based on findings from pilot testing and other research, the Authority selected UV disinfection for the second means of disinfection as the most sound and cost-effective method. The Authority's schedule is intended to achieve compliance with the SDWA regulations prior to the 2014 deadline. The Authority currently is in the construction phase of the UV disinfection treatment process at the John J. Carroll Water Treatment Plant and in the design phase of the UV disinfection treatment process for the Ware Disinfection Facility. These modifications are included in the FY12 CIP. Recently the Authority has learned of developments in the science of UV disinfection that question certain aspects of the EPA's UV Disinfection Guidance Manual. The Authority has requested from EPA and DEP immediate resolution of the issues raised and guidance as to how to proceed in implementing the Authority's compliance plan, in order that the Authority may continue to meet its planned compliance schedule and avoid significant construction impacts.

Under the Lead and Copper Rule, the Authority is required to conduct sampling in conjunction with the Local Bodies to detect the presence of lead in their customers' tap water. Improved corrosion control was implemented in 1996, and lead levels have dropped over 90% from initial testing in 1992. Authority system-wide levels in the March 2011 sampling round were below the lead action level again as they have been since 2004. The Authority's system also continues to meet the copper standard. Individual communities above the lead action level are required by DEP to conduct lead education and lead service line replacement programs.

Water Resources Management. Pursuant to the State Water Management Act (the "WMA"), water users with surface or ground water withdrawals of more than 100,000 gallons per day must have a WMA Permit or Registration, depending upon whether the withdrawal was existing at the time the WMA was enacted. Under the WMA, the Authority is registered to withdraw 311.9 mgd from the Nashua and Chicopee Rivers. WMA Registrations are renewed every ten years. In December 2007, DEP, which administers the WMA, issued the Authority its most recent Registration, covering the period 2008-2017. The current Registration maintains the Authority's registered volume of 311.9 mgd. The Authority's current Registration (as well as that of all other WMA Registrants) for the first time includes water conservation conditions. The conditions of the Registration require best management practices that build upon the Authority's existing conservation programs.

Expansion of Water Supplies. In addition to the provisions of the WMA, other state laws and regulations would govern any substantial structural augmentations to the Waterworks System's water supply. These include legislative approval for diversion of any river or stream for water supply purposes outside its own basin or for any structural action by the Authority in any water donor basin, including any capital improvement, which is expected to create a new interbasin transfer or increase the rate of any existing interbasin transfer. Approval by the state Water Resources Commission, an interagency policy management group within the EOEEA, is also required for any increase over the present rate of interbasin transfers of surface or groundwater. The Commonwealth's existing policies regarding water supply and management mandate that all economically feasible local sources of supply be developed before diversion of a major river source be considered. Environmental impact assessment and mitigation requirements under the Massachusetts Environmental Policy Act ("MEPA") and, in certain circumstances, the National Environmental Policy Act ("NEPA"), also must be met. The Authority does not foresee any circumstances requiring expansion or augmentation of the Authority's water supply.

WASTEWATER MANAGEMENT

Sewage Collection, Treatment and Disposal. The Clean Water Act imposes several permit and regulatory requirements on wastewater treatment systems. Public sewage treatment plant owners and operators such as the Authority are required to provide secondary treatment as established by federal regulation for all wastewater discharge from treatment plants into waters of the United States. Under the Clean Water Act, states, with EPA concurrence, also establish water quality standards classifying water body uses and pollutant control criteria to protect those uses. All sewage system discharges require NPDES permits specifying applicable technology based requirements, as well as any more stringent controls required to achieve the water quality standards established by the state pursuant to federal regulations. The NPDES permits for the Deer Island Treatment Plant and the Clinton wastewater treatment plant are issued jointly by DEP and EPA. Major wastewater treatment systems also must adopt and enforce pretreatment regulations for industries and other non-domestic sources discharging into sewers. Treatment plants are also subject to the Clean Water Act and state regulations governing sludge use and disposal.

The Clean Water Act is enforced by EPA and DEP through administrative orders and procedures. Violations also may be the basis for federal law suits brought on EPA's behalf by the DOJ or by private citizens. DOJ brought such an action against the Authority and others, referred to herein as the Clean Water Act Case, as described below.

Boston Harbor: NPDES Permit. The Authority operates its sewage system, including the Deer Island Treatment Plant and CSO outfalls, under a NPDES permit (the "Permit"), which became effective in August 2000. The Permit incorporates federal secondary treatment requirements, other technology based requirements, and other limits necessary for discharges to meet water quality standards established by the Commonwealth. The Permit includes extensive water quality monitoring, a contingency plan (the "Contingency Plan") to identify and respond to water quality changes that could potentially be related to effluent discharges from the outfall, and numerous other requirements for pollution prevention, facility best management practices, management of infiltration/inflow, and restrictions on dry day flow.

The quality of wastewater effluent discharged from the treatment plant is continuously monitored by the Authority to assess compliance with water quality standards and pollutant limits set forth in the Permit. The Deer Island Treatment Plant operates in compliance with the requirements of the Permit. Because of the intermittent operation of CSO treatment facilities and the challenge of providing treatment in rapidly fluctuating flows, excursions from effluent limits applicable to treated CSO discharges under the Permit have occurred. Regulatory variances remain in existence from the water quality standards for CSO discharges to the Lower Charles River/Charles River Basin and the Alewife Brook/Upper Mystic River. These variances only apply to permitted CSO outfalls that discharge to these receiving waters. Federal and state approvals of these variances acknowledge that it is not feasible to fully attain the Class B water quality standard for these receiving waters for the duration of the variances. Pursuant to an agreement between the Authority, EPA and DEP, these variances will be extended through 2020.

The Authority placed the 9.5 mile effluent outfall tunnel at the Deer Island Treatment Plant, which discharges to Massachusetts Bay, on-line in September 2000, and as a result implemented a comprehensive Ambient Monitoring Plan that has been attached to the Permit since that time. The monitoring includes water column, sediment quality, and fish and shellfish, and is overseen by an independent panel of scientists. The results of the monitoring have shown only a localized signature of the outfall discharge, and no adverse impacts to Massachusetts Bay while Boston Harbor's ecosystem has rebounded. The Authority proposed revisions and efficiencies to the Ambient Monitoring Plan which were approved by the regulatory agencies in December 2010. These changes are saving the Authority approximately \$800,000 annually.

The Authority submitted its renewal application for its NPDES Permit in February 2005. The current Permit expired in August 2005, but will remain in effect until the new Permit becomes final. EPA continues to work on a draft permit.

Boston Harbor: Clean Water Act Case. The Authority continues to be a defendant in the Clean Water Act Case, along with BWSC and the Commonwealth, in a consolidated lawsuit brought in the District Court by the United States, acting at the request of EPA, and certain citizen groups, suing the Authority and other defendants

for violations of NPDES permit conditions and certain terms of outstanding administrative orders previously issued by EPA. With the completion of the last battery of secondary treatment at the Deer Island Treatment Plant, the District Court allowed the Authority's motion to reduce District Court oversight, for the most part, to CSO related requirements. See "Capital Improvement Program – Major Capital Projects – Wastewater Projects – Combined Sewer Overflows." Since 1988, no penalties have been awarded or imposed against the Authority by the District Court in the lawsuit and there are no pending requests for assessments of penalties against the Authority with respect to the Clean Water Act Case.

Other Environmental Litigation. The Authority's activities and projects in connection with the ongoing operation and maintenance of the Waterworks System and the Sewer System give rise, from time to time, to actions brought against the Authority under federal and state environmental legislation and regulations. To date, none of these actions have led to a judicial determination materially affecting the Authority's programs or the Authority's ability to proceed in accordance with schedules mandated in the Clean Water Act Case.

Other Regulatory and Compliance Matters. In addition to program requirements of the Clean Water Act already reflected in the Permit and the Clean Water Act Case, other regulatory requirements under federal and state law may impose additional operating requirements on the Authority.

EPA has promulgated regulations covering the treatment and handling of sewage sludge, which provide aggressive protection of the environment and public health while permitting beneficial sludge reuse. In addition to the federal standards, the Authority's sewage sludge products must comply with regulations applicable in each jurisdiction in which such products are used, including Massachusetts. Sewage sludge regulations adopted by DEP also govern permissible application and distribution of sludge as fertilizer in Massachusetts.

In common with most water and wastewater operating agencies, the Authority's operations and improvements for its Systems are subject to numerous environmental regulatory requirements in addition to the SDWA and the Clean Water Act. These include environmental impact assessment requirements under NEPA and MEPA, permitting requirements under various federal and state laws for construction projects, and various requirements affecting the Authority's properties and operations under the Federal Resource Conservation and Recovery Act of 1976 and the Federal Comprehensive Environmental Response, Compensation and Liabilities Act of 1980, the Clean Air Act, federal and related state laws and regulations regarding the handling, treatment and storage of oil, hazardous materials and other waste, water quality standards, and air pollution control requirements.

In November 2009, the Authority received a request for information pursuant to Section 308 of the Clean Water Act ("Section 308") from EPA related to discharges from the two drinking water tanks and related facilities at the Authority's John J. Carroll Water Treatment Plant to the Wachusett Aqueduct Open Channel, which drains into the Sudbury Reservoir. Water is discharged from the plant when the Authority drains the drinking water tanks and related facilities during late fall and early winter as part of its annual scheduled maintenance. The Authority submitted its final responses to EPA's request in February 2010. The Authority does not believe that a permit was required at that time and has so informed EPA in its responses. The Authority applied for a NPDES permit for these activities under new regulations that were issued in October 2009. EPA currently is drafting a NPDES permit for these discharges.

In February 2010, MWRA responded to an accidental discharge to the Charles River of diesel fuel from the Authority's Cottage Farm CSO treatment facility. The fuel was discharged from a roof vent that is connected to a diesel fuel tank, as a result of the tank having become overfilled. MWRA immediately took all steps required by public authorities to remediate the accidental spill. In June 2010, DEP issued an administrative order (the "ACOP") and notice of non-compliance to the Authority as a result of the spill. In lieu of payment of a monetary penalty under the ACOP, DEP permitted the Authority to perform a supplemental environmental project (the "SEP"). The Authority has satisfied all of its obligations under the ACOP, including the implementation of the SEP. In March 2010, the Authority received the first of a series of requests for information regarding the same incident from EPA pursuant to Section 308 of the Clean Water Act. The Authority furnished EPA with the requested documentation in April 2010. Subsequently, EPA interviewed several MWRA employees in connection with the information request, and made several additional requests for documents and information, including certain information related to MWRA's response to a similar tank overflow incident at the same facility in December 2004, which did not result in any discharge to any receiving water from the facility premises. MWRA understands that the matter has more recently been referred by EPA to the Office of the United States Attorney

(the “U.S. Attorney”), which has issued subpoenas in September and October 2011 seeking similar documentation. The Authority will continue to respond to all information and document requests. The Authority is unable to predict whether EPA or the United States Attorney will take any enforcement action against the Authority as a result of the incident, or the form that any such action may take.

In 2004, the United States Army Corps of Engineers (the “Corps”) asserted that Boston Edison Co. (“NStar”), its subsidiary Harbor Energy Electric Company (“HEEC”), and the Authority were in violation of a permit issued in September 1989 that authorized the installation of a submarine electric power cable, which runs under the channel bed of Boston Harbor and is used to provide electric power to the Deer Island Treatment Plant. The Corps alleged that the power cable, in places, had been installed at depths less than those required by the permit and demanded that the permittees develop plans and an implementation schedule for bringing the cable’s depth and location into compliance with the permit. The demand had been made in connection with proposed dredging operations intended to deepen the harbor channel so as to make it navigable by deep-draft vessels. The Authority responded to the Corps stating that it had become a co-permittee only to facilitate issuance of the permit, and that as the Authority had not installed or ever owned the cable, the Authority had no right, financial responsibility or the ability to move or alter the position of the cable. In May 2005, the U.S. Attorney advised the permittees that the matter had been referred to it by the Corps for the purpose of either commencing a lawsuit to compel the relocation of the cable or negotiating an amicable resolution that would bring the permittees into compliance with the permit’s conditions. The U.S. Attorney, the Corps and the permittees have been meeting over the past several years, most recently in May 2011, to discuss the potential use of, and schedule for implementing, a so-called mechanical option that would involve protecting the cable from dredging operations by covering it with concrete mats. In addition to notifying the District Court of the matter and its position in June 2005, the Authority has advised NStar and HEEC that it believes it has no financial responsibility for the costs of either protecting or relocating the cable. The Authority is unable to predict whether the U.S. Attorney will commence an action against the Authority, or the result of any such litigation, if commenced.

LEGISLATIVE AND OTHER DEVELOPMENTS

From time to time legislation is introduced in the state Legislature proposing to affect the Authority, which has included adding certain capital projects to its responsibilities, increasing the Authority’s debt authorization, providing financial assistance for its programs, and requiring it to make payments to other governmental entities in the Commonwealth. The Authority cannot predict whether any such legislative proposals affecting the Authority will be enacted or imposed in the future.

Article 48 of the Massachusetts Constitution allows citizens to propose new laws to be considered for approval by the electorate. Initially, proponents must submit the proposed law, signed by ten voters, to the Attorney General for review. If the Attorney General determines that the proposed law complies with the criteria required by Article 48, it is certified and filed with the Secretary of State. Once certified, proponents must secure thousands of additional signatures (for petitions certified in 2011, 68,911) by the first Wednesday in December. If this is accomplished, the signatures are filed with the Secretary of State and the proposed law is presented to the Legislature in January for enactment. If the Legislature does not enact the proposed law by the first Wednesday in May, the proponents must gather additional signatures (for petitions certified in 2011 11,485) by early July so that the proposed law can be placed on the ballot for the state-wide election in the following November.

In September 2011, the Attorney General certified a proposed law that, if enacted, would amend the Massachusetts General Laws to limit the increase in annual water or sewer rates imposed by any city, town, or other municipal corporation engaged in the distribution and sale of water or the maintenance of sewers and pipes in the Commonwealth to not more than two and one-half percent (2.5%) of the current fiscal yearly rate (the “limit”). Any proposed rate greater than the limit would require the approval of the proposed increase by at least a two-thirds majority of the registered voters in the affected municipality at a regularly scheduled municipal election or state election. The proposed law also includes language that, while unclear, arguably could limit the ability of any county, district, public authority, the Commonwealth, or other governmental entity authorized by law to assess costs, charges or fees upon cities and towns to increase the total of such costs, charges or fees by more than the sum of: (i) two and one-half percent of the total of such costs, charges or fees over the preceding fiscal year; and (ii) any increases in costs, charges or fees for services customarily provided locally or for services subscribed to at local option. The proposed law also provides that if any bond issue for improvements related to water and/or

sewer systems is in effect upon the date of the passage of the law and requires an increase of more than two and one-half percent of the water and/or sewer rate of any municipality or district, the law shall not be construed to prohibit or affect the procedure for approval of such increase. The Authority believes that if the proposed law were to be enacted as written, the provision permitting increases in water and/or sewer rates of any municipality or district where there are bonds in effect that have financed improvements to water and/or sewer systems would permit the Authority to impose rates and charges on the Local Bodies in excess of the two and one-half percent limit, and would permit the Local Bodies to pass along such increases to its retail customers, without the need of voter approval. The Authority also believes that if the proposed law generally were interpreted to limit the Authority from imposing an increase in its rates and charges to Local Bodies in excess of the two and one-half percent limit, the fact that there is no mechanism in the proposed law to override such limitation, unlike the mechanism provided at the municipal level, would make the proposed law subject to challenge. Pursuant to the Article 48 process, proponents must now collect 68,911 signatures of registered voters by December 7, 2011. If these signatures are collected and certified, the proposed law will be sent to the Legislature for enactment by May 2012. If the Legislature does not enact the proposed law, proponents must collect an additional 11,485 signatures by July 2012 in order for the proposed law to be placed on the November 2012 state-wide ballot. The Authority can not predict if such proposed law will be enacted or if enacted, how such law will be interpreted and applied to the Authority and the Local Bodies.

LITIGATION

There is no threatened or pending litigation against or affecting the Authority that, to the knowledge of the Authority, seeks to restrain or enjoin the issuance, sale or delivery of the Series 2011 Bonds, or to in any way contest or affect the validity of the Series 2011 Bonds, the General Resolution, or any proceedings of the Authority taken with respect to the issuance or sale of the Series 2011 Bonds or with respect to the General Resolution, or in any way contesting the existence or powers of the Authority.

The Authority is a defendant in a number of suits arising out of its operations and activities. These actions include contract claims arising from the Authority's capital projects as well as personal injury and property damage claims. To the best knowledge of the Authority's General Counsel, no litigation is pending or threatened which, in the opinion of the Authority's General Counsel, if decided adversely to the Authority, would be likely to result, either individually or in the aggregate, in final judgments against the Authority that would materially adversely affect its ability to meet debt service payments on the Series 2011 Bonds, when due, or its obligations under the General Resolution, or materially adversely affect its financial condition.

In addition, due to the nature and scope of the CIP, the substantial number of Authority construction projects may result from time to time in the bringing of material claims for damages in tort or contract against the Authority. While the outcome of such litigation cannot be predicted, the Authority believes that it has made adequate provision through insurance, indemnification, performance bonds, construction monitoring, contingencies and reserves, among other measures, to limit its exposure to liability as a result of such claims.

The Authority was a defendant in an eminent domain action in Norfolk Superior Court brought in connection with certain easement and fee takings by the Authority of private property interests. The takings were required to construct the Authority's Intermediate Pump Station and related sewer relief facilities in Weymouth. In November 2007 the jury in the action returned a verdict against the Authority in an amount exceeding \$11 million. A final judgment was entered in the case in September 2008 in excess of \$10 million, inclusive of pre-judgment interest, after crediting the Authority with prior *pro tanto* payments made in connection with each taking. Direct appellate review by the Massachusetts Supreme Judicial Court resulted, in May 2011, resulted in a reduction of \$1.1 million in the amount of the judgment. While the reduction of the judgment could have resulted in the plaintiff pursuing a new trial as to part of the case, the parties have agreed to settle the matter for a payment by the Authority in the amount of \$9.12 million. The Authority accrued and reserved for this liability in Fiscal Year 2011 and the settlement payment is expected to be made after releases from all plaintiff entities have been obtained.

TAX EXEMPTION

Bond Counsel is of the opinion that, under existing law, except as described below, interest on the Series 2011 Bonds is not included in gross income for federal income tax purposes, and is not an item of tax preference

for the purpose of computing the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended (the “Code”), although such interest will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed upon certain corporations. See Appendix D – “Proposed Form of Opinion of Bond Counsel.”

The Code imposes certain requirements and restrictions on the use and investment of proceeds of state and local governmental obligations, including the Series 2011 Bonds, and a requirement for payment to the federal government (called a “rebate”) of certain proceeds derived from the investment thereof. Failure to comply with the Code’s requirements subsequent to the issuance of the Series 2011 Bonds could cause interest on the Series 2011 Bonds to become subject to federal income taxation, and such inclusion could be retroactive to the date of their issuance. On or before delivery of the Series 2011 Bonds to the original purchasers, the Authority will provide covenants or certificates evidencing that it will take all lawful action necessary to comply with those provisions of the Code that, except for such compliance, would affect adversely the excludability of interest on the Series 2011 Bonds from gross income for federal income tax purposes. Bond Counsel has not opined as to the other federal tax consequences resulting from holding the Series 2011 Bonds.

Interest paid on tax-exempt obligations such as the Series 2011 Bonds is now generally required to be reported by payors to the Internal Revenue Service (“IRS”) and to recipients in the same manner as interest on taxable obligations. In addition, such interest may be subject to “backup withholding” if the owner of such Series B Bond fails to provide the information required in IRS Form W-9, Request for Taxpayer Identification Number and Certification, or the IRS has specifically identified said owner as being subject to backup withholding because of prior underreporting. Neither the information reporting requirement nor the backup withholding requirement affects the excludability of interest on the Series 2011 Bonds from gross income for federal tax purposes.

In the opinion of Bond Counsel, the Series 2011 Bonds, their transfer and the income therefrom, including any profit made on the sale thereof, are exempt from Massachusetts personal income taxes and the Series 2011 Bonds are exempt from Massachusetts personal property tax, although the Series 2011 Bonds and the interest thereon are included in the measure of estate and inheritance taxes and of certain corporation excise and franchise taxes. Bond Counsel has not opined as to other Massachusetts tax consequences or as to the taxability of the Series 2011 Bonds, their transfer and the income therefrom, including any profit made on the sale thereof, under the laws of jurisdictions other than the Commonwealth.

For federal and Massachusetts tax purposes, interest includes original issue discount. Original issue discount with respect to a Series 2011 Bond is equal to the excess, if any, of the stated redemption price at maturity of such Series 2011 Bond over the initial offering price thereof to the public, excluding underwriters and other intermediaries, at which price a substantial amount of the Series 2011 Bonds with the same maturity were sold (such Series 2011 Bond constituting an “OID Bond”). Original issue discount accrues actuarially over the term of an OID Bond, with the accruing original issue discount being added to the adjusted basis of such OID Bond to determine taxable gain or loss upon disposition (including sale, redemption or payment upon maturity) of such OID Bond.

In general, if an owner acquires a Series 2011 Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on such Series 2011 Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), such Series 2011 Bond (a “Premium Bond”) will have bond premium. In general, for federal and Massachusetts tax purposes, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond determined on the basis of constant yield principles. An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period, under the owner’s regular method of accounting, against the bond premium allocable to that period. In the case of a tax-exempt bond, such as a Series 2011 Bond, that is a Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost.

The federal and state tax opinions of Bond Counsel with respect to the Series 2011 Bonds are described above. It should be noted that the ownership or disposition of, or the accrual or receipt of interest on, the Series

2011 Bonds may otherwise affect the federal or state tax liability of owners of the Series 2011 Bonds. The nature and extent of these other tax consequences will depend upon the particular tax status of the owners of the Series 2011 Bonds or such owners' other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences, and such owners should consult with their own tax advisors with respect to such consequences.

Governmental action such as federal, state or local legislation, administrative pronouncements or court decisions may affect the tax-exempt status of interest on the Series 2011 Bonds, gain from the sale or other disposition of the Series 2011 Bonds, the market value of the Series 2011 Bonds, or the marketability of the Series 2011 Bonds. For example, the President of the United States has submitted proposals to Congress for legislation that would, among other things, limit the value of tax-exempt interest for higher-income taxpayers. No prediction can be made as to the ultimate outcome of these legislative proposals. If enacted into law, such proposals (or any other proposal involving a piecemeal or comprehensive review of the provisions of the Code, including provisions affecting the federal tax treatment of interest on tax-exempt bonds, that Congress might consider) could affect the tax exemption of interest, market price or marketability of tax-exempt bonds (including the Series 2011 Bonds). Prospective purchasers of the Series 2011 Bonds should consult their own tax and financial advisers regarding such matters.

The impact of any such governmental action on the tax-exempt status, market price or marketability of the Series 2011 Bonds cannot be predicted. Owners of the Series 2011 Bonds are encouraged to consult their personal or institutional tax and financial advisers with respect to the tax and financial aspects of ownership of the Series 2011 Bonds.

On the date of delivery of the Series 2011 Bonds, the Underwriters will be furnished with an opinion of Bond Counsel substantially in the form attached hereto as Appendix D – “Proposed Form of Opinion of Bond Counsel.”

FINANCIAL ADVISOR

Public Financial Management, Inc. (“PFM”) serves as financial advisor to the Authority for debt management and other financial matters. PFM has acted as independent financial advisor to the Authority with respect to the Series 2011 Bonds. PFM is not obligated to undertake, and has not undertaken, either to make an independent verification of or to assume responsibility for, the accuracy, completeness, or fairness of the information contained in this Official Statement and the appendices hereto. PFM is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing securities.

FINANCIAL STATEMENTS

KPMG LLP, the Authority's independent auditor, has not been engaged to perform and has not performed, since the date of its report referenced therein, any procedures on the financial statements of the Authority as of June 30, 2011, and for the Fiscal Year then ended, included in Appendix A to this Official Statement. KPMG LLP also has not performed any procedures relating to this Official Statement or the Series 2011 Bonds.

CONSULTING ENGINEER

Camp Dresser & McKee Inc. serves as the Authority's engineering consultant in connection with the issuance of the Series 2011 Bonds. The Consulting Engineer's Report prepared by Camp Dresser & McKee Inc., attached hereto as Appendix B, provides an independent engineering analysis of the Authority's Systems and a financial feasibility analysis of the Authority's current operations and CIP.

CERTAIN LEGAL MATTERS

All legal matters incident to the authorization, issuance, sale and delivery of the Series 2011 Bonds are subject to the approval of McCarter & English, LLP, Boston, Massachusetts, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Authority by its Disclosure Counsel, Greenberg Traurig, LLP, Boston, Massachusetts, and for the Underwriters by their counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C, Boston, Massachusetts.

UNDERWRITING

The Series 2011 Bonds are being purchased by the Underwriters listed on the cover page of this Official Statement, for whom Merrill Lynch, Pierce, Fenner & Smith Incorporated is serving as Representative. The Underwriters have agreed, subject to certain conditions, to purchase all of the Series 2011 Bonds from the Authority at an aggregate underwriters' discount of \$1,545,229.74 and to reoffer such Series 2011 Bonds at public offering prices not higher (or yields not lower) than those set forth on the inside cover page of this Official Statement. The Underwriters are obligated to purchase all such Series 2011 Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions. Such Series 2011 Bonds may be offered and sold by the Underwriters to certain dealers (including dealers depositing such Series 2011 Bonds in unit investment trusts or mutual funds, some of which may be managed by the Underwriters) and certain dealer banks and banks acting as agents at prices lower (or yields higher) than the public offering prices (or yields) set forth on the inside cover page of this Official Statement. Subsequent to such initial public offering, the Underwriters may change the public offering prices (or yields) as it may deem necessary in connection with the offering of such Series 2011 Bonds.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Series 2011 Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of UBSFS and CS&Co. will purchase Series 2011 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2011 Bonds that such firm sells.

Citigroup Inc. and Morgan Stanley, the respective parent companies of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated, each an underwriter of the Series 2011 Bonds, have entered into a retail brokerage joint venture. As part of the joint venture each of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC. for its selling efforts in connection with their respective allocations of Series 2011 Bonds.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

RATINGS

The Series 2011 Bonds have been rated AA+ by Fitch Ratings ("Fitch"), One State Street Plaza, New York, New York, Aa1 by Moody's Investors Service, Inc. ("Moody's"), 99 Church Street, New York, New York and AA+ by Standard & Poor's Ratings Services ("Standard & Poor's"), a division of The McGraw-Hill Companies, Inc., 55 Water Street, New York, New York.

The ratings express only the views of the rating agencies. The explanation of the significance of the ratings may be obtained from Fitch, Moody's and Standard & Poor's, respectively. There is no assurance that any rating will continue for any period of time or that it will not be revised or withdrawn. Any revision or withdrawal of ratings on the Series 2011 Bonds may have an effect on the market price thereof.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by Merrill Lynch, Pierce, Fenner & Smith Incorporated ("BoA Merrill Lynch") on behalf of the Authority relating to (i) computation of anticipated receipts of principal and interest on the Defeasance Obligations and the anticipated payments of principal and interest to redeem the Refunded Bonds, and (ii) computation of the yields on the Series 2011 Bonds and the Defeasance Obligations was examined by The Arbitrage Group. Such computations were based solely upon assumptions and information supplied by BoA Merrill Lynch on behalf of the Authority. The Arbitrage Group has restricted its procedures to examining the arithmetical accuracy of certain computations and has not

made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of future events.

CONTINUING DISCLOSURE

General. The Authority has undertaken for the benefit of the owners of the Series 2011 Bonds to provide certain continuing disclosure pursuant to the provision of Rule 15c2-12(b)(5) under the Securities Exchange Act of 1934 (as amended, the “Rule”). Specifically, the Authority and State Street Bank and Trust Company, predecessor in interest to U.S. Bank National Association, as Dissemination Agent (the “Dissemination Agent”) have executed and delivered a Continuing Disclosure Agreement dated November 21, 1995 (the “CDA”), which has been previously supplemented (as supplemented, the “Continuing Disclosure Agreement”) for the benefit of the owners of all bonds (including the Series 2011 Bonds) issued by or on behalf of the Authority which are designated by resolution of the Authority as subject to and having the benefits of the Continuing Disclosure Agreement. As of the date hereof, the Authority is in full compliance with the terms of the Continuing Disclosure Agreement.

Annual Filings. Pursuant to the Continuing Disclosure Agreement, not later than January 1 of each year, commencing January 1, 1998, the Authority will, or will cause the Dissemination Agent to, provide an Annual Filing (as described below) to each nationally recognized municipal securities information repository (the “National Repositories”), which currently consists of the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access (“EMMA”) system, and any public or private repository or entity designated by the Commonwealth as a state information depository for the purpose of the Rule (a “State Depository” and, collectively with the National Repositories, the “Repositories”). The Annual Filing may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in the Continuing Disclosure Agreement. If the Dissemination Agent determines that the Authority has failed to comply with the undertaking regarding the Annual Filing, the Dissemination Agent will send a notice to that effect in a timely manner to the MSRB and the State Depository, if any.

The Authority’s Annual Filing will contain or incorporate by reference the following:

(a) quantitative information for, or as of the end of, the preceding fiscal year of the type presented in the Authority’s most recent official statement, including (i) a summary table of revenues, expenses and fund deposits, (ii) the amount of outstanding indebtedness of the Authority, and the debt limit as of the end of the fiscal year, (iii) a summary table with respect to the coverage covenants in the Authority’s General Resolution, and (iv) a summary table showing the Authority’s capital investments by major category during the preceding fiscal year;

(b) quantitative information for the current fiscal year of the type presented in the Authority’s most recent official statement, including (i) a table of the Authority’s current water and wastewater charges by Local Body, (ii) the current expense budget’s rate revenue requirement and the percentage increases for water and wastewater over the prior fiscal year, and (iii) executive summaries of the Authority’s most recently adopted current expense budget and capital improvement program; and

(c) the most recently available audited financial statements of the Authority, prepared in accordance with accounting principles generally accepted in the United States of America. (If audited financial statements for the preceding fiscal year are not available when the Annual Filing is submitted, the Annual Filing will include unaudited financial statements for the preceding fiscal year.)

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Authority or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB.

Reporting of Material Events. Pursuant to the Continuing Disclosure Agreement, whenever the Authority obtains knowledge of the occurrence of any of the following events with respect to the Series 2011 Bonds (each a “Listed Event”), the Authority will promptly notify the Dissemination Agent. The Dissemination Agent shall file a notice of such occurrence in a timely manner not in excess of ten business days after the occurrence of the event with the MSRB and the State Depository, if any.

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Receipt by the Authority of an adverse tax opinion, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2011 Bonds, or the occurrence of other material events affecting the tax status of the Series 2011 Bonds.
7. Modifications to rights of any owners of the Series 2011 Bonds, if material.
8. Bond calls, if material, and tender offers.
9. Defeasance of the Series 2011 Bonds or any portion thereof.
10. Release, substitution or sale of property securing repayment of any Series 2011 Bonds, if material.
11. Rating changes.
12. Bankruptcy, insolvency, receivership, or similar proceeding of the Authority.*
13. The consummation of a merger, consolidation or acquisition involving the Authority or the sale of substantially all of the assets of the Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
14. The appointment of a successor or additional trustee, or the change of name of a trustee, if material.

Termination of Reporting Obligation. The Authority's and Dissemination Agent's obligations under the Continuing Disclosure Agreement will terminate upon the defeasance, prior redemption or payment in full of all of the bonds (including the Series 2011 Bonds) designated as subject to the agreement.

Amendment; Waiver. Notwithstanding any other provision of the Continuing Disclosure Agreement, the Authority and the Dissemination Agent may amend the Continuing Disclosure Agreement, and any provision of the Continuing Disclosure Agreement may be waived, if such amendment or waiver is permitted by the Rule, as evidenced by an opinion of counsel expert in federal securities laws, acceptable to both the Authority and the Dissemination Agent, to the effect that such amendment or waiver would not, in and of itself, cause the

* For the purposes of the event identified in item 12, the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

Authority's undertakings to violate the Rule if such amendment or waiver had been effective on the date of the 2011 Supplement but taking into account any subsequent change in or official interpretation of the Rule.

If the amendment provides for a change in the accounting principles to be followed in preparing financial statements, the Annual Filing for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the Authority to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. A notice of the change in the accounting principles shall be sent to each Repository.

Default. In the event of a failure of the Authority or the Dissemination Agent to comply with any provision of the Continuing Disclosure Agreement, the Dissemination Agent may (and, at the request of any of the Underwriters or the owners of at least 25% aggregate principal amount outstanding of the Series 2011 Bonds, shall), or any owner of the Series 2011 Bonds may, seek a court order for specific performance by the Authority or Dissemination Agent, as the case may be, of its obligations under the Continuing Disclosure Agreement. A default under the Continuing Disclosure Agreement shall not be deemed an Event of Default under the General Resolution, and the sole remedy under the Continuing Disclosure Agreement in the event of any failure of the Authority or the Dissemination Agent to comply with the Continuing Disclosure Agreement shall be an action to compel performance of the defaulting party's obligations thereunder and not for money damages in any amount.

BONDS AS LEGAL INVESTMENTS

Under Section 14 of the Act, bonds and notes of the Authority are made securities in which all public officers and agencies of the Commonwealth and its political subdivisions, all insurance companies, trust companies in their commercial departments, savings banks, cooperative banks, banking associations, investment companies, executors, administrators, trustees and other fiduciaries may properly invest funds, including capital in their control or belonging to them.

BONDS AS SECURITY FOR DEPOSIT

Under Section 14 of the Act, bonds and notes of the Authority are made securities that may properly be deposited with and received by any state or municipal officer of any agency or political subdivision of the Commonwealth for any purpose for which the deposit of bonds or other obligations of the Commonwealth is now or may hereafter be authorized by law.

MISCELLANEOUS

The summaries or descriptions herein of provisions of the Act, the Series 2011 Bonds, the General Resolution and the Continuing Disclosure Agreement, and all references to other materials not purporting to be quoted in full, are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. Copies of the documents mentioned in this paragraph are on file at the offices of the Authority and the Trustee.

[Signatures on following page]

The execution and delivery of this Official Statement have been duly authorized by the Massachusetts Water Resources Authority.

MASSACHUSETTS WATER RESOURCES AUTHORITY

By: /s/ Frederick A. Laskey
Executive Director

By: /s/ Rachel C. Madden
Director of Administration and Finance

November 9, 2011



MASSACHUSETTS WATER RESOURCES AUTHORITY

Financial Statements and Supplemental Schedules
and Required Supplementary Information

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

MASSACHUSETTS WATER RESOURCES AUTHORITY

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KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Directors
Massachusetts Water Resources Authority:

We have audited the accompanying balance sheets of the Massachusetts Water Resources Authority (the Authority) as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority at June 30, 2011 and 2010, and the changes in net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2011, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 and the schedules of funding progress on page 44 are not required parts of the financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied by us in the audits of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

KPMG LLP

August 31, 2011

MASSACHUSETTS WATER RESOURCES AUTHORITY

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2011 and 2010

(Unaudited)

This section of the Authority's annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal years ended June 30, 2011 and 2010. Please read it in conjunction with the Authority's financial statements, which immediately follow this section.

Financial Highlights – Fiscal 2011

The fiscal 2011 customer service revenues were approximately \$579.2 million. Of this amount, rate revenues represent approximately 98.4%, or \$569.8 million, and were \$8.4 million higher than fiscal 2010. This was due to an increase in assessments.

Total operating expenses, excluding depreciation, were approximately \$254.8 million in fiscal 2011. The 2.3% decrease in total operating expenses over fiscal 2010 is the result of decreased utility expenses. The severe wet weather conditions of fiscal 2010 were not experienced in the current fiscal year. These decreases were offset by an increase in on-going maintenance costs.

Net nonoperating expenses increased \$29.2 million, or 12.4%, primarily due to a \$17.1 million decrease in investment income and a \$12.1 million increase in interest expense. The decrease in investment income was due to increases in unrealized losses on investments. The increase in interest expense was due to new debt issuances.

Total assets at June 30, 2011 were approximately \$8.4 billion, a \$55.3 million, or 0.7%, increase over total assets at June 30, 2010.

During fiscal 2011, the Authority issued General Revenue Bonds, 2011 Series B for \$150 million. The proceeds from these bonds were used to fund on-going capital projects and permanently finance tax-exempt commercial paper. The interest rate on these bonds is 2% to 5%.

Total capital assets (net of depreciation) were approximately \$6.3 billion at June 30, 2011, a \$65.9 million, or 1.0%, decrease over June 30, 2010. The decrease was primarily due to the capitalization of community-owned CSO projects to other assets.

Derivative Instruments

In April 2011, the Authority amended two existing interest rate swap agreements with a counterparty to change the reference rate from Securities Industry and Financial Markets Association (SIFMA) to the London Inter-Bank Offered Rate (LIBOR) based index. This amendment provides a lower fixed rate payment, resulting in debt service savings of approximately \$7.4 million over the remaining duration of the two swaps.

Financial Highlights – Fiscal 2010

The fiscal 2010 customer service revenues were approximately \$571.4 million. Of this amount, rate revenues represent approximately 98.3%, or \$561.4 million, and were \$20.6 million higher than fiscal 2009. This was due to an increase in assessments.

Total operating expenses, excluding depreciation, were approximately \$260.8 million in fiscal 2010. The 0.2% increase in total operating expenses over fiscal 2009 is the result of increased personnel costs. Utility expenses (primarily diesel fuel) increased \$1.5 million due to severe wet weather conditions in March 2010. These increases were offset by cost savings in on-going maintenance and other costs.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2011 and 2010

(Unaudited)

Net nonoperating expenses decreased \$11.6 million, or 4.7%, primarily due to a \$5.2 million increase in investment income and a \$6.4 million decrease in interest expense. The increase in investment income was due to increases in unrealized gains on investments. Decreases in interest expense were due to lower interest rates during fiscal 2010 as compared to fiscal 2009.

Total assets at June 30, 2010 were approximately \$8.3 billion, a \$26.7 million, or 0.3%, increase over total assets at June 30, 2009.

During fiscal 2010, the Authority issued 2010 Series A and B bonds in the aggregate amount of \$283.6 million. The Authority used \$100 million to finance on-going capital projects, while it used \$183.6 million to refund \$201.9 million of bonds outstanding.

Total capital assets (net of depreciation) were approximately \$6.4 billion at June 30, 2010, an \$11 million, or 0.2%, decrease over June 30, 2009. The decrease was due to disposal of assets no longer in use.

Overview of the Financial Statements

The financial section of this annual report consists of three parts: management's discussion and analysis (this section), the financial statements and related notes to the financial statements, required supplementary information, and other supplementary information.

The financial statements provide both long-term and short-term information about the Authority's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements.

Financial Analysis of the Authority

Net Assets

The Authority's total net assets at June 30, 2011 were approximately \$1.9 billion, a \$42.5 million decrease from June 30, 2010. Total assets increased \$55.3 million, or 0.7%, to \$8.4 billion, and total liabilities increased \$97.8 million, or 1.5%, to \$6.5 billion.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2011 and 2010

(Unaudited)

The Authority's total net assets at June 30, 2010 were approximately \$1.9 billion, a \$56.1 million decrease from June 30, 2009. Total assets increased \$26.7 million, or 0.3%, to \$8.3 billion, and total liabilities increased \$82.8 million, or 1.3%, to \$6.4 billion.

Net Assets

(Dollars in thousands)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	Percentage change 2011 – 2010	Percentage change 2010 – 2009
Current assets	\$ 117,010	118,708	118,948	(1.4)%	(0.2)%
Restricted assets	785,751	730,353	784,119	7.6	(6.9)
Capital assets	6,304,377	6,370,258	6,381,230	(1.0)	(0.2)
Other assets	1,127,303	1,044,006	967,129	8.0	7.9
Deferred outflows from derivative instruments	48,623	64,441	49,625	(24.5)	29.9
Total assets and deferred outflows	\$ 8,383,064	8,327,766	8,301,051	0.7%	0.3%
Current liabilities	\$ 291,357	315,104	320,609	(7.5)%	(1.7)%
Payable from restricted assets	208,930	210,182	210,801	(0.6)	(0.3)
Long-term debt	5,800,267	5,658,514	5,593,717	2.5	1.2
Long-term lease	33,056	33,659	34,217	(1.8)	(1.6)
Other liabilities	174,521	192,833	168,131	(9.5)	14.7
Total liabilities	\$ 6,508,131	6,410,292	6,327,475	1.5%	1.3%
Net assets:					
Invested in capital assets – net of related debt	\$ 972,480	1,076,654	1,120,891	(9.7)%	(3.9)%
Restricted	227,411	205,928	268,642	10.4	(23.3)
Unrestricted	675,042	634,892	584,043	6.3	8.7
Total net assets	\$ 1,874,933	1,917,474	1,973,576	(2.2)%	(2.8)%

Changes in Net Assets

The decrease in net assets at June 30, 2011 was \$42.5 million, or 2.2%, as compared with June 30, 2010. The Authority's total operating revenues increased by 1.8% to \$584.4 million and total operating expenses decreased 2.3% to \$254.8 million.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2011 and 2010

(Unaudited)

The decrease in net assets at June 30, 2010 was \$56.1 million, or 2.8%, as compared with June 30, 2009. The Authority's total operating revenues increased by 3.4% to \$574.3 million and total operating expenses increased 0.2% to \$260.8 million.

Changes in Net Assets

(Dollars in thousands)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>Percentage change 2011 – 2010</u>	<u>Percentage change 2010 – 2009</u>
Operating revenues:					
Customer service revenues	\$ 579,240	571,360	550,720	1.4%	3.7%
Other revenues	5,114	2,938	4,473	74.1	(34.3)
Total operating revenues	<u>584,354</u>	<u>574,298</u>	<u>555,193</u>	<u>1.8</u>	<u>3.4</u>
Operating expenses:					
Operations	93,756	96,923	93,795	(3.3)	3.3
Maintenance	27,964	25,561	27,444	9.4	(6.9)
Payments in lieu of taxes	7,000	6,732	6,104	4.0	10.3
Engineering, general, and administrative	126,127	131,551	132,828	(4.1)	(1.0)
Total operating expenses	<u>254,847</u>	<u>260,767</u>	<u>260,171</u>	<u>(2.3)</u>	<u>0.2</u>
Depreciation and amortization	<u>180,734</u>	<u>189,798</u>	<u>181,314</u>	<u>(4.8)</u>	<u>4.7</u>
Operating income	<u>148,773</u>	<u>123,733</u>	<u>113,708</u>	<u>20.2</u>	<u>8.8</u>
Nonoperating items:					
Regulatory accounting provisions	74,139	67,995	48,974	9.0	38.8
Net nonoperating expenses	(263,761)	(234,588)	(246,164)	12.4	(4.7)
Capital grants and contributions	7,036	8,211	7,120	(14.3)	15.3
Changes in derivative related accounts	(8,728)	—	—	100.0	—
Loss on disposal of capital assets	—	(21,453)	(9,451)	(100.0)	127.0
Total nonoperating items	<u>(191,314)</u>	<u>(179,835)</u>	<u>(199,521)</u>	<u>6.4</u>	<u>(9.9)</u>
Change in net assets	<u>(42,541)</u>	<u>(56,102)</u>	<u>(85,813)</u>	<u>(24.2)</u>	<u>(34.6)</u>
Total net assets – beginning of year	1,917,474	1,973,576	2,065,956	(2.8)	(4.5)
Restatement to comply with GASB Statement No. 49	—	—	(6,567)	—	(100.0)
Total net assets – end of year	<u>\$ 1,874,933</u>	<u>1,917,474</u>	<u>1,973,576</u>	<u>(2.2)%</u>	<u>(2.8)%</u>

During fiscal 2011, the increases in customer service revenues were primarily due to the 1.49% increase in the rate revenue requirement (\$8.4 million).

During fiscal 2010, the increases in customer service revenues were primarily due to the 3.8% increase in the rate revenue requirement (\$20.6 million).

MASSACHUSETTS WATER RESOURCES AUTHORITY

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2011 and 2010

(Unaudited)

Total operating costs, before depreciation and amortization, were approximately \$254.8 million in fiscal 2011. The 2.3% decrease in total operating expenses over fiscal 2010 is the result of decreased utility expenses as the severe wet weather events of fiscal 2010 were not experienced in fiscal 2011.

Total operating costs, before depreciation and amortization, were approximately \$260.8 million in fiscal 2010. The 0.2% increase in total operating expenses over fiscal 2009 is the result of increased personnel costs, including recognition of additional post-employment benefits expense of \$16.8 million. Utility expenses (primarily diesel fuel) increased \$1.5 million due to severe wet weather conditions in March 2010. These increases were offset by cost savings in on-going maintenance and other costs.

In fiscal 2011, net nonoperating expenses increased \$29.2 million, or 12.4%, primarily due to a \$12.1 million increase in investment expense and a \$17.1 million decrease in interest income.

In fiscal 2010, net nonoperating expenses decreased \$11.6 million, or 4.7%, primarily due to a \$5.2 million increase in investment income and a \$6.4 million decrease in interest expense.

Operating Costs by Functionality

(Dollars in thousands)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	Percentage change 2011 – 2010	Percentage change 2010 – 2009
Wastewater treatment and transport	\$ 91,223	100,157	98,211	(8.9)%	2.0%
Water treatment and transport	34,113	29,843	29,915	14.3	(0.2)
Water and wastewater quality	8,508	8,668	8,398	(1.8)	3.2
Metering and monitoring	6,054	5,174	4,732	17.0	9.3
Facilities planning, design, and construction	9,914	10,527	10,472	(5.8)	0.5
Management information systems	8,533	8,810	9,059	(3.1)	(2.7)
Administration and support	45,928	42,981	44,954	6.9	(4.4)
Total direct operating costs	<u>204,273</u>	<u>206,160</u>	<u>205,741</u>	(0.9)	0.2
Indirect operating costs	<u>50,574</u>	<u>54,607</u>	<u>54,430</u>	(7.4)	0.3
Total operating costs	\$ <u>254,847</u>	<u>260,767</u>	<u>260,171</u>	(2.3)%	0.2%

Wastewater treatment and transport expenses decreased due to the severe wet weather events in March 2010, which resulted in higher overtime wages and higher diesel fuel costs in that fiscal year. Increases in water treatment and transport were the result of the reorganization of certain field operation departments, which were previously allocated to the wastewater and water divisions, to water division. Metering and monitoring expenses increased due to purchases of additional metering equipment. Increases in administration and support are due to increases in health insurance costs and estimated pollution remediation costs.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Management’s Discussion and Analysis – Required Supplementary Information

June 30, 2011 and 2010

(Unaudited)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2011 and 2010, the Authority had \$6.3 billion and \$6.4 billion of capital assets (net of depreciation), respectively. This includes land, construction in progress, plant and equipment for the water and sewer systems, furniture and fixtures, leasehold improvements, and motor vehicles and equipment. The Authority’s net capital assets decreased approximately \$65.9 million, or 1%, during fiscal 2011, primarily due to the capitalization of community-owned CSO projects to other assets.

Capital Assets

(Net of depreciation, dollars in thousands)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>Percentage change 2011 – 2010</u>	<u>Percentage change 2010 – 2009</u>
Land	\$ 23,497	13,413	6,618	75.2%	102.7%
Construction in progress	177,070	424,133	367,593	(58.3)	15.4
Plant and equipment, water, and sewer systems	6,100,592	5,930,317	6,006,101	2.9	(1.3)
Furniture and fixtures	1,324	1,529	21	(13.4)	7,181.0
Leasehold improvements	362	370	382	(2.2)	(3.1)
Motor vehicles and equipment	1,532	496	515	208.9	(3.7)
	<u>\$ 6,304,377</u>	<u>6,370,258</u>	<u>6,381,230</u>	<u>(1.0)%</u>	<u>(0.2)%</u>

Decreases in construction in progress are primarily due the capitalization of the North Dorchester Bay and East Boston Branch Sewer Relief CSO projects.

Debt Administration

The Authority’s bond sales must be approved by its board of directors (the Board) and must comply with rules and regulations of the United States Treasury Department. Neither the Commonwealth of Massachusetts (the Commonwealth) nor any political subdivision thereof shall be obligated to pay the principal of, or premium or interest on, any debt outstanding and neither the faith and credit nor the taxing power of the Commonwealth or any political subdivision thereof is pledged to such payment.

Bond Resolutions

Pursuant to its general bond resolution, the Authority must comply with a rate covenant that requires it to set rates to maintain revenues sufficient to pay: current expenses; debt service on indebtedness; required deposits to reserves; costs of maintenance, replacement, and/or improvements to the wastewater and water systems that are considered current expenses and any additional amounts the Authority may be required to pay by any law or contract.

In addition to the rate covenant, the Authority is required to meet two covenants with respect to debt service coverage. The primary debt service coverage requires that the Authority fix and adjust rates and charges to provide revenues available for bond debt service in an amount equal to 1.2 times that is required for debt service

MASSACHUSETTS WATER RESOURCES AUTHORITY

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2011 and 2010

(Unaudited)

on all outstanding bonds, not including subordinated bonds. The subordinated debt service coverage requires that the Authority fix and adjust rates and charges to provide revenues available for bond debt service in an amount equal to 1.1 times that is required for debt service on all outstanding bonds, including subordinated bonds.

Credit Rating

The Authority's \$3.4 billion Senior Lien General Revenue Bonds are rated Aa1 from Moody's Investors Service, AA+ by Standard and Poors Ratings Services and AA+ from FitchRatings. The \$1.2 billion Subordinate Lien General Revenue Bonds are rated Aa2 from Moody's Investors Service, AA by Standard and Poors Ratings Services and AA from FitchRatings. Some of the Authority's revenue bonds are enhanced by bond insurance. The credit ratings of these bond series will be the higher rating of either the Authority or the firm providing the enhancement. In the case of bonds enhanced by a letter of credit, the rating will be the highest of the Authority's, the provider or, if available, a joint rating. The subordinated debt of \$1.1 billion with the Massachusetts Water Pollution Abatement Trust is not rated as the Authority's debt.

Economic Factors and Next Year's Budget

In June 2011, the Board approved the fiscal 2012 Current Expense Budget (CEB), which totals \$618.2 million in expenses which includes \$350,000 in debt service offsets.

The \$618.2 million expense total is comprised of \$368 million (59.5%) in capital financing costs and \$250.2 million (40.5%) in operating expenses, of which \$209.3 million (83.6%) is for direct expenses and \$40.9 million (16.4%) is for indirect expenses. The total represents an increase of \$17.7 million from fiscal 2011 spending, which is comprised of \$9.9 million in higher operating costs and \$7.8 million in higher debt service costs.

The fiscal 2012 rate revenue requirement approved by the Board is \$589.7 million; an increase of 3.49% compared with the fiscal 2011 budget.

Fiscal 2012 budgeted nonrate revenue totals \$28.5 million, a decrease of \$6.3 million from actual fiscal 2011 nonrate revenue. The nonrate revenue budget is comprised of \$15.4 million in investment income, \$11.3 million in other user charges and other revenue, \$1.1 million in rate stabilization usage and \$0.7 million in entrance fees.

CIP 10 Year Plan

The Authority's planned spending for capital improvements in future years reflects the continuation and completion of projects now underway. These include:

- Improvement and replacement of equipment on Deer Island to ensure that the plant continues to operate efficiently and effectively.
- Completion of the long-term CSO control plan, resulting in closing CSO outfalls and the reducing of CSO discharges to Boston Harbor and the Mystic, Charles, and Neponset River systems.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Management's Discussion and Analysis – Required Supplementary Information

June 30, 2011 and 2010

(Unaudited)

- Rehabilitation of the Hultman Aqueduct to provide transmission redundancy in order to ensure reliable water delivery and provide sufficient hydraulic capacity to support the John J. Carroll water treatment plant and covered storage facilities.
- Install ultraviolet light disinfection facilities at the John J. Carroll water treatment plan.
- Completion of covered storage facilities to provide safe, reliable storage for water treated at John J. Carroll water treatment plan and transported through the MetroWest Tunnel and Hultman Aqueduct.
- Demonstrate continued dedication to using resources efficiently, responding to climate change and reducing the environmental impacts of the Authority's daily operations by installing alternative energy sources.
- Continued commitment to the community assistance programs for both the sewer and water systems to improve local infrastructure.

Contacting the Authority's Financial Management

This report is designed to provide our bondholders, member communities and other interested parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the revenue it receives. If you have questions about this report or need additional information, contact the Massachusetts Water Resources Authority, Administration and Finance Division, 100 First Avenue, Boston, MA 02129.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Balance Sheets

June 30, 2011 and 2010

(Dollars in thousands)

Assets and Deferred Outflows	2011	2010
Unrestricted current assets:		
Cash and cash equivalents (note 4)	\$ 41,629	42,378
Investments (note 4)	47,962	48,554
Intergovernmental loans (note 7)	26,758	27,235
Accounts receivable	661	541
Total unrestricted current assets	117,010	118,708
Restricted assets:		
Investments (note 4)	781,940	726,946
Interest receivable	3,811	3,197
Grants receivable	—	210
Total restricted assets	785,751	730,353
Capital assets – not being depreciated (note 8)	200,567	437,546
Capital assets – being depreciated – net (note 8)	6,103,810	5,932,712
Deferred charges (note 3)	765,786	707,204
Other assets, net (note 7)	361,517	336,802
Deferred outflows from derivative instruments (note 6)	48,623	64,441
Total	\$ 8,383,064	8,327,766
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 52,634	53,802
Commercial paper notes (note 6)	144,000	194,000
Current portion of long-term debt (note 6)	94,723	67,302
Total current liabilities	291,357	315,104
Payable from restricted assets:		
Accounts payable for construction	24,301	23,328
Accrued interest on bonds payable	84,303	81,121
Reserves (note 5)	100,326	105,733
Total payable from restricted assets	208,930	210,182
Retainage on construction in progress	11,269	14,710
Long-term debt – less current portion (note 6)	5,800,267	5,658,514
Long-term capital lease (note 9)	33,056	33,659
Other postemployment benefits (note 11)	60,241	46,072
Liability for derivative instruments (note 6)	48,623	64,441
Deferred credits (note 3)	54,388	67,610
Total liabilities	6,508,131	6,410,292
Net assets:		
Invested in capital assets, net of related debt	972,480	1,076,654
Restricted	227,411	205,928
Unrestricted	675,042	634,892
Total net assets	1,874,933	1,917,474
Commitments and contingencies (notes 9, 10, 11, 12, and 13)		
Total	\$ 8,383,064	8,327,766

See accompanying notes to financial statements.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2011 and 2010

(Dollars in thousands)

	<u>2011</u>	<u>2010</u>
Operating revenues (note 2):		
Customer services	\$ 579,240	571,360
Other	5,114	2,938
Total operating revenues	<u>584,354</u>	<u>574,298</u>
Operating expenses:		
Operations	93,756	96,923
Maintenance	27,964	25,561
Payments in lieu of taxes	7,000	6,732
Engineering, general, and administrative	126,127	131,551
Total operating expenses	<u>254,847</u>	<u>260,767</u>
Income from operations before depreciation	329,507	313,531
Depreciation and amortization	<u>180,734</u>	<u>189,798</u>
Operating income	<u>148,773</u>	<u>123,733</u>
Regulatory accounting provisions:		
Change in reserves (note 5)	2,335	654
Change in deferrals, net (note 3)	71,804	67,341
Total regulatory accounting provisions	<u>74,139</u>	<u>67,995</u>
Nonoperating revenues (expenses):		
Investment income	9,263	26,403
Interest expense	(273,024)	(260,991)
Changes in derivative related accounts	(8,728)	—
Loss on disposal of capital assets	—	(21,453)
Total nonoperating expenses	<u>(272,489)</u>	<u>(256,041)</u>
Net loss before capital contributions	(49,577)	(64,313)
Capital grants and contributions	<u>7,036</u>	<u>8,211</u>
Decrease in net assets	(42,541)	(56,102)
Total net assets, beginning of year	<u>1,917,474</u>	<u>1,973,576</u>
Total net assets, end of year	<u>\$ 1,874,933</u>	<u>1,917,474</u>

See accompanying notes to financial statements.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Statements of Cash Flows

Years ended June 30, 2011 and 2010

(Dollars in thousands)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from customers	\$ 579,162	571,269
Cash paid to suppliers for goods and services	(116,553)	(117,694)
Cash paid to employees for services	(118,570)	(117,039)
Cash paid in lieu of taxes	(7,000)	(6,732)
Other operating receipts	5,114	2,938
Net cash provided by operating activities	<u>342,153</u>	<u>332,742</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of revenue bonds, loans, and notes	174,412	152,582
Capital grants for construction	7,036	7,651
Capital lease principal payments	(603)	(558)
Capital lease interest payments	(2,614)	(2,659)
Repayment of debt	(105,586)	(135,559)
Interest paid on debt	(225,300)	(225,765)
Plant expenditures	(144,495)	(211,059)
Net cash used for capital and related financing activities	<u>(297,150)</u>	<u>(415,367)</u>
Cash flows from investing activities:		
Purchases of short-term investments	(152,508)	(114,918)
Sales and maturities of short-term investments	104,459	72,112
Increase (decrease) in restricted cash and investments – net	(12,060)	108,893
Interest received	14,357	14,618
Net cash (used for) provided by investing activities	<u>(45,752)</u>	<u>80,705</u>
Net decrease in cash and cash equivalents	(749)	(1,920)
Cash and cash equivalents, beginning of year	<u>42,378</u>	<u>44,298</u>
Cash and cash equivalents, end of year	\$ <u><u>41,629</u></u>	\$ <u><u>42,378</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 148,773	123,733
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	180,734	189,798
Change in other accounts	(113)	(107)
Change in accounts payable	12,759	19,318
Net cash provided by operating activities	\$ <u><u>342,153</u></u>	\$ <u><u>332,742</u></u>

Noncash capital and related financing activities:

In May 2010, general revenue refunding bonds in the aggregate principal amount of \$183,570 were issued to defease \$201,940 of bonds outstanding.

See accompanying notes to financial statements.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(1) Organization

The Massachusetts Water Resources Authority (the Authority) was established in January 1985 pursuant to Chapter 372 (the Enabling Act) of the Act of 1984 of the Commonwealth of Massachusetts (the Commonwealth). The Authority, a successor agency to certain functions of the Metropolitan District Commission (the MDC) (which became part of the Department of Conservation and Recreation (the DCR) in July 2003), is a public instrumentality and, effective July 1, 1985, provides water supply services and sewage collection, treatment, and disposal services to areas of the Commonwealth.

The Authority is governed by an 11-member board of directors (the Board) chaired by the Secretary of Energy and Environmental Affairs for the Commonwealth. The Secretary and two other members are appointed by the Governor. Three members of the Board are appointed by the Mayor of Boston and three are appointed by the Authority's Advisory Board. One member is appointed by the Mayor of Quincy and one by the Winthrop Council President.

(2) Summary of Significant Accounting Policies

The accounting policies of the Authority conform to U.S. generally accepted accounting principles as applicable to government enterprises. The following is a summary of the Authority's significant accounting policies:

(a) Basis of Presentation

The Authority is required by the Enabling Act to establish user rates for its water and sewer services which provide sufficient funds to recover the costs of operations (excluding depreciation), debt service, maintenance, replacements, improvements to its facilities, and appropriate reserves. The Authority's financial statements are reported on the accrual basis of accounting and the economic measurement focus as specified by the Governmental Accounting Standards Board's (GASB) requirements for an enterprise fund.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing water and sewer services to its member communities. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. All operating revenues are pledged for repayment of outstanding debt service.

Under GASB Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority has adopted the option to apply all Financial Accounting Standards Board (FASB) Statements and Interpretations issued before November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

In addition, the Authority has adopted the provisions of FASB *Accounting Standards Codification for Regulated Operations*, to provide a better matching of revenues and expenses. The effect of this policy has been to defer certain costs, which will be recovered through future revenues in accordance with the Authority's rate model, and to record deferred credits for revenue collected through current

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

rates for costs expected to be incurred in the future. The effects of the Authority's accounting policies under FASB Accounting Standards Codification are discussed further in note 3.

(b) Capital Assets

On July 1, 1985, ownership of the MDC's sewer and waterworks personal property was transferred to the Authority. Pursuant to the Enabling Act, ownership of the real property of the MDC sewer and waterworks systems was not transferred from the Commonwealth to the Authority; however, the Authority has the right to use, improve, maintain, and manage that property. In addition, ownership of the real and personal property of the watershed system remains with the Commonwealth; however, the Authority has the right to utilize the water therefrom for water supply purposes.

The personal property, together with the rights to the real property and watershed system, was recorded at its estimated fair value of \$2,331,465 (including certain construction projects which were in progress as of July 1, 1985), based upon an appraisal performed by valuation specialists. Property, plant, and equipment acquired or constructed since July 1, 1985, is stated at historical cost, and includes the expenditure of capital grants in aid of construction.

Betterments and major renewals are capitalized and included in capital asset accounts, while expenditures for maintenance and repairs are charged to expense when incurred. The cost of depreciable assets and related accumulated depreciation is eliminated from the accounts when such items are disposed of or otherwise retired.

(c) Interest Cost and Principal Payments on Construction

During fiscal 2011 and 2010, none of the Authority's interest expense was capitalized to construction in progress in accordance with its current policy of recovering such costs through rates as incurred. Rates collected for principal payments on debt related to assets under construction are deferred until the related asset is completed and depreciation commences.

(d) Depreciation

The Authority provides for depreciation by use of the straight-line method. Depreciation is intended to distribute the cost of depreciable properties, including those financed by capital grants in aid of construction, over the following estimated average useful lives:

	<u>Years</u>
Plant and equipment, water and sewerage systems	5 – 100
Motor vehicles and equipment	5
Furniture and fixtures	7
Leasehold improvements	3 – 5

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(e) Revenue Recognition

The Authority recognizes revenue as amounts become collectible from its customers for water and sewer services provided. The majority of the Authority's billings to cities and towns are subject to, in the event of nonpayment, the local aid intercept allowed by the Enabling Act.

(f) Cash and Cash Equivalents

The Authority's policy is to treat unrestricted investments with a maturity date of three months or less when purchased as cash equivalents for purposes of the statements of cash flows. Restricted cash and cash equivalents are combined with investments on the balance sheets, and shown separately on the statements of cash flows as an investing activity.

(g) Payments in Lieu of Taxes

The Enabling Act authorizes and directs the Authority to pay to the DCR (formerly the MDC) Division of Watershed Management, who in turn remits payment to each city or town in which land of the Quabbin watershed and Ware River watershed is located. Each such payment is equal to the amount which the respective city or town would receive in property taxes, based upon the fair value of such land if such land were not tax exempt.

(h) Investments

Investments, other than guaranteed investment contracts, are recorded at fair value. Fair value is determined based on quoted market price. Guaranteed investment contracts are recorded at cost. The Authority recorded unrealized losses of \$5,942 in fiscal 2011 and unrealized gains of \$11,180 in fiscal 2010 as part of investment income.

(i) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(j) Compensated Absences

Employees of the Authority may accumulate unused sick time of which 30% will be paid in cash upon retirement from the Authority. The liability for vacation leave is based on the amount earned but not used; for sick leave, it is based on a percentage of the amount accumulated at the statement of net assets dates. The liability for both amounts is calculated based on the pay or salary rates in effect at the statements of net assets dates.

(k) Reclassifications

Certain reclassifications were made to the fiscal year 2010 financial statements to conform to the fiscal year 2011 presentation.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(3) Deferred Charges and Credits

In accordance with FASB *Accounting Standards Codification for Regulated Operations*, deferred charges and credits result primarily from differences between depreciation on property, plant, and equipment not financed by grants or capital contributions, which is recovered through rates as principal payments on debt service, and from amounts determined by the Board to be utilized in a subsequent year to reduce customer billings (rate stabilization).

A summary of the activity of charges (credits) for fiscal 2011 and 2010 is as follows:

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Balance – June 30, 2009 – net	\$ 505,858	66,395	572,253
Difference between depreciation of capital assets not financed by grants or capital contributions, and debt service in excess of interest expense	46,371	14,681	61,052
Rate stabilization, net	8,248	(8,462)	(214)
Other – net	<u>1,161</u>	<u>5,342</u>	<u>6,503</u>
Balance – June 30, 2010 – net	561,638	77,956	639,594
Difference between depreciation of capital assets not financed by grants or capital contributions, and debt service in excess of interest expense	27,504	18,776	46,280
Rate stabilization, net	(5,239)	6,121	882
Other – net	<u>16,820</u>	<u>7,822</u>	<u>24,642</u>
Balance – June 30, 2011 – net	\$ <u><u>600,723</u></u>	<u><u>110,675</u></u>	<u><u>711,398</u></u>

The net balance at June 30, 2011 and 2010 is presented on the balance sheets as follows:

	<u>2011</u>	<u>2010</u>	<u>Current year change</u>
Deferred charges	\$ 765,786	707,204	58,582
Deferred credits	<u>(54,388)</u>	<u>(67,610)</u>	13,222
Net change in deferrals	\$ <u><u>711,398</u></u>	<u><u>639,594</u></u>	<u><u>71,804</u></u>

The balance in the rate stabilization reserve, which is included in deferred credits, was \$41,104 and \$41,986 at June 30, 2011 and 2010, respectively.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(4) Deposits and Investments

The following represents essential risk information about the Authority’s deposits and investments:

(a) Custodial Credit Risk – Deposits

The custodial credit risk for deposits and certificates of deposit is the risk that, in the event of a bank failure, the Authority’s deposits may not be recovered. The deposits in the bank in excess of the insured amount are uninsured and uncollateralized.

The bank deposits at June 30, 2011 and 2010 were \$45,343 and \$43,670, respectively. Of these amounts, \$45,093 and \$43,420 were exposed to custodial credit risks as uninsured and uncollateralized.

(b) Investments

The Authority is authorized by its general bond resolution to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, bonds, or notes of public agencies or municipalities, bank time deposits, guaranteed interest contracts, money market accounts, interest rate swap agreements, and repurchase agreements. All investments are held by a third-party in the Authority’s name. These investments are recorded at fair value.

The following guaranteed investment contract was in force as of June 30, 2011 and 2010, respectively. Such contracts are fully collateralized and recorded at cost:

Investment agreement provider	Rate	Maturity	2011	2010
Wells Fargo Bank, N.A.	5.17	August 1, 2016	\$ 14,456	14,456
Total			\$ 14,456	14,456

(c) Credit Ratings

All debt securities purchased, such as FNMA, FHLMC, and FHLB issues have historically had a credit rating of AAA or they have been collateralized to AAA. On August 8, 2011, Standard & Poor’s reduced the credit rating for these agencies to AA+. The reduction in credit rating did not affect the Authority’s bond covenants or escrow requirements.

The guaranteed investment contracts themselves are not rated. Further, the certificates of deposits and money market funds are not rated.

The general bond resolution limits the Authority to investing in securities that are rated in the three highest rating categories as defined by S&P and Moody’s.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(d) Concentration Risk

The Authority has no investments, at fair value, which exceeds 5% of the Authority's total investments as of June 30, 2011 and 2010.

(e) Interest Rate Risk

The following is a listing of the Authority's fixed income investments and related maturity schedule as of June 30, 2011 and 2010:

June 30, 2011					
Investment maturities (in years)					
Investment type	Fair value	<1	1 – 3	4 – 8	>9
Money market mutual funds	\$ 467,791	467,791	—	—	—
U.S. Treasury notes and bonds	4,344	—	4,344	—	—
U.S. agency obligations	343,311	—	101,055	43,560	198,696
Guaranteed investment contract	14,456	—	—	14,456	—
Total	<u>\$ 829,902</u>	<u>467,791</u>	<u>105,399</u>	<u>58,016</u>	<u>198,696</u>

June 30, 2010					
Investment maturities (in years)					
Investment type	Fair value	<1	1 – 3	4 – 8	>9
Certificate of deposit	\$ 3,000	3,000	—	—	—
Money market mutual funds	455,730	455,730	—	—	—
U.S. Treasury notes and bonds	4,389	—	—	4,389	—
U.S. agency obligations	297,925	—	67,812	74,994	155,119
Guaranteed investment contract	14,456	—	—	14,456	—
Total	<u>\$ 775,500</u>	<u>458,730</u>	<u>67,812</u>	<u>93,839</u>	<u>155,119</u>

The Authority's bond resolution limits maturities to less than 15 years. The majority of the Authority's investments are long-term investments held in the debt service reserve funds where the intent is to hold until maturity. This reduces the exposure to fair value losses arising from increasing interest rates.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(f) Restricted Investments by Fund

The following summarizes restricted investments as of June 30, 2011 and 2010 by various funds and accounts established by the Authority for debt covenants and other purposes:

	<u>2011</u>	<u>2010</u>
Restricted investments:		
Construction	\$ 164,456	135,921
Debt service reserves	246,192	240,717
Debt service	189,988	160,761
Revenue redemption	33,197	33,245
Revenue	69,342	73,417
Renewal and replacement reserve	37,552	38,564
Insurance	14,000	19,000
Community obligation and revenue enhancement	20,862	20,932
OPEB Reserve	801	—
Insurance related escrow deposits	5,550	4,389
Total restricted investments	\$ <u>781,940</u>	<u>726,946</u>

(5) Bond Resolution Reserves

The components of the reserves required by the general and supplemental bond resolutions at June 30, 2011 and 2010 are as follows:

<u>Reserves</u>	<u>Sewer</u>	<u>Water</u>	<u>Total 2011</u>	<u>Total 2010</u>
Renewal and replacement	\$ 17,300	11,701	29,001	29,001
Insurance	7,000	7,000	14,000	19,000
Operating	25,793	11,416	37,209	37,616
Community obligation and revenue enhancement	18,399	1,717	20,116	20,116
Total	\$ <u>68,492</u>	<u>31,834</u>	<u>100,326</u>	<u>105,733</u>

A renewal and replacement reserve of \$6,000 was established through grant receipts transferred from the Commonwealth in 1985 and is included in restricted net assets at June 30, 2011 and 2010.

The General Revenue Bond Resolution requires a three year review of the balance in the Insurance Reserve which is maintained to pay for the cost of replacement or repairs to the water and sewer systems as a result of fire or other causes customarily insured against, which is not covered by an existing insurance policy. The results of the independent review, completed in February 2011, reduced the reserve requirement from \$19,000 to \$14,000.

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(6) Notes Payable and Long-Term Debt

Long-term debt at June 30, 2011 and 2010 consisted of the following:

	2011	2010
General Revenue Bonds:		
1993 Series C, 5 1/4% to 6%, issued December 2, 1993, due 2011 to 2015	\$ 32,510	36,095
2002 Series J, 5% to 5 1/2%, issued December 18, 2002, due 2011 to 2042	529,295	529,295
2003 Series D, 4 5/8% to 5%, issued January 7, 2004, due 2022 to 2028	113,340	113,340
2004 Series A, 4 3/4% to 5 1/8%, issued June 10, 2004, due 2021 to 2029	104,870	104,870
2006 Series A, 4% to 5%, issued March 16, 2006, due 2023 to 2046	200,000	200,000
2007 Series A, 4 3/8% to 5%, issued February 1, 2007 due 2022 to 2046	200,000	200,000
2009 Series A, 3% to 5%, issued February 19, 2009 due 2011 to 2039	94,005	98,000
2010 Series A, 3% to 5%, issued May 6, 2010 due 2015 to 2040	100,000	100,000
2011 Series B, 2% to 5%, issued May 19, 2011 due 2012 to 2041	150,000	—
	<u>1,524,020</u>	<u>1,381,600</u>
General Revenue Refunding Bonds:		
1997 Series D, 6%, issued December 15, 1997, due 2014	7,310	7,310
1998 Series B, 5 1/2%, issued January 27, 1998, due 2012 to 2016	19,330	24,240
2004 Series B, 5%, issued September 29, 2004, due 2016 to 2020	49,390	49,390
2005 Series A, 5% to 5 1/4%, issued April 14, 2005, due 2015 to 2034	356,665	380,350
2005 Series B, 5%, issued April 14, 2005, due 2031 to 2035	80,290	80,290
2006 Series B, 4% to 5%, issued March 16, 2006, due 2016 to 2040	263,940	264,945
2007 Series B, 5 1/4%, issued February 1, 2007 due 2023 to 2038	647,950	647,950
2009 Series B, 3% to 5%, issued February 19, 2009 due 2011 to 2039	282,560	285,200
2010 Series B, 5%, issued May 6, 2010 due 2014 to 2032	183,570	183,570
	<u>1,891,005</u>	<u>1,923,245</u>

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	<u>2011</u>	<u>2010</u>
General Revenue Bonds with the Massachusetts Water Pollution Abatement Trust:		
1993 Series A, 5 1/2%, issued March 18, 1993, due 2011 to 2013	\$ 1,165	1,735
1993 Series D, 5 1/8% to 5 1/4%, issued January 6, 1994, due 2011 to 2014	1,470	2,000
1995 Series A, 5% to 5 1/2%, issued November 21, 1995, due 2011 to 2015	1,995	2,640
1998 Series C, 4 3/4% to 5 3/8%, issued July 9, 1998, due 2011 to 2018	5,636	6,740
1999 Series E Sewer, 4 3/4% to 5 3/8%, issued October 6, 1999, due 2011 to 2029	7,915	8,205
1999 Series E Water, 4 3/4% to 5 3/8%, issued October 6, 1999, due 2011 to 2019	6,340	6,935
1999 Series F, 5 2/5% to 6%, issued November 3, 1999, due 2011 to 2029	293,815	306,800
2000 Series E Sewer, 5% to 5 5/8%, issued November 1, 2000, due 2011 to 2030	58,631	60,499
2000 Series E Water, 5% to 5 5/8%, issued November 1, 2000, due 2011 to 2020	7,345	7,953
2001 Series C Water, 5% to 5 1/4%, issued July 26, 2001, due 2012 to 2021	3,170	3,431
2001 Series D Sewer, 5 1/4% to 5 3/4%, issued July 26, 2001, due 2011 to 2029	4,724	5,127
2001 Series D Water, 5 1/8% to 5 3/4%, issued July 26, 2001, due 2011 to 2019	896	981
2002 Series H Sewer, 3 5/8% to 5 1/4%, issued October 31, 2002, due 2011 to 2032	75,130	77,410
2002 Series H Water, 3 5/8% to 5 1/4%, issued October 31, 2002, due 2011 to 2022	22,265	23,765
2002 Series I Sewer, 4 1/4% to 5 5/8%, issued October 31, 2002, due 2011 to 2030	2,124	2,196
2002 Series I Water, 4 1/4% to 5 5/8%, issued October 31, 2002, due 2011 to 2020	19	21
2003 Series A Water, 3 3/4% to 5 1/4%, issued October 31, 2002, due 2011 to 2022	1,026	1,096
2003 Series B Water, 5% to 5 1/4%, issued July 24, 2003, due 2012 to 2021	2,863	3,098
2003 Series C Sewer, 3 3/5% to 5 1/2%, issued November 6, 2003, due 2011 to 2033	27,075	27,836
2003 Series C Water, 3 3/8% to 5 1/2%, issued November 6, 2003, due 2011 to 2023	15,254	16,199

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	<u>2011</u>	<u>2010</u>
2004 Series C Sewer, 3 3/5% to 5 1/2%, issued October 26, 2004, due 2011 to 2033	\$ 9,194	9,452
2004 Series C Water, 3 3/4% to 5 1/4%, issued October 26, 2004, due 2011 to 2022	1,166	1,260
2004 Series D Sewer, 3 1/5% to 5 1/4%, issued November 29, 2004, due 2011 to 2034	52,575	54,775
2004 Series D Water, 3 1/5% to 5 1/4%, issued November 29, 2004, due 2011 to 2024	10,289	10,839
2005 Series C Sewer, 3 3/5% to 5 1/2%, issued November 3, 2005, due 2011 to 2033	6,213	6,436
2005 Series C Water, 3 3/5% to 5 1/2%, issued November 3, 2005, due 2011 to 2023	797	846
2005 Series D Sewer, 2% to 2 3/10%, issued November 16, 2005, due 2011 to 2035	57,716	59,655
2005 Series D Water, 0% to 2%, issued November 16, 2005, due 2011 to 2025	11,350	12,076
2005 Series E Sewer, 2%, issued November 16, 2005, due 2011 to 2025	305	327
2005 Series E Water, 2%, issued November 16, 2005, due 2011 to 2025	68	71
2006 Series C Sewer, 3 1/5% to 5 1/4%, issued October 26, 2006, due 2011 to 2034	7,656	7,913
2006 Series D Sewer, 2% to 2 3/10%, issued December 14, 2006, due 2011 to 2036	58,158	60,421
2006 Series D Water, 0% to 2%, issued November 16, 2006, due 2011 to 2026	24,190	25,636
2006 Series E Sewer, 2%, issued December 14, 2006, due 2011 to 2026	311	327
2006 Series E Water, 2%, issued December 14, 2006, due 2011 to 2026	139	147
2007 Series C Sewer, 2% to 2 3/10%, issued November 9, 2007, due 2011 to 2035	3,960	4,238
2007 Series C Water, 2%, issued November 9, 2007, due 2011 to 2025	2,281	2,430
2007 Series D Sewer, 2 3/10%, issued November 9, 2007, due 2011 to 2036	21,782	22,387
2007 Series E Sewer, 2% to 2 2/5%, issued December 18, 2007, due 2011 to 2037	55,511	57,326
2007 Series E Water, 2%, issued December 18, 2007, due 2011 to 2027	17,464	18,318

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	<u>2011</u>	<u>2010</u>
2008 Series G Sewer, 2%, issued		
December 9, 2008, due 2011 to 2026	\$ 5,276	5,567
2008 Series G Water, 2%, issued		
December 9, 2008, due 2011 to 2026	1,095	1,153
2009 Series C Sewer, 2% to 2 2/5%, issued		
March 18, 2009, due 2011 to 2038	84,134	87,747
2009 Series C Water, 2%, issued		
March 18, 2009, due 2011 to 2028	27,834	29,106
2009 Series D Sewer, 2% to 2 2/5%, issued		
December 15, 2009, due 2011 to 2037	10,610	11,001
2009 Series D Water, 2%, issued		
December 15, 2009, due 2011 to 2027	1,206	1,265
2010 Series D Sewer, 2% to 2 2/5%, issued		
July 8, 2010, due 2011 to 2040	25,660	—
2010 Series D Water, 2%, issued		
July 8, 2010, due 2011 to 2030	23,088	—
2011 Series A Sewer, 2% to 2 2/5%, issued		
March 15, 2011, due 2011 to 2038	5,951	—
2011 Series A Water, 2%, issued		
March 15, 2011, due 2011 to 2028	5,411	—
	<u>1,070,248</u>	<u>1,055,386</u>
General Revenue Bonds (variable rates):		
1999 Series B, 0.10% to 0.40%, issued January 29, 1999, due 2014 to 2028	69,300	72,600
	<u>69,300</u>	<u>72,600</u>
General Revenue Refunding Bonds (variable rates):		
2002 Series C, 0.10% to 0.35%, issued		
August 15, 2002, due 2020	70,575	70,575
2002 Series D, 0.03% to 0.35%, issued		
August 15, 2002, due 2016 to 2017	56,450	56,450
2008 Series A, 0.07% to 0.90%, issued May 29, 2008, due 2014 to 2037	337,675	337,675
2008 Series B, 0.09% to 0.34%, issued May 29, 2008, due 2016 to 2031	123,130	123,130
2008 Series C, 0.08% to 0.33%, issued May 29, 2008, due 2011 to 2026	187,700	189,200
2008 Series D, 0.24% to 0.33%, issued May 29, 2008, due 2011	—	12,240
2008 Series E, 0.09% to 0.32%, issued May 29, 2008, due 2012 to 2037	210,670	210,670

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	<u>2011</u>	<u>2010</u>
2008 Series F, 0.08% to 0.35%, issued May 29, 2008, due 2016 to 2029	\$ 184,910	184,910
	<u>1,171,110</u>	<u>1,184,850</u>
	<u>5,725,683</u>	<u>5,617,681</u>
Less:		
Unamortized bond premiums and discounts	\$ 180,944	181,047
Unamortized excess of reacquisition price over net carrying amount of defeased bonds	(102,079)	(148,182)
Current portion of long-term debt	<u>(94,723)</u>	<u>(67,302)</u>
	<u>(15,858)</u>	<u>(34,437)</u>
Long-term debt, net	\$ <u>5,709,825</u>	<u>5,583,244</u>

Long-term obligations at June 30, 2011 and 2010 consisted of the following:

	<u>2011 beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>2011 ending balance</u>	<u>Due within one year</u>
General Revenue Bonds	\$ 1,454,200	150,000	10,880	1,593,320	37,570
General Revenue Refunding Bonds	3,108,095	—	45,980	3,062,115	8,340
General Revenue Bonds with the Massachusetts Water Pollution Abatement Trust	1,079,052	66,554	45,248	1,100,358	48,813
Borrowings associated with derivative instruments	<u>51,604</u>	<u>38,900</u>	<u>30,172</u>	<u>60,332</u>	<u>—</u>
	\$ <u>5,692,951</u>	<u>255,454</u>	<u>132,280</u>	<u>5,816,125</u>	<u>94,723</u>
	<u>2010 beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>2010 ending balance</u>	<u>Due within one year</u>
General Revenue Bonds	\$ 1,511,680	100,000	157,480	1,454,200	6,885
General Revenue Refunding Bonds	3,051,070	183,570	126,545	3,108,095	15,170
General Revenue Bonds with the Massachusetts Water Pollution Abatement Trust	1,075,549	47,576	44,073	1,079,052	45,247
Borrowings associated with derivative instruments	<u>51,604</u>	<u>—</u>	<u>—</u>	<u>51,604</u>	<u>—</u>
	\$ <u>5,689,903</u>	<u>331,146</u>	<u>328,098</u>	<u>5,692,951</u>	<u>67,302</u>

The Authority is required to establish water and sewer rates and charges at a level sufficient to provide, among other things, primary and subordinated debt service coverage ratios of 120% and 110%,

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respectively. For the year ended June 30, 2011, the Authority had primary and subordinated debt service coverage ratios of 191% and 120%, respectively.

Under the Authority's General Revenue Bond Resolution, all revenues, together with the investment earnings thereon, except to the extent that such earnings are required to be deposited in the Rebate Fund pursuant to a Supplemental Resolution, are pledged for payment of the Bonds.

The Act of 1984 imposes a limitation of \$600,000 on the total amount of bonds and notes which may be outstanding at any one time. The Authority has requested increases in its debt limit as necessary to allow for issuances of bonds in amounts required to finance the capital program. The state legislature increased the debt limit to \$6,450,000.

On June 2, 2010, the Authority executed Bond Anticipation Notes with the Massachusetts Water Pollution Abatement Trust (MWPAT) for funding under the American Reinvestment and Recovery Act of 2009 (ARRA). The principal on these notes, totaling \$33,036, will be forgiven upon issuance of a Project Completion Certificate and the Authority's compliance with the requirements of ARRA. The Authority drew down \$23,666 during the fiscal year 2010 and an additional \$6,443 during fiscal year 2011 which is presented as long-term debt on the Authority's balance sheet.

On May 19, 2011, the Authority issued General Revenue Bonds, 2011 Series B for \$150,000. The proceeds from these bonds were used to fund on-going capital projects and permanently finance tax-exempt commercial paper. The interest rate on these bonds is 2% to 5%.

On May 6, 2010, the Authority issued General Revenue Bonds, 2010 Series A, and General Revenue Refunding Bonds, 2010 Series B in the principal amounts of \$100,000 and \$183,570, respectively.

The proceeds from the Series A bonds were used to fund on-going capital projects. The interest rate on these bonds is 3% to 5%.

The proceeds from the Series B bonds were used to refund \$52,525 of General Revenue Bonds 1998 Series A, \$74,415 of General Revenue Bonds 2002 Series B, \$60,900 of General Revenue Refunding Bonds 2008 Series D and \$14,100 of General Revenue Refunding Bonds 2008 Series E. The interest rate on these bonds is 5%. The cash flow required to make principal and interest payments on the refunding bonds is approximately \$24,157 less than the debt service requirements of the refunded bonds. The economic gain (the difference between the present values of the debt service payments on the old and new debt) obtained from this refunding was \$6,366.

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Synthetic Fixed Rate Swap Transactions

In connection with several of its bond issues, the Authority has entered into various interest rate swap agreements to reduce the impact of changes in interest rates on its variable rate debt. Under these agreements, the Authority pays a fixed interest rate (ranging from 3.9% to 6.9%) and receives interest from the swap counterparties at a variable rate (either Securities Industry and Financial Markets Association (SIFMA) rate or a percentage of LIBOR). The SIFMA rate is based on the seven-day high-grade market index of tax-exempt variable rate demand obligations.

<u>Item</u>	<u>Objective</u>	<u>Effective Date</u>	<u>Current notional amount</u>	<u>Termination date</u>	<u>Fixed payable swap rate</u>	<u>Variable receivable swap rate</u>	<u>Fair value at June 30, 2011</u>	<u>Fair value at June 30, 2010</u>
A	Hedge changes in cash flows on the 2008 Series A Bonds	April 4, 2011	\$ 133,300	August 1, 2030	4.120%	67% LIBOR	\$ (2,462)	(10,732)
B	Hedge changes in cash flows on the 2008 Series E Bonds	October 28, 2008	133,300	August 1, 2030	4.470	PLUS 0.13% SIFMA	(10,022)	(10,732)
C	Hedge changes in cash flows on the 2008 Series A & E Bonds	August 1, 2030	70,400	August 1, 2037	6.585	67% LIBOR	(67)	794
D	Hedge changes in cash flows on the 2008 Series C Bonds	May 29, 2008	112,315	November 1, 2026	3.994	PLUS 0.13% SIFMA	(8,800)	(9,112)
E	Hedge changes in cash flows on the 2008 Series C Bonds	May 29, 2008	74,880	November 1, 2026	4.032	SIFMA	(10,520)	(12,153)
F	Hedge changes in cash flows on the 2002 Series D, 2008 Series A & E Bonds	August 15, 2002	232,690	August 1, 2015	4.127	67% LIBOR	(16,752)	(22,506)
						Total	\$ <u>(48,623)</u>	<u>(64,441)</u>

All of the above are pay-fixed interest rate swap agreements. Under these interest rate swap agreements, the Authority incurred net interest expense of \$27,508 and \$29,238 in fiscal 2011 and fiscal 2010, respectively.

During fiscal year 2011, the Authority amended two existing swap agreements (Items A&C) with a counterparty. The amendment changed the reference rate from the Securities Industry and Financial Markets Association (SIFMA) based index to 67% of the 3 month London Inter-Bank Offered Rate (LIBOR) plus 0.13% and the fixed interest rate paid by the Authority.

For the swap execution on April 4, 2011, with a current notional amount of \$133,300, the fixed rate paid by the Authority is as follows: 4.120% from execution through August 2013, 5.144% from August 2013 through August 2019, and 6.585% from, August 2019 through August 2030.

For the swap execution on October 28, 2008, with a current notional amount of \$133,300, the fixed rate paid by the Authority is as follows: 4.470% from execution through August 2013, 5.494% from August 2013 through August 2019, and 6.935% from August 2019 through August 2030.

The aggregate fair value balance of the derivative instruments at June 30, 2011 and 2010 is \$(48,623) and \$(64,441), respectively, and is reflected on the Authority's balance sheets as liability for derivative instruments. This liability is offset by deferred outflows from derivative instruments. The original notional amounts of the interest rate swaps totaled \$885,895.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates

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implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Risk Disclosure

Credit Risk – Because all of the Authority’s swaps rely upon the performance of the third parties who serve as swap counterparties, the Authority is exposed to credit risk, or the risk that a swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swaps, as shown in the columns labeled Fair Value in the tables above. To mitigate credit risk, the Authority maintains strict credit standards for swap counterparties. The Authority monitors swap counterparties’ credit ratings by the three rating agencies (FitchRatings, Moody’s Investors Service, and Standard and Poor’s). Collateral is obtained from any counterparty that does not maintain a set credit rating. Since all derivatives are in a liability position, there is no amount exposed to credit risk.

The following represents the credit ratings of the counterparties as of June 30, 2011:

<u>Derivative instrument</u>	<u>Counterparty credit rating</u>
Derivative A	AA-
Derivative B	AA
Derivative C	AA-
Derivative D	A+
Derivative E	A
Derivative F	Aa3

Basis Risk – The Authority is exposed to basis risk because the floating index the Authority receives on the swaps (SIFMA or 67% of LIBOR) is different than the basis of the variable rate on the associated bonds. Should this occur, the expected savings may not be realized.

Termination Risk – The Authority or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. If, at the time of termination, a derivative is in a liability position, the Authority would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

Rollover Risk – The Authority is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature prior to the maturity of the debt. Derivative instruments A, B and F have a maturity date that is before the maturity date of the associated debt. The associated debt matures on August 1, 2037 for derivative instruments A and B and on August 1, 2021 for derivative instrument F.

Swap Payments and Associated Bonds Outstanding

Bonds outstanding include certain variable rate bonds where the Authority pays a fixed interest rate and receives interest at a variable rate from the counterparty. The table below presents the debt service requirements and related net swap payments for these bonds. As rates vary, variable rate interest payments will vary.

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Using rates as of June 30, 2011, debt service requirements of the hedged variable rate bonds and net swap payments, assuming current interest rates remain constant, were as follows:

	<u>Variable-rate</u>		<u>Interest rate</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>swaps, net</u>	
Fiscal year ending June 30:				
2012	\$ 6,000	35,867	24,997	66,864
2013	43,810	33,869	22,083	99,762
2014	45,820	31,449	17,931	95,200
2015	55,320	28,552	13,597	97,469
2016	57,880	25,686	9,384	92,950
2017 – 2021	212,050	99,087	31,667	342,804
2022 – 2026	147,865	44,601	20,506	212,972
2027 – 2031	48,475	19,516	11,279	79,270
2032 – 2036	42,020	13,974	9,440	65,434
2037 – 2038	28,720	976	1,002	30,698
Total	<u>\$ 687,960</u>	<u>333,577</u>	<u>161,886</u>	<u>1,183,423</u>

At June 30, 2011, the following bonds outstanding are considered defeased in-substance:

<u>Description</u>	<u>Redemption date</u>	<u>Redemption price</u>	<u>Outstanding principal amount</u>
1992 Series A	2013 – 2019	100	\$ 277,585
1993 Series C	2011 – 2015	100	72,950
1995 Series B	2011 – 2013	100	24,330
1997 Series D	2013	100	6,900
1998 Series A	2011 – 2014	100	21,250
1998 Series B	2011 – 2013	100	5,615
2000 Series A	2011	100	17,550
2000 Series D	2011	100	50,000
2002 Series B	2011	100 to 101	164,130
2002 Series J	2012 – 2013	100	56,855
2003 Series D	2011 – 2013	100	38,435
2004 Series A	2011 – 2014	100	17,785
2004 Series B	2014	100	15,865
2005 Series A	2011 – 2013	100	28,370
2006 Series B	2011 – 2018	100	22,380
2009 Series A	2011	100	3,995
2009 Series B	2011	100	2,640

The proceeds and available funds were deposited in irrevocable trusts with escrow agents in an amount which will provide for payment of interest due to the redemption date and redemption of the defeased

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bonds outstanding on such date. The defeased portion of such debt, accrued interest thereon, and related unamortized issuance and discount costs were removed from the balance sheet in an in substance defeasance transaction.

In June 2011, the Authority used funds on hand to defease \$3,995 of the 2009 Series A General Revenue bonds outstanding and \$14,925 of the 2005 Series A, \$1,005 of the 2006 Series B and \$2,640 of the 2009 Series B General Revenue Refunding bonds outstanding.

In June 2010, the Authority used funds on hand to defease \$8,625 of the 1993 Series C and \$18,540 of the 2002 Series J General Revenue bonds outstanding and \$6,900 of the 1997 Series D, \$435 of the 1998 Series B, and \$9,925 of the 2005 Series A General Revenue Refunding bonds outstanding.

At June 30, 2011, outstanding bonds that are redeemable before their scheduled due dates are as follows:

Description	Redemption date	Redemption price	Outstanding principal amount
2002 Series J	August 2012	100	\$ 200,000
2003 Series D	August 2013	100	113,340
2004 Series A	August 2014	100	104,870
2004 Series B	December 2014	100	49,390
2005 Series A	August 2017	100	284,990
2005 Series B	August 2017	100	80,290
2006 Series A	August 2018	100	19,385
2006 Series A	August 2016	100	180,615
2006 Series B	August 2018	100	123,335
2006 Series B	August 2016	100	138,440
2007 Series A	February 2017	100	200,000
2009 Series A	August 2019	100	76,445
2009 Series B	August 2019	100	181,885
2010 Series A	August 2020	100	92,545
2010 Series B	August 2020	100	114,565
2011 Series B	August 2021	100	120,385

The variable rate General Revenue Bonds are subject to redemption prior to maturity at the option of the Authority in whole or in part, on any interest payment date for bond series 1999B and 2002C and D and on any business day for bond series 2008A through F, respectively.

During fiscal 2011, the Authority executed loan agreements with the MWPAT providing for 2010 Series D Sewer and Water loans in the principal amounts of \$26,332 and \$23,088 respectively and 2011 Series A Sewer and Water loans in the principal amounts of \$5,951 and \$5,411, respectively. All proceeds for these loans were received by June 30, 2011, except for \$672 of the 2010 Series D Sewer loans.

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During fiscal 2010, the Authority executed loan agreements with the MWPAT providing for 2009 Series D Sewer and Water loans in the principal amounts of \$11,001 and \$1,265 respectively. All proceeds for these loans were received by June 30, 2010.

Federal and Commonwealth subsidies for purposes of offsetting principal payments aggregating \$88,156 will be recognized as capital grants in aid of construction over the term of the loans.

Interest is payable semiannually on all debt, except on the commercial paper and capital appreciation bonds, on which interest is payable upon maturity and the General Revenue Bonds with variable interest rates on which interest is payable monthly. The Senior General Revenue Bonds and the General Revenue Refunding Bonds are collateralized equally and ratably by a lien and pledge on substantially all of the Authority's cash and revenues, except the operating fund. The subordinated debt series, including the commercial paper are collateralized equally and ratably by a subordinated pledge on substantially all of the Authority's revenues and cash and investments, except the operating, senior debt service, and debt service reserve funds. Premiums, discounts, issuance costs, and the excess of reacquisition price over the carrying amount of the defeased debt are being amortized over the lives of the respective issues.

The amounts of long-term debt, principal, and interest payable in future fiscal years are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2012	\$ 94,723	243,333	338,056
2013	108,715	241,604	350,319
2014	115,960	237,643	353,603
2015	145,007	232,235	377,242
2016	181,895	225,261	407,156
2017 – 2021	1,216,768	994,052	2,210,820
2022 – 2026	1,389,818	705,288	2,095,106
2027 – 2031	1,148,752	420,815	1,569,567
2032 – 2036	686,815	224,879	911,694
2037 – 2041	447,660	88,926	536,586
2042 – 2046	161,345	21,404	182,749
2047 – 2049	28,225	601	28,826
Total	\$ <u>5,725,683</u>	<u>3,636,041</u>	<u>9,361,724</u>

The Authority issued commercial paper notes of \$144,000 to finance capital expenditures, which are secured by \$100,000 and \$250,000 irrevocable direct-pay letters of credit which expire on September 8, 2012, and November 30, 2015, respectively. These letters of credit carry a fee of 0.27% and 0.30% per annum, respectively, on the amount available. The maximum aggregate principal amount of commercial paper which may be outstanding at any one time is \$350,000.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

Commercial paper at June 30, 2011 and 2010 consisted of the following:

	2011 Beginning balance	Additions	Reductions	2011 Ending balance
0.31% commercial paper	\$ —	34,000	—	34,000
0.40% commercial paper	—	87,000	—	87,000
0.34% commercial paper	—	23,000	—	23,000
0.79% commercial paper	84,000	—	84,000	—
0.47% commercial paper	87,000	—	87,000	—
0.52% commercial paper	23,000	—	23,000	—
	<u>\$ 194,000</u>	<u>144,000</u>	<u>194,000</u>	<u>144,000</u>
	2010 Beginning balance	Additions	Reductions	2010 Ending balance
0.79% commercial paper	\$ —	84,000	—	84,000
0.47% commercial paper	—	87,000	—	87,000
0.52% commercial paper	—	23,000	—	23,000
2.77% commercial paper	84,000	—	84,000	—
3.16% commercial paper	87,000	—	87,000	—
1.66% commercial paper	23,000	—	23,000	—
	<u>\$ 194,000</u>	<u>194,000</u>	<u>194,000</u>	<u>194,000</u>

(7) Accounts Receivable/Intergovernmental Loans

The Authority has entered into various interest-free loan agreements with certain member communities. Under these agreements, the Authority loaned these communities \$24,222 and \$29,339 in fiscal 2011 and 2010, respectively, to be received in five or ten equal annual installments.

The long-term portion of these loans at June 30, 2011 and 2010, is \$99,669 and \$102,258, respectively, and is included in other assets. The loans due within one year total \$26,758 and \$27,235 at June 30, 2011 and 2010, respectively. This program is designed to assist member communities with sewer and water systems rehabilitation.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(8) Capital Assets

Capital assets at June 30, 2011 and 2010 consisted of the following:

	2010	Additions	Disposals/ transfers	2011
Capital assets – not being depreciated:				
Land	\$ 13,413	10,084	—	23,497
Construction in progress	424,133	101,943	(349,006)	177,070
Total capital assets – not being depreciated	437,546	112,027	(349,006)	200,567
Capital assets – being depreciated:				
Plant and equipment – water and sewage system	8,429,698	337,762	—	8,767,460
Furniture and fixtures	17,014	95	—	17,109
Leasehold improvements	2,423	—	—	2,423
Motor vehicles and equipment	948	1,065	—	2,013
Total capital assets – being depreciated	8,450,083	338,922	—	8,789,005
Less accumulated depreciation for:				
Plant and equipment – water and sewage system	2,499,381	167,487	—	2,666,868
Furniture and fixtures	15,485	300	—	15,785
Leasehold improvements	2,053	8	—	2,061
Motor vehicles and equipment	452	29	—	481
Total accumulated depreciation	2,517,371	167,824	—	2,685,195
Total capital assets – being depreciated – net	5,932,712	171,098	—	6,103,810
Capital assets – net	\$ 6,370,258	283,125	(349,006)	6,304,377

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

Capital assets at June 30, 2010 and 2009, consisted of the following:

	<u>2009</u>	<u>Additions</u>	<u>Disposals/ transfers</u>	<u>2010</u>
Capital assets – not being depreciated:				
Land	\$ 6,618	6,884	(89)	13,413
Construction in progress	367,593	188,089	(131,549)	424,133
	<u>374,211</u>	<u>194,973</u>	<u>(131,638)</u>	<u>437,546</u>
Total capital assets – not being depreciated				
Capital assets – being depreciated:				
Plant and equipment – water and sewage system	8,358,741	120,698	(49,741)	8,429,698
Furniture and fixtures	13,047	3,967	—	17,014
Leasehold improvements	2,423	—	—	2,423
Motor vehicles and equipment	948	—	—	948
	<u>8,375,159</u>	<u>124,665</u>	<u>(49,741)</u>	<u>8,450,083</u>
Total capital assets – being depreciated				
Less accumulated depreciation for:				
Plant and equipment – water and sewage system	2,352,640	175,029	(28,288)	2,499,381
Furniture and fixtures	13,026	2,459	—	15,485
Leasehold improvements	2,041	12	—	2,053
Motor vehicles and equipment	433	19	—	452
	<u>2,368,140</u>	<u>177,519</u>	<u>(28,288)</u>	<u>2,517,371</u>
Total accumulated depreciation				
Total capital assets – being depreciated – net	<u>6,007,019</u>	<u>(52,854)</u>	<u>(21,453)</u>	<u>5,932,712</u>
Capital assets – net	\$ <u>6,381,230</u>	<u>142,119</u>	<u>(153,091)</u>	<u>6,370,258</u>

Depreciation and amortization for fiscal 2011 and 2010 was \$180,734 and \$189,798, respectively.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(9) Leases

(a) Operating

The Authority leases electrical power assets, office space in Boston, and other property under long-term operating leases. Future minimum rental payments required under operating leases having initial or remaining noncancelable lease terms in excess of one year at June 30, 2011 are as follows:

Year ending June 30:			
2012		\$	5,504
2013			5,163
2014			5,378
2015			5,040
2016			2,690
2017 – 2021			<u>11,695</u>
Total		\$	<u><u>35,470</u></u>

Rental expense was \$7,228 and \$6,057 in fiscal years 2011 and 2010, respectively.

(b) Capital

In fiscal 2003, the Authority entered into a 30-year capital lease agreement for the new maintenance facility. The interest rate for the capital lease is 7.83%. Future minimum lease payments for the capital lease at June 30, 2011 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2012	\$ 652	2,565	3,217
2013	705	2,512	3,217
2014	762	2,455	3,217
2015	824	2,393	3,217
2016	891	2,326	3,217
2017 – 2021	5,662	10,423	16,085
2022 – 2026	8,365	7,720	16,085
2027 – 2031	12,358	3,727	16,085
2032 – 2035	<u>2,837</u>	<u>112</u>	<u>2,949</u>
Total	\$ <u><u>33,056</u></u>	<u><u>34,233</u></u>	<u><u>67,289</u></u>

Under this lease, the Authority is also responsible for “Additional Rent,” as defined in the lease. The Additional Rent includes real estate taxes, assessments, and other government charges.

The associated capital asset is reported in plant and equipment – water and sewage system at a cost of \$37,134 with \$11,142 of accumulated depreciation as of June 30, 2011.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(10) Retirement Benefits

(a) Plan Description

The Enabling Act provided for the establishment of the Massachusetts Water Resources Authority Employees' Retirement System (the Plan), a contributory single-employer retirement system that is separate from the State Employees Retirement System. The Plan is a defined benefit pension plan covering those employees not employed by the MDC prior to July 1, 1985. Covered payroll for all Authority employees in the Plan was \$82,870 at the actuarial valuation date, January 1, 2011.

Under the provisions of the Plan, pension benefits vest after 10 years of full-time employment. An employee may retire after 20 years of service or at age 55 and completion of 10 years of service. At age 65, annual pension benefits equal 2.5% of the employee's average regular compensation earned during the last three years of employment or any three consecutive years when compensation was higher, multiplied by each year of creditable service. The benefit is reduced if retirement occurs before age 65 or if survivor's benefits are elected. The Plan also provides death and disability benefits. Ordinary disability benefits are available only to employees under age 55 with at least 10 years of service. Complete financial statements for the Plan can be obtained from the Authority's administrative offices at Charlestown Navy Yard, 100 First Avenue, Boston, MA 02129.

(b) Funding Policy

Contributions made by employees are based upon a percentage of employee base pay (5% for employees hired before December 31, 1974, 7% for employees hired between January 1, 1975 and December 31, 1983, 8% for employees hired between December 31, 1983, and June 30, 1996, and 9% for employees hired after July 1, 1996). Additionally, certain employees earning in excess of \$30 contribute an extra 2% of their salary effective January 1, 1979. Employees receive full payment of contributions upon withdrawal from the Plan and 50% of interest earned for employees with five to nine years of service or 100% of interest earned for employees with 10 or more years of service.

The Authority's 2011 and 2010 contributions to the plan were based on an amount approved by the Retirement Board and the Authority's board of directors, which is based on an actuarially determined amount. The Authority's Enabling Act requires funding to be made in accordance with the Retirement Board's recommendation.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(c) Annual Pension Cost and Net Pension Obligation

The annual required contribution for the year ended June 30, 2011, determined by the January 1, 2010 actuarial valuation, was as follows:

Annual required contribution	\$	5,343
Contributions made		<u>(5,343)</u>
Increase (decrease) in net pension obligation		—
Net pension obligation, beginning of year		<u>—</u>
Net pension obligation, end of year	\$	<u><u>—</u></u>

(d) Three-Year Trend Information

	<u>Annual pension cost (APC)</u>	<u>Percentage of ARC contributed</u>	<u>Net pension asset (obligation)</u>
Fiscal year ending:			
2011	\$ 5,343	100%	\$ —
2010	5,587	101	34
2009	5,314	296	10,415

(e) Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the funded status of the Plan was as follows:

Actuarial accrued liability	\$	341,521
Actuarial value of assets		<u>298,928</u>
Unfunded actuarial accrued liability (UAAL)	\$	<u><u>42,593</u></u>
Funded ratio		87.5%
Covered payroll	\$	82,870
UAAL as percentage of covered payroll		51.4%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. Effective for the January 1, 2007 actuarial valuation, the Authority changed to the entry age normal actuarial cost method. Prior actuarial valuations were completed using the aggregate cost method.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(f) Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the January 1, 2010, actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$43,600 was calculated. The actuarial assumptions included (a) 8% investment rate of return and (b) projected salary increase of 4.75% per year. Liabilities for cost of living increases have been assumed at an annual increase of 3%, on the first \$12 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8.0%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five year period. As of January 1, 2010 the unfunded actuarially accrued liability is being amortized over 14 years using an open group method which assumes a 4.5% per year increase in payroll.

(g) Other Benefits

All MDC personnel who became employees of the Authority on July 1, 1985, and were members of the State Employees Retirement System, retained their membership in that system. The Authority is not liable for retirement allowances paid to or on account of these employees. Funding of the pension liability of the State Employees Retirement System is the obligation of the Commonwealth. Employees covered by this plan become 100% vested after 10 years of service.

(11) Other Postemployment Benefits (OPEB)

(a) Plan Description

In addition to providing the pension benefits described, the Authority provides postemployment health care and life insurance benefits for retired employees through the Group Insurance Commission (GIC). The GIC is a quasi-independent state agency that administers an agent multi-employer defined benefit OPEB plan. The benefits, benefit levels, employee contributions and employer contributions are governed by the Authority and can be amended by the Authority. As of January 1, 2010, the actuarial valuation date, approximately 368 retirees and survivors and 1,105 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

(b) Benefits Provided

The Authority provides medical, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents. All active employees who retire from the Authority and meet the eligibility criteria will receive these benefits.

(c) Funding Policy

Retirees who retired on or before July 1, 1994 contribute 10% of the cost of the health plans, as determined by the GIC. Those who retired after July 1, 1994 contribute 15% of the cost of the health plan and those who retired after October 1, 2009 contribute 20% of the cost of the health plan, as

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

determined by the GIC. The Authority contributes the remainder of the health plan costs on a pay-as-you-go basis.

(d) Annual OPEB Costs and Net OPEB Obligation

The Authority's fiscal 2011 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Authority's annual OPEB cost for the year ending June 30, 2011, the amount actually contributed to the plan, and the change in the Authority's net OPEB obligation based on an actuarial valuation as of January 1, 2010:

Annual Required Contribution (ARC)	\$	17,433
Interest on net OPEB obligation		1,958
Adjustment to ARC		<u>(1,929)</u>
Annual OPEB cost		17,462
Contributions made		<u>(3,293)</u>
Increase in net OPEB obligation		14,169
Net OPEB obligation – beginning of year		<u>46,072</u>
Net OPEB obligation – end of year	\$	<u><u>60,241</u></u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of OPEB cost contributed</u>	<u>Net OPEB obligation</u>
2011	\$ 17,462	19%	\$ 60,241
2010	18,989	11	46,072
2009	17,614	10	29,234

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(e) Funded Status and Funding Progress

The funded status of the plan as of January 1, 2010, the date of the most recent actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	\$	192,096
Actuarial value of plan assets		—
		—
Unfunded actuarial accrued liability (UAAL)	\$	192,096
Funded ratio (actuarial value of plan assets/AAL)		—%
Covered payroll (active plan members)	\$	81,372
UAAL as a percentage of covered payroll		236%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(f) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the Authority and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Authority and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2010 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Authority has not advance funded its obligation. The actuarial assumptions included a 4.25% investment rate of return and an initial annual healthcare cost trend rate of 10% which decreases to a 6% long-term trend rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.25%.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(12) Commitments and Contingencies

(a) *General*

The Authority's capital improvement program continues to proceed. As part of this program, the Authority has entered into a number of contracts for the design and construction of infrastructure and improvements to its facilities. Commitments under these contracts aggregated approximately \$466,100 at June 30, 2011.

The Authority's operating and construction plans are designed to comply with the Federal District Court's schedule of actions. The Authority has incurred capital expenditures of approximately \$8,132,000 from fiscal 1986 through fiscal 2011, including those projects required to comply with the Federal District Court's schedule. The Authority anticipates spending an additional \$2,082,000 on these projects through fiscal 2021. These capital expenditures have been forecasted based upon certain preliminary assumptions and estimates, which may change significantly as design and construction of the necessary facilities proceed. Funding is expected to come from various federal and state grants, as available and approved, and from the Authority's debt proceeds. To date, federal appropriations for the Boston Harbor Project have aggregated \$810,000.

(b) *Boston Harbor Case*

The Authority continues to be a defendant, along with Boston Water and Sewer Commission (BWSC) and the Commonwealth, in the federal Boston Harbor Case. The federal action was originally brought in 1985 by the United States on behalf of the United States Environmental Protection Agency (EPA) and by certain citizens groups for Clean Water Act violations. As part of the Boston Harbor Case, the Authority was required to undertake certain corrective actions to meet wastewater treatment, discharge and combined sewer overflow (CSO) requirements. The only corrective action remaining is CSO related which is currently scheduled for completion in 2015.

In March 2006, the Authority reached agreement with the United States and the Massachusetts Department of Environmental Protection (DEP) on the scope and schedule for the remaining CSO projects which was filed with the Court as part of a joint motion to amend the Court Schedule. In April 2006, the Court allowed the joint motion and issued an Order with a schedule. Under the Order, the Authority has until 2020 to complete the remaining CSO work and subsequent monitoring which will be used to verify that the long term CSO control goals are achieved.

As part of the agreement, DEP agreed to reissue and EPA agreed to approve five (5) consecutive variances of no more than three years duration each, through the year 2020, for the Charles River and Alewife Brook/Upper Mystic River that are consistent with and limited to the requirements in the Authority's revised Long Term CSO Control Plan. Variances have most recently been issued by DEP in September and October 2010. The variances will respectively remain in place for the Charles River until October 1, 2013 and for the Alewife/Upper Mystic until September 1, 2013. In addition, the United States and the Authority agreed to withdraw the February 27, 1987 Stipulation of the United States and the Massachusetts Water Resources Authority on Responsibility and Legal Liability for Combined Sewer Overflows and replace it with a Second Stipulation that requires the Authority to implement the CSO requirements set forth in the Court Schedule and to meet the levels

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

of control described in the Authority's long term CSO control plan. Upon completion of the long term CSO control plan and with results that demonstrate performance parameters are as predicted, the stipulation makes the Authority responsible for only those CSO outfalls which it owns and operates. As a result of the agreement, the Authority now has 35 CSO projects, 29 of which are complete, and four of which are in design or under construction. The two remaining projects, both associated with Alewife Brook, are scheduled for design commencement by April 2012.

During the fiscal year 2011, the Authority was able to report completion of the North Dorchester Bay Storage Tunnel and Related Facilities Project in compliance with the Schedule Seven milestone because it had completed more than 99 percent of all planned construction, including all of the work necessary to bring the \$231,000 North Dorchester Bay combined sewer overflow (CSO) storage tunnel and related facilities project, the single most expensive CSO control project in Schedule Seven, into its full intended environmental and operational mode. As of May 4, 2011, the tunnel and related facilities were operational as intended and capable of achieving the environmental benefits of the project in accordance with the long term CSO control plan for North Dorchester Bay and the beaches of South Boston.

On April 14, 2011, two related Schedule Seven milestone projects, the Charles River Valley/South Charles River Relief Sewer gate controls project and the Charles River interceptor interconnections project were removed from Schedule Seven by order of the Federal Court. More recently, MWRA separated out the interconnection relief and floatables control at Outfall SOM01A project from the other Alewife Brook CSO control projects to expedite implementation of this project. With these two actions, the number of projects in MWRA's approved long-term CSO control plan remains at 35 as reported in past years.

Over the past year, the City of Cambridge has substantially completed the single construction contract that included two of the six projects in MWRA's long-term CSO control plan for Alewife Brook: the interceptor relief and floatables control at CAM002 and 401B and floatables control at CAM001 project. The contractor substantially completed these projects on October 31, 2010. Additionally, the CAM400 manhole separation project was substantially completed on March 30, 2011. The CAM400 manhole separation project resulted in the permanent elimination of CSO discharges at Outfall CAM400.

There has been no imposition of penalties by the Court against MWRA on the merits of the claims originally asserted in the Boston Harbor Case to date. The Court always retains the right to order remedial action and to assess penalties.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(c) *Deer Island Submarine Power Cable*

In 2004, the United States Army Corps of Engineers (Corps) asserted that Boston Edison Co. (NStar), its subsidiary Harbor Energy Electric Company (HEEC), and the Authority were in violation of a permit (MA BOSS 198900530, dated August 31, 1989) which authorized the installation of a submarine electric power cable. The cable runs under the channel bed of Boston Harbor and extends from South Boston to Deer Island and is used to provide electric power for Deer Island operations. The Corps alleges that the power cable, in places, has been installed at depths less than those required by the permit. The Corps has demanded that the permittees develop plans and an implementation schedule for bringing the cable's depth and location into compliance with the permit. The demand has been made in connection with proposed dredging operations intended to deepen the harbor channel so as to make it navigable by deep-draft vessels. The Authority has responded to the Corps stating that it had become a co-permittee only to facilitate issuance of the permit, that it did not install and has never owned the cable, and therefore, it has neither any right nor financial responsibility, nor the ability, to move or alter the position of the cable. In May 2005, the Department of Justice (DOJ) advised the permittees that the matter had been referred to DOJ by the Corps for the purpose of either commencing a lawsuit to compel the relocation of the cable or negotiating an amicable resolution that would bring the permittees into compliance with the permit's conditions. The Authority has informed the Court in the Boston Harbor Case of its position in its Compliance and Progress report filed on June 15, 2005. DOJ, the Corps and the permittees last met in March 2009. Discussions continue to involve the potential for use of a so-called "mechanical option" which involves protecting the cable from dredging operations by covering it with concrete mats. The Authority has advised NStar and HEEC that it believes it has no financial responsibility whatsoever for the costs of either protecting or relocating the cable.

(d) *Miscellaneous*

The Authority is also a defendant in several legal actions and administrative proceedings arising out of its operation, maintenance, and improvement of the water and sewer systems under its care. It is the opinion of management that any judgments or settlements that may result from these actions will not have a materially adverse effect upon the Authority.

(13) Risk Management

The Authority is exposed to various risks of loss. The risk management program involves insurance and self insurance related to property, general liability (including automobile, marine and employers' liability), excess liability, public officials' liability, workers' compensation, unemployment liability, and employee health care and life insurance.

Buildings, plants, and equipment are fully insured on an all risk replacement basis to the extent that losses exceed \$2,500 per occurrence. The Authority maintains insurance coverage for general liability, automobile liability, marine liability, and employers' liability to the extent that losses exceed \$2,500 per occurrence, up to a limit of \$35,000. In addition to the primary liability insurance, the Authority maintains an excess liability policy with an additional limit of \$65,000. The Authority also maintains public officials' errors and omissions insurance with a limit of \$5,000 per occurrence with a \$1,000 deductible. All insurance policies are renewed on an annual basis.

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REQUIRED SUPPLEMENTARY INFORMATION

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MASSACHUSETTS WATER RESOURCES AUTHORITY

Schedules of Funding Progress

Required Supplementary Information

June 30, 2011

(Unaudited)

(Dollars in thousands)

Employees' retirement system

Actuarial valuation	Assets (a)	Actuarial Accrued Liability (AAL) – (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/(c))
January 1, 2011	\$ 298,928	341,521	42,593	87.5%	\$ 82,870	51.4%
January 1, 2010	276,270	319,876	43,606	86.4	81,962	53.2
January 1, 2009	222,477	301,652	79,175	73.8	82,314	96.2
January 1, 2008	240,484	278,050	37,566	86.5	78,925	47.6
January 1, 2007	211,716	255,962	44,246	82.7	75,444	58.6
January 1, 2005	172,512	172,512	—	100.0	75,790	—

Effective for the January 1, 2007 actuarial valuation, the Authority changed actuarial cost methods. See footnote 10 (e).

Other postemployment benefits

Actuarial valuation	Assets (a)	Actuarial Accrued Liability (AAL) – (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/(c))
January 1, 2010	\$ —	192,096	192,096	—%	\$ 81,372	236.1%
January 1, 2008	—	180,833	180,833	—	79,298	228.0
January 1, 2006	—	154,449	154,449	—	72,476	213.1

See accompanying independent auditors' report.

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SUPPLEMENTAL SCHEDULES

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MASSACHUSETTS WATER RESOURCES AUTHORITY

Accounts Established by the General Revenue Bond Resolution

Year ended June 30, 2011
(comparative totals for June 30, 2010)

(Dollars in thousands)

	<u>Construction</u>	<u>Revenue</u>	<u>Debt service</u>	<u>Reserves</u>	<u>Total</u>
Balance – June 30, 2010	\$ 135,921	73,417	455,655	57,564	722,557
Proceeds from:					
Revenue bonds and loans	165,106	—	9,306	—	174,412
Cash received from customers	—	584,276	—	—	584,276
Interest income	348	4,807	4,370	(982)	8,543
Grant receipts	235	—	6,801	—	7,036
Construction payments	(145,088)	593	—	—	(144,495)
Capital lease payments	(607)	—	(2,610)	—	(3,217)
Debt service payment	(2,491)	(25,473)	(302,922)	—	(330,886)
Other commonwealth payments	—	(22,765)	—	—	(22,765)
Interfund transfers	9,969	(321,966)	317,026	(5,029)	—
Transfers from (to) operating account	1,063	(223,547)	2,612	—	(219,872)
Balance – June 30, 2011	\$ <u>164,456</u>	<u>69,342</u>	<u>490,238</u>	<u>51,553</u>	<u>775,589</u>
		<u>Sewer</u>	<u>Water</u>	<u>2011 total</u>	<u>2010 total</u>
Restricted cash and investments:					
Construction	\$	102,558	61,898	164,456	135,921
Debt service reserves		159,665	86,526	246,191	240,717
Debt service		135,490	54,498	189,988	160,761
Revenue redemption		6,088	27,109	33,197	33,245
Revenue		15,213	54,129	69,342	73,417
Renewal and replacement reserve		24,092	13,461	37,553	38,567
Insurance		7,000	7,000	14,000	18,997
Community obligation and revenue enhancement		17,858	3,004	20,862	20,932
Total restricted cash and investments	\$	<u>467,964</u>	<u>307,625</u>	<u>775,589</u>	<u>722,557</u>

See accompanying independent auditors' report.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Combining Balance Sheet

June 30, 2011

(Dollars in thousands)

Assets and Deferred Outflows	Sewer	Water	Combined total
Unrestricted current assets:			
Cash and cash equivalents	\$ 25,564	16,065	41,629
Investments	33,552	14,410	47,962
Intergovernmental loans	7,915	18,843	26,758
Accounts receivable	95	566	661
Total unrestricted current assets	<u>67,126</u>	<u>49,884</u>	<u>117,010</u>
Restricted assets:			
Cash and investments	472,256	309,684	781,940
Interest receivable	2,487	1,324	3,811
Total restricted assets	<u>474,743</u>	<u>311,008</u>	<u>785,751</u>
Capital assets – not being depreciated	114,823	85,744	200,567
Capital assets – being depreciated – net	3,739,330	2,364,480	6,103,810
Deferred charges	611,128	154,658	765,786
Other assets – net	255,689	105,828	361,517
Deferred outflows from derivative instruments	43,953	4,670	48,623
Total	<u>\$ 5,306,792</u>	<u>3,076,272</u>	<u>8,383,064</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	\$ 42,637	9,997	52,634
Commercial paper notes	92,000	52,000	144,000
Current portion of long-term debt	76,499	18,224	94,723
Total current liabilities	<u>211,136</u>	<u>80,221</u>	<u>291,357</u>
Payable from restricted assets:			
Accounts payable for construction	22,489	1,812	24,301
Accrued interest on bonds payable	55,402	28,901	84,303
Reserves	68,492	31,834	100,326
Total payable from restricted assets	<u>146,383</u>	<u>62,547</u>	<u>208,930</u>
Retainage on construction in progress	8,028	3,241	11,269
Long-term debt – less current portion	3,836,346	1,963,921	5,800,267
Long-term capital leases	22,540	10,516	33,056
Other postemployment benefits	43,075	17,166	60,241
Liability for derivative instruments	43,953	4,670	48,623
Deferred credits	10,405	43,983	54,388
Total liabilities	<u>4,321,866</u>	<u>2,186,265</u>	<u>6,508,131</u>
Net assets:			
Invested in capital assets – net of related debt	321,964	650,516	972,480
Restricted	151,993	75,418	227,411
Unrestricted	510,969	164,073	675,042
Total net assets	<u>984,926</u>	<u>890,007</u>	<u>1,874,933</u>
Commitments and contingencies			
Total	<u>\$ 5,306,792</u>	<u>3,076,272</u>	<u>8,383,064</u>

See accompanying independent auditors' report.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Combining Balance Sheet

June 30, 2010

(Dollars in thousands)

Assets and Deferred Outflows	Sewer	Water	Combined total
Unrestricted current assets:			
Cash and cash equivalents	\$ 29,098	13,280	42,378
Investments	34,960	13,594	48,554
Intergovernmental loans	8,665	18,570	27,235
Accounts receivable	240	301	541
Total unrestricted current assets	<u>72,963</u>	<u>45,745</u>	<u>118,708</u>
Restricted assets:			
Cash and investments	435,979	290,967	726,946
Interest receivable	2,245	952	3,197
Grants receivable	210	—	210
Total restricted assets	<u>438,434</u>	<u>291,919</u>	<u>730,353</u>
Capital assets – not being depreciated	378,774	58,772	437,546
Capital assets – being depreciated – net	3,527,705	2,405,007	5,932,712
Deferred charges	573,044	134,160	707,204
Other assets – net	230,310	106,492	336,802
Deferred outflows from derivative instruments	57,954	6,487	64,441
Total	<u>\$ 5,279,184</u>	<u>3,048,582</u>	<u>8,327,766</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	\$ 44,674	9,128	53,802
Commercial paper notes	135,000	59,000	194,000
Current portion of long-term debt	50,890	16,412	67,302
Total current liabilities	<u>230,564</u>	<u>84,540</u>	<u>315,104</u>
Payable from restricted assets:			
Accounts payable for construction	18,101	5,227	23,328
Accrued interest on bonds payable	53,664	27,457	81,121
Reserves	72,276	33,457	105,733
Total payable from restricted assets	<u>144,041</u>	<u>66,141</u>	<u>210,182</u>
Retainage on construction in progress	11,323	3,387	14,710
Long-term debt – less current portion	3,761,399	1,897,115	5,658,514
Long-term capital leases	22,920	10,739	33,659
Other postemployment benefits	33,114	12,958	46,072
Liability for derivative instruments	57,954	6,487	64,441
Deferred credits	11,406	56,204	67,610
Total liabilities	<u>4,272,721</u>	<u>2,137,571</u>	<u>6,410,292</u>
Net assets:			
Invested in capital assets – net of related debt	379,454	697,200	1,076,654
Restricted	139,477	66,451	205,928
Unrestricted	487,532	147,360	634,892
Total net assets	<u>1,006,463</u>	<u>911,011</u>	<u>1,917,474</u>
Commitments and contingencies			
Total	<u>\$ 5,279,184</u>	<u>3,048,582</u>	<u>8,327,766</u>

See accompanying independent auditors' report.

MASSACHUSETTS WATER RESOURCES AUTHORITY
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2011
(Dollars in thousands)

	<u>Sewer</u>	<u>Water</u>	<u>Combined total</u>
Operating revenues:			
Customer services	\$ 391,924	187,316	579,240
Other	3,646	1,468	5,114
Total operating revenues	<u>395,570</u>	<u>188,784</u>	<u>584,354</u>
Operating expenses:			
Operations	56,308	37,448	93,756
Maintenance	20,147	7,817	27,964
Payments in lieu of taxes	—	7,000	7,000
Engineering, general, and administrative	83,026	43,101	126,127
Total operating expenses	<u>159,481</u>	<u>95,366</u>	<u>254,847</u>
Income from operations before depreciation	236,089	93,418	329,507
Depreciation	<u>123,681</u>	<u>57,053</u>	<u>180,734</u>
Operating income	<u>112,408</u>	<u>36,365</u>	<u>148,773</u>
Regulatory accounting provisions:			
Change in reserves	3,785	(1,450)	2,335
Change in deferred credits – net	39,085	32,719	71,804
Total regulatory accounting provisions	<u>42,870</u>	<u>31,269</u>	<u>74,139</u>
Nonoperating income (expense):			
Investment income	6,253	3,010	9,263
Interest expense	(181,266)	(91,758)	(273,024)
Changes in derivative related accounts	(7,506)	(1,222)	(8,728)
Total nonoperating expense	<u>(182,519)</u>	<u>(89,970)</u>	<u>(272,489)</u>
Net loss before capital grants	(27,241)	(22,336)	(49,577)
Capital grants	<u>5,704</u>	<u>1,332</u>	<u>7,036</u>
Decrease in net assets	(21,537)	(21,004)	(42,541)
Total net assets – beginning of year	<u>1,006,463</u>	<u>911,011</u>	<u>1,917,474</u>
Total net assets – end of year	<u>\$ 984,926</u>	<u>890,007</u>	<u>1,874,933</u>

See accompanying independent auditors' report.

MASSACHUSETTS WATER RESOURCES AUTHORITY
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2010
(Dollars in thousands)

	<u>Sewer</u>	<u>Water</u>	<u>Combined total</u>
Operating revenues:			
Customer services	\$ 384,685	186,675	571,360
Other	1,977	961	2,938
Total operating revenues	<u>386,662</u>	<u>187,636</u>	<u>574,298</u>
Operating expenses:			
Operations	62,759	34,164	96,923
Maintenance	20,710	4,851	25,561
Payments in lieu of taxes	—	6,732	6,732
Engineering, general, and administrative	93,027	38,524	131,551
Total operating expenses	<u>176,496</u>	<u>84,271</u>	<u>260,767</u>
Income from operations before depreciation	210,166	103,365	313,531
Depreciation	<u>130,031</u>	<u>59,767</u>	<u>189,798</u>
Operating income	<u>80,135</u>	<u>43,598</u>	<u>123,733</u>
Regulatory accounting provisions:			
Change in reserves	952	(298)	654
Change in deferred credits – net	55,780	11,561	67,341
Total regulatory accounting provisions	<u>56,732</u>	<u>11,263</u>	<u>67,995</u>
Nonoperating income (expense):			
Investment income	17,839	8,564	26,403
Interest expense	(174,842)	(86,149)	(260,991)
Loss on disposal of capital assets	(11,888)	(9,565)	(21,453)
Total nonoperating expense	<u>(168,891)</u>	<u>(87,150)</u>	<u>(256,041)</u>
Net loss before capital grants	(32,024)	(32,289)	(64,313)
Capital grants	<u>6,692</u>	<u>1,519</u>	<u>8,211</u>
Decrease in net assets	(25,332)	(30,770)	(56,102)
Total net assets – beginning of year	<u>1,031,795</u>	<u>941,781</u>	<u>1,973,576</u>
Total net assets – end of year	<u>\$ 1,006,463</u>	<u>911,011</u>	<u>1,917,474</u>

See accompanying independent auditors' report.

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CDM

One Cambridge Place
50 Hampshire Street
Cambridge, MA 02139
Tel: 617 452-6000 Fax: 617 452-8000

October 31, 2011

Board of Directors
Massachusetts Water Resources Authority
Charlestown Navy Yard
100 First Avenue
Boston, MA 02129

Subject: Feasibility Report General Revenue Refunding Bonds, 2011 Series C

Dear Members of the Board:

We are submitting herewith our Engineer's Feasibility Report (the "Report") providing our engineering and financial evaluation and assessment of the Massachusetts Water Resources Authority (the "MWRA" or the "Authority"). Attached to this cover letter is the recently completed Triennial Conditions and Operations Report assessing the overall condition of the Authority's system as well as financial projections for the next five years. The Authority has requested that Camp Dresser & McKee Inc. ("CDM") prepare this report to provide certain information concerning the Authority in connection with its issuance of the Refunding Bonds, 2011 Series C (the "Series C Bonds"). The Series C Bonds consist of approximately \$333,680,000 to refund outstanding bonds reducing the Authority's debt service requirements. To prepare this update, we have:

- Reviewed key reports and documents prepared by the Authority, including the FY 2012 Capital Improvement Program (the "FY 2012 CIP"), the FY 2012 Current Expense Budget (the "FY 2012 CEB"), prior year audited financial statements, court compliance reports, facility plans, internal operating reports, and various other documents.
- Interviewed key Authority staff responsible for these efforts, reviewed operational plans, and reviewed ongoing and planned capital improvements.
- Physically inspected the Authority's major facilities and interviewed the staff responsible for their operations and maintenance.

- Projected the Authority's revenues and expenses from the FY 2012 budgeted amounts through FY 2017 period, on the basis of assumptions we believe to be reasonable, the provisions of the General Bond Resolution as amended to date (the "Resolution"), Commonwealth legislation regarding state revolving fund subsidy rates and debt service assistance, and Authority practices and policies.

Since its creation, the Authority has undertaken an aggressive capital improvement program intended to ensure the integrity of its water and wastewater systems and to comply with applicable federal and state regulations. The Authority has completed most of the major projects associated with that effort including the Boston Harbor/Deer Island Treatment Plant project (the "DITP"), the MetroWest Water Supply Tunnel, the Norumbega Covered Storage Reservoir, the John J. Carroll Water Treatment Plant (the "CWTP"), pumping station upgrades and several large sewer interceptor projects. The DITP is complete and operating as designed, resulting in significant and measurable improvements in water quality and the quantity and diversity of marine life present in Boston Harbor. These improvements are expected to continue as a result of the DITP.

In 2006, the Authority completed a master plan (the "Master Plan") of its infrastructure that, in addition to its obligations to mitigate combined sewer overflows, forms the basis of its current capital improvement planning. The Master Plan assessed Authority-wide needs, identified and prioritized projects to address those needs, and established timeframes for the rehabilitation and replacement of existing facilities and infrastructure, as well as construction of new projects. The Master Plan forms the basis for the current FY 2012 CIP and is anticipated to inform future year CIPs as well. The Authority's FY 2012 CIP incorporates the highest priority projects identified in the Master Plan that have projected spending in the Fiscal Year 2009 to Fiscal Year 2018 timeframe. The Authority's FY 2012 CIP also allocates significant funding towards completion of the major court ordered obligations of the Authority, primarily related to Combined Sewer Overflow ("CSO") mitigation.

The FY 2012 CIP focuses on Master Plan priorities including asset protection and water redundancy projects. Approximately \$270.2 million is allocated for asset protection during FY 2009 to 2013 and \$462 million for FY 2014 to FY 2016, primarily the replacement and upgrade of wastewater components that have been in service for 15 years or longer.

We have reached the following conclusions regarding the Authority's operations and financial status:

Organization and Management

- The Authority is well organized to effectively carry out its various duties. Of equal importance, the Authority continually evaluates and adjusts its organizational structure to properly address emerging issues and shifting priorities. As an example, the Authority merged the previously separate Administration and Finance Divisions into a single division and has also restructured reporting within the Operations Division. The Authority has engaged a consultant to evaluate the Authority's staffing

levels with a report anticipated late in FY 2012. This report may identify shifts in staffing levels and organizational structure.

- The Authority's staff members have the qualifications and experience commensurate with their responsibilities and have demonstrated their ability to make organizational and staffing changes as required to maintain a cost-effective and efficient operational structure.
- The Authority has identified and focused on rates as a central management issue. The Authority has worked closely with the Advisory Board to contain expenses. At the same time, the Authority has devised and implemented strategies to minimize rate increases, including bond refundings and defeasances, while controlling capital and operational spending.
- The Authority's initiative for maintaining water and wastewater assets has become a central element of its capital improvement planning as well as its operations strategy. In addition, the Authority continues to devote substantial attention to maintaining and enhancing water quality as it operates existing and develops new water facilities, as well as completing its CSO abatement program.

Sewer Operations

- Wastewater treatment to the Authority's Boston Metropolitan Service Area is provided at the 1.2 billion gallon per day peak capacity DITP. Portions of the DITP have been in operation since 1995, and the DITP has been fully operational since 2001. The Authority operates the DITP under a NPDES permit that took effect in August 2000. The DITP consistently complies with the requirements of the permit including limits on pH, total suspended solids (TSS), carbonaceous biological oxygen demand (CBOD), chlorine residuals (TCR), and fecal coliform. The dry day flows to the plant have averaged slightly less than 310 million gallons per day ("mgd") during calendar year 2010, as compared to its permit limit of 436 mgd and peak daily flows exceeding 1.3 billion gallons per day have been treated. The Authority has adequate programs in place to ensure that the facility is properly maintained. Overall, the DITP has operated and is operating as expected and is well maintained. Through the Facility Asset Management Program, the Authority has identified and proactively planned for the replacement of critical equipment as it reaches the end of its useful lives.
- The Transport System is generally well operated and maintained. Significant improvements have been made to the North System through the construction of pump stations and a screenings facility. The Authority has also constructed pump stations in its South System. Interceptors in need of repair and replacement are in the process of being, or have been, upgraded.
- Major interceptor and other wastewater collection system needs are also adequately addressed in the CIP. Due to the age and the nature of the collection system, there will be an ongoing need for rehabilitation and replacement of sewers.

- Based on the performance of the DITP to date, we believe that the DITP facility, as designed, will continue to meet the NPDES permit limits for CBOD and TSS, chlorine residual and fecal coliform at the projected design level of flows and loads. We further believe that the performance of the DITP in conjunction with the source control strategies already implemented by the Authority results in an effluent that consistently meets all the numerical limits of the permit. (The Authority is operating under a NPDES discharge permit that expired in August 2005, but remains in effect until such time as the Environmental Protection Agency issues a new one).

Residual Processing Facilities

- The Authority dewateres and dries the sludge from the DITP at its Fore River Staging Area pelletizing plant. The plant has adequate capacity to process and distribute the quantities of sludge associated with the operation of the DITP. The Authority contracts for the operation of the facility with New England Fertilizer Company (NEFCO). NEFCO provides services in accordance with a fifteen-year operations contract that took effect in 2001. The Authority is beginning to evaluate facilities usage and asset maintenance needs as a preliminary step to determine the best course of action for continued residuals processing beyond 2015, but well in advance of scheduled December 2015 expiration date of the existing operation agreement. The Authority and NEFCO have programs in place to ensure operations in conformance with the contract and the facility has been operating consistent with those contractual requirements.

Combined Sewer Overflows (CSO)

- In the summer of 1997, the Authority submitted to EPA, DEP and the Massachusetts Environmental Policy Act (MEPA) Unit a Final Facilities Plan and Environmental Impact Report presenting its long-term CSO control plan, consisting of 26 site-specific projects. In response, EPA and DEP took several actions, including modifying the Commonwealth's water quality standards to be in accordance with portions of the plan that had received full approval, and implementing a regulatory strategy for further review of control options for those portions of the plan affecting the Charles River, the Alewife Brook and the Upper Mystic River.
- In March 2006, the Authority reached agreement with the United States (for EPA) and DEP on the scope and schedule for additional CSO projects, which was filed with the Court as part of a joint motion to amend the Court Schedule. In April 2006, the Court allowed the joint motion and issued an Order with a new schedule. The program includes 35 projects. Under the Order, the Authority has until 2020 to complete the remaining CSO work and subsequent system performance assessment which will be used to verify that the LTCP levels of CSO control are achieved.
- The Authority's FY 2012 CIP allocates appropriate funding to complete the CSO program and it anticipates completing them in accordance with the current schedule. The Authority estimates that it has spent roughly 84 percent of the estimated spending necessary to complete the CSO program.

Water Supply and Use

- The Authority has concluded, and we concur, that long-term demand will remain below the System's safe yield of its water supply sources of 300 mgd. Demand has fallen from 326 mgd in calendar year 1987 to 204 mgd in calendar year 2010. The Authority anticipates that demand will be stable or decline slightly in the future depending on the demand for additional service from communities seeking to obtain water from the Authority. Since its inception, the Authority has added five local bodies to the Waterworks System and continues to investigate and pursue additional customers.
- The Authority has obtained a 10 year renewal in accordance with the Commonwealth's Water Management Act legislation that maintains the Authority's historical withdrawal allocation of 312 mgd from the Quabbin and Wachusett reservoirs. This renewal ensures the safe yield of the Authority's Water Supply System.

Water Quality and Treatment

- The Authority continues to act prudently to address the requirements of the federal Safe Drinking Water Act as amended (the "SDWA") and relevant Massachusetts drinking water regulations. The SDWA required the Authority to construct a water treatment plant for the Wachusett Reservoir with disinfection, corrosion control, and, if required, filtration. The Authority met this requirement with the construction of the CWTP.
- The Authority has designed and is constructing additional treatment at the CWTP consisting of ultra violet treatment. This additional disinfection process is required to comply with the SDWA Long Term 2 Surface Water Treatment Rule that requires two primary disinfectants be used on unfiltered water sources by 2012. The CWTP was designed to accommodate this second process train.
- The Authority delivers an average of 204 mgd of treated water to its partially and fully supplied customers. This water consistently meets all regulatory requirements required for potable water.
- The CWTP is in good condition, operates consistent with its design, and appears well maintained.

Water Pumping Stations and Other Facilities

- The overall pumping system appears to be well operated and maintained. All pumping stations have undergone significant rehabilitation or replacement in recent years and the Authority continues to work closely with member communities to improve the condition of local water distribution systems.

Revenues and Rates

- CDM has developed rate revenue projections for FY 2012 through FY 2017 based on the Authority's FY 2012 CEB, the FY 2012 CIP and certain economic assumptions that

we believe are reasonable. These projections do not incorporate the impact of the Series C Bonds.

- Based on the Authority's FY 2012 CEB, we project that through FY 2017 the Authority's combined revenue requirement will increase at an average annual compounded rate of 6.2 percent. Typical combined annual household bills are projected to increase from \$1,314 in FY 2012, to \$1,730 in FY 2017, assuming average household water consumption of 90,000 gallons per year. Actual consumption in the Authority service area is estimated to average 61,000 gallons per year, therefore average household bills are approximately 32 percent less than the preceding figures. These projections are based on many assumptions, including but not limited to annual household consumption, and deviations from these assumptions will affect the actual level of future rates. We do not believe that the projected increases will materially affect the Authority's ability to collect necessary revenues.
- To date, the Authority has responded to the concerns of customers in its service area about rate levels and future rate increases by working to minimize its rate increases through ongoing review and modification of its capital and operating expenditures and by seeking additional outside funding to offset the cost of its capital program. In addition, the Authority is seeking to mitigate future rate increases through prudent withdrawals from the Rate Stabilization Fund and the Bond Redemption Account.
- Based upon our review, and recognizing the availability and use of retail rate alternatives by the Local Bodies, we are reasonably confident that the Authority's projected rates and charges will be within the ability of the individual Local Bodies and generally within the ability of their collective retail customer base to afford.
- Over this forecast period, we do not believe that the Authority will experience material problems collecting amounts due from Local Bodies. We base this on the Authority's history to date, and the enforcement, collection, and revenue protection mechanisms contained in the Enabling Act and the Resolution. This includes the Authority's success to date in initiating the local aid intercept provisions in the few instances where such action has been required. The Authority has not been required to use the local aid intercept since FY 1993.
- The Resolution provides for adequate reserves and appropriate fund structures and provisions to address current and future needs of the Systems. The Authority uses prudent financial management practices to ensure that future obligations are met without disruptions or untimely actions.

Financial Management and Budgeting

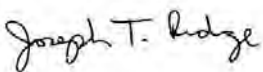
- The Authority has developed budgeting procedures, financial information systems, and financial management controls, which appear to be sound and appropriate for its needs. Based on our review of policies and procedures, we believe that the Authority's management receives adequate expenditure and variance reports for purposes of monitoring program progress and compliance with budgeted expenditure levels for both the current and capital budgets.

- The Authority's CEB establishes a level of expenditure which makes adequate provision for efficient operation and maintenance of the Sewer and Waterworks Systems. Budget estimates are reasonable in view of the operational requirements of the Systems and the implementation of the CIP, including mandated projects.
- We believe that the Authority's CIP reasonably identifies and prioritizes the specific needs for replacing and rehabilitating the Authority's systems and shows thoughtful planning and development. The CIP continues to be aggressive to meet compliance schedules, but the Authority's financing plan reflects the objective of balancing capital expenditures with the Authority's goal of minimizing rate increases.

We wish to extend our gratitude to the Authority for the cooperation and fine support provided by the Authority's staff. We stand ready to respond to any questions regarding the content of our work.

Very truly yours,

CAMP DRESSER & McKEE INC.

A handwritten signature in black ink that reads "Joseph T. Ridge". The signature is written in a cursive style and is positioned above the typed name and title.

Joseph T. Ridge
Vice President

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Section 1

Introduction

1.1 Purpose and Scope

Under Section 714(c) of the Resolution, the Authority is required to file, with the Trustee, every three years a copy of a certificate of a Consulting Engineer that sets forth in reasonable detail:

(1) its findings as to whether the properties of the system have been maintained during such three year period, and are then being maintained, in good repair and sound operating condition, (2) its estimate of the amount, if any, required to be expended to place such properties in such condition and the approximate time therefore, (3) its recommendation, if any, as to improved management and proper maintenance, repair, and operation of and capital improvements to the System during the ensuing three year period, (4) its recommendations as to the adequacy of the Renewal and Replacement Reserve Fund Requirement and the then current Operating Budget and Capital Budget and its recommendations as to the adequacy of the Authority's rates, fees, rentals and other charges. If such certificate sets forth that the properties of the System are not then being maintained in good repair and sound operating condition, the Authority shall restore the properties to good repair and sound operating conditions as promptly as is practicable.

The purpose of this report is to respond to these requirements of the Resolution and to present financial projections for the Authority's FY 2012 to FY 2017. In the process of compiling this document we have visited and evaluated the key System facilities, have interviewed key Authority personnel responsible for the operation and management of the system, have evaluated the Current Expense Budget (CEB) and Capital Improvements Program (CIP) and have assessed the adequacy of the Authority's required Reserves.

The report is organized in the following fashion:

- | | |
|-----------|--|
| Section 1 | Describes the purpose and scope of the project, together with relevant background information concerning the Authority and its management. |
| Section 2 | Describes the Authority's system, assesses their condition and makes recommendations with respect to improvements where appropriate. |
| Section 3 | Presents the costs and estimated time for completion of the recommended improvements. |
| Section 4 | Discusses the adequacy of the Authority's Renewal and Replacement Reserve Fund Requirement, the Operating Reserve Fund, the CEB and the CIP. |
| Section 5 | Discusses the adequacy of the Authority's rates, fees, rentals and other charges. |

1.2 Background

The Authority was established by a special act of the Commonwealth, Chapter 372 of the Acts of 1984 (the “Enabling Act”). The Enabling Act sets forth the obligations and powers of the Authority and establishes the general form of governance. Under the terms of the Enabling Act, the Authority is governed by an eleven-person Board of Directors chaired by the Commonwealth’s Secretary of Environmental Affairs. The Secretary and two other board members are appointed by the Governor. Three members are appointed by the Mayor of the City of Boston and three are appointed by the MWRA Advisory Board. One member is appointed the Mayor of Quincy and one member appointed by the Winthrop Town Council.

The Enabling Act also created the Massachusetts Water Resources Advisory Board (the “Advisory Board”) to review the Authority’s budget and operation and to serve as a liaison with the Local Bodies. The Advisory Board is composed of representatives from 60 of the 61 communities (Lancaster is not represented on the Advisory Board) that receive water and or sewer service from the Authority, plus a representative from the Metropolitan Area Planning Council (a regional planning organization established by the legislature). In addition, six people are appointed by the Governor to include a person with skills and expertise in matters relating to environmental protection, one representative each from the Connecticut River basin, the Quabbin/Ware watershed areas, and the Wachusett watershed area, plus two persons qualified by membership or affiliation in organizations concerned with the recreational or commercial uses of the Boston Harbor.

In 1985, the Authority assumed possession and control from the Metropolitan District Commission (the “MDC”), which became part of the Department of Conservation and Recreation (“DCR”) in July 2003, a department of the Commonwealth, of a water distribution system (the “Waterworks System”) and a sewer system (the “Sewer System”) (collectively, the “Systems”), which provide wholesale services in a service area encompassing, in whole or in part, 61 communities located primarily in eastern Massachusetts, including most of the metropolitan Boston area. Forty-nine cities, towns, and special purpose entities currently are authorized to receive water from the Waterworks System. Forty-three cities, towns, and special purpose entities connect their local sewer systems to the regional sewage collection and treatment facilities constituting the Sewer System. Approximately 2.8 million people, who comprise approximately 43 percent of the Commonwealth’s total population, live in the communities served or potentially served by the Systems.

Since its creation, the Authority has demonstrated its capacity to successfully manage its complex affairs. The DITP, one of the nation’s largest and most complex wastewater treatment improvement projects, was completed below its original cost estimate. Measurable improvements have occurred in the water quality of Boston Harbor. Shortly after the creation of the Authority, the SDWA amendments were enacted, increasing the regulatory requirements for many water utilities, including the Authority. The Authority has developed and implemented a program to comply with the requirements of the SDWA. This includes the construction of the CWTP and redesigning the transmission system so that all treated water is stored in covered storage facilities. The Authority also completed Norumbega Covered Storage Facility and the MetroWest Water Supply Tunnel (the “MMWST”), providing redundancy to the aging Hultman Aqueduct, which is being rehabilitated. The Authority continues to

scrutinize its capital program to determine whether certain elements are necessary, or if alternatives exist to attain the same objective at a lower cost.

As these major programs have been developed and construction implemented, the Authority has worked to ensure that the long term integrity of the existing Systems through a proactive maintenance program and systematic replacement of aging facilities. The Authority, based on our review of the CIP, a physical inspection of the systems, and interviews with staff, is acting to ensure the long-term viability of the Systems. In December 2006, the Authority presented the Master Plan, a long-term strategy which identified and prioritizes potential system needs through FY 2048. Much of the Master Plan targets for upgrade existing infrastructure that is at or would be nearing the end of its useful life. The Authority plans to direct the focus of current and near future spending towards the completion of the long-term CSO control plan to comply with federal mandates in the so-called Clean Water Act Case. Major elements of the CSO mitigation plan have been completed and the Authority anticipates future focus to be on water redundancy and asset protection projects.

The Authority has been sensitive to the economic and public implications of financing the capital program and properly operating and maintaining its existing and newly constructed infrastructure. The Authority, with the Advisory Board and many other stakeholders, has continuously sought state and federal financial assistance for its construction program and has also aggressively sought alternative, less expensive means of achieving compliance with the various legal and regulatory requirements imposed upon it. The Authority continues to strive to improve its operating efficiency and minimize or reduce operating expenses. To maintain public support, the Authority has sought to educate the public at large to the tangible real benefits that have resulted or will result from its programs.

In addition, the Authority has established a five-year CIP spending cap intended to ensure that it effectively balances its facility needs with financial realities. This cap provides a mechanism for determining what the Authority can afford and can serve to force the Authority to establish and enforce spending priorities. The baseline cap for the period FY 2009 – FY 2013 was set at \$1.14 billion, with the CIP for that period estimated to total \$1.08 billion. Each year the Authority assesses annual CIP cash flow requirements and its ability to meet that cap. As part of the FY 2012 CIP, the Authority estimated that total CIP requirements during the cap time period would total \$954.7 million. The proposed spending does not reflect certain items where costs could change as a result of additional regulatory requirements in the CSO and SDWA compliance area.

In assessing the organization's ability to address the many real challenges that face the Authority, we believe its record of achievement over the past decade is an important consideration.

1.3 Organizational Structure

The Authority is organized in a divisional structure designed to establish clear lines of authority and responsibility and to promote organizational efficiency. Figure 1-1 provides an

organizational chart. The Authority has constantly evaluated and modified its organizational structure accordingly. The Authority estimates that FY 2012 staffing will be 1,205 filled positions.

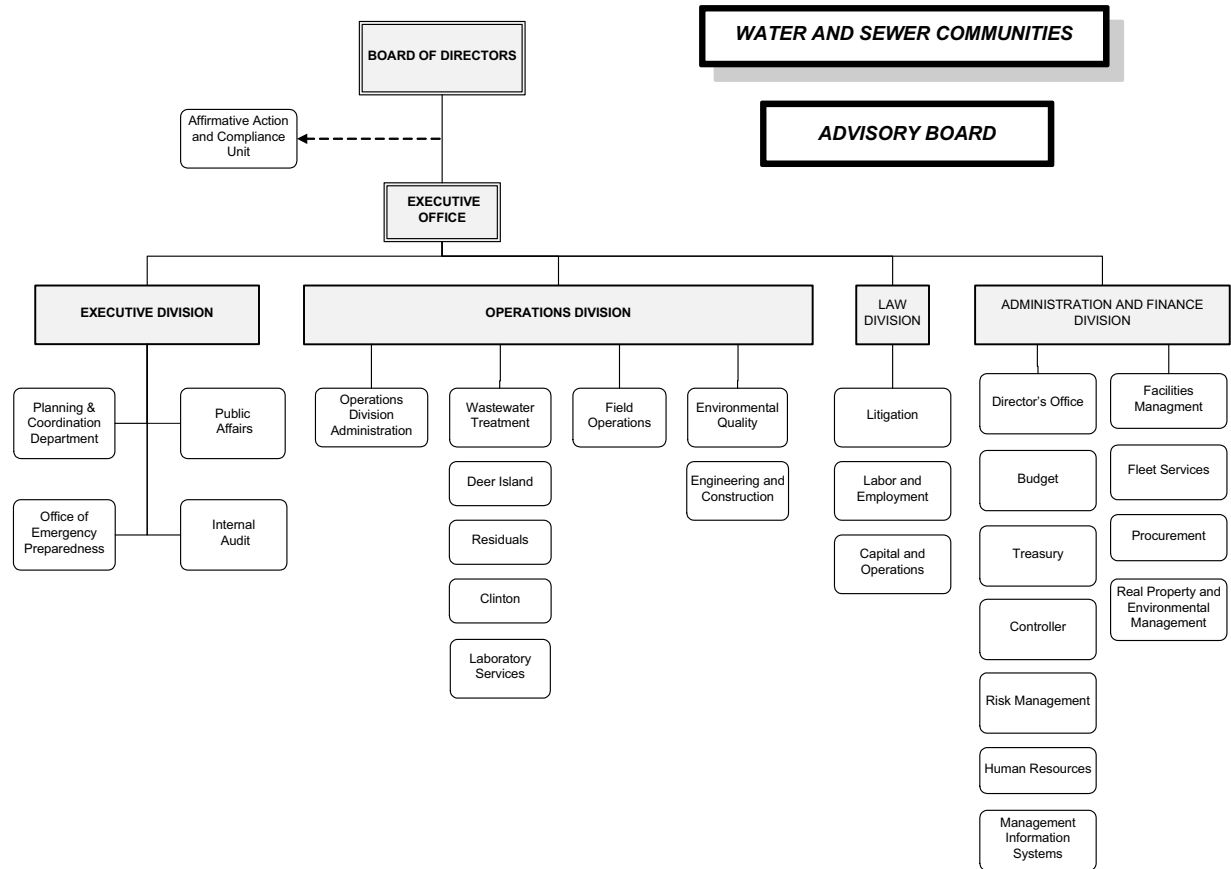


Figure 1-1: MWRA Organizational Chart

The responsibilities of each Division:

- **Executive Division** – The Executive Division supports the Executive Director, the chief executive officer of the Authority, responsible for the implementation and coordination of Authority programs, policies, and procedures at the direction of the Board. The Executive Division has direct oversight of the Office of Emergency Preparedness, the Affirmative Action Compliance Unit, the Planning and Coordination Department, Internal Audit, and Public Affairs. For FY 2012, the Executive Office includes 4 authorized positions.
 - The Office of Emergency Preparedness directly reports to the Executive Director. The Department’s role consists of providing Authority-wide planning

and implementation of security and emergency responses. For FY 2012, this department includes 5 authorized positions.

- The Affirmative Action Compliance Unit directly reports to the Executive Director. For FY 2012, this department includes 7 authorized positions.
- The Planning and Coordination Department that reports up through the Executive Director's office. This Department provides decision support on planning, policy and operations issues. It also supports the Authority's regulatory programs and administers infrastructure financing programs provided by the Authority to the Local Bodies. For FY 2012, this division includes 22 authorized positions.
- The Internal Audit Department reports directly to the Executive Director. For FY 2012, this department includes 8 authorized positions.
- The Public Affairs Department is responsible for community relations, communications, and intergovernmental affairs. For FY 2012, this department includes 13 authorized positions.
- The Operations Division is responsible for the planning, design, construction, operation and maintenance of the Authority's waterworks and sewer facilities. The Operation Division is discussed further below. For FY 2012, this division included 933 authorized positions.
- The Law Division provides legal analysis and counsel to the Authority's operating and administrative divisions and represents the Authority in court-related matters. For FY 2012, this division includes 18 authorized positions.
- The Administration and Finance Division was created in 2009 when the Authority merged the previously separate Support Services and Finance divisions. The Administration and Finance Division manages the finance and support services of the Authority. The division is responsible for rates and revenue management, budgeting, treasury, capital financing, investment management, accounting, grant and loan management, risk management, and coordination of Authority financial planning. This division is also responsible for administrative support functions such as human resources, management information systems, procurement, real property and environmental management and fleet services. For FY 2012, this division includes 195 authorized positions.

The Operations Division is responsible for 74 percent of the Authority's operating budget and 77 percent of total staffing. As seen in Figure 1-1, the Operations Division currently includes six departments including a department that consolidates field operations for both the Waterworks and Sewer Systems, a department for wastewater treatment, including the Deer Island Treatment Plant, and centralized engineering, laboratory and administrative support units. The Field Operations Department is also responsible for the operation and maintenance of the Carroll WTP. A Chief Operating Officer ("COO") heads the Operations Division.

We believe that the Authority is effectively organized to perform its mission. The Authority has shown its willingness and ability to modify its organizational structure to address emerging issues and demonstrate management's commitment to adjust the organization in light of shifting priorities and conditions.

The Authority has engaged a consultant to evaluate the Authority's staffing levels with a report anticipated late in FY 2012. This report may identify shifts in staffing levels and organizational structure.

1.4 Management Processes

Since its inception the Authority has continuously modified its management processes to ensure that its programs and policies are conducted in accordance with Authority directives, in a cost conscious manner, and in a way that is effectively communicated to the interested public. On an annual basis the Authority produces a comprehensive CIP and a CEB, both of which are subject to public review and comment. On an as-needed basis, the Authority also undertakes management initiatives that are intended to enhance the efficiency of its operations.

The Authority has a capital budgeting process that addresses the significant needs of the Authority while minimizing future rate increases to the extent possible. The CIP is prepared every year, and includes five years of planned expenditures on capital improvement projects. The CIP is funded primarily through the issuance of revenue bonds, which are repaid over a number of years through inclusion of debt service amounts in each year's current expense budget.

The Authority's capital program is ambitious and presents significant implementation and financial challenges. Implementation of this program is contingent upon internal staff capacity to oversee the projects and the Authority's ability to secure the necessary financial resources. Should internal capacity or financial resources be insufficient in the future, the capital program may need to be scaled down by deferring projects. As described previously, the Authority has imposed a spending cap on the CIP that enforces fiscal discipline and careful consideration of priorities.

The progress of capital projects is continually monitored for purposes of managerial control, decision-making, financial planning, and management. Each Division is responsible for monitoring and reporting on the projects for which it is responsible, including explanations for both schedule and expenditure variance.

The Authority annually prepares a CEB with detailed expenditure information for several prior years and the upcoming fiscal year. The CEB reflects the operating and maintenance costs of existing water and sewer facilities, administrative and support activities, and current expenses supporting the additional expenses associated with the operation of the Authority's extensive capital improvement projects. The operating budget is balanced by revenue and income derived mostly from user charges to the communities that receive water or sewer services from the Authority.

The Authority uses a monthly and quarterly management indicators reporting system to measure actual performance against objectives, including a budget variance analysis of both the CIP and the CEB, and reports on progress in achieving program performance objectives. Monthly and quarterly budget reports are prepared for internal review. These reports provide Authority managers a mechanism for evaluating both favorable and unfavorable changes in circumstances. We believe that the management indicators variance analysis reporting system is a good management tool that allows assessment of planning and implementation performance and identifies opportunities to improve future performance. It also enables the Authority to control costs and ensures that expenses do not exceed its limited resources.

The Authority continues to take steps to minimize future rate requirements. The Authority's rate relief strategy includes several major components:

- Ensuring that all capital and operating costs are kept to a minimum, and that every dollar spent truly adds to the value of water and sewer services.
- Continuing to seek federal support for the Authority's capital program, including funding from both the Clean Water Act and the Safe Drinking Water State Revolving Funds.
- Continuing to seek the receipt of state debt service assistance (DSA) for the capital improvement program. The Commonwealth's FY 2012 budget includes a state-wide appropriation of \$500,000 for DSA. The Authority anticipates receiving \$350,000 in DSA for FY 2012. The availability or extent of future assistance is unknown at this time.
- Using a variety of financing options such as revenue bonds, tax exempt commercial paper, bond anticipation notes, variable rate debt, bond refundings, low interest Massachusetts Water Pollution Abatement Trust loans, and escrowing debt with operating surpluses to manage the rate of growth in the Authority's revenue requirement.

We are of the opinion that the Authority is properly organized to respond to the management challenges it faces and is taking reasonable and prudent steps to optimize the efficiency of its operations.

1.5 Summary

In summary, we have reached the following conclusions regarding the Authority's management of the Systems.

The Authority is well organized to effectively carry out its various duties. Of equal importance, the Authority continually evaluates and adjusts its organizational structure to properly address emerging issues and shifting priorities.

The Authority continues to attract and retain managerial and technical staff to supervise its planning, design, and construction programs. Key members of the staff have the qualifications and experience commensurate with their responsibilities and have demonstrated their ability to

make organizational and staffing changes as required, maintaining a cost-effective and efficient operational structure.

The Authority continues to shift its focus from constructing new facilities to developing programs and procedures for effectively operating and maintaining new and existing facilities. The Authority is also devoting substantial attention to how best to maintain and enhance drinking water quality as well as implementing programs to improve water redundancy as it operates existing and develops new drinking water facilities.

Through a business planning process, the Authority is strengthening its management focus to improve operational efficiency and control the growth of expenses in the future.

Section 2

Condition of Existing Facilities and Recommended Improvements

This section presents information pertinent to the Authority's wastewater and waterworks systems. It describes the planning conducted by the Authority, provides information concerning the Authority's service areas, and discusses and evaluates existing and planned facilities.

2.1 Sewer System Overview

Over the first two decades of its existence the Authority was committed to an ambitious program for the planning, design, construction, and operation of a secondary treatment plant located at Deer Island. This program was executed concurrently with the planning, management, operation, and upgrading of the Authority's other wastewater facilities located upstream of Deer Island, including CSO control and headworks for the removal of grit and screenings. The Authority also implemented an aggressive program for processing, distributing, and disposing of residuals (sludge).

The Authority's initial wastewater investments were guided by several detailed planning level engineering documents. The documents have provided the definition and the timetables for the Authority's wastewater CIP and include the Secondary Treatment Facilities Plan (the "STFP"), the Residuals Management Plan, and the CSO Conceptual Plan and System Master Plan (the "CSO Plan"). The improvements recommended in the first two documents are complete. Implementation of the CSO Plan is ongoing, with staff estimating that over 96 percent of the program will be completed by the end of FY 2013.

The CSO Plan has been developed to provide a framework for investments in the collection and treatment systems and to ensure compliance with the National CSO Policy. The CSO Plan recognizes the leadership role that the Authority must play with regards to integration of system-wide programs that involve the Local Bodies. The Authority's CSO Plan identifies those elements of each community's combined sewer systems that, if upgraded and improved, will not only improve the individual community system, but will also improve the operations of the Authority's system. As the CSO Plan winds down, the Authority anticipates the focus of the wastewater CIP will continue to shift from court mandated projects to asset protection, particularly at the DITP.

In 2006 the Authority completed the development of master plans for its wastewater and water systems. The purpose of the wastewater Master Plan was to assess the long range capital needs of the Authority, with a particular emphasis on the need for rehabilitation and renovation of all of the wastewater system's assets, including the cyclical replacement of those elements of the new facilities constructed in recent years that will wear out within approximately 15 years due to the aggressive nature of the wastewater environment. Beginning with the CIP for FY 2008, the Master Plan has provided the framework for all capital planning and budgeting. The Authority has revised the Master Plan periodically to reflect changing conditions and requirements.

2.2 Sewer Service Area and System Facilities

The Authority provides wastewater treatment services to two geographic regions of the state. By far the larger of the two, the greater Boston Metropolitan area (the “Boston Metropolitan Sewer Service Area”) consists of 43 communities proximate to Boston. The second area includes the Town of Clinton and the Lancaster Sewer District in Central Massachusetts, and is referred to as the Clinton Service Area.

2.2.1 Boston Metropolitan Sewer Service Areas

The Authority’s Boston Metropolitan sewerage system currently serves a 502 square mile region with a total population of approximately 2.8 million. The system is divided into two major drainage basins. Both the north and south sewer systems convey flows to the DITP. Figure 2-1 shows the service areas and location of major wastewater treatment facilities.

With an area of approximately 212 square miles, the north system serves all or part of 26 communities. This area has a total population of about 1.3 million with approximately 97 percent connected to the Sewer System.

The south system encompasses approximately 290 square miles. This area has a total population of approximately 775,000, of which approximately 700,000 are connected to and contribute wastewater to the south system. The remainder of the population use septic systems.

2.2.2 Clinton Service Area

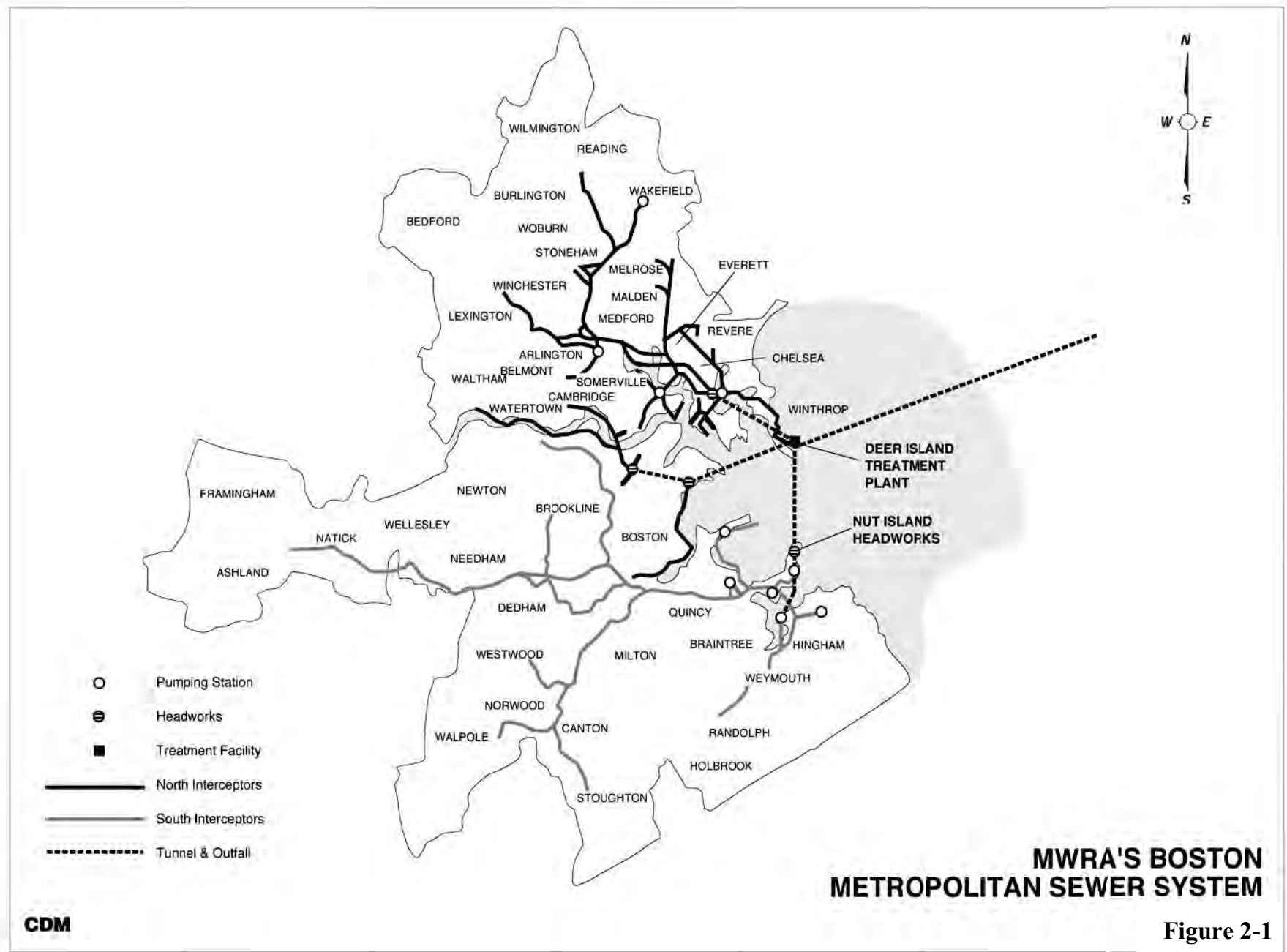
The Clinton treatment plant was constructed to provide sewer service to the Town of Clinton and the Lancaster Sewer District located in Central Massachusetts, in conjunction with the development of the Wachusett Reservoir. The Clinton plant is an advanced wastewater facility and presently has a connected population of approximately 14,000 and the capacity to serve a design population of 23,500.

2.2.3 Boston Metropolitan Sewer System Facilities

The Boston Metropolitan sewer system facilities include sewers, pump stations, headworks and treatment facilities located throughout eastern Massachusetts. The following summarizes the major components of the system. More detailed evaluations are presented in later sections.

2.2.3.1 Wastewater Transport System

The Boston Metropolitan wastewater transport system consists of approximately 240 miles of sewers, ranging in size from 4 inches to 11 feet in diameter. The Authority does not provide collection services to retail customers; rather the Local Bodies connect to the Authority’s system at over 1,800 locations. The Local Bodies are then responsible for service to retail customers through the local collection systems.



The Authority operates twelve sewage pumping stations in the Boston Metropolitan sewerage system. Over the past 25 years the Authority has either replaced or significantly renovated all of the pumping stations in the system. In concert with the with the pump station projects, the Authority has, or is also replacing approximately 40 miles of associated interceptors and forcemains.

2.2.3.2 Headworks

The Authority currently has four remote headworks and a Deer Island Headworks that provide screening and coarse grit removal to protect major conveyance tunnels and other facilities. The flows from the north system are conveyed through the North Metropolitan Trunk Sewer. The North Metropolitan Relief Tunnel conveys wastewater from the Chelsea Creek Headworks. Wastewater from East Boston, Chelsea, Revere, and Winthrop is conveyed in the North Metropolitan Trunk Sewer. The Boston Main Drainage Tunnel conveys wastewater from both the Ward Street and Columbus Park headworks. Screening and grit removal for south system flows prior to transport through the Inter-island Tunnel to the DITP is provided at the Nut Island Headworks and at the Intermediate Pumping Station in Quincy.

2.2.3.3 Treatment Plant

Primary and secondary treatment is provided at the DITP where secondary treatment came on line in July 1997. The DITP includes primary clarifiers, cryogenic plant, aeration reactors, secondary clarifiers, odor control systems, residual thickening and sludge digestion tankage, administration buildings, maintenance and laboratory buildings, as well as required on-island pumping facilities, power and site utilities. The DITP has capacity to provide secondary treatment up to 700 mgd and primary treatment of up to 1,270 mgd.

2.2.3.4 Combined Sewer Overflow Facilities

Four of the 43 communities in the Authority's wastewater service area (Boston, Cambridge, Somerville and Chelsea) are served by combined sewers (sewers that carry sanitary flow and stormwater) and have permits from EPA to discharge CSOs to area surface waters. Flows exceeding the capacity of the locally owned collection system or the Authority's transport system historically have been discharged directly to Boston Harbor, the Alewife Brook, the Mystic River, the Charles River Basin and the Neponset River at CSO outfalls. Parts of the Town of Brookline are also served by combined sewers, but Brookline does not have its own CSO outfall. There were 84 CSO outfalls in existence at the beginning of the CSO program, permitted to the Authority and the four CSO communities. The Authority has taken a leadership position with regard to the resolution of CSO discharges by assuming responsibility for the development of a CSO abatement plan for all CSOs. The details of this plan are presented in Section 2.3.6.

2.2.3.5 Residual Facilities

Sludge produced by the DITP is processed at a sludge pelletizing plant located at the Authority's Fore River Staging Area (the "FRSA") in Quincy, Massachusetts. The pellets produced at the FRSA are distributed locally and nationally for beneficial reuse and disposal. The facility was placed into service in December 1991. It is owned by the Authority, with operations and product disposal/distribution the responsibility of New England Fertilizer

Company (NEFCO). NEFCO is under contract to operate and maintain the facility through December 2015.

2.3 Sewer System Facilities Evaluation

2.3.1 Boston Harbor Project Facilities

The primary portion of the DITP has been designed and constructed to receive and treat up to 1,270 mgd; the secondary portion of the DITP is constructed with a treatment capacity of 700 mgd, which is sufficient to meet secondary effluent limits for all dry weather flows received. The overall treatment process consists of influent degritting of north system flows, primary clarification, aeration with oxygen, secondary clarification, and hypochlorite disinfection followed by dechlorination.

Influent from the north system is pumped into the DITP plant from either the North Main Pump Station or the Winthrop Terminal Facility. Influent from the south system is pumped into the DITP plant by the South System (Lydia Goodhue) Main Pump Station. The northern flows are degrittied on island, and southern flows are screened and degrittied at the Nut Island Headworks Facility. Primary sedimentation is provided by four batteries of stacked primary clarifiers. The clarifiers and all grit facilities are covered and the exhaust air is treated to remove odor. Primary sludge that settles to the bottom of the clarifiers is collected and pumped out of each clarifier to the gravity thickeners.

The plant's activated sludge secondary treatment aeration process uses pure oxygen mixed with wastewater to biologically reduce the waste concentration. The oxygen is generated on-site by a cryogenic plant. There are three batteries of oxygen aeration tanks (reactors) and three batteries of stacked secondary clarifiers. The treatment process is an activated sludge system with a portion of the sludge that is settled out in the secondary clarifiers recycled back to the oxygen aeration basins. The treatment processes used at the DITP are proven technologies used successfully elsewhere. The excess sludge is then pumped to the centrifuge thickening facility. The effluent is chlorinated at disinfection basins, dechlorinated after appropriate detention and discharged to Massachusetts Bay through a 9.5 mile outfall tunnel.

The thickened primary and secondary sludges are pumped into sludge digestion tanks. The sludge digesters blend and biologically stabilize the sludge. Digestion converts a portion of the sludge to methane gas to be used as a fuel source at the plant's thermal facility. The digested sludge is pumped to the pelletizing plant, located at the former Quincy Shipyard site.

The DITP was constructed and put into operation in phases. The primary treatment facilities and associated sludge processing facilities were put into operation in 1995. The initial battery of secondary treatment went on line in 1997, and the full complement was in service in the fall of 2001.

The Authority has instituted a detailed maintenance management program at the DITP. The staff keeps track of equipment availability and the completion of scheduled and required maintenance. A thorough maintenance management and asset management program to optimize performance and reduce maintenance costs has been instituted. The asset management program identified the mechanical portions of the primary and sludge processing

facilities put into service in 1995 that are approaching the end of their useful life, primarily due to the aggressive environment found in wastewater facilities. Accordingly, a CIP program for the cyclical replacement of items such as the primary clarifier's collectors, and sludge pumping equipment has been included. The facility is well maintained and in excellent condition overall.

Energy efficiency and management has been a focus of ongoing improvements in facility operation. Three wind turbines have been installed on the site, and plans are underway for more wind turbines. Multiple solar photovoltaic systems have been installed along with continued use of hydroelectric turbines, and the use of methane gas generated from the digest process to produce heat and electricity. The Authority has also embarked on an extensive program to consume energy through more energy efficient lighting, motor replacement and HVAC improvements. The plant minimizes electrical demand costs by maximizing the utilization of on-site power generation and participates in a demand response program to reduce its demand from the grid during times of peak power demand in the region.

2.3.2 Discharge Permit Compliance and Facility Performance

The DITP has been designed to achieve an effluent with an average monthly CBOD concentration of 25 mg/l and an average monthly TSS concentration of 30 mg/l, consistent with the discharge permit issued by the EPA and the Massachusetts Department of Environmental Protection (the "DEP"). This permit, issued most recently on August 9, 2000, incorporates federal secondary treatment requirements and other limits necessary to meet water quality standards established by the Commonwealth. Although the permit technically expired on August 9, 2005, it continues in full force and effect until the EPA reissues the permit. The permit once renewed is anticipated to have essentially the same numeric permit limits for conventional pollutants with the possibility of adding a limit for enterococcus bacteria which the Authority has planned for.

The DITP facilities have provided treatment meeting or bettering the numeric limits of the permit on a consistent basis. Average dry weather flows averaged 357.8 mgd during calendar 2010 as compared to the permit limit of 436 mgd. The plant's average dry weather flow has been decreasing gradually over the last several years, attributable to ongoing water conservation on the water supply side.

The plant consistently complies with the permit's numeric limits, with no violations during the preceding 48 month period. During an extreme weather event in March of 2010 the plant operated at peak capacity over a two week period. During that time the plant actually received and treated flows as high as 1.313 billion gallons per day.

2.3.3 Clinton Wastewater Treatment Facilities

In addition to the plant that discharges to Boston Harbor, the Authority also operates a treatment plant in the Town of Clinton. In 1987, special legislation transferred ownership of the facility from the MDC to the Authority and obligated the Town to pay up to \$500,000 per year for wastewater treatment service. The facility is an advanced wastewater treatment facility with a design flow of 3.0 mgd and hydraulic capacity for peak flows of 12.0 mgd. Consisting of a combination of new facilities and upgraded elements from an existing plant, the plant has been fully operational since 1992, and performance and operation have been very good.

The sludge, grit, and screenings from the plant are disposed at an 8-acre lined landfill site that was constructed in Clinton as part of the plant's upgrade. The site is owned by the Authority and is designed to provide a 20-year capacity for sludge from the plant. Leachate from the landfill is collected and pumped back into the sewer system and returned to the plant for treatment.

The average daily flow to the plant for 2010 was approximately 2.8 mgd. The facility had a draft discharge permit issued on September 27, 2010 to which the Authority has appropriately responded. It has generally complied with its existing permit with the exception of extreme flows events. In March of 2010 there was an extreme storm event that required the plant to bypass a portion of the flow. The plant staff appropriately notified the regulatory authorities and the bypass was limited in duration. The new permit that has been proposed will require more stringent phosphorous limits. A project is incorporated into the FY 2012 CIP to address these new limits and the Authority has established a four year implementation period as specified in the permit and will be initiating the design phase for this project in the near future. The Authority's Master Plan anticipates that the local communities served by this plant will undertake programs to control excessive inflow and infiltration (I/I).

2.3.4 Pumping Stations Facility Evaluation

In addition to the pumping stations on Deer Island, the Authority has twelve wastewater pump stations on its interceptor system; four on the north system and seven on the south system. All of the pumping stations are new or have undergone major renovations in the past decade. Key data on the pump stations is summarized in Table 2-1. Generally, we have found that the pump stations are efficient and in proper working condition and that the pumping systems appear to be well operated and maintained.

**Table 2-1
Pump Station Summary**

<i>Pump Station</i>	<i>Pump Description</i>	<i>Built</i>	<i>Most Recent Upgrade</i>
Alewife Brook	3 – 26 mgd electric 1 – 14 mgd electric	1951	Upgraded in 1994
Allison C. Hayes	3 – 5.5 mgd electric	1987	None
Braintree Weymouth	3 – 14 mgd electric	2008	None
Intermediate Pump Station	3 – 34 mgd electric 1- 14 mgd electric	2004	None
Caruso	4 – 21 mgd electric	1991	None
Delauri	3 – 50 mgd D electric 3 – 65 mgd electric (46.5 mgd max allowed per pump)	1993	None
Hingham	3 – 4.89 mgd electric	1957	Upgraded in 1992
Hough's Neck	2 – 1.4 mgd electric	1998	None
Quincy	3- 14.4 mgd electric	2002	None
Squantum	4-1.4 mgd electric	2003	None
Neponset	3 – 34.6 mgd electric	1995	None
Framingham	3 – 13.5 mgd electric	1998	None

2.3.5 Headworks Facilities

In the north service area, there are three remote headworks that protect the tunnel system by providing screening and coarse degritting of the wastewater at the drop shafts to the tunnels that feed the North Main Pump Station at Deer Island. On the south system there is a remote headworks facility at Nut Island in Quincy, with additional grit and screening functions at the Intermediate Pump Station. Screening and degritting are provided at these locations to protect the interisland tunnel that feed the South System Pump Station at Deer Island. There is a headwork facility at Deer Island, the Winthrop Terminal Headworks, that was upgraded as part of the Boston Harbor Project.

The remote headworks on the north system function as flow regulators. Operators regulate flow to correspond to available capacity at the DITP. Flows in excess of capacity are either stored within the interceptor system or discharged as CSOs.

The three remote headworks on the north system are Chelsea Creek Headworks, the Ward Street Headworks, and the Columbus Park Headworks. All three headworks were originally placed into service during 1967 to 1968 and, with the exception of elevation and minor dimensional differences, are functionally identical to each other. The mechanical systems in all three headworks were completely upgraded in 1987, at which time new ventilation, grit collectors, odor control, and electrical systems were installed. Summary information on the size, capacity, and year of construction for the headworks is presented in Table 2-2.

**Table 2-2
Summary of Headwork Facilities**

<i>Facility</i>	<i>Discharges to</i>	<i>Capacity (mgd)</i>	<i>Year Built</i>
Winthrop Terminal Headworks	Deer Island Treatment Plant	125	1968
Columbus Park Headworks	Boston Main Tunnel	180	1968
Ward Street Headworks	Boston Main Tunnel	252	1967
Chelsea Creek Headworks	North Metro Tunnel	330	1967
Nut Island Headworks	Inter-Island Tunnel	360	1996
Intermediate Pumping Station	Inter-Island Tunnel	40	2004

Until the activation of the Intermediate Pump Station in 2004 all the south system flows were screened at the Nut Island Headworks. With the activation of the Intermediate Pump Station in 2004, the 40 mgd flow of tributary to this station is screened and dewatered at the pump station.

The remote headworks are adequate to handle the projected flows. They are well maintained, with equipment replaced on or before it wears out. Operating staff at each facility do an excellent job of keeping the facilities clean. The staff are knowledgeable in the maintenance and operation of the facilities. However, the operation of these facilities is labor intensive due to their remote locations and the equipment configuration.

2.3.6 CSO Facilities

CSOs are discharges during storm events from sewers that were designed to carry sanitary flows and a limited quantity of street runoff and drainage. Untreated CSO discharges generally cause water quality standards to be exceeded and may compromise beneficial uses of the receiving waters. Within the Authority's service area, there were originally 84 permitted CSOs prior to the commencement of the CSO Plan. The Federal District Court (the "Court") under the Boston Harbor Case has mandated that CSO discharges be brought into compliance with the federal Clean Water Act and state water quality standards. The Court maintains active oversight of the Authority's activities to correct CSOs, and must approve modifications to the scope and schedule of the Authority's activities.

In 1997, the Authority submitted to DEP and EPA a Final Facilities Plan and Environmental Impact Report for its proposed CSO control program. Subsequent to that submittal, the Authority, in consultation with the regulatory agencies, the Local Bodies, and the public, has continued to refine the CSO Plan. These refinements have been undertaken to address

circumstances encountered during the implementation of the plan, including changes in estimated construction costs, difficulty in securing sites for recommended facilities, and the performance of CSO facilities constructed in the early phases of the program. Several modifications to the plan, including modifications to the State's water quality standards have been incorporated into the Court ordered schedule.

In March 2006, the Authority reached agreement with EPA and DEP on the scope and schedule for CSO project modifications in the Alewife Brook and East Boston areas and additional projects to benefit the Charles River. The agreement, which was filed with the Court as part of a joint motion to amend the Court Schedule, brought a measure of closure to the scope of the Authority's CSO control obligations. In April 2006, the Court allowed the joint motion and issued an Order with a schedule. As a result, the Authority's CSO Plan includes 35 site specific projects. Under the Order, the Authority must complete all projects by December 2015 and subsequently perform a system performance assessment to verify that the approved long-term level of control at each of the outfalls has been attained, with a report on the results due by December 2020. The Authority's progress to date and its interim monitoring of the system's improving conditions provide strong indications that the Authority can achieve the schedule requirements and the Authority remains on target to achieve the long-term levels of control.

The emphasis of the Authority's CSO Plan has shifted from planning and preliminary design to final design and construction. Of the 35 CSO projects in the CSO Plan, the Authority and the CSO communities (with Authority funding) have completed 29 of the projects. Four projects are in the construction phase, and two projects are scheduled to commence design in the Spring of 2012. The last of the CSO projects are scheduled to be complete by December 2015. As of October 2011, CSO discharges were eliminated (or, for the North Dorchester Bay outfalls, "effectively eliminated," i.e. eliminated up to the 25-year design storm) at all 34 outfalls recommended to be closed in the CSO Plan and at four additional outfalls closed by the Boston Water and Sewer Commission (BWSC) and the City of Cambridge (two each). At the four outfalls, permitted to the Authority, that convey larger overflows, the Authority operates CSO treatment facilities that were constructed or upgraded with implementation of the LTCP. Table 2-3 shows the total cost and status of the CSO Plan's major elements.

During 2011, the Authority completed construction and initiated operation of the North Dorchester Bay Storage Tunnel and Related Facilities, implementing the revised recommended plans for control of CSOs to North Dorchester Bay, including the South Boston beaches. This project will protect swimming, boating and shell fishing uses in North Dorchester Bay from the impacts of wet weather discharges (both CSO and separate stormwater) from the remaining North Dorchester Bay outfalls.

**Table 2-3
Status of CSO Plan¹
(\$ in million)**

<i>Project</i>	<i>Current Budget²</i>	<i>Status</i>
North Dorchester Bay CSO Plan	\$224.3	Completed
Pleasure Bay & Morrissey Blvd Storm Drains	32.9	Completed
Reserved Channel Sewer Separation	62.3	Under Construction
Hydraulic Relief Projects at CAM005 and BOS017	2.3	Completed
East Boston Branch Sewer Relief	85.7	Completed
BOS019 (Charlestown) Storage Conduit	14.3	Completed
Chelsea Trunk Sewer and Branch Sewer Relief	29.8	Completed
Union Park Detention Treatment Facility	49.6	Completed
Upgrades to Existing CSO Facilities and MWRA Floatable Control	22.4	Completed
South Dorchester Bay Sewer Separation	118.8	Completed
Stony Brook Sewer Separation	44.3	Completed
Neponset River Sewer Separation	2.4	Completed
Constitution Beach Sewer Separation	3.8	Completed
Cambridge Alewife Brook Sewer Separation Projects	55.7	Phased Design and Construction underway
Fort Pt. Channel Sewer Separation	12.0	Completed

Brookline Sewer Separation	25.9	Under Construction
Bullfinch Triangle Sewer Separation	10.0	Completed
Somerville Manhole Separation	0.4	Completed
MWRA003 Gate, Rindge Ave. Siphon Relief and SOM01A Relief	3.7	Design start April 2012
Charles River CSO Controls	3.6	Completed
Region-wide Floatables Control	2.0	Completed
TOTAL³	\$806.0	

¹Not including costs for past and ongoing planning activities and easements, which total \$51.1M.

²Based on information in FY12 CIP and September 2011 Quarterly Compliance and Progress Report.

³Columns may not total due to rounding.

We believe that the Authority's approach to CSO control is reasonable and prudent. Unlike other water pollution control programs where the desired objective is unambiguous, CSO pollution abatement is a complicated process involving widely located facilities primarily in dense urban, waterfront areas, relatively expensive solutions, and imprecise benefits with respect to water quality standards and uses due to other sources of pollution that will continue to violate water quality standards, such as urban stormwater. The Authority's approach seeks to maximize benefits while minimizing costs.

2.3.7 Interceptor Evaluation

The Sewer System includes large interceptor sewers that were constructed over the past century. The focus of the Authority's sewerage program is to renovate those aging portions of the system and to accommodate growth in the service area by providing additional conveyance capacity where needed. Over the past 18 years the Authority has invested approximately \$424 million to upgrade the interceptor system to current standards, and has programmed an additional \$102 million over the next 10 years to provide additional improvements.

The focus of sewerage improvements in the south system has been to increase capacity to relieve hydraulic under-capacities that have developed as a result of growth within certain segments of the system. Improvements in the north system were principally focused on the renovation of existing systems to restore hydraulic capacity and to ensure the structural integrity of the system.

In addition to correcting deficiencies within its own system, the Authority has undertaken a program to support the identification and elimination of I/I within the sewers of Local Bodies. This program consists of financial assistance to Local Bodies in the form of a 45 percent grant, combined with a zero interest rate loan on the remaining 55 percent to be repaid over five years. The Authority to date has committed over \$210 million for this program and presently has a budgeted upper limit for the program of \$260 million. The objective of this program is to accelerate the elimination of I/I, thereby reducing the potential need for expansion of facilities and optimizing the efficiency of the existing system.

We believe that the Authority's program for constructing, renovating and rehabilitating its interceptor sewers is properly focused. Given the overall age of its system, the Authority will continually need to make investments in rehabilitation and renovation.

2.3.8 Maintenance Facilities and Initiatives

2.3.8.1 Centralized Maintenance Facilities

In 2001 the Authority completed the consolidation of the wastewater and water distribution maintenance activities for the metropolitan systems into a new, leased, facility located in Chelsea. The facility also houses the operations control centers. Included are the machine shops, storage areas, and garage facilities. In addition to the centralized facility for maintenance, individual facilities have maintenance areas, tools, and limited storage for routine maintenance items. The DITP has its own maintenance facility.

2.3.8.2 Maintenance Management Activities

The Authority has adopted an facility asset renewal program that is being implemented system wide. The Authority has recognized the need to conduct cost effective preventative maintenance and to be able to identify the appropriate timing for equipment replacement. As part of asset renewal program, a maintenance management information system has been deployed, preventative maintenance programs using real time condition monitoring are being installed throughout the Authority's facilities and reliability centered maintenance strategies are being instituted. This initiative is targeted to manage maintenance costs and to ensure that the Authority's equipment and assets can be cost effectively operated and maintained over at least their anticipated design lives.

2.3.9 Residuals Facilities

Sludge produced by the Authority's DITP is processed for beneficial use or disposal at the Authority's sludge pelletizing plant located on a 23-acre site at the FRSA. NEFCO is under contract to operate the pelletizing plant through 2015.

Until the spring of 2005, sludge was barged from Deer Island to the pelletizing plant. With the completion of the new interceptor facilities on the south system, the Authority began pumping sludge to the FRSA via redundant pipelines within the Interisland Tunnel

Dewatered sludge is normally fed to a heat dryer that produces a fertilizer pellet. The dryers have an operational capacity of 4,000 lbs/hr. Fertilizer pellets are stored in silos prior to shipment off-site. When the heat dryers and/or downstream facilities are out of service, dewatered sludge may be loaded into either a rail car or a truck for off-site shipment. Air

streams from process areas are treated prior to discharge to the atmosphere. Wastewater, recycle flows, and filtrate from the facility are pumped back to the DITP for treatment.

The facility is sized to produce up to 180 tons per day of pellets. For FY 2012 the operating budget is based on 105.5 dry tons per day of sludge, consistent with recent historical values for sludge received at the pelletizing plant, with dried sludge being converted to pellets suitable for beneficial reuse. The operational reliability of the pelletizing plant, as well as the beneficial use of finished product from its initial startup in 1991 to the present time, provides a clear indication of the Authority's ability to meet its long-term objectives for sludge processing and reuse through effective management, long range planning, and a willingness to address and resolve operational problems as they occur.

We believe that the residuals facility is well operated and maintained and that adequate management attention is given to continued reliable operation of the facility.

2.3.10 Summary of Wastewater System Condition and Operation

We have visited all of the major wastewater facilities; have interviewed key staff associated with the planning, design, construction and operation of the individual facilities, as well as the maintenance of those facilities. It is our opinion that the Authority facilities are all in operable condition and are well maintained. The senior management has in place a system for assessing the adequacy of staff, equipment and both capital and maintenance needs. Overall the Authority's professional staff understands that maintenance of the investment made in major capital projects along with a continuous reassessment of how to efficiently operate those facilities will optimize the useful life and lower the operational costs of the Authority's operation.

2.4 Waterworks System Overview

The Waterworks System serves, or potentially serves approximately 2.5 million people in 50 communities. Most of the communities are located in eastern Massachusetts, with a limited number in central and western parts of the state. The Enabling Act charges the Authority with the responsibility to modernize, maintain, and operate the Metropolitan Boston area water conveyance and treatment systems, as well as to provide service to several communities in central and western Massachusetts. The Authority is responsible for the delivery of water to the distribution systems of its Local Bodies. The Local Bodies are responsible for distribution of water to individual customers. The Commonwealth of Massachusetts retains ownership of the supply sources.

The Waterworks System consists of three primary water sources, the Quabbin, the Wachusett and the Ware River watersheds, two major reservoirs, the Quabbin and the Wachusett, and two water treatment plants. Treated water is delivered to Local Bodies through a large transmission and distribution system. The transmission and distribution system consists of approximately 129 miles of tunnels and aqueducts and 300 miles of pipelines that transport water from the treatment plants to the user communities. The system also includes 11 active distribution reservoirs and 10 pumping stations. Key elements of the Authority's water supply system are shown in Figure 2-2.

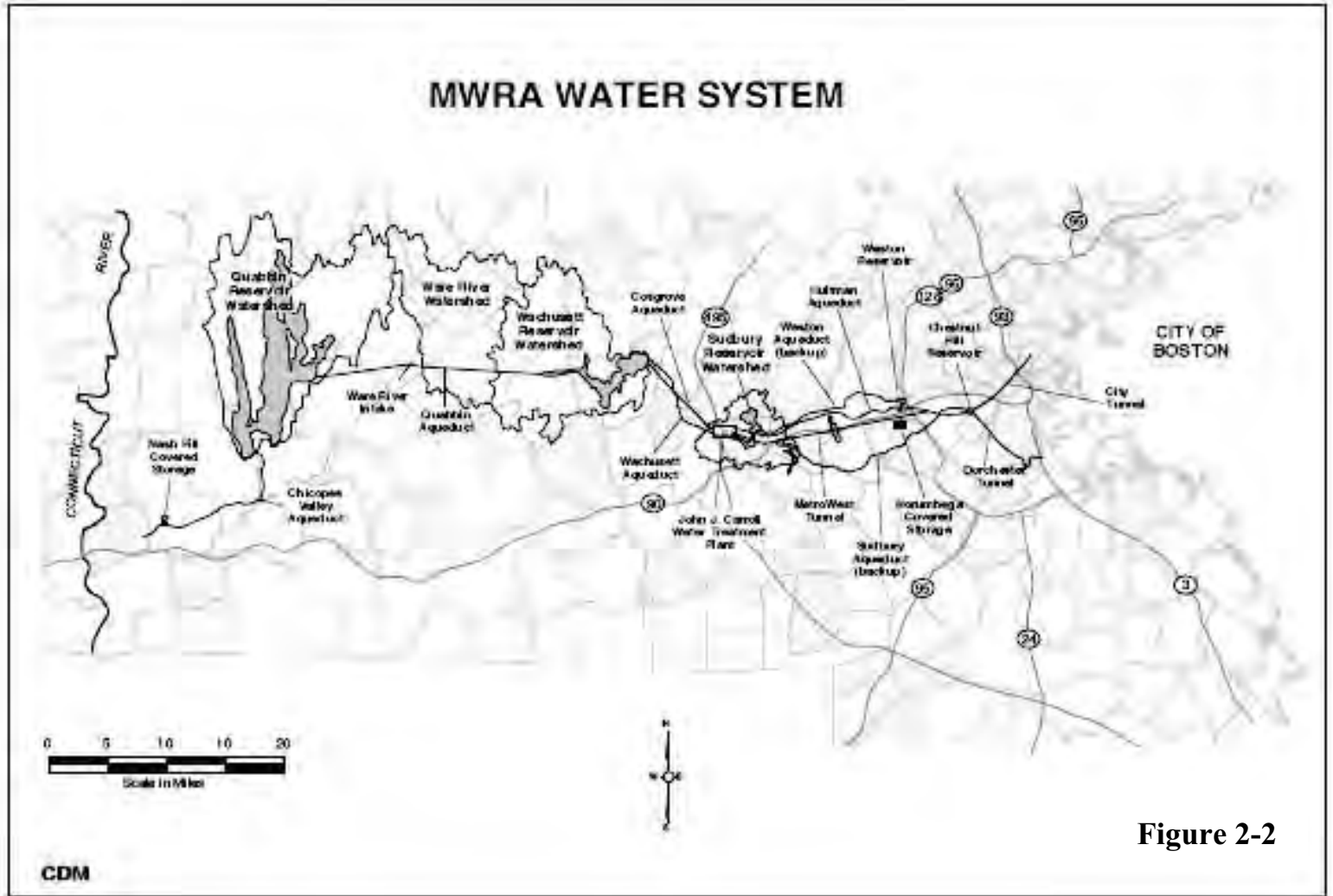


Figure 2-2

In 2005 the Authority completed the major components of the Authority’s Integrated Water Supply Improvement Program. The primary features include the CWTP; the MWWST and a covered storage reservoir (the “Norumbega Reservoir”)

2.5 Waterworks System Facilities Evaluation

2.5.1 Water Supply

The Authority’s Waterworks System consists of three primary water sources located in central Massachusetts: the Quabbin Reservoir watershed, Wachusett Reservoir watershed, and the Ware River watershed. The system has a combined safe yield, the maximum rate at which the system can be expected to continuously deliver water under extended dry conditions, of approximately 300 mgd. In addition, the Authority’s Local Bodies or partially served user communities provide approximately 69 mgd from local sources for their own use. Existing supply facilities are summarized in Table 2-4.

**Table 2-4
Existing Authority Water Supply Sources**

<i>Watershed</i>	<i>Reservoirs</i>	<i>Year Complete</i>	<i>Capacity (mg)</i>	<i>Supplies</i>
Swift River	Quabbin	Completed by 1939; filled by 1946	412,300	Chicopee Valley Aqueduct (“CVA”) communities; and the Metropolitan Boston Service Area through the Wachusett Reservoir
Ware River	None	1931	NA	Quabbin or Wachusett Reservoirs
Nashua	Wachusett	Completed by 1906; filled by 1908	65,000	Metropolitan Boston Service Area
Sudbury	Sudbury Framingham No. 3	1878-1898	8,400	Currently in standby status

The Quabbin Reservoir, completed in 1939 and filled by 1946, is the largest water supply reservoir in the Waterworks System, and is located 65 miles west of Boston. The reservoir storage capacity is approximately 412 billion gallons, with a surface area of 39 square miles. The watershed (drainage area) of the reservoir is approximately 186 square miles and extends into the Towns of Belchertown, Hardwick, New Salem, Pelham, Petersham, Shutesbury, and Ware. The reservoir receives inflow from its watershed, and from the Ware River watershed via the Quabbin Aqueduct. Outflow from this reservoir is to the Swift River, tributary to the Connecticut River; to the Chicopee Valley Aqueduct; and to the Quabbin Aqueduct.

The Wachusett Reservoir, completed in 1906 and filled by 1908, is located 35 miles west of Boston in the Clinton area. The reservoir storage capacity is approximately 65 billion gallons, with a surface area of 6.5 square miles. The reservoir’s watershed is approximately 110 square

miles. The reservoir receives inflow from its watershed, which includes the Stillwater and Quinapoxet Rivers; and from the Quabbin Reservoir via the Quabbin Aqueduct. Inflow can also be received directly from the Ware River watershed, although this diversion is seldom implemented. Outflow from this reservoir is to the Nashua River, the Wachusett Aqueduct, and the Cosgrove Aqueduct. The City of Leominster and the Town of Clinton withdraw water directly from the Wachusett Reservoir. In addition, the City of Worcester can withdraw water from the Wachusett Reservoir or Quabbin Tunnel and owns several reservoirs within the Wachusett watershed.

The Ware River watershed is located between the Quabbin and Wachusett watersheds, with a 98-square mile drainage area to the intake. The intake is located at the midpoint of the Quabbin Aqueduct in the Town of Barre. From this point, water can be diverted in either direction – to Quabbin or Wachusett; however, diversions are generally routed through the Quabbin Reservoir to maintain adequate water quality. Diversions from the Ware River watershed are limited to periods when flow exceeds 85 mgd in the river and are prohibited between June 15 and October 15. The Ware River is tributary to the Chicopee River, which is tributary to the Connecticut River.

The Authority maintains an emergency supply source of approximately 8.4 billion gallons at the Sudbury Reservoir system.

2.5.2 Water Treatment

The Authority currently provides treatment at two locations to control pathogens and other harmful organisms that could present public health problems. Table 2-5 presents a summary of the existing treatment facilities. The facilities are clean and well maintained, and adequately operated to maintain water quality commensurate with local, state and federal regulations. The Authority's current treatment systems include the following:

- *Quabbin Water Treatment Plant.* Disinfection is provided at this facility for waters delivered to the three communities in the western part of the state supplied by the Chicopee Valley Aqueduct. This is also known as the Ware Disinfection Facility. The facility has a design capacity of 23 mgd, and uses chlorine to disinfect the high quality water drawn from the Quabbin Reservoir. The Local Bodies served by the Quabbin Water Treatment Plant provide further treatment prior to delivery to their customers.
- *CWTP.* Located in Southborough, MA, the CWTP is one of the three major components completed as part of the Authority's Integrated Water Supply Improvement Program. The plant was placed into service on July 27, 2005.

The CWTP plant has a maximum treatment capacity of 405 mgd. The design average flow for the facility is 270 mgd. To date, typical operating targets for the plant have ranged from 200 to 340 mgd depending upon system demand. In 2010, the average daily flow was 191 mgd and the peak hourly flow was 360 mgd. The plant ozonates the water as the primary means of disinfection, the water has both soda ash and carbon dioxide added to it for pH adjustment for corrosion control. Hydroflorosisilic acid, aqua ammonia and hypochlorite are also added to the finished water to provide for further public health protection. The plant has two below grade

storage tanks (clear wells) each nominally 25 mg capacity that fluctuate diurnally allowing the plant's ozonation and chemical addition processes to be operated in an optimum steady state condition.

The plant distributes water primarily into the MWWST for conveyance to the metropolitan Boston service territory. The plant can also distribute water to the Hultman Aqueduct. This connection is currently not in service because it is undergoing repairs. The CWTP also has a 30 inch distribution main that conveys finished water by gravity to the Marlborough and Southborough. Those two communities own and operate their own pump stations. The plant also provides finished water to the Town of Northborough and to the Westborough State Hospital. That supply is pumped to the communities via a connection off of the plant's plant water system.

Currently, the CWTP is being modified to incorporate ultraviolet disinfection as a second means of primary disinfection. The ultraviolet disinfection is being constructed within a portion of the storage tanks, downstream of the ozone disinfection. This project will assure compliance with the EPA's pathogen control requirements in the SDWA's Long Term 2 Surface Water Treatment Rule that requires two primary disinfectants be used on unfiltered water sources. The improvements are expected to be in place in compliance with the EPA's regulatory deadline of 2014.

The plant has instituted a number of energy generation and energy saving initiatives. The CWTP avoids electrical demand charges by monitoring both plant energy usage as well as energy usage on the supply grid and switches to on site power generators during peak demand periods. The Authority recently constructed on the open areas of the plant site an extensive array of power generating solar panels.

**Table 2-5
Existing Authority Treatment Facilities**

<i>Reservoir</i>	<i>Facility</i>	<i>Year in Use</i>	<i>Treats</i>
Quabbin	Quabbin Water Treatment Plant	2000	Water to CVA Aqueduct Communities
Wachusett	CWTP	2005	Water to Metropolitan Boston Service Area and Marlborough, Southborough and Northborough

2.5.3 Water Transmission

Eight major aqueducts are used regularly to transport water from the reservoirs to the communities' distribution systems. Existing water transmission facilities are summarized in Table 2-6.

The Quabbin Aqueduct transports water between the Quabbin and Wachusett Reservoirs. Completed in 1932, this pressure tunnel extends 24.6 miles between the Quabbin and Wachusett Reservoirs. There are 13 shafts to the tunnel; one is the inlet from the Ware River located about midway between the Quabbin and Wachusett Reservoirs. Water can flow from the Ware River to the Wachusett or Quabbin or from Quabbin to Wachusett. As flow enters Wachusett Reservoir, hydroelectric power is generated at the Oakdale Station for part of the year.

The Chicopee Valley Aqueduct (CVA) transports water to three communities in central Massachusetts from the Quabbin Reservoir: Chicopee, Wilbraham, and South Hadley Fire District No. 1. The CVA, a pressure aqueduct, was constructed between 1947 and 1949 and was first operated in 1950. The aqueduct extends from the Quabbin Reservoir to the Nash Hill Covered Storage Reservoirs. The Nash Hill Reservoirs have a combined capacity of 25 million gallons. From the two partially buried concrete reservoirs, the aqueduct runs to the Chicopee City line. Flow in the aqueduct is by gravity and is controlled with valves at the Quabbin Treatment Plant between the Quabbin and Nash Hill Reservoirs. The two partially buried tanks replaced the former open Nash Hill Reservoir in 1999.

The Cosgrove Tunnel, completed in 1967, is a deep rock tunnel approximately 8 miles long. Water leaving Wachusett Reservoir passes through two hydroelectric turbines at Cosgrove Station prior to entering the tunnel. The Cosgrove Tunnel connects to the CWTP.

The Wachusett Aqueduct, completed in 1897, is a gravity aqueduct that extends approximately 9 miles from the Wachusett Reservoir to the Hultman Aqueduct. The Wachusett Aqueduct is now on standby, and after rehabilitation will serve as a back-up to the Cosgrove Tunnel for supply to the CWTP.

The MWWST carries treated water from the new CWTP to the existing City Tunnel and supplies the Norumbega Covered Storage Reservoir. The MWWST is 14 feet in diameter, 17.5

miles long, 200 to 500 feet below ground surface along the alignment. Constructed to provide redundant capacity for the Hultman Aqueduct, the MWWST presently serves as the primary conveyor of water to the metropolitan Boston service area.

**Table 2-6
Existing Authority Transmission Facilities**

<i>Facility</i>	<i>Completed</i>	<i>Purpose</i>
Quabbin Aqueduct	1939	Transports water from Quabbin to Wachusett; transports water from Ware River to either Quabbin or Wachusett Reservoirs
Chicopee Valley Aqueduct	1949	Transports water to CVA communities via the Nash Hill Reservoirs
Cosgrove Tunnel	1967	Transports water from Wachusett Reservoir to the CWTP
Wachusett Aqueduct	1897	Transports water from Wachusett Reservoir to the Hultman Aqueduct. Presently off-line and ultimately to serve the CWTP
Weston Aqueduct	1903	Not now in use (standby status)
Hultman Aqueduct	1940	Transports water from CWTP to Norumbega Covered Storage Reservoir and on to the City Tunnel
City Tunnel	1950	From the Hultman Aqueduct to the service area
Sudbury Aqueduct	1878	Not now in use (standby status)
MWWST	2004	Delivers water to the Norumbega Covered Storage Reservoir and on to the City Tunnel

The Hultman Aqueduct is a pressure aqueduct constructed in 1940. Originally constructed to convey water from the Cosgrove Tunnel and Wachusett Aqueduct to the metropolitan Boston service territory, it now serves to convey treated water from the CWTP to the metropolitan Boston service territory. The Hultman can be operated in tandem with the MWWST to provide redundancy and flexibility in supply to the metropolitan Boston service area.

The City Tunnel, installed in 1950, is a deep rock facility, 12-feet in diameter and the major connection to the service area. It connects the MWWST/Hultman system with Chestnut Hill. At Chestnut Hill, there are links to large distribution mains conveying water to several communities. A 10-foot diameter branch of the City Tunnel extends 7.1 miles from Chestnut Hill to Malden, serving most communities north of Boston. The Dorchester Tunnel, also extending from Chestnut Hill, is a 10-foot diameter deep rock tunnel running 6.6 miles to the

Boston-Milton line at Dorchester Lower Mills. It is designed to serve the southern sections of the service area.

The Sudbury Aqueduct, also a gravity aqueduct, is currently not in use. Constructed in 1878, it extends from the Sudbury system to the Chestnut Hill facilities in Chestnut Hill.

The Weston Aqueduct, constructed in 1903, is a gravity aqueduct that supplies the Weston Reservoir and the Low Service Area. Both the Sudbury and Weston Aqueducts are retained for emergency use.

2.5.4 Water Pumping and Distribution

Seven water distribution service areas are used to serve communities in the metropolitan Boston area: Low, Intermediate High, Northern Intermediate High, Southern High, Northern High, Southern Extra High, and Northern Extra High Service Areas. All systems are supplied from the aqueducts and augmented by 10 active pump stations and 13 active distribution storage facilities. A fourteenth and final storage facility is presently in the design phase. To service these facilities the Authority maintains a distribution system of approximately 300 miles of pipelines, 96 percent of them ranging from 16 to 60 inches in diameter. Local Bodies are responsible for delivery of water to their customers, through approximately 6,600 miles of pipeline.

Existing, proposed and standby storage facilities are summarized in Table 2-7. Total distribution storage is approximately 2,900 mg including those in emergency standby status. As part of the Integrated Water Supply Improvement Program, the Authority constructed new covered distribution storage facilities that replaced several open reservoirs. The major facility constructed was the 115 million gallon Norumbega Covered Storage Tank. This tank covers approximately 17 acres, and stores water that has been fully treated at the CWTP. The open reservoirs that have been replaced are being kept in emergency standby status, meaning that they could be brought back into service, should the need arise.

**Table 2-7
Authority Water Storage Facilities**

Reservoir/Tank	Capacity (mg)	Use
Norumbega Covered Storage	115	Low Service
Loring Road	20	Low Service
Fells Reservoir Covered Storage	20	Low, Northern High
Bear Hill Tank	6	Northern Intermediate High
Walnut Hill Elevated Tank	2	Northern Extra High
Turkey Hill Standpipe	2	Northern Extra High
Arlington Heights Standpipe	2	Northern Extra High
Arlington Covered Reservoir	2	Intermediate High
Bellevue Standpipe 1	2	Southern Extra High
Nash Hill	25	CVA Aqueduct
Carroll	45	Low Service
Blue Hills Covered Storage	20	Southern High
Deer Island Standpipe	2	DITP
Spot Pond Covered Reservoir	20	In Design/Build Phase
Spot Pond	1,838	Emergency Standby Status
Chestnut Hill	523	Emergency Standby Status
Waban Hill	14	Emergency Standby Status
Norumbega Reservoir	205	Emergency Standby Status
Weston Reservoir	200	Emergency Standby Status
Fells Reservoir No. 1 & 2	672	Emergency Standby
Bellevue Standpipe 1	2	Emergency Standby Status

The Authority has 10 active pumping stations to provide water to distribution areas that cannot be served by gravity alone, and one emergency pump station. These stations are presented in Table 2-8. Between 1997 and 2010 the Authority undertook renovations of the pump stations in order to bring them up to current standards, and to install instrumentation systems at all facilities.

**Table 2-8
Existing Authority Pumping Stations**

<i>Pumping Station</i>	<i>Year Built/Renovated</i>
Arlington No. 1 Brattle Court	1890s/2010
Arlington No. 2 Spring Street	1958/2009
Belmont	2008
Commonwealth Avenue	1999
Dudley Road	1954/2008
Hyde Park	1890/2010
Lexington Street	1998
Newton Street	1997
Reservoir Road	1936/2010
James Gillis (Spot Pond)	1997
Chestnut Hill Emergency	2001

2.5.5 System Demand

When the Authority was established in 1985, the existing water system had been exceeding its safe yield of 300 MGD for almost 20 years. In response to the increasing water demand during the 1960s, 1970s, and 1980s, several water supply studies were undertaken by the MDC. These studies projected a demand of 410 mgd by 2020. In 1986, the Authority's Board of Directors opted to pursue demand management strategies rather than pursue options for increasing the water supply. With the help of its member communities, the Authority reduced average demand from 326 mgd in 1987 to 285 mgd in 1990, below the system's safe yield for the first time in more than 20 years.

The Authority has instituted a series of ongoing programs designed to reduce water demand. These programs include long range planning; leak detection and repair of Authority and Local Body distribution systems; rehabilitation and replacement of Authority and Local Body distribution system components; water metering and monitoring; distribution of residential water conservation fixtures and conservation outreach; public education and information distribution; school education; and industrial, commercial, and institutional audits.

As a result of these efforts, demand has declined. During calendar year 2010, the average day demand for the Waterworks System was approximately 204 mgd. Of that total, 13.3 mgd was provided to the western communities and 191 mgd was treated at the CWTP. The water was distributed to a total of 50 communities, of which 36 are fully supplied by the Authority and 14 are partially supplied. Only one customer – the Boston Water and Sewer Commission (approximately 36 percent) – used more than 5 percent of the total supply.

The Authority has made projections of long term demand trends, taking into consideration changes in the regional economy, the price of water, investments in transmission and distribution systems to reduce leakage, and potential additional demands and local sources of

supply. These forecasts indicate that demand will remain well below the safe yield of the system.

2.5.6 Summary of Water System Condition and Operation

We have visited all of the major water facilities; have interviewed key staff associated with the planning, design, construction and operation of the individual facilities, as well as the maintenance of those facilities. It is our opinion that the Authority facilities are all in operable condition and are well maintained. The senior management has in place a system for assessing the adequacy of staff, equipment and both capital and maintenance needs. The Authority is implementing and refining asset management tools and has set a reasonable timetable for that process.

Section 3

Cost and Time Estimate for Recommended Improvements

The Authority has ongoing plans for significant investments in repairs, renovations and improvements to its Systems. The FY 2012 CIP, summarized in Table 3-1, provides for the expenditure of approximately \$1.09 billion over the next five years and for a total of approximately \$2.1 billion in the next ten years, including contingencies. These amounts include the DITP asset protection program as budgeted in the current CIP.

In addition, the CEB of the Authority provides funds for routine, planned maintenance as well as emergency maintenance of the Systems. In total, the FY 2012 CEB contains approximately \$29.5 million for maintenance activities, exclusive of Authority personnel costs, and approximately \$4.8 million for other materials, which are generally used to replenish rolling stock and inventories.

As discussed in Section 2, many of the projects contained in the CIP make provision for renovation or replacement of existing facilities where those facilities will remain in service. We believe that the major areas for improvements to the Systems are presented in the CIP, or are provided for in the CEB, and thus have no additional specific recommendations with respect to the Systems that are warranted at this time.

The Wastewater CIP for the cap period FY 2009 – FY 2013 is projected to total \$574.9 and provides adequate funds to properly maintain the system, while complying with the 5-year and annual cap requirements as set by the Board in June 2008. Treatment represents approximately 35 percent of improvements for the FY 2009 – FY 2013 period. In the recent past, the Authority's resources have been targeted towards the Authority's CSO Plan. Currently, roughly 53 percent of the Wastewater CIP will be used for these purposes, however the Authority anticipates that at the end of the cap period, more than 96 percent of the program will be completed.

The Water CIP is projected to total \$314.4 and reasonably reflects water capital expenditure needs and provides adequate funds to properly maintain the system. As the major treatment and storage projects have been completed, the Authority's Water System CIP appropriately emphasizes transmission, distribution and pumping, which now represent approximately 55 percent of the improvements for the FY 2009 – FY 2013 period.

Contingency amounts are included as part of an Authority-wide contingency fund. During the FY 2008 budget cycle, the capital budget contingency had been lowered from 10 percent of the annual expenditures for all Waterworks and Wastewater capital projects to 7 percent except for all Tunnel-related projects for which the contingency remains at 15 percent. Contingency for these projects is set at 15 percent of annual expenditures, reflecting the relatively more risky construction associated with tunnel construction. We believe this represents a reasonable approach to contingency budgeting.

Based on our review of the Authority's facilities, our understanding of the regulatory requirements, the Authority's Consent Orders, and our professional judgment, we believe that the MWRA is targeting appropriate projects in the CIP, and that the process for updating the CIP is adequate.

As the Authority develops specific plans for expenditure of monies for repair and maintenance from the CEB, we believe that highest priority should be given to those projects that will protect the health and safety of workers, and to those which serve to preserve the Authority's ability to deliver an adequate supply of potable water and to provide waste treatment consistent with prudent public health practices. Table 3-1 shows the breakdown of capital expenditures by Waterworks and Wastewater CIP category with a breakdown of the full contract values and the expenditures completed as of the end of FY 2010.

**Table 3-1
Summary of FY 2012 CIP**

Project	Contract Amount	Remaining Balance as of 6/30/10
	<i>In Thousand Dollars</i>	
Wastewater System Improvement	\$ 2,625,405	\$1,131,368
Interception & Pumping	814,734	317,224
S.102 Quincy Pump Facilities	25,908	0
S.104 Braintree-Weymouth Relief Facilities	232,002	18,117
S.105 New Neponset Valley Relief Sewer	30,300	0
S.106 Wellesley Ext Replacement Sewer	64,359	0
S.107 Framingham Extension Relief Sewer	47,856	0
S.127 Cummingsville Replacement Sewer	8,999	0
S.130 Siphon Structure Rehabilitation	2,685	1,745
S.131 Upper Neponset Valley Sewer System	55,056	1,302
S.132 Corrosion & Odor Control	16,782	13,780
S.136 West Roxbury Tunnel	46,934	37,395
S.137 Wastewater Central Monitoring	20,839	1,056
S.139 South System Relief Project	4,939	1,500
S.141 Wastewater Process Optimization	10,248	9,318
S.142 Wastewater Meter Sys-Equip Replace	26,578	21,441
S.143 Regional I/I Management Planning	169	0
S.145 I&P Facility Asset Protection	213,329	205,820
S.146 DI Cross Harbor Tunnel	5,000	5,000
S.147 Randolph Trunk Sewer Relief	750	750
S.200 DI Plant Optimization	33,456	0
S.206 DI Treatment Plant Asset Protection	575,907	488,467
S.210 Clinton WWTP	7,298	6,712
S.211 Laboratory Services	2,315	1,227
S.261 Residuals	63,811	0
S.271 Residuals Asset Protection	147,930	147,570
Combined Sewer Overflow Program	857,089	146,197
MWRA Managed	435,612	32,191
S.339 North Dorch Bay & Reserve Channel	224,252	25,848
S.347 East Boston Branch Sewer Relief	85,715	2,494
S.348 BOS019 Conduit	14,288	0
S.349 Chelsea Trunk Sewer	29,778	0
S.350 Union Park Detention Treatment Fac	49,583	0
S.353 Upgrade Existing CSO Facilities	22,385	0
S.354 Hydraulic Relief Projects	2,295	0
S.355 MWR003 Gate & Siphon	3,682	3,682
S.357 Charles River CSO Controls	3,633	167
Community Managed	370,349	111,663
S.340 S. Dorch Bay Sew Separ (Fox Pt.)	54,171	409
S.341 S. Dorch Bay Sew Separ (Comm. Pt.)	64,725	5,665
S.342 Neponset River Sewer Separation	2,444	0

Project	Contract Amount	Remaining Balance as of 6/30/10	
		<i>In Thousand Dollars</i>	
S.343 Constitution Beach Sewer Separation	\$3,769		\$0
S.344 Stony Brook Sewer Separation	44,333		136
S.346 Cambridge CAM002-004 Sew.Separation	55,702		30,838
S.351 BWSC Floatables Controls	933		0
S.352 Cambridge Floatables Controls	1,087		0
S.356 Fort Point Channel Sewer Separation	12,047		1,777
S.358 Morrissey Boulevard Drain	32,899		(2,687)
S.359 Reserved Channel Sewer Separator	62,323		52,680
S.360 Brookline Sewer Separation	25,930		21,831
S.361 Bulfinch Triangle Sewer Separation	9,986		1,025
S.324 CSO Support	\$ 51,128	\$	2,343
Other Wastewater			
S.128 I/I Local Financial Assistance	122,585		23,972
S.138 Sewerage System Mapping Upgrade	281		0
Waterworks System Improvements Program	2,735,725		1,030,349
Drinking Water Quality Improvements	663,548		124,664
S.542 John J Carroll Water Treatment Plant	426,797		50,097
S.543 Quabbin Water Treatment Plant	17,686		7,390
S.544 Norumbega Covered Storage	106,674		0
S.545 Blue Hills Covered Storage	40,695		854
S.550 Low Service Storage near Spot Pond	71,696		66,324
Transmission	1,147,194		452,294
S.597 Winsor Dam Hydroelectric/Pipeline Repl.	26,082		25,149
S.601 Sluice Gate Rehabilitation	9,158		0
S.604 MetroWest Tunnel	710,719		63,549
S.615 Chicopee Valley Aqued. Redundancy	8,667		0
S.616 Quabbin Transmission System	13,547		9,034
S.617 Sudbury / Weston Aqueduct Repairs	4,288		3,637
S.620 Wachusett Reservoir Spillway Improvement/Windsor Dam Repairs	9,498		194
S.621 Watershed Land	19,000		,582
S.623 Dam Projects	8,181		7,827
S.625 Long Term Redundancy	338,053		337,323
Distribution and Pumping	881,820		540,489
S.618 Northern High NW Trans Sections 70 & 71	1,000		1,000
S.677 Valve Replacement	20,032		10,888
S.678 Boston Low Serv.-Pipe & Valve Rehab	23,691		0
S.683 Heath Hill Road Pipe Replacement	19,365		0
S.689 James L. Gillis Pump Station Rehab.	33,419		0
S.692 NHS - Section 27 Improvements	3,308		3,184
S.693 NHS - Revere & Malden Pipeline Impr	33,612		6,779
S.702 New Connecting Mains - Shaft 7 to ...	31,632		24,480
S.704 Rehab of Other Pumping Stations	55,144		25,182
S.706 NHS - Con. Mains from Sec. 91	2,360		0
S.708 Nor Extra High Serv - New Pipelines	6,384		2,752

Project	Contract Amount	Remaining Balance as of 6/30/10
	<i>In Thousand Dollars</i>	
S.712 Cathodic Protection Of Distr.Mains	\$1,458	\$1,317
S.713 Spot Pond Supply Mains - Rehab	66,127	5,132
S.714 Southern Extra High Sections 41 & 42	3,657	0
S.719 Chestnut Hill Connecting Mains	29,361	11,900
S.720 Warren Cottage Line Rehab	1,205	0
S.721 Southern Spine Distribution Mains	70,668	45,683
S.722 NIH Redundancy & Covered Storage	79,070	77,810
S.723 Northern Low Service Rehab - Section 8	20,233	17,971
S.725 Hydraulic Model Update	598	0
S.727 SEH Redundancy and Storage	97,179	90,516
S.730 Weston Aqueduct Supply Mains (WASMs)	265,772	202,652
S.731 Lynnfield Pipeline	5,042	4,459
S.732 Walnut St. & Fisher Hill Pipeline Rehab	2,717	0
S.735 Section 80 Rehabilitation	8,485	8,485
Other Waterworks	43,163	(87,097)
S.753 Central Monitoring System	16,992	1,287
S.763 Distribution Systems Facs. Mapping	1,799	763
S.764 Local Water Infrastr Rehab Assist Progr	7,488	0
S.765 Local Water Pipeline Imp. Loan Program	0	(105,810)
S.766 Waterworks Facility Asset Protection	16,884	16,663
Business & Operations Support	107,140	49,866
S.881 Equipment Purchase	15,655	7,655
S.925 Technical Assistance	1,200	1,200
S.930 MWRA Facility - Chelsea	9,851	0
S.931 Business Systems Plan	38,800	14,890
S.932 Environmental Remediation	1,556	57
S.933 Capital Maintenance		
Planning/Development	11,549	5,918
S.934 MWRA Facilities Management & Planning	2,151	1,780
S.935 Alternative Energy Initiatives	26,377	18,366

Section 4

Adequacy of the Renewal and Replacement Reserve Fund, Operating Reserve Fund and Operating and Capital Budget

The purpose of this section is to evaluate the Adequacy of the Renewal and Replacement Reserve Fund, Operating Reserve Fund, Operating Budget and Capital Budget of the Authority. The Authority also has an Insurance Reserve Fund; however, the Authority has a specialized insurance consultant review the adequacy of that Fund.

4.1 Renewal and Replacement Reserve Fund Requirement

Under section 714(c) of the Resolution, the Consulting Engineer must make its recommendation as to the adequacy of the Renewal and Replacement Reserve Fund Requirement.

The Renewal and Replacement Reserve Fund Requirement is \$35 million. As of the end of FY 2011, the fund balance meets the Fund Requirement. The purpose of the Renewal and Replacement Reserve Fund (the "R&R Reserve Fund") is to pay the costs of construction of projects that have not been provided for in the Construction Fund or the Operating Fund, and which are reasonably necessary for the continued operation of the system and maintenance of revenues. Projects of this nature will generally be classified as emergency repairs of a major nature, as the Current Expense Budget contains provisions for minor, recurring emergency repairs.

The establishment of a recommended value for an R&R Reserve Fund is not amenable to precise analysis. Several reviews of the practices of various water and wastewater utilities across the country have shown a variety of techniques that are used to size such funds. These range from establishing the reserve at some percentage of the current year's renewal and replacement expenditures, to establishing the reserve at some fraction of the net asset value of the system.

The R&R Reserve Fund is intended to provide the Authority with sufficient financial resources so that it can undertake emergency projects expeditiously, without being forced into a financing plan at times, or in ways, that may be disadvantageous to the Authority. For example, the R&R Reserve Fund should be of sufficient size to avoid the need to immediately change planned capital expenditures in a way that displaces otherwise necessary projects. Also, it should be of sufficient size so that the Authority is not forced into the financial markets at times that are disadvantageous to the Authority. The size of the R&R Reserve Fund should thus be large enough so that repair of major facilities can be commenced and continue for a period of several months without significant changes to the Authority's planned capital program.

The size of a fund necessary to sustain several months of construction without hampering the Authority's ongoing capital plan can be evaluated by an analysis of the annual cash requirements of the Authority's current and historical capital projects. This supposes that

draws on the R&R Reserve Fund will be similar in nature to those originally experienced in constructing the facilities. Using information from the FY 2012 CIP, the largest annual cash requirement for any project in the current CIP is approximately \$38 million, for asset protection at the Deer Island Treatment Plant. The majority of annual cashflows are, however relatively small, with a large number of projects having cashflows of less than \$5 million per year. Less than 12 percent of all active projects have annual cashflows in excess of \$10 million for FY 2012. A review of earlier CIP's revealed similar trends: the cashflows of most projects are low, but there are a lesser number of projects with relatively large cashflows. Under all but the most drastic of circumstances it is unlikely that the Authority would experience a need to draw on over \$35 million of R&R Reserve Fund balances in any one year.

The appropriate size of the R&R Reserve Fund is also influenced by the Authority's Asset Protection Program that has been established and provides funding to replace equipment at or near the end of its useful life reducing the frequency of emergency repairs. If the Authority were an infrequent borrower in the market, it would be important to have a relatively larger R&R Reserve Fund, to provide flexibility regarding the timing of issuing debt to fund repairs. However, the Authority has been, and will continue to be, a significant issuer of debt. Moreover, the Authority has available to it a tax-exempt commercial paper program that can provide rapid access to short term funds. In practice, the Authority maintains a minimum available capacity of approximately \$40 million against the upper limit of its tax-exempt commercial paper authorization. As of the beginning of FY 2012, the Authority had \$206 million available within its tax-exempt commercial paper facility. The Authority also seeks to maintain a balance of \$40 million in its construction fund, providing additional flexibility.

Given the above factors, it is our opinion that the \$35 million R&R Reserve Fund Requirement is adequate for the purposes intended.

4.2 Operating Reserve Fund

The Resolution establishes an Operating Reserve Fund, with a Requirement that the reserve be equal to one sixth of the Operating Budget of the Authority. For Fiscal Year 2012, the Operating Reserve Fund Balance is \$37.2 million meeting the fund balance requirement. The purpose of the operating reserve is to provide contingency funds in the event of unanticipated expenditures for operation and maintenance. In addition to the Operating Reserve Fund, the Resolution requires that the Operating Fund carry, at the beginning of each month, an amount equal to the projected expenditures for the next three months. These monies can serve as a working capital allowance, as well as sources of short-term funds in extraordinary circumstances.

By comparison, the amounts of operating contingency funds typically carried by other major utilities range from 30 days of expected system expenditures to 2 months of operating expenses.

The level of such reserves is sometimes tied directly to the predictability of the revenues of the system, with reserves being higher in regions where supply deficits may seriously curtail sales, and hence revenues. In such instances the Operating Reserves serve as a contingency against both unanticipated increases in expenses and shortfalls in revenues.

The sufficiency of the Operating Reserve Fund requirement is a function of: the uses to which it might be put, other contingency funds available to the Authority for operating purposes, and the predictability of revenues flowing from the application of the Authority's rates and charges. Based upon our review of the operating expenses of the Authority, the monies in the Operating Reserve Fund are sufficient to cover any reasonable unanticipated operating event. Moreover, because the Authority's rates and charges are applied retroactively (the assessments against any particular Local Body are a function of this year's budget and last year's use of the systems) and are thus known with precision, there is little probability that shortfalls in sales, owing, for example to supply deficits, will directly impact the revenues of the Authority. Because the Authority has the ability to intercept state aid for most local Bodies, which it serves, there is little probability of a continued shortfall of revenues. The Authority does, however, need reserves to provide for increased expenses or revenue shortfalls. It is our opinion that the Operating Reserve Fund Revenue Requirement is adequate for these purposes.

4.3 Current Expense Budget

The Authority is required, under Section 8 of the Enabling Act, to adopt an annual budget for its current expenses. The budget must be provided to the Advisory Board for comment and recommendation not less than 60 days prior to its adoption. Amendments to the budget may be made during the year, provided the Advisory Board is provided a copy of revisions not less than 30 days prior to the adoption of the modifications.

The process for the development of the budget begins in September of each year, when initial budget targets, guidelines and procedures are distributed. From September through January the budget undergoes internal development by divisional managers, budget analysts and senior management. Budgets for individual programs within the divisions are developed based on a combination of information from prior years, current budgetary targets and the Capital Improvement Program. The CIP budget process requires that each project include an estimate of the impact of the project on the operating budget.

The Authority then transmits the proposed current expense budget to the Advisory Board in February. In April the Authority holds public hearings on the budget and in May receives comments and recommendations from the Advisory Board. In June of each year the Board of Directors adopts the final current expense budget.

For Fiscal Year 2012, the CEB provides for approximately \$618 million in gross current expenses. Historically, the Authority has successfully operated below its budgeted amounts. As a result of the reinstatement of the Commonwealth's Debt Service Assistance (DSA) program in FY 2012, the Authority assumes annual receipt of \$350,000 of DSA.

Based on our review of the FY 2012 current expense budget, we are of the opinion that the budget is adequate for the continuance of the Systems in sound operating condition.

4.4 Capital Improvement Budget

The Resolution requires that the Authority prepare an annual Capital Improvement Program, covering a five-year period and a Capital Improvement Budget for the projects to be undertaken in the first of the five year period. The CIP must identify the projects to be carried out, the costs

and period of construction of these projects. The Capital Improvement Budget must also show the sources of money projected to be available to meet the budgeted expenditures.

Because of the size and complexity of the Authority's construction program, the development and maintenance of the CIP is a continuous process within the Authority. Initial steps in the development of the capital budget are undertaken early in the prior fiscal year, with the distribution of various planning and budgeting forms and instruction. During the period of July through December, divisional staff, capital budget staff and senior management review proposed projects, evaluate sources of funding and develop a preliminary CIP for transmittal to the Board and thence to the Advisory Board. During January through March, the Advisory Board reviews the proposed CIP and makes comments and recommendations to the Authority, following which the Board of Directors holds public hearings on the proposed CIP. During the month of June the Board adopts a final CIP for the ensuing five fiscal years, having taken various comments on the draft documents into consideration. Following the adoption of the CIP, the Authority produces monthly reports comparing capital spending to budget, and produces a comprehensive report every six month which presents capital improvement progress and variances from budgeted expenditures.

The Final 2012 CIP provides for an updated estimated expenditures of \$937 million for the five-year cap period between FY 2009 – FY 2013. Over this five year period approximately 61 percent of the expense is for improvements to the wastewater system, 34 percent for improvements to the water system and the remainder for contingency and other expenses.

Based on our review of the capital improvement plan, the needs of the systems with respect to renovation and redundancy, and the regulatory requirements imposed on the system, we are of the opinion that the capital program adequately provides for the proper and efficient operation of the Systems.

Section 5

Adequacy of Rates, Fees, Rentals and Other Charges

5.1 Introduction

The purposes of this section are to describe:

- Projected Authority expenses for FY 2012 through FY 2017.
- Projected non-rate revenues for the same period.
- Projected rate increases.
- Impacts of such rate increases on customers.
- Projected compliance with various Resolution covenants.

Our financial evaluation is based on a review of the Authority's audited financial statements and various budget documents, current and historical. Our analysis is based on the following documents and data sources: the Authority's actual operating results through FY 2011, the FY 2012 CEB, the FY 2012 CIP, and the Authority's projections of grant receipts, escrows, and participation in the SRF loan program.

We have projected the Authority's revenue requirements taking into account present expenditures, anticipated schedules for capital improvements, FY 2011 year-end balances in various funds and accounts, FY 2011 operating results, the Authority's FY 2012 CIP and CEB, and the covenants of the Resolution. In our projections we have made an adjustment to the Authority's final CEB financial projections by increasing the Rate Stabilization Fund balance by approximately \$4.1 million to incorporate a deposit made by the Authority after the start of FY 2012. Our projections reflect Authority assumptions regarding the schedule, timing and cost of certain key capital projects, including but not limited to the CSO Plan.

5.2 Key Assumptions

This section describes the key assumptions we have used in developing our analysis. We have developed projections of future Authority expenses and revenues taking into account the data and information described above, assumptions regarding economic conditions, Authority policies and spending practices, and the Authority's most recent financings. These projections also take into account Authority-developed projections on the use of debt escrows and tax-exempt commercial paper ("TECP"). The projections contained herein are consistent with those developed by the Authority for the CEB. The projections are developed such that the Authority's projected revenues and expenses meet the various requirements of the Resolution.

As described in subsequent subsections, the Resolution requires the Authority to comply with three alternative rate covenants. Our projection determines the level of revenue necessary to comply with the most restrictive of these covenants. The key assumptions and inputs used for these projections are:

- Variable rate debt for FY 2013 is assumed to carry a 3.75 percent interest rate. Starting in FY 2014, all future variable rate debt is assumed to carry a 4.0 percent interest rate. Future senior debt is generally assumed to be 40-year debt, with the exception of FY 2012 senior debt which is expected to be 30-year debt. The interest rate on senior debt is assumed at approximately 5.5 percent in FY 2012, 5.75 percent in FY 2013, 6.0 percent in FY 2014, and 6.25 percent for subsequent fiscal years throughout the projection forecast. Historically, the Authority has varied debt repayment schedules by, for example, amortizing a 30-year bond issue using a 40-year schedule for the first ten years and a 20-year schedule for the remaining 20 years of the term of the bond.
- SRF loans for water projects will carry an effective interest rate of 2.0 percent with a 20-year term. SRF loans for sewer projects will carry an effective interest rate of 2.5 percent with a 30-year term.
- The Authority is assumed to earn interest income on Reserve Fund Balances and other accounts at a rate of 0.30 percent in FY 2012, 0.75 percent in FY 2013, 1.0 percent in FY 2014 and 2.5 percent in FY 2015 and beyond.
- Capital costs are projected to inflate at an average annual rate of 2.5 percent for projects not yet under contract. This assumed inflation rate is less than what recent experience has been in the northeast and nationwide. It should be noted that changes to this assumption will not have a significant impact on the Authority's projected increases in total expenses over the forecast period, but will have a greater impact over the longer term.
- Operating and maintenance costs for existing facilities are projected to inflate an average annual rate of 4 percent for all years. Projects scheduled to come on line from FY 2012 to FY 2017 are projected to have a modest cost-saving impact on the Authority's total operating expenses, due in part to alternative energy projects and a reduction in DITP asset protection costs.
- Capital spending is based on the FY 2012 CIP, and it is assumed that the Authority's expenditure rate will average 85 percent of the budgeted cash expenditure rate. However, two-thirds of the deferred expenditures are expected to be spent three years later. Thus, the amount deferred in FY 2012 is added to FY 2015 anticipated CIP expenditures.
- The Authority's FY 2012 CEB assumes the receipt of \$350,000 in annual contributions from the Commonwealth Debt Service Assistance (DSA) program.
- The Authority received \$33 million in stimulus funding from the American Recovery and Reinvestment Act, distributed as SRF loan principal forgiveness.
- As matter of policy, the Authority will not use more than \$12 million from the Rate Stabilization Fund, the Bond Redemption Fund, or Debt Escrows in any given year.

5.3 Rate Revenue Requirements

In developing projected rate revenue requirements as shown in Tables 5-1 through 5-3, we have followed the Authority's CEB format with expenditures classified as direct, indirect and capital. Non-rate revenue is then applied against total expenses to determine the Authority's rate revenue requirement for a particular fiscal year.

5.3.1 Direct Expenses

Projected direct expenses are summarized in Table 5-1 and discussed in the following sections. Direct expenditures are projected to increase from approximately \$209.3 million in FY 2012 to approximately \$254.5 million in FY 2017, an average annual increase of 4.0 percent. These projections reflect the costs of operating and maintaining the Authority's Systems, as well as the net incremental cost savings associated with new facilities and projects that the Authority anticipates becoming operational during this time.

Table 5-1
Budgeted and Projected Direct Expenses, FY 2012-2017
(\$ in 000's)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Sewer Fund Direct Expenses ¹	\$145,298	\$150,300	\$156,584	\$162,714	\$169,067	\$176,098
Waterworks Fund Direct Expenses ²	\$63,989	\$66,576	\$69,614	\$72,519	\$75,322	\$78,370
Total Direct Expenses	\$209,286	\$216,875	\$226,198	\$235,233	\$244,389	\$254,468

¹Includes Sewerage Division, excluding Clinton Treatment Plant, plus the Environmental Quality Department (ENQUAD), wastewater portions of the Field Operations Division (FOD), and allocated Engineering and Construction, Laboratory Services and Administrative.

²Includes Waterworks Division, water portions of FOD, the Clinton Treatment Plant and allocated Engineering and Construction, Laboratory Services and Administrative.

Note: Details may not add exactly due to rounding.

Given the current economic downturn, the Authority has been pursuing various cost saving measures including, but not limited to, freezing wages for both union and non-union staff for FY 2012, not funding anticipated enterococcus compliance requirements, consolidating operations and maintenance facilities, reorganizing and automating facilities, negotiating competitive agreements for energy and chemicals, selling of surplus assets, and increasing energy self-generation utilizing digester gas as well as wind turbines (DITP and DeLauri Pump Station) and solar. Utility expenses are expected to decrease approximately \$660,000 in FY 2012 from the FY 2011 CEB, due in part to a decrease in electricity costs due to lower pricing and increasing energy self-generation at DITP. As previously mentioned, the agreements for energy contracts also contribute to the lower utility cost estimates, as the Authority now has approximately 60 percent of its energy load under fixed contract pricing.

Sewer Fund direct expenses, as presented in Table 5-1, exclude the Clinton Wastewater Treatment plant expenses, but include allocated administrative expenses. Sewer Fund direct expenses are projected to increase at an average annual rate of approximately 3.9 percent from FY 2012 to FY 2017, reflecting primarily the impact of assumed inflation

increases for operating existing facilities. There will be net incremental savings on Sewer Fund direct expenses in FY 2013 due in large part to the completion of alternative energy projects, and savings in future years from a reduction in DITP asset protection costs, offset in FY 2017 by incremental costs related to the North Dorchester CSO project. The Clinton Wastewater Treatment Plant is treated as a Waterworks fund expense because the facility was constructed to mitigate the impact of certain waterworks facilities. Administrative and support expenses are allocated between the Waterworks Fund and the Sewer Fund, based on the total direct annual costs in each Fund. In FY 2011, 67 percent of allocable direct administrative expenses were combined with Sewer Fund direct expenses in Table 5-1. This allocation is expected to shift slightly, with roughly 65 percent of allocable direct administrative expenses assigned to the Sewer Fund for FY 2012 and beyond.

The Waterworks Fund direct expenses are projected to increase at an average annual rate of 4.2 percent between FY 2012 and FY 2017. The Waterworks Fund expenses include Clinton Wastewater Treatment costs.

Table 5-2 presents a detailed breakdown of the Authority's projected combined direct expenses. These expenses are presented by CEB line item for the period FY 2012 through FY 2017. The direct expense decrease between FY 2011 and FY 2012 budgeted costs are due primarily to lower chemical and utility costs, and decreases in fringe benefits and contractual wages. Excluding debt service, labor costs are the Authority's largest line item expense representing over 54 percent of operating expenses and are projected to increase from \$113.9 million in FY 2012 to \$138.6 million in FY 2017. Labor costs are expected to have an average annual increase of 4.0 percent over the period between FY 2012 and FY 2017.

Table 5-2
Budgeted and Projected Direct Expenses, FY 2012-2017
(\$ in 000's)

Category	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Labor	\$113,882	\$118,437	\$123,174	\$128,101	\$133,226	\$138,555
Chemicals	\$9,047	\$9,409	\$9,786	\$10,177	\$10,543	\$10,965
Utilities	\$22,655	\$22,750	\$23,664	\$24,400	\$25,077	\$25,957
Maintenance & Materials	\$34,236	\$35,633	\$37,432	\$39,042	\$40,691	\$42,745
Services	<u>\$29,467</u>	<u>\$30,646</u>	<u>\$32,142</u>	<u>\$33,512</u>	<u>\$34,853</u>	<u>\$36,247</u>
Total Direct Expenses	\$209,286	\$216,875	\$226,198	\$235,233	\$244,389	\$254,468

Note: Details may not add exactly due to rounding.

Chemical costs account for approximately 4.3 percent of direct expenses and are estimated to increase at an average annual rate of 3.9 percent between FY 2012 and FY 2017. This reflects the increase in prices for some water treatment chemicals. The Authority assumes for FY 2012 the elimination of funding for anticipated enterococcus compliance and lower hydrofluosilicic acid usage.

Utilities, which represent close to 11 percent of direct expenses, are expected to increase at an average annual rate of 2.8 percent between FY 2012 and FY 2017, following the Authority’s fixed price energy agreements as well as trends in fuel and electricity market prices. Maintenance and materials, which represent 16 percent of direct expenses, are projected to increase an average annual rate of 4.5 percent from FY 2012 to FY 2017. The majority of this increase results from the added maintenance costs that will be necessary for new assets as the Authority continues to complete construction of its capital projects, and energy demand side management projects.

5.3.2 Indirect Expenses

Indirect expenses for FY 2012 through FY 2017 are summarized in Table 5-3. Indirect expenses include a number of cost items that reflect financial commitments by the Authority, but which are not directly controlled by an operating division of the Authority. As an example, the Authority has agreed to compensate certain Local Bodies because of the adverse impacts caused by the construction of new facilities. These mitigation payments are financial obligations of the Authority and are allocated specifically to either the Waterworks System or the Sewer System.

Table 5-3
Budgeted and Projected Indirect Expenses, FY 2012-2017
(\$ in 000’s)

Category	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Insurance	\$2,286	\$2,377	\$2,472	\$2,571	\$2,674	\$2,781
Watershed/PILOT	\$25,576	\$26,075	\$27,448	\$27,994	\$28,553	\$29,127
Cable Substation Lease	\$3,965	\$3,621	\$3,846	\$3,570	\$2,323	\$844
Mitigation	\$1,529	\$1,567	\$1,606	\$1,646	\$1,687	\$1,730
OPEB (GASB 45)	\$0	\$4,724	\$4,976	\$5,245	\$5,531	\$5,836
Reserves Additions	\$195	\$945	\$1,639	\$1,508	\$1,368	\$1,484
Pension Fund Deposits	<u>\$7,340</u>	<u>\$5,637</u>	<u>\$5,788</u>	<u>\$5,940</u>	<u>\$6,095</u>	<u>\$6,251</u>
Total Indirect Expenses	\$40,892	\$44,947	\$47,775	\$48,475	\$48,232	\$48,054

Note: Details may not add exactly due to rounding.

The major indirect expenses are:

Insurance: The Authority purchases property and casualty insurance from external insurance carriers, and self-insures for significant levels of property and general liabilities.

Watershed/PILOT: The Enabling Act requires the Authority to pay the Commonwealth for two obligations. The first obligation is to reimburse the Commonwealth for the operating costs and debt service associated with land acquisitions of the DCR’s Division of Water Supply Protection. The second obligation is to make payments in lieu of taxes (PILOT) to each city or town with

lands located in the Authority's watersheds. PILOT payments are revalued every four years, the most recent occurring in FY 2010, which resulted in a 10 percent increase in that portion of the PILOT. The Authority's projections assume that PILOT payments will increase 6 percent in FY 2012, 2.5 percent in FY 2013, and 14 percent in FY 2014.

Cable and Substation Lease: A subsidiary of NStar, Harbor Electric Energy Company ("HEEC") installed a cross-harbor power cable and built a power substation to supply electric power for the construction and operation of the DITP. The Authority has agreed to repay HEEC's capital investment on a 25-year schedule.

Mitigation: The Authority is currently a party to an agreement that requires the Authority to make payments to the Town of Winthrop to ameliorate the adverse physical, social, and economic impacts of the DITP. It is estimated that this mitigation payment will equal \$728,705 in FY 2012. The Authority also has a mitigation agreement with the City of Quincy that requires the Authority to make payments for police, fire, and other municipal services for several Authority water and sewer facilities located in Quincy, and it is estimated that the mitigation payment will equal \$800,000 in FY 2012, based on a Memorandum of Agreement with the community. The agreement was recently renewed and will remain in effect through calendar year 2013 and the Authority's Executive Director has been authorized to negotiate an extension beyond 2013; the projections assume both agreements remain in effect throughout the forecast period.

Additions to Reserves: The Authority is required by the terms of the Resolution to maintain reserve funds for operations, insurance, and renewal and replacement. These reserves are incrementally funded each year, as necessary, to bring them to stipulated levels. These are discussed in more detail in the following section.

GASB 45 - Other Post-Employment Benefits: The Authority adopted GASB 45 in FY 2008, which requires accounting and reporting of post employment benefits other than pensions ("OPEB"). In lieu of funding the OPEB liabilities through an irrevocable trust, the Authority elected to use funds otherwise allocated to OPEB to prefund its unfunded pension liability reducing the 17-year funding schedule. The Authority believed that it could maximize the potential financial return by reducing the amortization schedule on the 17-year unfunded pension liability, rather than creating an irrevocable OPEB trust. The Authority wished to provide itself with adequate short-term flexibility as it engages in long-term financing strategy to accommodate GASB 45 requirements. These recommendations have not been independently reviewed or evaluated by CDM; however, the Authority worked closely with Buck Consultants to identify the most financially responsible strategy on this topic (Buck Consultants also provide the Authority with the actuarial estimates for appropriations to the pension fund). This strategy was implemented each year for FY 2008, FY 2009, and FY 2010. In the interest of mitigating rate increases for FY 2011, the Authority made no optional payments to the pension fund for FY 2011. The Authority expects to re-engage in the funding

strategy for FY 2012 with an optional payment to the pension fund of \$1.9M. For FY 2013, the Authority carries funding for one-half of its annual OPEB liability. It is likely these funds will be transferred to the Retirement System, further reducing the outstanding liability.

Pension Fund Contribution: During FY 2008, the Authority modified its methodology for assessing retirement liability to be more consistent with Chapter 32 of the Massachusetts General Laws. The new methodology resulted in the funding level decreasing from fully funded to an 85 percent funded level. However, the Authority's Retirement Board voted to recognize this liability and assessed the pension liabilities. The Authority is budgeted to deposit the required contribution of approximately \$5.5 million in FY 2012 into the Retirement Fund.

5.3.3 Reserve Funds

The Authority is required by the Resolution to meet funding requirements for certain funds. The Authority is required to maintain an Operating Reserve Fund to be used in the event of unexpected or extraordinary fluctuations in monthly operation and maintenance expenses. The Authority is required to have on deposit in the Operating Reserve Fund at the end of each fiscal year an amount equal to one-sixth of that fiscal year's operating expenses. (Operating expenses are the total of direct and indirect expenses found in the Tables 5-2 and 5-3, less the amounts expended for Watershed/PILOT and Reserve additions).

At the end of FY 2011, the Operating Reserve had a balance of \$37.2 million. In FY 2012, we project a required contribution in funding of \$195,467 on account of increases in applicable expenses in the FY 2012 CEB, and in compliance with the Resolution. Between FY 2013 and FY 2017, mandatory contributions to the reserve of \$945,000, \$1.6 million, \$1.5 million, \$1.4 million and \$1.5 million, respectively, are projected.

The Resolution requires the Authority to fund an Insurance Reserve Fund to a level confirmed by a qualified insurance consultant. In February 2011, the Authority's insurance consultant reviewed the adequacy of the Insurance Reserve Fund and concluded that an acceptable range for the fund would be somewhere between \$12 million and \$16 million. The Authority reduced the Insurance Reserve Fund balance to \$14 million, representing the mid-point of the approved range. The Authority expects the fund balance to remain level at \$14 million throughout the forecast period. The Insurance Reserve Fund Requirement has not been independently reviewed or evaluated by CDM.

The Resolution also requires the Authority to fund a Renewal and Replacement Reserve Fund, based on the recommendations of the Consulting Engineer. The Renewal and Replacement Reserve Fund is established to pay the costs of emergency repairs or capital improvements to the Systems when funds are not available in either the Construction Fund or the Operating Fund. Projects financed from the Renewal and Replacement Reserve Fund must be necessary to ensure the continual operation of the Systems, and not previously identified to be financed from the Operating Fund. The Renewal and Replacement Reserve Fund requirement is presently established at \$35 million, as set forth

in a report in 2003 by CDM, as the Authority's Consulting Engineer, and reconfirmed in 2008 and again in this Report. Since FY 1997, the Authority has met the Renewal and Replacement Reserve Fund balance funding requirement. No additional deposits are projected to be required over the forecast period.

The Authority has in the past and may in the future pre-fund required Reserve Fund deposits.

5.3.4 Capital Spending

The projected capital spending for FY 2012 through FY 2017 is presented in Table 5-4, based on the FY 2012 CIP. The capital expenditures presented in this table are presented on a cash basis, and represent the anticipated actual expenditures for various projects. The projected capital expenditures are based on contracts that are currently underway, as well as projected future projects reflected in the CIP. Inflated estimates are based on a 2.5 percent average annual inflation rate for all projects that will not be under contract until after the end of FY 2011. In our opinion, the assumed inflation rate is reasonable given anticipated inflation trends. This inflation rate should provide an adequate allowance for currently unforeseen factors that could increase inflation pressures on construction costs.

Contingency amounts shown in Table 5-4 are based on projected cash expenditures. The contingency in a particular year is estimated to be 7.0 percent of projected spending, except for tunnel related projects which carry a 15 percent contingency.

Waterworks and Sewer Systems capital spending is projected to decline in total as the Authority completes major elements of the CIP, including the various improvements in the water storage system, and wastewater capital improvements. In June 2008, the Authority established a capital spending cap for FY 2009 to FY 2013 with baseline capital expenditures totaling \$1,081.4 million and a total baseline cap of \$1,143.8 million. The Final 2012 CIP projects total expenditures under the cap of \$954.7 million, reflecting estimated capital spending of \$936.7 million and \$20.3 million in contingency. This represents a \$189.1 million decrease from the baseline cap.

Table 5-4
Projected Capital Spending, Inflated and Uninflated, FY 2012-2017
(\$ in 000's)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Sewer System¹						
Contracted ²	\$63,811	\$43,973	\$21,960	\$8,527	(\$1,078)	(\$3,757)
Uncontracted ²	\$23,159	\$64,212	\$95,368	\$134,585	\$118,479	\$106,750
Contingency ²	<u>\$6,481</u>	<u>\$8,011</u>	<u>\$8,772</u>	<u>\$10,775</u>	<u>\$8,882</u>	<u>\$8,458</u>
Subtotal²	\$93,452	\$116,196	\$126,100	\$153,887	\$126,283	\$111,451
Waterworks System¹						
Contracted ²	\$37,758	\$28,709	\$17,372	\$7,443	(\$845)	(\$1,481)
Uncontracted ²	\$23,993	\$58,696	\$97,085	\$88,289	\$89,858	\$74,463
Contingency ²	<u>\$4,487</u>	<u>\$6,292</u>	<u>\$8,164</u>	<u>\$6,719</u>	<u>\$6,434</u>	<u>\$5,303</u>
Subtotal²	\$66,238	\$93,696	\$122,621	\$102,451	\$95,448	\$78,286
Total CIP—Uninflated²	\$159,689	\$209,892	\$248,721	\$256,338	\$221,731	\$189,737
Total CIP—Inflated	\$200,000	\$216,550	\$264,560	\$281,119	\$251,036	\$220,795

¹Includes allocated Administrative Division expenses.

²Stated in 2011 dollars throughout forecast period.

The Authority is evaluating additional disinfections stages at the Carroll WTP to enhance water quality and to comply with SDWA requirements; however, this is unlikely to impact the Authority's expenditures significantly during this forecast period. The FY 2012 CIP identifies water redundancy projects as a major theme going forward.

The Authority spends a large amount of its Sewer CIP on CSO programs to comply with federal mandates. This program is estimated to account for nearly 33 percent of total CIP spending over the spending cap period. The Authority anticipates that by the end of the cap period, close to 96% of mandated CSO projects will be completed. Going forward, spending is expected to be focused on asset protection and energy related initiatives.

Table 5-5 presents the projected flow of funds within the Construction Fund from FY 2012 through FY 2017. Most construction funding is projected to be financed with long-term debt or SRF loans; however, the Authority intends to fund nearly \$58 million in capital expenditures through pay-as-you-go current year funding. The assumption for future years is that SRF loan availability remains stable beyond FY 2012, but that no grant funding will be available.

Table 5-5
Construction Fund Projected Cash Flow, FY 2012-2017
(\$ in 000's)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Construction Needs ¹	\$193,948	\$207,837	\$244,283	\$258,951	\$235,035	\$214,132
Financed by:						
Balance: Begin. of Year	\$160,637	\$183,209	\$51,868	\$29,875	\$28,384	\$27,193
Long Term Debt	\$85,719	\$26,296	\$171,090	\$205,260	\$180,645	\$159,230
State Revolving Fund	\$123,600	\$42,000	\$42,000	\$42,000	\$42,000	\$42,000
Pay As You Go	\$7,200	\$8,200	\$9,200	\$10,200	\$11,200	\$12,200
Balance: End of Year²	\$183,209	\$51,868	\$29,875	\$28,384	\$27,193	\$26,491

¹ Construction needs is approximately 85 percent of Total CIP--Inflated line shown on bottom of Table 1-4, plus 2/3's of the 15 percent deferred three years earlier.

² The Balance: End of Year is equal to the sum of the available sources, less projected construction needs.

Note: Details may not add exactly due to rounding.

The Authority has developed its projections of borrowing amounts in a fiscal year, such that it begins the following fiscal year with a construction fund starting balance that, when combined with SRF loans, grants, and pay-as-you-go capital, is at least 10 percent of the next year's construction requirement. This, coupled with the availability of TECP, provides a sufficient cushion to prevent disruption of the Authority's capital program from unanticipated or unfavorable capital market conditions.

The capital spending program described in the preceding paragraphs affects the Authority's revenue requirement in three ways:

- Debt service must be paid on the bonds issued to fund the program.
- Sufficient revenues must be generated to comply with the Primary and Secured Coverage requirements.
- The Authority must fund the CORE Fund, which is available only for the payment of principal and interest on all Secured Bonds.

Table 5-6 presents existing and projected debt service resulting from the projected capital spending program and assumes that the Authority is not constrained by its statutory debt limitation. These projections do not include the anticipated savings resulting from the

2011 Series C Refunding Bonds. Annual debt service in a year is based on the monthly debt service deposits that are required in accordance with the Resolution. Consistent with the FY 2012 CEB, debt service assistance is assumed to be \$350,000 annually and remain constant throughout the projection period.

Table 5-6
Current and Projected Debt Service, FY 2012-2017
(\$ in 000's)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Senior Debt						
Principal to be Issued in FY ¹	\$100,000	\$35,010	\$193,588	\$231,525	\$204,518	\$181,023
Existing Senior Debt Service	\$185,291	\$191,123	\$214,184	\$259,392	\$296,875	\$327,250
Future Senior Debt Service	<u>\$1,875</u>	<u>\$1,127</u>	<u>\$6,433</u>	<u>\$7,937</u>	<u>\$7,012</u>	<u>\$6,206</u>
Total Senior Debt Service	\$187,166	\$192,250	\$220,617	\$267,329	\$303,887	\$333,456
Debt Service Assistance	(\$162)	(\$159)	(\$169)	(\$182)	(\$201)	(\$201)
Bond Redemption Account	<u>\$0</u>	<u>\$0</u>	<u>(\$5,080)</u>	<u>(\$2,537)</u>	<u>(\$1,843)</u>	<u>(\$2,676)</u>
Net Senior Debt Service	\$187,004	\$192,091	\$215,368	\$264,610	\$301,843	\$330,579
Subordinated/SRF Debt						
Principal to be Issued in FY ¹	\$123,600	\$42,000	\$42,000	\$42,000	\$42,000	\$42,000
Existing Debt Service	\$157,742	\$173,483	\$183,637	\$185,560	\$179,016	\$199,699
Future Debt Service	<u>\$9,564</u>	<u>\$1,480</u>	<u>\$1,480</u>	<u>\$1,480</u>	<u>\$1,480</u>	<u>\$1,480</u>
Total Subordinated/SRF Debt Service	\$167,306	\$174,964	\$185,117	\$187,041	\$180,496	\$201,180
Debt Service Assistance	<u>(\$188)</u>	<u>(\$191)</u>	<u>(\$181)</u>	<u>(\$168)</u>	<u>(\$149)</u>	<u>(\$149)</u>
Net Subordinated/SRF Debt Service	\$167,118	\$174,773	\$184,937	\$186,873	\$180,348	\$201,031
Total Debt Service	\$354,122	\$366,864	\$400,304	\$451,483	\$482,191	\$531,609

¹Total principal amount represents the amount of bonds required to provide the Construction Fund Deposit shown on line 1 of Table 1-5, plus repayment of TECP issued in prior fiscal year(s). This amount is increased to reflect Debt Service Reserve Fund Requirements and cost of issuance. Note: Details may not add exactly due to rounding.

Total Senior Debt Service is projected to increase from approximately \$187.2 million in FY 2012, to approximately \$333.5 million in FY 2017 before accounting for debt service assistance and proceeds from the Bond Redemption Account. In Table 5-6, Net Senior Debt Service reflects the senior debt service with the reduction of assumed annual debt service assistance and the current and anticipated funds from the Bond Redemption Account. The Bond Redemption Account is a valuable rate-smoothing tool available to the Authority, which estimates that it will have nearly \$32.9 million in the Bond Redemption Account at the beginning of the forecast period. The Authority expects to draw from the account beginning in FY 2014 and anticipates depleting the funds in the account by FY 2020, however actual usage could be less.

Subordinated debt service, including both SRF and other outstanding subordinated Authority debt, is projected to increase from \$167.3 million in FY 2012 to \$201.2 million in FY 2017. No future variable rate debt is assumed to be issued over the timeframe of these projections, an assumption that may change based on market conditions. Projected SRF debt service assumes an interest rate of 2.5 percent for sewer debt for and a rate of 2.0 percent for water related debt throughout the projection period.

5.3.5 Non-Rate Revenues

The Authority receives revenues from a variety of sources that offset the amount that must be collected from the Local Bodies. Total non-rate revenues are budgeted at \$28.5 million in FY 2012 and are expected to increase to a total of \$52.5 million by FY 2017. Table 5-7 summarizes these sources from FY 2012 through FY 2017.

Table 5-7
Projected Non-Rate Revenue, FY 2012-2017
(\$ in 000's)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Rate Stabilization Fund Withdrawal	\$1,092	\$0	\$6,920	\$9,463	\$10,157	\$9,324
Miscellaneous	\$12,015	\$12,879	\$13,377	\$13,834	\$14,208	\$14,551
Investment Income	<u>\$15,352</u>	<u>\$17,708</u>	<u>\$20,144</u>	<u>\$26,757</u>	<u>\$27,658</u>	<u>\$28,632</u>
Total Non-Rate Revenue	\$28,459	\$30,587	\$40,441	\$50,054	\$52,023	\$52,507

Note: Details may not add exactly due to rounding.

Major non-rate revenue sources are briefly described in the following:

Rate Stabilization Fund Withdrawal: When annual revenues exceed expenses, the Authority may deposit the money in the Rate Stabilization Fund. In future years, money may be withdrawn from the fund to reduce rate revenue requirements. Our projections cap Rate Stabilization Fund withdrawals at an amount no greater than 10 percent of the Required Debt Service Fund Deposits, net of Debt Service Assistance credited to Senior Debt for such year, consistent with the Resolution, and use such amounts as available to moderate projected rate increases consistent with Authority practice. The Rate Stabilization Fund balance at the end of FY 2011 was approximately \$41 million. This amount reflects the net withdrawal of around \$0.9 million in FY 2011, reflecting a withdrawal of \$5.0 million and a deposit of \$4.1 million. The Authority plans to withdraw approximately \$1.1 million from the Rate Stabilization Fund in FY 2012, with a peak withdrawal of \$10.2 million in FY 2016. Based on these projected withdrawals, the Rate Stabilization Fund will be depleted in FY 2021.

Investment Income: The Authority earns interest by investing fund balances in a variety of interest-bearing securities. These amounts are transferred to the Revenue Fund and are available to meet the ongoing obligations of the Authority.

Investment income for FY 2012 is estimated to increase by roughly \$58,952 from FY 2011 actuals primarily due to higher invested balances. Total investment income is projected to increase from approximately \$15.4 million in FY 2012 to approximately \$28.7 million in FY 2017. The fluctuations in investment income between FY 2012 and FY 2017 partially reflect changes in the Construction Fund, Rate Stabilization Fund, and Debt Service Reserve Fund balances. For example, the fund balance in the Debt Service Reserve Fund will increase as the Authority continues to issue long-term debt to finance new construction.

Miscellaneous: The Authority also receives certain amounts from Local Bodies, primarily in central Massachusetts, that are provided water under various contracts, as well as payments from the Town of Clinton for partial operation of the Clinton Wastewater Plant. Between FY 2012 and FY 2017, the Authority is projected to receive approximately \$28.3 million from the CVA Communities under the contractual service agreements. The Authority estimates that over the same period of time it will collect \$9.7 million in water revenue from sewer customers to offset water usage at the DITP. The Authority also receives a variety of fees, penalties and charges in their normal course of business.

5.4 Rate Revenue Requirement and Retail Customer Impacts

5.4.1 Rate Revenue Requirement

Table 5-8 summarizes our rate projections for FY 2012 through FY 2017 based on the CEB. For FY 2012, the Authority's rate revenue requirement increased by approximately 3.49 percent over FY 2011 levels to a total of approximately \$589.7 million. The rate revenue requirement equals the total amount of expenses in a fiscal year (including required reserve deposits and any amounts required to meet coverage requirements) less non-rate revenues. Of this amount, approximately \$405.8 million will be required to meet the expenses of the Sewer System, including allocated administrative and indirect expenses, and approximately \$183.9 million for the Waterworks System.

Rate revenues are projected to increase to \$804.4 million in FY 2017, an average annual increase of 6.4 percent from FY 2012 levels. For the Sewer System, the rate revenue requirement is projected to increase from \$405.8 million to approximately \$548.5 million, an average annual increase of approximately 6.2 percent. The Waterworks System revenue requirement is projected to increase from \$183.9 million in FY 2012 to approximately \$256.0 million in FY 2017, an average annual increase of 6.9 percent.

Table 5-8
Projected Rate Revenue Requirement Increases, FY 2012-2017
(\$ in 000's)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Wastewater Rate Revenue	\$405,814	\$416,474	\$445,839	\$476,365	\$497,765	\$548,469
Water Rate Revenue	<u>\$183,886</u>	<u>\$196,484</u>	<u>\$205,060</u>	<u>\$230,555</u>	<u>\$246,607</u>	<u>\$255,959</u>
Total Rate Revenue	\$589,700	\$612,958	\$650,899	\$706,920	\$744,372	\$804,428
Annual Rate Increase	3.49%	3.9%	6.2%	8.6%	5.3%	8.1%

Note: Details may not add exactly due to rounding.

The higher rate revenue and steady percentage increase in the Sewer System rate revenue requirement reflects the financing and operational costs associated with the implementation of the CSO Plan as well as the DITP Asset Protection Program. The higher percentage increase in the Water System reflects in part the Authority's anticipated focus on water redundancy initiatives and the additional treatment processes being added to the CWTP.

These projected rate revenue increases are the product of a large number of assumptions, including the rate of growth in Authority operating expenses and economic and financial assumptions. They also assume that the Authority uses the Rate Stabilization Fund consistent with the Resolution and the Bond Redemption Account to smooth future projected rate increases.

5.4.2 Rate Allocation Methodology

The Authority's charges for the services of the Waterworks and Sewer Systems, identified as Total Rate Revenue in the preceding table, are billed to Local Bodies on a wholesale basis. This means that the Authority bills Local Bodies, including special districts, rather than the individual residences or businesses served by the Systems. Separate charges applicable to the respective Systems are established each year as required by the Enabling Act; these charges are established at levels at least sufficient, together with other available revenue, to pay the full annual revenue requirement, as described in subsequent sections.

5.4.2.1 Water Rate Methodology

Using an average cost methodology, the Authority's net annual Waterworks System costs for the current fiscal year, including operation and maintenance, debt service, and reserve fund requirements are recovered from Local Bodies in proportion to their prior calendar year annual water consumption. For FY 2011, the unit cost of water equals \$2,787 per million gallons; in FY 2012, the unit cost equals \$2,761 per million gallons; and based on the Authority's projections the unit cost will equal approximately \$2,950 per million gallons in FY 2013.

5.4.2.2 Contractual Agreements for Water Service

Twenty-three of the 50 water-served Local Bodies are “contract communities” in which water is supplied pursuant to water supply agreements. The list of water-served communities evolved through various legislative acts that allowed the communities/water districts to join the system. The water supply agreements contain terms and conditions agreed to by respective communities and the Authority. The three CVA Communities are served from the Chicopee Valley Aqueduct, and have a separate assessment. There are four additional entities served by the Authority: these include state hospitals and the DCR. Clinton is also considered a water-served community; however, Clinton withdraws its first 800 mg of water per year from the Authority’s water supply reservoirs via its own infrastructure free of charge. The Authority has had discussions with additional communities and Local Bodies regarding potential water sales to meet various needs and has added five Local Bodies to the waterworks system since its inception.

5.4.2.3 Wastewater Rate Methodology

The Authority’s wastewater rate methodology encompasses the following elements:

Operation and Maintenance Expense: Each Local Body’s annual allocation in FY 2012 is based upon the average total annual metered flow for the prior three years from each community taking into account three separate prices for each portion of wastewater: total annual flow, pounds of suspended solids, and pounds of biochemical oxygen demand.

Capital Costs: A flow-based method, adjusted for strength, is used to recover one quarter of the capital costs, and a population-based method is used to recover the remaining three quarters. For each Local Body in FY 2012, flow calculations are based on the average of the month in the prior three calendar years in which the highest average daily flows occurred for that community. The remaining share of capital costs is allocated based on population: 50 percent of the balance (37.5 percent of the total) assigned on the basis of the community’s total or census population and 50 percent of the balance (37.5 percent of the total) on the basis of the presently served population.

5.4.2.4 Enforceability of Charges

The Authority’s charges to Local Bodies are a general obligation of the Local Bodies. Local Bodies fund payment of the Authority’s wholesale rates and charges from a number of revenue sources, including local retail water and wastewater charges, real and personal property taxes, Commonwealth local aid distributions, or a combination of the preceding. In the event any charge to a Local Body is not paid when due, the Enabling Act authorizes the Authority to recover the amount due, together with interest and other actual damages, by action in the state Superior Court. Without suit, the Authority may also certify to the State Treasurer the amount of any unpaid charge from a Local Body (except the Boston Water and Sewer Commission, the Lynn Water and Sewer Commission, the Hingham Sewer District, the Dedham-Westwood Water District, and the Lynnfield Water District, which collectively will account for approximately 31.2 percent of total rate revenues in FY

2012), whereupon the State Treasurer is required by the Act to deduct the amount due from any distribution of local aid then payable to such Local Body by the Commonwealth, if any, and instead to pay such amount to the Authority. The Authority has collected 100 percent of its rates and charges in each year of its existence. Nearly all rates and charges are paid within 30 days of the due date; the local aid intercept has been used only eight times in total, and not since FY 1993.

The availability of local aid distributions in the future to satisfy unpaid charges imposed by the Authority with respect to those Local Bodies eligible to receive such distributions will be dependent upon, among other things, the aggregate amount actually appropriated to each Local Body by the state legislature in a fiscal year for local aid distribution, and to the extent to which a Local Body's local aid distribution may have already been accessed under other valid intercept mechanisms.

5.4.3 Retail Customer Impacts

The Local Bodies and their retail customers will continue to be impacted by the projected increases in the Authority's charges for water and wastewater service over the next several years. Local Bodies will be required to increase their contributions through retail user fee increases. Due to the variety of revenue sources used by the Local Bodies and the differences in service levels, it is difficult to accurately assess the impact of the projected increases in the Authority's charges on the average household in the Authority's service area. The Advisory Board annually surveys the Local Bodies, and on the basis of the 2010 *Annual Water and Sewer Retail Rate Survey*, the Authority has estimated that during FY 2010 the average annual household charges for water and wastewater service across the 22 Local Bodies receiving both services will total \$1,254, using an industry standard benchmark that the average household consumes 90,000 gallons per year. We project that in FY 2012 and FY 2013 the average household bill assuming 90,000 gallons average annual consumption will increase to approximately \$1,314 and \$1,377, respectively. When making these projections, we have assumed (1) that the Local Body that provides retail services receives both water and sewer services from the Authority, (2) that the Local Body passes on to each household 100 percent of any Authority increases in the form of retail user fees, (3) that the Local Body's charges increase by 5.0 percent annually through FY 2017, and (4) that the Authority's charges constitute approximately 43 percent of the Local Bodies' charges in FY 2012.

Table 5-9 summarizes the projected annual household bills through FY 2017 assuming average household consumption of 90,000 gallons per year. Typical annual household bills are projected to increase to approximately \$1,730 in FY 2017. Of this amount, \$769 is the Authority wholesale charge and \$961 is the projected local charge.

These estimates of household charges are based on the assumptions regarding inflationary increases, long-term debt interest rates, state and federal assistance, estimates of additional operating expenses related to new facilities, and construction costs of new facilities. These estimated charges are, therefore, subject to change.

We believe that assuming average annual consumption of 90,000 gallons per year overstates residential consumption in many of the Local Bodies, and that most residential customers consume significantly less. Another benchmark that the Authority is using is based on 61,000 gallons per year per household, or 68 percent of the industry benchmark which is close to the actual consumption in the MWRA service area for the past year. Consequently, the average annual household bills described above and presented below are not reflective of the actual cost of water and sewer service being incurred by the Local Bodies' residential customers. At the consumption level of 61,000 gallons, the average retail bill during FY 2012 would be approximately \$891, and in FY 2017 the average bill is estimated to be \$1,172.

Table 5-9
Projected Typical Household Bills, FY 2012-2017
(\$ in 000's)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Combined						
Local	\$753	\$791	\$830	\$872	\$915	\$961
MWRA	<u>\$561</u>	<u>\$587</u>	<u>\$621</u>	<u>\$679</u>	<u>\$717</u>	<u>\$769</u>
Total	\$1,314	\$1,377	\$1,451	\$1,551	\$1,633	\$1,730
Water						
Local	\$275	\$289	\$303	\$319	\$334	\$351
MWRA	<u>\$254</u>	<u>\$272</u>	<u>\$283</u>	<u>\$319</u>	<u>\$341</u>	<u>\$354</u>
Total	\$529	\$561	\$587	\$637	\$675	\$705
Sewer						
Local	\$478	\$502	\$527	\$553	\$581	\$610
MWRA	<u>\$307</u>	<u>\$315</u>	<u>\$337</u>	<u>\$360</u>	<u>\$376</u>	<u>\$415</u>
Total	\$785	\$817	\$864	\$913	\$957	\$1,025

The retail rates within the Authority's service area are among the highest in the country according to the Advisory Board's *Annual Water and Sewer Retail Rate Survey*, February 2010. The survey found an average annual combined water and sewer household bill of approximately \$1,254 assuming 90,000 gallons of water use for all 61 communities served by the Authority. However, comparing the costs to households of water and sewer services across jurisdictions is difficult given differing methodologies in establishing user fees, capital assessments, general tax support, and the availability of state and federal financial assistance. In addition, it is important to take into account regional variations in water consumption and household income when assessing the impact of such bills on residential customers. The Authority believes that with these factors taken into account its service costs are comparable to many utilities across the country.

For certain segments of the Authority's service area population, especially those with low and/or fixed incomes, we believe that the retail rates may be burdensome. If these increases are not mitigated in some fashion, certain demographic groups within the retail customer base may find the projected increases unaffordable. However, Local Bodies

have a variety of means for mitigating these impacts, including lifeline rates, subsidization from other revenue sources, and discounts for senior and low-income households. Several of these measures have already been implemented by certain Local Bodies to mitigate the burden on the most vulnerable retail customers.

Based upon our review, and recognizing the availability and use of retail rate alternatives by the Local Bodies, we are reasonably confident that the Authority's projected rates and charges will be within the ability of the individual Local Bodies and their collective retail customer base to afford.

5.5 Compliance with the General Bond Resolution

Table 5-10 summarizes our evaluation of the Authority's compliance with certain terms of the Resolution from FY 2012 through FY 2017. The data included in this table regarding non-rate revenues, operating expenses, debt service assistance and reserve fund deposits are described in prior sections. Rate revenue is described in the preceding section. In general, the Authority must generate sufficient rate revenue to meet all operating and capital expenses after accounting for non-rate revenue, such as debt service assistance and investment income. In addition, the Authority's total revenues must be sufficient to comply with the debt service coverage requirements of the Resolution.

Projected annual revenue requirements of the Authority, including operation and maintenance expenses, debt service, and deposits into the various reserve funds are discussed previously. The Authority may deposit certain year-end surpluses from operations into the Rate Stabilization Fund (line 17) and use the accumulated balance in this fund to mitigate the impact of future increases in revenue requirement, subject to the terms of the Resolution and management discretion. Year-end surpluses have resulted from favorable variances of capital financing, operating expenses, and non-rate revenues.

In addition to meeting its yearly cash requirements, the annual revenues of the Authority must be adequate to comply with certain covenants of the Resolution, including the covenants prescribed in Section 705 as to annual level of rates and charges and the required annual debt service coverage ratio (the "Rate Covenant"), as well as the covenants outlined in Section 206 concerning conditions precedent to the issuance of additional revenue bonds (the "Additional Bonds Test"). (For a more complete description of these requirements, see Appendix C to the Official Statement, Summary of Certain Provisions of the General Bond Resolution.)

In order to comply with the Rate Covenant, annual revenues of the Authority must be adequate to: (1) meet all annual revenue requirements including operation and maintenance expenses, *pro rata* debt service fund deposits, and reserve fund requirements; and (2) provide revenue available for revenue bond debt service payments in each fiscal year equal to the sum of the Primary and Supplemental Coverage Ratios. Revenue available from current year operations must provide the Primary Bond Coverage Ratio of 120 percent. Balances on hand in the CORE Fund together with annual deposits, which may be made during the year, must provide the additional Supplemental Bond Coverage Ratio of 10 percent. The Authority is also required to maintain Revenues Available for

Bond Debt Service at a level equal to 110 percent of debt service on all senior and secured bonds, including bonds issued to the SRF (Secured Bond Rate Covenant). Prior to FY 1997, the Authority treated debt service assistance as non-rate revenue. In FY 1997 the Authority began treating debt service assistance as a direct credit to debt service.

As shown on lines 23 through 27 of Table 5-10, the Authority is projected to generate sufficient revenues to comply with the applicable coverage requirements. The projected Primary Bond Coverage Ratio (line 24) exceeds the 120 percent requirement for all forecasted years. The Supplemental Coverage Ratio (CORE) (line 26) is projected to equal or exceed the requirement of 10 percent. The Secured Bond Coverage Ratio (line 27) is projected to equal or surpass the 110 percent level in all years.

The projected deposits into the CORE Fund (line 14) are in accordance with the Authority's intentions to deposit moneys into this fund. Under this funding plan, at the end of each fiscal year the cumulative balance in the Fund exceeds 10 percent of the total annual debt service deposits on revenue bonds outstanding during the year. This funding program is slightly more accelerated than that required by the Resolution.

Table 5-10
Projected Compliance with Resolution, FY 2012-2017
(\$ in 000's)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Revenues						
1 Non-Rate Revenues:						
2 Investment Income	\$15,352	\$17,708	\$20,144	\$26,757	\$27,658	\$28,632
3 Rate Stabilization Fund	\$1,092	\$0	\$6,920	\$9,463	\$10,157	\$9,324
4 Miscellaneous	\$12,015	\$12,879	\$13,377	\$13,834	\$14,208	\$14,551
5 Rate Revenue Requirement	<u>\$589,700</u>	<u>\$612,958</u>	<u>\$650,899</u>	<u>\$706,920</u>	<u>\$744,372</u>	<u>\$804,428</u>
6 Total Revenue	\$618,159	\$643,545	\$691,340	\$756,974	\$796,395	\$856,935
7 Operating Expenses	<u>\$224,407</u>	<u>\$230,078</u>	<u>\$239,911</u>	<u>\$248,961</u>	<u>\$257,168</u>	<u>\$266,074</u>
8 Net Operating Revenues	\$393,752	\$413,467	\$451,429	\$508,014	\$539,226	\$590,861
Debt Service						
9 Debt Service						
10 Senior Debt Service	\$187,166	\$192,250	\$220,617	\$267,329	\$303,887	\$333,456
11 Debt Service Assistance & Bond Redemption Account	(\$350)	(\$350)	(\$5,430)	(\$2,887)	(\$2,193)	(\$3,026)
12 Secured Debt Service	<u>\$167,306</u>	<u>\$174,964</u>	<u>\$185,117</u>	<u>\$187,041</u>	<u>\$180,496</u>	<u>\$201,180</u>
13 Total Debt Service	\$354,122	\$366,864	\$400,304	\$451,483	\$482,191	\$531,609
14 CORE Deposit	\$0	\$0	\$1,204	\$4,926	\$3,725	\$2,874
15 Watershed and PILOT	\$25,576	\$26,075	\$27,448	\$27,994	\$28,553	\$29,127
16 Reserve Fund Deposits	\$195	\$945	\$1,639	\$1,508	\$1,368	\$1,484
17 Rate Stabilization Fund Deposits	\$0	\$0	\$0	\$0	\$0	\$0
18 Other Post-Employment Benefits (GASB 45)	\$0	\$4,724	\$4,976	\$5,245	\$5,531	\$5,836
19 Current Revenue for Capital CP Interest for Water Pipeline Program	\$7,200	\$8,200	\$9,200	\$10,200	\$11,200	\$12,200
20	\$3,441	\$3,441	\$3,441	\$3,441	\$3,441	\$3,441
21 Chelsea Facility Lease	<u>\$3,217</u>	<u>\$3,217</u>	<u>\$3,217</u>	<u>\$3,217</u>	<u>\$3,217</u>	<u>\$3,217</u>
22 Balance Available Year End	\$0	\$0	\$0	\$0	\$0	\$1,073
Rate Covenant Test						
23 Rate Covenant Test						
24 Primary Coverage¹	2.09	2.14	2.08	1.89	1.76	1.77
25 Core Fund Balance	\$20,315	\$20,315	\$21,519	\$26,444	\$30,169	\$33,043
26 Core Coverage	10.87%	10.59%	10.00%	10.00%	10.00%	10.00%
27 Secured Coverage²	1.10	1.12	1.12	1.11	1.10	1.10

1 Senior Coverage equals Net Revenues divided by Senior Debt.

2 Subordinated Coverage equals Net Revenues divided by Total Debt.
Note: Details may not add exactly due to rounding.

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SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION

The following is a brief summary of certain provisions of the General Resolution, as it is expected to be in effect immediately following the issuance of the Series 2011 Bonds described in this Official Statement, including certain terms used in the General Resolution and used but not elsewhere defined in this Official Statement. Certain proposed modifications to the General Resolution (collectively, the “Proposed Modifications”) were approved by the Authority’s Board of Directors on January 10, 2007. The Proposed Modifications will be approved by the initial purchasers of the Series 2011 Bonds described in this Official Statement on behalf of themselves and all subsequent holders of such Series 2011 Bonds. But the effectiveness of the Proposed Modifications will be delayed pending receipt of additional approvals from the holders of existing or future Series of Bonds and satisfaction of all other conditions to such Proposed Modifications including, if applicable, receipt of any consents of persons other than owners of bonds of the Authority required under other agreements. See “Security for the Series 2011 Bonds – Proposed Modifications to the General Resolution” in the Official Statement.

This summary does not purport to be complete and reference is made to the General Resolution (including the various supplements thereto) for full and complete statements of its terms and provisions. In particular and without limitation, this summary does not include a description of the provisions of the Twelfth Supplemental Resolution relating to the Authority’s Tax-Exempt Commercial Paper Notes, Series 1994, the Twenty-Fourth Supplemental Resolution relating to the Authority’s Multi-Modal Subordinated General Revenue Bonds, 1999 Series B, the Twenty-Seventh Supplemental Resolution relating to the Authority’s Tax-Exempt Commercial Paper Notes, Series 1999, the Thirty-Ninth Supplemental Resolution relating to the Authority’s Multi-Modal Subordinated General Revenue Refunding Bonds, 2002 Series C and 2002 Series D and the Fifty-Fourth Supplemental Resolution relating to the Authority’s Multi-Modal Subordinated General Revenue Refunding Bonds, 2008 Series A through F, each as amended to the date of this Official Statement.

“Accountant” shall mean KPMG LLP or any independent certified public accountant (or a firm thereof) of recognized standing, selected by the Authority and satisfactory to the Trustee and may be the accountant regularly auditing the books of the Authority.

“Adjusted Debt Service” for any period of time, with respect to any category or Series of Secured Bonds shall mean, the Debt Service for such period of time with respect to such Series except that, if any Refundable Principal Installment of such Series is included in Debt Service for such period of time, Adjusted Debt Service shall mean Debt Service determined as if such Refundable Principal Installment had been payable over a period extending from the due date of such Refundable Principal Installment through the date identified in the Supplemental Resolution authorizing such Series (which date may be no later than the last date on which such Series could have been stated to mature under the Act as in effect on the date of issuance of such Series), in installments which would have required level annual payments of the sum of Principal Installments and interest over such period. Interest deemed payable in any period of time after the actual due date of any Refundable Principal Installment of any Series of Secured Bonds shall be calculated at the applicable Refundable Principal Installment Pro Forma Interest Rate (using the actuarial method of calculation).

“Aggregate Adjusted Debt Service” shall mean, for any Fiscal Year, and with respect to Bonds or Subordinated Bonds, the aggregate of the Adjusted Debt Service on all Series of Bonds or Subordinated Bonds for such Fiscal Year.

“Authorized Representative” shall mean, with respect to the Authority, the Chairman, the Vice Chairman, the Executive Director, the Director of Administration and Finance or the Treasurer of the Authority and, when used in reference to an act or document, shall also mean any other person authorized by resolution of the Authority to perform such act or sign such document.

“Average Annual Adjusted Debt Service” shall mean, for a Fiscal or Bond Year with respect to any category of Secured Bonds and for any Series of such Secured Bonds, the sum of Adjusted Debt Service for each year in which such Secured Bonds will be Outstanding divided by the number of years that such Secured Bonds will be Outstanding.

The Proposed Modifications would delete the definition of “Average Annual Adjusted Debt Service.”

“Bond” or “Bonds” shall mean any bonds, notes or other evidences of indebtedness, as the case may be, authenticated and delivered pursuant to the General Resolution in the manner described under the heading Conditions Precedent to Delivery of a Series of Bonds and shall also mean any Parity Bond Anticipation Notes and any Parity Reimbursement Obligation incurred with respect to Bonds, but shall not mean Subordinated Bonds, other Bond Anticipation Notes or other Indebtedness.

“Bond Anticipation Notes” shall mean any of the notes issued in anticipation of a Series of Secured Bonds pursuant to the General Resolution and shall include, unless the context otherwise indicates, Parity Bond Anticipation Notes and Subordinated Parity Bond Anticipation Notes.

“Bond Counsel’s Opinion” shall mean an opinion by McCarter & English, LLP, or any attorney or firm of attorneys of nationally recognized standing in the field of law relating to revenue bonds of public instrumentalities, selected by the Authority and satisfactory to the Trustee and may be an attorney or firm regularly providing services to the Authority.

“Business Day” shall mean any day other than a Saturday, a Sunday or any other day on which any Fiduciary is authorized or required by law to be closed for business.

“Capital Budget” shall mean the capital expenditure budget of the Authority as in effect from time to time in accordance with Section 8(b) of the Act and the General Resolution.

“Capital Improvements” shall mean extensions, improvements, enlargements, betterments, alterations, renewals and replacements of the System or other property of the Authority (including land, equipment and other real or personal property), which (i) is used or useful in connection with the System or any part thereof, (ii) is constructed, acquired or made by or on behalf of the Authority subsequent to the date of adoption of the General Resolution, and (iii) is properly chargeable (whether or not so charged by the Authority) according to generally accepted accounting principles, as additions to utility plant accounts.

“Code” shall mean the Internal Revenue Code of 1986, as amended, including any regulations promulgated thereunder or applicable thereto.

“Combined Bond Coverage Requirement” for any twelve-month period shall mean an amount equal to the sum of: (i) the Primary Bond Coverage Requirement; and (ii) the sum of all Required Supplemental Bond Coverage Deposits for such period.

The Proposed Modifications would delete the definition of “Combined Bond Coverage Requirement.”

“Commonwealth Obligations” shall mean obligations of the Authority payable to the Commonwealth, including without limitation obligations with respect to principal of, premium, if any, or interest on Commonwealth debt required to be paid by the Authority under applicable law, amounts payable to the Commonwealth pursuant to Section 5(b) of the Act, state taxes, payments in lieu of taxes collected by the Commonwealth on behalf of any municipality, payments on account of administrative costs of the Watershed Division and state governmental charges of all other kinds, but not including Water Pollution Abatement Obligations; and shall also include Special Payment Obligations, which shall be payable equally and ratably with all other Commonwealth Obligations.

“Consulting Engineer” shall mean Camp Dresser & McKee Inc. or any independent engineer or firm of engineers selected by the Authority pursuant to the General Resolution.

“Costs” as applied to any Project, shall mean all or any part of the cost, paid by or on behalf of or reimbursable by or to the Authority, of undertaking and carrying out such Project including, without limitation, any item of “cost” as defined in the Act.

“Credit Facility” shall mean a letter of credit, revolving credit agreement, standby purchase agreement, surety bond, insurance policy or similar obligation, arrangement or instrument issued by a bank, insurance company or other financial institution, the senior long term debt obligations of which (or the holding company of any bank) are rated in either of the highest two rating categories by each Rating Agency which provides for payment of all or a portion of the Principal Installments or interest due on any Series of Secured Bonds or provides funds for the purchase of such Secured Bonds or portions thereof.

“Current Expenses” shall mean any expenses incurred by or for the account of the Authority or reimbursable by or to the Authority for maintaining, repairing or operating the System and engaging in other activities authorized by the Act including, without limiting the generality of the foregoing, any item of “current expense” as defined in the Act, amounts defined herein as Operating Expenses, Debt Service, Commonwealth Obligations or Water Pollution Abatement Obligations, and other current expenses required or permitted by law to be paid by or reimbursable to the Authority.

“Debt Service” for any period of time shall mean, as of any date of calculation and with respect to any Series of Indebtedness, an amount equal to the sum of (i) interest payable during such period of time on Indebtedness of such Series (including any interest payable on any Parity Bond Anticipation Notes), except to the extent that such interest is to be paid from amounts representing Capitalized Interest and (ii) the Principal Installments of the Indebtedness of such Series payable during such period of time. Such interest and Principal Installments for such Series shall be calculated on the assumption that (x) no Indebtedness of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment thereof upon stated maturity or upon mandatory redemption by application of Sinking Fund Installments and (y) as to future period, Variable Rate Indebtedness will bear interest at the greater of (A) the rate or rates which were assumed by the Authority in the current Operating Budget to be borne by such Variable Rate Indebtedness during such period or (B) the weighted average of the actual rate or rates borne by such Variable Rate Indebtedness over the preceding month, or (C) but only for the first Fiscal Year in which such Variable Rate Indebtedness is Outstanding, the interest rate stipulated by the Authority in the Supplemental Resolution authorizing such Indebtedness.

“Defeasance Obligations” shall mean the obligations described in clause (a), (b) or (j) of the definition of Investment Securities; provided that such obligations shall not be redeemable prior to the maturity date or stated redemption date relied upon in satisfying the conditions of the General Resolution with respect to defeasance.

The Proposed Modifications would revise the definition of “Defeasance Obligations” to mean the obligations described in subparagraph (a), (b), (c), (d) or (j) of the definition of Investment Securities; provided that such obligations would not be redeemable prior to the maturity date or stated redemption date relied upon in satisfying the conditions of the General Resolution with respect to defeasance.

“Designated Debt” shall mean any Series of Subordinated Bonds with respect to which there shall be in effect a Qualified Swap.

The Proposed Modifications would revise the definition of “Designated Debt” to mean any Series of Secured Bonds with respect to which there shall be in effect a Qualified Swap.

“Depository” shall mean any bank or trust company selected by the Authority, as the case may be, as a depository of moneys to be held under the provisions of the General Resolution, any may include the Trustee.

“Event of Default” shall mean any event specified as such in the General Resolution.

“Fiduciary” shall mean the Trustee or any Paying Agent or Depository.

“Financial Guaranties” shall mean one or more of the following: (i) irrevocable, unconditional and unexpired letters of credit issued by banking institutions the senior long-term debt obligations of which (or the holding company of any such banking institution) have (at the time of issue of such letter of credit) a rating in either of the two highest categories from each Rating Agency; or (ii) an irrevocable and unconditional policy or policies of insurance in full force and effect issued by municipal bond insurers or multiline insurers the obligations insured by which are eligible for a rating in either of the two highest categories from each Rating Agency; in each case providing for the payment of sums for the payment of Principal Installments of and interest on Secured Indebtedness in the manner provided in the General Resolution; and providing further that any such Financial Guaranty must be drawn upon on a date which is at least seven (7) days prior to the expiration date of such Financial Guaranty in an amount equal to the deficiency which would exist if the Financial Guaranty expired, unless a substitute Financial Guaranty is acquired prior to such expiration data as provided in a related Supplemental Resolution.

“Fiscal Year” shall mean the twelve-month period commencing July 1 of any calendar year and ending June 30 of the succeeding calendar year or such other twelve-month period as may be provided by the Act or authorized by the Authority pursuant to the Act.

“Governmental Obligations” shall mean direct general obligations of, or obligations the timely payment of principal of and interest on which are unconditionally guaranteed by, the United States of America.

“Grant Agreements” shall mean any and all agreements between the Authority (by original execution or by transfer from the Metropolitan District Commission pursuant to the Act) and the United States of America or the Commonwealth, or any agency, department, bureau, commission or other instrumentality of either thereof, all as the same may be amended or supplemented from time to time, providing for or relating to the provision of Grant Receipts to the Authority.

“Grant Receipts” shall mean any money received by or on behalf of the Authority under or pursuant to a Grant Agreement as or on account of a grant or contribution, heretofore or hereafter made, in aid of or with respect to any Project (including without limitation any such moneys received by the Commonwealth or the Metropolitan District Commission in trust for the Authority pursuant to Sections 4 and 5 of the Act as or on account of a grant or contribution, heretofore made, in aid of or with respect to any improvement to the System).

“Indebtedness” shall mean an indebtedness for borrowed money of the Authority, including without limitation all Bonds, Subordinated Bonds, Bond Anticipation Notes, Reimbursement Obligations, Special Subordinated Indebtedness and the Prior Notes but shall not include Special Payment Obligations.

“Investment Securities” shall mean and include any of the following securities, if and to the extent the same are at the time legal investments by the Authority of the funds to be invested therein and conform to the policies set forth in any investment guidelines adopted by the Authority or by a duly appointed subcommittee of its Board of Directors and in effect at the time of the making of such investment:

- (a) Government Obligations;
- (b) Certificates or receipts representing direct ownership of future interest or principal payments on Government Obligations or any obligations of agencies or instrumentalities of the United States of America which are backed by the full faith and credit of the United States, which obligations are held by a custodian in safekeeping on behalf of the holders of such receipts;
- (c) Bonds, debentures, notes or other evidences of indebtedness issued by any of the following: Federal Home Loan Mortgage Corporation; Student Loan Marketing Association; Federal Home Loan Banks; Federal National Mortgage Association; Government National Mortgage Association; Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Financing Bank; Export-Import Bank of the United States; Federal Land Banks; or any other agency or instrumentality of the United States of America; or the International Reconstruction Development Bank;

(d) All other obligations issued or unconditionally guaranteed as to the timely payment of principal and interest by an agency of person controlled or supervised by and acting as an instrumentality of the United States of America pursuant to authority granted by Congress;

(e) Interest-bearing time or demand deposits, certificates of deposit, or other similar banking arrangements with any government securities dealer, bank, trust company, savings and loan association, national banking association or other savings institution (including the Trustee), provided that such deposits, certificates, and other arrangements are fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or (ii) interest-bearing time or demand deposits or certificates of deposit with any bank, trust company, national banking association or other savings institution (including the Trustee), provided such deposits and certificates are in or with a bank, trust company, national banking association or other savings institution whose long-term unsecured debt is rated in one of the three highest long-term rating categories by S&P and Moody's (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, rated in the three highest rating categories of such Rating Agency, and provided further that with respect to (i) and (ii) any such obligations are held by the Trustee or a bank, trust company or national banking association (other than the issuer of such obligations, unless the issuer is the Trustee);

(f) Repurchase agreements collateralized by securities described in subparagraphs (a), (b), (c) or (d) above with any registered broker/dealer or with any commercial bank, provided that (1) a specific written repurchase agreement governs the transaction, (2) the securities are held, free and clear of any lien, by the Trustee or an independent third party acting solely as agent for the Trustee, and such third party is (a) a Federal Reserve Bank, or (b) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$25 million, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee, (3) the repurchase agreement has a term of thirty days or less, or the Trustee will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within five business days of such valuation, and (4) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 102%;

(g) Money market funds rated in the highest category by S&P and Moody's (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, rated in the highest rating category of such Rating Agency;

(h) Commercial paper rated in the highest rating category by S&P and Moody's (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, rated in the highest rating category of such Rating Agency;

(i) Shares of investment companies or cash equivalent investments which are authorized to invest only in assets or securities described in subparagraphs (a), (b), (c), (d) and (f) above;

(j) Obligations the interest on which is excluded from gross income for purposes of federal income taxation that have been advance-refunded prior to their maturity and that are fully and irrevocably secured as to principal and interest by Government Obligations, or Government Obligations which have been stripped of their unmature interest coupons and interest coupons stripped from Government Obligations, held in trust for the payment thereof which obligations are rated in the highest rating category by each Rating Agency;

(k) Short-term or long-term obligations the interest on which is excludable from gross income for Federal income tax purposes and that are rated in the three highest rating categories by S&P and Moody's (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, rated in the three highest rating categories of such Rating Agency, or shares of investment companies or cash equivalent investments which are authorized to invest primarily in such obligations;

(l) participation units in a combined investment fund created under Section 38A of Chapter 29 of the General Laws of the Commonwealth;

(m) investment contracts with banks or other financial institutions whose long-term unsecured debt or claims-paying ability is rated in one of the three highest rating categories by S&P and Moody's (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, rated in the three highest rating categories of such Rating Agency; and

(n) any other investment authorized pursuant to an amendment or supplement hereto pursuant to the General Resolution.

Obligations of any Fiduciary or an affiliate thereof may be Investment Securities, provided that they otherwise qualify.

The Proposed Modifications would amend the definition of Investment Securities to re-letter subparagraph (n) to become subparagraph (o), and to add the following new subparagraph (n):

(n) forward purchase agreements for the delivery of securities described in subparagraph (a), (b), (c), (d), (h) or (k) above from financial institutions rated in one of the three highest rating categories by S&P and Moody's (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, rated in one of the three highest rating categories by such Rating Agency; and

“Local Body Default” shall mean a default in the payment of any Rates and Charges due to the Authority by a Local Body, as certified by an Authorized Representative of the Authority in accordance with the provisions of the General Resolution.

“Moody's” shall mean Moody's Investors Service Inc.

“Net Revenues” shall mean with respect to a period to time all Revenues accrued in such period in accordance with general accepted accounting principles less the Operating Expenses incurred or payable during such period in accordance with generally accepted accounting principles; provided, however, that the proceeds of revenue anticipation notes shall not constitute Revenues and the principal amount of such notes shall not constitute Operating Expenses for the purpose of calculating Net Revenues.

“Operating Budget” shall mean the Operating Budget duly adopted by the Authority in the same manner as its Current Expense Budget, except as provided in the General Resolution, as amended from time to time, in accordance with the General Resolution, which Operating Budget may constitute a portion of, or an exhibit or appendix to, such Current Expense Budget.

“Operating Expenses” shall mean the Authority's expenses, whether or not annually recurring, of maintaining, repairing and operating the System and engaging in other activities authorized by the Act including, without limiting the generality of the foregoing, amounts for administrative expenses including costs of salaries and benefits and amounts required to finance pension benefits earned by employees of the Authority, as provided in the Act; cost of insurance, payments for engineering, financial, accounting, legal and other services rendered to the Authority, payments under any interest rate exchange, cap, or other hedge agreement which have been designated by the authority as Operating Expenses for purposes of the General Resolution in such agreement; costs incurred or payable by the Authority with respect to the System Real Property (as defined in the Act); costs of issuance not financed in the Costs of a Project paid by the Authority; and payments of interest on revenue anticipation notes and other Current Expenses; but not including depreciation, recognition upon disposal or other retirement of a capital asset, Debt Service payable from any Fund or Account established hereunder, Commonwealth Obligations, Water Pollution Abatement Obligations, Special Payment Obligations, and expenses incurred in connection with a separate facility financing as described under “Additional Indebtedness - Special Subordinated Indebtedness.”

“Option Bonds” shall mean Secured Bonds which by their terms may be tendered by and at the option of the owner thereof for purchase or payment by the Authority prior to the stated maturity thereof.

“Outstanding”, when used with reference to Bonds or any other Indebtedness, shall mean, as of any date, all Bonds or other evidences of Indebtedness theretofore or thereupon being authenticated and delivered under the General Resolution except:

(a) any Bonds or other evidences of Indebtedness canceled by the Trustee at or prior to such date;

(b) any Bond or other evidence of Indebtedness (or portion thereof) for the payment or redemption of which there shall be set aside and held in trust hereunder either; (i) moneys in an amount sufficient to pay when due the Principal Installments or Redemption Price thereof, together with all accrued interest, (ii) Defeasance Obligations in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications, as are necessary to provide moneys (whether as principal or interest) in an amount sufficient to pay when due the Principal Installments or Redemption Price thereof, together with all accrued interest, or (iii) any combination of (i) and (ii) above, and, if such Bond or other evidence of Indebtedness or portion thereof is to be redeemed, for which notice of redemption has been given as provided in the General Resolution, or the applicable Supplemental Resolution, or provision satisfactory to the Trustee has been made for the giving of such notice;

(c) any Bond or other evidence of Indebtedness in lieu of or in substitution for which other Bonds or other evidences of Indebtedness have been authenticated and delivered; and

(d) any Bond or other evidence of Indebtedness deemed to have been paid as provided in the General Resolution.

“Parity Bond Anticipation Notes” shall mean Bond Anticipation Notes the interest on which is payable from and secured by a pledge of, and a lien on, the Revenues on a parity with the lien created by the General Resolution to secure the Bonds.

“Parity or Senior Secured Bonds” shall mean any Secured Bonds issued on a parity with or senior to the SRF Bonds.

“Parity Reimbursement Obligation” shall mean a Reimbursement Obligation the payment of which is secured by a pledge of, and a lien on, Revenues on a parity with the lien created in favor of a class of Secured Bonds by the General Resolution.

“Parity Subordinated Bonds” – *The Proposed Modifications would add the following definition of “Parity Subordinated Bonds” to the existing definitions in the General Resolution:*

“Parity Subordinated Bonds” shall mean the Authority’s General Revenue Bonds (Subordinated Series), 2005 Series D originally issued on November 16, 2005 and each Series of Subordinated Bonds or Bond Anticipation Notes theretofore or thereafter issued on a parity with such 2005 Series D Subordinated Bonds, and shall also mean any Subordinated Parity Bond Anticipation Notes and any Parity Reimbursement Obligations incurred with respect to Parity Subordinated Bonds.

“Payment Date” shall mean, with respect to any class of Secured Bonds, each date on which interest or a Principal Installment or both shall be due and payable on any of such Outstanding Secured Bonds according to their respective terms.

“Primary Bond Coverage Requirement” shall mean, for any twelve-month period, the product of the Primary Bond Coverage Ratio and the Required Debt Service Fund Deposits for all Outstanding Bonds for such period.

“Principal Installment” shall mean, as of any date of calculation and with respect to any Series of Secured Indebtedness, so long as any obligations of such Series are Outstanding, (i) the principal amount of obligations of such Series due on a certain future date for which no Sinking Fund Installments have been established or (ii) the

unsatisfied balance of any Sinking Fund Installments due on a certain future date for obligations of such Series. For the purposes of the preceding sentence, “Principal Amount” shall include (x) any amount designated in, or determined pursuant to, the applicable Supplemental Resolution, as the “principal amount” with respect to any Bonds or Subordinated Bonds which do not pay full current interest for all or any part of their term, (y) the Tender Option Price of any Option Bonds which may be tendered to the Authority for purchase or payment prior to the stated maturity thereof in accordance with the terms of the Supplemental Resolution authorizing such Option Bonds, unless such amount is secured by a Credit Facility which is not in default and (z) the principal amount of any Parity Reimbursement Obligation. Principal Installment shall, however, not include the principal of Bond Anticipation Notes.

“Pro Forma Bond Issue” shall mean when used with reference to the Debt Service Reserve Fund Requirement or the Subordinated Debt Service Reserve Fund Requirement in connection with a Series of Variable Rate Indebtedness, the hypothetical fixed rate long-term bond issue set forth in the Supplemental Resolution authorizing such Series, having (i) the same maturities (and sinking fund provisions, if any) as the Series of Variable Rate Indebtedness to which it relates and (ii) such interest rate or rates as the Authority shall reasonably deem to be the equivalent of the rates which would have been borne by such Series of Variable Rate Indebtedness if such Series had been issued as a Series of Fixed Rate Indebtedness; provided that such interest rate shall be not less than 80% of the “30-year revenue bond index” the most recently published by The Bond Buyer or, if such index is no longer published such other substantially comparable index as determined by the Authority with the approval of the Trustee.

“Project” shall mean any undertaking or other activity by or on behalf of the Authority to maintain, improve or enlarge the System or to maintain, improve or enlarge any facilities owned or operated by any Local Body the maintenance, improvement or enlargement of which directly or indirectly affects the Waterworks Operations or Sewer Operations of the Authority or to acquire, construct, maintain, improve or enlarge any other facilities or properties to be lawfully owned or operated by the Authority including, without limitation, any “project” as defined in the Act.

“Qualified Swap” shall mean an interest rate exchange, cap or other hedge agreement (a) whose Designated Debt is all or part of a particular Series of Subordinated Bonds and (b) which has been designated to the Trustee by the Authority as a Qualified Swap with respect to such Subordinated Bonds.

The Proposed Modifications would revise the definition of “Qualified Swap” by replacing all references to “Subordinated Bonds” with “Secured Bonds.”

“Rates and Charges” shall mean all charges, whether denominated as charges, fees, rates, assessments or otherwise, established by the Authority for the water supply or sewer services provided by the Authority.

“Rating Agencies” shall mean Moody’s and S&P and their respective successors and assigns if such rating agencies are maintaining a rating on the Secured Bonds at the request of the Authority, and shall also include any other rating agency nationally recognized for skill and expertise in rating the credit of obligations such as the Secured Bonds and which is maintaining a rating on the Secured Bonds at the request of the Authority.

“Rebate Fund Requirement” means, as of any date of calculation, an amount equal to the aggregate of the amounts, if any, specified in each Series Resolution authorizing the issuance of a Series of Indebtedness as the amount required to be maintained in the Rebate Fund with respect to such Indebtedness.

“Redemption Price” shall mean, when used with respect to a Secured Bond or portion thereof, the principal amount thereof plus the applicable premium, if any, payable upon either optional or mandatory redemption thereof pursuant to the General Resolution.

“Refundable Principal Installment” shall mean any Principal Installment for any Series of Bonds or Subordinated Bonds which the Authority intends to pay with moneys which are not Revenues, provided that such intent shall have been expressed in the Supplemental Resolution authorizing such Series of Bonds or Subordinated Bonds and provided further that such Principal Installment shall be a Refundable Principal Installment only until the

date of adoption of the Rates and Charges for the Fiscal Year (after which time such Refundable Principal Installment shall be treated as payable in level payments of the sum of the Principal Installments and interest over a five-year period commencing in such Fiscal Year at an interest rate determined by the Authority, set forth on a Certificate based on then prevailing interest rates for obligations such as the Bonds or the Subordinated Bonds, as the case may be) in which such Principal Installment comes due unless the Authority has delivered to the Trustee a Certificate of an Authorized Representative to the effect that it has made provision for the payment of such Principal Installment from a source other than Revenues.

“Refundable Principal Installment Pro Forma Interest Rate” shall mean, when used with reference to a Refundable Principal Installment, such hypothetical fixed interest rate as the Authority shall designate in the Supplemental Resolution authorizing such Refundable Principal Installment, based on then prevailing interest rates for obligations such as the Bonds or the Subordinated Bonds, as the case may be, to be the net interest cost which would have been borne by the Bonds or the Subordinated Bonds, as the case may be, constituting such Refundable Principal Installment if they had been payable on a level debt service basis over a period from the due date of such Refundable Principal Installment through the date identified in the Supplemental Resolution authorizing such Refundable Principal Installment (which date may be no later than the last date on which such Refundable Principal Installment could have been stated to mature under the Act as in effect on the date of issuance of such Refundable Principal Installment).

“Regularly Scheduled Qualified Swap Payments” shall mean the regularly scheduled payments under the terms of Qualified Swap which are due absent any termination, default or dispute in connection with such Qualified Swap.

The Proposed Modifications would revise the definition of “Regularly Scheduled Qualified Swap Payments” to mean the regularly scheduled payments under the terms of a Qualified Swap which are payable by the Authority absent any termination, default or dispute in connection with such Qualified Swap.

“Reimbursement Obligation” shall mean the obligation of the Authority described in the General Resolution to reimburse the issuer of a Credit Facility for amounts paid by such issuer thereunder together with interest thereon, whether or not such obligation to so reimburse is evidenced by a promissory note or other similar instrument.

“Renewal and Replacement Reserve Cash Requirement” – The Proposed Modifications would add the below definition of “Renewal and Replacement Reserve Cash Requirement” to the existing definitions in the General Resolution.

“Renewal and Replacement Reserve Cash Requirement” shall mean the greater of (a) the lesser of (i) the Renewal and Replacement Reserve Fund Requirement and (ii) \$10,000,000 and (b) the Renewal and Replacement Reserve Requirement minus the unutilized credit available to the Authority under any commercial paper program or committed line of credit established by the Authority for the purpose of financing capital spending of the Authority.

“Required Debt Service Fund Deposits” shall mean, for any period of time, all deposits made to the Principal and Interest Accounts of the Debt Service Fund for such period whether pursuant to the flow of funds provisions, application of investment earnings provisions or any other provision of the General Resolution (but shall not include amounts transferred from the Capitalized Interest Account, amounts paid from state debt service assistance which the Authority elects not to include in Revenues or other funds of the Authority that are not Revenues and are not transferred from other Funds or Accounts established under the General Resolution).

The Proposed Modifications would revise the definition of “Required Debt Service Fund Deposits” as set forth below.

“Required Debt Service Fund Deposits” shall mean, for any period of time, all deposits made to the Principal and Interest Accounts of the Debt Service Fund for such period whether pursuant to the provisions of the General Resolution described in paragraph (a) under the heading Flow of Funds from the

Revenue Fund or provisions regarding transfer of investment earnings described in paragraph (b) under the heading Investment of Certain Funds (including earnings retained in the Debt Service Fund) or any other provision of the General Resolution or any Supplemental Resolution, but shall not include amounts transferred from the Capitalized Interest Account or amounts paid from state debt service assistance which the Authority elects not to include in Revenues or other funds of the Authority that are not Revenues and are not transferred from other Funds or Accounts established under the General Resolution. For the purpose of this definition, for each Series of Designated Debt consisting of Bonds for any period, the amount required to be deposited into the Interest Account of the Subordinated Debt Service Fund pursuant to the provisions of the General Resolution described in clauses (a)(iii)(B) and (a)(iii)(E) under the heading Flow of Funds from the Revenue Fund shall be deemed to be solely the Regularly Scheduled Qualified Swap Payments relating to such Series of Designated Debt provided in the applicable Qualified Swap (and calculated, if variable in rate, as provided in the definition of "Debt Service").

"Required Subordinated Debt Service Fund Deposits" shall mean, for any period of time, all deposits required to be made to the Principal and Interest Accounts of the Subordinated Debt Service Fund for such period determined in the case of the SRF Bonds in accordance with the debt service schedules set forth in the Sixth Supplemental Resolution Authorizing the Issuance of the 1993 Series A Bonds, the Tenth Supplemental Resolution Authorizing the Issuance of the 1993 Series D Bonds and the Fourteenth Supplemental Resolution Authorizing the Issuance of the 1995 Series B Bonds in each case in the column captioned "Net Loan Repayments", whether pursuant to the provisions of the General Resolution described in paragraph (a) under the heading Flow of Funds From the Revenue Fund or provisions regarding transfer of investment earnings described in paragraphs (b) and (d) under the heading Investment of Certain Funds or any other provision of the General Resolution (but shall not include amounts transferred from the Capitalized Interest Account); provided that such schedule of Net Loan Repayments shall be adjusted, as provided in the applicable loan agreement between the Authority and the Trust, with respect to (i) a withdrawal from the debt service reserve fund established by the Trust to secure the SRF Bonds which withdrawal results in a reduction in the Equity Earnings which will be available for Loan Subsidy Amounts, (ii) any costs paid from the project account funded with the proceeds of the SRF Bonds which are declared ineligible for Loan Subsidy Amounts which the Authority has elected not to repay to the Trust, and (iii) any prepayment of the SRF Bonds on account of optional prepayment or with any unspent proceeds of the SRF Bonds, but such schedule of Net Loan Repayments shall not be required to be adjusted (x) on account of any default by an obligor on any investment from which Equity Earnings are expected to be derived or (y) a default by the Commonwealth in the payment of Contract Assistance, unless the Authority shall determine to do so; and provided further that no adjustment for the reason described in clause (i) above shall be required, unless the Authority shall determine to do so, in determining Required Subordinated Debt Service Fund Deposits occurring prior to the earlier of (i) eighteen months following the date which follows the occurrence of the event resulting in the increased Net Loan Repayment or (ii) the next establishment by the Authority to its rates and charges which can feasibly incorporate the increased Net Loan Repayment resulting from such event; and provided further that such deposits shall not include amounts paid from state debt service assistance which the Authority elects not to include in Revenues or other funds of the Authority that are not Revenues and are not transferred from other Funds or Accounts established under the General Resolution; provided, however, that for the purpose of this definition, for any Designated Debt for any period, the amount required to be deposited into the Interest Account of the Subordinated Debt Service Fund shall be deemed to be calculated at the higher of the fixed rate provided in the applicable Qualified Swap or the variable rate of interest actually borne by such Designated Debt (calculated, if applicable, as provided in the definition of "Debt Service").

The Proposed Modifications would delete the definition of "Required Subordinated Debt Service Fund Deposits" from the Authority's Sixth Supplemental Resolution and would delete such definition from each other Supplemental Resolution. The modifications to the General Resolution would add the following definition of "Required Subordinated Debt Service Fund Deposits" to the defined terms in the General Resolution:

"Required Subordinated Debt Service Fund Deposits" shall mean, for any period of time, all deposits required to be made to the Principal and Interest Accounts of the Subordinated Debt Service Fund for such period with respect to Parity Subordinated Bonds, whether pursuant to the provisions of the General Resolution described in paragraph (a) under the heading Flow of Funds from the Revenue Fund or provisions regarding transfer of investment earnings described in paragraph (b) under the heading Investment of Certain Funds (including earnings retained in the Subordinated Debt Service Fund) or any other provision of the General Resolution or any Supplemental Resolution providing for the issuance of

Parity Subordinated Bonds, provided; however, that such deposits shall not include amounts transferred from the Capitalized Interest Account or amounts paid from state debt service assistance which the Authority elects not to include in Revenues or other funds of the Authority that are not Revenues and are not transferred from other Funds or Accounts established under the General Resolution. For purposes of determining Required Subordinated Debt Service Fund Deposits with respect to any Series of Parity Subordinated Bonds constituting Water Pollution Abatement Obligations, such deposit requirements shall be determined in accordance with any debt service schedule set forth in the Supplemental Resolution or other agreement or instrument relating to such Series of Parity Subordinated Bonds that identifies loan payments net of contract assistance and reserve fund earnings, if applicable, as adjusted from time to time, but no adjustment on account of a failure to receive payment of any investment in such a reserve fund or of any contract assistance shall be required to be made unless the Authority shall determine to do so and, further, no adjustment on account of the use of a reserve fund to cover a payment default shall be required, unless the Authority shall determine to do so, in determining Required Subordinated Debt Service Fund Deposits occurring prior to the earlier of (i) eighteen months following the date which follows the occurrence of the event resulting in the increased loan payment or (ii) the next establishment by the Authority of its Rates and Charges which can feasibly incorporate the increased loan payment resulting from such event. For the purpose of this definition, for each Series of Designated Debt consisting of Parity Subordinated Bonds for any period, the amount required to be deposited into the Interest Account of the Debt Service Fund pursuant to the provisions of the General Resolution described in clauses (a)(ii)(B) and (a)(ii)(E) under the heading Flow of Funds from the Revenue Fund shall be deemed to be solely the Regularly Scheduled Qualified Swap Payments relating to such Series of Designated Debt provided in the applicable Qualified Swap (and calculated, if variable in rate, as provided in the definition of “Debt Service”).

“Required Supplemental Bond Coverage Deposits” shall mean, for any period of time, all deposits to be made to the Community Obligation and Revenue Enhancement Fund pursuant to the flow of funds provisions during such period.

The Proposed Modifications would delete the definition of “Required Supplemental Bond Coverage Deposits.”

“Revenues” shall mean and include all income, revenue, receipts, and other moneys derived by the Authority from its operation of the Systems and engaging in other activities authorized by the Act and all accounts, general intangibles and contract or other rights to receive the same, whether existing at the date of adoption of a General Resolution or thereafter coming into existence and whether held by the Authority at such date or thereafter acquired, and the proceeds thereof including, without limiting the generality of the foregoing, all “revenue” as defined in the Act and receipts from Rates and Charges and, except to the extent provided in the General Resolution, the proceeds of insurance and condemnation awards received with respect to, and proceeds from the sale or other disposition of any portion of, the System, and shall include, without limiting the foregoing, all interest and investment income or moneys held under the General Resolution which are deposited in the Revenue Fund, the Operating Fund or the Debt Service Fund, but not including the proceeds of any Special Subordinated Indebtedness or any Grant Receipts (except to the extent otherwise provided herein or in any other resolution of the Authority), any revenues, receipts or other moneys of a facility financed with repayments of principal of loans made from the Revolving Loan Fund, or any amounts permitted to be received and held outside of the various Funds and Accounts established by the General Resolution.

“Revenues Available for Bond Debt Service” shall mean, with respect to a twelve-month period, Net Revenues for such period plus (i) amounts transferred from the Rate Stabilization Fund to the Revenue Fund during such period; and (ii) amounts transferred from the Operating Reserve Fund to the Operating Fund in such period; provided, however, for purposes of calculating Revenues Available for Bond Debt Service, the sum of clause (i) and (ii) above shall not exceed the product of (x) the difference between the Primary Bond Coverage Ratio and 1.0, if any, and (y) the Required Debt Service Fund Deposits for all Outstanding Bonds for such period; and provided, further, that for purposes of calculating Revenues Available for Bond Debt Service the amount included pursuant to clause (i) above shall not exceed the product of (x) 0.1 and (y) the Required Debt Service Fund Deposits for all Outstanding Bonds for such period. Revenues deposited to the General Fund which are subsequently transferred to the Rate Stabilization Fund shall not be included in Revenues Available for Bond Debt Service in the year that such Revenues are deposited to the General Fund.

“Revenues Available for Subordinated Debt Service” shall mean with respect to a Fiscal Year, Revenues Available for Bond Debt Service less Required Debt Service Fund Deposits on all Series of Bonds Outstanding during such Fiscal Year.

“S&P” shall mean Standard & Poor’s Ratings Group.

“Secured Bond Debt Service Coverage Ratio” for any period of time shall mean the ratio obtained by dividing Revenues Available for Bond Debt Service by the sum of (i) the Required Debt Service Fund Deposits for all Outstanding Bonds for such period and (ii) the Required Subordinated Debt Service Fund Deposits for all Outstanding Subordinated Bonds (including the SRF Bonds) which are payable on a parity with or senior to the SRF Bonds for such period.

“Secured Bonds” or “Secured Indebtedness” shall mean all Bonds and all Subordinated Bonds.

Secured Bond Coverage Ratio; Secured Bond Coverage Requirement –The Proposed Modifications would add the following definitions to the General Resolution.

“Secured Bond Coverage Ratio” shall mean 1.1 as adjusted from time to time pursuant to the General Resolution.

“Secured Bond Coverage Requirement” shall mean, for any twelve-month period, the product of the Secured Bond Coverage Ratio and the sum of (i) the Required Debt Service Fund Deposits of all Outstanding Bonds for such period and (ii) the Required Subordinated Debt Service Fund Deposits for all Outstanding Parity Subordinated Bonds for such period.

“Series” or “Series of Secured Bonds” shall mean all of the Secured Bonds authenticated and delivered on original issuance identified pursuant to the Supplemental Resolution authorizing such Secured Bonds as a separate Series of Secured Bonds and any Secured Bonds thereafter authenticated and delivered in lieu of or in substitution therefor pursuant to the General Resolution regardless of variations in maturity, interest rate or other provisions.

“Sewer Operations” shall mean the “sewer division” established pursuant to Section 8(a) of the Act.

“Sinking Fund Installment” shall mean, as of any particular date of calculation, the amount required by the General Resolution or any Supplemental Resolution to be paid by the Authority on a future date for the retirement of the principal amount of Outstanding Bonds or Subordinated Bonds which are stated to mature subsequent to such future date, but does not include any amount payable by the Authority by reason only of the maturity of a Bond or Subordinated Bond.

“Special Credit Facility” shall mean, with respect to any Series of Secured Bonds or portion thereof, a Credit Facility (a) which provides funds for (i) the direct payment of the Principal Installments of and interest on such Secured Bonds when due or (ii) the payment of the Principal Installments of and interest on such Secured Bonds in the event amounts otherwise pledged to the payment thereof are not available when due or (iii) the payment of the Tender Option Price of any Option Bond which may be tendered to the Authority for purchase or payment in accordance with the Supplemental Resolution authorizing such Option Bond (in any case, regardless of whether such Credit Facility provides funds for any other purpose) and (b) which (i) requires the Authority to directly reimburse the issuer of such Credit Facility for amounts paid thereunder and (ii) provides that such obligation is a Parity Reimbursement Obligation.

“Special Payment Obligations” shall mean payment obligations under any interest rate exchange, cap or other hedge agreement or other long-term contract which have been designated as payable from the Commonwealth Obligation Fund in such agreement.

“Special Subordinated Indebtedness” shall mean Indebtedness incurred in anticipation of grant receipts; incurred in anticipation of revenues; payable from and secured by the General Fund; incurred with respect to the

financing of a separate facility; or incurred in connection with the Revolving Loan Fund, all in accordance with the provisions of the General Resolution.

“SRF Bonds” shall mean Water Pollution Abatement Obligations of the Authority.

“SRF Program Bonds” shall mean bonds of the Trust secured by SRF Bonds.

“Subordinated Bonds” shall mean bonds or indebtedness which have a lien subordinate to the lien of the Bonds, on the Funds and Accounts and property established under the General Resolution, and shall also mean any Subordinated Parity Bond Anticipation Notes and any Parity Reimbursement Obligation incurred with respect to Subordinated Bonds; provided that the Subordinated Bonds have no lien on the Debt Service Fund or the Debt Service Reserve Fund.

“Subordinated Debt Service Reserve Fund Requirement” shall mean the aggregate of the amounts, if any, required to be deposited in the Subordinated Debt Service Reserve Fund pursuant to all Supplemental Resolutions authorizing the issuance of Subordinated Bonds.

“Subordinated Parity Bond Anticipation Notes” shall mean Bond Anticipation Notes the interest on which is payable from and secured by a pledge of, and a lien on, the Revenues on a parity with the lien created by the General Resolution to secure the Subordinated Bonds.

“Supplemental Bond Coverage Requirement” for any Fiscal Year shall mean, unless the context otherwise indicates, the Required Debt Service Fund Deposits for all Bonds Outstanding as of the beginning of such Fiscal Year, times the Supplemental Bond Coverage Ratio.

“Supplemental Resolution” shall mean a resolution of the Authority authorizing the issuance of a Series of Bonds or Subordinated Bonds or otherwise amending or supplementing the General Resolution, adopted in accordance with the General Resolution.

“System” shall mean collectively the “Waterworks System” and the “Sewer System” as such terms are defined in Section 1(o) and 1(v) of the Act.

“Tax Exempt Indebtedness” shall mean Indebtedness the interest on which is excluded from gross income of the holder thereof for federal income tax purposes which was accompanied by a favorable Bond Counsel’s Opinion regarding such exclusion on the date of such Indebtedness.

“Tender Option Price” shall mean, with respect to any Option Bond tendered for purpose or payment in accordance with the Supplemental Resolution authorizing such Option Bond, an amount equal to the principal amount of such Option Bond.

“Trust” shall mean the Massachusetts Water Pollution Abatement Trust first established pursuant to Chapter 275 of the Acts of 1989 of the Commonwealth.

“Trust Bond Resolution” shall mean a bond resolution of the Trust providing for the issuance of a series of SRF Program Bonds.

“Variable Rate Indebtedness” shall mean, as of any date of determination, any Indebtedness on which the interest rate borne thereby may vary during any part of its remaining term. For the purpose of calculating the applicable Series Debt Service Reserve Fund Requirement with respect to any Series of Variable Rate Indebtedness, the Adjusted Debt Service on such Series shall be determined by reference to the Pro Forma Bond Issue for such Series set forth in the Supplemental Resolution authorizing such Series.

“Water Pollution Abatement Obligations” shall mean obligations incurred and owing to the Trust.

“Watershed Division” shall mean the Division of Watershed Management established by Section 42 of Chapter 372 of the Acts of 1984 of the Commonwealth.

“Waterworks Operations” shall mean the “waterworks division” established pursuant to Section 8(a) of the Act.

The Pledge Effected by the General Resolution

(a) Under the General Resolution, there are pledged for the payment of the Bonds, in accordance with their terms and the provisions of the General Resolution, subject only to the provisions of the General Resolution permitting the application thereof for or to the purposes and on the terms and conditions therein set forth: (i) all Revenues; (ii) all moneys or securities in any of the Funds, Accounts and Subaccounts (except the Operating Fund, the Rebate Fund, the Note Payment Fund and the Subordinated Debt Service Reserve Fund) together with the investment earnings thereon except to the extent such earnings are required to be deposited in the Rebate Fund pursuant to a Supplemental Resolution, and (iii) all other moneys and securities to be received, held or set aside by the Authority or by any Fiduciary pursuant to the General Resolution.

(b) Subject only to the prior pledge created for the payment of the Bonds in paragraph (a) above, and on the terms and conditions set forth therein with respect to such prior pledge, the property described in clauses (i)-(iii) of said paragraph (a) (except moneys or securities in the Debt Service Fund and the Debt Service Reserve Fund) and the Subordinated Debt Service Reserve Fund are further pledged under the General Resolution to the payment of the Subordinated Bonds. (Section 501)

Additional Indebtedness

(a) Except for additional Indebtedness issued in accordance with the provisions of the General Resolution, the Authority shall not issue any bonds, notes or other evidences of indebtedness secured by a pledge of or other lien or charge on the Revenues and shall not create or cause to be created any lien or charge on such Revenues or on any amounts held by any Fiduciary under the General Resolution; but the Authority shall not be prevented from issuing bonds or notes or other obligations for the corporate purposes of the Authority payable out of, or secured by a pledge of, Revenues to be derived on and after the date that the pledge of the Revenues provided in the General Resolution shall be discharged and satisfied as provided in the General Resolution and which recite on their face that such pledge of said amounts is and shall be in all respects subordinate to the provisions of the General Resolution and the lien and pledge created by the General Resolution.

(b) Notwithstanding anything in the General Resolution to the contrary, so long as no default under the General Resolution shall have occurred and be continuing, the Authority may issue at any time or from time to time:

(i) Indebtedness issued in anticipation of Grant Receipts which may be secured solely by a pledge of the proceeds of such Indebtedness, the Grant Receipts anticipated, other amounts on deposit from time to time in any separate account established by the Authority to hold Grant Receipts, earnings thereon and other amounts not constituting Revenues under the General Resolution; or

(ii) Indebtedness issued in anticipation of the Revenues to be received in a particular Fiscal Year, whether unsecured or secured by a pledge of Revenues; provided that (a) any such Indebtedness shall be payable no later than one year from its date of issue (or, in the case of Indebtedness issued to renew any such Indebtedness, no later than one year from the date of issue of the original issue of Indebtedness), (b) the aggregate amount of such Indebtedness Outstanding at any one time in a Fiscal Year shall not exceed fifty percent (50%) of the Revenues for the immediately preceding Fiscal Year and (c) the proceeds of such Indebtedness (other than the proceeds of Indebtedness issued to pay a prior issue of such Indebtedness) shall be deposited in the Revenue Fund; or

(iii) Indebtedness payable from and secured by amounts on deposit in or to be deposited in the General Fund pursuant to the General Resolution.

Any Indebtedness described in this paragraph (b), in addition to the security therefor described herein, may be issued as general obligations of the Authority or as special obligations payable solely from the Revenues, Grant Receipts, proceeds, moneys, securities or funds pledged as security therefor.

(c) Notwithstanding anything in the General Resolution to the contrary, the Authority may issue Indebtedness secured solely by the revenues, receipts or other moneys derived by the Authority from the lease, license, operation, sale or other disposition of any facility or equipment (whether or not part of the System) hereafter constructed or acquired by or on behalf of the Authority with the proceeds of such Indebtedness. Such Indebtedness shall be special, limited obligations of the Authority payable solely out of the revenues, receipts and other moneys pledged therefor. Such revenues, receipts and other moneys shall not be considered Revenues hereunder provided that (i) neither the debt service on such Indebtedness nor any cost of the acquisition, construction, operation, maintenance or repair of any such facility or equipment nor provision for reserves for any of the foregoing shall be paid from the proceeds of Secured Indebtedness or from Revenues (other than Revenues deposited in or available for deposit in the General Fund pursuant to the General Resolution) or shall be included in Operating Expenses, (ii) any such revenues, receipts and moneys in excess of such debt service, cost of acquisition, construction, operation, maintenance and repair and reserves shall be deposited in the Revenue Fund (and upon such deposit shall be deemed Revenues), and (iii) prior to the issue of any such Indebtedness, the Authority shall deliver to the Trustee a certificate of the Consulting Engineer certifying that the lease, license, operation, sale or other disposition of such facility or equipment and the application of the revenues, receipts and other moneys derived therefrom to the operation, maintenance and repair thereof and the payment of the debt service on the Indebtedness issued therefor and the provision of reserves for the foregoing, will not result in any decrease in the Revenues projected by such Consulting Engineer to be received by the Authority during the succeeding five Fiscal Years (including the Fiscal Year in which such Indebtedness is issued).

(d) Notwithstanding anything in the General Resolution to the contrary, the Authority may issue Indebtedness secured by a pledge of moneys in the Revolving Loan Fund which either (i) have been committed to loans to Local Bodies or (ii) represent payments made by Local Bodies on loans previously made from the Revolving Loan Fund, or by a pledge of moneys in the General Fund. Any lien granted on such moneys in the Revolving Loan Fund to secure such Indebtedness shall be senior to the pledge of the General Resolution but any lien granted on moneys in the General Fund to secure such Indebtedness shall be junior to such pledge. Any such Indebtedness shall be issued pursuant to a separate resolution of the Authority and each instrument evidencing such Indebtedness shall state expressly that the holders of such Indebtedness shall have no rights to the Revenues or other moneys held in Funds and Accounts established under the General Resolution except for moneys in the Revolving Loan Fund or in the General Fund as described in this paragraph. (Section 709)

Conditions Precedent to Delivery of a Series of Bonds

The Bonds of a Series shall be executed by the Authority for issuance and delivered to the Trustee and thereupon shall be authenticated by the Trustee and delivered to the Authority or upon its order, but only upon the receipt by the Trustee of certain documents and opinions relating to such Bonds and:

(a) except in the case of any Series of Refunding Secured Bonds issued in the manner described in clause (i) under the heading Conditions Precedent to Delivery of Refunding Secured Bonds or any Parity Bond Anticipation Notes,

(i) a Certificate of an Authorized Representative of the Authority certifying that for the most recent period of twelve consecutive months preceding the date on which such Bonds are to be issued for which such information is available, Revenues Available for Bond Debt Service were at least equal to the Combined Bond Coverage Requirements; and

(ii) either:

(A) a Certificate of the Consulting Engineer certifying that for both the Fiscal Year in which such Bonds are to be issued and the Fiscal Year immediately following, projected Revenues Available for Bond Debt Service, assuming transfers from the Rate Stabilization Fund only to the extent such assumption is set forth in a Certificate of the Authority, are at least equal to

the sum of (1) the Primary Bond Coverage Requirement for all Series of Bonds Outstanding in such Fiscal Year, taking into account the Series of Bonds to be issued and any other Series of Bonds which is projected to be issued on or before the last day of such Fiscal Year, and (2) the Required Supplemental Bond Coverage Deposits for such Fiscal Year, taking into account the Series of Bonds to be issued and any other Series of Bonds which is projected to be issued on or before the last day of such Fiscal Year; or

(B) a Certificate of the Consulting Engineer certifying that:

(1) for the Fiscal Year in which such Bonds are to be issued, projected Revenues Available for Bond Debt Service, calculated without assuming any increase in Rates and Charges other than those then approved in accordance with the General Resolution and assuming transfers from the Rate Stabilization Fund only to the extent such assumption is set forth in a Certificate of the Authority, are at least equal to the sum of (x) the Required Debt Service Fund Deposits for all Series of Bonds then Outstanding in such Fiscal Year, taking into account the particular Series of Bonds to be issued, (y) any amounts required to be deposited in the Operating Reserve Fund, the Insurance Reserve Fund or the Renewal and Replacement Reserve Fund to satisfy the applicable Requirement for such Fund and (z) the Required Supplemental Bond Coverage Deposits, taking into account the particular Series of Bonds to be issued; and

(2) for the Fiscal Year immediately following the Fiscal Year in which such Bonds are to be issued, projected Revenues Available for Bond Debt Service as calculated in (f)(ii)(B)(1) above, but adjusted to reflect any increases in Operating Expenses shown on the Authority's proposed or final Operating Budget for such following Fiscal Year or, if such Budget has not been submitted, as adjusted to reflect an increase in Operating Expenses not less than the average percentage increase in Operating Expenses over the previous three Fiscal Years, are at least equal to the sum of (x) the Required Debt Service Fund Deposits of all Series of Bonds included for purposes of (f)(ii)(B)(1)(x) above, (y) any amounts required to be deposited in the Operating Reserve Fund to satisfy the applicable Requirement for such Fund in such Fiscal Year, and (z) the Required Supplemental Bond Coverage Deposits, if any;

(b) a Certificate of the Authorized Representative of the Authority, dated as of the date of such delivery, stating that there is no Event of Default by the Authority with respect to the performance of any of the covenants, conditions, agreements or provisions contained in the General Resolution provided, however that the Authority need deliver no such certification with respect to compliance with covenants as to Rates and Charges for a Series of Refunding Secured Bonds issued pursuant to the General Resolution; and

(c) such further documents and moneys as are required by the General Resolution or any Supplemental Resolution. (Section 206)

The Proposed Modifications would revise subparagraph (a) above to provide as follows:

(a) *except in the case of any Series of Refunding Secured Bonds issued in the manner described in clause (i) under the heading Conditions Precedent to Delivery of Refunding Secured Bonds or any Parity Bond Anticipation Notes,*

(i) a Certificate of an Authorized Representative of the Authority certifying that for the most recent period of twelve consecutive months preceding the date on which such Bonds are to be issued for which such information is available, Revenues Available for Bond Debt Service were at least equal to the Primary Bond Coverage Requirement provided that for any Series of Bonds issued on or prior to June 30, 1990 the requirement of this section (a)(i) shall be deemed satisfied; and

(ii) either

(A) a Certificate of the Consulting Engineer certifying that for both the Fiscal Year in which such Bonds are to be issued and the Fiscal Year immediately following, projected Revenues Available for Bond Debt Service, assuming transfers from the Rate Stabilization Fund only to the extent such assumption is set forth in a Certificate of the Authority, are at least equal to the Primary Bond Coverage Requirement for all Series of Bonds Outstanding in such Fiscal Year, taking into account the Series of Bonds to be issued and any other Series of Bonds which is projected to be issued on or before the last day of such Fiscal Year; or

(B) a certificate of the Consulting Engineer certifying that

(1) for the Fiscal year in which such Bonds are to be issued, projected Revenues Available for Bond Debt Service, calculated without assuming any increase in Rates and Charges other than those then approved in accordance with the General Resolution, and assuming transfers from the Rate Stabilization Fund only to the extent such assumption is set forth in a Certificate of the Authority, are at least equal to the sum of (x) the Required Debt Service Fund Deposits for all Series of Bonds then Outstanding in such Fiscal Year, taking into account the particular Series of Bonds to be issued, and (y) any amounts required to be deposited in the Operating Reserve Fund, the Insurance Reserve Fund or the Renewal and Replacement Reserve Fund to satisfy the applicable Requirement for such Fund, taking into account the particular Series of Bonds to be issued; and

(2) for the Fiscal Year immediately following the Fiscal Year in which such Bonds are to be issued, projected Revenues Available for Bond Debt Service as calculated for Section (ii)(B)(1), but adjusted to reflect any increases in Operating Expenses shown on the Authority's proposed or final Operating Budget for such following Fiscal Year or, if such Budget has not been submitted, as adjusted to reflect an increase in Operating Expenses over the previous three Fiscal Years, are at least equal to the sum of (x) the Required Debt Service Fund Deposits on all Series of Bonds included for purposes of (ii)(B)(1)(x) above and (y) only if such Operating Budget has been adopted, any amounts required to be deposited in the Operating Reserve Fund to satisfy the Operating Reserve Fund Requirement in such Fiscal Year.

Conditions Precedent to Delivery of a Series of Subordinated Bonds

The Subordinated Bonds of a Series shall be executed by the Authority for issuance and delivery to the Trustee and thereupon shall be authenticated by the Trustee and delivered to the Authority or upon its order, but only upon the receipt by the Trustee of the items, opinions and certificates required by the provisions described under the heading Conditions Precedent to Delivery of a Series of Bonds except paragraph (a) thereof and the Supplemental Resolution authorizing such Subordinated Bonds. (Section 206A)

The Proposed Modifications would revise this provision to read as follows:

Conditions Precedent to Delivery of a Series of Secured Bonds Senior to or on Parity with Subordinated Bonds.

(a) *The Subordinated Bonds of a Series shall be executed by the Authority for issuance and delivery to the Trustee and thereupon shall be authenticated by the Trustee and delivered to the Authority or upon its order, but only upon the receipt by the Trustee of the items, opinions and certificates described in the provisions under the heading Conditions Precedent to Delivery of a Series of Bonds (except for the requirements of paragraph (a) thereof), restated as appropriate for the issuance of Subordinated Bonds and any items, opinions or certificates required by the Supplemental Resolution authorizing such Subordinated Bonds.*

(b) *In addition, so long as any Parity Subordinated Bonds are outstanding, then Secured Bonds which are paid on a parity with or senior to the Parity Subordinated Bonds may be issued by the Authority only if there shall have been delivered to the Trustee in addition to any documents required by paragraph (a) above:*

(i) a Certificate of a Consulting Engineer of the Authority certifying that for the most recent period of twelve consecutive months preceding the date on which such parity or senior Secured Bonds are to be issued for which such information is available, Revenues Available for Bond Debt Service were at least equal to the Secured Bond Coverage Requirement; and

(ii) either (A) a Certificate of a Consulting Engineer of the Authority certifying that for both the Fiscal Year in which such parity or senior Secured Bonds are to be issued and the Fiscal Year immediately following, projected Revenues Available for Bond Debt Service, assuming transfers from the Rate Stabilization Fund only to the extent such assumption is set forth in a Certificate of the Authority, are at least equal to the Secured Bond Coverage Requirement for all Series of Bonds and Parity Subordinated Bonds Outstanding in such Fiscal Year, taking into account the Series of parity or senior Secured Bonds to be issued and any other Series of parity or senior Secured Bonds which is projected to be issued on or before the last day of such Fiscal Year; or (B) a Certificate of an Authorized Representative of the Authority certifying that

(1) for the Fiscal Year in which such parity or senior Secured Bonds are to be issued, projected Revenues Available for Bond Debt Service, calculated without assuming any increase in Rates and Charges other than those then approved in accordance with the General Resolution, and assuming transfers from the Rate Stabilization Fund only to the extent such assumption is set forth in a Certificate of the Authority, are at least equal to the sum of (x) the Required Debt Service Fund Deposits and Required Subordinated Debt Service Fund Deposits for all Series of Bonds and Parity Subordinated Bonds then Outstanding in such Fiscal Year, taking into account the particular Series of parity or senior Secured Bonds to be issued, and (y) any amounts required to be deposited in the Operating Reserve Fund, the Insurance Reserve Fund or the Renewal and Replacement Reserve Fund to satisfy the Requirement for such Fund, taking into account the particular Series of parity or senior Secured Bonds to be issued; and

(2) for the Fiscal Year immediately following the Fiscal Year in which such parity or senior Secured Bonds are to be issued, projected Revenues Available for Bond Debt Service as calculated for (b)(ii)(B)(1) above, but adjusted to reflect any increases in Operating Expenses shown on the Authority's proposed or final Operating Budget for such following Fiscal Year or, if such Budget has not been submitted as adjusted to reflect an increase in Operating Expenses not less than the average percentage increase in Operating Expenses over the previous three Fiscal Years, are at least equal to the sum of (x) the Required Debt Service Fund Deposits and the Required Subordinated Debt Service Fund Deposits on the Series of Bonds and Parity Subordinated Bonds included for purposes of (b)(ii)(B)(1) above and (y) any amounts required to be deposited in the Operating Reserve Fund to satisfy the applicable Requirement for such Fund in such Fiscal Year.

Conditions Precedent to Delivery of a Series of Parity or Senior Secured Bonds

So long as any SRF Bonds are Outstanding, Secured Bonds which are paid on a parity with or senior to the SRF Bonds ("Parity or Senior Secured Bonds") may be issued by the Authority only if there shall have been delivered to the Trustee in addition to any documents required under the provisions described under the heading Conditions Precedent to Delivery of a Series of Bonds or, as the case may be, Conditions Precedent to Delivery of a Series of Subordinated Bonds:

(a) a Certificate of an Authorized Representative of the Authority certifying that for the most recent period of twelve consecutive months preceding the date on which such Parity or Senior Secured Bonds are to be issued for which such information is available, Revenues Available for Bond Debt Service were at least sufficient to maintain a Secured Bond Debt Service Coverage Ratio of 1.10, after providing for all Required Supplemental Bond Coverage Deposits; and

(b) either:

(i) a Certificate of a Consulting Engineer of the Authority certifying that for both the Fiscal Year in which such Parity or Senior Secured Bonds are to be issued and the Fiscal Year immediately following, projected Revenues Available for Bond Debt Service, assuming transfers from the Rate Stabilization Fund only to the extent such assumption is set forth in a Certificate of the Authority, are at least sufficient to maintain a Secured Bond Debt Service Coverage Ratio of 1.10, after providing for all Required Supplemental Bond Coverage Deposits, taking into account the Series of Parity or Senior Secured Bonds to be issued and any other Series of Parity or Senior Secured Bonds which is projected to be issued on or before the last day of such Fiscal Year; or

(ii) a Certificate of an Authorized Representative of the Authority certifying that:

(A) for the Fiscal Year in which such Parity or Senior Secured Bonds are to be issued, projected Revenues Available for Bond Debt Service, calculated without assuming any increase in Rates and Charges other than those then approved in accordance with the General Resolution, and assuming transfers from the Rate Stabilization Fund only to the extent such assumption is set forth in a Certificate of the Authority, are at least equal to the sum of (x) the Required Debt Service Fund Deposits and Required Subordinated Debt Service Fund Deposits for all Series of Parity or Senior Secured Bonds then Outstanding in such Fiscal Year, taking into account the particular Series of Parity or Senior Secured Bonds to be issued, (y) any amounts required to be deposited in the Operating Reserve Fund, the Insurance Reserve Fund or the Renewal and Replacement Reserve Fund to satisfy the applicable Requirement for such Fund and (z) the Required Supplemental Bond Coverage Deposits, taking into account the particular Series of Parity or Senior Secured Bonds to be issued; and

(B) for the Fiscal Year immediately following the Fiscal Year in which such Parity or Senior Secured Bonds are to be issued, projected Revenues Available for Bond Debt Service as calculated for clause (b)(ii)(A) under his heading, but adjusted to reflect any increases in Operating Expenses shown on the Authority's proposed or final Operating Budget for such following Fiscal Year or, if such Budget has not been submitted, as adjusted to reflect an increase in Operating Expenses not less than the average percentage increase in Operating Expenses over the previous three Fiscal Years, are at least equal to the sum of (x) the Required Debt Service Fund Deposits and the Required Subordinated Debt Service Fund Deposits on Series of Parity or Senior Secured Bonds included for purposes clause (b)(ii)(A)(x) under this heading, (y) any amounts required to be deposited in the Operating Reserve Fund to satisfy the applicable Requirement for such Fund in such Fiscal Year, and (z) the Required Supplemental Bond Coverage Deposits, if any, for Parity or Senior Secured Bonds included in clause (x) above. (Sixth Supplemental Resolution Section 306, Tenth Supplemental Resolution Section 307 and Fourteenth Supplemental Resolution Section 307)

The Proposed Modifications would delete this provision, as this provision would be replaced by the modification of Section 206A of the General Resolution set forth in italics under the heading Conditions Precedent to a Series of Subordinated Bonds.

Conditions Precedent to Delivery of Refunding Secured Bonds

One or more Series of Refunding Secured Bonds may be issued pursuant to the General Resolution at any time to refund any Outstanding Secured Bonds provided that either (i), but only with respect to Bonds issued to refund Bonds, (A) Aggregate Adjusted Debt Service on the Bonds immediately after the issuance of such Refunding Secured Bonds for each Fiscal Year shall be no greater than Aggregate Adjusted Debt Service immediately prior to the issuance of such Refunding Secured Bonds and (B) the final maturity of all Bonds Outstanding immediately after the issuance of such Refunding Secured Bonds shall be no later than the final maturity immediately prior to the issuance of such Refunding Secured Bonds or (ii) the requirements detailed in paragraph (a) under the heading Conditions Precedent to Delivery of a Series of Bonds, or with respect to an issue of Subordinated Bonds, the requirements of any Supplemental Resolution with respect to the issuance of additional Subordinated Bonds, shall

have been satisfied after giving effect to the proposed refunding, all as shown in a Certificate signed by an Authorized Representative of the Authority (and, as to certain matters, a Certificate signed by the Consulting Engineer) and delivered to the Trustee prior to the authentication and delivery of such Series o Refunding Secured Bonds. (Section 207)

The Proposed Modifications would amend the provisions described above to provide as follows:

One or more Series of Refunding Secured Bonds may be issued pursuant to the General Resolution at any time to refund any Outstanding Secured Bonds provided that (i) with respect to Bonds issued to refund Bonds, (A) Aggregate Adjusted Debt Service on the Bonds immediately after the issuance of such Refunding Secured Bonds for each Fiscal Year shall be no greater than Aggregate Adjusted Debt Service on all Bonds immediately prior to the issuance of such Refunding Secured Bonds and (B) the final maturity of all Bonds Outstanding immediately after the issuance of such Refunding Secured Bonds shall be no later than the final maturity of all Bonds Outstanding immediately prior to the issuance of such Refunding Secured Bonds, (ii) with respect to Parity Subordinated Bonds issued to refund Parity Subordinated Bonds, (A) Aggregate Adjusted Debt Service on all Parity Subordinated Bonds immediately after the issuance of such Refunding Secured Bonds for each Fiscal Year shall be no greater than Aggregate Adjusted Debt Service on all Parity Subordinated Bonds Outstanding immediately prior to the issuance of such Refunding Secured Bonds and (B) the final maturity of all Parity Subordinated Bonds Outstanding immediately after the issuance of such Refunding Secured Bonds shall be no later than the final maturity immediately prior to the issuance of such Refunding Secured Bonds, or (iii) the requirements detailed in subparagraph (a) under the heading Conditions Precedent to Delivery of a Series of Bonds in the case of an issue of additional Bonds, or the requirements detailed in subparagraph (b) under the heading Conditions Precedent to Delivery of a Series of Secured Bonds Senior to or on Parity with Subordinated Bonds in the case of an issue of additional Parity Subordinated Bonds, shall have been satisfied after giving effect to the proposed refunding, all as shown in a Certificate signed by an Authorized Representative of the Authority (and, as to certain matters, a Certificate signed by the Consulting Engineer) and delivered to the Trustee prior to the authentication and delivery of such Series of Refunding Secured Bonds. Refunding Secured Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make the deposits in the Funds, Accounts and Subaccounts required by the provisions of the Supplemental Resolution authorizing such Secured Bonds.

So long as any SRF Bonds are Outstanding, one or more series of Parity or Senior Secured Bonds may be issued pursuant to this paragraph at any time for the purpose of refunding any Outstanding Secured Bonds provided that either (i)(A) Aggregate Adjusted Debt Service on all Parity or Senior Secured Bonds immediately after the issuance of such refunding bonds for each Fiscal Year shall be no greater than Aggregate Adjusted Debt Service on all Parity or Senior Secured Bonds prior to the issuance of such refunding bonds and (B) the final maturity of all Parity or Senior Secured Bonds Outstanding after the issuance of such refunding bonds shall be no later than the final maturity immediately prior to the issuance of such refunding bonds or (ii) the requirements described under the heading Conditions Precedent to Delivery of a Series of Parity or Senior Secured Bonds shall be satisfied after giving effect to the proposed refunding, all as shown in a Certificate signed by an Authorized Representative of the Authority (and as to the matters in paragraph (b) under the heading Conditions Precedent to Delivery of Parity or Senior Secured Bonds, a Certificate signed by a Consulting Engineer) and delivered to the Trustee prior to the authentication and delivery of such Series of refunding bonds. All Refunding Secured Bonds of a Series issued under the terms described in this paragraph shall be executed by the Authority for issuance and delivered to the Trustee and thereupon shall be authenticated by the Trustee and delivered to the Authority or upon its order, but only upon receipt by the Trustee of the items required by the provisions described under the heading Conditions Precedent to Delivery of Refunding Secured Bonds as appropriate for the issuance of Parity or Senior Secured Bonds. Refunding Secured Bonds of a Series may be issued under the terms described in this paragraph to refund the SRF Bonds only if (i) the applicable SRF Program Bonds shall no longer be Outstanding (as defined in the applicable Trust Bond Resolution) immediately after such refunding or (ii) if any of the SRF Program Bonds remain Outstanding (as defined in the applicable Trust Bond Resolution) immediately after such refunding, each Rating Agency (as defined in the applicable Trust Bond Resolution) shall have confirmed in writing that such refunding shall not adversely affect the rating it assigns to the SRF Program Bonds. (Sixth Supplemental Resolution Section 310)

The Proposed Modifications would eliminate the provision described in the preceding paragraph.

Express Reservation of Rights

The Authority expressly reserves the right to issue Subordinated Bonds payable from the Subordinated Debt Service Fund prior to, on a parity with or junior to the SRF Bonds, to establish one or more covenants for the sole benefit of some or all of such additional Subordinated Bonds, and to fund one or more accounts within the Subordinated Debt Service Reserve Fund for the sole benefit of some or all of such Subordinated Bonds. (Sixth Supplemental Resolution Section 309)

Bond Anticipation Notes

Whenever the Authority shall authorize the issuance of a Series of Secured Bonds, the Authority may, by resolution, authorize the issuance of notes (and renewals thereof) in anticipation of such Secured Bonds. The principal of and interest on such notes and renewals thereof shall be payable from the proceeds of such notes or from the proceeds of the sale of the Series of Secured Bonds in anticipation of which such notes are issued. The proceeds of such Secured Bonds may be pledged for the payment of the principal of and interest on such notes and any such pledge shall have a priority over any other pledge of such proceeds created by the General Resolution. The Authority may pledge the Revenues to the payment of the interest on such notes which pledge may be on a parity with the pledge securing all Bonds in which event such interest shall be payable from the Debt Service Fund. The Authority may also pledge the Revenues and moneys on deposit in the General Fund and the Rate Stabilization Fund to the payment of the principal of such notes but such pledge shall be subordinate to the pledge securing the payment of the Secured Bonds. (Section 208)

Special Subordinated Indebtedness

The Authority may, at any time, or from time to time, issue Special Subordinated Indebtedness payable out of, and which may be secured by a pledge of and lien on such amounts in such Funds as may from time to time be available for the purpose of payment thereof as provided in the General Resolution. Any pledge of or lien on amounts held by the Trustee shall be, and shall be expressed to be subordinate in all respects to the pledge created by the General Resolution as security for the Secured Bonds. Such Special Subordinated Indebtedness shall be issued only as follows:

(a) Notwithstanding anything in the General Resolution to the contrary, so long as no default shall have occurred under the General Resolution and be continuing, the Authority may issue at any time or from time to time:

(i) Indebtedness issued in anticipation of Grant Receipts secured solely by a pledge of the proceeds of such Indebtedness, Grant Receipts including the Grant Receipts anticipated, earnings thereon and other amounts not constituting Revenues under the General Resolution; or

(ii) Indebtedness issued in anticipation of the Revenues to be received in a particular Fiscal Year, whether unsecured or secured by a pledge of Revenues; provided that (a) any such Indebtedness shall be payable no later than one year from its date of issue (or, in the case of Indebtedness issued to renew any such Indebtedness, no later than one year from the date of issue of the original issue of Indebtedness), (b) the aggregate principal amount of such Indebtedness Outstanding at any one time in a Fiscal Year shall not exceed fifty percent (50%) of the Revenues for the immediately preceding Fiscal Year and (c) the proceeds of such Indebtedness (other than the proceeds of Indebtedness issued to pay a prior issue of such Indebtedness) shall be deposited in the Revenue Fund; or

(iii) Indebtedness payable from and secured by amounts on deposit in or to be deposited in the General Fund pursuant to the General Resolution.

Any Indebtedness described in this paragraph (a), in addition to the security therefor described or provided for herein, may be issued as general obligations of the Authority or as special obligations payable solely from the Revenues, Grant Receipts, proceeds, moneys, securities or funds pledged as security therefor.

(b) Notwithstanding anything in the General Resolution to the contrary, the Authority may issue Indebtedness secured solely by the revenues derived by the Authority from any facility or equipment (whether or not part of the System) hereafter constructed or acquired by or on behalf of the Authority with the proceeds of such Indebtedness. Such Indebtedness shall be special, limited obligations of the Authority payable solely out of the revenues pledged therefor. Such revenues, receipts and other moneys shall not be considered Revenues under the General Resolution provided that (i) neither the debt service on such Indebtedness nor any cost of any such facility or equipment nor provision for reserves for any of the foregoing shall be paid from the proceeds of Secured Indebtedness or from Revenues (other than Revenues deposited in or available for deposit in the General Fund pursuant to the General Resolution) or shall be included in Operating Expenses, (ii) any such revenues in excess of such debt service, cost of acquisition, construction, operation, maintenance and repair and reserves shall be deposited in the Revenue Fund (and upon such deposit shall be deemed Revenues), and (iii) prior to the issue of any such Indebtedness, the Authority shall deliver to the Trustee a Certificate of the Consulting Engineer certifying that the operation, of such facility or equipment and the application of the revenues derived therefrom to the operation, maintenance and repair thereof and the payment of the debt service on the Indebtedness issued therefor and the provision of reserves for the foregoing, will not result in any decrease in the Revenues projected by such Consulting Engineer to be received by the Authority during the succeeding five Fiscal Years (including the Fiscal Year in which such Indebtedness is issued).

(c) Notwithstanding anything in the General Resolution to the contrary, the Authority may issue Indebtedness secured by a pledge or certain moneys in the Revolving Loan Fund or by moneys in the General Fund. Any lien granted on such moneys in the Revolving Loan Fund to secure such Indebtedness shall be senior to the pledge of the General Resolution but any lien granted on moneys in the General Fund to secure such Indebtedness shall be junior to such pledge. (Sections 209 and 709)

Credit Facilities

(a) In connection with the issuance of any Series of Secured Bonds under the General Resolution, the Authority may obtain or cause to be obtained one or more Credit Facilities providing for payment of all or a portion of the Debt Service or to become due on such Secured Bonds, providing for the purchase of such Secured Bonds by the issuer of such Credit Facility or providing funds for the purchase of such Secured Bonds by the Authority.

(b) The Authority may also in an agreement with the issuer of such Credit Facility agree to directly reimburse such issuer for amounts paid under the terms of such Credit Facility, together with interest thereon (the "Reimbursement Obligation"); provided, however, that no Reimbursement Obligation shall be deemed to be Outstanding for the purposes of the General Resolution until amounts are paid under such Credit Facility. Any such Reimbursement Obligation may be secured by a pledge of, and a lien on, Revenues on a parity with the lien created by the General Resolution (a "Parity Reimbursement Obligation"). Any such Parity Reimbursement Obligation shall be deemed to be a Secured Bond. (Section 210)

Establishment of Funds and Accounts

(a) The following Funds and Accounts are established by the General Resolution:

- (i) Construction Fund, containing a:
 - (A) Waterworks System Account; and
 - (B) Sewer System Account;
- (ii) Cost of Issuance Fund;
- (iii) Revenue Fund;
- (iv) Operating Fund;
- (v) Debt Service Fund, containing a:
 - (A) Principal Account;
 - (B) Interest Account;

- (C) Redemption Account; and
- (D) Capitalized Interest Account;
- (vi) Subordinated Debt Service Fund, containing a:
 - (A) Principal Account;
 - (B) Interest Account;
 - (C) Redemption Account; and
 - (D) Capitalized Interest Account;
- (vii) Debt Service Fund containing a Common Account;
- (viii) Subordinated Debt Service Reserve Fund containing a Common Account;
- (ix) Community Obligation and Revenue Enhancement Fund, containing a:
 - (A) General Account; and
 - (B) Reserve Account;
- (x) Commonwealth Obligation Fund;
- (xi) Rebate Fund;
- (xii) Operating Reserve Fund;
- (xiii) Insurance Reserve Fund;
- (xiv) Renewal and Replacement Reserve Fund;
- (xv) Water Pollution Abatement Fund;
- (xvi) Rate Stabilization Fund;
- (xvii) Revolving Loan Fund;
- (xviii) General Fund; and
- (xix) Note Payment Fund.

(b) Any Supplemental Resolution which provides for a Special Credit Facility may establish one or more “Special Accounts” in the Debt Service Reserve Fund or the Subordinated Debt Service Reserve Fund. Unless otherwise expressly provided in the General Resolution, all of the Funds, Accounts and Subaccounts shall be held by the Trustee, except the Operating Fund and the Construction Fund or any Accounts or Subaccounts therein, which may be held by one or more Depositories. (Section 502)

The Proposed Modifications would amend clause (ix) of subparagraph (a) to read: “(ix) [Reserved]”.

Construction Fund

There shall be deposited from time to time in the Subaccounts of the Construction Fund (i) the proceeds of casualty insurance, contractors’ performance bonds and any condemnation, as determined by the Authority in accordance with the General Resolution; (ii) the balance remaining of the proceeds of any Bond Anticipation Notes issued to pay the Costs of a Project after payment or provision for payment of such notes; (iii) any amounts required to be deposited therein pursuant to the General Resolution or any Supplemental Resolution; (iv) any moneys transferred pursuant to the General Resolution from the Rate Stabilization Fund or from the General Fund; and (v) any other amounts received by the Authority for or in connection with the Waterworks System and the Sewer System, respectively, and determined by the Authority to be deposited therein, which are not otherwise required to be applied by the General Resolution. Except as otherwise provided under the heading Priority of Funds in Event of Debt Service Fund Shortfall or Priority of Funds in Event of Subordinated Debt Service Fund Shortfall or if investment earnings on moneys in the Construction Fund are required to be transferred to the Rebate Fund, amounts in the Construction Fund shall be expended only to pay Costs of a Project pursuant to requisitions filed in accordance with the Supplemental Resolution. At any time from time to time the Trustee may transfer amounts on deposit therein between a particular Subaccount within the Waterworks System Account and the corresponding Subaccount within the Sewer System Account upon receipt of a Certificate of an authorized Representative of the Authority requesting such transfer. If the Authority at any time cannot certify that it reasonably expects the moneys on deposit in any Subaccount of the Construction Funds which constitutes the proceeds of Tax Exempt Indebtedness to be expended for the Costs of a Project, then such shall be transferred to the Redemption Account and applied solely to the redemption of Secured Bonds of the applicable Series on the first date on which such Secured Bonds may be called without premium (unless the Authority shall elect to call such Secured Bonds earlier at a premium). (Section 503)

Cost of Issuance Fund

There shall be deposited from time to time in a separate Subaccount of the Cost of Issuance Fund for each Series of Secured Bonds issued under the General Resolution any amounts required to be deposited therein pursuant to the terms of a Supplemental Resolution with respect to such Series. Moneys in the Cost of Issuance Fund shall be paid upon the filing by the Authority with the Trustee its requisition therefor (in the form set forth in a Supplemental Resolution) signed by an Authorized Representative of the Authority. (Section 504)

Deposits of Revenues

The Authority shall promptly cause all Revenues received to be deposited in the Revenue Fund held by the Trustee. There shall also be deposited into the Revenue Fund by the Trustee or any other Fiduciary all other amounts required by the General Resolution to be so deposited. (Section 505)

Flow of Funds from the Revenue Fund

(a) On the last Business Day of each month the Trustee shall, after making any transfers that are required by the General Resolution, from the amounts on deposit in the Revenue Fund, make the following deposits in the following order:

(i) To the Operating Fund, the amount necessary to make the amount on deposit therein equal to Operating Expenses for the next succeeding three months, as shown on the Operating Budget.

(ii) To the Debt Service Fund:

(A) on a pro rata basis the amount necessary to make up any deficiency in any Subaccount resulting from an increase in the applicable interest rate on any Variable Rate Bonds over the rate which was assumed in calculating the amount required for a prior deposit pursuant to the General Resolution;

(B) on a pro rata basis to each Subaccount of the Interest Account, after taking into account any available moneys in the corresponding Subaccount of the Capitalized Interest Account if any, the amount necessary to increase the amount on deposit in each such Subaccount so that it equals interest included in Adjusted Debt Service next coming due on Outstanding Bonds of the applicable Series accrued and unpaid and to accrue to and including the last day of the next succeeding month (assuming, in the case of Variable Rate Bonds, no further adjustments in the applicable interest rate);

(C) on a pro rata basis to each Subaccount of the Principal Account the amount necessary to increase the amount on deposit in each such Subaccount so that it equals that portion of the Principal Installment included in Adjusted Debt Service next coming due on Outstanding Bonds of the applicable Series accrued and unpaid and to accrue (assuming such Principal Installment accrues on the same basis as simple interest on a debt) to and including the last day of the next succeeding month; provided, however, that no deposit shall be required to be made with respect to a Bond prior to twelve months before the next Principal Installment coming due on such Bond; and

(D) on a pro rata basis to each Subaccount of the Redemption Account the amount, if any, necessary to increase the amount on deposit in each Subaccount so that it equals the Redemption Price of Outstanding Bonds of the applicable Series then called for redemption (other than from Sinking fund Installments) as of any date on or prior to last day of the next succeeding month, after taking into account amounts on deposit in the applicable Subaccount within the Principal Account, if any, available to pay such Bonds called for redemption.

The Proposed Modifications would revise paragraph (a)(ii) above by adding a new clause (a)(ii)(E), providing as follows:

(E) on a pro rata basis to each Subaccount of the Interest Account established with respect to Regularly Scheduled Qualified Swap Payments relating to a Series of Designated Debt consisting of Bonds, the amount (if any) necessary to increase the amount on deposit in each such Subaccount so that it equals that portion of the Regularly Scheduled Qualified Swap Payment next coming due with respect to such Series of Designated Debt accrued and unpaid and to accrue (assuming such Regularly Scheduled Qualified Swap Payment accrues on the same basis as simple interest on a debt) to and including the last day of the next succeeding month.

The Trustee shall not be required to make any payments into the Debt Service Fund when the aggregate amount of money in the Debt Service Fund and the Debt Service Reserve Fund is at least equal to the amount required to defease the lien of the General Resolution granted to secure payment of Bonds pursuant to the provisions of the General Resolution described under the heading Defeasance.

(iii) To the Subordinated Debt Service Fund deposits determined with respect to Subordinated Bonds in the same manner as the deposits set forth in clause (ii) above with respect to Bonds; provided, that there also shall be paid on a pro rata basis to each Subaccount of the Interest Account established with respect to Regularly Scheduled Qualified Swap Payments relating to a Series of Designated Debt, the amount (if any) necessary to increase the amount on deposit in each such Subaccount so that it equals that portion of the Regularly Scheduled Qualified Swap Payment next coming due with respect to such Series of Designated Debt accrued and unpaid and to accrue (assuming such Regularly Scheduled Qualified Swap Payment accrues on the same basis as simple interest on a debt) to and including the last day of the next succeeding month.

The Trustee shall not be required to make any payments into the Subordinated Debt Service Fund when the aggregate amount of money in the Debt Service Fund and the Debt Service Reserve Fund is at least equal to the amount required to defease the lien of the General Resolution granted to secure payment of Bonds and when the aggregate amount of money in the Subordinated Debt Service Fund and the Subordinated Debt Service Reserve Fund is at least equal to the amount required to defease the lien of the General Resolution granted to secure payment of Subordinated Bonds, all pursuant to the provisions of the General Resolution described under the heading Defeasance.

(iv) To the Debt Service Reserve Fund,

(A) to each Series Subaccount of the Common Account therein one-twelfth (1/12) the amount, if any, necessary to increase the amount on deposit in such Subaccount, determined as of the first day of the Fiscal Year, to an amount equal to the applicable Series Debt Service Reserve Fund Requirement (provided that no such deposit shall be required in a Fiscal Year following the funding of the Common Account in connection with the issuance of a Series of Bonds pursuant to the General Resolution); and

(B) to each such Special Account the deposit required by any Supplemental Resolution.

The Proposed Modifications would revise subparagraph (a)(iv)(A) to read in its entirety as follows:

(A) to the Common Account therein one-twelfth (1/12) the amount, if any, necessary to increase the amount on deposit in such Account, determined as of the first day of the Fiscal Year, to an amount equal to the Debt Service Reserve Fund Requirement (provided that no such deposit shall be required in a Fiscal Year following the funding of the Common Account in connection with the issuance of a Series of Bonds pursuant to the General Resolution); and

- (v) To the Subordinated Debt Service Reserve Fund,
 - (A) to each Series Subaccount of the Common Account therein the amount, if any, necessary to increase the amount on deposit in such Subaccount to the level required by any Supplemental Resolution;

- (B) to each Special Account the deposit required by any Supplemental Resolution.

- (vi) To each Series Subaccount of the General Account of the Community Obligation and Revenue Enhancement Fund one-twelfth (1/12) of the difference between the Supplemental Bond Coverage Requirement with respect to such Series of Bonds and the amount on deposit in such Subaccount on the first day of the Fiscal Year; provided that in addition to the foregoing amount the Authority at its election may, with respect to a series of Bonds issued in such Fiscal Year, deposit in a separate subaccount of the General Account established for such Series an amount equal to the Required Debt Service Deposit with respect to such series for the current month times the Supplemental Bond Coverage Ratio.

The Proposed Modifications would amend subparagraph (vi) to read in its entirety: “(vi) [Reserved]”.

- (vii) To the Commonwealth Obligation Fund, the amount equal to the amount of Commonwealth Obligations (including, without limitation, Special Payment Obligations) payable during the next succeeding month, as shown on the Operating Budget.

- (viii) To the Rebate Fund, the amount of the Rebate Fund Requirement, if any, determined in accordance with the Supplemental Resolution.

- (b) On each December 31 and June 30, or, if such days are not Business Days, on the next preceding Business Day, the Trustee shall, from the amounts on deposit in the Revenue Fund, and after making the deposits referred to in paragraph (a) above, make the following deposits in the following order:

- (i) To the Operating Reserve Fund, one half of the difference between the amount on deposit in such Fund on the first day of the current Fiscal Year and the Operating Reserve Fund Requirement for the current Fiscal Year.

- (ii) To the Insurance Reserve Fund, one half of the difference between the amount on deposit in such Fund on the first day of the current Fiscal Year and the Insurance Reserve Fund Requirement for the current Fiscal Year.

- (iii) To the Renewal and Replacement Reserve Fund, one half of the difference between the amount on deposit in such Fund on the first day of the current Fiscal Year and Renewal and Replacement Reserve Requirement for the current Fiscal Year.

- (iv) To the Water Pollution Abatement Fund, the amount necessary to increase the amount on deposit therein so that it equals the amount of Water Pollution Abatement Obligations payable during the next six months, as certified by an Authorized Representative of the Authority.

- (v) To the Revolving Loan Fund, such amount as the Authority may from time to time determine.

- (vi) Subject to the provisions of paragraph (c) below, the General Fund, any moneys remaining after making the deposits set forth above.

- (c) On any June 30 and December 31 on which deposits are to be made pursuant to (b) above, after making the deposits required by clauses (i)-(v) of paragraph (b) above, the Trustee, on direction of an Authorized Representative, shall retain all or portion of the remaining moneys in the Revenue Fund to provide additional moneys for deposits required under paragraph (a) above during the next six months. (Section 506)

Operating Fund

The Operating Fund shall be established as one or more accounts with one or more banks or trust companies, as the Authority shall determine, which shall be Depositories. Moneys held in the Operating Fund shall be applied by the Authority to the payment of Operating Expenses in accordance with the Operating Budget. Moneys in the Revenue Fund and the Operating Reserve Fund shall be paid by the Trustee to the Authority for deposit into the Operating Fund pursuant to the General Resolution. If on any June 30, or, if such day is not a Business Day, on the next preceding Business Day, the amount on deposit in the Operating Fund exceeds the amount equal to the next three months of Operating Expenses as shown on the Authority's Operating Budget then such excess shall be transferred to the Revenue Fund. (Section 507)

Debt Service Fund

(a) The Trustee shall, for each Series of Bonds Outstanding, pay (i) on each Bond Payment Date, from the moneys on deposit in the applicable Subaccounts within the Principal Account and Interest Account of the Debt Service Fund the amounts required for the payment of the Principal Installments and for the payment of interest, respectively, due on such Date; (ii) on any redemption date other than for sinking fund redemption, from the applicable Subaccounts within the Interest Account and Redemption Account of the Debt Service Fund the amounts required for the payment of accrued interest and for the payment of principal of and premium, if any, respectively, on Bonds to be redeemed; and (iii) on any date of purchase, from the applicable Subaccounts within the Principal Account and of the Debt Service Fund, the amounts required for the payment of principal and interest, respectively, of any Bonds to be purchased to the extent sufficient amounts are not available therefor under a Credit Facility in accordance with the applicable Supplemental Resolution.

(b) The amounts accumulated in the applicable Subaccount within the Principal Account of the Debt Service Fund for each Sinking Fund Installment shall, at the direction of an Authorized Representative of the Authority, be applied (together with amounts in the applicable Subaccount within the Interest Account of the Debt Service Fund with respect to interest on the Bonds for which such Sinking Fund Installment was established) by the Trustee at the written direction of the Authority prior to the forty-fifth day preceding the due date of such Sinking Fund Installment as follows:

(1) to the purchase of Bonds of the Series and maturity for which such Sinking Fund Installment was established, at prices (including any brokerage and other charges) not exceeding the Redemption Price payable for such Bonds when such Bonds are redeemable by application of such Sinking Fund Installment plus unpaid interest accrued to the date of purchase; or

(2) to the redemption of such Bonds, if then redeemable by their terms, at or below the Redemption Price referred to in clause (1) above;

provided, however, that the Trustee shall not call for redemption or purchase any Bonds pursuant to this paragraph (b) which have already been called for redemption pursuant to the provisions of the General Resolution.

(c) Upon the purchase or redemption of any Bond pursuant to paragraph (b) above, an amount equal to the principal amount of the Bond so purchased or redeemed shall be credited toward the next Sinking Fund Installment thereafter to become due and the amount of any excess of the amounts so credited over the amount of such Sinking Fund Installment shall be credited against future Sinking Fund Installments in direct chronological order.

(d) As soon as practicable after the forty-fifth day preceding the due date of any such Sinking Fund Installment, the Trustee shall proceed to call for redemption, pursuant to the General Resolution, on such due date Bonds of the Series and maturity for which such Sinking Fund Installment was established in the amount of such Sinking Fund Installment. The Trustee shall so call such Bonds for redemption whether or not it then has moneys in the Debt Service Fund sufficient to pay the applicable Redemption Price thereof on the redemption date. (Section 508)

Priority of Funds in Event of Debt Service Fund Shortfall

If on any Bond Payment Date there shall be insufficient monies available in the applicable Subaccount within the applicable Account in the Debt Service Fund to provide for payment of the Principal Installments of or interest on any Series of Bonds then due, after drawing any moneys available for such purpose from any applicable Credit Facility or Special Account in the Debt Service Reserve Fund, the Trustee shall withdraw and apply the necessary moneys to provide for such insufficiency from the following Funds and Accounts in the following order: (i) amounts in the Redemption Account not yet committed to the redemption of Bonds, (ii) the General Fund, (iii) amounts in the Revolving Loan Fund not yet committed to loans to Local Bodies, (iv) the Rate Stabilization Fund, (v) the Water Pollution Abatement Fund, (vi) the Renewal and Replacement Reserve Fund, (vii) the Insurance Reserve Fund, (viii) the Operating Reserve Fund, (ix) the Commonwealth Obligation Fund, (x) the Reserve Account of the Community Obligation and Revenue Enhancement Fund, (xi) the General Account of the Community Obligation and Revenue Enhancement Fund, (xii) the Common Account in the Debt Service Reserve Fund, (xiii) the Subordinated Debt Service Fund, (xiv) the Cost of Issuance Fund and (xv) the Construction Fund. (Section 508(e))

The Proposed Modifications would amend each of clauses (x) and (xi) above to read as follows: “[Reserved]”

The Proposed Modifications would add a new Section 508(f), reading as follows:

(f) In connection with the issuance or maintenance of any Designated Debt consisting of Bonds, the Authority may establish within the Interest Account of the Debt Service Fund one or more Subaccounts for the purpose of holding funds to be applied to the payment of Regularly Scheduled Qualified Swap Payments relating to such Designated Debt. Such moneys shall be applied by the Trustee, at the direction of the Authority, to the payment of such Regularly Scheduled Qualified Swap Payments.

Subordinated Debt Service Fund

(a) The Trustee shall, for each Series of Subordinated Bonds Outstanding, make payments similar to those set forth with respect to Bonds under the heading Debt Service Fund. The Trustee shall also apply moneys in the Subordinated Debt Service Fund as set forth under the heading Priority of Funds in Event of Debt Service Fund Shortfall. Moneys in the Subordinated Debt Service Fund shall also be transferred to the Note Payment Fund and applied to the payment of interest on notes issued pursuant to the terms described under the heading Bond Anticipation Notes to the extent provided in any Supplemental Resolution authorizing such notes.

(b) The amounts accumulated in the applicable Subaccount within the Principal Account of the Subordinated Debt Service Fund for each Sinking Fund Installment may be applied (together with amounts in the applicable Subaccount within the Interest Account of the Subordinated Debt Service Fund with respect to interest on the Subordinated Bonds for which such Sinking Fund was established) by the Trustee to the purchase or redemption of Subordinated Bonds of the Series and maturity for which such Sinking Fund Installment was established in the same manner as moneys in the Debt Service Fund may be applied to Bonds as set forth in paragraph (b) under the heading Debt Service Fund. Upon such purchase or redemption, an amount equal to the principal amount of the Subordinated Bond so purchased or redeemed shall be credited toward the next Sinking Fund Installment thereafter to become due and the amount of any excess of the amounts so credited over the amount of such Sinking Fund Installment shall be credited against future Sinking Fund Installments in direct chronological order.

(c) As soon as practicable after the forty-fifth day preceding the due date of any such Sinking Fund Installment, the Trustee shall proceed to call for redemption on such due date Subordinated Bonds of the Series and maturity for which such Sinking Fund Installment was established in the amount of such Sinking Fund Installment. The Trustee shall so call such Subordinated Bonds for redemption whether or not it then has moneys in the Subordinated Debt Service Fund sufficient to pay the applicable Redemption Price thereof on the redemption date.

(d) In connection with the issuance or maintenance of any Designated Debt, the Authority may establish within the Interest Account of the Subordinated Debt Service Fund one or more Subaccounts for the purpose of holding funds to be applied to the payment of Regularly Scheduled Qualified Swap Payments relating to

such Designated Debt. Such moneys shall be applied by the Trustee, at the direction of the Authority, to the payment of such Regularly Scheduled Qualified Swap Payments. (Section 509)

Priority of Funds in Event of Subordinated Debt Service Fund Shortfall

If on any Subordinated Bond Payment Date there shall be insufficient moneys available in the applicable Subaccount within the applicable Account in the Subordinated Debt Service Fund to provide for payment of the Principal Installments of or interest on any Series of Subordinated Bonds then due, after drawing any moneys available for such purpose from any applicable Credit Facility or Special Account in the Subordinated Debt Service Reserve Fund, subject to any transfers to be made on such date pursuant the terms described under the heading Priority of Funds in Event of Debt Service Fund Shortfall, the Trustee shall withdraw and apply the necessary moneys to provide for such insufficiency from the following Funds and Accounts in the following order: (i) amounts in the Redemption Account of the Subordinated Debt Service Fund not yet committed to the redemption of Bonds, (ii) the General Fund, (iii) amounts in the Revolving Loan Fund not yet committed to loans to Local Bodies, (iv) the Rate Stabilization Fund, (v) the Water Pollution Abatement Fund, (vi) the Renewal and Replacement Reserve Fund, (vii) the Insurance Reserve Fund, (viii) the Operating Reserve Fund, (ix) the Commonwealth Obligation Fund, (x) the Reserve Account in the Community Obligation and Revenue Enhancement Fund, (xi) the General Account in the Community Obligation and Revenue Enhancement Fund, (xii) the Common Account in the Subordinated Debt Service Reserve Fund, (xiii) the Costs of Issuance Fund and, (xiv) the Construction Fund. (Section 509(e))

The Proposed Modifications would amend clauses (x) and (xi) to each read as follows: “[Reserved]”.

Debt Service Reserve Fund

(a) Amounts on deposit in each of the Subaccounts within the Common Account in the Debt Service Reserve Fund shall be applied on a pro rata basis, based on various Series Debt Service Reserve Fund Requirements, to the extent other funds are not available therefor pursuant to the General Resolution, solely to pay the Principal Installments of and interest on the Bonds when due. Amounts on deposit in each of the Special Accounts in the Debt Service Reserve Fund shall be applied, to the extent other funds are not available therefor pursuant to the General Resolution, solely to pay the Principal Installments of and interest on the Bonds of the Series to which such Special Account relates as and when specified in the applicable Supplemental Resolution.

The Proposed Modifications would delete from the first sentence the words “based on various Series Debt Service Reserve Fund Requirements.”

(b) On each June 30 any excess in the Common Account or any Special Account shall be deposited into the applicable Subaccount of the Debt Service Fund.

The Proposed Modifications would amend this provision to read as follows:

(b) If, as of June 30, or, if such day is not a Business Day, on the next preceding Business Day, the amount in the Common Account exceeds the Debt Service Reserve Fund Requirement for the Fiscal Year then ending after giving effect to any Financial Guaranty deposited in the Common Account, the Trustee shall withdraw from the Common Account the amount of any excess therein as of the date of such withdrawal and deposit the moneys so withdrawn (i) if and to the extent that such excess occurred on account of a reduction of the Debt Service Reserve Fund Requirement or the deposit of a Financial Guaranty, into the Redemption Account of the Debt Service Fund or the Redemption Account of the Subordinated Debt Service Fund, as the Authority shall direct, to be applied to the redemption of Secured Bonds and (ii) otherwise, first into the Interest Account of the Debt Service Fund until the amount on deposit therein is equal to the next deposit required to be made to such Account pursuant to the provisions of the General Resolution described in paragraph (a) under the heading Flow of Funds from the Revenue Fund and second to the Principal Account of the Debt Service Fund until the amount on deposit therein is equal to the next deposit required to be made to such Account pursuant to the provisions of the General Resolution described in paragraph (a) under the heading Flow of Funds from the Revenue Fund. Any balance of such excess remaining shall be applied as provided in the previous sentence with respect to deposits required pursuant to the provisions of

the General Resolution described in paragraph (a) under the heading Flow of Funds from the Revenue Fund for as many succeeding months as is necessary to fully apply such excess. If, as of June 30, or, if such day is not a Business Day, on the next preceding Business Day, the amount in any Special Account exceeds its requirement under the applicable Supplemental Resolution for the Fiscal Year then ending, after giving effect in the case of each such Account to any Financial Guaranty deposited in such Account, the Trustee shall withdraw from such Account the amount of any excess therein as of the date of such withdrawal and deposit the moneys so withdrawn (i) if and to the extent that such excess occurred on account of a reduction of a reserve requirement or the deposit of a Financial Guaranty, into the Redemption Account of the Debt Service Fund or the Redemption Account of the Subordinated Debt Service Fund, as the Authority shall direct, to be applied to the redemption of Secured Bonds and (ii) otherwise, first into the applicable Subaccount of the Interest Account of the Debt Service Fund until the amount on deposit therein is equal to the next deposit required to be made to such Subaccount pursuant to the General Resolution and second to the related Subaccount of the Principal Account of the Debt Service Fund until the amount on deposit therein is equal to the next deposit required to be made to such Subaccount pursuant to the provisions of the General Resolution described in paragraph (a) under the heading Flow of Funds from the Revenue Fund. Any balance of such excess remaining shall be applied as provided in the previous sentence with respect to deposits required pursuant to the provisions of the General Resolution described in paragraph (a) under the heading Flow of Funds from the Revenue Fund for as many succeeding months as is necessary to fully apply such excess.

(c) Whenever the amount (exclusive of Financial Guaranties) in all of the Accounts in the Debt Service Reserve Fund, together with the amount in the Debt Service Fund, is sufficient to pay all Outstanding Series of Bonds in accordance with their respective terms, the funds on deposit in the Debt Service Reserve Fund shall be transferred to the Debt Service Fund and applied to the redemption or payment at maturity of all Bonds Outstanding.

(d) In lieu of the required deposits and transfers to any Account in the Debt Service Reserve Fund, the Authority may cause to be deposited in any such Account Financial Guaranties. The Financial Guaranties shall be payable (upon the giving of notice as required under the General Resolution) on any date on which moneys will be required to be withdrawn from the applicable Account in the Debt Service Reserve Fund and such withdrawal cannot be met by moneys on deposit in the applicable Account. If a disbursement is made pursuant to Financial Guaranties, the Authority shall be obligated either (i) to reinstate the maximum limits of such Financial Guaranties or (ii) to deposit into the applicable Account, funds in the amount of the disbursement made under such Financial Guaranties.

(e) In the event of the refunding of any Bonds, the Trustee shall, upon the written direction of the Authority, withdraw from the Subaccount and Account related to the Bonds to be refunded all or any portion of the amounts accumulated therein with respect to the Bonds to be refunded and deposit such amounts as provided in such written direction; provided that such withdrawal shall not be made unless (i) immediately thereafter the bonds being refunded shall be deemed to have been paid pursuant to the General Resolution, and (ii) after giving effect to any amounts being simultaneously deposited therein, the amount remaining in each Subaccount and Account after such withdrawal shall not be less than the applicable Requirement. (Section 510)

Subordinated Debt Service Reserve Fund

Moneys in the Subordinated Debt Service Reserve Fund shall be applied to the Subordinated Bonds in a manner similar to the application of moneys in the Debt Service Reserve Fund to payment of Bonds. (Section 511)

Commonwealth Obligation Fund

Moneys in the Commonwealth Obligation Fund shall be transferred to the Commonwealth to satisfy Commonwealth Obligations due and payable by the Authority; provided that moneys in such Fund which are to be applied to Special Payment Obligations shall be transferred as directed by a Certificate of an Authorized Representative. The Trustee shall also apply moneys in the Commonwealth Obligation Fund as provided under the headings Priority of Funds in Event of Debt Service Fund Shortfall and Priority of Funds in Event of Subordinated Debt Service Fund Shortfall. If as of any June 30, the amount on deposit in the Commonwealth Obligation Fund is in excess of the amount payable on the Commonwealth Obligations in the Fiscal Year then ending then such excess shall be transferred to the Revenue Fund. (Section 512)

Community Obligation and Revenue Enhancement Fund

(a) Moneys on deposit in the General Account of the Community Obligation and Revenue Enhancement Fund shall be transferred to the Reserve Account of such Fund in the event of a Local Body Default, in an amount equal to the amount of such defaulted payment. The Trustee shall also apply moneys in the Community Obligation and Revenue Enhancement Fund as provided under the headings Priority of Funds in Event of Debt Service Fund Shortfall and Priority of Funds in Event of Subordinated Debt Service Shortfall. Transfers from the Community Obligation and Revenue enhancement Fund shall be allocated to each Series Subaccount therein on a pro rata basis based on the Required Debt Service Fund Deposits for the related Series of Bonds.

(b) In the event that an overdue payment which has been certified as a Local Body Default is received by the Authority, in part or in whole, from the Local Body which had defaulted after a transfer of funds pursuant to paragraph (a) above, the Authority shall promptly pay such amount to the Trustee and identify it appropriately and the Trustee shall (i) deposit such amount to the Revenue Fund and (ii) transfer moneys on deposit in the Reserve Account of the Community Obligation and Revenue Enhancement Fund equal to the amount of such overdue payment received to the General Account of the Fund. In addition, if the Authority shall have complied with the requirements described in paragraph (a) under the heading Non-Payment of Rates, Certification to Commonwealth Treasurer with respect to a Local Body Default and an allowance shall have been included in the Rates and Charges as contemplated therein, as certified by the Authority, on the last Business Day of the Fiscal Year in which such assessment is made, the Trustee shall transfer moneys on deposit in the Reserve Account of the Fund equal to the amount of such Default to the General Account of the Fund.

(c) So long as the Authority shall diligently comply, or be diligently proceeding to comply, with the requirements described in paragraph (a) under the heading Non-Payment of Rates, Certification to Commonwealth Treasurer, amounts on deposit in the Reserve Account of the Community Obligation and Revenue Enhancement Fund relating to a Local Body Default as well as in the General Account of such Fund shall be taken into account for the purposes of calculating the balance therein, the Combined Bond Coverage Requirement and the provisions described under the heading Trust Combined Debt Service Coverage Ratio. If the Authority shall not so comply, or be diligently proceeding to comply, with respect to a Local Body Default, however, amounts on deposit in the Reserve Account of the Fund which relate to such Local Body Default shall not be so taken into account.

(d) If, as of any June 30, or, if such day is not a Business Day, on the next preceding Business Day, the amount on deposit in any Subaccount of the Community Obligation and Revenue Enhancement Fund shall exceed the Supplemental Bond Coverage Requirement for such Series for the Fiscal Year then ending, such excess shall be withdrawn and transferred to the related Subaccount of the Debt Service Fund.

(e) In the event of the refunding of any Bonds, the Trustee shall, upon the written direction of the Authority, withdraw from the Subaccount and Account of the Community Obligation and Revenue Enhancement Fund related to the Bonds to be refunded all or any portion of the amounts accumulated therein with respect to the Bonds to be refunded and deposit such amounts first, if Bonds have been issued to refund the Bonds being refunded, to fund the corresponding Subaccount and Account of the Community Obligation and Revenue Enhancement Fund established with respect to the refunding Bonds, up to an amount equal to the Supplemental Bond Coverage Requirement for such refunding Bonds for the next Fiscal Year, second, as provided for excesses in such Subaccount in paragraph (d) above, and third, as provided in such written direction; provided that such withdrawal shall not be made unless (i) immediately thereafter the Bonds being refunded shall be deemed to have been paid pursuant to the General Resolution, and (ii) after giving effect to any amounts being simultaneously deposited therein, the amount remaining in each Subaccount and Account of the Community Obligation and Revenue Enhancement Fund after such withdrawal shall not be less than the applicable Requirement. In giving effect to clause (ii) on the preceding sentence, the Authority shall determine the applicable Requirement for any Subaccount established with respect to a Series of Bonds all or a portion of which are being refunded by calculating the Requirement as if the Bonds which are being refunded had been refunded on the last day of the preceding Fiscal Year. (Section 513)

The Proposed Modifications would delete Section 513 relating to the Community Obligation and Revenue Enhancement Fund in its entirety and Section 513 would be reserved.

Certain Notices

So long as the SRF Bonds are outstanding, the Authority agrees to provide to the Trust notice of any draw pursuant to the provisions described under the heading Priority of Funds in Event of Debt Service Fund Shortfall or Priority of Funds in Event of Subordinated Debt Service Fund Shortfall or any draw on the Community Obligation and Revenue Enhancement Fund or Debt Service Reserve Fund for the purpose of paying debt service on any Secured Bond. (Sixth Supplemental Resolution Section 308)

Operating Reserve Fund

(a) Moneys in the Operating Reserve Fund shall be transferred to the Operating Fund to be applied to the payment of Operating Expenses upon delivery of a Certificate of an Authorized Representative of the Authority to the effect that moneys on deposit in the Operating Fund are insufficient therefor. The Trustee shall also apply moneys in the Operating Reserve Fund as provided under the headings Priority of Funds in Event of Debt Service Fund Shortfall and Priority of Funds in Event of Subordinated Debt Service Fund Shortfall.

(b) If on any December 31 or June 30 Revenues are insufficient to make the deposits to the Operating Reserve Fund required to be made from the Reserve Fund, or if on any date the Authority delivers a Certificate to the Trustee to the effect that moneys in the Operating Fund and the Operating Reserve Fund are insufficient to meet Operating Expenses then due and payable then, subject to any transfers to be made on such date provided under the headings Priority of Funds in Event of Debt Service Fund Shortfall and Priority of Funds in Event of Subordinated Debt Service Fund Shortfall, the Trustee shall withdraw and apply the necessary moneys to provide for such insufficiency from the following Funds and Accounts in the following order: (i) the General Fund; (ii) amounts in the Revolving Loan Fund not yet committed to loans to Local Bodies; (iii) the Rate Stabilization Fund; (iv) the Water Pollution Abatement Fund; (v) the Renewal and Replacement Reserve Fund; and (vi) the Insurance Reserve Fund. On each June 30, excesses in the Operating Reserve Fund shall be transferred to the Revenue Fund. (Section 514)

Insurance Reserve Fund

(a) Moneys in the Insurance Reserve Fund may be applied by the Authority only to the purpose and in the manner provided for the proceeds of insurance set forth in the General Resolution. The Trustee shall also apply moneys in the Insurance Reserve Fund as provided under the headings Priority of Funds in Event of Debt Service Fund Shortfall and Priority of Funds in Event of Subordinated Debt Service Fund Shortfall.

(b) If on any day on which a transfer from the Revenue Fund to the Insurance Reserve Fund is required pursuant to the General Resolution Revenues are insufficient to make the deposits to the Insurance Reserve Fund required by General Resolution to be made from the Revenue Fund, or if on any date the Authority delivers a Certificate to the Trustee to the effect that moneys in the Insurance Reserve Fund are insufficient to meet claims properly payable from such Fund then due and payable then, subject to any transfers to be made on such date provided under the headings Priority of Funds in Event of Debt Service Fund Shortfall, Priority of Funds in Event of Subordinated Debt Service Fund Shortfall and Operating Reserve Fund, the Trustee shall withdraw and apply the necessary moneys to provide for such insufficiency from the following Funds and Accounts in the following order: (i) the General Fund; (ii) amounts in the Revolving Loan Fund not yet committed to loans to Local Bodies; (iii) the Rate Stabilization Fund; (iv) the Water Pollution Abatement Fund and (v) the Renewal and Replacement Reserve Fund. On each June 30 excesses in the Insurance Reserve Fund shall be transferred to the Revenue Fund. (Section 515)

Renewal and Replacement Reserve Fund

(a) Moneys in the Renewal and Replacement Reserve Fund shall be applied as hereinafter provided to the Cost of any Capital Improvement which is not provided for by moneys available in the Construction Fund or the Operating Fund. The Trustee shall withdraw from such Fund and deposit in one or more special separate Subaccounts established for such purpose in the Construction Fund or, if the Authority has by resolution determined to subsequently finance such Capital Improvement by the issuance of Secured Bonds in a Subaccount relating to

such Secured Bonds, any amount requested by the Authority but only upon receipt of a certificate of an Authorized Representative (i) specifying the Capital Improvement to which such amount will be applied, its estimated Cost and estimated completion date and (ii) certifying (a) that such Capital Improvement is reasonably required for the continued operation of the System or the maintenance of Revenues, (b) that all or a portion of the Cost of such Capital Improvement was not included in the Cost of Capital Improvements to be financed in whole or in part from the Operating Fund and (c) that only the Cost of such Capital Improvement that is in excess of the amounts available therefor in such Fund, is being or has previously been requisitioned from the Renewal and Replacement Reserve Fund. Upon completion of such Capital Improvement, any amount so deposited and not necessary to pay the Cost of such Capital Improvement shall be redeposited in the Renewal and Replacement Reserve Fund. The Trustee shall also apply moneys in the Renewal and Replacement Reserve Fund as provided under the headings Priority of Funds in the Event of Debt Service Fund Shortfall, Priority of Funds in Event of Subordinated Debt Service Shortfall, Operating Reserve Fund and Insurance Reserve Fund.

(b) If on any day on which a transfer from the Reserve Fund to the Renewal and Replacement Reserve Fund is required provided under the headings Priority of Funds in Event of Debt Service Fund Shortfall, Priority of Funds in Event of Subordinated Debt Service Shortfall, Operating Reserve Fund and Insurance Reserve Fund Revenues are insufficient to make the deposits to the Renewal and Replacement Reserve Fund required to be made from the Revenue Fund, or if on any date the Authority delivers a Certificate to the Trustee to the effect that moneys in the Renewal and Replacement Reserve Fund are insufficient to meet the Costs of a Capital Improvement to be funded as described in paragraph (a) above then due and payable then, subject to any transfers to be made on such date provided under the headings Priority of Funds in Event of Debt Service Fund Shortfall, Priority of Funds in Event of Subordinated Debt Service Shortfall, Operating Reserve Fund and Insurance Reserve Fund, the Trustee shall withdraw and apply the necessary moneys to provide for such insufficiency from the following Funds and Accounts in the following order: (i) the General Fund; (ii) amounts in the Revolving Loan Fund not yet committed to loans to Local Bodies; (iii) the Rate Stabilization Fund and (iv) the Water Pollution Abatement Fund.

(c) On each June 30, excesses in the Renewal and Replacement Fund shall be transferred to the Revenue Fund or shall be retained in the Renewal and Replacement Fund upon the delivery of a Certificate of an Authorized Representative of the Authority to the effect that such amounts being retained are necessary to meet the Costs of Capital Improvements properly payable from such Fund as described in paragraph (a) above. (Section 516)

The Proposed Modifications would amend paragraph (c) as follows:

(c) If on any June 30 or, if such day is not a Business Day, on the next preceding Business Day, the amount in the Renewal and Replacement Fund is in excess of the Renewal and Replacement Reserve Cash Requirement for the Fiscal Year then ending, such excess shall be transferred to the Revenue Fund or shall be retained in the Renewal and Replacement Reserve Fund upon the delivery of a Certificate of an Authorized Representative of the Authority to the effect that such amounts being retained are necessary to meet the Costs of Capital Improvements properly payable from such Fund as described in paragraph (a) above.

Water Pollution Abatement Fund

(a) Moneys in the Water Pollution Abatement Fund shall be transferred as directed by the Authority for the payment of Water Pollution Abatement Obligations upon receipt by the Trustee of the Certificate of an Authorized Representative that moneys in respect to Water Pollution Abatement Obligations are due and payable by the Authority. The Trustee shall also apply moneys in the Water Pollution Abatement Fund as described under the headings Priority of Funds in Event of Debt Service Fund Shortfall, Priority of Funds in Event of Subordinated Debt Service Fund Shortfall, Operating Reserve Fund, Insurance Reserve Fund and Renewal and Replacement Reserve Fund.

(b) On each June 30, excesses in the Water Pollution Abatement Fund shall be transferred to the Revenue Fund. (Section 516A)

Rate Stabilization Fund

Moneys shall be transferred to the Rate Stabilization Fund from the General Fund as provided in the General Resolution. Moneys in the Rate Stabilization Fund may be transferred to a separate Subaccount of the Construction Fund upon receipt of a Certificate of an Authorized Representative to the effect that such moneys are necessary to pay the Costs of Projects for which no other funds in the Construction Fund are available. Moneys in the Rate Stabilization Fund shall be transferred to the Revenue Fund upon delivery to the Trustee of a Certificate of an Authorized Representative of the Authority or in accordance with the provisions of an Operating Budget. The Trustee shall also apply moneys in the Rate Stabilization Fund as described under the headings Priority of Funds in Event of Debt Service Fund Shortfall, Priority of Funds in Event of Subordinated Debt Service Fund Shortfall, Operating Reserve Fund, Insurance Reserve Fund and Renewal and Replacement Reserve Fund. Moneys in the Rate Stabilization Fund shall also be transferred to the Note Payment Fund and applied to the payment of principal of and interest on Bond Anticipation Notes to the extent provided in any Supplemental Resolution authorizing such notes. (Section 517)

Revolving Loan Fund

Moneys in the Revolving Loan Fund shall be used to make loans on such terms and conditions as the Authority may deem appropriate to Local Bodies receiving water or sewer service from the Authority for the purpose of financing capital improvements to be made to the water distribution and waste-water collection systems of such Local Bodies. Repayments of principal and interest on such loans shall be transferred upon receipt by the Authority to the Trustee and deposited in the Revolving Loan Fund unless the Authority shall instruct the Trustee that repayments of interest on such loans are to be deposited in the Revenue Fund. Any such interest payments deposited in the Revenue Fund shall be deemed "Revenues." Any such loans and repayments, together with any notes or other instruments evidencing such loans and any security provided therefor and the rights to receive such repayments, and any amounts on deposit in the Revolving Loan Fund committed to funding such loans may be pledged as security for any Indebtedness incurred pursuant to the General Resolution for the purpose of funding such loans. The Trustee shall also apply moneys in the Revolving Loan Fund as described under the headings Priority of Funds in Event of Debt Service Fund Shortfall, Priority of Funds in Event of Subordinated Debt Service Fund Shortfall, Operating Reserve Fund, Insurance Reserve Fund and Renewal and Replacement Reserve Fund. (Section 518)

General Fund

(a) Moneys in the General Fund shall be transferred to the Rate Stabilization Fund upon delivery to the Trustee of a Certificate of an Authorized Representative of the Authority (i) to the effect that, for the previous Fiscal Year, the requirements of the Combined Bond Coverage Requirement shall have been satisfied and (ii) setting forth the amount of Revenues Available for Bond Debt Service for such period in excess of Combined Bond Coverage Requirement for such period which are then on deposit in the General Fund to be transferred by the Trustee to the Rate Stabilization Fund, provided that the transfer shall not be in an amount greater than such excess. The Trustee shall also transfer moneys in the General Fund to a separate subaccount of the Construction Fund upon receipt of a Certificate of an Authorized Representative to the effect that such moneys are necessary to pay the Costs of Projects for which no other funds in the Construction Fund are available. Moneys in the General Fund may also be transferred to the Redemption Account and applied to the redemption of Secured Bonds. The Trustee shall also apply moneys in the General Fund as described under the headings Priority of Funds in Event of Debt Service Fund Shortfall, Priority of Funds in Event of Subordinated Debt Service Fund Shortfall, Operating Reserve Fund, Insurance Reserve Fund and Renewal and Replacement Reserve Fund. Moneys in the General Fund shall also be transferred to the Note Payment Fund and applied to the payment of principal of and interest on Bond Anticipation Notes to the extent provided in any Supplemental Resolution authorizing such notes.

The Proposed Modifications would amend this provision by deleting the reference to the "Combined Bond Coverage Requirement" in clause (ii) of the first sentence and replacing it with a reference to the "Primary Bond Coverage Requirement."

(b) On any date, subject to the requirements of the shortfall provisions of the Debt Service Fund, the Subordinated Debt Service Fund, the Operating Reserve Fund, the Insurance Reserve Fund and the Renewal and

Replacement Reserve Fund, the Authority may, by a Certificate of its Authorized Representative and without any further showing, direct that moneys be transferred from the General Fund to any Fund or Account established under the General Resolution other than the Revenue Fund, the Operating Fund, the Principal and Interest Accounts in the Debt Service Fund and the Rate Stabilization Fund. (Section 519)

Note Payment Fund

(a) The Authority shall deposit into a separate account the Note Payment Fund the proceeds of any Secured Bonds issued to provide for the payment of Bond Anticipation Notes of the Authority as directed by the Supplemental Resolution for such Secured Bonds and shall deposit amounts transferred pursuant to the General Resolution as described in paragraph (a) under the heading Subordinated Debt Service Fund and paragraph (a) under the heading General Fund.

(b) Moneys on deposit in a subaccount of the Note Payment Fund shall be applied to the payment of the Bond Anticipation Notes with respect to which such subaccount was established upon receipt by the Trustee of a Certificate of the Authority as required by General Resolution. Any moneys remaining in a subaccount of the Note Payment Fund after payment of the Bond Anticipation Notes with respect to which such account was established shall be transferred to and deposited in a separate subaccount established within the Construction Fund. (Section 520)

Depositaries

All moneys or securities held by the Trustee under the provisions of the General Resolution shall constitute trust funds and the Trustee may, and shall, if directed in writing by an Authorized Representative of the Authority, deposit such moneys or securities with one or more Depositaries in trust for the Trustee. Moneys or securities in the Operating Fund shall be deposited by the Authority with one or more Depositaries in trust for the authority. All moneys or securities deposited under the provisions of the General Resolution with the Trustee or any Depository shall be held in trust and applied only in accordance with the provisions of the General Resolution, and each of such Funds established by the General Resolution shall be a trust fund for the purposes thereof. Each Depository holding moneys or securities in trust for the Trustee shall be a bank or trust company organized under the laws of the Commonwealth or a national banking association (having its principal office with the Commonwealth), having capital stock, surplus and undivided earnings aggregating at least \$100,000,000 (or such greater amount as set forth in a Supplemental Resolution) and willing and able to accept the office on reasonable and customary terms and authorized by law to act in accordance with the provisions of the General Resolution. (Section 521)

Investment of Certain Funds

(a) Moneys held in the Debt Service Fund, the Subordinated Debt Service Fund, and the Note Payment Fund shall be invested and reinvested by the Trustee to the fullest extent practicable in Investment Securities of the type described in clause (a), (b), (c), (d), (f), (h), (i), (j), (k), (l) or (m) of the definition of Investment Securities in the General Resolution. Moneys held in the Debt Service Reserve Fund, the Subordinated Debt Service Reserve Fund, and the Community Obligation and Revenue Enhancement Fund, shall be invested and reinvested by the Trustee to the fullest extent practicable in Investment Securities of the type described in clause (a), (b), (c), (d), (i), (j), (k), (l) or (m) of the definition of Investment Securities which mature not later than fifteen years from the date of such investment. Moneys held in any other Fund or Account established under the General Resolution may be invested and reinvested in Investment Securities. The Trustee shall make all such investments of moneys held by it in accordance with written instructions from any Authorized Representative of the Authority, which may for this purpose include one or more investment advisors designated in writing by such Representative from time to time. In making any investment in any Investment Securities with moneys in any Fund or Account established under the General Resolution, the Authority and the Trustee may combine such moneys with moneys in any other Fund or Account. Moneys in any Fund or Account shall be invested so as to mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such Fund or Account.

The Proposed Modifications would revise Section 523(a) by amending the first and second sentences thereof to provide as follows:

Moneys held in the Debt Service Fund, the Subordinated Debt Service Fund and the Note Payment Fund shall be invested and reinvested by the Trustee to the fullest extent practicable in Investment Securities (other than those of the type described in subparagraph (e) of the definition of Investment Securities in the General Resolution) which mature not later than at such times as shall be necessary to provide moneys when needed for payments to be made from such Funds. Subject to the provisions of the General Resolution, moneys held in the Debt Service Reserve Fund and the Subordinated Debt Service Reserve Fund shall be invested and reinvested by the Trustee to the fullest extent practicable in Investment Securities (other than those of the type described in subparagraph (e) of the definition of Investment Securities in the General Resolution) which mature not later than at such times as shall be necessary to provide moneys when needed for payment to be made from such Funds.

(b) Interest and other investment earnings on any moneys or investments in the Funds and Accounts, other than the Construction Fund, the Operating Fund, the Note Payment Fund, the Debt Service Fund, the Debt Service Reserve Fund, the Subordinated Debt Service Reserve Fund and the Community Obligation and Revenue Enhancement Fund shall be paid into the Revenue Fund on the last Business Day of each month. Interest and other investment earnings on any moneys or investments in the Operating Fund, the Debt Service Fund, the Subordinated Debt Service Fund and the Note Payment Fund shall be retained in the Fund in which such earnings accrued; provided that the Authority may direct that the earnings on moneys in the Operating Fund may be deposited in the Revenue Fund. Interest and other investment earnings on any moneys or investments in the Debt Service Fund, the Debt Service Reserve Fund, and the Community Obligation and Revenue Enhancement Fund shall be paid on the last Business Day of each month, first to the Interest Account of the Debt Service Fund and second to the Principal Account of the Debt Service Fund; and interest and any other investment earnings on the Subordinated Debt Service Reserve Fund shall be paid on the last Business Day of each month, first to the Interest Account of the Subordinated Debt Service Fund and second to the Principal Account of the Subordinated Debt Service Fund; provided, however, that the Authority may direct that investment earnings on any moneys or investments in the Debt Service Fund, Community Obligation and Revenue Enhancement Fund or the Subordinated Debt Service Reserve Fund may be deposited for such period of time as the Authority may determine in the Revenue Fund or the Construction Fund if the authority shall obtain a Bond Counsel's Opinion to the effect that such application of earnings shall not adversely affect the exclusion of interest on any Tax Exempt Indebtedness from gross income of the holder for federal income tax purposes. Interest and other investment earnings on any other moneys of investments in Construction Fund attributable to any subsequent series of Secured Bonds shall be paid on the last Business Day of each month, to the related Subaccounts of the Debt Service Fund (or the Subordinated Debt Service Fund if so specified in the applicable Supplemental Resolution) first to the Interest Account and second to the Principal Account; provided, however, that the Authority may from time to time direct that all or a portion of such earnings may be retained in the Construction Fund for any period of time if there shall be provided a Certificate of an Authorized Officer of the Authority on the date of such direction and on each July 1 thereafter, so long as such direction remains in effect, (i) certifying for the most recent preceding period of twelve consecutive months, Revenues Available for Bond Debt Service were at least equal to the Combined Bond Coverage Requirement for both the current the Combined Bond Coverage Requirement and (ii) projecting that Revenues Available for Bond Debt Service will be at least equal to and, if the period so directed by Authority includes it, the following fiscal year. Earnings retained in the Construction Fund will not be included in the calculation of Revenues Available for Bond Debt Service. For purposes of this paragraph, interest shall not include the return of accrued interest paid in connection with the purchase of any investment.

The Proposed Modifications would amend Section 523(b) as follows:

Each reference to the "Community Obligation and Revenue Enhancement Fund" would be deleted.

The first sentence would be amended to read in its entirety as follows: "Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) and other investment earnings on any moneys or investments in the Funds and Accounts, other than the Construction Fund, the Cost of Issuance Fund, the Operating Fund, the Note Payment Fund, the Debt Service Fund, the Debt Service Reserve Fund, the Subordinated Debt Service Fund and the Subordinated Debt Service Reserve Fund shall be paid into the Revenue Fund, on the last Business Day of each month."

References to the “Combined Bond Coverage Requirement” in the proviso to the fourth sentence would be deleted and each such reference would be replaced with a reference to the “Primary Bond Coverage Requirement.”

(c) Notwithstanding the foregoing, the Authority may direct that investment earnings reasonably expected to be subject to the requirements of section 148(f) of the Code or the Treasury Regulations applicable thereto may be deposited directly to the Rebate Fund to the extent desirable to comply with the requirements of section 148(f) of the Code or the Treasury Regulations applicable thereto. (Section 523 and Second Supplemental Resolution Section 401)

(d) Pursuant to the provisions described in paragraph (b), investment earnings derived from moneys on deposit from time to time in the Construction Fund and the Subordinated Debt Service Fund attributable to the SRF Bonds shall be transferred on the last Business Day of each month to the related Subaccounts of the Subordinated Debt Service Fund, first to the Interest Subaccount and second to the Principal Subaccount. (Sixth Supplemental Resolution Section 304, Tenth Supplemental Resolution Section 304 and Fourteenth Supplemental Resolution Section 304)

Valuation and Sale of Investments

Obligations purchased as an investment of moneys in any Fund created under the provisions of the General Resolution shall be deemed at all times to be a part of such Fund and any profit realized from the liquidation of such investment shall be credited to such Fund and any loss resulting from the liquidation of such investment shall be charged to such Fund.

In computing the amount in any Fund created under the provisions of the General Resolution for any purpose provided in the General Resolution, obligations purchased as an investment of moneys therein shall be valued at the amortized cost of such obligations or the market value thereof, whichever is lower. Any deficiency resulting from a decrease in the valuation of investments held in the Debt Service Reserve Fund may be disregarded for purposes of calculating deposits required from the Revenue Fund (but not for purposes of deposits required to make the amount on deposit in each Subaccount of the Debt Service Reserve Fund equal to the applicable Series Debt Service Reserve Fund Requirement) provided that the amount on deposit in the Debt Service Reserve Fund is at least 95% of the Debt Service Fund Requirement. The accrued interest paid in connection with the purchase of any obligation shall be included in the value thereof until interest on such obligation is paid. Such computation shall be made annually on June 30 for all Funds and at such other times as the Authority shall determine or as may be required by the General Resolution. (Section 524)

Rebate Fund

Upon the issuance, sale and delivery of any Series of Indebtedness subject to the Rebate Fund Requirement, the Trustee shall establish a separate account within the Rebate Fund for such Series. Funds on deposit in the Rebate Fund shall be applied as set forth in the applicable Supplemental Resolution. Unless otherwise specified in the applicable Supplemental Resolution, interest or other income derived from the investment or deposit of moneys in the Rebate Fund shall be transferred to the Revenue Fund. (Section 525)

Holding of Special Deposits

Except as otherwise provided in any Supplemental Resolution, (i) any Grant Receipts held by or for the account of the Authority in connection with the System which are required to be applied under the terms of the applicable Grant Agreement directly to the payment of Costs of acquisition, construction or alteration of a Project which is the subject of such Grant Agreement and (ii) any Grant Receipts or other moneys which have been pledged to the payment of any Special Subordinated Indebtedness issued pursuant to the provisions of the Operating Reserve Fund described in paragraph (a)(i) or (b) under the heading Special Subordinated Indebtedness (including, without limitation, proceeds of any such indebtedness) and (iii) any moneys which are subject to refund by the Authority or held for the account of others including, without limitation, any amounts which, under any agreement by the Authority providing for adequate separation of such amounts from Revenues, are collected by the Authority on behalf of others for services rendered or commodities provided to customers of the System, any amounts deducted

by the Authority from wage and salary payments to the employees of the Authority, any amounts contributed by the Authority to any pension or retirement fund or system which amounts are held in trust for the benefit of the employees of the Authority and any amounts held as deposits and (iv) any state debt service assistance which the Authority elects not to include in Revenues, together with any investments of such Grant Receipts or other moneys and interest and profits thereon to the extent such interest and profits are also pledged, segregated or held for the account of others or subject to refund to others, may be held by the Authority in such manner and in such depositaries or accounts, outside of the various Funds and Accounts established by the General Resolution, as the Authority may otherwise by resolution provide. At the election of the Authority such Grant Receipts and other moneys may be deposited in separate accounts maintained by the Authority with the Trustee or any other Depositary; moneys described in clause (iv) above shall be deposited by the Trustee in the Debt Service Fund or the Subordinated Debt Service Fund upon the instructions of the Authority, which instructions shall specify the timing and amount of each such deposit and the Account or Accounts of such Funds to which the deposits are to be made. (Section 526)

Covenants of the Authority

In the General Resolution, the Authority covenants, among other things, as follows:

Covenant as to Rates and Charges; Debt Service Coverage Ratio

(a) The Authority shall for each Fiscal Year fix and adjust Rates and Charges with respect to its Waterworks and Sewer Operations, which Rates and Charges shall be adopted by the Authority's Board of Directors strictly in accordance with the provisions of the Act as in effect on the date of adoption of the General Resolution and which adoption shall be conclusive and final and not subject to supervision or regulation by any office, department, division, commission, board, bureau or agency of the Commonwealth or any of its political subdivisions, so as to provide funds, in the aggregate and separately, with respect to costs and operations allocable to the Waterworks and Sewer Operations at least sufficient with other revenues of the Authority, if any, available therefor (i) to pay all Current Expenses, (ii) to pay all Debt Service on Indebtedness of the Authority as the same becomes due and payable, (iii) to create and maintain all reserves established pursuant to the General Resolution or reasonably required by any other agreement securing Indebtedness of the Authority or as otherwise determined by the Authority to be necessary or desirable, (iv) to pay all costs of maintenance and replacement of the System, and costs of improving, extending and enlarging the System as determined by the Authority to be necessary or desirable, to be funded as Current Expenses in order to carry out the purposes of the Authority, (v) to provide for payments to the Commonwealth for debt service as provided in the Act, and (vi) to pay or provide for all amounts which the Authority may be obligated to pay or provide for by any law or contract including the General Resolution or other agreement securing Indebtedness of the Authority and including any amount to be repaid to the Commonwealth to reimburse the Commonwealth for the debt service paid by the Commonwealth on a bond issued under Section 5(f) of the Act. The charges of the Authority for delivery of water and for sewage collection, disposal and treatment services shall be established as charges of general application to be borne by the local body utilizing such services (provided, however, that the Authority reserves the right to impose charges of special application in accordance with the Act) and shall be established at a level sufficient to meet the revenue requirements of the Authority as described in this paragraph.

(b) Without limiting the provisions described in paragraph (a) above, the Authority shall fix and adjust Rates and Charges, which Rates and Charges shall be adopted by the Authority's Board of Directors strictly in accordance with the provisions of the Act as in effect on the date of adoption of the General Resolution and which adoption shall be conclusive and final and not subject to supervision or regulation by any office, department, division, commission, board, bureau or agency of the Commonwealth or any of its political subdivisions, sufficient to provide Revenues Available for Bond Debt Service in each Fiscal Year at least equal to the Combined Bond Coverage Requirement.

The Proposed Modifications would amend paragraph (b) as follows:

(b) Without limiting the provisions described in paragraph (a) above, the Authority shall fix and adjust Rate and Charges, which Rates and Charges shall be adopted by the Authority's Board of Directors strictly in accordance with the provisions of the Act as in effect on the date of adoption of the

General Resolution and which adoption shall be conclusive and final and not subject to supervision or regulation by any office, department, division, commission, board, bureau or agency of the Commonwealth or any of its political subdivisions, sufficient to provide Revenues Available for Bond Debt Service in each Fiscal Year that are (i) at least equal to the Primary Bond Coverage Requirement and (ii) so long as any Parity Subordinated Bonds shall be Outstanding, at least equal to the Secured Bond Coverage Requirement.

(c) Without limiting the provisions described in paragraph (a) or (b) above, the Authority shall fix and adjust Rates and Charges, which Rates and Charges shall be adopted by the Authority's Board of Directors strictly in accordance with the provisions of the Act as in effect on the date of adoption of the General Resolution and which adoption shall be conclusive and final and not subject to supervision or regulation by any office, department, division, commission, board, bureau or agency of the Commonwealth or any of its political subdivisions, sufficient to provide Revenues Available for Subordinated Debt Service in each Fiscal Year at least equal to the coverage requirement, if any, set forth in a Supplemental Resolution in connection with a Series of Subordinated Bonds.

(d) The Primary Bond Coverage Ratio and the Supplemental Bond Coverage Ratio may be adjusted from time to time by the Authority by the adoption of a Supplemental Resolution provided that: (i) the Authority shall have provided evidence to the Trustee that the details of such adjustment have been provided in writing to each Rating Agency then assigning a rating on Outstanding Secured Bonds and that each such Rating Agency has either (x) confirmed in writing that such adjustment will not adversely affect such ratings or (y) issued a rating on a Series of Bonds to be issued which is not less than the rating assigned by such Rating Agency to Outstanding Bonds of such category, or any other evidence satisfactory to the Trustee that such adjustment will not adversely affect the then current ratings, if any, assigned to any Outstanding Secured Bonds by and Rating Agency; and (ii) the Primary Bond Coverage Ratio shall not be less than 1.1; and (iii) no such adjustment shall cause the sum of (x) the Primary Bond Coverage Ratio and (y) the Supplemental Bond Coverage Ratio to be less than 1.2.

(e) If in any Fiscal Year Revenues shall not satisfy the requirements described in paragraph (a) above, or Revenues Available for Bond Debt Service or Revenues Available for Subordinated Debt Service shall not satisfy the requirements described in paragraph (b) or (c) above, respectively, then the Authority shall not be deemed to be in default under the General Resolution so long as it shall have complied or is diligently proceeding to comply with the requirements described in paragraphs (f) and (g) below.

(f) On or before the last day of each Fiscal Year the Authority shall review the adequacy of its rates, fees, rentals and other charges with respect to the System and the Authority's other corporate purposes to satisfy the requirements described under this heading for the next succeeding Fiscal Year. If such review, or any report of a Consulting Engineer or Rate Consultant provided in connection with such review or in accordance with any section hereof, indicates that the rates, fees, rentals and other charges with respect to the System and the Authority's other corporate purposes are, or are likely to be, insufficient to meet the requirements described under this heading for the next succeeding Fiscal Year, or if it otherwise appears at any time during such Fiscal Year that rates, fees, rentals and other charges with respect to the System and the Authority's other corporate purposes are or are likely to be insufficient to meet such requirements, the Authority shall promptly take such steps as are permitted by law and as are necessary to cure or avoid the deficiency.

(g) Within one hundred and eighty (180) days of the close of each Fiscal Year while Bonds are Outstanding, the Authority shall deliver to the Trustee a certificate of an Authorized Representative stating, if such was the case, that the Authority satisfied the requirements described in paragraphs (a), (b) and (c) above in such Fiscal Year or, if such was not the case, specifying in reasonable detail the corrective steps taken by the Authority so that it will comply with such requirements in the then current Fiscal Year. Such certificate shall be accompanied by a Certificate of the Accountant in accordance with the General Resolution setting forth the amounts for the preceding Fiscal Year which are necessary to determine compliance with the requirements described in paragraph (a), (b) or (c) above. If the amounts set forth in the certificate of the accountants indicate that the Authority was not in compliance for such Fiscal Year with the provisions described in paragraph (a), (b) or (c) above, the Consulting Engineer or Rate Consultant shall review the adequacy of the Authority's rates, fees, rentals and other charges with respect to the System and shall recommend changes necessary for the Authority to be in compliance with the provisions described in paragraphs (a), (b) and (c) above by the end of the then current Fiscal Year. The Authority

covenants, to the extent permitted by and in accordance with the Act, to use its best efforts to effect such changes as are so recommended by the Consulting Engineer or Rate Consultant. (Section 705)

Trust Combined Debt Service Coverage Ratio

So long as any SRF Bonds are outstanding, the Authority covenants to fix and adjust Rates and Charges, which Rates and Charges shall be adopted by the Authority's Board of Directors strictly in accordance with the provisions of the Act as in effect on the date of adoption of the General Resolution sufficient to maintain the Secured Bond Debt Service Coverage Ratio for each Fiscal Year at a level of at least 1.10, after providing for all required Supplemental Bond Coverage Deposits and to include in its certificate submitted pursuant to the provisions of the General Resolution described in paragraph (g) under the heading Covenant as to Rates and Charges; Debt Service Coverage Ratio a statement of compliance therewith, provided that if in any Fiscal Year the Authority fails to maintain such ratio at such level then the Authority shall not be deemed to be in default by reason of such failure so long as it shall have complied or be diligently proceeding to comply with the requirements described in paragraphs (f) and (g) under the heading Covenant as to Rates and Charges; Debt Service Coverage Ratio as though maintenance of the Secured Bond Debt Service Coverage Ratio were expressly referred to in such paragraphs (f) and (g). (Sixth Supplemental Resolution Section 305)

The Proposed Modifications would delete this provision.

Sale, Lease or Encumbrance of Property

(a) Except as provided under this heading and authorized under the Act, no part of the System shall be sold, mortgaged, leased or otherwise disposed of or encumbered.

(b) The Authority may from time to time sell or exchange or otherwise dispose of at any time and from time to time any property or facilities constituting part of the System which either (1) are worn out or obsolete or (2) in the opinion of the Authority are no longer useful in the operation of the System and, if the market value of such property or facilities to be sold or otherwise disposed of in any Fiscal Year, as determined by the Authority, is in excess of one tenth of one percent (.1%) of the book value of the entire System, the Authority delivers to the Trustee a certificate of an Authorized Representative stating, in the opinion of the signer, that the sale, exchange or other disposition of such property or facilities will not impair the ability of the Authority to satisfy the Rates and Charges covenants in the then current or any future Fiscal Year. Any proceeds of such sale, exchange or other disposition not used to replace the property so sold or exchanged shall be deposited by the Authority in the Revenue Fund.

(c) To the extent permitted by the Act, the Authority may mortgage, grant security interests in, or otherwise encumber any real or personal property included in the System, or may lease any lessee any real or personal property to be used in the operation of the System, provided that the aggregate annual payments required to be made by the Authority under all such mortgages, security interests, encumbrances and leases shall not in any Fiscal Year exceed twenty-five percent (25%) of the total Current Expenses for such Fiscal Year as shown in the Current Expense Budget then in effect. The proceeds of sale, if any, of any such property mortgaged or otherwise encumbered, after satisfying the mortgage, security interest or other encumbrance secured by the same, shall be deposited in the Revenue Fund. Until so deposited, such proceeds shall not be deemed Revenues under the General Resolution.

(d) To the extent permitted by the Act, the Authority may lease as lessor or make contracts or grant licenses for the operation of, or grant easements or other rights with respect to, any part of the System if such lease, contract, license, easement or right does not, in its opinion (as evidenced, in the event of any such lease, contract, license, easement or right which extends for more than one year or which is irrevocable, by a Certificate of an Authorized Representative delivered to the Trustee), impede the operation by the Authority of the System. Except as detailed under the heading Special Subordinated Indebtedness, any payments to the Authority under or in connection with any such lease, contract, license, easement or right (except any such payments specifically excluded from the definition of Revenues) shall constitute Revenues under the General Resolution. (Section 706)

Operation, Maintenance and Reconstruction

(a) The Authority shall operate, or cause to be operated, the System properly and in a sound, efficient and economical manner and shall maintain, preserve, and keep the same or cause the same to be maintained, preserved, and kept in good repair and operating condition, and shall from time to time make, or cause to be made, all necessary and proper repairs, replacements and renewals so that the operation of the System may be properly and advantageously conducted, and, if any useful part of the System is damaged or destroyed or taken through the exercise of eminent domain, the Authority shall, as expeditiously as practicable, commence and diligently prosecute the replacement or reconstruction of such damaged or destroyed part so as to restore the same to use and the replacement of such part so taken; provided, however, that nothing in the General Resolution shall require the Authority to operate, maintain, preserve, repair, replace, renew or reconstruct any part of the System if there shall have been filed with the Trustee (1) a certificate of an Authorized Representative stating that in the opinion of the signer (a) abandonment of operation of such part is economically justified and (b) failure to operate, maintain, preserve, repair, replace, renew or reconstruct such part will not impair the ability of the Authority to satisfy the Rates and Charges covenants in the current or any future Fiscal Year, and (2) a certificate of a Consulting Engineer concurring in such opinion of the Authorized Representative if the book value of such part of the System exceeds one percent (1%) of the book value of the entire System.

(b) The Authority shall establish and enforce reasonable rules and regulations governing the operation, use and services of the System. All compensation, salaries, fees and wages paid by the Authority in connection with the maintenance, repair and operation of the System shall be reasonable.

(c) Nothing in the General Resolution shall be deemed to preclude the Authority from undertaking such other Projects or exercising such other powers unrelated to the operation of the System as may be permitted from time to time under the Act and approved by its Board of Directors. (Section 707)

Insurance and Condemnation

(a) The Authority shall at all times either (i) keep all property which is a part of the System and which is of an insurable nature and of the character usually insured by water or sewer utility systems similar to the Authority insured against loss of damage by fire and from other causes customarily insured against and in such relative amounts as are customary, and also at all times maintain insurance against loss or damage from such hazards and risks to persons and the property of others as are usually insured against by water or sewer utility systems similar to the Authority or (ii) maintain the Insurance Reserve Fund at the Insurance Reserve Fund Requirement. In determining the amounts and types of insurance to be maintained as provided under this heading, the Authority may rely upon the advice of a Consulting Engineer or an insurance consultant of recognized standing selected by the Authority and satisfactory to the Trustee. All policies of insurance shall be payable to the Authority or to the Trustee. On or before the last day of each Fiscal Year, the Authority shall deliver to the Trustee a certificate of an Authorized Representative listing the types and amounts of insurance then maintained by the Authority as provided under this heading and the insurers therefor.

The Proposed Modifications would amend paragraph (a) to read as follows:

(a) The Authority shall at all times either (i) keep all property which is a part of the System and which is of an insurable nature and of the character usually insured by water or sewer utility systems similar to the Authority insured against loss or damage by fire and from other causes customarily insured against and in such relative amounts, and with such deductibles, if any, as are customary, and also at all times maintain insurance against loss or damage from such hazards and risks to persons and the property of others, and with such deductibles, if any, as are usually insured against by water or sewer utility systems similar to the Authority or (ii) maintain the Insurance Reserve Fund at the Insurance Reserve Fund Requirement. In determining the amounts and types of insurance and deductibles, if any, to be maintained under this Section, the Authority may rely upon the advice of a Consulting Engineer or an insurance consultant of recognized standing selected by the Authority and satisfactory to the Trustee. All policies of insurance shall be payable to the Authority or to the Trustee. On or before the last day of each Fiscal Year, the Authority shall deliver to the Trustee a certificate of an Authorized Representative listing the

types and amounts of insurance then maintained by the Authority in accordance with this Section and the insurers therefor.

(b) All proceeds of insurance maintained pursuant to paragraph (a) above shall be applied as provided in the General Resolution. Such application may include the redemption of Secured Bonds of the Series to which such moneys relate on the first date on which such Secured Bonds may be called without premium (unless the Authority shall elect to call such Secured Bonds earlier at a premium).

(c) If any property or facility comprising part of the System shall be taken through the exercise of the power of eminent domain, the Authority shall apply the proceeds of any award received on account of such taking to the replacement of the property or facility so taken or deposit such proceeds in the Renewal and Replacement Reserve Fund or the Operating Reserve Fund to the extent that the costs of such replacement were paid from the Renewal and Replacement Reserve Fund or the Operating Reserve Fund, unless the Authority determines in accordance with the General Resolution not to replace such property or facility. Any proceeds of such award not applied to such replacement or remaining after such work has been completed shall be deposited in the Revenue Fund, except that any proceeds resulting from the taking of all or substantially all of the System shall be deposited with the Trustee in the Redemption Account of the Debt Service Fund for the purpose of redemption of Secured Bonds or for the defeasance of Secured Bonds as provided in the General Resolution. (Section 708)

Consulting Engineer; Rate Consultant

The Authority shall, until the Secured Bonds and the interest thereon shall have been paid or provision for such payment shall have been made, for the purpose of performing and carrying out the duties imposed on the Consulting Engineer by the General Resolution, employ an independent engineer or engineering firm having a nationwide and favorable repute for skill and experience in such work and, except in the case of the firm serving as Consulting Engineer at the time of the adoption of the General Resolution, who shall be reasonably acceptable to the Trustee. (Section 710)

The Authority shall, until the Secured Indebtedness and the interest thereon shall have been paid or provision for such payment shall have been made, for the purpose of performing and carrying out the duties imposed on the Rate Consultant by the General Resolution, employ an independent accountant or firm of independent accountants, or a management consultant or management consulting firm, or independent engineer or engineering firm (which may also be the Consulting Engineer), having, in any case, a nationwide and favorable repute for skill and experience in such work and, except in the case of the firm serving as the Rate Consultant at the time of the adoption of the General Resolution, who shall be reasonably acceptable to the Trustee. (Section 711)

Operating Budget

(a) Not less than thirty (30) days prior to the beginning of each Fiscal Year the Authority shall prepare and deliver to the Trustee a preliminary Operating Budget, and not less than one day prior to the beginning of each Fiscal Year, shall adopt, in accordance with applicable powers, procedures, responsibilities and limitations established by the Act for adoption of the Current Expense Budget, and file with the Trustee a copy of the Operating Budget, duly certified by an Authorized Representative of the Authority, showing on a monthly basis the estimated Operating Expenses to be paid from the Operating Fund and Commonwealth Obligations to be paid from the Commonwealth Obligation Fund, as well as the Revenues or other moneys held under the General Resolution estimated to be available to pay such Operating Expenses and Commonwealth Obligations (including the amount of each item constituting a component thereof) for the ensuing Fiscal Year, together with any other information required to be set forth therein by the General Resolution; provided, however, that the Operating Budget for the Fiscal Year, or portion thereof, in which the first Series of Secured Bonds is issued, may be adopted by any Authorized Officer. Such Operating Budget may set forth such additional information as the Authority may determine. The Authority shall not incur aggregate Operating Expenses and Commonwealth Obligations in any Fiscal Year in excess of the amount budgeted in the Operating Budget, as amended and supplemented for such Fiscal Year, except in case of emergency or as required by law and shall promptly file with the Trustee a written report of any such excess expenditure signed by an Authorized Representative and as soon as practicable thereafter adopt and file with the Trustee an amendment to the Operating Budget.

(b) In conjunction with the adoption and filing, or any amendment, of the Operating Budget, the Authority shall certify the Operating Reserve Fund Requirement for the Fiscal Year to which such Budget relates; provided that (i) the Operating Reserve Fund Requirement shall not be less than one-sixth (1/6) of the annual Operating Expenses set forth in such Budget and (ii) the Authority's certificate shall be consistent with the latest recommendation of the Consulting Engineer made in conjunction with its report pursuant to the General Resolution. In addition, the Authority shall at the same time certify the Renewal and Replacement Reserve Fund Requirement for the Fiscal Year to which such Budget relates; provided that the Authority's certificate shall be consistent with the latest recommendation of the Consulting Engineer made pursuant to the General Resolution. In addition, the Authority will certify the assumed interest rate on each Series of Variable Rate Indebtedness then Outstanding for which deposits will be required to be made from the Reserve Fund to the Debt Service Fund and the Subordinated Debt Service Fund pursuant to the General Resolution. If the Authority shall not certify the Operating Reserve Fund Requirement or the Renewal and Replacement Reserve Fund Requirements as aforesaid, the requirement for the Fiscal Year shall be the Requirement in effect for the previous Fiscal Year until the new requirement is certified as aforesaid. Notwithstanding the foregoing, the initial Operating Reserve Fund Requirement and Renewal and Replacement Reserve Fund Requirement shall be as set forth in the Supplemental Resolution authorizing the first series of Secured Bonds under the General Resolution.

(c) If for any reason the Authority shall not have adopted the Operating Budget as provided in the General Resolution, the Operating Budget for the then current Fiscal Year shall be deemed to be the Operating Budget for the ensuing Fiscal Year until a new Operating Budget is adopted.

(d) The Authority may at any time adopt an amended Operating Budget for the then current or ensuing Fiscal Year, but no such amended Operating Budget shall supersede any prior Budget until the Authority shall have filed with the Trustee and the Advisory Board a copy of such amended Operating Budget and shall have complied in all respects with the requirements of the Act applicable to the Current Expense Budget in adopting any amended Operating Budget.

(e) In addition to the Authority's right to amend the Operating Budget pursuant to the General Resolution, the Authority may reallocate amounts budgeted to specific items or months within the Operating Budget then in effect at any time by delivery of a Certificate of its Authorized Representative provided that no such reallocation shall result in an increase in the sum of the aggregate Operating Expenses and Commonwealth Obligations for the Fiscal Year covered by such Operating Budget. (Section 712)

Capital Budget

(a) Not less than forty-five (45) days prior to the beginning of each Fiscal Year the Authority shall prepare and file with the Trustee a proposed program of Projects to be undertaken by the Authority during such Fiscal Year and the next two ensuing Fiscal Years, identifying the Projects to be carried out, the estimated Costs thereof and the period of construction thereof, together with a proposed Capital Budget for the Projects to be undertaken in at least the first of such Fiscal Years. Not less than one day prior to the beginning of each Fiscal Year the Authority shall adopt and file with the Trustee a final Capital Budget for the Projects or parts thereof to be undertaken by the Authority in such Fiscal Year. The Capital Budget shall show all projected expenditures as well as the sources of moneys projected to be available to meet the same. The Capital Budget shall further identify the Projects to be undertaken, the nature of the work, the estimated Costs thereof and the estimated completion date of each Project.

(b) The Authority may from time to time amend or supplement the Capital Budget for the Fiscal Year then in progress by filing with the Trustee a certificate of an Authorized Representative setting forth the amendment or supplement. (Section 713)

Accounts and Reports

(a) The Authority shall maintain its books and accounts in accordance with generally accepted accounting principles applicable to water or sewer utilities such as the Authority and in accordance with such other principles of accounting as the Authority deems appropriate. Said books and accounts shall at all times be subject to

the inspection of the Trustee and the Holder or Holders of not less than one percent (1%) in principal amount of Outstanding Secured Bonds of any category or their representatives duly authorized in writing.

(b) The Authority shall annually, within one hundred eighty (180) days after the close of each Fiscal Year, file with the Trustee a copy of an annual report for such year, accompanied by financial statements, audited by and containing the report of an independent Accountant relating to the operations and properties of the System for such Fiscal Year and setting forth in reasonable detail its financial condition as of the end of such year and the income and expenses for such year, and including a summary of the receipts in and disbursements from the Funds and Accounts maintained under the General Resolution during such Fiscal Year and the amounts held therein at the end of such Fiscal Year. Each report of such accountant or firm of accountants shall state that the financial statements of the Authority were prepared in accordance with generally accepted accounting principles, or shall state in what respects such financial statements do not conform with such generally accepted accounting principles. If in connection with such annual audit such Accountant submits any written recommendations as to internal accounting controls or related matters, such recommendations shall also be filed with the Trustee. Each annual report shall be accompanied by a certificate of the accountant or firm of accountants auditing the same to the effect that in the course of and within the scope of their examination of such financial statements made in accordance with generally accepted auditing standards nothing came to their attention that would lead them to believe that a default had occurred under the General Resolution or, if such is not the case, specifying the nature of the default.

(c) Within one hundred twenty (120) days after the close of every third Fiscal Year following the Fiscal Year in which the initial Series of Bonds under the General Resolution is issued, the Authority shall file with the Trustee a copy of a certificate of a Consulting Engineer setting forth in reasonable detail (1) its finds as to whether the properties of the System have been maintained during such three-year period, and are then being maintained, in good repair and sound operating condition, (2) its estimate of the amount, if any, required to be expended to place such properties in such condition and the approximate time required therefor, (3) its recommendations, if any, as to improved management and proper maintenance, repair, and operation of, and capital improvements to, the System during the ensuing three-year period, (4) its recommendations as to the adequacy of the Renewal and Replacement Reserve Fund Requirement and the then current Operating Budget and Capital Budget and (5) its recommendations as to the adequacy of the Authority's rates, fees, rentals and other charges. If such certificate sets forth that the properties of the System are not then being maintained in good repair and sound operating condition, the Authority shall restore the properties to good repair and sound operating condition as promptly as is practicable. (Section 714)

The Proposed Modifications would amend paragraph (c) above to read as follows:

(c) Within one hundred twenty (120) days after the close of every third Fiscal Year following the Fiscal Year in which the initial Series of Bonds under the General Resolution is issued the Authority shall file with the Trustee a copy of a certificate of a Consulting Engineer setting forth in reasonable detail (1) its findings as to whether the properties of the System have been maintained during such three-year period, and are then being maintained, in good repair and sound operating condition, (2) its estimate of the amount, if any, required to be expended to place such properties in such condition and the approximate time required therefor, (3) its recommendations, if any, as to improved management and proper maintenance, repair, and operation of, and capital improvements to, the System during the ensuing three-year period, (4) its recommendations as to the adequacy of the Renewal and Replacement Reserve Fund Requirement to fund emergency repairs and replacements and other expenditures for repairs and replacements not provided for in the Operating Budget and the Capital Budget and (5) its recommendations as to the adequacy of the Authority's rates, fees, rentals and other charges. If such certificate sets forth that the properties of the System are not then being maintained in good repair and sound operating condition, the Authority shall restore the properties to good repair and sound operating condition as promptly as is practicable.

Rates for Services

So long as any Secured Indebtedness is Outstanding, no free service related to the System shall be furnished by the Authority to any Local Body or to any person, firm, or corporation, except as set forth below. Any service rendered by the System to any Local Body or person, firm, or corporation shall be charged at the same rate

and in the same manner in which any other user, within the same classification, is or would be charged for similar service. For purposes of this section, the Authority may make classifications among users of the System as permitted by the Act, which classifications may be based on reasonable distinctions related to the Authority's corporate purposes. The Authority may continue provisions for subsidization of water charges to which any Local Body is entitled in accordance with contract or other lawful obligations assumed by the Authority as successor to the MDC or otherwise entered into by the Authority prior to the adoption of the General Resolution. (Section 715)

Non-Payment of Rates; Certification to Commonwealth Treasurer

(a) The Authority may in its discretion determine when an overdue payment shall constitute a Local Body Default, and be so certified, until such time as any such payment shall have been overdue for twelve months, whereupon the Authority shall certify such default as a Local Body Default. The Authority may make, with respect to any moneys received from a Local Body, reasonable allocations between its charges to such Local Body for the provision of waterworks or sewer services. The Authority shall notify the Trustee within thirty (30) days of any overdue Payment that remains unpaid, of the existence of such overdue payment and shall promptly notify the Trustee upon the declaration of such default as a Local Body Default. Within five Business Days of the determination of a Local Body Default, the Authority shall send to each Local Body receiving waterworks services, if such default was with respect to waterworks services or sewer services, if such Default was with respect to sewer services from the Authority, including the defaulting Local Body, a notice, a copy of which shall be sent to the Trustee, specifying (i) that a Local Body Default has occurred; (ii) the amount of such Local Body Default; (iii) that unless such default is cured an allowance equal to such amount, including any interest or late charges on the overdue amount, shall be incorporated into the charges to each Local Body in connection with the Authority's next ensuing rate-setting process; and (iv) the approximate amount by which the Rates and Charges to be assessed against each Local Body shall be increased on account of the inclusion of such allowance in Rates and Charges. Further, the Authority shall by the earlier of (x) eighteen months from the date of such Local Body Default or (y) the next establishment by the Authority of its Rates and Charges following the Local Body Default which can feasibly incorporate the allowance referred to above, provided that the defaulting Local Body shall not have cured its default, assess each Local Body, including the defaulting Local Body, a pro rata share, based on each Local Body's share of total charges for water and sewer services, respectively, of the amount of such Local Body Default, including any interest or charges on the overdue amount, which assessment shall be in addition to the Rates and Charges required to comply with the Rates and Charges covenants of the General Resolution. The Authority shall provide the Trustee with written evidence that such assessment has been made.

(b) In addition to the requirements described in paragraph (a) above, the Authority shall take such steps as may be necessary under the provisions of the Act to collect delinquent rates or charges, and to enforce liens for non-payment of rates or charges, in a practicable and timely manner. Without limiting the foregoing, in the event that any Local Body, which has received a certification of the Authority's charges, shall fail to pay the same to the Authority when due after demand by the Authority, the Authority shall promptly certify to the Treasurer and Receiver General of the Commonwealth the amount owing to the Authority by said Local Body in accordance with Section 10(b) of the Act. The Authority shall promptly certify its charges to each Local Body and, in the event of a Local Body's failure to pay the Authority's charges, shall promptly demand the payment of same. (Section 716)

Tax Covenants

The General Resolution includes several covenants by the Authority as to federal and state tax matters, including a general covenant to take, or require to be taken, such action as may from time to time be required to assure the continued exclusion from the federal gross income of holders of any Series of Tax Exempt Indebtedness and the continued exemption from Massachusetts income taxation of the interest on Indebtedness, including, without limitation, the preparation and filing of any statements required to be filed by the Authority in order to establish and maintain such tax exclusion and exemption. In addition, the Authority shall not take, or permit to be taken on its behalf, any action which would adversely affect the exclusion from federal gross income, or the exemption from Massachusetts income taxation, of the interest on any Series of Tax Exempt Indebtedness.

Notice to Rating Agencies of Certain Contracts

The Authority shall notify each Rating Agency, prior to executing any interest rate exchange, cap or other hedge agreement of the general terms of such agreement, whether payments under such agreement are payable as Special Payment Obligations or as Operating Expenses. (Section 512)

Supplemental Resolutions

Supplemental Resolutions Effective Upon Filing with Trustee

For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted by the Authority, which upon the filing with the Trustee of a copy thereof certified by an Authorized Representative, shall be fully effective in accordance with its terms:

(a) to close the General Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the General Resolution on, the authentication and delivery of Secured Bonds or the issuance of other Indebtedness;

(b) to add to the covenants and agreements of the Authority in the General Resolution other covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with the General Resolution as theretofore in effect including any covenants necessary for compliance with the Code, including without limitation Section 148(f) thereof or regulations promulgated thereunder;

(c) to add to the limitations and restrictions in the General Resolution other limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with the General Resolution as theretofore in effect;

(d) to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the General Resolution, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the General Resolution;

(e) to authorize Secured Bonds of a Series and, in connection therewith specify and determine the matters and things referred to in the General Resolution with respect to conditions precedent to delivery of Secured Bonds, and also any other matters and things relative to such Secured Bonds which are not contrary to or inconsistent with the General Resolution as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such Secured Bonds including, without limiting the generality of the foregoing, provisions amending or modifying the General Resolution to provide for the issuance of Secured Bonds in book-entry form or in coupon form payable to bearer;

(f) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the General Resolution, of the Revenues or of any other moneys, securities or funds;

(g) to modify the Primary Bond Coverage Ratio or the Supplemental Bond Coverage Ratio in accordance with the provisions of the General Resolution;

(h) to modify any of the provisions of the General Resolution in any respect whatsoever, provided that (i) such modification shall be, and be expressed to be, effective only after all Bonds or Subordinated Bonds of any Series affected by the amendment Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding, and (ii) such Supplemental Resolution shall be specifically referred to in the text of all Bonds or Subordinated Bonds of any Series authenticated and delivered after the date of the adoption of such Supplemental Resolution and of Bonds or Subordinated Bonds issued in exchange therefor or in place thereof;

(i) to modify the definition of Investment Securities as directed by the Authority's Board of Directors provided that the Authority shall have provided evidence to the Trustee that the details of such modification have been provided in writing to each Rating Agency then assigning a rating on Outstanding Secured Bonds and that each

such Rating Agency has either (x) confirmed in writing that such modification will not adversely affect such ratings or (y) issued a rating on a Series of Bonds to be issued which is not lower than the rating assigned by such Rating Agency to Outstanding Bonds prior to such modification, or any other evidence satisfactory to the Trustee that modification will not adversely affect the then current ratings, if any, assigned to the Secured Bonds by any Rating Agency; or

(j) to subject to the General Resolution additional revenues, security or collateral. (Section 801)

Supplemental Resolutions Effective upon Consent of Trustee

(a) For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted, which, upon (i) the filing with the Trustee of a copy thereof certified by an Authorized Representative, and (ii) the filing with the Authority of an instrument in writing made by the Trustee consenting thereto shall be fully effective in accordance with its terms:

(1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the General Resolution; or

(2) to insert such provisions clarifying matters or questions arising under the General Resolution as are necessary or desirable and are not contrary to or inconsistent with the General Resolution as theretofore in effect; or

(3) to provide for additional duties of the Trustee.

(b) Any such Supplemental Resolution may also contain one or more of the purposes permitted in Supplemental Resolutions that are effective upon filing with the Trustee, and in that event, the consent of the Trustee required as described under this heading shall be applicable only to those provisions of such Supplemental Resolution as shall contain one or more of the purposes set forth in paragraph (a) above. (Section 802)

Supplemental Resolutions Effective with Consent of Bondholders

At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by holders of any Secured Bonds in accordance with and subject to the provisions of the General Resolution relating to amendments, which Supplemental Resolution, upon the filing with the Trustee of a copy thereof certified by an Authorized Representative and upon compliance with the provisions of the General Resolution, shall become fully effective in accordance with its terms as provided in the provisions of the General Resolution relating to amendments. (Section 803)

Amendments

Mailing of Notice of Amendment

Any provision in the General Resolution for the mailing of a notice or other paper to any holder of the Secured Bonds shall be fully complied with if it is mailed, by first-class mail, postage prepaid only (i) to each owner of Bonds or Subordinated Bonds, respectively, then Outstanding at his address appearing upon the registry books, and (ii) to the Trustee. (Section 901)

Powers of Amendment

Any modification or amendment of the General Resolution or of the rights and obligations of the Authority and of the holders of the Secured Bonds under the General Resolution, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided in the General Resolution, (i) of the holders of at least two-thirds in principal amount of the Bonds Outstanding and two-thirds in principal amount of the Subordinated Bonds Outstanding at the time such consent is given and (ii) in case less than all of the several Series of Secured Bonds of then Outstanding are affected by the modification or amendment, of the holders of at least two-thirds in aggregate principal amount of the Secured Bonds the several Series so affected and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Secured Bonds of any specified like Series and maturity remain Outstanding, the consent of the holders of such Secured Bonds shall not be required and such Secured Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Secured Bonds as described in this paragraph. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or Subordinated Bonds or of any installment of interest thereon or reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the holder of such Bond or Subordinated Bond, or shall reduce the percentages or otherwise affect the classes of Secured Bonds the consent of the holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. For the purposes of this paragraph, a Series shall be deemed to be affected by a modification or amendment of the General Resolution if the same adversely affects or diminishes the rights of the holders of Secured Bonds of such Series. The Trustee in its discretion may make a determination, binding on holders of Secured Bonds, as to whether any particular Series or maturity would be affected by any modification or amendment of the General Resolution. For the purposes of this paragraph, the holders of the Secured Bonds may include the initial holders thereof, regardless of whether such Secured Bonds are being held for immediate resale. (Section 902)

The Proposed Modifications would amend the first two sentences of the above paragraph to read as follows:

Any modification or amendment of the General Resolution of the rights and obligations of the Authority and of the holders of the Secured Bonds under the General Resolution, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided in the General Resolution, (i) of the holders of at least 51% of the aggregate principal amount of the Bonds Outstanding at the time such consent is given and at least 51% of the aggregate principal amount of the Subordinated Bonds Outstanding at the time such consent is given and (ii) in case less than all of the several Series of Secured Bonds then Outstanding are affected by the modification or amendment, of the holders of at least 51% of the aggregate principal amount of the Secured Bonds of the several Series so affected Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Secured Bonds of any specified like Series and maturity remain Outstanding, the consent of the holders of such Secured Bonds shall not be required and such Secured Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Secured Bonds under this section; and provided, further, that in connection with the initial issuance of a Series of Secured Bonds, the underwriters of such Series may give such consent with respect to such Series and such consent shall be binding upon all subsequent holders of such Series; and provided, further, that with respect to any Series of Secured Bonds which is secured by a Credit Facility that is not in default, the consent of the issuer of the Credit Facility shall be effective for the purposes of this sentence in place of the consent of the holders of the aggregate principal amount of the Secured Bonds of such Series Outstanding. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or Subordinated Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the holder of such Bond or Subordinated Bond or shall reduce the percentages or otherwise change the classes of Secured Bonds the consent of the holders of (or of the issuers of Credit Facilities for) which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

Modifications by Unanimous Consent

Notwithstanding anything contained in the General Resolution with respect to Supplemental Resolutions and amendments, the terms and provisions of the General Resolution and the rights and obligations of the Authority and of the holders of Secured Bonds may be modified or amended in any respect upon the adopting and filing of a Supplemental Resolution and the consent of the holders of all Secured Bonds then Outstanding, such consent to be given as provided in the General Resolution except that no notice to the holders of Secured Bonds either by mailing or publication shall be required; but no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the holders of Secured Bonds. (Section 904)

Events of Default

The occurrence of any one or more of the following events shall constitute an Event of Default under the General Resolution:

(a) a default in the due and punctual payment of a Principal Installment or the Redemption Price of any Secured Bonds when and as the same shall become due and payable, whether at maturity or upon earlier redemption, or otherwise; or

(b) a default in the due and punctual payment of any installment of interest on any Secured Bonds, when and as such interest installment shall become due and payable; or

(c) default by the Authority in the performance or observance of any other of the covenants, agreements or conditions on its part or on the part of the Authority in the General Resolution, any Supplemental Resolution or in the Secured Bonds contained, and such default shall continue for a period of forty-five days after written notice thereof stating that such notice is a "Notice of Default" to the Authority by the Trustee or to the Authority and to the Trustee by the holders of not less than a majority in principal amount of the Secured Bonds Outstanding; provided that such forty-five day period shall be extended to such longer period of time as the Trustee may deem appropriate in the event of defaults which by their nature will require such longer period of time to cure if the Authority shall commence such cure within such forty-five day period and pursue the same diligently to completion; or

(d) if the Authority (i) admits in writing its inability to pay its debts generally as they become due, (ii) commences voluntary proceeds in bankruptcy or seeking a composition of indebtedness, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a receiver of the whole or any substantial part of the System, or (v) consents to the assumption by any court of competent jurisdiction under any law for the relief of debtors of custody or control of the Authority or of the whole or any substantial part of the System.

Upon the happening and continuance of any Event of Default, the Trustee shall give notice of such occurrence to the registered holders of the Secured Bonds. Upon the happening and continuance of any Event of Default, the Trustee may, and upon the written request of the holders of not less than a majority in principal amount of the Bonds Outstanding, or if no Bonds are Outstanding, Subordinated Bonds Outstanding, the Trustee shall, in any such case, unless the principal of all the Secured Bonds then Outstanding shall already have become due and payable, declare the principal of all Secured Bonds then Outstanding shall already have become due and payable immediately, and upon any declaration the same shall become and be immediately due and payable, anything in the General Resolution or in any of the Secured Bonds contained to the contrary notwithstanding. The right of the Trustee to make any such declaration as aforesaid, however, is subject to the condition that, if at any time after such declaration, but before the Secured Bonds shall have matured by their terms, all overdue installments of principal and interest upon the Secured Bonds, together with the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums then payable by the Authority under the General Resolution (except the interest accrued since the next preceding interest date on the Bonds due and payable solely by virtue of such declaration) shall either be paid by or for the account of the Authority or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Secured Bonds or under the General Resolution (other than the payment of principal and interest due and payable solely by reason of such declaration) shall be made good or be secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, then and in

every such case the holders of a majority in principal amount of the Bonds Outstanding, or if no Bonds are Outstanding, Subordinated Bonds Outstanding, by written notice to the Authority and to the Trustee, may rescind such declaration and annul such default in its entirety, or, if the Trustee shall have acted without a direction from the holders of the Secured Bonds as aforesaid at the time of such request, and if there shall not have been theretofore delivered to the Trustee written direction to the contrary by the holders of a majority in principal amount of the Bonds Outstanding or if no Bonds are Outstanding, Subordinated Bonds Outstanding, then any such declaration shall ipso facto be deemed to be rescinded and any such default and its consequences shall ipso facto be deemed to be annulled, but no such rescission and annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon. The Trustee shall not be liable for any decision made in good faith as to whether or not to declare all Secured Bonds to be due and payable. (Section 1001)

Application of Revenues and Other Moneys After Default

(a) The Authority covenants that if an Event of Default shall happen and shall not have been remedied, the Authority, upon demand of the Trustee, shall pay over or cause to be paid over to the Trustee (i) forthwith, any moneys, securities and funds then held by the Authority, or a Depository in any Fund, Account or Subaccount under the General Resolution and (ii) as promptly as practicable after receipt thereof, the Revenues.

(b) During the continuance of an Event of Default, the Trustee shall apply such Revenues and the income therefrom as follows and in the following order:

(1) to the payment of the reasonable and proper fees, charges and expenses (including reasonable attorneys fees) of the Fiduciaries and of any engineer or firm of engineers or accountants or firm of accountants selected by the Trustee and to the payment of any fees and expenses required to keep any Financial Guaranties or Credit Facilities in full force and effect;

(2) to the payment of the amounts required for reasonable and necessary Operating Expenses, including reasonable and necessary reserves and working capital therefor, and for the reasonable repair and replacement of the System necessary to prevent loss of Revenues or to provide for the continued operation of the System, as certified to the Trustee by an independent engineer or firm of engineers of recognized standing (who may be an engineer or firm of engineers retained by the Authority for other purposes) selected by the Trustee;

(3) to the payment of the interest and principal or Redemption Price then due on the Bonds as follows:

(i) unless the principal of all of the Bonds shall be due and payable,

First: To the payment to the persons entitled thereto of all installments maturing, and, if the amount available shall not be sufficient to pay in full all installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to persons entitled thereto, without any discrimination or preference;

(ii) if the principal of all of the Bonds shall be due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other

installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination of preference;

(4) to the payment of the interest and principal or Redemption Price then due on the Subordinated Bonds in a manner similar to the payment of such amounts with respect to Bonds, as set forth above.

Any amounts on deposit in the Subordinated Debt Service Reserve Fund shall not be applied as set forth above to the payment of principal amount and interest on Bonds and any amounts on deposit in the Debt Service Fund and the Debt Service Reserve Fund shall not be applied as set forth above to the payment of the principal amount and interest on Subordinated Bonds.

(c) If and when all overdue installments of interest on all Secured Bonds, together with the reasonable and proper charges and expenses of the Trustee, and all other sums payable by the Authority under the General Resolution, including the principal and Redemption Price of and accrued unpaid interest on all Secured Bonds which shall then be payable by declaration or otherwise, shall either be paid by or for the account of the Authority, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the General Resolution or the Secured Bonds shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall pay over to the Authority all such Revenues then remaining unexpended in the hands of the Trustee (except Revenues deposited or pledged, or required by the terms of the General Resolution to be deposited or pledged, with the Trustee), and thereupon the Authority and the Trustee shall be restored, respectively, to their former position and rights under the General Resolution, and all Revenues shall thereafter be applied as provided in the General Resolution. (Section 1003)

Proceedings Brought by Trustee

(a) If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, if the Trustee shall deem it advisable, may proceed to protect and enforce its rights and the rights of the holders of the Secured Bonds under the General Resolution forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant herein contained, or in aid of the execution of any power herein granted, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the General Resolution.

(b) The holders of a majority in principal amount of the Bonds at the time Outstanding, or if no Bonds are Outstanding, of Subordinated Bonds Outstanding, may direct by instrument in writing the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, provided that the Trustee shall have the right to decline to follow any such direction if the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the holders of Secured Bonds not parties to such direction.

(c) Upon commencing a suit in equity or upon the commencement of judicial proceedings by the Trustee to enforce any right under the General Resolution, the Trustee shall be entitled to exercise any and all rights and powers conferred in the General Resolution and provided to be exercised by the Trustee upon the occurrence of an Event of Default; and, as a matter of right against the Authority, without notice or demand and without regard to the adequacy of the security for the Secured Bonds, the Trustee shall, to the extent permitted by law, be entitled to the appointment of a receiver of the moneys, securities and funds then held by the Authority in any Fund, Account or Subaccount under the General Resolution and, subject to application of the Revenues, with all such powers as the court or courts making such appointment shall confer; but notwithstanding the appointment of any receiver, the Trustee shall be entitled to retain possession and control of and to collect and receive income from, any moneys, securities and funds deposited or pledged with it under the General Resolution or agreed to provide to be delivered or pledged with it under the General Resolution.

(d) Regardless of the happening of an Event of Default, the Trustee shall have the power to, but (unless requested in writing by the holders of a majority in principal amount of the Secured Bonds then Outstanding, and furnished with reasonable security and indemnity) shall be under no obligation to, institute and maintain such suits and proceedings, including, without limitation, proceedings for declaratory judgment or injunctive or other equitable relief, as it may determine shall be necessary or expedient to prevent any impairment of the security under the General Resolution, any impairment of the ability of the Authority or the Trustee to satisfy any of its agreements or obligations hereunder, or the impairment of any protection provided by the General Resolution of the interests of the holders of Secured Bonds by any acts which may be unlawful or in violation of the General Resolution, and such suits and proceedings, including, without limitation, proceedings for declaratory judgment or injunctive or other equitable relief, as the Trustee may determine shall be necessary or expedient to preserve or protect its interest and the interests of the holders of any Secured Bonds. (Section 1004)

Restrictions on Action by Holders of Secured Bonds

No holder of any Secured Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the General Resolution or the execution of any trust under the General Resolution or for any remedy under the General Resolution, unless such holder shall have previously given to the Trustee written notice of the happening of an Event of Default, as provided in the General Resolution, and the holders of at least a majority in principal amount of the Bonds then Outstanding, or if no Bonds are Outstanding of Subordinated Bonds Outstanding, shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity, either to exercise the powers granted as provided under this heading or to institute such action, suit or proceeding in its own name, and unless such holders shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused to comply with such request within a reasonable time; it being understood and intended that no one or more holders of Secured Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the pledge created by the General Resolution, or to enforce any right under the General Resolution, except in the manner therein provided, and that all proceedings at law or in equity to enforce any provision of the General Resolution shall be instituted, had and maintained in the manner provided in the General Resolution and for the equal benefit of all holders of the Outstanding Bonds, in accordance with their rights and interests under the General Resolution and all holders of Outstanding Subordinated Bonds, in accordance with their rights and interests under the General Resolution. (Section 1005)

The Trustee

Resignation of Trustee

The Trustee may at any time resign and be discharged of the duties and obligations created by the General Resolution by giving not less than sixty days' written notice to the Authority and publishing notice thereof, at the Trustee's expense, specifying the date when such resignation shall take effect once in each week for two successive calendar weeks in an authorized newspaper, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed by the Authority or the holders of any Secured Bonds as provided in the General Resolutions, in which event such resignation shall take effect immediately on the appointment of such successor. (Section 1107)

Removal of Trustee

The Trustee may be removed at any time by an instrument or concurrent instruments in writing, filed with the Trustee, and signed by the holders of a majority in principal amount of the Bonds then Outstanding, or if no Bonds are Outstanding, of the Subordinated Bonds then Outstanding, or their attorneys-in-fact duly authorized, excluding any Secured Bonds held by or for the account of the Authority. The Trustee may be removed at any time for any breach of trust or for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provision of the General Resolution with respect to the duties and obligations of the Trustee, by any court of competent jurisdiction upon the application of the Authority or the holders of not less than 25% in aggregate principal amount of Bonds Outstanding, or if no Bonds are Outstanding, Subordinated Bonds Outstanding, excluding any Secured Bonds held by or for the account of the Authority. Notwithstanding the foregoing provisions, at the end of the fifth Fiscal Year following the Fiscal Year in which the first series of Secured Bonds is

issued under the General Resolution, and at the end of every fifth Fiscal Year thereafter, the Authority may remove the Trustee, except during the existence of an Event of Default, upon one hundred twenty (120) days written notice to the Trustee by filing with the Trustee an instrument signed by an Authorized Representative of the Authority. (Section 1108)

The Proposed Modifications would amend the last sentence of the above paragraph to read as follows:

Notwithstanding the foregoing provisions, at the end of the Fiscal Year of the Authority ending June 30, 2006, and at the end of every second Fiscal Year thereafter, the Authority may remove the Trustee, except during the existence of an Event of Default, upon one hundred twenty (120) days written notice to the Trustee by filing with the Trustee an instrument signed by an Authorized Representative of the Authority.

Appointment of Successor Trustee

(a) In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or its property, shall be appointed, or if any public offering shall take charge or control of the Trustee, or of its property or affairs, a successor may be appointed by the holder of a majority in principal amount of the Bonds then Outstanding, or if no Bonds are Outstanding of the Secured Bonds then Outstanding, excluding any Secured Bonds held by or for the account of the Authority, by an instrument or concurrent instruments in writing signed and acknowledged by such holders of any Secured Bonds or by their attorneys-in-fact duly authorized and delivered to such successor trustee, notification thereof being given to the Authority and the predecessor Trustee; but (unless a successor trustee shall have been appointed by the holders of the Secured Bonds as aforesaid) the Authority by a duly executed written instrument signed by an Authorized Representative shall forthwith appoint a Trustee to fill such vacancy until a successor Trustee shall be appointed by the holders of the Secured Bonds as authorized in the General Resolution. The Authority shall publish notice of any such appointment made by it once in each week for two consecutive calendar weeks, in an authorized newspaper, the first publication to be made within 20 days after such appointment. Any successor Trustee appointed by the Authority shall, immediately and without further act, be superseded by a Trustee appointed by the holders of the Secured Bonds as authorized in the General Resolution.

(b) If in a proper case no appointment of a successor trustee shall be made pursuant to the foregoing provisions of the General Resolution within forty-five days after the Trustee shall have given to the Authority written notice as provided in the General Resolution or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the holder of any Secured Bond may apply to any court of competent jurisdiction to appoint a successor trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor trustee.

(c) Any Trustee appointed under the provisions of the General Resolution in succession to the Trustee shall be a bank or trust company organized under the laws of any state of a national banking association, and having a capital and surplus aggregating at least \$100,000,000, if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the General Resolution. (Section 1109)

Defeasance

(a) If the Authority shall pay or cause to be paid to the holders of all Secured Bonds then Outstanding, the Principal Installments and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the General Resolution, then, at the option of the Authority, expressed in an instrument in writing signed by an Authorized Representative and delivered to the trustee, the covenants, agreements and other obligations of the Authority to the holders of such Secured Bonds shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Authority, execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to the Authority all moneys, securities and funds held by them pursuant to the General Resolution which are not required for the payment or redemption of Secured Bonds not theretofore surrendered for such payment or redemption.

(b) Secured Bonds for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee (through deposit by the Authority of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in (a) above. Subject to the provisions described in paragraph (c) below, any Outstanding Secured Bonds shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in paragraph (a) above if (i) in case any of said Secured Bonds are to be redeemed on any date prior to the maturity, the Authority shall have given to the Trustee irrevocable instructions accepted in writing by the Trustee to publish as provided in the General Resolution notice of redemption of such Secured Bonds (other than the Secured Bonds which have been purchased by the Trustee at the direction of the Authority as hereinafter provided prior to the publication of such notice of redemption) on said date, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Obligations the principal installments of and/or the interest on which when due, without reinvestment, will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same, time, shall be sufficient, to pay when due the Principal Installments or Redemption Price, if applicable, and interest due and to become due on said Secured Bonds on or prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event said Secured Bonds are not to be redeemed within the next succeeding 60 days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to publish, as soon as practicable, at least twice, at an interval of not less than seven days between publications, in the authorized newspapers a notice to the holders of such Secured Bonds that the deposit referred to in clause (i) above has been made with the Trustee and that said Secured Bonds are deemed to have been paid as provided under this heading and stating such maturity or redemption date upon which moneys are to be available for the payment of the Principal Installments or Redemption Price, if applicable, on said Secured Bonds (other than Secured Bonds which have been purchased by the Trustee at the direction of the Authority as hereinafter provided prior to the publication of the notice of redemption referred to in clause (i)); provided, however, that in connection with the provision for payment of any Secured Bonds which are then in non-certificated form, the requirements of clause (iii) above shall be deemed satisfied upon mailing of the notice required by said clause (iii) by registered mail to the securities depository which is the registered owner, or whose nominee is the registered owner, of such Secured Bonds. The Trustee shall, as and to the extent necessary, apply moneys held by it as provided under this heading to the retirement of said Secured Bonds in amounts equal to the unsatisfied balances of any Sinking Fund Installments with respect to such Secured Bonds, all in the manner provided in the General Provisions.

The Trustee shall, if so directed by the Authority (x) prior to the maturity date of Secured Bonds deemed to have been paid as provided under this heading which are not to be redeemed prior to the maturity date or (y) prior to the publication of the notice of redemption referred to in clause (i) above with respect to any Secured Bonds deemed to have been paid as provided under this heading which are to be redeemed on any date prior to their maturity, apply moneys deposited with the Trustee in respect of such Secured Bonds and redeem or sell Defeasance Obligations so deposited with the Trustee and apply the proceeds thereof to the purchaser of such Secured Bonds and the Trustee shall immediately thereafter cancel all such Secured Bonds so purchased; provided, however, that the Trustee shall receive a certificate of the Accountant showing that the moneys and Defeasance Obligations remaining on deposit with the Trustee after the purchase and cancellation of such Secured Bonds shall be sufficient to pay when due the Principal Installment or Redemption Price, if applicable, and interest due or to become due on all Secured Bonds, in respect of which such moneys and Defeasance Obligations are being held by the Trustee on or prior to the redemption date or maturity date thereof, as the case may be, and a Bond Counsel's opinion to the effect that such redemption or sale of such Defeasance Obligations will not adversely affect the exclusion of the interest on such Secured Bonds from gross income of the holders thereof for federal income tax purposes and that such redemption or sale otherwise complies with the provisions of the General Resolution. Except as otherwise described in paragraphs (b) and (c) under this heading, neither Defeasance Obligations nor moneys deposited with the Trustee as described under this heading nor principal or interest payments on any such Defeasance Obligations shall be withdrawn or used for any purpose other than, but shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said Secured Bonds; provided that any cash received from such principal or interest payments on such Defeasance Obligations deposited with the Trustee (A) to the extent such cash will not be required at any time for such purpose, shall be paid over to the Authority as received by the Trustee, free and clear of any trust, lien or pledged securing said Secured Bonds other otherwise existing under the General Resolution, and (B) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested at the written direction of an Authorized Representative of the Authority in Defeasance Obligations maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if

applicable, and interest to become due on said Secured Bonds on or prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestment, shall be paid over to the Authority, as received by the Trustee free and clear of any lien or pledge securing said Secured Bonds or otherwise existing under the General Resolution.

(c) For purposes of determining whether Variable Rate Indebtedness shall be deemed to have been paid prior to the maturity or redemption date thereof, as the case may be, by the deposit of moneys, or Defeasance Obligations and moneys, if any, in accordance with the second sentence of paragraph (b) under this heading, the interest to come due on such Variable Rate Indebtedness on or prior to the maturity date or redemption date thereof, as the case may be, shall be calculated at the maximum rate permitted by the terms thereof; provided, however, that if on any date, as a result of such Variable Rate Indebtedness having borne interest at less than such maximum rate for any period, the total amount of moneys and Investment securities on deposit with the Trustee for the payment of interest on such Variable Rate Indebtedness is in excess of the total amount which would have been required to be deposited with the Trustee on such date in respect of such Variable Rate Indebtedness in order to satisfy the provisions described in the second sentence of paragraph (b) under this heading, the Trustee shall, if requested, by the Authority, pay the amount of such excess to the Authority free and clear of any lien or pledge securing said Secured Bonds or otherwise existing under the General Resolution.

(d) Option Bonds shall be deemed to have been paid in accordance with the provisions described in the second sentence of paragraph (b) under this heading, only if, in addition to satisfying the requirements of clauses (i) and (iii) of such sentence, there shall have been deposited with the Trustee moneys in an amount which shall be sufficient to pay when due the maximum amount of principal of and premium, if any, and interest on such Bonds which could become payable to the holders of such Option Bonds upon the exercise of any options provided to the holders of such Option Bonds; provided, however, that if, at the time a deposit is made with the Trustee pursuant to the provisions described in paragraph (b) under this heading, the options originally exercisable by the holder of an Option Bond are no longer exercisable, such Option Bond shall not be considered an Option Bond for purposes of this paragraph. If any portion of the moneys deposited with the Trustee for the payment of the principal of and premium, if any, and interest on Option Bonds is not required for such purpose the Trustee shall, if requested by the Authority, pay the amount of such excess to the Authority free and clear of any trust, lien or pledge securing said Option Bonds or otherwise existing under the General Resolution.

(e) Anything in the General Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of any of the Secured Bonds which remain unclaimed for two years after the date when such Secured Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for two years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Secured Bonds become due and payable, shall, at the written request of the Authority, be repaid by the Fiduciary to the Authority, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the holders of any Secured Bonds shall look only to the Authority for the payment of such Secured Bonds; provided, however, that before being required to make any such payment to the Authority, the Fiduciary may, at the expense of the Authority, cause to be published at least twice, at an interval of not less than seven days between publications, in an authorized newspaper, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the Authority. (Section 1201)

Preservation and Inspection of Documents

All documents received by an Fiduciary under the provisions of the General Resolution shall be retained in its possession and shall be subject at all reasonable times to the inspection of the Authority, any other Fiduciary, and any holder of any Secured Bonds and any person that the Trustee can reasonably determine is a beneficial owner of any Secured Bonds held by or on behalf of a securities depository, and their agents and their representatives, any of whom may make copies thereof. Upon the receipt of a written request by any such beneficial owner or any holder of any Secured Bonds, or their agents or their representatives, the Trustee shall provide copies of any reports or certificates delivered to the Trustee pursuant to any provision of the General Resolution. At the direction of the Authority, the Trustee shall require the party requesting such reports or certificates to pay or reimburse the Trustee for the direct costs of reproducing and mailing such reports or certificates. (Section 1204)

No Recourse on the Secured Bonds

No recourse shall be had for the payment of the principal of or interest on the Secured Bonds or for any claim based thereon or on the General Resolution against any member or officer of the Authority or any person executing the Secured Bonds. (Section 1206)

PROPOSED FORM OF OPINION OF BOND COUNSEL

Date of Delivery

Massachusetts Water Resources Authority
Charlestown Navy Yard
100 First Avenue
Boston, Massachusetts 02129



Re: \$327,160,000 Massachusetts Water Resources Authority General Revenue Refunding Bonds, 2011 Series C (the "Bonds")

Ladies and Gentlemen:

We have acted as Bond Counsel to the Authority in connection with the authorization, sale, issuance and delivery of the Bonds. In that capacity, we have examined the provisions of Chapter 372 of the Acts of 1984 of The Commonwealth of Massachusetts, as amended (the "Act"), the General Revenue Bond Resolution of the Massachusetts Water Resources Authority (the "Authority") adopted January 24, 1990, as amended and supplemented (the "General Resolution"), the Sixty-First Supplemental Resolution of the Authority adopted October 12, 2011 (the "Supplemental Resolution"), and the Issuance Resolution of the Authority adopted October 12, 2011 (the "Issuance Resolution," and together with the General Resolution and the Supplemental Resolution, the "Resolutions"), and we have examined and are familiar with originals or copies, certified or otherwise identified to our satisfaction, of such records of the Authority, certificates of officers of the Authority and other documents and instruments, and have made such other investigation of facts and examination of Massachusetts and federal law, as we have deemed necessary or proper for the purpose of rendering this opinion. We also have examined a record of proceedings relating to the authorization, sale, issuance and delivery of the Bonds and copies identified to our satisfaction of one Bond of each maturity as executed. Capitalized terms used herein shall, unless otherwise specified, have the meanings set forth in the Resolutions.

The Bonds are being issued by means of a book entry system, with bond certificates immobilized at or on behalf of The Depository Trust Company, New York, New York ("DTC"), and not available for distribution to the public, evidencing ownership of the Bonds in Authorized Denominations with transfer of beneficial ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants.

Based upon our examination, we are of the following opinion:

- (a) The Authority is duly organized and validly existing under the Act as a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts, with the right and power under the Act to adopt the Resolutions, perform the agreements on its part contained therein and issue the Bonds.

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- (b) The Bonds are general obligations of the Authority secured by the Resolutions and a pledge of the Revenues received by or for the account of the Authority and moneys on deposit in the funds and accounts pledged as security therefor under the Resolutions, and the Resolutions create the valid pledge and lien which they purport to create for the benefit of the holders of the Bonds, subject to the application of such pledged Revenues and moneys to the purposes and on the conditions permitted by the Resolutions.
- (c) The Bonds have been duly authorized, executed, authenticated and delivered and all conditions required by the Resolutions precedent to the issuance of the Bonds have been met. The Bonds are valid and binding general obligations of the Authority enforceable in accordance with their terms and entitled to the benefits and security of the Resolutions, subject only to applicable bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights heretofore or hereafter enacted and to general equity principles.
- (d) The Resolutions have been duly and lawfully adopted by the Authority, are in full force and effect and are valid and binding agreements of the Authority enforceable in accordance with their respective terms, subject only to applicable bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights heretofore or hereafter enacted and to general equity principles.
- (e) Under existing law, interest (including any original issue discount allocable to any of the Bonds) on the Bonds will not be included in gross income of holders of the Bonds for federal income tax purposes. This opinion is rendered subject to compliance by the Authority, subsequent to the issuance of the Bonds, with various requirements of the Internal Revenue Code of 1986, as amended. Failure to comply with such requirements could cause interest on the Bonds to become subject to federal income taxation retroactive to the date of issuance of the Bonds. Interest on the Bonds will not constitute an item of tax preference for purposes of computing the alternative minimum tax imposed on individuals and corporations. Interest on the Bonds will be taken into account in determining "adjusted current earnings" for the purpose of computing the alternative minimum tax imposed upon certain corporations. We express no opinion as to other federal tax consequences resulting from holding the Bonds.
- (f) The Bonds, their transfer and the income (including any original issue discount allocable to any of the Bonds) therefrom, including any profit made on the sale thereof, are exempt from taxes imposed by existing Massachusetts laws, although the Bonds and the interest (including any original issue discount allocable to any of the Bonds) thereon may be included in the measure of estate and inheritance taxes and of certain corporation excise and franchise taxes. We express no opinion as to the taxability of the Bonds, their transfer and the income therefrom, including any profit made on the sale thereof, under the laws of states other than Massachusetts.

Massachusetts Water Resources Authority

Date of Delivery

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This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

This opinion is limited to the matters expressly set forth herein and no opinion is implied or may be inferred beyond the matters expressly stated herein. Copies of this opinion may not be delivered to and may not be relied upon by any other party without our express prior written consent.

Very truly yours,

McCarter & English, LLP

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TABLE OF REFUNDED BONDS

Bonds	Maturity/ Sinking Fund Installment (August 1)	Refunded Par	CUSIP	Interest Rate	Redemption Date	Redemption Price
2002 Series J	2023	\$ 4,970,000	576049ZB9	5.000%	August 1, 2012	100%
	2024	10,795,000	576049ZC7	5.000%	August 1, 2012	100%
	2025	11,335,000	576049ZC7	5.000%	August 1, 2012	100%
	2026	11,905,000	576049ZC7	5.000%	August 1, 2012	100%
	2027	12,500,000	576049ZC7	5.000%	August 1, 2012	100%
	2028	13,125,000	576049ZC7	5.000%	August 1, 2012	100%
	2029	13,780,000	576049ZC7	5.000%	August 1, 2012	100%
	2030	14,470,000	576049ZC7	5.000%	August 1, 2012	100%
	2031	15,195,000	576049ZC7	5.000%	August 1, 2012	100%
	2032	15,950,000	576049ZC7	5.000%	August 1, 2012	100%
	2037	11,170,000	576049ZD5	5.000%	August 1, 2012	100%
	2038	11,730,000	576049ZD5	5.000%	August 1, 2012	100%
	2039	12,315,000	576049ZD5	5.000%	August 1, 2012	100%
	2040	12,930,000	576049ZD5	5.000%	August 1, 2012	100%
	2041	13,575,000	576049ZD5	5.000%	August 1, 2012	100%
	2042	13,255,000*	576049ZD5	5.000%	August 1, 2012	100%
			<u>\$199,000,000</u>			

Senior Bonds

Bonds	Maturity (August 1)	Refunded Par	CUSIP	Interest Rate	Redemption Date	Redemption Price
2003 Series D	2022	\$13,890,000	576049B33	5.000%	August 1, 2013	100%
	2023	14,620,000	576049B41	5.000%	August 1, 2013	100%
	2024	15,355,000	576049B58	5.000%	August 1, 2013	100%
	2025	<u>16,120,000</u>	576049B66	5.000%	August 1, 2013	100%
		<u>\$59,985,000</u>				

Bonds	Maturity (August 1)	Refunded Par	CUSIP	Interest Rate	Redemption Date	Redemption Price
2004 Series A	2021	\$ 2,315,000	576049E55	4.750%	August 1, 2014	100%
	2022	2,435,000	576049E63	4.750%	August 1, 2014	100%
	2023	12,295,000	576049E71	5.000%	August 1, 2014	100%
	2024	12,910,000	576049E89	5.000%	August 1, 2014	100%
	2025	13,560,000	576049E97	5.000%	August 1, 2014	100%
	2026	<u>14,235,000</u>	576049F21	5.125%	August 1, 2014	100%
		<u>\$57,750,000</u>				

Subordinate Bonds

Bonds	Maturity (August 1)	Refunded Par	CUSIP	Interest Rate	Redemption Date	Redemption Price
2002 Series C	2020	\$35,455,000	576049YH7	3.250%	January 1, 2012	100%

* Does not include \$1 million of the sinking fund installment due on August 1, 2042 that will remain outstanding. Upon the refunding of the 2002 Series J Bonds maturing on August 1, 2042, new CUSIP numbers will be assigned to the refunded and non-refunded portions.

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