


STAFF SUMMARY

TO: Board of Directors
FROM: Frederick A. Laskey, Executive Director
DATE: June 22, 2022
SUBJECT: Approval of the Final FY23 Current Expense Budget

COMMITTEE: Administration, Finance & Audit

 INFORMATION
 X VOTE

Michael Cole, Budget Director
James Coyne, Budget Manager
Preparer/Title



Thomas J. Durkin
Director, Finance

The Proposed FY23 Current Expense Budget (CEB) submitted to the Advisory Board at the February 2022 Board meeting included a 3.42% combined assessment increase.

The MWRA Advisory Board presented its comments and recommendations to the Board in May 2022, which recommended a combined assessment increase of 2.85% representing a \$4.5 million decrease to the Proposed FY23 Rate Revenue Requirement. The Authority has updated the Proposed Budget with the latest information, incorporated many of the Advisory Board recommendations and was able to achieve a 2.85% combined assessment increase.

As every year, the main focus is on next year’s budget, but always with the goal of continuing to utilize MWRA’s multi-year rate management strategy to provide sustainable, and predictable assessment increases to its member communities. To achieve this goal again this year, MWRA has continued to employ conservative budgeting and fiscal discipline which includes controlled spending and use of historical variable rate assumptions. The combination of these measures resulted in assessment increase projections below 3.5% for the next several years.

RECOMMENDATION:

1. To adopt the Final FY23 Current Expense Budget set forth in Attachments A and B, with current revenue and expense of \$840,190,871.
2. To adopt the Final FY23 Operating Budget (Trustee’s Budget) set forth in Attachment C.

DISCUSSION:

This staff summary presents the Final FY23 Current Expense Budget (CEB). Discussions and materials are provided herein outlining changes to the budget since the transmittal of the FY23 Proposed CEB in February 2022. In working with the MWRA Advisory Board, staff revisited all major line items of the budget and evaluated options to reduce the Rate Revenue Requirement to 2.85%.

For a line item comparison between the Proposed FY23 CEB and the Final FY23 CEB, please refer to Attachment A.

Summary

The Final FY23 Budget recommends a combined increase in rates and charges of 2.85%. Total expenses are \$840.2 million, an increase of \$27.2 million or 3.3% over the FY22 Budget. Capital Financing costs remain the largest component of the CEB and account for 60.2% of total expenses. The Final FY23 Budget assumes an offset of \$1.2 million for Debt Service Assistance (DSA) received in March 2022.

Total expenses include \$506.0 million for Capital Financing costs and \$334.2 million for operating expenses, of which \$273.7 million is for Direct Expenses and \$60.5 million is for Indirect Expenses. The \$27.2 million increase in total expenses is due to higher Direct Expenses of \$13.9 million, Indirect Expenses of \$3.8 million, and higher Capital Financing costs of \$9.4 million.

The FY23 Final Budget revenues, excluding rate revenue, total \$25.5 million, an increase of \$4.6 million or 22.1% over the FY22 Budget. The FY23 Final Budget non-rate revenue estimates include \$16.0 million in Other User Charges and Other Revenue, \$8.6 million for Investment Income, and \$1.0 million in Rate Stabilization.

The FY23 Final Rate Revenue Requirement is \$814.6 million, an increase of \$22.6 million or 2.85% over the FY22 Budget.

Table 1 on the following page provides a comparison of the Final FY23 CEB to the Approved FY22 CEB by major categories. Additional detail by line item is provided in Attachment A.

Table 1				
MWRA Current Expense Budget				
FY23 Final Budget versus FY22 Approved Budget				
(\$ in Millions)	FY22 Approved Budget	FY23 Final Budget	\$ Change	% Change
Directs	\$ 259.8	\$ 273.7	\$ 13.9	5.4%
Indirects	56.7	60.5	3.8	6.8%
Sub-Total Operating Expenses	\$ 316.5	\$ 334.2	\$ 17.8	5.6%
Capital Financing (before Offsets)	497.8	507.2	9.3	1.9%
Offsets: Bond Redemption ¹	-	-	-	0.0%
Variable Debt Savings	-	-	-	0.0%
Debt Service Assistance	(1.3)	(1.2)	0.1	-8.2%
Sub-Total Capital Financing	\$ 496.5	\$ 506.0	\$ 9.4	1.9%
Total Expenses	\$ 813.0	\$ 840.2	\$ 27.2	3.3%
Investment Income	\$ 4.0	\$ 8.6	\$ 4.6	116.8%
Non-Rate Revenue	15.7	16.0	0.3	1.7%
Rate Stabilization ¹	1.3	1.0	(0.3)	-21.6%
Sub-Total Non-Rate Revenue	\$ 20.9	\$ 25.5	\$ 4.6	22.1%
Rate Revenue	792.1	814.6	22.6	2.85%
Total Revenue & Income	\$ 813.0	\$ 840.2	\$ 27.2	3.3%
FY23 Rate Revenue Increase				2.85%
Combined Use of Reserves	\$ 1.3	\$ 1.0		

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

EXPENSES:

Direct Expenses

FY23 Direct Expenses total \$273.7 million, an increase of \$13.9 million, or 5.4% from the FY22 Budget.

FY23 FINAL CURRENT EXPENSE BUDGET				
MWRA DIRECT EXPENSES BY LINE ITEM				
Line Item	FY22 Approved Budget	FY23 Final Budget	Change FY23 vs FY22	
WAGES AND SALARIES	\$116,680,341	\$118,980,689	\$2,300,348	2.0%
OVERTIME	\$5,156,681	\$5,337,896	\$181,215	3.5%
FRINGE BENEFITS	\$23,253,137	\$23,961,641	\$708,504	3.0%
WORKERS' COMPENSATION	\$2,614,159	\$2,519,751	(\$94,408)	-3.6%
CHEMICALS	\$12,202,286	\$14,994,036	\$2,791,750	22.9%
ENERGY AND UTILITIES	\$24,749,865	\$30,896,365	\$6,146,500	24.8%
MAINTENANCE	\$32,442,381	\$33,241,022	\$798,641	2.5%
TRAINING AND MEETINGS	\$473,994	\$492,197	\$18,204	3.8%
PROFESSIONAL SERVICES	\$8,773,258	\$8,197,575	(\$575,683)	-6.6%
OTHER MATERIALS	\$8,334,774	\$6,728,862	(\$1,605,912)	-19.3%
OTHER SERVICES	\$25,129,236	\$28,372,237	\$3,243,001	12.9%
TOTAL	\$259,810,111	\$273,722,272	\$13,912,161	5.4%

- *Wages and Salaries* – The budget includes \$119.0 million for Wages and Salaries versus \$116.7 million in the FY22 Budget, an increase of \$2.3 million or 2.0%. Regular Pay makes up \$117.1 million or 98.4% of the total Wages and Salaries. The FY23 Budget funds 1,167 Full Time Equivalents, the same as the FY22 Budget. As always, new hires and backfilling of vacant positions will be managed at the agency level and addressed on a case-by-case basis by senior management. A vacancy adjustment (reduction) of \$2.7 million is factored in to the FY23 Final Budget.
- *Overtime* – The budget includes \$5.3 million for Overtime, an increase of \$181,000 or 3.5% as compared to the FY22 Budget mainly due to wage increases and recent trends in planned overtime for off-hours maintenance, emergency, and planned projects that include construction.
- *Fringe Benefits* – The budget includes \$24.0 million for Fringe Benefits, an increase of \$709,000 or 3.0% over the FY22 Budget. Health Insurance premiums total \$20.5 million, an increase of \$738,000 or 3.7% over the FY22 Budget largely due to an increase in the health plans rates and utilization.

- *Workers' Compensation* – The budget includes \$2.5 million for Workers' Compensation. This is \$94,000 or 3.6% less than the prior year's level and is based on a three-year historical average.
- *Chemicals* – The budget includes \$15.0 million for Chemicals, an increase of \$2.8 million or 22.9% over the FY22 Budget. Inflation is driving higher pricing, partially offset by lower volumes for some chemicals. Several chemicals increased including Sodium Hypochlorite by \$1.9 million or 58.5%, Ferric Chloride by \$476,000 or 25.2%, Polymer by \$179,000 or 35.5%, Aqua Ammonia by \$125,000 or 75.6%, Sodium Bisulfite by \$122,000 or 38.1%, and \$101,000 or 30.2%. For chemical contracts that will be procured during FY23, a 15% inflation factor has been applied across the board. The FY23 Budget does not include any funding for the new Deer Island National Pollutant Discharge Elimination System (NPDES) permit, which is projected to have more stringent requirements for enterococcus treatment compliance.
- *Utilities* – The budget includes \$30.9 million for Utilities, which is an increase of \$6.1 million or 24.8% over the FY22 Budget. The budget funds \$23.1 million for Electricity, an increase of \$4.3 million or 22.8% over the FY22 budget primarily due to higher pricing. The Diesel Fuel budget of \$4.1 million is \$1.5 million or 59.6% higher than the FY22 budget primarily due to increased price and volume at Deer Island.
- *Maintenance* – The budget includes \$33.2 million for Maintenance projects, an increase of \$799,000 or 2.5% over the FY22 Budget. The increase is driven by Building and Grounds Services of \$604,000 primarily for the Griffin Way traffic signal and floating dock rehab work at Deer Island, Computer Software Licenses of \$439,000 primarily due to new Sequel Server Enterprise Software Assurance license and CrowdStrike software maintenance, Electrical Materials of \$238,000 driven by Deer Island for new equipment including PLCs for flares and breakers for the South System Pump Station and Winthrop Terminal Facility, Computer Services of \$208,000 primarily for SCADA software maintenance and updated cost for Microsoft Premier Services. These increases are partially offset by lower Plant and Machinery Materials of \$735,000 for materials that were purchased in FY22 including Deer Island strainers and other reductions to as-needed items.
- *Training and Meetings* – The budget includes \$492,000 for Training and Meetings, an increase of \$18,000 or 3.8% over the FY22 Budget, now that COVID-19 restrictions are easing up and staff are attending conferences again.
- *Professional Services* – The budget includes \$8.2 million for Professional Services, a decrease of \$576,000 or 6.6% from the FY22 Budget. The decrease is driven by MIS for a reduction in scope for Managed Security Service Provider (MSSP) of \$474,000, internet and intranet upgrades of \$275,000, and Oracle Professional Services of \$100,000 that are planned in FY22. This decrease was partially offset by increase in Security costs of \$368,000 based on updated contract rates.

- *Other Materials* – The budget includes \$6.7 million for Other Materials, a decrease of \$1.6 million or 19.3% from the FY22 Budget. The decrease reflects \$2.1 million in Other Materials due to office space modifications costs for staff moving from the Charlestown Navy Yard to Chelsea and Deer Island, that are now funded in the CIP. This is partially offset by Vehicle Expense of \$411,000 driven by the purchase and installation of fifteen electric vehicle chargers and five Direct Current fast electric vehicle chargers for the Chelsea Facility.
- *Other Services* – The budget includes \$28.4 million for Other Services, an increase of \$3.2 million or 12.9% over the FY22 Budget. The increase reflects \$2.4 million for Sludge Pelletization due mainly to the projected cost increase of the NEFCo contract extension primarily due to inflation, partially offset by reduced sludge quantities based on historical trends. Also, Telecommunications of \$350,000 primarily based on updated network costs, Space/Lease Rentals increased by \$332,000 primarily due to the Rock Core Shed lease and shelving for the Water Redundancy Program Management, and Printing/Duplicating of \$123,000 primarily due to Records Center scanning for workplace consolidation.

Indirect Expenses

Indirect Expenses for FY23 total \$60.5 million, an increase of \$3.8 million or 6.8% over the FY22 Budget. Below are the highlights of major changes:

- The budget includes \$3.9 million for Insurance, a decrease of \$28,000 or 0.7% from the FY22 Budget. This reflects an anticipated 10% property premium credit. Claim payments were reduced based on a 5-year average.
- The budget includes \$28.9 million for the Watershed Management budget, an increase of \$2.2 million or 8.1% over the FY22 Budget. The budget includes \$20.0 million for reimbursement of operating expenses net of revenues, and \$8.9 million for Payment in Lieu of Taxes (PILOT). The budget increase is driven by contractual increases and healthcare costs. A vacancy adjustment of -\$328,000 has been applied to reflect the actual timing of hiring. The PILOT payments increased by \$98,000 or 1.1% over FY22.
- The budget includes \$6.2 million for the Harbor Energy Electric Company (HEEC), a decrease of \$766,000 or 11.0% from the FY22 Budget. The budget reflects the latest cost estimates.
- The budget includes \$1.7 million for Mitigation payments to the City of Quincy and Town of Winthrop in accordance with mitigation agreements, which expire in FY25.
- Funding for the Operating Reserve for FY23 is \$2.4 million. The Operating Reserve balance is in compliance with MWRA General Bond Resolution which requires a balance of one-sixth of annual operating expenses. Based on the FY23 Final Budget, the required balance is \$49.7 million versus the \$47.3 million required in FY22.

- The budget includes \$12.6 million for the Retirement Fund, which is level to planning estimates, but an increase of \$1.4 million or 12.1% over the FY22 budget. The increase is per the the January 2021 actuarial valuation. MWRA's pension fund is at the 88.2% funding level and projected to be fully funded by June 30, 2030.
- The Authority has complied with the GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB)*, by disclosing this liability in the year-end Financial Statements. As part of the multi-year strategy to address its unfunded liabilities for OPEB and pension holistically, the Board approved a plan to pay down the pension liability and upon reaching full funding, move to address the OPEB obligation. To maximize the benefits in terms of returns and accounting treatment, an irrevocable OPEB Trust was established with Board approval and funding started on April 23, 2015. The OPEB Trust balance was \$66.3 million as of December 31, 2021. Starting in FY18, GASB 75 is the governing regulation for employee OPEB contributions. The proposed \$4.8 million budget is based on 50% of the contribution determined in the January 1, 2020 actuarial report. MWRA recently received an updated actuarial valuation as of January 1, 2022 which reduced the FY23 contribution to \$2.9 million. Staff propose keeping the OPEB funding at current levels to mitigate against actuarial losses as a result of volatile market conditions.

Capital Financing

As a result of the Authority's Capital Improvement Program, capital financing as a percent of total expenses (before offsets) has increased from 36% in 1990 to 60.2% in the FY23 Final Current Expense Budget. Much of this debt service is for completed projects, primarily the Boston Harbor Project, the Integrated Water Supply Improvement Program, and the Combined Sewer Overflow (CSO) projects. MWRA's capital spending, from its inception, has been dominated by projects mandated by court ordered or regulatory requirements, which in total have accounted for ~72% of capital spending to date. Going forward, the majority of spending will be focused on asset protection and water redundancy initiatives.

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

The FY22 Final Budget capital financing costs total \$506.0 million and remains the largest portion of the MWRA's budget.

The FY23 Final Budget includes the benefit of a defeasance of \$34.9 million in June 2022 which will reduce debt by approximately \$1.5 million in FY23, \$9.6 million in FY24, \$1.1 million in FY25, and \$23.6 million in FY26.

The FY23 Final Budget assumes a 3.50% interest rate for variable rate debt ,which is the same as the FY22 rate. The Authority’s variable rate debt assumption is comprised of three separate elements: the interest rate for the weekly series; liquidity fees for the Standby Bond Purchase Agreement, Letter of Credit, and Direct Purchase providers; and remarketing fees. While MWRA continues to experience low interest rates, they are not reflective of historical averages. MWRA has observed increases to variable interest rates as the Federal Reserve tightens monetary policy.

The FY23 Final Budget capital financing costs increased by \$9.4 million or 1.9% compared to the FY22 Budget. This increase in the MWRA’s debt service is the result of projected FY23 borrowings and the structure of the existing debt, partially offset by the impact of the projected defeasance.

The FY23 capital financing budget includes:

- \$302.2 million in principal and interest payments on MWRA’s senior fixed rate bonds. This amount includes \$12.7 million to support new money issuances of \$125.0 million in October 2022 and \$100.0 million in June 2023;
- \$75.5 million in principal and interest payments on subordinate bonds;
- \$96.3 million in principal and interest payments on SRF loans. This amount includes \$8.8 million to support an issuances of \$105.0 million in the spring of 2023;
- \$18.2 million to fund ongoing capital projects with current revenue and to meet coverage requirements;
- \$5.5 million in debt prepayment;
- \$6.2 million to fund the interest expense related to the Local Water Pipeline Assistance Program;
- \$3.2 million for the Chelsea Lease; and
- \$1.2 million offset to Debt Service for the Debt Service Assistance received in FY22.

Revenue

FY23 non-rate revenue totals \$25.5 million, which is an increase of \$4.6 million or 22.1% versus the FY22 Budget. The FY23 non-rate revenue budget includes:

- \$9.8 million in Other User Charges, including \$5.5 million for the Chicopee Valley Aqueduct (CVA) communities, \$2.2 million for Deer Island water usage, \$208,000 for entrance fees from member communities, and \$500,000 for the Commonwealth’s partial reimbursement for Clinton Wastewater Treatment Plant expenses. Other User Charges are \$614,000 or 6.7% higher than the FY22 Budget.

- \$6.1 million in Other Revenue, a decrease of \$340,000 from the FY22 Budget. Other Revenue includes \$2.2 million from the sale of the Authority's Renewable Portfolio Credits, revenue from participating in load response programs, and the sale of generated power to the grid. Energy related revenue decreased \$106,000 reflecting decreased power sales revenue and reduced pricing for Renewable Portfolio Credits. The balance of Other Revenue includes \$2.5 million in permit fees and penalties, a decrease of \$208,000 from the FY22 Budget.
- \$8.6 million in Investment Income, an increase of \$4.6 million or 116.8% over the FY22 Budget. The budget reflects the impacts of increasing interest rates as a result of current market conditions.

The Rate Revenue Requirement for FY23 is \$814.6 million, an increase \$22.6 million or 2.85% over the FY22 Budget. The Rate Revenue Requirement is the difference between total expenses of \$840.2 million, less non-rate revenue of \$25.5 million.

Planning Estimates and Future Rate Projections

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

Table 3 below presents the combined estimated future rate increases and household charges based on the Final FY23 Budget. The planning estimates shown below include \$1.2 million in Debt Service Assistance from the Commonwealth received in FY22 and applied to FY23. The rate projections include the use of Rate Stabilization through FY29. Rate Stabilization includes the use of the HEEC reserve (\$2.8 million) to mitigate the increases as a result new cable. In addition to the HEEC reserve, the projections includes \$2.5 million use of Rate Stabilization which provides a 50 percent reduction to the year over year increase to the water utility's annual share of the pension contribution.

Table 3

Rates & Budget Projections						
Proposed FY23 CEB	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Total Rate Revenue (\$000)	\$ 792,084	\$ 814,648	\$ 842,064	\$ 870,610	\$ 899,989	\$ 928,994
Rate Revenue Change from Prior Year (\$000)	\$ 22,699	\$ 22,564	\$ 27,416	\$ 28,546	\$ 29,379	\$ 29,005
Rate Revenue Increase	3.0%	2.8%	3.4%	3.4%	3.4%	3.2%
Use of Reserves (\$000)	\$ 1,250	\$ 980	\$ 1,105	\$ 917	\$ 809	\$ 780

Estimated Household Bill

Based on annual water usage of 61,000 gallons	\$1,275	\$1,328	\$1,386	\$1,447	\$1,510	\$1,576
Based on annual water usage of 90,000 gallons	\$1,881	\$1,959	\$2,045	\$2,135	\$2,228	\$2,325

CEB Review and Adoption Process

In February, the MWRA transmitted the Proposed FY23 Budget to the Advisory Board for its review and comments. MWRA staff have worked closely with MWRA Advisory Board staff in an effort to review the budget and reduce the rate revenue requirement from 3.42% in the FY23 Proposed Budget to 2.85% in the FY23 Final Budget.

ATTACHMENTS:

- Attachment A FY23 Final Budget vs. FY23 Proposed Budget vs. FY22 Approved Budget
- Attachment B FY23 Final Direct Expense Budget by Division
- Attachment C FY23 Final Operating Budget (Trustee's Budget)
- Attachment D FY23 Final Budget vs. FY22 Projections
- Attachment E MWRA Responses to Advisory Board's FY23 Integrated CIP and CEB Comments and Recommendations

ATTACHMENT A

FY23 Final Budget vs. FY23 Proposed Budget vs. FY22 Approved Budget

TOTAL MWRA	FY22 Approved Budget	FY23 Proposed Budget	FY23 Final Budget	Change FY23 Final Budget vs FY22 Approved Budget		Change FY23 Final Budget vs FY23 Proposed Budget	
				\$	%	\$	%
EXPENSES							
WAGES AND SALARIES	\$ 116,680,341	\$ 119,281,491	\$ 118,980,689	\$ 2,300,348	2.0%	\$ (300,802)	-0.3%
OVERTIME	5,156,681	5,337,896	5,337,896	181,215	3.5%	-	0.0%
FRINGE BENEFITS	23,253,137	24,287,374	23,961,641	708,504	3.0%	(325,733)	-1.3%
WORKERS' COMPENSATION	2,614,159	2,519,751	2,519,751	(94,408)	-3.6%	-	0.0%
CHEMICALS	12,202,286	12,997,814	14,994,036	2,791,750	22.9%	1,996,222	15.4%
ENERGY AND UTILITIES	24,749,865	26,926,612	30,896,365	6,146,500	24.8%	3,969,753	14.7%
MAINTENANCE	32,442,381	32,730,687	33,241,022	798,641	2.5%	510,335	1.6%
TRAINING AND MEETINGS	473,994	492,197	492,197	18,204	3.8%	-	0.0%
PROFESSIONAL SERVICES	8,773,258	8,254,714	8,197,575	(575,683)	-6.6%	(57,139)	-0.7%
OTHER MATERIALS	8,334,774	6,702,897	6,728,862	(1,605,912)	-19.3%	25,965	0.4%
OTHER SERVICES	25,129,236	28,120,922	28,372,237	3,243,001	12.9%	251,315	0.9%
TOTAL DIRECT EXPENSES	\$ 259,810,111	\$ 267,652,357	\$ 273,722,272	\$ 13,912,160	5.4%	\$ 6,069,915	2.3%
INSURANCE	\$ 3,943,600	\$ 3,916,002	\$ 3,916,002	\$ (27,598)	-0.7%	\$ -	0.0%
WATERSHED/PILOT/DEBT	26,731,490	28,023,798	\$ 28,890,762	2,159,272	8.1%	866,964	3.1%
HEEC PAYMENT	6,991,953	6,225,566	\$ 6,225,566	(766,387)	-11.0%	-	0.0%
MITIGATION	1,693,360	1,735,694	\$ 1,735,694	42,334	2.5%	-	0.0%
ADDITIONS TO RESERVES	1,412,647	1,406,800	\$ 2,418,452	1,005,806	71.2%	1,011,652	71.9%
RETIREMENT FUND	11,205,000	12,555,203	\$ 12,555,203	1,350,203	12.1%	-	0.0%
POSTEMPLOYMENT BENEFITS	4,673,624	4,754,061	\$ 4,754,061	80,438	1.7%	-	0.0%
TOTAL INDIRECT EXPENSES	\$ 56,651,673	\$ 58,617,124	\$ 60,495,741	\$ 3,844,068	6.8%	\$ 1,878,616	3.2%
STATE REVOLVING FUND	\$ 95,673,399	\$ 99,402,956	\$ 96,342,495	\$ 669,096	0.7%	\$ (3,060,461)	-3.1%
SENIOR DEBT	244,957,128	305,911,389	302,169,940	57,212,812	23.4%	(3,741,449)	-1.2%
SUBORDINATE DEBT	125,046,217	75,491,975	75,491,975	(49,554,242)	-39.6%	-	0.0%
LOCAL WATER PIPELINE CP	6,120,127	6,243,882	6,233,882	113,755	1.9%	(10,000)	-0.2%
CURRENT REVENUE/CAPITAL	17,200,000	18,200,000	18,200,000	1,000,000	5.8%	-	0.0%
CAPITAL LEASE	3,217,060	3,217,060	3,217,060	-	0.0%	-	0.0%
DEBT PREPAYMENT	5,609,355	5,500,000	5,500,000	(109,355)	-1.9%	-	0.0%
DEBT SERVICE ASSISTANCE	(1,287,870)	-	(1,182,494)	105,376	-8.2%	(1,182,494)	0.0%
TOTAL DEBT SERVICE	\$ 496,535,417	\$ 513,967,263	\$ 505,972,858	\$ 9,437,441	1.9%	\$ (7,994,405)	-1.6%
TOTAL EXPENSES	\$ 812,997,202	\$ 840,236,744	\$ 840,190,871	\$ 27,193,669	3.3%	\$ (45,873)	0.0%
REVENUE & INCOME							
RATE REVENUE	\$ 792,084,000	\$ 819,138,000	\$ 814,648,000	\$ 22,564,000	2.85%	\$ (4,490,000)	-0.5%
OTHER USER CHARGES	9,222,884	9,870,899	9,836,508	613,624	6.7%	(34,391)	-0.3%
OTHER REVENUE	6,479,202	6,108,752	6,139,104	(340,098)	-5.2%	30,352	0.5%
RATE STABILIZATION	1,250,000	980,000	980,000	(270,000)	-21.6%	-	0.0%
INVESTMENT INCOME	3,961,116	4,139,091	8,587,259	4,626,143	116.8%	4,448,168	107.5%
TOTAL REVENUE & INCOME	\$ 812,997,202	\$ 840,236,744	\$ 840,190,871	\$ 27,193,670	3.3%	\$ (45,872)	0.0%
Rate Revenue Increase over FY22		3.42%	2.85%				

ATTACHMENT B

FY23 Final Direct Expense Budget by Division

Division	FY22 Final Budget	FY23 Final Budget	Change FY23 Final Budget vs. FY22 Final Budget	
			\$	%
Executive	\$1,540,191	\$1,501,738	-\$38,453	-2.5%
Emergency Preparedness	3,108,835	4,030,440	\$921,605	29.6%
Administration	57,563,995	55,445,632	-\$2,118,363	-3.7%
Finance	4,635,289	6,044,982	\$1,409,693	30.4%
Law	1,927,006	2,027,649	\$100,643	5.2%
Affirmative Action	709,745	699,994	-\$9,751	-1.4%
Internal Audit	749,677	794,394	\$44,717	6.0%
Public Affairs	1,224,225	1,254,604	\$30,379	2.5%
Operations	188,351,148	201,922,839	\$13,571,690	7.2%
Total Authority	\$259,810,111	\$273,722,272	\$13,912,160	5.4%

ATTACHMENT C

**Massachusetts Water Resources Authority
Fiscal Year 2023 Operating Budget for Filing with the Trustee
Pursuant to Section 712 of General Bond Resolution Adopted January 24, 1990**

(\$000s)

Projected Monthly Deposits:

Fund	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
Operating	\$23,301	\$29,126	\$23,301	\$23,301	\$29,126	\$23,301	\$23,301	\$29,126	\$23,301	\$23,301	\$29,126	\$23,301	\$302,909
Debt Service & Coverage	38,921	48,651	38,921	38,921	48,651	38,921	38,921	48,651	38,921	38,921	48,651	38,921	505,973
Debt Service Reserve	---	---	---	---	---	---	---	---	---	---	---	---	0
CORE	---	---	---	---	---	---	---	---	---	---	---	---	0
Commonwealth Obligations	---	---	4,997	---	---	4,997	---	---	13,900	---	---	4,997	28,891
Operating Reserve	186	233	186	186	233	186	186	233	186	186	233	186	2,418
Insurance Reserve	---	---	---	---	---	---	---	---	---	---	---	---	0
Renewal & Replacement Reserve	---	---	---	---	---	---	---	---	---	---	---	---	0
Rate Stabilization Reserve	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	<u>\$62,408</u>	<u>\$78,010</u>	<u>\$67,405</u>	<u>\$62,408</u>	<u>\$78,010</u>	<u>\$67,405</u>	<u>\$62,408</u>	<u>\$78,010</u>	<u>\$76,308</u>	<u>\$62,408</u>	<u>\$78,010</u>	<u>\$67,405</u>	<u>\$840,191</u>

Attachment D

FY23 Final Budget vs. FY22 Projections

TOTAL MWRA	FY22 Projection	FY23 Final Budget	Change	% Change
EXPENSES				
WAGES AND SALARIES	\$ 107,378,367	\$ 118,980,689	\$ 11,602,323	10.8%
OVERTIME	\$ 5,030,378	\$ 5,337,896	307,518	6.1%
FRINGE BENEFITS	\$ 22,209,351	\$ 23,961,641	1,752,290	7.9%
WORKERS' COMPENSATION	\$ 1,960,619	\$ 2,519,751	559,132	28.5%
CHEMICALS	\$ 12,255,355	\$ 14,994,036	2,738,681	22.3%
ENERGY AND UTILITIES	\$ 28,684,687	\$ 30,896,365	2,211,678	7.7%
MAINTENANCE	\$ 30,066,732	\$ 33,241,022	3,174,290	10.6%
TRAINING AND MEETINGS	\$ 314,875	\$ 492,197	177,322	56.3%
PROFESSIONAL SERVICES	\$ 7,895,932	\$ 8,197,575	301,643	3.8%
OTHER MATERIALS	\$ 7,501,297	\$ 6,728,862	(772,435)	-10.3%
OTHER SERVICES	\$ 24,877,944	\$ 28,372,237	3,494,293	14.0%
TOTAL DIRECT EXPENSES	\$ 248,175,536	\$ 273,722,272	\$ 25,546,736	10.3%
INSURANCE	\$ 3,943,600	\$ 3,916,002	\$ (27,598)	-0.7%
WATERSHED/PILOT/DEBT	\$ 25,450,160	\$ 28,890,762	3,440,602	13.5%
HEEC PAYMENT	\$ 6,640,819	\$ 6,225,566	(415,253)	-6.3%
MITIGATION	\$ 1,693,360	\$ 1,735,694	42,334	2.5%
ADDITIONS TO RESERVES	\$ 1,412,647	\$ 2,418,452	1,005,806	71.2%
RETIREMENT FUND	\$ 11,205,000	\$ 12,555,203	1,350,203	12.1%
POSTEMPLOYMENT BENEFITS	\$ 4,673,624	\$ 4,754,061	80,438	1.7%
TOTAL INDIRECT EXPENSES	\$ 55,019,209	\$ 60,495,741	\$ 5,476,532	10.0%
STATE REVOLVING FUND	\$ 89,764,498	\$ 96,342,495	\$ 6,577,997	7.3%
SENIOR DEBT	\$ 238,650,582	\$ 302,169,940	63,519,358	26.6%
SUBORDINATE DEBT	\$ 114,008,631	\$ 75,491,975	(38,516,656)	-33.8%
LOCAL WATER PIPELINE CP	\$ 1,431,079	\$ 6,233,882	4,802,803	335.6%
CURRENT REVENUE/CAPITAL	\$ 17,200,000	\$ 18,200,000	1,000,000	5.8%
CAPITAL LEASE	\$ 3,217,060	\$ 3,217,060	-	0.0%
DEBT PREPAYMENT	\$ 5,609,355	\$ 5,500,000	(109,355)	-1.9%
DEBT SERVICE ASSISTANCE	\$ (1,287,870)	\$ -	1,287,870	-100.0%
TOTAL DEBT SERVICE	\$ 468,593,335	\$ 505,972,858	\$ 37,379,523	8.0%
TOTAL EXPENSES	\$ 771,788,080	\$ 840,190,871	\$ 68,402,791	8.9%
REVENUE & INCOME				
RATE REVENUE	\$ 792,084,000	\$ 814,648,000	\$ 22,564,000	2.8%
OTHER USER CHARGES	\$ 10,693,360	\$ 9,836,508	(856,852)	-8.0%
OTHER REVENUE	\$ 8,739,663	\$ 6,139,104	(2,600,559)	-29.8%
RATE STABILIZATION	\$ 1,250,000	\$ 980,000	(270,000)	-21.6%
INVESTMENT INCOME	\$ 4,100,116	\$ 8,587,259	4,487,143	109.4%
TOTAL REVENUE & INCOME	\$ 816,867,140	\$ 840,190,871	\$ 23,323,731	2.9%

ATTACHMENT E

MWRA's Responses to the Advisory Board's FY2023 Integrated CIP and CEB Recommendations and Comments

Advisory Board Recommendations	MWRA Responses
<p>Continuation of the Advisory Board's "Pay it Forward" Principle, applying</p> <p>1. FY22 Debt Service Assistance towards FY23 Budget. Water: \$-105,309 Sewer: \$-1,077,185</p>	<p>Agreed.</p>
<p>Consultation via a compensation and staffing study to review the new MWRA staffing trends to retain current personnel and hire new personnel from pandemic into endemic.</p> <p>2.</p>	<p>Agreed.</p>
<p>For FY23, the Advisory Board also recommends adjusting the proposed FTE for a total Personnel expense reduction of \$2,700,000. vacancy rate of 21 FTE to 27 Water: \$-1,100,000 Sewer: \$-1,600,000</p> <p>3.</p>	<p>Agreed.</p>
<p>If the 2021 actuarial study numbers are favorable, MWRA should use the pension contribution costs in the final FY23 CEB and accompanying updated numbers to recalculate the projected future planning projections</p> <p>4.</p>	<p>MWRA's planning estimates include pension funding schedule approved at the MWRA Retirement Board meeting on June 1, 2022.</p>
<p>Consistent with the "two sides of the same coin" approach endorsed by the MWRA Board of Directors, MWRA should shift the OPEB contribution in the water utility FY23 CEB to the pension line item and continue to do so until "virtual full funding" level is achieved (95%-105%).</p> <p>5.</p>	<p>MWRA intends to keep the OPEB funding at current levels to mitigate against actuarial losses as a result of volatile market conditions.</p>
<p>The MWRA should shift optional debt prepayments in the sewer utility FY23 CEB into the pension line item and continue to do so until full funding (not virtual) is achieved.</p> <p>6.</p>	<p>MWRA intends to maintain the optional debt prepayment at current levels as part of its long-term rates management strategy to mitigate against raising interest rates and other inflationary pressures.</p>
<p>The MWRA should propose to the Retirement Board a one-time use of water rate stabilization funds to the pension calculated to achieve no less than 90% funding on the overall pension unfunded liability, keeping this deposit in either cash or a stable capital preservation vehicle to isolate it from potential negative market impacts. This one-time deposit will be contingent upon: A vote of the Retirement Board to extend the date for full funding of the retirement fund to 2033, and to delegate authority to the Executive Director of the Retirement Board to request that PERAC approve a one-year extension in future if certain criteria are met to simulate a rolling 10-year funding schedule up through 2040.</p> <p>7.</p>	<p>MWRA shares the Advisory Board's concerns about the increases to the Annual Required Contributions presented in the funding schedule. The MWRA Retirement System vote on June 1, 2022 did not include any of these provisions. Staff have utilized Rate Stabilization Funds to mitigate the impact of pension system increases between FY24 and FY29.</p>

ATTACHMENT E

MWRA's Responses to the Advisory Board's FY2023 Integrated CIP and CEB Recommendations and Comments

Advisory Board Recommendations	MWRA Responses
<p>8. MWRA should work with the Advisory Board, and other retirement system stakeholders to secure legislation to amend MGL Chapter 32 to authorize the state actuary to develop a plan that addresses well-funded, short-to-full amortization systems like the MWRA, with the goal of shifting to a rolling date for full funding if certain criteria are met (e.g. the system must be 90%+ funded)</p>	<p>Agreed.</p>
<p>9. The MWRA should shift optional debt prepayments in the sewer utility FY23 CEB into the pension line item, and continue to do so until full funding (not virtual) is achieved.</p>	<p>MWRA intends to maintain the optional debt prepayment at current levels as part of its long-term rates management strategy to mitigate against raising interest rates and other inflationary pressures.</p>
<p>10. MWRA anticipates a lower than proposed capital financing cost. Differences should be adjusted in RRR. Water: \$-500,000 Sewer: \$-1,000,000</p>	<p>Agreed. Debt Service was lowered by: water \$-3.2 million and sewer \$-4.4 million</p>