



Getting to a \$0  
Rate Revenue Increase for FY11

November 19, 2009

---

Advisory Board

# Starting Point

## Final FY10 Budget

### Original Planning Projections

(\$ millions)

	FY2010	FY2011	FY2012
<b>Direct Expenses</b>	\$209.6	\$217.6	\$226.6
<b>Indirect Expenses</b>	39.8	47.6	48.5
<b>Capital Financing (before offsets)</b>	347.2	389.8	395.2
<b>TOTAL EXPENSES</b>	<b>\$596.6</b>	<b>\$655.0</b>	<b>\$670.3</b>
<b>Debt Service Assistance</b>	(0.4)	(0.4)	(0.4)
<b>Bond Redemption Savings</b>	0.0	(17.0)	(2.7)
<b>Variable Rate Savings</b>	0.0	0.0	0.0
(less offsets)	<b>\$596.3</b>	<b>\$637.7</b>	<b>\$667.3</b>
<b>Non-Member and Other Revenue</b>	\$12.3	\$12.0	\$12.8
<b>Interest Income</b>	15.2	12.5	12.1
<b>Rate Stabilization</b>	7.3	15.8	6.8
	<b>\$34.8</b>	<b>\$40.3</b>	<b>\$31.6</b>
<b>Total Rate Revenue</b>	<b>\$561.4</b>	<b>\$597.4</b>	<b>\$635.7</b>
<b>Rate Revenue Increase</b>		\$36.0	\$38.3
	3.80%	6.41%	6.41%

# One Scenario

## Potential Reductions

	(\$ millions)		
	FY2010	FY2011	FY2012
<b>Direct Expenses</b>	\$209.6	\$212.8	\$218.1
<b>Indirect Expenses</b>	39.8	34.7	33.2
<b>Capital Financing (before offsets)</b>	346.9	370.5	373.1
<b>TOTAL EXPENSES</b>	\$596.3	\$617.9	\$624.4
<b>Debt Service Assistance</b>	0.0	0.0	0.0
<b>Bond Redemption Savings</b>	0.0	(17.0)	(2.7)
<b>Variable Rate Savings</b>	0.0	0.0	0.0
(less offsets)	\$596.3	\$601.0	\$621.7
<b>Non-Member and Other Revenue</b>	12.3	12.0	12.8
<b>Interest Income</b>	15.2	11.7	11.6
<b>Rate Stabilization</b>	7.3	15.8	6.8
	<b>\$34.8</b>	<b>\$39.5</b>	<b>\$31.1</b>
<b>Total Rate Revenue</b>	<b>\$561.4</b>	<b>\$561.4</b>	<b>\$589.4</b>
Rate Revenue Increase		( <b>\$0.0</b> )	\$28.0
	3.80%	0.00%	4.99%

# Tools to Get There

## Prior Year Surplus

FY10 (from FY09)	FY11 (from FY10)	FY12 (from FY11)
\$10.0M	\$19.4M*	\$4.3M

- FY10 total reflects June 2009 defeasance
- FY11 projection uses tools
  - \* Total spread between FY11 and FY12
- FY12 = assumes lower spending on direct expenses in FY11
- Defease debt targeting FY11 and FY12

# Pension

## Potential Reductions

FY10	FY11	FY12
\$2.8M	\$2.7M	\$4.4M

- FY10 – “Over and above” actuarial amount
- FY11 and 12 – Current Year Liability + nominal
- Pension Reform
- Shift schedule to match Commonwealth

# Other Post-Employment Benefits

Potential Reductions

FY10	FY11	FY12
\$0.8M	\$10.2M	\$10.9M

- FY10 – Fringe benefits tradeoff
- FY11 and 12 – 2007 Actuarial Study Numbers

# Variable Rate Debt

## Potential Reductions

FY10	FY11	FY12
\$8.4M	\$5.6M	\$5.6M

- FY10 = 3.5% assumption
- FY11-12 = 4.0% assumption
- Current rates = 1.0%
  - Through Oct. '09 = \$5.7M under
- Reductions
  - FY10 = 150 basis points
  - FY11-12 = 100 basis points

# Local Pipeline Assistance Program

## Potential Reductions

FY10	FY11	FY12
\$2.5M	\$2.0M	\$2.0M

- Same principle as Variable Rate Debt
- Assumes lower interest rates in FY10 than in FY11-12

# Cash for Capital

## Potential Reductions

FY10	FY11	FY12
\$1.5M	\$1.5M	\$1.5M

- Can be adjusted to meet coverage requirement

# Direct Expenses

## Potential Reductions

FY10	FY11	FY12
\$4.2M	\$4.8M	\$8.5M

- FY10 – 2% underspending assumption
  - Through Oct. '09 = \$3.8M under
- FY11 – Lower inflation from 4% to 1.7%
- FY12 – Lower inflation from 4% to 2.5%

# Negative Impacts

Potential Additions

- Debt Service Assistance
  - \$0.35 million/year
- Investment Income
  - \$0.8 million/year
- Clinton
  - \$0.5 million/year (not removed)

# One Scenario

## Potential Reductions

(\$ millions)

	FY2010	FY2011	FY2012
<b>Direct Expenses</b>	\$209.6	\$212.8	\$218.1
<b>Indirect Expenses</b>	39.8	34.7	33.2
<b>Capital Financing (before offsets)</b>	346.9	370.5	373.1
<b>TOTAL EXPENSES</b>	\$596.3	\$617.9	\$624.4
<b>Debt Service Assistance</b>	0.0	0.0	0.0
<b>Bond Redemption Savings</b>	0.0	(17.0)	(2.7)
<b>Variable Rate Savings</b>	0.0	0.0	0.0
(less offsets)	\$596.3	\$601.0	\$621.7
<b>Non-Member and Other Revenue</b>	12.3	12.0	12.8
<b>Interest Income</b>	15.2	11.7	11.6
<b>Rate Stabilization</b>	7.3	15.8	6.8
	<b>\$34.8</b>	<b>\$39.5</b>	<b>\$31.1</b>
<b>Total Rate Revenue</b>	<b>\$561.4</b>	<b>\$561.4</b>	<b>\$589.4</b>
Rate Revenue Increase		(\$0.0)	\$28.0
	3.80%	0.00%	4.99%

Original  
Projections

**\$635.7**

# Under This Scenario

- Rate revenue requirement remains under \$600 million through FY12.
- The new FY12 rate revenue requirement is almost \$7 million less than the original projections for FY11.
- Rate revenue increases less than 5% over next two years.
- This is only ONE possible scenario.

# Other/Future Tools

- Release of Lehman Funds (\$2.1 million)
- Local Pipeline Assistance Program
  - \$1-3 million underspent in each of the last three years
- Cash for Capital
  - Direct staff to adjust to meet coverage
- Variable rate debt further reduction (\$x million)
  - \$1.4 million for every 25 basis points
- Sell 1 MGD more water (\$5 million)
  - e.g. Southfield
- Debt Service Assistance
  - Can only go up from \$0
- Refunding/restructuring opportunities
  - e.g. Harbor Electric Energy Company cable
- Release of additional reserves (\$138 million)
  - FY14 changes to bond covenants replenishes reserves
- Revised/lowered Operating Reserve assumptions

# Addressing Potential Concerns

- Exhausting all reserves
  - Assumes no surplus in future years
  - Average surplus greater than \$20M over last three years
  - Future release of reserves not reflected in projections
- “Obligation to fund” pension and OPEB
  - OPEB – peer agencies can’t afford
  - Financial Advisor’s statement
    - “We believe it would not be prudent at this time to make any meaningful deposit towards its OPEB liability during this stressed time.”
  - Pension reform will change liability dramatically

# Potential Concerns (ctd.)

- Variable Rate Debt
  - Even with “spikes” \$12.5 million surplus in variable rate debt expenses
  - Fed rates to remain for “extended period”
- Risks Authority’s Bond Rating
  - Authority has kept increases lower than projected in past
  - Impact on rating if community faced with default in face of multiple challenges

# Why This Makes “Cents”

- Declining local aid
- Impacts of lower consumption on retail rates
- Growing delinquencies
- Senior citizens get no COLAs
- Unemployment exceeds 10%