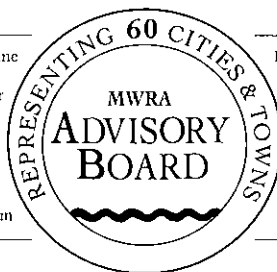


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January 23, 2009

Ian Bowles, Secretary
Executive Office of Energy and Environmental Affairs
100 Cambridge Street, Suite 900
Boston, MA 02114-2534

Frederick A. Laskey, Executive Director
Massachusetts Water Resources Authority
100 First Avenue
Boston, Massachusetts 02129

Dear Secretary Bowles and Mr. Laskey:

As we near the discussion of the proposed fiscal year 2010 Current Expense Budget and the rate revenue needed to support it, this may be the time to think more broadly about budget priorities and risks involved. This country is facing extraordinary fiscal upheaval, arguably the worst in decades. Efforts to ease the impacts of the crisis may take some time to implement. The proposed federal stimulus package is still emerging. The Commonwealth has identified another \$1.1 billion shortfall in this year's budget with next year's budget deficit guesstimated at over \$3 billion, making the fiscal year 2010 state budget choices even more difficult. All of these developments will impact the same cities, towns, families, individuals and businesses that will be asked to pay the rates to support next year's Authority budget, as well as the projected increase of rate revenue requirements of \$172 million over the next five years.

These unprecedented times call for thinking about things in a different way. Bringing decision makers together to discuss key elements of the Authority's budget, alternative scenarios and the pros and cons of these scenarios early in the budget process could be a productive way of ensuring that a variety of issues are considered by the Authority's principal stakeholders and consensus developed around them. Indeed, the recent success of the FY09 budget amendment process illustrates the effectiveness of collaboration early in the process.

I am requesting that the Authority convene a meeting of the Authority's Board of Directors and the Advisory Board's Executive Committee and their respective staffs to address these challenges. The meeting should be convened as soon as possible prior to the release of preliminary assessments to our cities and towns; if necessary, the release of preliminary assessments to the cities and towns should be delayed to accommodate this meeting. This discussion should be on a day other than a regularly scheduled Board of Directors meeting day with the focus exclusively upon the budgetary issues and decisions

the Authority faces. Such an approach was used in the early 1990's when the state and the Authority were facing difficult decisions in tough economic times.

Key topics for the agenda would include: capital financing (estimates in recent months suggest increases approaching \$40 million for FY10) including new and refunded borrowings, as well as interest rate assumptions; pension and other post-retirement benefits assumptions; non-rate revenues and investment income; use of rate stabilization funds; and assumptions for Authority operations. The risks of different levels of spending should be carefully laid out.

This is an extraordinary year with extraordinary consequences. Developing next year's budget in a broader context and with greater participation should strengthen the Authority's proposals for fiscal year 2010.

Sincerely,

A handwritten signature in cursive script that reads "Katherine H. Dunphy".

Katherine H. Dunphy, Chairman

cc: MWRA Board of Directors
MWRA Advisory Board Executive Committee