

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 A 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. However, interest on the Series A Bonds 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 A 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 A Bonds are exempt from Massachusetts personal property tax. For federal and Massachusetts tax purposes, interest includes original issue discount. See “Tax Exemption” herein.



\$338,005,000
MASSACHUSETTS WATER RESOURCES AUTHORITY
Multi-Modal Subordinated
General Revenue Refunding Bonds, 2008 Series A

Dated: Date of Delivery

CUSIP: 576049 4V9*

Due: August 1, 2037

The Series A Bonds will be issued as fully registered bonds and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company (“DTC”), New York, New York. Purchases of the Series A Bonds will be made in book-entry form only, in the denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof, and no physical delivery of the Series A Bonds will be made to purchasers. So long as Cede & Co. is the registered owner of the Series A Bonds, principal and Purchase Price of and interest on the Series A Bonds are payable to DTC by U.S. Bank National Association, as Trustee. See “The Series A Bonds – Book-Entry Only System.”

The Series A Bonds will be issued initially as multi-modal bonds in the Weekly Mode. In the Weekly Mode, (i) the interest rate on the Series A Bonds will be set once each week on Tuesday, except as described herein, and will be in effect from (and including) the Wednesday of such week through (and including) the following Tuesday, and (ii) accrued interest will be payable on the first Business Day of each calendar month (commencing on July 1, 2008). The interest rates for the Series A Bonds will be determined from time to time by Citigroup Global Markets Inc., the Remarketing Agent for the Series A Bonds.

In the Weekly Mode, the Series A Bonds are subject, at the option of the owner, to tender for purchase on any Business Day (with at least seven days prior notice). The Series A Bonds also are subject to mandatory tender for purchase. Liquidity support for the purchase of Series A Bonds optionally or mandatorily tendered is provided by Dexia Credit Local, acting through its New York Branch. The initial Liquidity Facility will expire on May 28, 2011, unless extended, and under certain circumstances may be terminated without notice, all as described herein. The Authority is not obligated to provide funds for the payment of the Purchase Price from any other source.

The Series A Bonds also are subject to optional redemption and mandatory sinking fund redemption prior to maturity as described herein.

The Series A Bonds will constitute subordinated general obligations of the Massachusetts Water Resources Authority (the “Authority”). In addition, the Series A Bonds will be secured by a subordinated 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 A 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.

Price 100%

The Series A Bonds are offered when, as and if issued by the Authority and received by the Underwriter, 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, for the Underwriter by its counsel, Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, and for the Liquidity Facility Issuer by its counsel Kutak Rock LLP, Atlanta, Georgia. Delivery of the Series A Bonds to DTC or its custodial agent is expected in New York, New York on or about May 29, 2008.

Citi

May 27, 2008

†See “Ratings” herein.

The information set forth herein has been obtained from the Authority, The Depository Trust Company, Dexia Credit Local 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 A 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 Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does 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 A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

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

* The CUSIP numbers have been assigned by an independent company not affiliated with the Authority and is included solely for the convenience of the holders of the Series A Bonds. None of the Authority, the Trustee, the Underwriter, the Remarketing Agent, the Liquidity Facility Issuer or the Tender Agent is responsible for the selection or uses of the CUSIP number, and no representation is made as to its correctness on the Series A Bonds or as indicated above. The CUSIP number is subject to being changed after the issuance of the Series A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of the Series A Bonds or 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 A Bonds.

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MASSACHUSETTS WATER RESOURCES AUTHORITY

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U.S. Bank National Association

OFFICIAL STATEMENT
OF THE
MASSACHUSETTS WATER RESOURCES AUTHORITY
RELATING TO

\$338,005,000 Multi-Modal Subordinated
General Revenue Refunding Bonds, 2008 Series A

INTRODUCTION

Purpose. This Official Statement provides certain information concerning the Massachusetts Water Resources Authority (the “Authority”) in connection with the sale of \$338,005,000 aggregate principal amount of the Authority’s Multi-Modal Subordinated General Revenue Refunding Bonds, 2008 Series A (the “Series A Bonds”). The Series A 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 A Bonds will be issued and secured under the Authority’s Fifty-Fourth Supplemental Resolution, approved by the Authority by resolution adopted on February 13, 2008 and amended on March 12, 2008 (the “Supplemental Resolution” and, together with the General Bond Resolution, the “General Resolution”). The Series A Bonds will constitute valid and binding subordinated 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 A Bonds – General,” and “– Outstanding Indebtedness” and “Additional Indebtedness.” The obligation of the Authority to purchase the Series A Bonds upon optional or mandatory tender as described in the Supplemental Resolution is supported by a liquidity facility in the form of a Standby Bond Purchase Agreement, dated as of May 1, 2008 (the “Standby Bond Purchase Agreement”), by and among the Authority, Dexia Credit Local, acting through its New York Branch (the “Liquidity Facility Issuer”) and U.S. Bank National Association, as Tender Agent (the “Tender Agent”). See “The Standby Bond Purchase Agreement,” Appendix F - “Summary of Certain Provisions of the Standby Bond Purchase Agreement,” and Appendix G - “Information Concerning the Liquidity Facility Issuer.”

Simultaneously with the issuance of the Series A Bonds, the Authority will issue its \$124,595,000 Multi-Modal Subordinated General Revenue Refunding Bonds, 2008 Series B, its \$199,400,000 Multi-Modal Subordinated General Revenue Refunding Bonds, 2008 Series C, its \$83,615,000 Multi-Modal Subordinated General Revenue Refunding Bonds, 2008 Series D, its \$224,770,000 Multi-Modal Subordinated General Revenue Refunding Bonds, 2008 Series E, and its \$191,705,000 Multi-Modal Subordinated General Revenue Refunding Bonds, 2008 Series F (collectively with the Series A Bonds, the “Series 2008 Bonds”). All Series 2008 Bonds are issued pursuant to the Supplemental Resolution and are secured on a parity basis with all other Subordinated Bonds issued under the General Resolution. The proceeds of the Series 2008 Bonds will be used to refund on a current basis certain of the Authority’s Outstanding Subordinated Bonds. See “Application of Series A Bond Proceeds and Other Moneys” and Appendix E - “Table of Refunded Bonds.”

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 2.7 million people, or approximately 42% 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 (the “CIP”), with capital expenditures totaling more than \$6.9 billion through December 31, 2007. The Authority has completed most of the major projects in the CIP.

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 of the Federal District Court for the District of Massachusetts (the “Federal Court”) in the so-called Clean Water Act Case (U.S. v. M.D.C. et al., No. 85-0489-RGS). In April 2006, the Federal Court approved a joint motion filed by the U.S. Department of Justice (“DOJ”) and the Authority, which incorporated into the District Court Order changes to the CSO Control Plan and 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 provides greater certainty as to the scope of the Authority’s CSO obligations through 2020. The Federal Court subsequently issued Schedule Seven in the District Court Order for the Clean Water Act Case. See “The Systems – The Sewer System – Combined Sewer Overflows; Infiltration and Inflow” and “Capital Improvement Program – Major Capital Projects – Wastewater Projects.”

The Authority has undertaken and completed or substantially completed several major capital projects, including 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 Boston Harbor Project was completed 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 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 rehabilitation and replacement of existing facilities and infrastructure as well as construction of new projects. The Authority’s capital improvement program for Fiscal Year 2008 (the “FY08 CIP”) incorporates the highest priority projects identified in the Master Plan which have projected spending in the Fiscal Year 2009 to Fiscal Year 2018 timeframe. The Authority’s proposed capital improvement program for Fiscal Year 2009 (the “Proposed FY09 CIP”) continues to include such priority projects and will formalize a five-year capital spending cap for the five Fiscal Years 2009 through 2013 of approximately \$1.16 billion. See “Capital Improvement Program – Capital Improvement Planning” herein.

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 2008, approximately 92% 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”) which 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 31.4% of the Authority’s combined water and sewer charges in Fiscal Year 2008. 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 2004 through Fiscal Year 2008, the average annual increase in the Authority’s rates and charges was approximately 4.4%, with a 4.5% increase in Fiscal Year 2008 as adopted in the Fiscal Year 2008 Current Expense Budget (the “FY08 CEB”). The Authority received approximately \$17 million of debt service assistance from the Commonwealth in Fiscal Year 2008, slightly less than the \$17.25 million reflected in the FY08 CEB. The Authority has prepared a proposed Fiscal Year 2009 Current Expense Budget (the “Proposed FY09 CEB”) which reflects an increase of 5.9% over the approved Fiscal Year 2008 rate revenue requirement. The Proposed FY09 CEB assumes \$11.25 million in debt service assistance in Fiscal Year 2009. See “Rates and Charges – Historical Rates and Charges” and “Legislative and Other Developments.” From Fiscal Year 2008 to Fiscal Year 2013, 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, 2007 and for the Fiscal Year then ended. Attached hereto as Appendix B is the Supplemental Feasibility Report Series 2008, prepared by Camp Dresser & McKee Inc., the Authority’s consulting engineer (the “Consulting Engineer”), dated as of May 19, 2008, which supplements the Consulting Engineer’s Feasibility Report 2006 Series A & Series B, dated February 23, 2006, included as Appendix B to the Official Statement dated March 2, 2006, with respect to the Authority’s General Revenue Bonds, 2006 Series A and General Revenue Refunding Bonds, 2006 Series B (the “2006 Series A/B Report”), as previously supplemented by reports of the Consulting Engineer, dated November 15, 2006, prepared in connection with the issuance of the Authority’s General Revenue Bonds (Subordinated Series), 2006 Series D and dated January 17, 2007, prepared in connection with the issuance of the Authority’s General Revenue Bonds, 2007 Series A and General Revenue Refunding Bonds, 2007 Series B (the “2007 Series A/B Bonds”), which supplemental reports are included as Appendix B to the Official Statement dated January 17, 2007 with respect to the 2007 Series A/B Bonds (collectively, the “2007 Series A/B Report”). The 2006 Series A/B Report and the 2007 Series A/B Report are incorporated herein by reference. 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 hereto as Appendix E is a Table of Refunded Bonds prepared by Bond Counsel to the Authority. Attached hereto as Appendix F is a Summary of Certain Provisions of the Standby Bond Purchase Agreement prepared by Kutak Rock LLP. Attached hereto as Appendix G is information concerning the Liquidity Facility Issuer provided by Dexia Credit Local, acting through its New York Branch.

THE SERIES A BONDS

The following is a summary of certain provisions of the Series A Bonds. Reference is hereby made to the Series A Bonds and the General Resolution, each in their entirety, for detailed provisions of the Series A Bonds. Set forth below is a summary of certain provisions of the Series A Bonds while in the Weekly Mode. For definitions of certain terms and additional detailed information relating to the Series A Bonds, see Appendix C – “Summary of Certain Provisions of the General Resolution.”

GENERAL

The Series A Bonds will be issued in the aggregate principal amount of \$338,005,000. The Series A Bonds will be dated as of the date of initial delivery and will mature on August 1. So long as the Series A Bonds are in the Weekly Mode, interest will be payable on the first Business Day of each month, commencing on July 1, 2008.

The Series A Bonds may be issued in any of four modes: the Daily Mode, the Weekly Mode and the Commercial Paper Mode (sometimes referred to herein collectively as the “Short-Term Modes”), and the Term Rate Mode. Initially, the Series A Bonds will be in the Weekly Mode. The initial interest rate for the Series A Bonds will be effective from the date of delivery thereof through Tuesday, June 3, 2008.

While in the Weekly Mode, the Series A Bonds will be offered in Authorized Denominations of \$100,000 and integral multiples of \$5,000 in excess thereof.

As used herein, the term “Liquidity Facility” means the Standby Bond Purchase Agreement and any Alternate Liquidity Facility which may be in effect with respect to the Series A Bonds. The term “Liquidity Facility Issuer” means Dexia Credit Local, acting through its New York Branch, in the case of the Standby Bond Purchase Agreement, and any issuer of an Alternate Liquidity Facility. See “The Standby Bond Purchase Agreement”.

WEEKLY INTEREST RATE

The Series A Bonds will initially be issued in the Weekly Mode, and will bear interest at the Weekly Rate. The interest rate on the Series A Bonds while in the Weekly Mode will be determined by Citigroup Global Markets Inc. acting as remarketing agent with respect to the Series A Bonds (together with any successor in such capacity, the “Remarketing Agent”), as the minimum rate of interest that would under then existing market conditions result in the sale of the Series A Bonds in the Weekly Mode at a price equal to the principal amount of such Series A Bonds plus accrued interest, if any. The Remarketing Agent shall determine the Weekly Rate for the Series A Bonds no later than 5:00 P.M., New York, New York time, on each Tuesday (or if such Tuesday is not a Business Day, the next succeeding day, or if such day is not a Business Day, the Business Day next preceding such Tuesday (a “Rate Determination Date”)), which rate shall be effective on the Wednesday of the same week through and including the following Tuesday.

In the event the Remarketing Agent fails to determine an interest rate for the Series A Bonds while they are in the Weekly Mode, the interest rate for each Interest Period (the “Alternate Rate”) shall be 110% of the most recently published SIFMA Swap Index.

Interest on the Series A Bonds while in the Weekly Mode will be calculated on the basis of a 365- or 366-day year, as appropriate, for the actual number of days elapsed. The determination by the Remarketing Agent of the interest rates for Series A Bonds in the Weekly Mode shall be conclusive and binding, in the absence of manifest error, upon the Authority, the Remarketing Agent, the Tender Agent, the Trustee, the Liquidity Facility Issuer, and the Owners of such Bonds. No Series A Bonds (other than Bank Bonds) may bear interest at an interest rate higher than the Maximum Rate of 12% per annum. The Maximum Rate may be increased at the option of the Authority, subject to the approval of Bond Counsel and, if necessary, the provision of a new or increased Liquidity Facility. The Maximum Rate shall never exceed the highest lawful rate as advised by counsel to the Authority.

OPTIONAL AND MANDATORY TENDER OF THE SERIES A BONDS WHILE IN THE WEEKLY MODE

Optional Tender. While the Series A Bonds are in the Weekly Mode, an Owner of a Series A Bond may elect to have such Bond (or portions thereof equal to an Authorized Denomination) purchased, at a price equal to the Purchase Price thereof (as defined below) and on the date specified by such Owner for such purchase (the “Purchase Date”), upon delivery of an irrevocable written notice of tender to the Remarketing Agent and the Tender Agent not later than 4:00 P.M., New York, New York time, on a Business Day not less than seven days before the Purchase Date specified by the Owner. The notice shall state (i) the principal amount of such Series A Bond (or portion thereof) to be purchased, and (ii) that such Series A Bond shall be purchased on the Purchase Date.

The purchase price for any Series A Bond (or Authorized Denomination thereof) optionally tendered or subject to mandatory tender for purchase as described below shall be in the principal amount thereof plus accrued interest, if any, to the date of the purchase of such Series A Bond (the “Purchase Price”).

Mandatory Purchase Upon Expiration of a Liquidity Facility. If the then effective Liquidity Facility for the Series A Bonds is to expire or terminate on any date (the “Expiration Date”), other than by reason of the occurrence of an event described in clause (i) of the definition of Liquidity Facility Default as set forth below, and no substitute Alternate Liquidity Facility has been obtained, then all the Series A Bonds subject to the expiring Liquidity Facility shall be subject to mandatory purchase at the Purchase Price on the fifth Business Day preceding the Expiration Date. The Trustee shall, at least 15 days before the mandatory purchase date, give notice to the Owners of the applicable Series A Bonds of this mandatory purchase. The notice shall state that the Liquidity Facility will expire on the Expiration Date (specifying the date) and that the Series A Bonds are required to be tendered for purchase (specifying the date of mandatory purchase).

For a description of the substitution of an Alternate Liquidity Facility for the Standby Bond Purchase Agreement or prior substituted Alternate Liquidity Facility, see “The Standby Bond Purchase Agreement – Alternate Liquidity Facility.”

Mandatory Purchase Upon Substitution of Alternate Liquidity Facility. All Series A Bonds shall be subject to mandatory tender for purchase on the date on which an Alternate Liquidity Facility is to be substituted for the Liquidity Facility (the “Substitution Date”) at the applicable Purchase Price. The Trustee, no later than fifteen days preceding the Substitution Date, shall give notice to the Owners of the Series A Bonds stating (i) the then effective Liquidity Facility is being replaced by an Alternate Liquidity Facility, and (ii) that such Series A Bonds are required to be tendered for purchase on the Substitution Date, and also stating the Purchase Date, the Purchase Price, the place and manner of payment, and that no further interest shall accrue from and after the Purchase Date.

Mandatory Purchase Upon Certain Termination Events. The Liquidity Facility Issuer of a then effective Liquidity Facility may elect to terminate such Liquidity Facility upon at least thirty (30) days’ prior written notice to the Trustee if the Authority does not timely pay regularly scheduled commitment fees or other amounts (other than the principal of or interest on any Bank Bonds discussed below) payable to such Liquidity Facility Issuer, or if there shall occur any other event specified in the Liquidity Facility as providing the Liquidity Facility Issuer an option to terminate the Liquidity Facility (other than an event constituting a Liquidity Facility Default). See Appendix F - “Summary of Certain Provisions of the Standby Bond Purchase Agreement.” Upon receipt of notice from the Liquidity Facility Issuer of such an event, all Series A Bonds subject to such Liquidity Facility shall be subject to mandatory purchase at the applicable Purchase Price. At least seven days prior to the date for such purchase, the Trustee shall give notice to the Owners of the affected Series A Bonds specifying such date, which shall be the fifth Business Day prior to the termination date.

Mandatory Purchase Upon Change in Mode. If the Authority determines to change the Mode of the Series A Bonds to another Mode (see “Change in Modes” below), the Series A Bonds will be subject to mandatory tender for purchase on the effective date of such change in Mode. The Trustee shall provide at least 15 days notice of such mandatory tender with respect to a change from any Short-Term Mode to any other Short-Term Mode and at least 30 days notice of such mandatory tender with respect to any other change in Mode.

As discussed more fully below under “No Tender or Purchase of Series A Bonds Upon Occurrence of a Liquidity Facility Default,” there will be no right of optional tender or any mandatory purchase from and after the occurrence of a Liquidity Facility Default (as defined below). “Liquidity Facility Default” means: (i) the occurrence of an event set forth in the Liquidity Facility (as described in Appendix F) that has resulted in the immediate termination or suspension of the obligation of the Liquidity Facility Issuer to make funds available pursuant to the Liquidity Facility to purchase Series A Bonds subject to optional or mandatory tender for purchase; or (ii) the failure of the Liquidity Facility Issuer to honor a properly presented draw on the Liquidity Facility in accordance with the terms of the Liquidity Facility Agreement.

REMARKETING OF SERIES A BONDS

The Remarketing Agent for the Series A Bonds shall use its best efforts to find purchasers for (i) all Series A Bonds tendered for purchase at the election of the Owners, and (ii) all Series A Bonds required to be purchased upon a Mode Change Date or Substitution Date, in each case at the applicable Purchase Price.

The Remarketing Agent shall notify the Tender Agent of the amount of Series A Bonds that were remarketed. The Tender Agent, on behalf of the Trustee, shall request the Liquidity Facility Issuer to purchase under the Standby Bond Purchase Agreement (or the then applicable Alternate Liquidity Facility) on the Purchase Date or the Mandatory Purchase Date, as the case may be, at the applicable Purchase Price thereof, all such Series A Bonds tendered or deemed tendered and which the Remarketing Agent has been unable to remarket in accordance with the terms of the General Resolution.

PURCHASE OF SERIES A BONDS

Funds for the payment of the Purchase Price shall be derived solely from the following sources in the following order of priority indicated: (a) immediately available funds derived from the remarketing of such Series A Bonds; (b) amounts paid by the Liquidity Facility Issuer under the Standby Bond Purchase Agreement (or paid by any other Liquidity Facility Issuer of an Alternate Liquidity Facility) to purchase any such Series A Bonds which are unremarketed; and (c) in case of change of Mode to a Term Rate Mode extending to the maturity of the Series A Bonds, when the Series A Bonds are being remarketed at a discount to their par value, immediately available funds of the Authority not exceeding the amount of the discount. **NONE OF THE AUTHORITY, THE TRUSTEE, THE TENDER AGENT OR THE REMARKETING AGENT SHALL BE OBLIGATED TO PROVIDE FUNDS FOR THE PAYMENT OF THE PURCHASE PRICE FROM ANY OTHER SOURCE.** In no event shall the unavailability of an amount sufficient to fund the payment of the Purchase Price of any Series A Bonds constitute a default or an event of default under the General Resolution.

While the Book-Entry Only System is in effect, tenders and purchases shall be made as described in “Book-Entry Only System” below and in the fourth paragraph below. The following three paragraphs apply if such Book-Entry Only System is not in effect.

The Series A Bonds to be purchased must be delivered (with all necessary endorsements) at or before 12:00 P.M. (noon), New York, New York time, on the Purchase Date or Mandatory Purchase Date, as the case may be, at the office of the Tender Agent in New York, New York; provided, however, that payment of the Purchase Price of any Series A Bonds purchased pursuant to optional tender shall be made only if such Series A Bonds so delivered to the Tender Agent conform in all respects to their description in the notice of tender. On or before the close of business on the Purchase Date or the Mandatory Purchase Date, as the case may be, the Tender Agent shall purchase Series A Bonds from the Owners at the Purchase Price. Payment of the Purchase Price shall be made by the Tender Agent by wire transfer in immediately available funds, or by check mailed to any Owner of such Series A Bonds to be purchased who has not provided, or caused to be provided, wire transfer instructions.

Any Series A Bonds sold by the Remarketing Agent shall be delivered by such Remarketing Agent to the purchasers of those Series A Bonds by 3:00 P.M., New York, New York time, on the Purchase Date or the Mandatory Purchase Date, as the case may be.

If any Series A Bonds to be purchased are not delivered to the Tender Agent by 12:00 P.M. (noon) New York, New York time, on the Purchase Date or Mandatory Purchase Date, as the case may be, the Tender Agent is required to hold any funds received for the purchase of such Series A Bonds in trust in a separate account to pay such funds to the former Owners of such Series A Bonds upon presentation. Any such undelivered Series A Bonds will be deemed tendered and will cease to accrue interest on the Purchase Date or the Mandatory Purchase Date, as the case may be. Any funds held by the Tender Agent for payment of any undelivered Series A Bonds which remain unclaimed by the former Owner of such Series A Bonds for a period of five years after delivery of such funds to the Tender Agent will, in accordance with the provisions of the Supplemental Resolution, be paid to the Authority, and thereafter such former Owner may look only to the Authority for payment.

During any period that the Series A Bonds are registered in the name of The Depository Trust Company (“DTC”), New York, New York or a nominee thereof (i) any notice of optional tender delivered shall also (A) provide

evidence satisfactory to the Tender Agent that the party delivering the notice is the beneficial owner or a custodian for the beneficial owner of the Series A Bonds referred to in the notice, and (B) if the beneficial owner is other than a Participant of DTC, identify the Participant through whom the beneficial owner will direct transfer; (ii) on or before the Purchase Date, the beneficial owner must direct (or if the beneficial owner is not a Participant, cause its Participant to direct) the transfer of said Series A Bonds on the records of DTC; and (iii) it shall not be necessary for Series A Bonds to be physically delivered on the date specified for purchase thereof, but such purchase shall be made as if such Series A Bonds had been so delivered, and the Purchase Price thereof shall be paid to DTC. In accepting a notice of tender, the Trustee and the Tender Agent may conclusively assume that the person providing the notice of tender is the beneficial owner of the Series A Bonds being tendered and therefore entitled to tender them. Neither the Trustee nor the Tender Agent assumes any liability to anyone in accepting a notice of tender from a person whom it reasonably believes to be such a beneficial owner of the Series A Bonds or, in its discretion, rejecting such tender, if it reasonably believes such person has not demonstrated its status as such a beneficial owner.

NO TENDER OR PURCHASE OF SERIES A BONDS UPON OCCURRENCE OF A LIQUIDITY FACILITY DEFAULT

UPON THE OCCURRENCE OF CERTAIN EVENTS OF DEFAULT UNDER THE LIQUIDITY FACILITY THAT CAUSE AN AUTOMATIC TERMINATION OR SUSPENSION OF THE LIQUIDITY FACILITY, THE OBLIGATION OF THE LIQUIDITY FACILITY ISSUER TO ADVANCE AMOUNTS THEREUNDER FOR THE PURCHASE OF TENDERED BONDS WHICH ARE NOT REMARKETED WILL BE TERMINATED OR SUSPENDED WITHOUT PRIOR NOTICE. IN SUCH EVENT OR IF THE LIQUIDITY FACILITY ISSUER FAILS TO HONOR A PROPERLY PRESENTED DRAW ON THE LIQUIDITY FACILITY, THE RIGHT OF BONDHOLDERS TO TENDER SERIES A BONDS FOR PURCHASE AS DESCRIBED ABOVE IS SUBJECT TO TERMINATION OR SUSPENSION WITHOUT THE OPPORTUNITY FOR SERIES A BONDHOLDERS TO TENDER THEIR SERIES A BONDS FOR SUCH PURCHASE. IN SUCH EVENT, SERIES A BONDS ALSO WILL NOT BE SUBJECT TO MANDATORY PURCHASE. See Appendix F - "Summary of Certain Provisions of the Standby Bond Purchase Agreement," under the heading "Termination of Liquidity Facility" for a description of the Event of Defaults applicable to the Liquidity Facility.

While Series A Bonds are in the Weekly Mode, promptly following the occurrence of a Liquidity Facility Default, the Trustee shall notify the Owners of the Series A Bonds of the occurrence of such event and that, until such time as the Liquidity Facility is reinstated, or there is no longer a Liquidity Facility Default, or there is delivered an Alternate Liquidity Facility, the Tender Agent will no longer be able to purchase the Series A Bonds with monies drawn under the Liquidity Facility, that the right of Owners of Series A Bonds to have such Series A Bonds purchased has been terminated or suspended, and that the Remarketing Agent shall continue to determine the interest rate after such date up to the Maximum Rate.

If after the occurrence of a Liquidity Facility Default the Authority shall provide an Alternate Liquidity Facility, or if the Liquidity Facility shall be reinstated, or if there shall no longer be a Liquidity Facility Default, the right of Owners of Series A Bonds to tender such Series A Bonds for purchase and the provisions in the Supplement Resolution providing for mandatory tender for purchase shall be reinstated. The Trustee shall promptly provide to the Owners of the Series A Bonds notice of such reinstatement.

CHANGE IN MODES

In addition to the Weekly Mode, the Supplemental Resolution provides for the Series A Bonds to be changed to (i) a Commercial Paper Mode, in which the Series A Bonds will have subsequent interest rate periods, each of a duration of days (which shall be at least one day and no more than 270 days) set by the Remarketing Agent at the beginning of each such period, and during which they will bear interest at the rate set by the Remarketing Agent at the beginning of each such period, (ii) a Daily Mode, during which the Remarketing Agent will set the rate of interest for the Series A Bonds on each Business Day, and (iii) a Term Rate Mode of the period (which shall be not less than 271 days) set at the commencement of such Mode, during which the Series A Bonds will bear interest at the rate set by the Remarketing Agent at the beginning of such period.

The Supplemental Resolution provides the methods by which changes from one Mode to another shall be made, which methods include the giving of notice of such change to the Owners of the Series A Bonds, and describes in detail the provisions of the Mode being changed to and the conditions precedent to a change in Modes. In addition,

upon a change in Mode, each Owner of a Series A Bond subject to such change shall have such Series A Bond purchased on the effective date of such new Mode.

The Series A Bonds may be changed from one Mode to another Mode as often as determined by the Authority. However, once changed to a Term Rate Mode which extends to the maturity date thereof, the Series A Bonds shall remain in such Mode and not be subsequently changed to another Mode.

REDEMPTION

Mandatory Sinking Fund Redemption. The Series A Bonds 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 table at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the date of redemption:

<u>Year</u>	<u>Sinking Fund Installment</u>
2009	\$ 330,000
2014	48,620,000
2015	50,880,000
2016	3,330,000
2017	3,465,000
2018	5,485,000
2019	10,630,000
2020	37,665,000
2021	24,610,000
2022	44,130,000
2023	11,695,000
2024	10,570,000
2025	10,970,000
2026	22,840,000
2027	11,475,000
2028	5,940,000
2032	2,825,000
2033	5,625,000
2034	6,130,000
2035	6,430,000
2036	6,930,000
2037*	7,430,000

* Stated Maturity.

Optional Redemption. The Series A Bonds shall be subject to optional redemption prior to maturity in whole or in part on any Business Day, at the option of the Authority and in such order of sinking fund installments 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, 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 and regulatory requirements as may be in effect from time to time.

For Series A Bonds in the Weekly Mode, the Trustee shall give notice of redemption to the Bondholders at least once and not less than seven (7) 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 A 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 A 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 A Bonds, the Authority may purchase some or all of the Series A Bonds called for redemption if it gives written notice to the Trustee that it wishes to purchase the principal amount of Series A 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 A Bonds on the redemption date. Any such purchase of Series A 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 A 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 A Bonds or any portion thereof and such purchase shall not operate to extinguish or discharge the indebtedness evidenced by such Series A Bonds.

Selection for Redemption. In the event that less than all of the Series A Bonds of any one maturity are to be redeemed and for so long as the Book-Entry Only System remains in effect for the Series A Bonds, the portion of any Series A Bond of a particular 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 A Bonds is no longer in effect, selection for redemption of less than all the Series A 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. Notwithstanding the foregoing, in the case of a partial redemption any Bank Bonds Outstanding shall be selected first for redemption, so long as the Trustee shall not have actual knowledge that the Liquidity Facility Issuer is in default under the Liquidity Facility, and otherwise, at the direction of the Authority, all other Series A Bonds shall be selected for redemption prior to the selection of any Bank Bonds.

BOOK-ENTRY ONLY SYSTEM

DTC will act as securities depository for the Series 2008 Bonds. The Series 2008 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 2008 Bond certificate will be issued for each maturity of the Series 2008 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 highest rating: AAA. 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 2008 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2008 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 2008 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 2008 Bonds, except in the event that use of the book-entry system for the Series 2008 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2008 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 2008 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 2008 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2008 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 2008 Bonds within a 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 2008 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 2008 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2008 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.

A Beneficial Owner shall give notice to elect to have its Series 2008 Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such Series 2008 Bonds by causing the Direct Participant to transfer the participant's interest in the Series 2008 Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of the Series 2008 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2008 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2008 Bonds to the Tender Agent's DTC account.

DTC may discontinue providing its services as securities depository with respect to the Series 2008 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 2008 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 2008 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 the Authority takes no 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 A Bonds will be exchangeable and transferable on the registration books of the Authority at the designated corporate trust office of the Trustee in denominations of \$100,000 of principal amount and any whole multiple of \$5,000 or excess thereof. Upon presentation and surrender of any Series A 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 A Bonds in any authorized denomination or denominations. For every exchange or transfer of Series A 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 A 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 A Bonds for a period of fifteen days next preceding the mailing of any notice of redemption or to transfer or exchange any Series A Bond called for redemption.

THE STANDBY BOND PURCHASE AGREEMENT

GENERAL

Upon delivery of the Series A Bonds, the Authority, the Liquidity Facility Issuer and the Tender Agent will enter into the Standby Bond Purchase Agreement for the Series A Bonds. Subject to certain conditions described below and in Appendix F - "Summary of Certain Provisions of the Standby Bond Purchase Agreement," the Liquidity Facility Issuer is obligated to purchase from time to time during the Initial Liquidity Facility Term (as set forth in Appendix F), Series A Bonds which are tendered for purchase due to an optional or mandatory tender for purchase that have not been remarketed, at the times and in the manner set forth in the Liquidity Facility. The price to be paid by the Liquidity Facility Issuer pursuant to the Liquidity Facility for purchased Series A Bonds will be equal to the aggregate principal amount of such Series A Bonds plus, so long as the date of purchase is not an Interest Payment Date, accrued interest thereon (such interest is not to exceed 34 days of interest on the Series A Bonds at an assumed rate equal to the Maximum Rate of 12% per annum), if any, to the date of such purchase. Upon any purchase of Series A Bonds with amounts realized under the Liquidity Facility, the commitment of the Liquidity Facility Issuer to purchase Series A Bonds shall be reduced by the purchase price and shall (unless terminated in accordance with its terms) be reinstated upon the repurchase of such Series A Bonds from the Liquidity Facility Issuer, all in accordance with the Liquidity Facility.

The Tender Agent shall take such actions as may be necessary to obtain funds under the Liquidity Facility to pay the purchase price, including accrued interest, if any, of Series A Bonds then subject to purchase pursuant to the provisions of the Supplemental Resolution at the times, on the dates, to the extent, and in the manner, provided by the Supplemental Resolution and deposit the proceeds of such drawing in the applicable account of the Bond Purchase Fund pending application of such moneys to the payment of the purchase price of such Series A Bonds. The obligation to purchase Series A Bonds is subject to certain conditions, including that the Liquidity Facility Issuer shall have received a Notice of Bank Purchase from the Tender Agent and Series A Bonds shall have been delivered pursuant to and in accordance with the Supplemental Resolution. In addition, such obligation may be suspended or terminated upon the occurrence of a Liquidity Facility Default, including certain Events of Default as defined in the Liquidity Facility. See Appendix F - "Summary of Certain provisions of the Standby Bond Purchase Agreement." If at any time all of the Series A Bonds then subject to purchase under the Liquidity Facility shall have been (i) defeased pursuant to the Supplemental Resolution, or (ii) converted to another Mode, the Liquidity Facility shall terminate following any mandatory tender required by the Supplemental Resolution. In connection with the termination or expiration of the term of the Liquidity Facility requiring mandatory purchase of Series A Bonds, the Tender Agent

shall give the notice of mandatory tender for purchase of the Series A Bonds. The right of Bondholders to have their Series A Bonds purchased as discussed above may be revoked without notice to the Bondholder upon the occurrence of certain Events of Default (as defined in the Liquidity Facility) that result in the termination of the Liquidity Facility, as more fully described in Appendix F - "Summary of Certain provisions of the Standby Bond Purchase Agreement."

ALTERNATE LIQUIDITY FACILITY

The Authority may provide for the delivery to the Trustee of an Alternate Liquidity Facility with respect to the Series A Bonds. On or prior to the date of the delivery of an Alternate Liquidity Facility to the Trustee, the Authority shall furnish to the Trustee an unqualified opinion of Bond Counsel to the effect that such substitution is permitted under the Act and the General Resolution and will not impair the exempt status of interest on the Series A Bonds for purposes of federal income taxation or Massachusetts personal income taxation.

If at any time there shall have been delivered to the Trustee (i) an Alternate Liquidity Facility in substitution for the Liquidity Facility then in effect, (ii) a Favorable Opinion of Bond Counsel and other documentation required by the preceding paragraphs, as applicable, and (iii) written evidence that the Liquidity Facility Issuer is satisfied with the provision for purchase from the Liquidity Facility Issuer of all Bank Bonds, at a price equal to the principal amount thereof plus accrued and unpaid interest, and payment of all amounts due it under the Liquidity Facility on or before the effective date of such Alternate Liquidity Facility, then the Trustee shall accept such Alternate Liquidity Facility and shall surrender the Liquidity Facility then in effect to the Liquidity Facility Issuer on the effective date of the Alternate Liquidity Facility. The Authority shall give the Trustee, the Tender Agent and the Liquidity Facility Issuer written notice, indicating the proposed effective date of the Alternate Liquidity Facility, of the proposed substitution of an Alternate Liquidity Facility for the Liquidity Facility then in effect no less than forty (40) calendar days prior to the proposed effective date. Unless a notice of mandatory tender is required to be given, the Trustee shall mail to the Owners of the Series A Bonds, at least twenty (20) calendar days prior to the proposed effective date of such Alternate Liquidity Facility, a notice of the substitution.

IMMEDIATE TERMINATION OR SUSPENSION EVENTS

AS DESCRIBED IN APPENDIX F, THE LIQUIDITY FACILITY PROVIDES THAT THE OBLIGATION OF THE LIQUIDITY FACILITY ISSUER TO PURCHASE SERIES A BONDS TENDERED BY THE BONDHOLDERS THEREOF OR SUBJECT TO MANDATORY PURCHASE MAY BE TERMINATED OR SUSPENDED UPON THE OCCURRENCE OF CERTAIN EVENTS. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE BONDS TENDERED BY THE BONDHOLDERS THEREOF. See Appendix F - "Summary of Certain Provisions of the Standby Bond Purchase Agreement" for a description of the events of termination applicable to the Liquidity Facility. Upon the occurrence of an Event of Termination under the Liquidity Facility, the Liquidity Facility Issuer may terminate or suspend its obligations under the Liquidity Facility.

The Liquidity Facility does not provide security for the payment of principal or interest or premium, if any, on the Series A Bonds, and the funds drawn thereunder may not be used for such purposes.

APPLICATION OF SERIES A BOND PROCEEDS AND OTHER MONEYS

GENERAL

The proceeds of the Series 2008 Bonds, including the proceeds of the Series A Bonds, together with other available funds are expected to be applied on the date of issue of the Series A Bonds in the estimated amounts as follows (rounded to the nearest dollar):

Sources of Funds:

Principal Amount of Series 2008 Bonds	\$1,162,090,000
Available Moneys Under General Resolution.....	<u>38,599,957</u>
TOTAL.....	<u>\$1,200,689,957</u>

Use of Funds:

Deposit to the Refunding Trust Funds.....	\$1,197,745,000*
Costs of Issuance.....	1,492,345
Underwriter's Discount.....	<u>1,452,612</u>
TOTAL.....	<u>\$1,200,689,957</u>

* Does not include interest on Refunded Bonds from the last applicable interest payment date to the date of redemption.

PLAN OF REFUNDING

A portion of the proceeds from the sale of the Series 2008 Bonds, including the Series A Bonds, together with certain amounts available under the General Resolution, will be deposited into the Refunding Trust Funds 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 (the "Refunded Bonds"). Such amounts will be held uninvested in cash, and will be applied on their stated maturity dates or on the first available optional redemption dates, as indicated in Appendix E, and at a redemption price equal to 100% of the principal amount being redeemed, plus accrued interest to the redemption date. Any refunding is contingent upon delivery of the Series 2008 Bonds.

SECURITY FOR THE SERIES A BONDS

GENERAL

The following summary of the security for the Series A 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 A 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 A Bonds constitute valid and binding subordinate general obligations of the Authority and the full faith and credit of the Authority is pledged on a subordinated basis to the payment of the principal and redemption price of and interest on the Series A 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 A 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 A 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 and subordinated bonds thereunder. At the time of the issuance of the Series 2008 Bonds, the Authority will have issued fourteen Series of senior revenue bonds under the General Resolution. The Authority may issue additional bonds on a parity with the senior revenue bonds issued to date (collectively, "Bonds") upon the satisfaction of certain conditions. See "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 senior to the Series 2008 Bonds and other Subordinated 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."

The Series A Bonds are Subordinated Bonds. Prior to the issuance of the Series 2008 Bonds, the Authority had issued eighteen series of Subordinated Bonds, and two series of tax exempt commercial paper notes, which are secured by a pledge of the Revenues of the Authority subordinate to that securing Bonds (but, not including the tax exempt commercial paper, only the interest on which is secured by the subordinated revenue lien). Following the issuance of the Series 2008 Bonds, the Authority will have approximately \$2.4 billion of Subordinated Bonds Outstanding. 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 which 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 A Bonds will still be Outstanding. At the time of issuance of the Series A Bonds, the Underwriter, as the initial purchaser of all of the Series A Bonds, will consent to all of the proposed modifications on behalf of itself and all subsequent holders of the Series A 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 Bondholders 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."

SUBORDINATED NET REVENUE PLEDGE

In the General Resolution, the Authority pledges as security for 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 Series 2008 Bonds and other 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. The Subordinated Debt Service Reserve Fund does not secure any of the Series 2008 Bonds. 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 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 terminated. 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 (a) debt service for such fiscal year on all Outstanding Bonds (which term excludes the Series 2008 Bonds and other Subordinated Bonds) times the Primary Bond Coverage Ratio of 1.2 (the "Primary Bond Coverage Requirement") plus (b) 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. The Authority has elected the latter alternative.

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 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 terminate 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 (a) 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 (a) 1.1 times debt service on all Outstanding Secured Bonds (which term includes the Series 2008 Bonds and all Secured Bonds issued on a parity with or senior to the Series 2008 Bonds and other Subordinated Bonds) (the “Subordinated Primary Bond Coverage Requirement”) plus (b) 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 (a) 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 which 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. At the time of issuance of the Series 2008 Bonds, the amount on deposit in the Debt Service Reserve Fund will be approximately \$240.7 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 and premium of 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 A 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.

The proposed modifications to the General Resolution would terminate 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 which 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 for the Operating Reserve Fund and the Renewal and Replacement Reserve Fund have been confirmed by the Consulting Engineer in its most recent triennial report dated December 2005 with respect to the Systems, prepared and delivered in accordance with the General Resolution.

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 2008 Bonds, the Authority will have Outstanding \$3.1 billion of Bonds, \$996 million of SRF Bonds, and \$1.4 billion of Multi-Modal Subordinated General Revenue Bonds and Subordinated General Revenue Bonds (which, together with the SRF Bonds, constitute Subordinated Bonds), and \$191 million of tax-exempt commercial paper notes (the "CP Notes") (which 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 entered into a loan agreement with the Massachusetts Development Finance Agency for \$0.3 million in Clean Renewable Energy bond proceeds.

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 2008 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 parity with or senior to the Series 2008 Bonds and other 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 in the preceding paragraph to take account of the termination 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, on parity with the Series 2008 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: (a) certain specified amendments may be made by the Authority acting alone or by the Authority with the consent of the Trustee, (b) 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, (c) 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 (d) 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 2008 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 which 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 which 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 which 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 A Bonds, the Underwriter, as the initial purchaser of all of the Series A Bonds, will consent to all of the proposed modifications on behalf of itself and all subsequent holders of the Series A Bonds. Each of the proposed modifications will apply to the Series A 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 28% of the aggregate principal amount of Subordinated Bonds currently Outstanding, and from financial institutions which 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.

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. The Authority intends to initiate such requests on a timely basis following the issuance of the Series 2008 Bonds.

By their acceptance of the Series A 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 A 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 which 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 which 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 2.7 million people, or approximately 42% 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



Map of the Authority's Service Areas

CHARGES TO LOCAL BODIES

More than 80% of the Authority’s revenues historically have been derived from the rates and charges paid by the Local Bodies for the Authority’s wholesale water and sewer services. 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 authorizes 49 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 June 2002, the Board of Directors approved the application of the Town of Stoughton to become a member of the Waterworks System and the Authority began supplying water to Stoughton in the first quarter of Fiscal Year 2004. In November 2005, the Board of Directors approved the application of the Town of Reading to become a member of the Waterworks System and Reading was authorized to start drawing water in May 2006. In December 2005, the Board of Directors approved the application of the Dedham-Westwood Water District, which previously had received a portion of its water supply from the Waterworks System, to become a member of 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 47.5% of the aggregate rates and charges assessed in Fiscal Year 2008 as follows:

	<u>Percent of Total FY 2008 Authority Water Charges</u>	<u>Percent of Total FY 2008 Authority Sewer Charges</u>	<u>Percent of Total FY 2008 Authority Charges</u>
Boston Water & Sewer Commission	38.0%	28.2%	31.4%
City of Quincy	5.2	4.4	4.6
City of Newton	4.6	4.6	4.6
City of Cambridge	0.0	5.3	3.6
City of Somerville	<u>3.2</u>	<u>3.4</u>	<u>3.3</u>
Total	50.9%	45.8%	47.5%

The following table sets forth the Fiscal Year 2008 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 2008 SYSTEMS CHARGES BY LOCAL BODY

<u>Local Body</u>	<u>Systems Charges</u>			Percent of Total FY 2008 Charges
	<u>Water</u>	<u>Sewer</u>	<u>Combined</u>	
Arlington	\$ 3,635,597	\$ 6,383,391	\$ 10,018,988	1.9%
Ashland	0	1,651,164	1,651,164	0.3%
Bedford	0	2,662,238	2,662,238	0.5%
Belmont	1,820,717	3,853,748	5,674,465	1.1%
Boston Water and Sewer Commission ²	63,979,766	98,687,572	162,667,338	31.4%
Braintree	0	6,564,038	6,564,038	1.3%
Brookline	4,843,966	10,011,208	14,855,174	2.9%
Burlington	0	3,845,017	3,845,017	0.7%
Cambridge	0	18,475,398	18,475,398	3.6%
Canton	1,752,541	3,342,320	5,094,861	1.0%
Chelsea	2,622,102	4,746,257	7,368,359	1.4%
Dedham	0	4,682,605	4,682,605	0.9%
Dedham-Westwood Water District	34	0	34	0.0%
Everett	4,149,900	6,103,714	10,253,614	2.0%
Framingham	6,135,546	8,690,797	14,826,343	2.9%
Hingham Sewer District	0	1,274,442	1,274,442	0.2%
Holbrook	0	1,209,004	1,209,004	0.2%
Lexington	4,117,775	5,630,863	9,748,638	1.9%
Lynn Water & Sewer Commission ³	219,006	0	219,006	0.0%
Lynnfield Water District ⁴	362,549	0	362,549	0.1%
Malden	5,197,166	9,284,922	14,482,088	2.8%
Marblehead	1,629,117	0	1,629,117	0.3%
Marlborough	2,738,567	0	2,738,567	0.5%
Medford	4,637,124	9,335,845	13,972,969	2.7%
Melrose	2,073,594	4,638,409	6,712,003	1.3%
Milton	2,196,171	4,368,070	6,564,241	1.3%
Nahant	332,081	0	332,081	0.1%
Natick	0	3,993,641	3,993,641	0.8%
Needham	958,624	4,911,005	5,869,629	1.1%
Newton	7,744,282	16,011,280	23,755,562	4.6%
Northborough	790,421	0	790,421	0.2%
Norwood	2,664,525	5,416,848	8,081,373	1.6%
Peabody	484,131	0	484,131	0.1%
Quincy	8,675,891	15,225,088	23,900,979	4.6%
Randolph	0	4,482,219	4,482,219	0.9%
Reading ⁵	1,536,924	3,410,216	4,947,140	1.0%
Revere	3,711,064	7,237,597	10,948,661	2.1%
Saugus	2,715,030	0	2,715,030	0.5%
Somerville	5,416,384	11,802,980	17,219,364	3.3%
Southborough	602,437	0	602,437	0.1%
Stoneham	2,570,311	3,623,787	6,194,098	1.2%
Stoughton	429,813	3,620,218	4,050,031	0.8%
Swampscott	1,348,647	0	1,348,647	0.3%
Wakefield	1,465,661	4,643,094	6,108,755	1.2%
Walpole	0	2,809,378	2,809,378	0.5%
Waltham	6,518,480	10,567,428	17,085,908	3.3%
Watertown	2,551,548	4,627,713	7,179,261	1.4%
Wellesley	505,698	4,453,740	4,959,438	1.0%
Weston	1,281,195	0	1,281,195	0.2%
Westwood	0	1,996,235	1,996,235	0.4%
Weymouth	0	8,762,733	8,762,733	1.7%
Wilmington	0	1,768,169	1,768,169	0.3%
Winchester	692,181	3,140,264	3,832,445	0.7%
Winthrop	1,206,885	2,454,240	3,661,125	0.7%
Woburn	1,979,251	9,106,235	11,085,486	2.1%
Total	<u>\$168,292,702</u>	<u>\$349,505,130</u>	<u>\$517,797,832</u>	<u>100.0%</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 19 communities which 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 and has not received water since the drought that occurred in the summer of 1999. The fifth excluded community is Clinton, which receives its first 800 million gallons of water per year at no charge pursuant to 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 \$4.2 million in Authority revenues for Fiscal Year 2008. 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 for 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 approximately 45% of the population of Lynnfield through the Lynnfield Water District, a body corporate of the Commonwealth. The Town of Lynnfield is not liable for the rates and charges imposed on the Lynnfield Water District by the Authority.
- ⁵ The Town of Reading joined the Authority water system as a partial community in Fiscal Year 2007 and a fully supplied community in Fiscal Year 2008.

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 2008, approximately 92% 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 A Bonds – Coverage Covenants." In addition to this revenue, the Authority has received approximately \$17 million in financial assistance from the Commonwealth ("debt service assistance") in Fiscal Year 2008 that the Authority will account for as an offset to debt service deposits. The Proposed FY09 CEB assumes \$11.25 million in debt service assistance will be received by the Authority in Fiscal Year 2009. See "Historical Rates and Charges" and "Legislative and Other Developments." There can be no assurance that the Authority will actually receive this amount.

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 2008 water charges are based on the Local Bodies' metered water use in calendar year 2006.

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 which 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 4.4% for the period from Fiscal Year 2004 through Fiscal Year 2008. 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 2004 through Fiscal Year 2008, but does not include debt service assistance allocated and received after the Authority's adoption of its Current Expense Budgets for Fiscal Years 2004 and 2005. The table also sets forth the percentage increase in charges in each fiscal year over those of the prior fiscal year.

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

<u>Fiscal Year</u>	<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>
2004 ²	\$123.8	--	\$312.0	--	\$435.8	--
2005 ⁴	134.3	8.52%	318.7	2.12%	453.0	3.94%
2006 ⁵	156.5	16.54	315.7	(0.94)	472.2	4.24
2007	163.1	4.21	332.2	5.24	495.4	4.90
2008	168.3	3.17	349.5	5.20	517.8	4.50

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

² Based upon the FY04 CEB; does not reflect the receipt of \$4.1 million of debt service assistance.

³ In Fiscal Year 2004, the towns of Marlborough and Southborough became part of the rate revenue base, resulting in the Fiscal Year 2004 rate revenue requirement being \$3.1 million higher than it would have been. In order to provide an accurate basis for comparison, the rate revenue change from Fiscal Year 2003 to Fiscal Year 2004 is based on the final Fiscal Year 2003 rate revenue requirement plus \$2.8 million in Fiscal Year 2003 of other user charges revenue from Marlborough and Southborough.

⁴ Based upon the FY05 CEB; does not reflect the receipt of \$8 million of debt service assistance.

⁵ Fiscal Year 2006 rate increase reflected the then-anticipated receipt of \$10 million of debt service assistance. The Authority subsequently received \$9.6 million of debt service assistance in Fiscal Year 2006.

The Authority has completed the majority of the projects in its CIP, including the Deer Island Wastewater Treatment Plant (the “Deer Island Treatment Plant,” and, together with related facilities, the “Boston Harbor Project”), the MetroWest Water Supply Tunnel and the John J. Carroll Water Treatment Plant, and has turned its focus to the construction and completion of remaining court-mandated projects, most notably its long-term CSO Control Plan, and the rehabilitation, repair and maintenance of its infrastructure. The costs of such 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 56.2% of total expenses included in the Proposed FY09 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 appropriation by the Commonwealth and varies annually. Due to Commonwealth budget constraints, the Authority did not receive any such debt service assistance in Fiscal Year 2003, and in Fiscal Year 2007 the debt service assistance was eliminated, but subsequently restored. The Authority’s FY08 CEB assumed that the Authority would receive \$17.25 million in debt service assistance in Fiscal Year 2008; approximately \$17 million was actually received. The Proposed FY09 CEB assumes that \$11.25 million in debt service assistance will be received by the Authority in Fiscal Year 2009. There can be no assurance that the Authority will receive the assumed amounts of debt service assistance. See “Legislative and Other Developments” herein.

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 Authority has developed planning estimates of its future rate revenue requirements and the related percentage rate increases for Fiscal Years 2009 through 2013.

In preparing its FY08 CEB, the Authority’s planning estimates assume an inflation rate of 2.5% for capital projects which 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 FY08 CIP, which was approved by the Authority’s Board of Directors in June 2007. High priority projects identified in the Master Plan have been included in the FY08 CIP. The planning estimates assume that all of the Authority’s future long-term bond financings will consist of 40-year debt with an interest rate of 6% in Fiscal Years 2010 through 2013. Operating expenses are inflated at 4.0%.

In the FY08 CEB, the Authority assumed, for the purposes of estimating future rates and charges, that debt service assistance would be provided in the amount of \$17.25 million annually; the Authority actually received approximately \$17 million in debt service assistance for Fiscal Year 2008. Although not binding on future legislatures, based upon recent experience and other factors, the Authority believes that it is reasonable to assume that the Commonwealth will continue to appropriate debt service assistance in future years. The Authority cannot predict the amount of debt service assistance that will actually be appropriated in future years. If debt service assistance is not appropriated or is appropriated in lesser amounts than the Authority has assumed, rates and charges will be increased as necessary.

The table below sets forth the Authority’s estimates of its rate revenue requirements for Fiscal Years 2008 through 2013 based on the FY08 CEB. The Authority believes that the estimates are based upon realistic cost estimates and other assumptions, including the annual receipt of debt service assistance, and include adequate provision for contingencies. However, 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>
2008	\$517.8*	--
2009	547.9	5.8%
2010	579.4	5.8
2011	612.8	5.8
2012	648.1	5.8
2013	685.6	5.8

* Actual rate revenue requirement for Fiscal Year 2008.

In the Proposed FY09 CEB, the Authority has proposed a rate revenue requirement of \$548.1 million, a 5.9% increase over Fiscal Year 2008, and estimates increases of 6% annually for Fiscal Years 2010 through 2014. The Proposed FY09 CEB includes the receipt of \$11.25 million of debt service assistance in Fiscal Year 2009, and the use of \$5.2 million in rate stabilization funds.

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 a 2006 survey conducted by the Authority’s Advisory Board of Local Bodies’ rates and charges (the “2006 Survey”) and the Authority’s budgeted rates and charges for Fiscal Year 2008, 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 \$1,025. Actual annual bills vary from this average, in part due to the fact that there are certain Local Bodies which in the past raised their own retail rates at paces different from the Authority's rate increases.

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 4.4% from Fiscal Year 2004 through Fiscal Year 2008.

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 SRF loans and debt service 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 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 A 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 31.8% of the Authority's combined rates and charges assessed for Fiscal Year 2008.

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 which provides wastewater or drinking water service to the community and has a repayment obligation to the SRF (a "Regional Unit") which 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 which 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 March 1, 2008, the Authority had outstanding \$996 million in aggregate principal amount of loans from the SRF. The SRF also has made loans to or purchased local governmental obligations from 36 Local Bodies in an approximate aggregate principal amount of \$211.2 million outstanding as of March 1, 2008, 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 \$6.8 million in Fiscal Year 2008. The Authority also receives investment earnings on various funds that it holds, which are budgeted to total approximately \$33.9 million in Fiscal Year 2008. Revenues from permits, fines, fees and other miscellaneous sources are budgeted to total approximately \$6.0 million in Fiscal Year 2008.

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 31.4% of the Authority's combined rates and charges assessed for Fiscal Year 2008. 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 which 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 88,000 accounts. Its 20 largest users as of December 31, 2007 are estimated to account for approximately 17.4% 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, Harvard University, Boston University and the Massachusetts Port Authority. The BWSC has realized surpluses from its operations in each year since its inception.

As of March 1, 2008, the BWSC had approximately \$307.3 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 March 1, 2008, the BWSC had loans from the SRF outstanding in the amount of \$14.6 million and combined loans/grants from the Authority in the amount of \$37.1 million outstanding.

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 61.1% of the total costs of operation of the BWSC in calendar year 2008.

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. 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 which 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 rate, 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 which may be collected by certain governmental entities, including a limitation on the property taxes which 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, some of which are earmarked for specific programs, the bulk of which 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 which affect the amount of local aid to be distributed by the Commonwealth. These include legislation approved by the Governor in October 1986 (which legislation was repealed as of July 1, 1999) and an initiative petition approved by the voters in November 1986. These two measures, by limiting the annual rate of state tax revenue growth to the average rate of growth in total wages and salaries in the Commonwealth, placed limits on the amount of funds available to be distributed as local aid. Since the Commonwealth's 1989 fiscal year, state tax revenues have been below the allowable limits imposed by law and are expected to be below the limits for the Commonwealth's fiscal year. Additionally, a large portion of local aid has been earmarked for public education to provide more aid to the Commonwealth's less affluent communities.

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.

Although there can be no assurance that local aid will continue to be available at current levels and not reduced in the future, 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 Local Bodies are charged for water services pursuant to contracts between the Local Bodies and the Authority. Of these Local Bodies, 14 pay for water services at the full water rates under contracts renegotiated by the Authority with such Local Bodies. Various arrangements are in effect for five of the remaining six communities, which in the aggregate account for approximately 5.2% of total consumption, not including Bedford, which is not metered by the Authority.

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 Environmental Affairs for the Commonwealth. The Secretary and four 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), one upon recommendation of the Mayor of Quincy and one upon recommendation of the Winthrop Town Council (each of the latter two memberships are for four-year terms). At least one of the five gubernatorial appointments must be a representative of a minority group. 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. There are currently two vacancies on the Board.

BOARD OF DIRECTORS

<u>Member</u>	<u>Occupation</u>	<u>Date and Source of Original Appointment</u>	<u>Current Term Expires*</u>
Ian A. Bowles, <i>Chairman</i>	Secretary of Energy & Environmental Affairs <i>Ex Officio</i>	January 4, 2007	Coterminous with term as Secretary
John J. Carroll, <i>Vice Chairman</i>	General Manager, Town of Norwood	February 27, 1985; Advisory Board	July 1, 2008
Joseph A. MacRitchie, <i>Secretary</i>	Executive Director Quincy Housing Authority	March 8, 1989; Governor (upon recommendation of Quincy)	January 1, 2009
Joel A. Barrerra	Senior Project 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
Joseph C. Foti	Director of Public Works, City of Chelsea	June 21, 2001; Advisory Board	June 30, 2010
Michael S. Gove	Attorney, Lyon & Fitzpatrick, LLP	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	Director, Town of Brookline Water and Sewer Division	June 25, 1997; Advisory Board	July 1, 2009
Marie T. Turner	Former Chairperson, Town of Winthrop Board of Selectmen	December 6, 1996; Governor (upon recommendation of Winthrop)	January 28, 2009

* All members continue to serve until a successor is duly appointed and qualified, or until date of resignation.

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 which report directly to the Executive Director, including the Office of Emergency Preparedness, the Affirmative Action Compliance Unit, the Internal Audit Department, Public Affairs and the Planning Department.

The Operations Division comprises six departments: Operations Administration, Wastewater Treatment, Environmental Quality, Field Operations, Laboratory Services and Engineering and Construction. The Engineering and Construction department includes subunits for wastewater engineering, water engineering and construction. The Chief Operating Officer (“COO”) heads the Operations Division. 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 Finance Division comprises four departments - Treasury, Rates and Budget, Controller, and Risk Management.

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

The Support Services Division is responsible for supervision and coordination of the functions which serve the program divisions, and specifically for the operations of Human Resources, Management Information Systems, Procurement, Real Property and Environmental Management, Fleet Services and Facilities Management.

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 2010.

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 2010.

Rachel C. Madden, *Chief Financial Officer*

Ms. Madden was appointed Chief Financial Officer in 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.

Kevin P. Feeley, *Managing Director*

Mr. Feeley was appointed Managing Director in February 2006. Prior to his appointment, from 1985 to 2006, Mr. Feeley served as Director of Procurement. Prior to joining the Authority Mr. Feeley served as a consultant to the Town of Arlington responsible for the development and reuse of surplus school buildings and surplus space from 1983 to 1986. Between 1980 and 1983, Mr. Feeley was engaged in a private law practice with specific emphasis on real estate and commercial law. From 1963 to 1983, Mr. Feeley held various positions including General Counsel for the Boston Housing Authority, Assistant Deputy Commissioner for Legal Affairs for the City of Boston and Assistant General Counsel to the Secretary of State for the Commonwealth of Massachusetts. Mr. Feeley holds a law degree from the New England School of Law and a Bachelor's degree in business administration from The College of the Holy Cross.

EMPLOYEES

As of March 1, 2008, the Authority had more than 1,200 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 March 1, 2008, 1,160 of the Authority's employees were organized into five collective bargaining units represented by four different unions: two units are represented by an alliance between the National Association of Government Employees ("NAGE") and the United Steelworkers of America (Units 1 and 6); one unit is represented by the Massachusetts Organization of Engineers and Scientists (Unit 9); one unit is represented by the National Association of Government Employees (Unit 3); and one unit is represented by the American Federation of State, County and Municipal Employees (Unit 2).

The Authority currently has collective bargaining agreements in place with all of its collective bargaining units. The contract with Unit 2 is in place through March 2010, and the contracts with the remaining four units expire on June 30, 2010.

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. In addition, pursuant to the Commonwealth's Fiscal Year 1994 budget, the Advisory Board developed a sewer rate methodology to allocate Authority sewer costs among the Local Bodies, which was incorporated by the Authority into the establishment of its rates and charges commencing in Fiscal Year 1996. 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

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 those employees who remain members of the State System. For these employees, the total cost of benefits earned while employed by the Authority are paid by the Commonwealth and by the employees' own contributions. As of March 1, 2008, 126 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 which 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, investment returns and in part by the Authority. As of March 1, 2008, there were 1,178 active members, 122 inactive members and 272 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. In Fiscal Year 2007, the Authority contributed \$4.1 million to the System. The Authority has budgeted \$4.2 million for its contribution due to the Authority System in Fiscal Year 2008. The Authority System undertakes an actuarial study every two years and the most recent biennial study was completed as of January 1, 2007. In connection with this 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. This accrued liability increased the Authority’s contribution to the Authority System for Fiscal Year 2009 to approximately \$5.3 million, more than 25% over the Fiscal Year 2008 contribution of approximately \$4.2 million. This increased amount is included in the Proposed FY09 CEB. The Authority is scheduled to make the necessary contributions so that the Authority System will be fully funded by Fiscal Year 2023.

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.

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”) 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, including the Series 2008 Bonds, for each fiscal year in which such Secured Bonds will be Outstanding.

SECURED BOND DEBT SERVICE¹

(in thousands of dollars)

Fiscal Year	Debt Service On General Revenue Bonds ²		Debt Service On Subordinated Bonds ³		Total Secured Bond Debt Service
	Principal	Interest	Principal	Interest	
2008	\$ 0	\$ 154,874	\$ 26,428	\$ 37,228	\$ 218,531
2009	16,915	154,512	51,534	80,423	299,994
2010	15,050	153,817	50,371	77,606	303,363
2011	18,610	152,990	76,227	75,656	324,618
2012	37,850	151,514	127,880	72,651	344,461
2013	19,240	150,045	90,040	70,369	326,111
2014	41,225	148,449	45,516	67,393	347,271
2015	40,870	146,240	94,871	63,815	343,963
2016	54,825	143,695	108,551	60,036	355,658
2017	77,815	140,217	90,894	55,318	364,802
2018	105,305	135,446	115,863	51,778	404,750
2019	80,570	130,621	88,393	48,227	348,777
2020	121,505	125,454	123,228	47,620	392,133
2021	86,495	120,072	203,769	42,661	462,201
2022	157,475	113,776	131,300	35,968	426,022
2023	153,975	105,973	126,759	31,759	444,337
2024	167,380	97,932	89,643	27,338	389,208
2025	157,315	89,677	82,994	22,385	352,539
2026	144,485	81,966	93,397	19,470	327,177
2027	145,580	74,565	97,231	16,554	343,541
2028	148,965	67,064	74,801	11,967	307,592
2029	141,705	59,708	59,611	8,765	280,004
2030	134,100	52,745	37,585	8,718	238,781
2031	123,620	46,215	28,476	7,777	204,899
2032	103,320	40,499	32,091	7,371	178,684
2033	95,765	35,520	26,863	6,358	159,822
2034	84,485	30,988	25,647	5,401	144,257
2035	79,375	26,856	25,218	4,324	133,668
2036	74,525	22,995	22,557	3,175	121,537
2037	63,150	19,532	20,713	2,004	103,883
2038	56,505	16,585	10,054	836	90,719
2039	61,430	13,763	-	-	75,193
2040	45,505	11,243	-	-	56,748
2041	47,650	9,097	-	-	56,747
2042	36,315	7,121	-	-	43,436
2043	38,040	5,380	-	-	43,420
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	-	-	8,826
Total	<u>\$3,082,960</u>	<u>\$3,046,420</u>	<u>\$2,278,504</u>	<u>\$1,070,952</u>	<u>\$9,474,140</u>

Totals may not add due to rounding.

¹ Includes debt service on bonds issued to the SRF, but does not include debt service on commercial paper. SRF debt service is net of subsidy amounts.

² Does not include debt service on defeased bonds.

³ Variable rate debt reflects an assumed rate of 4.75% in Fiscal Year 2008, 4.25% in Fiscal Year 2009, and 4% for all Fiscal Years thereafter. 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 with respect to a related portion of Subordinated Bonds for the period in which the swap contracts remain in effect.

Based on the FY08 CIP, the Authority currently projects that it will issue approximately \$1.0 billion of additional Secured Bonds from Fiscal Year 2008 through Fiscal Year 2013 to finance its capital program. 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 2013, the Authority expects to issue additional Secured Bonds beyond Fiscal Year 2013.

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.

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 \$6.1 billion. Following the issuance of the 2008 Bonds, the Authority will have outstanding approximately \$5.7 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 its CIP in the future and legislation is now pending to increase the current limit. 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 2005. The Authority retained KPMG LLP, formerly KPMG Peat Marwick LLP, independent accountants, to audit the financial statements of the Authority for each of the ten fiscal years through and including June 30, 2004 and for the fiscal years ended June 30, 2006 and June 30, 2007. Deloitte & Touche LLP, independent accountants, audited the financial statements of the Authority for the fiscal year ending June 30, 2005. Included in Appendix A are the audited financial statements of the Authority at June 30, 2007 and June 30, 2006 and for the fiscal years then ended.

Pursuant to the General Resolution, in December 2005, the Authority filed with the Trustee the most recent 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 next triennial report is expected to be filed in December 2008.

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 2005 through 2007. For financial statements prepared in accordance with GAAP regarding Fiscal Year 2007, see Appendix A.

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

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Revenues			
Rates and Charges	\$ 444,269	\$ 472,220	\$495,359
Investment Income ¹	34,925	43,762	40,262
Transfer from Rate Stabilization Fund	-	10,740	-
Other Income	<u>12,326</u>	<u>18,764</u>	<u>15,117</u>
Total Revenues	491,520	545,486	550,738
Operating Expenses ²	209,038	223,955	226,966
Capital Lease	<u>3,217</u>	<u>3,217</u>	<u>3,217</u>
Net Operating Revenues	279,265	318,314	320,555
Debt Service on Bonds	158,264	166,412	182,703
Other Debt Service ³	<u>109,435</u>	<u>119,745</u>	<u>125,247</u>
Amount Available After Operations and Debt Service	<u>\$ 11,566</u>	<u>\$ 32,157</u>	<u>\$ 12,605</u>
Fund Deposits			
Reserve Funds	\$ 1,000 ⁴	\$ 866 ⁵	\$ 3,119 ⁵
Construction Fund ⁶	5,234	5,384	3,119

¹ Unrealized gains or losses recorded on investments are also excluded. Fiscal Year 2006 includes the receipt of \$7.5 million from the termination of a swap agreement relating to the Authority's Subordinated General Revenue Bonds, 2000 Series D.

² Includes payment of certain Commonwealth Obligations which are paid after Debt Service on Secured Bonds and which are not included in Operating Expenses for purposes of calculating certain Coverage Covenants; excludes depreciation.

³ Includes debt service on variable rate Subordinated Bonds and bonds issued to the SRF. Excludes amortized issuance expenses, refinanced principal payments and interest on commercial paper, except that in Fiscal Year 2006, the Authority expensed \$2.9 million of interest on a portion of its commercial paper program prior to the issuance of long-term debt.

⁴ Addition to Insurance Reserve Fund.

⁵ Addition to Operating Reserve Fund.

⁶ Includes deposits from current revenue to fund capital projects.

FISCAL YEAR 2006

The Fiscal Year 2006 CEB ("FY06 CEB") was adopted by the Board of Directors in June 2005 after Advisory Board comment and adjustments by staff to the proposed budget. The FY06 CEB as originally adopted totaled \$524.9 million. Non-rate revenue totaled \$52.7 million, resulting in a rate revenue requirement of \$472.2 million, an increase of 4.2% compared to the FY05 CEB. The FY06 CEB included \$10 million of debt service assistance, which was included in the budget as an offset to debt service, and which resulted in a lower rate revenue requirement.

During the first half of Fiscal Year 2006, the Authority anticipated a budget shortfall. In September, and subsequently in November and December 2005, total expenses exceeded the amount budgeted, primarily due to greater than anticipated utilities costs. In January 2006, the Authority's Board of Directors voted to transmit a proposed amendment to the FY06 CEB to the Advisory Board for its review and comment, pursuant to the Authority's Current Expense Budget Management Policies and Procedures. The amendment increased revenue and expenditures in the FY06 CEB by approximately \$5.4 million. Although the amendment was approved by the Board of Directors in May 2006, events and economic trends by that time had essentially eliminated the need for budget increases.

Total expenses during Fiscal Year 2006 were \$519.6 million, \$8.3 million or 1.6% less than the amended budget. Direct expenses of \$189.7 million were \$1.8 million or 1% less than the amended budget, debt service expenses of \$294.8 million were \$4.8 million or 1.6% lower than the amended budget and indirect expenses were \$1.8 million or 4.8% lower than the amended budget.

Total revenues in Fiscal Year 2006 were \$545.5 million, \$17.6 million or 1.9% more than budgeted.

FISCAL YEAR 2007

The Fiscal Year 2007 CEB (“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, and which resulted in a lower rate revenue requirement. See “Legislative and Other Developments.”

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 CURRENT EXPENSE BUDGET

The 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 totals \$564.5 million. Non-rate revenue totals \$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.

The \$564.5 million in current expenses for Fiscal Year 2008 consist of approximately \$206.6 million in direct expenses, \$44.5 million of indirect expenses and \$313.4 million of capital financing expenses after offset.

FISCAL YEAR 2008 THIRD QUARTER RESULTS

Total expenses as of the end of the third quarter of Fiscal Year 2008 were \$416.3 million, \$0.7 million or 0.2% less than budgeted. Direct expenses of \$146.5 million were \$3.8 million or 2.5% less than budgeted, debt service expenses of \$236.6 million were \$3.3 million or 4% greater than budgeted, and indirect expenses of \$33.1 million were \$0.2 million or 0.5% less than budgeted. Direct expenses are under budget primarily due to fewer than budgeted filled positions, lower than budgeted electricity prices and diesel fuel usage, delays in the Harbor Outfall monitoring contract and less than budgeted sludge quantities. Approximately \$2.6 million of the increase in debt service expenses is 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.

Revenues as of the end of the second quarter of Fiscal Year 2008 were \$433.8 million, \$11.3 million or 2.7% more than budgeted. This variance is primarily due to entrance fees from the Town of Reading (approximately \$7.8 million) and greater than budgeted investment income.

PROPOSED FISCAL YEAR 2009 CURRENT EXPENSE BUDGET

The Proposed FY09 CEB totals \$586.8 million. Non-rate revenue totals \$38.2 million, resulting in a rate revenue requirement of \$548.6 million, an increase of 5.9% over Fiscal Year 2008. The Authority expects to receive approximately \$11.25 million in debt service assistance in Fiscal Year 2009 and the Authority has reduced the rate revenue requirement for Fiscal Year 2009 by this amount.

The \$586.8 million in current expenses for Fiscal Year 2009 consist of approximately \$215.3 million in direct expenses, \$46.5 million of indirect expenses, and \$325 million of capital financing expenses after offsets.

The Proposed FY09 CEB is not final and has not yet been adopted by the Board of Directors.

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.

HISTORICAL COVERAGE
(in thousands of dollars)

	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>
Operating Revenues	\$429,047	\$446,877	\$456,595	\$490,984	\$510,476
Interest Income	31,390	29,422	34,925	43,762	40,262
Swap Income	5,318	0 ¹	0	0	0
Transfers from Rate Stabilization Fund ²	<u>14,691</u>	<u>0</u>	<u>0</u>	<u>10,740</u>	<u>0</u>
Total Revenues	480,446	476,299	491,520	545,486	550,738
Operating Expenses	(208,698)	(203,318)	(209,038)	(223,953)	(226,966)
Commonwealth Obligations ³	19,944	17,678	20,577	21,816	20,901
Capital Lease	<u>(3,217)</u>	<u>(3,217)</u>	<u>(3,217)</u>	<u>(3,217)</u>	<u>(3,217)</u>
Net Revenues	\$288,475	\$287,442	\$299,842	\$340,132	\$341,456
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>\$288,475</u>	<u>\$287,442</u>	<u>\$299,842</u>	<u>\$340,132</u>	<u>\$341,456</u>
Provision for Transfer to Rate Stabilization Fund ²	<u>0</u>	<u>0</u>	<u>(2,000)</u>	<u>(8,840)</u>	<u>(2,192)</u>
Revenues Available for Primary and SRF Primary Coverage (After Provision for Transfer to Rate Stabilization Fund)(B)	<u>\$288,475</u>	<u>\$287,442</u>	<u>\$297,842</u>	<u>\$331,292</u>	<u>\$339,264</u>
Required Senior Debt Service Fund Deposits(C) ⁴	<u>\$171,764</u>	<u>\$150,563</u>	<u>\$155,564</u>	<u>\$184,751</u>	<u>\$161,189</u>
Required Subordinated Debt Service Deposits(D)	<u>\$90,482</u>	<u>\$99,080</u>	<u>\$108,474</u>	<u>\$116,423</u>	<u>\$119,262</u>
Coverage:					
Before Provision for Transfer to Rate Stabilization Fund:					
Primary ⁵	168%	191%	193%	184%	212%
SRF Primary ⁶	110%	115%	114%	113%	122%
After Provision for Transfer to Rate Stabilization Fund:					
Primary ⁷	168%	191%	191%	179%	210%
SRF Primary ⁸	110%	115%	113%	110%	121%
Required CORE Fund Deposits ⁹	0.00	0.00	0.00	0.00	0.00
CORE Fund Deposits	0.00	0.00	0.00	0.00	0.00

¹ Beginning in Fiscal Year 2004, Swap Income is included in Interest Income.

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 .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 2004 does not include \$15.8 million of escrow deposits to pay debt maturing in future years. Fiscal Year 2006 includes \$17.2 million of deposits to pay debt service for the 1990 Series A Capital Appreciation Bond. 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; operation of a visitor’s center at the Quabbin Reservoir; and regulation of hydroelectric generation.

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. An updated five-year protection program for the Wachusett watershed, covering the 2005-2009 period, was

approved by DEP in 2004. The plan focuses 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 two 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 was taken off line and now provides full redundancy for the MetroWest Water Supply Tunnel during either maintenance or emergency situations. 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 which 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 185 metered connections and approximately 70 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 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, and two 12.5 million gallon concrete water storage tanks to replace the open Nash Hill Reservoir.

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 offers approximately \$20 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 2020. 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.

A community requesting admission to the Waterworks System 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 wastewater transport and treatment system, including the interceptor sewer, 11 pumping stations, five headworks, five CSO 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 which 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 which 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. Through March 1, 2008, the Authority has assessed penalties against industrial dischargers to its Sewer System in an aggregate amount of approximately \$10.7 million.

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 owns 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 storm water 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 these 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 system’s 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 CSO discharge volumes. 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 average annual volume of CSO discharges by approximately 81%, from 3.3 billion gallons to 0.63 billion gallons in a typical year, with 73% of the remaining overflow now receiving treatment at the Authority’s four CSO facilities. In addition, 27 of the 84 CSO outfalls addressed by the CSO Control Plan have been closed. 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 Water Systems 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's capabilities recently have been enhanced through a combination of additional grant money and Authority funding to respond to spills at any of the Authority's open reservoirs and to field a mobile emergency laboratory starting in the summer of 2008. 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. In June 2003, the Board of Directors adopted a five-year capital spending cap that limits total expenditures for Fiscal Years 2004 through 2008 to \$1.13 billion. The cap policy requires that a new cap for Fiscal Years 2009 through 2013 be set by the Board before the end of the current cap period. The Authority annually prepares and updates its CIP, and in June 2007 the Board of Directors approved the FY08 CIP. The FY08 CIP includes spending for Fiscal Years 2004 through 2008, the current cap period, and projections through Fiscal Year 2013 and beyond. The FY08 CIP reflects the Authority's ongoing efforts to manage rate increases to its member communities, while continuing to upgrade and maintain the Systems, and the Authority's effort to align its project prioritization process with the Master Plan. In January 2008 the Authority transmitted to the Advisory Board for comment and recommendations the Proposed FY09 CIP. The Proposed FY09 CIP includes a proposed spending cap of \$1.161 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 2008 CIP

The FY08 CIP includes 99 ongoing and new projects. Total costs of the projects are \$4.7 billion in Fiscal Year 2008 dollars (“FY08 Dollars”), including contingency, of which \$2.9 billion has been spent through December 31, 2007. The estimated capital spending for Fiscal Year 2008 is \$250.7 million. The FY08 CIP projects spending, including contingency and inflation in FY08 Dollars, of \$923.0 million for Fiscal Years 2004 through 2008, \$1.0 billion for Fiscal Years 2009 through 2013, and net projected spending of \$796.6 million for Fiscal Year 2014 and beyond.

CAPITAL IMPROVEMENT PROGRAM EXPENDITURE FORECAST FOR FISCAL YEARS 2004-2008 (in thousands of dollars)

	Total Contract Amount	Project Payments Through FY06	Balance FY06	FY04 Actual	FY05 Actual	FY06 Actual	FY07 Actual	FY08 Projected	5-Year Total FY04-FY08
Wastewater System Improvements	\$2,209,563	\$951,887	\$1,257,676	\$92,163	\$88,615	\$102,263	\$101,177	\$143,646	\$527,864
Waterworks System Improvements	2,278,329	1,500,457	777,872	100,093	76,276	48,458	53,835	77,001	355,663
Business & Operations Support	68,382	36,786	31,596	1,761	2,798	1,626	3,184	7,295	16,664
Contingency	<u>159,014</u>	_____	<u>159,014</u>	_____	_____	_____	_____	<u>22,795</u>	<u>22,795</u>
Total MWRA with Contingency	\$4,715,288	\$2,489,130	\$2,226,158	\$194,016	\$167,689	\$152,347	\$158,196	\$250,737	\$922,986

TEN-YEAR CAPITAL IMPROVEMENT PROGRAM SUMMARY BY MAJOR CATEGORY (in thousands of dollars)

	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	10-Year Total FY08-FY17
Wastewater System Improvements	\$143,646	\$178,477	\$120,437	\$85,970	\$74,441	\$51,383	\$47,568	\$56,985	\$55,018	\$19,737	\$833,662
Waterworks System Improvements	77,001	94,758	92,082	67,908	69,445	79,071	76,314	68,599	47,845	8,994	682,017
Business & Operations Support	7,295	5,778	7,298	2,125	1,457	883	1,053	1,773	750	-	28,412
Contingency	<u>22,795</u>	<u>28,315</u>	<u>20,994</u>	<u>13,938</u>	<u>13,431</u>	<u>12,400</u>	<u>14,053</u>	<u>14,793</u>	<u>13,310</u>	<u>4,986</u>	<u>159,014</u>
Total MWRA with Contingency	\$250,737	\$307,328	\$240,811	\$169,941	\$158,774	\$143,737	\$138,988	\$142,150	\$116,923	33,717	\$1,703,105

PROPOSED FISCAL YEAR 2009 CIP

The Proposed FY09 CIP represents updated spending and schedules for projects included in the FY08 CIP, and 18 new water and wastewater projects. Included are 78 projects/subphases from the Master Plan with the highest priority ratings, totaling \$986.2 million. The Proposed FY09 CIP reflects total project costs of \$4.9 billion (FY09 dollars), including contingency, of which \$2.3 billion remains to be spent. Capital spending in Fiscal Year 2009 is estimated to be \$288.5 million. The CSO Control Program represents the largest program initiative in terms of spending, with a Fiscal Year 2009 budget of \$125.4 million, accounting for more than 26% of Authority spending during the Fiscal Years 2009 through 2013. The Proposed FY09 CIP projects total spending of \$1,161.2 million for Fiscal Years 2009 through 2013, and net projected spending of \$890.2 million for Fiscal Year 2014 and beyond. The Proposed FY09 CIP is not final and has not yet been approved by the Authority’s Board.

MAJOR CAPITAL PROJECTS

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, such as the Hultman Aqueduct and the Southborough Tunnel, where transmission has depended on a single conduit.

Distribution and Pumping. The FY08 CIP identifies 23 separate projects for rehabilitation, upgrade or new construction of pipelines, pumping facilities, valves and meters. Pursuant to the Authority's business 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 locations regardless of ownership. There now remain 78 CSO outfalls, reduced from the 84 originally existing prior to implementing the CSO Control Plan.

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 techniques, including sewer separation, hydraulic relief, storage and treatment. Each of the projects targets 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 Federal Court Order in the Clean Water Act Case ("Schedule Seven"), which calls for the Authority to complete construction of the last project (Reserved Channel Sewer Separation) by December 2015. Schedule Seven also requires the Authority to conduct a three-year performance assessment of the CSO Control Plan 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-two of the 35 projects in the Authority's CSO Control Plan are complete, four projects are in construction, and six projects are in design. The Authority expects that the design of the final four projects will commence in 2008.

In July 2006, the Authority awarded the first of two construction contracts comprising the North Dorchester Bay CSO Storage Tunnel and Related Facilities plan. The first contract, valued at \$151.2 million, is the single largest contract in the Authority's CSO Control Plan and involves constructing a 2.1-mile soft-ground tunnel to capture CSO and stormwater flows which currently discharge to the swimming beaches of South Boston. More than half of the tunnel is constructed, and the remaining construction of the tunnel is scheduled to be completed in 2008.

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 is the Braintree-Weymouth Relief Facilities project, which was completed in March 2008.

Treatment and Residuals. The FY08 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 and for the Residuals Asset Protection project, which was added as a new project as part of the FY08 CIP. The bulk of spending on the Residuals Asset Protection project is anticipated to occur in Fiscal Year 2014 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. The FY08 CIP provides for project contingency reserves covering 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 for the North Dorchester Bay CSO Tunnel project, and approximately 10% 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.

FACTORS AFFECTING THE CAPITAL PROJECTS

The following is not intended as a complete summary, but describes some of the uncertainties which 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, 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.

Under an administrative consent order entered into with MDC and DEP to comply with SDWA rules and concluded in 2005, the Authority has eliminated all uncovered distribution storage. Based on an annual review, 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 through 2014 to modify treatment processes at the John J. Carroll Water Treatment Plant and Ware facilities, adding ultraviolet light disinfection to meet new SDWA regulations promulgated in January 2006. These modifications are included in the FY08 CIP.

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 80% from initial testing in 1992. Authority system-wide levels in the September 2007 sampling round were below the lead action level again for the eighth consecutive sampling round, as they have been in eleven of the most recent thirteen rounds. Lead levels were at their lowest ever and only two communities were above the lead action level. 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 Act 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. Under state law, the Commonwealth also requires treatment plants to hold state surface water discharge permits, which, in the discretion of EPA and DEP, may be issued jointly with the NPDES permit. 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 generally operates reliably in compliance with the requirements of the Permit. Reliable compliance with water quality standards applicable to CSO discharges depends on completion of the CSO Control Plan. Because of the intermittent operation of CSO treatment facilities, and ongoing upgrades and improvements in the collection system, from time to time excursions from effluent limits applicable to treated CSO discharges under the Permit have occurred.

In September 2000, when the Authority placed the effluent outfall tunnel at Deer Island on-line, the Contingency Plan went into effect. The Contingency Plan and an Ambient Monitoring Plan are attached to the Permit. The Contingency Plan had been developed as a result of the Authority's agreement with the National Marine Fisheries Service ("NMFS") and EPA to implement certain recommendations regarding activities that will provide additional information to help to ensure that there are no adverse impacts to endangered species or critical habitats under NMFS jurisdiction. The Contingency Plan relies on data obtained through the Authority's extensive Ambient Monitoring Plan. Both the Contingency Plan and the Ambient Monitoring Plan are subject to recommendations made by an Outfall Monitoring Scientific Advisory Panel, advisory to EPA and DEP, and are reviewed annually and revised as necessary based upon information from the monitoring program and new scientific information.

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 is currently working on a draft permit.

Boston Harbor: Clean Water Act Case. The Authority continues to be a defendant, along with BWSC and the Commonwealth, in a consolidated lawsuit brought in the U.S. District Court for the District of Massachusetts (the "Federal 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 (the "Clean Water Act Case"). With the completion of the last battery of secondary treatment at the Deer Island Treatment Plant, the Federal Court allowed the Authority's motion to reduce Federal 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 assessed

against the Authority 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.

In February 1999, the Authority reached agreement with DEP on the terms of an administrative consent order, which established a schedule for the Braintree-Weymouth Relief Facilities project. This project provides increased capacity for transporting sewage flows from six communities south of Boston to remedy overflows that occur during wet weather. See "Major Capital Projects – Wastewater Projects – Interceptor Sewer and Pumping." In July 2007, DEP allowed the Authority's request to amend the consent order by deleting the requirements associated with the rehabilitation of existing sewers contract from the consent order. The Authority completed the Braintree-Weymouth Replacement Pump Station, which is the last projected required by the consent order, in March 2008.

An appeal was filed in November 2007 in Suffolk Superior Court by CambridgePark Ten Citizens Group against the City of Cambridge and DEP, seeking review of an administrative decision issued by DEP concerning DEP's Stormwater Management Standards and the Massachusetts Wetlands Protection Act. While the Authority is not a party to this on-going litigation, the litigation has contributed to some delays in the Authority meeting milestones for sewer separation projects under schedules issued in the Clean Water Act Case relating to the Authority's Long-Term CSO Control Program. However, the Federal Court has not sought to penalize the Authority for those delays, as they are beyond both its and the City of Cambridge's control, and the Authority and the City of Cambridge continue to move forward, despite the litigation, with planning for the implementation and funding of those projects.

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. The Authority has signed a memorandum of understanding with the Commonwealth to promote the beneficial reuse of its sludge within 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 January 2007, the Authority received a letter from DOJ sent at the request of the EPA, notifying the Authority that the United States was prepared to bring a federal court enforcement action against the Authority for alleged violations of its Permit and the Clean Water Act and to seek the recovery of a monetary penalty related to the Authority's blending activities at its Deer Island Wastewater Treatment Plant. Since that date, the Authority and the United States have been negotiating a settlement agreement which is expected to include a civil penalty and assumption of the costs of one or more supplemental environmental projects, which settlement in the aggregate is expected to cost approximately \$610,000. The cost of the supplemental environmental projects has been included in the Proposal FY09 CIP. A tolling agreement extending the period for any complaint and for resolving this enforcement action has been extended through May 2008.

Blending is a process whereby some of the wastewater effluent stream, having first received primary treatment, is directed around secondary treatment, in most cases, but not all, during wet weather events, and then “blended” with wastewater which has received both primary and secondary treatment, after which the wastewater effluent stream is disinfected and discharged. The Authority has consistently met water quality-based Permit limits, including during blending periods, since the Authority’s current Permit was issued in August 2000.

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. As an example, in Fiscal Year 2007 then-Governor Mitt Romney made budget cuts eliminating from the Commonwealth’s Fiscal Year 2007 budget all funding for the Water and Sewer Rate Relief Fund, which provides debt service assistance. Later in the same fiscal year, Governor Deval Patrick restored the full amount of debt service assistance funding to the Authority. The Authority can not predict whether any such legislative proposals or executive actions affecting the Authority will be enacted or imposed in the future.

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 2008 Bonds, or to in any way contest or affect the validity of the Series 2008 Bonds, the General Resolution, or any proceedings of the Authority taken with respect to the issuance or sale of the Series 2008 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 which would materially adversely affect its ability to meet debt service payments on the Series 2008 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 a group of four temporary and permanent easement and fee takings by the Authority of private property interest which were necessary to construct the Authority’s Intermediate Pump Station and related sewer relief facilities in Weymouth. In December 2007 the jury in the action returned a verdict against the Authority in the net amount of approximately \$10 million. A judgment has not yet entered in the case, but an appeal by the Authority has been authorized by the Authority’s Board. The Authority believes that the contingency amounts included in the CIP are adequate to cover any such judgment, if finally decided adversely to the Authority.

TAX EXEMPTION

Bond Counsel is of the opinion that, under existing law, except as described below, interest on the Series A Bonds is not included in gross income for federal income tax purposes. Interest on obligations such as the Series A Bonds 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”), but such interest is 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 A 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 A Bonds could cause interest on the Series A Bonds to become subject to federal income taxation, retroactive to the date of their issuance. On or before delivery of the Series A 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 A 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 A Bonds.

Potential purchasers should be aware, however, of other collateral consequences that may result under the federal tax law for certain holders of the Series A Bonds. Interest on the Series A Bonds is included in the measure of the foreign branch profits tax imposed upon corporations and may be included in passive investment income subject to federal income taxation under provisions of the Code applicable to certain S corporations. The Code further provides that interest on the Series A Bonds may be includable in the modified adjusted gross income of certain recipients of Social Security and Railroad Retirement benefits for the purpose of determining whether a portion of such benefits shall be included in the taxable income of such recipients. In addition, certain otherwise deductible underwriting losses of property and casualty insurance companies will be reduced by a portion of the interest received by such companies on the Series A Bonds, and no deduction will be allowed for interest on indebtedness incurred or continued to purchase or carry the Series A Bonds or, in the case of a financial institution, that portion of such institution’s interest expense that is allocated to interest on the Series A Bonds.

Interest paid on tax-exempt obligations such as the Series A 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 A 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 A Bonds from gross income for federal tax purposes.

In the opinion of Bond Counsel, the Series A 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 A Bonds are exempt from Massachusetts personal property tax, although the Series A 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 A Bonds, their transfer and the income therefrom, including any profit made on the sale thereof, under the laws of jurisdictions other than The Commonwealth of Massachusetts.

Any federal, state or local legislation, administrative pronouncement or court decision (any such legislation, administrative pronouncement or court decision constituting a “Governmental Action”) may affect (i) the tax status (whether or not discussed herein or addressed in the opinion of Bond Counsel) of the Series A Bonds (including without limitation any exemption under applicable federal, state or local law from otherwise applicable taxes with respect to the (a) interest on the Series A Bonds, (b) gain from the sale or other disposition of the Series A Bonds, or (c) value of the Series A Bonds (any aforesaid exemption with respect to tax status, whether in connection with the Series A Bonds or other bonds, constituting the “Tax Exemption Status”), or (ii) the market price or marketability of the Series A Bonds. The impact of any Governmental Action cannot be predicted. Owners of the Series A Bonds are encouraged to consult their personal or institutional tax and financial advisors with respect to the tax and financial aspects of ownership of the Series A Bonds.

On the date of delivery of the Series A 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 ADVISORS

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 2008 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.

Lamont Financial Services Corporation also serves as financial advisor to the Authority providing the Authority with advice on debt management and other financial matters.

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, 2007 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 2008 Bonds.

CONSULTING ENGINEER

Camp Dresser & McKee Inc. serves as the Authority's engineering consultant in connection with the issuance of the Series 2008 Bonds. The Supplemental Feasibility Report prepared by Camp Dresser & McKee Inc. is attached hereto as Appendix B. The Engineering and Financial Feasibility Report, which is incorporated herein by reference, as supplemented by the Supplemental Feasibility Report included as Appendix B hereto, 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 A 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, for the Underwriter by its counsel, Edward Angell Palmer & Dodge LLP, Boston, Massachusetts, and for the Liquidity Facility Issuer by its counsel, Kutak Rock LLP, Atlanta Georgia.

UNDERWRITING

The Series A Bonds are being purchased by Citigroup Global Markets Inc, as the Underwriter. The Underwriter has agreed, subject to certain conditions, to purchase all of the Series A Bonds from the Authority at an underwriter's discount of \$422,506.25. and to reoffer such Series A Bonds at a public offering price not higher than that set forth on the cover page of this Official Statement. The Underwriter is obligated to purchase all such Series A 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 A Bonds may be offered and sold by the Underwriter to certain dealers (including dealers depositing such Series A Bonds in unit investment trusts or mutual funds, some of which may be managed by the Underwriter) 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 cover page of this Official Statement. Subsequent to such initial public offering, the Underwriter may change the public offering price as it may deem necessary in connection with the offering of such Series A Bonds. Citigroup Global Markets Inc. also will serve as Remarketing Agent with respect to the Series A Bonds.

CERTAIN CONSIDERATIONS RELATING TO REMARKETING OF SERIES A BONDS

The Remarketing Agent is Paid by the Authority. The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Series A Bonds that are optionally or mandatorily tendered by the holders thereof (subject, in each case, to the terms of the Remarketing Agreement, dated as of May 1, 2008, between the Authority and the Remarketing Agent (the "Remarketing Agreement")). The Remarketing Agent is appointed by the Authority and is paid by the Authority for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of the Series A Bonds.

The Remarketing Agent Routinely Purchases Series A Bonds for Its Own Account. The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely

purchases such obligations for its own account in order to achieve a successful remarketing of the obligations (*i.e.*, because there are otherwise not enough buyers to purchase the obligations) or for other reasons. The Remarketing Agent is permitted, but not obligated, to purchase tendered Series A Bonds for its own account and, if it does so, it may cease doing so at any time without notice. If the Remarketing Agent were not to purchase Series A Bonds, it might result in a drawing by the Trustee under the Standby Bond Purchase Agreement. The Remarketing Agent may also make a market in the Series A Bonds by routinely purchasing and selling Series A Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in Series A Bonds. The Remarketing Agent also may sell any Series A Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Series A Bonds. The purchase of Series A Bonds by the Remarketing Agents may create the appearance that there is greater third party demand for the Series A Bonds in the market than is actually the case. The practices described above also may result in fewer Series A Bonds being tendered in a remarketing.

Series A Bonds May be Offered at Different Prices on Any Date Including an Interest Rate Determination Date. Pursuant to the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Series A Bonds bearing interest at the Weekly Rate at par plus accrued interest, if any, on and as of the Rate Determination Date. The interest rate will reflect, among other factors, the level of market demand for the Series A Bonds (including whether the Remarketing Agent is willing to purchase Series A Bonds for its own account). There may or may not be Series A Bonds tendered and remarketed on a Rate Determination Date, the Remarketing Agent may or may not be able to remarket any Series A Bonds tendered for purchase on such date at par, and the Remarketing Agent may sell Series A Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Series A Bonds at the remarketing price. In the event the Remarketing Agent owns any Series A Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Series A Bonds on any date, including the Rate Determination Date, at a discount to par to some investors.

The Ability to Sell the Series A Bonds other than through Tender Process May Be Limited. The Remarketing Agent may buy and sell Series A Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Series A Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Series A Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Series A Bonds other than by tendering the Series A Bonds in accordance with the tender process.

Under Certain Circumstance, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the Series A Bonds, Without a Successor Being Named. Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having being named, subject to the terms of the Remarketing Agreement. In such event the Series A Bonds will not be remarketed, and the Purchase Price of Series A Bonds tendered for purchase will be paid solely from draws on the Liquidity Facility, so long as no Liquidity Facility Default has occurred and is continuing. See, “The Series A Bonds - No Tender or Purchase Upon Occurrence of a Liquidity Facility Default,” above.

RATINGS

The Series A Bonds have been rated “AA-/F1+” by Fitch Ratings (“Fitch”), One State Street Plaza, New York, New York, “Aa3/VMIG1” by Moody’s Investors Service, Inc. (“Moody’s”), 99 Church Street, New York, New York and “AA-/A-1+” 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 A 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 Public Financial Management, Inc. on behalf of the Authority relating to (a) computation of anticipated receipts of principal and interest on the Escrow Securities and the anticipated payments of principal and interest to redeem the Refunded Bonds, and (b) computation of the yields on the Series A Bonds and the Escrow Securities was examined by The Arbitrage Group. Such computations were based solely upon assumptions and information supplied by Underwriter 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 2008 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 “Continuing Disclosure Agreement”) for the benefit of the owners of all bonds (including the Series 2008 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”) 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 Municipal Securities Rulemaking Board (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 2008 Bonds (each a “Listed Event”), if material under applicable federal securities laws, the Authority will promptly notify the Dissemination Agent. The Dissemination Agent shall file a notice of such occurrence promptly with the MSRB and the State Depository, if any.

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
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 or the occurrence of an event affecting the tax-exempt status of the Series 2008 Bonds.
7. Modifications to rights of any owners of the Series 2008 Bonds.
8. Bond calls.
9. Defeasance of the Series 2008 Bonds or any portion thereof.
10. Release, substitution or sale of property securing repayment of any Series 2008 Bonds.
11. Rating changes.

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 2008 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 Authority’s undertakings to violate the Rule if such amendment or waiver had been effective on the date hereof 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 2008 Bonds, shall), or any owner of the Series 2008 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 which 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 A 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.

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
Chief Financial Officer

May 27, 2008

APPENDIX A
FINANCIAL STATEMENTS OF THE AUTHORITY

MASSACHUSETTS WATER RESOURCES AUTHORITY

Financial Statements and Supplemental Schedules
and Required Supplementary Information

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

MASSACHUSETTS WATER RESOURCES AUTHORITY

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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, 2007 and 2006, 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, 2007 and 2006, 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 October 19, 2007, 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 historical pension required supplementary information on page 43 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.

Finalized on 10/19/07 – Requested by Scott Warnetski
--

October 19, 2007

MASSACHUSETTS WATER RESOURCES AUTHORITY

Required Supplementary Information Management's Discussion and Analysis

June 30, 2007 and 2006

(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, 2007 and 2006. Please read it in conjunction with the Authority's financial statements, which immediately follow this section.

Financial Highlights – Fiscal 2007

The fiscal 2007 customer service revenues were approximately \$506 million. Of this amount, rate revenues represent approximately 98%, or \$495 million, and were \$23 million higher than fiscal 2006. This was due to an increase in assessments.

Total operating expenses, excluding depreciation, were approximately \$227 million in fiscal 2007. The 1.3% increase in total operating expenses over fiscal 2006 is the result of increased maintenance expenses and increased personnel costs.

Net nonoperating expenses decreased \$8.5 million, or 4%, primarily due to an increase in interest income and debt service grants.

Total assets at June 30, 2007 were approximately \$7.9 billion, a \$48 million, or 0.6%, increase over total assets at June 30, 2006. This increase was primarily reflected as an increase in other assets and deferred charges.

During fiscal 2007, the Authority issued 2007 Series A and B bonds in the aggregate amount of \$848 million to defease \$675 million of bonds and refinance \$179 million of commercial paper notes outstanding.

Total capital assets (net of depreciation) were approximately \$6.4 billion at June 30, 2007, a \$38 million, or 0.6%, decrease over June 30, 2006. The decrease was due to the rate of depreciation exceeding capital asset additions.

Financial Highlights – Fiscal 2006

The fiscal 2006 customer service revenues were approximately \$485 million. Rate revenues represent approximately 97%, or \$472 million, and were \$28 million higher than fiscal 2005. This was due to an increase in assessments.

Total operating expenses, excluding depreciation, were approximately \$224 million in fiscal 2006. The 7.1% increase in total operating expenses over fiscal 2005 is the result of increased utility expenses due to higher prices and usage of electricity and diesel fuel, and increased personnel costs.

Net nonoperating expenses increased \$9.9 million, or 4.9%, primarily due to an increase in interest expense.

Total assets at June 30, 2006 were approximately \$7.9 billion, a \$40 million, or 0.5%, increase over total assets at June 30, 2005. This increase was primarily reflected as an increase in other assets and deferred charges.

During fiscal 2006, the Authority issued 2006 Series A and B bonds in the aggregate amount of \$486.3 million to defease \$286.4 million of bonds and refinance \$186 million of commercial paper notes outstanding.

(continued)

MASSACHUSETTS WATER RESOURCES AUTHORITY

Required Supplementary Information
Management's Discussion and Analysis

June 30, 2007 and 2006

(Unaudited)

Total capital assets (net of depreciation) were approximately \$6.4 billion at June 30, 2006, a \$54 million, or 0.8%, decrease over June 30, 2005. The decrease was due to the rate of depreciation exceeding capital asset additions.

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.

(continued)

MASSACHUSETTS WATER RESOURCES AUTHORITY

Required Supplementary Information
Management's Discussion and Analysis

June 30, 2007 and 2006

(Unaudited)

Financial Analysis of the Authority

Net Assets

The Authority's total net assets at June 30, 2007 were approximately \$2.1 billion, a \$44 million decrease from June 30, 2006. Total assets increased \$48 million, or 0.6%, to \$7.9 billion, and total liabilities increased 1.6% to \$5.8 billion.

The Authority's total net assets at June 30, 2006 were approximately \$2.2 billion, a \$45 million decrease from June 30, 2005. Total assets increased \$40 million, or 0.5%, to \$7.9 billion, and total liabilities increased 1.5% to \$5.7 billion.

Net Assets					
(Dollars in thousands)					
	<u>2007</u>	<u>2006</u>	<u>2005</u>	Percentage change 2007-2006	Percentage change 2006-2005
Current assets	\$ 107,291	93,866	90,854	14.3%	3.3%
Restricted assets	669,278	681,400	659,975	(1.8)	3.2
Capital assets	6,406,195	6,444,534	6,498,899	(0.6)	(0.8)
Other assets	<u>765,231</u>	<u>679,748</u>	<u>609,690</u>	<u>12.6</u>	<u>11.5</u>
Total assets	<u>7,947,995</u>	<u>7,899,548</u>	<u>7,859,418</u>	<u>0.6%</u>	<u>0.5%</u>
Current liabilities	146,318	303,148	409,123	(51.7)%	(25.9)%
Payable from restricted assets	99,154	90,235	91,349	9.9	(1.2)
Long-term debt	5,370,663	5,144,294	4,916,755	4.4	4.6
Long-term lease	35,210	35,651	36,058	(1.2)	(1.1)
Other liabilities	<u>186,533</u>	<u>171,795</u>	<u>206,358</u>	<u>8.6</u>	<u>(16.7)</u>
Total liabilities	<u>5,837,878</u>	<u>5,745,123</u>	<u>5,659,643</u>	<u>1.6</u>	<u>1.5</u>
Net assets:					
Invested in capital assets – net of related debt	1,441,950	1,554,532	1,672,624	(7.2)	(7.1)
Restricted	189,396	180,695	161,775	4.8	11.7
Unrestricted	<u>478,771</u>	<u>419,198</u>	<u>365,376</u>	<u>14.2</u>	<u>14.7</u>
Total net assets	<u>\$ 2,110,117</u>	<u>2,154,425</u>	<u>2,199,775</u>	<u>(2.1)%</u>	<u>(2.1)%</u>

Changes in Net Assets

The decrease in net assets at June 30, 2007 was \$44 million, or 2.1%, as compared with June 30, 2006. The Authority's total operating revenues increased by 4% to \$510 million and total operating expenses increased 1.3% to \$227 million.

(continued)

MASSACHUSETTS WATER RESOURCES AUTHORITY

Required Supplementary Information
Management's Discussion and Analysis

June 30, 2007 and 2006

(Unaudited)

The decrease in net assets at June 30, 2006 was \$45 million, or 2.1%, as compared with June 30, 2005. The Authority's total operating revenues increased by 7.5% to \$491 million and total operating expenses increased 7.1% to \$224 million.

Changes in Net Assets (Dollars in thousands)					
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>Percentage change 2007-2006</u>	<u>Percentage change 2006-2005</u>
Operating revenues:					
Customer service revenues	\$ 506,354	484,529	452,802	4.5%	7.0%
Other revenues	4,122	6,455	3,793	(36.1)	70.2
Total operating revenues	<u>510,476</u>	<u>490,984</u>	<u>456,595</u>	<u>4.0</u>	<u>7.5</u>
Operating expenses:					
Operations	87,590	93,517	83,682	(6.3)%	11.8%
Maintenance	25,915	19,485	20,169	33.0	(3.4)
Payments in lieu of taxes	5,969	5,920	5,077	0.8	16.6
Engineering, general, and administrative	107,493	105,034	100,110	2.3	4.9
Total operating expenses	<u>226,967</u>	<u>223,956</u>	<u>209,038</u>	<u>1.3</u>	<u>7.1</u>
Depreciation and amortization	<u>180,179</u>	<u>180,217</u>	<u>175,128</u>	<u>—</u>	<u>2.9</u>
Operating income	<u>103,330</u>	<u>86,811</u>	<u>72,429</u>	<u>19.0</u>	<u>19.9</u>
Nonoperating items:					
Regulatory accounting provisions	47,699	72,254	73,234	(34.0)	(1.3)
Net nonoperating expenses	(201,792)	(210,301)	(200,416)	(4.0)	4.9
Capital grants and contributions	6,455	5,886	6,103	9.7	(3.6)
Total nonoperating items	<u>(147,638)</u>	<u>(132,161)</u>	<u>(121,079)</u>	<u>11.7</u>	<u>9.2</u>
Change in net assets	<u>(44,308)</u>	<u>(45,350)</u>	<u>(48,650)</u>	<u>(2.3)</u>	<u>(6.8)</u>
Total net assets – beginning of year	<u>2,154,425</u>	<u>2,199,775</u>	<u>2,248,425</u>	<u>(2.1)</u>	<u>(2.2)</u>
Total net assets – end of year	<u>\$ 2,110,117</u>	<u>2,154,425</u>	<u>2,199,775</u>	<u>(2.1)%</u>	<u>(2.1)%</u>

During fiscal 2007, the increases in customer service revenues were primarily due to the 4.9% increase in the rate revenue requirement (\$23 million).

During fiscal 2006, the increases in customer service revenues were primarily due to the 4.2% increase in the rate revenue requirement (\$19.2 million).

Total operating costs, before depreciation and amortization, in fiscal 2007 were \$227 million; a \$3 million or 1.3% increase over fiscal 2006. This increase is primarily due to increases in maintenance expenses (\$6.4 million) and total personnel costs (\$1.4 million). Maintenance expenses increased primarily at Deer Island where, as the facility ages, increased maintenance is required to run the plant optimally. Total personnel costs

(continued)

MASSACHUSETTS WATER RESOURCES AUTHORITY

Required Supplementary Information
Management's Discussion and Analysis

June 30, 2007 and 2006

(Unaudited)

increased due to union contract increases for salaries and wages and increased health insurance costs. These increases were offset by a decrease in utility expenses of \$4.4 million, primarily due to decreased usage and prices of electricity and diesel fuel.

Total operating costs, before depreciation and amortization, in fiscal 2006 were \$224 million; a \$15 million or 7.1% increase over fiscal 2005. This increase is primarily due to increases in utilities expenses (\$7.3 million) and total personnel costs (\$5.3 million). Utility expenses increased as both prices and usage of electricity and diesel fuel increased, primarily at Deer Island. In addition, the John Carroll Water Treatment Plant (JCWTP) became fully operational in August 2005. The operating cost associated with this facility also contributed to the increased expenses. Total personnel costs increased due to union contract increases for salaries and wages and increased health insurance costs.

In fiscal 2007, net nonoperating expenses decreased \$8.5 million, or 4%, primarily due to an increase in interest income and debt service grants.

In fiscal 2006, net nonoperating expenses increased \$9.9 million, or 4.9%, primarily due to an increase in interest expense.

Operating Costs by Functionality
(Dollars in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>Percentage change 2007-2006</u>	<u>Percentage change 2006-2005</u>
Wastewater treatment and transport	\$ 94,921	91,188	85,018	4.1%	7.3%
Water treatment and transport	27,607	24,950	21,127	10.6	18.1
Water and wastewater quality	8,361	8,917	8,144	(6.2)	9.5
Metering and monitoring	4,372	4,405	3,951	(0.7)	11.5
Facilities planning, design, and construction	10,027	9,733	9,910	3.0	(1.8)
Management Information Systems	8,727	7,970	8,329	9.5	(4.3)
Administration and support	39,897	42,504	40,342	(6.1)	5.4
Total direct operating costs	<u>193,912</u>	<u>189,667</u>	<u>176,821</u>	2.2	7.3
Indirect operating costs	<u>33,055</u>	<u>34,289</u>	<u>32,217</u>	(3.6)	6.4
Total operating costs	<u>\$ 226,967</u>	<u>223,956</u>	<u>209,038</u>	1.3%	7.1%

The increase in water treatment and transport reflects a full year of operations for the JCWTP which began operations in early 2006. In addition, increases in wastewater and water treatment and transport (and off-setting decrease in Administration and Support) were caused by the reorganization of Chelsea facility administrative costs from Administration and Support to Operations. MIS increases were the result of increased spending for computer hardware and software licensing and upgrades of the Lawson financial software.

(continued)

MASSACHUSETTS WATER RESOURCES AUTHORITY

Required Supplementary Information
Management's Discussion and Analysis

June 30, 2007 and 2006

(Unaudited)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2007 and 2006, the Authority had \$6.4 billion of capital assets (net of depreciation). 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 \$38 million, or 0.6%, during fiscal 2007, primarily due to the rate of depreciation exceeding capital asset additions.

Capital Assets					
(Net of depreciation, dollars in thousands)					
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>Percentage change 2007-2006</u>	<u>Percentage change 2006-2005</u>
Land	\$ 6,692	11,036	11,036	(39.4)%	—%
Construction in progress	273,516	245,542	518,237	11.4	(52.6)
Plant and equipment, water, and sewer systems	6,122,818	6,182,573	5,961,597	(1.0)	3.7
Furniture and fixtures	2,210	4,395	6,580	(49.7)	(33.2)
Leasehold improvements	406	418	864	(2.9)	(51.6)
Motor vehicles and equipment	553	570	585	(3.0)	(2.6)
	<u>\$ 6,406,195</u>	<u>6,444,534</u>	<u>6,498,899</u>	<u>(0.6)%</u>	<u>(0.8)%</u>

Increases in construction in progress are primarily due to increased spending for the North Dorchester Bay tunnel project, upper Neponset Valley service system, Heath Hill Road pipe replacement, Braintree-Weymouth relief facilities and the Spot Pond supply mains rehabilitation.

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.

(continued)

MASSACHUSETTS WATER RESOURCES AUTHORITY

Required Supplementary Information Management's Discussion and Analysis

June 30, 2007 and 2006

(Unaudited)

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 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

Of the \$5.5 billion of revenue bonds the Authority currently has outstanding, \$4.4 billion is credit enhanced by a combination of bond insurance, liquidity, or letters of credit. The Authority's enhanced revenue bonds are rated "AAA" by FITCHRATINGS, "Aaa" by Moody's Investors Service, and "AAA" by Standard and Poor's. The Authority's unenhanced \$0.2 billion long-term, senior debt is rated "AA" by FITCHRATINGS, "Aa2" by Moody's Investors Service, and "AA" by Standard and Poor's. The subordinated debt of \$0.9 billion is not rated as the Authority's debt.

Economic Factors and Next Year's Budget

In June 2007, the Board approved the fiscal 2008 Current Expense Budget (CEB), which totals \$582.1 million in expenses before debt service offsets of \$17.6 million, for a net expense total of \$564.5 million. The \$17.6 million in debt service offsets is for debt service assistance.

The \$582.1 million expense total (before debt service offsets) is comprised of \$331 million (57%) in capital financing costs and \$251.1 million (43%) in operating expenses, of which \$206.6 million (82%) is for direct expenses and \$44.5 million (18%) is for indirect expenses. The total represents an increase of \$16.9 million from fiscal 2007 spending, which is comprised of \$22 million in higher operating costs and \$5 million in lower debt service costs.

The fiscal 2008 rate revenue requirement approved by the Board is \$517.8 million; an increase of 4.5% compared with the fiscal 2007 budget.

Fiscal 2008 budgeted nonrate revenue totals \$46.7 million, a decrease of \$8.7 million from actual fiscal 2007 nonrate revenue. This decrease is reflected primarily in interest income and other user charges where greater than budgeted revenues were received in fiscal 2007. The nonrate revenue budget is comprised of \$33.9 million in investment income, \$12 million in other user charges and other revenue and \$0.8 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:

- Completion of covered storage facilities, including Blue Hills Covered Storage, to provide safe, reliable storage for water treated at JCWTP and transported through the MetroWest Tunnel and Hultman Aqueduct.

(continued)

MASSACHUSETTS WATER RESOURCES AUTHORITY

Required Supplementary Information Management's Discussion and Analysis

June 30, 2007 and 2006

(Unaudited)

- Rehabilitation of the Wachusett and Hultman Aqueducts as well as rehabilitation of top shaft structures on the Quabbin Tunnel, Dorchester Tunnel, City Tunnel, Southborough Tunnel, and City Tunnel Extension.
- Completion of the long-term CSO control plan, resulting in closing of 34 of 84 CSO outfalls and the reduction of CSO discharges to Boston Harbor and the Mystic, Charles, and Neponset River systems by 85% from 1987, when MWRA accepted responsibility for CSO control, with 94% of remaining discharges receiving treatment.
- Construction of new interceptor facilities to serve Braintree, Hingham, Holbrook, Randolph, Weymouth, and sections of Quincy, and to reduce sewage overflows into the Weymouth Fore River.
- Installation of new sewers to reduce overflows to adjacent residential areas and water bodies in West Roxbury and Newton.
- Continued rehabilitation of the water distribution system at a rate of six to seven miles per year (2% to 2.5% of the total 275 miles of Authority pipeline).
- Improvement and replacement of equipment on Deer Island to ensure that the plant continues to operate efficiently and effectively.
- Security improvements to protect the Authority's facilities.

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, Finance Division, 100 First Avenue, Boston, MA 02129.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Balance Sheets

June 30, 2007 and 2006

(Dollars in thousands)

Assets	2007	2006
Unrestricted current assets:		
Cash and cash equivalents (note 4)	\$ 40,828	31,774
Investments (note 4)	42,444	42,242
Intergovernmental loans (note 7)	22,097	18,499
Accounts receivable	<u>1,922</u>	<u>1,351</u>
Total unrestricted current assets	<u>107,291</u>	<u>93,866</u>
Restricted assets:		
Investments (note 4)	664,196	674,133
Interest receivable	5,082	5,914
Grants receivable:		
Billed	—	1,315
Unbilled	<u>—</u>	<u>38</u>
Total restricted assets	<u>669,278</u>	<u>681,400</u>
Capital assets – not being depreciated (note 8)	280,208	256,578
Capital assets – being depreciated – net (note 8)	6,125,987	6,187,956
Deferred charges (notes 3 and 9)	475,057	415,131
Other assets, net (notes 7 and 9)	<u>290,174</u>	<u>264,617</u>
Total	<u>\$ 7,947,995</u>	<u>7,899,548</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses (note 13)	\$ 56,466	53,095
Commercial paper notes (note 6)	39,000	164,000
Current portion of long-term debt (note 6)	<u>50,852</u>	<u>86,053</u>
Total current liabilities	<u>146,318</u>	<u>303,148</u>
Payable from restricted assets:		
Accounts payable for construction	21,813	17,010
Accrued interest on bonds payable	<u>77,341</u>	<u>73,225</u>
Total payable from restricted assets	<u>99,154</u>	<u>90,235</u>
Retainage on construction in progress	11,852	9,341
Long-term debt – less current portion (note 6)	5,370,663	5,144,294
Long-term capital lease (note 10)	35,210	35,651
Reserves (note 5)	104,169	101,050
Deferred credits (note 3)	<u>70,512</u>	<u>61,404</u>
Total liabilities	<u>5,837,878</u>	<u>5,745,123</u>
Net assets:		
Invested in capital assets, net of related debt	1,441,950	1,554,532
Restricted	189,396	180,695
Unrestricted	<u>478,771</u>	<u>419,198</u>
Total net assets	<u>2,110,117</u>	<u>2,154,425</u>
Commitments and contingencies (notes 10, 12, and 13)		
Total	<u>\$ 7,947,995</u>	<u>7,899,548</u>

See accompanying notes to financial statements.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2007 and 2006

(Dollars in thousands)

	<u>2007</u>	<u>2006</u>
Operating revenues (note 2):		
Customer services	\$ 506,354	484,529
Other	4,122	6,455
Total operating revenues	<u>510,476</u>	<u>490,984</u>
Operating expenses:		
Operations	87,590	93,517
Maintenance	25,915	19,485
Payments in lieu of taxes	5,969	5,920
Engineering, general, and administrative	107,493	105,034
Total operating expenses	<u>226,967</u>	<u>223,956</u>
Income from operations before depreciation	283,509	267,028
Depreciation and amortization	<u>180,179</u>	<u>180,217</u>
Operating income	<u>103,330</u>	<u>86,811</u>
Regulatory accounting provisions:		
Change in reserves (note 5)	(3,119)	(866)
Change in deferrals, net (note 3)	50,818	73,120
Total regulatory accounting provisions	<u>47,699</u>	<u>72,254</u>
Nonoperating revenues (expenses):		
Debt service grants	18,937	9,631
Investment income	42,966	30,301
Interest expense	(263,695)	(250,233)
Total nonoperating expenses	<u>(201,792)</u>	<u>(210,301)</u>
Net loss before capital contributions	(50,763)	(51,236)
Capital grants and contributions	<u>6,455</u>	<u>5,886</u>
Decrease in net assets	(44,308)	(45,350)
Total net assets, beginning of year	<u>2,154,425</u>	<u>2,199,775</u>
Total net assets, end of year	\$ <u><u>2,110,117</u></u>	\$ <u><u>2,154,425</u></u>

See accompanying notes to financial statements.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Statements of Cash Flows

Years ended June 30, 2007 and 2006

(Dollars in thousands)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Cash received from customers	\$ 508,450	482,804
Cash paid to suppliers for goods and services	(111,377)	(108,970)
Cash paid to employees for services	(107,458)	(104,266)
Cash paid in lieu of taxes	(5,975)	(5,914)
Other operating receipts	4,122	6,437
	<u>287,762</u>	<u>270,091</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of revenue bonds, loans, and notes	341,909	371,289
Capital grants for construction	7,808	5,886
Debt service grant	18,937	9,631
Capital lease principal payments	(441)	(408)
Capital lease interest payments	(2,776)	(2,809)
Repayment of debt	(295,177)	(266,277)
Interest paid on debt	(237,364)	(229,885)
Plant expenditures	(165,139)	(167,040)
	<u>(332,243)</u>	<u>(279,613)</u>
Cash flows from investing activities:		
Purchases of short-term investments	(3,000)	(100)
Sales and maturities of short-term investments	48,976	37,719
Decrease in restricted cash and investments – net	(33,381)	(74,724)
Interest received	40,940	45,664
	<u>53,535</u>	<u>8,559</u>
Net increase (decrease) in cash and cash equivalents	9,054	(963)
Cash and cash equivalents, beginning of year	<u>31,774</u>	<u>32,737</u>
Cash and cash equivalents, end of year	\$ <u>40,828</u>	\$ <u>31,774</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 103,330	86,811
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	180,179	180,217
Increase (decrease) in other accounts	1,042	(305)
Increase in accounts payable	3,211	3,368
	<u>287,762</u>	<u>270,091</u>

Noncash financing activities:

In February 2007, general revenue refunding bonds in the aggregate principal amount of \$647,950 were issued to defease \$674,570 of bonds outstanding.

In March 2006, general revenue refunding bonds in the aggregate principal amount of \$286,320 were issued to defease \$286,000 of bonds outstanding.

See accompanying notes to financial statements.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2007 and 2006

(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 Environmental Affairs for the Commonwealth. The Secretary and four other members are appointed by the Governor, one upon recommendation of the Mayor of Quincy and one upon recommendation of the Selectmen of Winthrop. Three members of the Board are appointed by the Mayor of Boston and three are appointed by the Authority's Advisory Board.

(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.

(Continued)

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

In addition, the Authority has adopted the provisions of FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, 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 rates for costs expected to be incurred in the future. The effects of the Authority's accounting policies under Statement No. 71 are discussed further in notes 3 and 9.

(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 market 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 2007 and 2006, 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

(Continued)

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2007 and 2006

(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 an amount for 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 are recorded at fair value. Fair value is determined based on quoted market price. The Authority recorded unrealized gains of \$382 in fiscal 2007 and unrealized losses of \$15,332 in fiscal 2006 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) Implementation of New Accounting Standards

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was effective for the year ended June 30, 2007. Statement No. 43 does not currently apply to the Authority.

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MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, is scheduled to be implemented by the Authority for the year ending June 30, 2008. As of the date of this report, the Authority has performed an actuarial valuation of the future post-employment health care costs. The unaudited actuarially accrued liability as of January 1, 2006 is \$76,382 and \$154,449 for a funded plan and unfunded plan, respectively. The unaudited actuarially required contribution as of June 30, 2007 is \$8,849 and \$15,120 for a funded and unfunded plan, respectively.

(3) Deferred Charges and Credits

In accordance with FASB No. 71, 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 FASB No. 71 charges (credits) for fiscal 2007 and 2006 is as follows:

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Balance – June 30, 2005 – net	\$ 214,081	66,526	280,607
Difference between depreciation of capital assets not financed by grants or capital contributions, and debt service in excess of interest expense	55,608	11,829	67,437
Bond redemption – net	8,148	(4,564)	3,584
Rate stabilization – current year recovery	(3,023)	(5,816)	(8,839)
Rate stabilization – current year usage	7,926	2,813	10,739
Other – net	6,116	(5,917)	199
Balance – June 30, 2006 – net	<u>288,856</u>	<u>64,871</u>	<u>353,727</u>
Difference between depreciation of capital assets not financed by grants or capital contributions, and debt service in excess of interest expense	50,321	9,605	59,926
Rate stabilization – current year recovery	6,203	(8,395)	(2,192)
Other – net	(5,633)	(1,283)	(6,916)
Balance – June 30, 2007 – net	<u>\$ 339,747</u>	<u>64,798</u>	<u>404,545</u>

(Continued)

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

The net balance at June 30, 2007 and 2006, is presented on the balance sheets as follows:

	<u>2007</u>	<u>2006</u>	<u>Current year change</u>
Deferred charges	\$ 475,057	415,131	59,926
Deferred credits	<u>(70,512)</u>	<u>(61,404)</u>	<u>(9,108)</u>
Net change in deferrals	<u>\$ 404,545</u>	<u>353,727</u>	<u>50,818</u>

The balance in the rate stabilization reserve, which is included in deferred credits, was \$43,737 and \$41,545 at June 30, 2007 and 2006, respectively.

(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, 2007 and 2006 were \$43,041 and \$33,578, respectively. Of these amounts, \$42,941 and \$33,478 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 contracts were in force as of June 30, 2007 and 2006, respectively, all of which are fully collateralized and appear as follows:

<u>Investment agreement provider</u>	<u>Rate</u>	<u>Maturity</u>	<u>2007</u>	<u>2006</u>
AIG financial products	5.75%	November 1, 2006	\$ —	10,418
AIG financial products	6.05	August 1, 2014	18,342	18,342
Wachovia Bank	5.17	August 1, 2016	14,456	14,456
Total			<u>\$ 32,798</u>	<u>43,216</u>

(Continued)

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

(c) Credit Ratings

All securities purchased, such as FNMA, FHLMC, and FHLB issues have an implied credit rating of AAA or they have been collateralized to AAA. This includes the guaranteed investment contracts.

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

(d) Concentration Risk

The Authority has no investments, at fair value, which exceeds 5% of the Authority's total investments as of June 30, 2007 and 2006.

(e) Interest Rate Risk

The following is a listing of the Authority's fixed income investments and related maturity schedule as of June 30, 2007 and 2006:

June 30, 2007					
Investment maturities (in years)					
Investment type	Fair value	<1	1-3	4-8	>9
Certificate of deposit	\$ 3,100	100	3,000	—	—
Money market mutual funds	422,528	422,528	—	—	—
U.S. Treasury notes and bonds	21,540	17,753	—	3,787	—
U.S. agency obligations	226,674	—	7,024	124,617	95,033
Guaranteed investment contracts	32,798	—	—	18,342	14,456
Total	<u>\$ 706,640</u>	<u>440,381</u>	<u>10,024</u>	<u>146,746</u>	<u>109,489</u>
June 30, 2006					
Investment maturities (in years)					
Investment type	Fair value	<1	1-3	4-8	>9
Certificate of deposit	\$ 3,100	3,000	100	—	—
Money market mutual funds	389,146	389,146	—	—	—
U.S. Treasury notes and bonds	31,101	9,588	17,797	3,716	—
U.S. agency obligations	249,812	26,199	6,900	97,348	119,365
Guaranteed investment contracts	43,216	10,418	—	—	32,798
Total	<u>\$ 716,375</u>	<u>438,351</u>	<u>24,797</u>	<u>101,064</u>	<u>152,163</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.

(Continued)

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

(f) Restricted Investments by Fund

The following summarizes restricted investments as of June 30, 2007 and 2006 by various funds and accounts established by the Authority for debt covenants and other purposes:

	<u>2007</u>	<u>2006</u>
Restricted investments:		
Construction	\$ 83,892	81,926
Debt service reserves	253,083	252,361
Debt service	148,296	161,424
Revenue redemption	35,191	33,343
Revenue	66,328	69,568
Renewal and replacement reserve	31,429	29,891
Insurance	18,997	18,997
Community obligation and revenue enhancement	20,105	19,962
Insurance related escrow deposits	6,875	6,661
Total restricted investments	<u>\$ 664,196</u>	<u>674,133</u>

(5) Bond Resolution Reserves

The components of the reserves required by the general and supplemental bond resolutions at June 30, 2007 and 2006 are as follows:

<u>Reserves</u>	<u>Sewer</u>	<u>Water</u>	<u>Total 2007</u>	<u>Total 2006</u>
Renewal and replacement	\$ 17,300	11,701	29,001	29,001
Insurance	9,500	9,500	19,000	19,000
Operating	26,552	9,500	36,052	32,933
Community obligation and revenue enhancement	18,399	1,717	20,116	20,116
Total	<u>\$ 71,751</u>	<u>32,418</u>	<u>104,169</u>	<u>101,050</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, 2007 and 2006.

(Continued)

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

(6) Notes Payable and Long-Term Debt

Long-term debt at June 30, 2007 and 2006 consisted of the following:

	<u>2007</u>	<u>2006</u>
General Revenue Bonds:		
1992 Series A, 6 1/2%, issued April 8, 1992	\$ —	387,845
1993 Series C, 5 1/4% to 6%, issued December 2, 1993, due 2008 to 2015	51,285	144,815
1995 Series B, 4% to 6 1/4%, issued January 4, 1996	—	52,155
1996 Series A, 6%, issued November 5, 1996	—	3,415
1998 Series A, 4 3/4%, issued January 27, 1998, due 2021 to 2032	100,355	153,490
2000 Series A, 5% to 6 1/8%, issued March 1, 2000	—	26,675
2002 Series B, 5% to 5 1/8%, issued March 15, 2002, due 2021 to 2027	74,415	87,080
2002 Series J, 5% to 5 1/2%, issued December 18, 2002, due 2008 to 2042	553,080	591,395
2003 Series D, 4 5/8% to 5%, issued January 7, 2004, due 2022 to 2028	113,340	141,705
2004 Series A, 4 3/4% to 5 1/8%, issued June 10, 2004, due 2021 to 2029	104,870	118,170
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	—
	<u>1,397,345</u>	<u>1,906,745</u>
General Revenue Refunding Bonds:		
1997 Series D, 4 3/4% to 6%, issued December 15, 1997, due 2008 to 2020	128,815	129,920
1998 Series B, 4 1/2% to 5 1/2%, issued January 27, 1998, due 2008 to 2022	103,550	103,880
2004 Series B, 5%, issued September 29, 2004, due 2016 to 2020	49,390	65,255
2005 Series A, 3% to 5 1/4%, issued April 14, 2005, due 2008 to 2034	410,675	413,755
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 2015 to 2040	264,945	286,320
2007 Series B, 5 1/4%, issued February 1, 2007 due 2023 to 2038	647,950	—
	<u>1,685,615</u>	<u>1,079,420</u>

(Continued)

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

	<u>2007</u>	<u>2006</u>
Subordinated debt:		
General Revenue Bonds with the Massachusetts		
Water Pollution Abatement Trust:		
1993 Series A, 5 3/10% to 5 1/2%, issued		
March 18, 1993, due 2007 to 2013	\$ 4,285	5,375
1993 Series D, 5% to 5 1/4%, issued		
January 6, 1994, due 2007 to 2014	3,925	4,660
1995 Series A, 5% to 5 1/2%, issued		
November 21, 1995, due 2007 to 2015	4,885	5,720
1998 Series C, 4 1/2% to 5 3/8%, issued		
July 9, 1998, due 2007 to 2018	10,385	11,665
1999 Series E Sewer, 4 1/2% to 5 3/8%, issued		
October 6, 1999, due 2007 to 2029	9,023	9,281
1999 Series E Water, 4 1/2% to 5 3/8%, issued		
October 6, 1999, due 2007 to 2019	8,615	9,142
1999 Series F, 5% to 6%, issued		
November 3, 1999, due 2007 to 2029	340,710	350,555
2000 Series E Sewer, 4 5/8% to 5 5/8%, issued		
November 1, 2000, due 2007 to 2030	65,715	67,337
2000 Series E Water, 4 5/8% to 5 5/8%, issued		
November 1, 2000, due 2007 to 2020	9,665	10,198
2001 Series C Water, 5% to 5 1/4%, issued		
July 26, 2001, due 2008 to 2021	4,162	4,393
2001 Series D Sewer, 5% to 5 3/4%, issued		
July 26, 2001, due 2007 to 2029	6,279	6,643
2001 Series D Water, 4 7/10% to 5 3/4%, issued		
July 26, 2001, due 2007 to 2019	1,218	1,291
2002 Series H Sewer, 3 1/2% to 5 1/4%, issued		
October 31, 2002, due 2007 to 2032	83,875	85,905
2002 Series H Water, 3 1/2% to 5 1/4%, issued		
October 31, 2002, due 2007 to 2022	28,020	29,355
2002 Series I Sewer, 4 1/4% to 5 5/8%, issued		
October 31, 2002, due 2007 to 2030	2,400	2,464
2002 Series I Water, 4 1/4% to 5 5/8%, issued		
October 31, 2002, due 2007 to 2020	26	27
2003 Series A Water, 3% to 5 1/4%, issued		
October 31, 2002, due 2007 to 2022	1,293	1,355
2003 Series B Water, 5% to 5 1/4%, issued		
July 24, 2003, due 2008 to 2021	3,757	3,966
2003 Series C Sewer, 2 3/10% to 5 1/2%, issued		
November 6, 2003, due 2007 to 2033	30,049	30,766
2003 Series C Water, 2% to 5 1/2%, issued		
November 6, 2003, due 2007 to 2023	18,969	19,869

(Continued)

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

	<u>2007</u>	<u>2006</u>
2004 Series C Sewer, 2 3/10% to 5 1/2%, issued October 26, 2004, due 2007 to 2033	\$ 10,203	10,446
2004 Series C water, 3% to 5 1/4%, issued October 26, 2004, due 2007 to 2022	1,528	1,611
2004 Series D Sewer, 3% to 5 1/4%, issued November 29, 2004, due 2007 to 2034	61,027	62,994
2004 Series D Water, 3% to 5 1/4%, issued November 29, 2004, due 2007 to 2024	12,400	12,891
2005 Series C Sewer, 2 3/10% to 5 1/2%, issued November 3, 2005, due 2007 to 2034	7,211	7,482
2005 Series C Water, 2 3/10% to 5 1/2%, issued November 3, 2005, due 2007 to 2024	990	1,002
2005 Series D Sewer, 2% to 2 3/10%, issued November 16, 2005, due 2007 to 2035	65,214	62,170
2005 Series D Water, 0% to 2%, issued November 16, 2005, due 2007 to 2025	14,231	12,321
2005 Series E Sewer, 2% , issued November 16, 2005, due 2007 to 2025	387	407
2005 Series E Water, 2%, issued November 16, 2005, due 2007 to 2025	86	91
Interim Loans Sewer, 1.29%, issued November 16, 2005, due 2006	—	10,893
2006 Series C Sewer, 3% to 5 1/4%, issued October 26, 2006, due 2007 to 2034	8,646	—
2006 Series D Sewer, 2% to 2 3/10%, issued December 14, 2006, due 2007 to 2036	58,715	—
2006 Series D Water, 0% to 2%, issued November 16, 2006, due 2007 to 2026	26,922	—
2006 Series E Sewer, 2% , issued December 14, 2006, due 2007 to 2026	374	—
2006 Series E water, 2% , issued December 14, 2006, due 2007 to 2026	168	—
	<u>905,358</u>	<u>842,275</u>
General Revenue Bonds (variable rates):		
1997 Series A, 3.3% to 3.91%, issued June 18, 1997, due 2008 to 2028	76,600	77,900
1997 Series B, 3.37% to 3.95%, issued June 18, 1997, due 2008 to 2028	76,600	77,900
1999 Series A, 3.3% to 3.9%, issued January 14, 1999, due 2007 to 2028	87,600	89,000
1999 Series B, 3.3% to 3.91%, issued January 29, 1999, due 2007 to 2028	87,600	89,000
1999 Series C, 3.15% to 3.75%, issued June 8, 1999, due 2008 to 2029	67,900	68,900

(Continued)

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

	<u>2007</u>	<u>2006</u>
1999 Series D, 3.31% to 3.75%, issued June 8, 1999, due 2008 to 2029	\$ 67,900	68,900
2001 Series A, 3.35% to 3.96%, issued September 26, 2001, due 2007 to 2023	84,900	87,100
2001 Series B, 3.28% to 3.96%, issued September 26, 2001, due 2023 to 2031	<u>85,000</u>	<u>85,000</u>
	<u>634,100</u>	<u>643,700</u>
General Revenue Refunding Bonds (variable rates):		
1998 Series D, 3.37% to 3.98%, issued December 22, 1998, due 2008 to 2026	198,895	198,895
2000 Series B, 3.37% to 3.98%, issued March 22, 2000, due 2020 to 2037	133,300	133,300
2000 Series C, 3.37% to 3.98%, issued March 22, 2000, due 2020 to 2037	133,300	133,300
2002 Series C, 3.02% to 4.01%, issued August 15, 2002, due 2020	76,300	78,300
2002 Series D, 3.11% to 4%, issued August 15, 2002, due 2008 to 2017	76,450	76,450
2002 Series E, 3.05% to 3.7%, issued August 15, 2002, due 2010 to 2011	83,400	83,400
2002 Series F, 3.2% to 3.7%, issued August 15, 2002 due 2012 to 2013	90,900	90,900
2002 Series G, 2.92% to 3.7%, issued August 15, 2002, due 2014 to 2015	<u>99,250</u>	<u>99,250</u>
	<u>891,795</u>	<u>893,795</u>
	<u>5,514,213</u>	<u>5,365,935</u>
Less:		
Unamortized issuance and discount costs	144,053	39,305
Unamortized excess of reacquisition price over net carrying amount of defeased bonds	(236,751)	(174,893)
Current portion of long-term debt	<u>(50,852)</u>	<u>(86,053)</u>
	<u>(143,550)</u>	<u>(221,641)</u>
Long-term debt, net	\$ <u>5,370,663</u>	<u>5,144,294</u>

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MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

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(Dollars in thousands)

Long-term debt at June 30, 2007 and 2006 consisted of the following:

	<u>2006</u> <u>beginning</u> <u>balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>2007</u> <u>ending</u> <u>balance</u>	<u>Due</u> <u>within</u> <u>one year</u>
General Revenue Bonds	\$ 2,550,445	200,000	719,000	2,031,445	12,299
General Revenue Refunding Bonds	1,973,215	647,950	43,755	2,577,410	5,725
General Revenue Bonds with the Massachusetts Water Pollution Abatement Trust	<u>842,275</u>	<u>111,596</u>	<u>48,513</u>	<u>905,358</u>	<u>32,828</u>
	<u>\$ 5,365,935</u>	<u>959,546</u>	<u>811,268</u>	<u>5,514,213</u>	<u>50,852</u>
	<u>2005</u> <u>beginning</u> <u>balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>2006</u> <u>ending</u> <u>balance</u>	<u>Due</u> <u>within</u> <u>one year</u>
General Revenue Bonds	\$ 2,674,965	201,820	326,340	2,550,445	41,500
General Revenue Refunding Bonds	1,695,075	286,320	8,180	1,973,215	5,680
General Revenue Bonds with the Massachusetts Water Pollution Abatement Trust	<u>760,717</u>	<u>106,247</u>	<u>24,689</u>	<u>842,275</u>	<u>38,873</u>
	<u>\$ 5,130,757</u>	<u>594,387</u>	<u>359,209</u>	<u>5,365,935</u>	<u>86,053</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%, respectively. For the year ended June 30, 2007, the Authority had primary and subordinated debt service coverage ratios of 210% and 121%, respectively.

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 \$6,100,000.

On February 1, 2007, the Authority issued General Revenue Bonds, 2007 Series A and General Revenue Refunding Bonds, 2007 Series B in the principal amounts of \$200,000 and \$647,950, respectively. The proceeds from the Series A bonds were used to retire \$179,000 of Commercial Paper Notes. The interest rate on these bonds is 4-3/8% to 5%.

The proceeds from the Series B bonds were used to defease \$674,570 of the 1992 Series A, 1993 Series C, 1995 Series B, 1998 Series A, 2000 Series A, 2002 Series B, 2003 Series D, 2004 Series A, 2004 Series B, and 2006 Series B bonds outstanding. The interest rate on these bonds is 5.25%. The cash flow required to make principal and interest payments on the refunding bonds is approximately \$451,925 more than the debt service requirements for the defeased 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 \$4,940.

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MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

On March 16, 2006, the Authority issued General Revenue Bonds, 2006 Series A and General Revenue Refunding Bonds, 2006 Series B in the principal amounts of \$200,000 and \$286,320, respectively. The proceeds from the Series A bonds were used to retire \$186,000 of Commercial Paper Notes. The interest rate on these bonds is 4% to 5%.

The proceeds from the Series B bonds were used to defease \$286,400 of the 1990 Series A, 1995 Series B, and 2000 Series D bonds outstanding. The interest rate on these bonds is 5%. The cash flow required to make principal and interest payments on the refunding bonds is approximately \$173,568 more than the debt service requirements for the defeased bonds. The economic loss (the difference between the present values of the debt service payments on the old and new debt) obtained from this refunding was \$2,289.

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 Bond Market Association (BMA) rate or 67% LIBOR). The BMA rate is based on the seven-day high-grade market index of tax-exempt variable rate demand obligations.

Summary of Swap Transactions

Synthetic Fixed Rate Swap Transactions

<u>Date of execution</u>	<u>Notional amount</u>	<u>Termination date</u>	<u>Associated bonds</u>	<u>Fixed payable swap rate</u>	<u>Variable receivable swap rate</u>	<u>Lump-Sum payment from counterparty</u>	<u>Counterparty credit rating at June 30, 2007</u>	<u>Fair value at June 30, 2007</u>
March 22, 2000	\$ 266,600	August 1, 2030	2000 Series B & C	4.470%	BMA	N/A	Aaa	\$ (33,090)
August 1, 2030	70,400	August 1, 2037	2000 Series B & C	6.935	BMA	N/A	Aaa	(1,778)
December 22, 1998	198,895	November 1, 2026	1998 Series D	3.994	BMA	N/A	Aaa	1,058
August 15, 2002	350,000	August 1, 2015	2002 Series D, E, F, G	4.127	67% LIBOR	N/A	Aa3	(7,898)

The Authority also had one swap where it received a fixed rate of 4.9% and paid the BMA rate. This swap agreement, for the 2000 Series D bonds, was terminated on February 28, 2006 when these bonds were defeased. The proceeds from this transaction, totaling \$7,467, were used, along with the proceeds of 2006 Series B bonds, to defease debt.

Under these interest rate swap agreements, the Authority incurred net interest expense of \$4,975 and \$1,189 in fiscal 2007 and fiscal 2006, respectively.

For the swap execution on March 22, 2000, with a notional amount of \$266,600, the fixed rate paid by the Authority is as follows: 5.13% from execution through August 2005, 4.47% from August 2005 through August 2013, 5.49% from August 2013 through August 2019, and 6.94% from August 2019 through August 2030.

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MASSACHUSETTS WATER RESOURCES AUTHORITY

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(Dollars in thousands)

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. All fair values have been calculated using the mark to market or par value method. To mitigate credit risk, the Authority maintains strict credit standards for swap counterparties. All swap counterparties for longer term swaps are rated in the A+ category or higher by at least two of the three rating agencies (FITCHRATINGS, Moody’s Investors Service, and Standard and Poor’s).

Basis Risk – The Authority is exposed to basis risk if the relationship between the floating index the Authority receives on the swaps (BMA or 67% of LIBOR) falls short of the variable rate on the associated bonds. Should this occur, the expected savings may not be realized.

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 a 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.

Using rates as of June 30, 2007, debt service requirements of the variable rate bonds and net swap payments, assuming current interest rates remains constant, were as follows:

Fiscal year ending June 30	Variable-rate		Interest rate swaps, net	Total
	Principal	Interest		
2008	\$ —	36,321	4,553	40,874
2009	14,500	35,667	5,062	55,229
2010	15,700	35,011	4,258	54,969
2011	42,300	33,199	3,151	78,650
2012	48,600	31,170	2,370	82,140
2013-2017	248,650	131,581	11,353	391,584
2018-2022	212,050	97,280	17,758	327,088
2023-2027	155,495	48,439	12,838	216,772
2028-2032	7,800	25,426	7,669	40,895
2033-2037	55,600	16,491	5,511	77,602
2038	14,800	523	194	15,517
Total	\$ 815,495	491,108	74,717	1,381,320

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Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

At June 30, 2007, 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>
1990 Series A	2009–2020	102	\$ 602,975
1991 Series A	2011–2021	100 to 102	224,630
1992 Series A	2007–2022	100 to 102	671,345
1992 Series B	2007–2020	100	377,955
1993 Series A	2007–2013	100 to 102	52,380
1993 Series B	2008–2022	100 to 102	376,080
1993 Series C	2007–2023	100 to 102	273,035
1993 Series D	2007–2014	100 to 102	39,445
1994 Series A	2007–2024	102	116,960
1995 Series A	2007–2015	100 to 102	43,730
1995 Series B	2007–2024	100	205,810
1996 Series A	2007–2026	100 to 102	124,710
1997 Series D	2007	100 to 101	1,165
1998 Series A	2007–2020	100	79,335
1998 Series B	2007	100	350
1998 Series C	2007–2018	100 to 102	79,760
2000 Series A	2007–2039	100	273,430
2000 Series D	2009–2011	100	150,000
2002 Series B	2007–2024	100	97,860
2002 Series J	2012	100	38,315
2003 Series D	2007–2021	100	46,405
2004 Series A	2007–2020	100	22,855
2004 Series B	2016	100	15,865
2005 Series A	2007 - 2010	100	5,390
2006 Series B	2015-2020	100	21,375

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 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 May 2007, the Authority deposited \$42,781 on into an escrow account with the trustee to defease \$38,315 of the 2002 Series J and \$2,690 of the 2005 Series A General Revenue bonds outstanding.

In June 2006, the Authority deposited \$25,100 into an escrow account with the trustee to defease \$26,200 of the 1993C, 1995B, 1997D, 1998A, 1998B, 2000A, 2002B, 2003D, 2004A, and 2005A General Revenue bonds outstanding.

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MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

At June 30, 2007, outstanding bonds that are redeemable before their scheduled due dates are as follows:

<u>Description</u>	<u>Redemption date</u>	<u>Redemption price</u>	<u>Outstanding principal amount</u>
1997 Series D	August 2008	100-101	\$ 113,375
1998 Series A	August 2008	100	100,355
1998 Series B	August 2008	100	72,945
2002 Series B	August 2011	100-101	74,415
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	August 2014	100	49,390
2005 Series A	August 2017	100	285,000
2005 Series B	August 2017	100	80,290
2006 Series A	August 2018	100	200,000
2006 Series B	August 2018	100	261,775
2007 Series A	February 2017	100	200,000

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.

During fiscal 2007, the Authority executed loan agreements with Massachusetts Water Pollution Abatement Trust (MWPAT) providing for 2006 Series C, 2006 Series D and 2006 Series E Sewer and Water loans in the principal amounts of \$8,646, \$96,708, and \$542, respectively. All proceeds for these loans were received by June 30, 2007, except \$11,071, principal for 2006 Series D Sewer and Water. The remaining funds are expected to be drawn down in fiscal 2008.

During fiscal 2006, the Authority executed loan agreements with Massachusetts Water Pollution Abatement Trust (MWPAT) in connection with MWPAT's 2005 Series C, 2005 Series D and 2005 Series E Sewer and Water bonds to provide funds to the Authority in the amounts of \$8,519, \$81,597, and \$498, respectively. All available funds were drawn down by the Authority as of June 30, 2006, except \$35 and \$7,106, principal and premium, respectively, for 2005 Series C Water and 2005 Series D Sewer and Water. The remaining funds are expected to be drawn down in fiscal 2007.

Additionally, the Authority executed an interim loan agreement with MWPAT providing sewer loans in the principal amount of \$20,558. All proceeds of these loans were received by June 30, 2006, except \$9,665.

Federal and Commonwealth subsidies for purposes of offsetting principal payments aggregating \$117,718 will be recognized as capital grants in aid of construction over the term of the loans.

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MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

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, 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:			
2008	\$ 50,852	241,785	292,637
2009	78,139	234,915	313,054
2010	83,277	232,471	315,748
2011	115,074	228,394	343,468
2012	142,614	223,467	366,081
2013–2017	801,200	1,042,545	1,843,745
2018–2022	1,188,084	855,337	2,043,421
2023–2027	1,285,521	568,664	1,854,185
2028–2032	877,433	307,318	1,184,751
2033–2037	485,752	153,847	639,599
2038–2042	262,205	58,332	320,537
2043–2047	144,062	14,654	158,716
Total	\$ <u>5,514,213</u>	<u>4,161,729</u>	<u>9,675,942</u>

The Authority issued commercial paper notes of \$39,000 to finance capital expenditures, which are secured by \$100,000 and \$250,000 irrevocable direct-pay letters of credit which expire on September 8, 2009, and May 20, 2010, 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.

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MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

Commercial paper at June 30, 2007 and 2006 consisted of the following:

	2007 Beginning balance	Additions	Reductions	2007 Ending balance
3.00% commercial paper	\$ 164,000	—	164,000	—
3.62% commercial paper	—	39,000	—	39,000
	<u>\$ 164,000</u>	<u>39,000</u>	<u>164,000</u>	<u>39,000</u>
	2006 Beginning balance	Additions	Reductions	2006 Ending balance
1.77% commercial paper	\$ 289,000	—	289,000	—
3.00% commercial paper	—	164,000	—	164,000
	<u>\$ 289,000</u>	<u>164,000</u>	<u>289,000</u>	<u>164,000</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 \$35,232 and \$26,957 in fiscal 2007 and 2006, respectively, to be received in five or ten equal annual installments.

The long-term portion of these loans at June 30, 2007 and 2006, is \$101,715 and \$85,815, respectively, and is included in other assets. The loans due within one year total \$22,097 and \$18,499 at June 30, 2007 and 2006, respectively. This program is designed to assist member communities with sewer and water systems rehabilitation.

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MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

(8) Capital Assets

Capital assets at June 30, 2007 and 2006, consisted of the following:

	<u>2006</u>	<u>Additions</u>	<u>Disposals/ transfers</u>	<u>2007</u>
Capital assets – not being depreciated:				
Land	\$ 11,036	—	(4,344)	6,692
Construction in progress	<u>245,542</u>	<u>132,992</u>	<u>(105,018)</u>	<u>273,516</u>
Total capital assets – not being depreciated	<u>256,578</u>	<u>132,992</u>	<u>(109,362)</u>	<u>280,208</u>
Capital assets – being depreciated:				
Plant and equipment – water and sewage system	8,162,594	105,018	—	8,267,612
Furniture and fixtures	33,061	—	—	33,061
Leasehold improvements	5,081	—	—	5,081
Motor vehicles and equipment	<u>1,595</u>	<u>—</u>	<u>—</u>	<u>1,595</u>
Total capital assets – being depreciated	<u>8,202,331</u>	<u>105,018</u>	<u>—</u>	<u>8,307,349</u>
Less accumulated depreciation for:				
Plant and equipment – water and sewage system	1,980,021	164,773	—	2,144,794
Furniture and fixtures	28,666	2,185	—	30,851
Leasehold improvements	4,663	12	—	4,675
Motor vehicles and equipment	<u>1,025</u>	<u>17</u>	<u>—</u>	<u>1,042</u>
Total accumulated depreciation	<u>2,014,375</u>	<u>166,987</u>	<u>—</u>	<u>2,181,362</u>
Total capital assets – being depreciated – net	<u>6,187,956</u>	<u>(61,969)</u>	<u>—</u>	<u>6,125,987</u>
Capital assets – net	\$ <u><u>6,444,534</u></u>	<u><u>71,023</u></u>	<u><u>(109,362)</u></u>	<u><u>6,406,195</u></u>

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MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

Capital assets at June 30, 2006 and 2005, consisted of the following:

	<u>2005</u>	<u>Additions</u>	<u>Disposals/ transfers</u>	<u>2006</u>
Capital assets – not being depreciated:				
Land	\$ 11,036	—	—	11,036
Construction in progress	518,237	111,960	(384,655)	245,542
Total capital assets – not being depreciated	<u>529,273</u>	<u>111,960</u>	<u>(384,655)</u>	<u>256,578</u>
Capital assets – being depreciated:				
Plant and equipment – water and sewage system	7,777,939	384,655	—	8,162,594
Furniture and fixtures	33,061	—	—	33,061
Leasehold improvements	5,081	—	—	5,081
Motor vehicles and equipment	1,595	—	—	1,595
Total capital assets – being depreciated	<u>7,817,676</u>	<u>384,655</u>	<u>—</u>	<u>8,202,331</u>
Less accumulated depreciation for:				
Plant and equipment – water and sewage system	1,816,342	163,679	—	1,980,021
Furniture and fixtures	26,481	2,185	—	28,666
Leasehold improvements	4,217	446	—	4,663
Motor vehicles and equipment	1,010	15	—	1,025
Total accumulated depreciation	<u>1,848,050</u>	<u>166,325</u>	<u>—</u>	<u>2,014,375</u>
Total capital assets – being depreciated – net	<u>5,969,626</u>	<u>218,330</u>	<u>—</u>	<u>6,187,956</u>
Capital assets – net	<u>\$ 6,498,899</u>	<u>330,290</u>	<u>(384,655)</u>	<u>6,444,534</u>

Depreciation and amortization for fiscal 2007 and 2006, was \$180,179 and \$180,217, respectively.

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MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

(9) Other Assets

On December 17, 1997, the Authority sold to Massachusetts Heavy Industries, Inc. (MHI) certain land, buildings, machinery, equipment, and other items located within a former shipbuilding facility, known as the Fore River Shipyard, for a total purchase price of \$10,000. The Authority received \$3,000 in December 1997. The remaining balance of \$7,000 was due to be received beginning in December 1999. In accordance with FASB No. 71, the original loss of \$28,303 was accounted for as a deferred charge and is expected to be recovered through future rates. During fiscal 2000, the \$7,000 receivable was determined to be uncollectible increasing the deferred loss on the original sale to \$35,303.

(10) 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, 2007, are as follows:

Year ending June 30:		
2008	\$	5,758
2009		5,818
2010		5,239
2011		5,091
2012		5,682
2013-2016		<u>14,568</u>
Total	\$	<u><u>42,156</u></u>

The Authority renegotiated the lease agreement on its Boston office space and effective October 1, 2005, the lease on 57 thousand square feet of the office space was extended until September 30, 2015. The lease on the remaining 27 thousand square feet of the office space expired on September 30, 2006, and the space was vacated.

In addition, the Authority executed its option to terminate the lease on its backup landfill in Utah. The lease was terminated on March 31, 2006, and the remaining 14 years of the lease will be eliminated at a projected savings of \$10,887.

Rental expense was \$7,362 and \$8,998 in fiscal years 2007 and 2006, respectively.

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MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

(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, 2007, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2008	\$ 477	2,740	3,217
2009	516	2,701	3,217
2010	558	2,659	3,217
2011	603	2,614	3,217
2012	652	2,565	3,217
2013–2017	4,144	11,941	16,085
2018–2022	6,122	9,963	16,085
2023–2027	9,044	7,041	16,085
2028–2032	13,094	2,724	15,818
Total	\$ <u>35,210</u>	<u>44,948</u>	<u>80,158</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 \$6,286 of depreciation accumulated as of June 30, 2007.

(11) 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. Total payroll and covered payroll for all Authority employees in the Plan were \$76,249 and \$72,476, respectively, for the year ended June 30, 2007.

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.

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(Dollars in thousands)

(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 2007 and 2006 contributions to the plan were based on an amount approved by the Retirement Board and the Authority's board of directors. The Authority's Enabling Act requires funding to be made in accordance with the Retirement Board's recommendation. In 2004, the Authority contributed \$1,194 more than the APC or \$3,882.

(c) Annual Pension Cost

The annual required contribution for the current year was determined as part of the January 1, 2001, actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 8% investment rate of return and (b) projected salary increase of 5.5% per year. Liabilities for cost of living increases have been assumed at an annual increase of 3%, on the first \$12 of benefit payments. Although, the Authority has a net pension asset, they have elected to reserve 100% against these balances. This balance is reserved because this net pension asset resulted from the timing of payments according to the funding schedule and cannot be accessed by the Authority unless the plans are terminated. The likelihood of such an event has been deemed to be remote. Assets are valued at market value.

(d) Three-Year Trend Information

	<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension asset/ (obligation)</u>
Fiscal year ending:			
2007	\$ 4,094	100 %	\$ —
2006	3,577	100	—
2005	3,408	100	—

(e) 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. The Authority's covered payroll for members of this plan for the year ended June 30, 2007, was \$8,460.

(Continued)

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

The Authority's policy is to provide certain health care and life insurance benefits for retired employees. Substantially all of the Authority's employees may become eligible for those benefits if they reach normal retirement age while working for the Authority. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on the benefits paid during the year. Premiums for retired employees were \$1,689 and \$1,556 in fiscal 2007 and 2006, respectively.

(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 \$404,922 at June 30, 2007.

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 \$6,867,000 from fiscal 1986 through fiscal 2007, including those projects required to comply with the Federal District Court's schedule. The Authority anticipates spending an additional \$1,703,000 on these projects through fiscal 2017. 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

(Continued)

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

Authority's revised Long Term CSO Control Plan. 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 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, 20 of which are complete, and six of which are under construction. The estimated cost to complete the Authority's long term CSO control plan is now \$868 million, including contingency and escalation of unawarded contracts.

In addition, the Court always retains the right to order further remedial action and assess penalties. The Court has issued no penalties in the Boston Harbor Case to date.

(c) *Deer Island Submarine Power Cable*

In 2004, the United States Army Corps of Engineers (Corps) notified Boston Edison Co. (BECo, now N-Star), its subsidiary Harbor Energy Electric Company (HEEC) and the Authority that they were in violation of a permit (MA BOSS 198900530, dated August 31, 1989) which authorized the installation of a submarine power cable running under Boston Harbor from South Boston to Deer Island, because the power cable, in places, had allegedly been installed at depths less than those required by permit. The Corps has demanded that the permittees develop plans and an implementation schedule for bringing the cable into compliance with the permit. The Authority responded stating that it had become a co permittee only to facilitate issuance of the permit, that it did not install or own the cable, and therefore, it had neither the right nor the ability to move or alter the position of the cable. In 2005, the Corps referred the matter to the United States Department of Justice. In May 2005, the Department of Justice confirmed to the permittees that the matter had been referred to it, inter alia, for the purpose of either commencing a lawsuit to compel the relocation of the cable or attempting to negotiate an amicable resolution that would bring the permittees into compliance with the permit's conditions. The Authority has informed the federal court of its position in its Compliance and Progress report filed on June 15, 2005. The Department of Justice and the permittees first met on October 11, 2005, to discuss this matter. At the meeting, BECo and HEEC outlined conceptual plans with respect to the cable while the Authority repeated its view that it had no responsibility for the cable or for any future efforts by BECo or HEEC to come into compliance with the terms of the permit. Further meetings have occurred in 2006 and 2007 which have resulted in BECo and HEEC agreeing to explore options to correct the depth of the cable while reserving the right to charge back its costs to the Authority as part of its costs of furnishing electricity to the Authority. At an April 26, 2007 meeting, BECo outlined five methods for accomplishing either the relocation of the cable or providing for in-place protection to allow for future dredging operations in the vicinity of the cable. BECo appears to favor the method of in-place protection which involves the placement of concrete mats over the submerged cable. The Corps did not appear to favor that option. The Authority has responded to the request of the Department of Justice for an analysis of the

(Continued)

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

Authority costs relative to all five options presented. To date, BECo has not furnished its projected costs or a schedule for these options.

(d) Blending

In May 2005, EPA sent a letter to the Authority stating that, in its view, certain of the Authority's operational practices involving temporary diversions of portions of the flow around secondary treatment facilities (blending) at its Deer Island Wastewater Treatment Plant (DITP) constituted unwarranted bypasses, and constituted violations of the Authority's NPDES permit. The Authority has responded that the DITP has been operated in a manner that optimizes the end quality of treated effluent streams following primary and secondary treatment, that operational strategies are gauged to avoid adverse upsets in the biological treatment process, that blending practices have never resulted in the Authority exceeding permit limits or caused environmental harm, and that any permit violations are technical in nature. EPA has requested detailed information concerning the operations of DITP and the Authority has supplied the information. In the past year, the Authority has continued to voluntarily and gradually increase the volume of its flows directed through its secondary treatment facilities so as to test the operational limits of these facilities and to attempt to reduce the volume of diversions around secondary treatment. The Authority has kept EPA apprised of these activities. In 2007, in response to the entry of the Department of Justice on behalf of the EPA in this matter, settlement negotiations began in an attempt to resolve the alleged permit violations. These discussions have proceeded to the point where it appears that the Authority may soon agree to the entry of a federal court consent order which will conclude the enforcement matter, will establish the level of wastewater flows to receive secondary treatment at DITP during heavy wet weather events, will include the payment of a modest penalty to EPA and will provide for the Authority's funding and performance of a supplemental environmental project mutually agreeable to the Authority and EPA.

(e) 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'

(Continued)

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

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.

The Authority reimburses the Commonwealth on a paid-claims basis for unemployment claims. Claims expensed during fiscal 2007 and 2006 were \$52 and \$137, respectively. The Authority is a licensed self-insurer for workers' compensation. Excess loss insurance is carried on workers' compensation as required by law in excess of \$500 per occurrence retention, with a limit of \$25,000 per occurrence.

The Authority participates in and pays premiums to the Commonwealth's Group Insurance Commission for employee health benefits. The Authority pays 85% of these health premiums, with employees paying the balance.

Insurance claims have not exceeded insurance coverage in any of the last three fiscal years.

GASB Statement No. 10 requires that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The Authority records such liabilities in accrued expenses.

(Continued)

MASSACHUSETTS WATER RESOURCES AUTHORITY

Notes to Financial Statements

June 30, 2007 and 2006

(Dollars in thousands)

Changes in the claims liability insurance reserves in fiscal 2007 and 2006 were as follows:

	General liability and property	Workers' compensation
	<u> </u>	<u> </u>
Liability balance – June 30, 2005	\$ 4,259	1,484
Provision to record estimated losses	1,844	1,823
Payments	<u>(3,864)</u>	<u>(1,196)</u>
Liability balance – June 30, 2006	2,239	2,111
Provision to record estimated losses	531	1,236
Payments	<u>(894)</u>	<u>(1,620)</u>
Liability balance – June 30, 2007	\$ <u>1,876</u>	<u>1,727</u>

REQUIRED SUPPLEMENTARY INFORMATION

MASSACHUSETTS WATER RESOURCES AUTHORITY

Schedule of Funding Progress

Required Supplementary Information

June 30, 2007

(Unaudited)

(Dollars in thousands)

Actuarial valuation	Assets (a)	Actuarial Accrued Liability (AAL) – Entry age (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, 2005	\$ 172,512	172,512	—	100%	\$ 65,790	—
January 1, 2003	146,188	146,188	—	100	66,711	—
January 1, 2002	141,069	141,069	—	100	66,322	—
January 1, 2001	128,385	128,385	—	100	65,955	—
January 1, 1999	96,318	96,318	—	100	66,782	—
January 1, 1998	77,712	77,712	—	100	63,579	—

See accompanying independent auditors' report.

SUPPLEMENTAL SCHEDULES

MASSACHUSETTS WATER RESOURCES AUTHORITY

Accounts Established by the General Revenue Bond Resolution

Year ended June 30, 2007
(comparative totals for June 30, 2006)

(Dollars in thousands)

	<u>Construction</u>	<u>Revenue</u>	<u>Debt service</u>	<u>Reserves</u>	<u>Total</u>
Balance – June 30, 2006	\$ 81,926	69,568	467,090	48,888	667,472
Proceeds from:					
Revenue bonds and loans	162,909	—	179,000	—	341,909
Cash received from customers	—	512,572	—	—	512,572
Debt service grant	—	—	18,937	—	18,937
Interest income	5,140	9,079	25,742	1,660	41,621
Grant receipts	1,247	—	6,560	—	7,807
Construction payments	(165,250)	111	—	—	(165,139)
Capital lease payments	(444)	—	(2,773)	—	(3,217)
Debt service payment	(1,041)	—	(531,500)	—	(532,541)
Other Commonwealth payments	—	—	—	—	—
Interfund transfers	—	(23,731)	—	—	(23,731)
Interfund transfers	(1,316)	(289,407)	290,845	(122)	—
Transfers from (to) operating account	—	—	—	—	—
	721	(211,864)	2,774	—	(208,369)
Balance – June 30, 2007	\$ <u>83,892</u>	<u>66,328</u>	<u>456,675</u>	<u>50,426</u>	<u>657,321</u>

	<u>Sewer</u>	<u>Water</u>	<u>2007 total</u>	<u>2006 total</u>
Restricted cash and investments:				
Construction	\$ 44,063	39,829	83,892	81,926
Debt service reserves	171,302	81,781	253,083	252,361
Debt service	96,140	52,156	148,296	161,424
Revenue redemption	8,339	26,852	35,191	33,343
Revenue	31,633	34,695	66,328	69,568
Renewal and replacement reserve	20,345	11,084	31,429	29,891
Insurance	9,499	9,498	18,997	18,997
Community obligation and revenue enhancement	17,230	2,875	20,105	19,962
Total restricted cash and investments	\$ <u>398,551</u>	<u>258,770</u>	<u>657,321</u>	<u>667,472</u>

See accompanying independent auditors' report.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Combining Balance Sheet

June 30, 2007

(Dollars in thousands)

Assets	Sewer	Water	Combined total
Unrestricted current assets:			
Cash and cash equivalents	\$ 26,696	14,132	40,828
Investments	33,458	8,986	42,444
Intergovernmental loans	9,039	13,058	22,097
Accounts receivable	1,448	474	1,922
Total unrestricted current assets	<u>70,641</u>	<u>36,650</u>	<u>107,291</u>
Restricted assets:			
Cash and investments	401,088	263,108	664,196
Interest receivable	3,632	1,450	5,082
Grants receivable:			
Billed	—	—	—
Unbilled	—	—	—
Total restricted assets	<u>404,720</u>	<u>264,558</u>	<u>669,278</u>
Capital assets – not being depreciated	172,414	107,794	280,208
Capital assets – being depreciated – net	3,724,096	2,401,891	6,125,987
Deferred charges	363,919	111,138	475,057
Other assets – net	204,803	85,371	290,174
Total	<u>\$ 4,940,593</u>	<u>3,007,402</u>	<u>7,947,995</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	\$ 39,368	17,098	56,466
Commercial paper notes	15,000	24,000	39,000
Current portion of long-term debt	33,806	17,046	50,852
Total current liabilities	<u>88,174</u>	<u>58,144</u>	<u>146,318</u>
Payable from restricted assets:			
Accounts payable for construction	18,871	2,942	21,813
Accrued interest on bonds payable	49,242	28,099	77,341
Total payable from restricted assets	<u>68,113</u>	<u>31,041</u>	<u>99,154</u>
Retainage on construction in progress	9,674	2,178	11,852
Long-term debt – less current portion	3,551,571	1,819,092	5,370,663
Long-term capital leases	23,973	11,237	35,210
Reserves	71,751	32,418	104,169
Deferred credits	24,172	46,340	70,512
Total liabilities	<u>3,837,428</u>	<u>2,000,450</u>	<u>5,837,878</u>
Net assets:			
Invested in capital assets – net of related debt	628,616	813,334	1,441,950
Restricted	112,167	77,229	189,396
Unrestricted	362,382	116,389	478,771
Total net assets	<u>1,103,165</u>	<u>1,006,952</u>	<u>2,110,117</u>
Commitments and contingencies			
Total	<u>\$ 4,940,593</u>	<u>3,007,402</u>	<u>7,947,995</u>

See accompanying independent auditors' report.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Combining Balance Sheet

June 30, 2006

(Dollars in thousands)

Assets	Sewer	Water	Combined total
Unrestricted current assets:			
Cash and cash equivalents	\$ 20,885	10,889	31,774
Investments	31,012	11,230	42,242
Intergovernmental loans	8,039	10,460	18,499
Accounts receivable	285	1,066	1,351
Total unrestricted current assets	60,221	33,645	93,866
Restricted assets:			
Cash and investments	420,593	253,540	674,133
Interest receivable	4,267	1,647	5,914
Grants receivable:			
Billed	1,315	—	1,315
Unbilled	38	—	38
Total restricted assets	426,213	255,187	681,400
Capital assets – not being depreciated	154,564	102,014	256,578
Capital assets – being depreciated – net	3,769,109	2,418,847	6,187,956
Deferred charges	313,598	101,533	415,131
Other assets – net	191,551	73,066	264,617
Total	\$ 4,915,256	2,984,292	7,899,548
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	\$ 35,815	17,280	53,095
Commercial paper notes	—	164,000	164,000
Current portion of long-term debt	65,847	20,206	86,053
Total current liabilities	101,662	201,486	303,148
Payable from restricted assets:			
Accounts payable for construction	13,698	3,312	17,010
Accrued interest on bonds payable	49,028	24,197	73,225
Total payable from restricted assets	62,726	27,509	90,235
Retainage on construction in progress	7,168	2,173	9,341
Long-term debt – less current portion	3,499,846	1,644,448	5,144,294
Long-term capital leases	24,264	11,387	35,651
Reserves	69,420	31,630	101,050
Deferred credits	24,742	36,662	61,404
Total liabilities	3,789,828	1,955,295	5,745,123
Net assets:			
Invested in capital assets – net of related debt	684,621	869,911	1,554,532
Restricted	115,076	65,619	180,695
Unrestricted	325,731	93,467	419,198
Total net assets	1,125,428	1,028,997	2,154,425
Commitments and contingencies			
Total	\$ 4,915,256	2,984,292	7,899,548

See accompanying independent auditors' report.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Combining Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2007

(Dollars in thousands)

	<u>Sewer</u>	<u>Water</u>	<u>Combined total</u>
Operating revenues:			
Customer services	\$ 334,636	171,718	506,354
Other	3,720	402	4,122
Total operating revenues	<u>338,356</u>	<u>172,120</u>	<u>510,476</u>
Operating expenses:			
Operations	57,753	29,837	87,590
Maintenance	20,718	5,197	25,915
Payments in lieu of taxes	—	5,969	5,969
Engineering, general, and administrative	73,847	33,646	107,493
Total operating expenses	<u>152,318</u>	<u>74,649</u>	<u>226,967</u>
Income from operations before depreciation	186,038	97,471	283,509
Depreciation	<u>127,286</u>	<u>52,893</u>	<u>180,179</u>
Operating income	<u>58,752</u>	<u>44,578</u>	<u>103,330</u>
Regulatory accounting provisions:			
Increase in reserves	(2,331)	(788)	(3,119)
Increase (decrease) in deferred credits – net	50,891	(73)	50,818
Total regulatory accounting provisions	<u>48,560</u>	<u>(861)</u>	<u>47,699</u>
Nonoperating income (expense):			
Debt service grants	15,907	3,030	18,937
Investment income	26,701	16,265	42,966
Interest expense	(177,746)	(85,949)	(263,695)
Total nonoperating expense	<u>(135,138)</u>	<u>(66,654)</u>	<u>(201,792)</u>
Net loss before capital grants	<u>(27,826)</u>	<u>(22,937)</u>	<u>(50,763)</u>
Capital grants	<u>5,563</u>	<u>892</u>	<u>6,455</u>
Decrease in net assets	<u>(22,263)</u>	<u>(22,045)</u>	<u>(44,308)</u>
Total net assets – beginning of year	<u>1,125,428</u>	<u>1,028,997</u>	<u>2,154,425</u>
Total net assets – end of year	\$ <u><u>1,103,165</u></u>	<u><u>1,006,952</u></u>	<u><u>2,110,117</u></u>

See accompanying independent auditors' report.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Combining Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2006

(Dollars in thousands)

	<u>Sewer</u>	<u>Water</u>	<u>Combined total</u>
Operating revenues:			
Customer services	\$ 318,029	166,500	484,529
Other	4,741	1,714	6,455
Total operating revenues	<u>322,770</u>	<u>168,214</u>	<u>490,984</u>
Operating expenses:			
Operations	61,794	31,723	93,517
Maintenance	15,801	3,684	19,485
Payments in lieu of taxes	—	5,920	5,920
Engineering, general, and administrative	73,789	31,245	105,034
Total operating expenses	<u>151,384</u>	<u>72,572</u>	<u>223,956</u>
Income from operations before depreciation	171,386	95,642	267,028
Depreciation	<u>128,620</u>	<u>51,597</u>	<u>180,217</u>
Operating income	<u>42,766</u>	<u>44,045</u>	<u>86,811</u>
Regulatory accounting provisions:			
Increase in reserves	—	(866)	(866)
Increase (decrease) in deferred credits – net	74,776	(1,656)	73,120
Total regulatory accounting provisions	<u>74,776</u>	<u>(2,522)</u>	<u>72,254</u>
Nonoperating income (expense):			
Debt service grants	8,258	1,373	9,631
Investment income	16,973	13,328	30,301
Interest expense	(171,070)	(79,163)	(250,233)
Total nonoperating expense	<u>(145,839)</u>	<u>(64,462)</u>	<u>(210,301)</u>
Net loss before capital grants	<u>(28,297)</u>	<u>(22,939)</u>	<u>(51,236)</u>
Capital grants	<u>5,043</u>	<u>843</u>	<u>5,886</u>
Decrease in net assets	<u>(23,254)</u>	<u>(22,096)</u>	<u>(45,350)</u>
Total net assets – beginning of year	<u>1,148,682</u>	<u>1,051,093</u>	<u>2,199,775</u>
Total net assets – end of year	\$ <u><u>1,125,428</u></u>	<u><u>1,028,997</u></u>	<u><u>2,154,425</u></u>

See accompanying independent auditors' report.

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

May 27, 2008

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

Subject: Supplemental Feasibility Report Series 2008

Dear Members of the Board:

We are submitting herewith a Supplemental Report (the “May 2008 Supplement”) providing our engineering and financial evaluation and overview of the Massachusetts Water Resources Authority (the “MWRA” or the “Authority”). The Authority has requested that Camp Dresser & McKee Inc. (“CDM”) prepare this Supplement to provide certain information concerning the Authority in connection with the issuance of its Multi-Modal Subordinated General Revenue Refunding Bonds, 2008 Series A, B, C, D, E and F (collectively, the “Series 2008 Bonds”). This Supplemental Report incorporates the following preceding reports by reference: the Update Letter dated January 17, 2007, prepared in connection with the Authority’s Official Statement dated as of January 17, 2007 with respect to its General Revenue Bonds, 2007 Series A and General Revenue Refunding Bonds, 2007 Series B (the “2007 Update”), the Supplemental Report dated November 15, 2006, prepared in connection with the Authority’s Information Statement dated as of November 15, 2006, which was incorporated by reference in the Official Statement, dated November 22, 2006, for the Massachusetts Water Pollution Abatement Trust Pool Program Bonds, Series 12 and Pool Program Refunding Bonds, Series 2006 (the “November 2006 Supplement”). The Feasibility Report provides our current engineering and financial evaluation and overview of the Authority. The Feasibility Report assesses the Authority’s capacity, efficiency and progress in managing its complex affairs and provides a detailed analysis of the Authority’s financial projections.

To prepare this May 2008 Supplement, we have:

- Reviewed key reports and documents prepared by the Authority, including the Fiscal Year 2008 Capital Improvement Program (the “FY 2008 CIP”), the proposed Fiscal Year 2009 Capital Improvement Program (the “Proposed FY 2009 CIP”), the Fiscal

Year 2008 Current Expense Budget (the "FY 2008 CEB"), the proposed Fiscal Year 2009 Current Expense Budget (the "Proposed FY 2009 CEB"), audited FY 2007 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.
- Projected the Authority's revenues and expenses for the FY 2008 to FY 2013 period, on the basis of assumptions we believe to be reasonable, the provisions of the General Bond Resolution (the "Resolution"), Commonwealth legislation regarding state revolving fund ("SRF") subsidy rates and debt service assistance, and Authority practices and policies.

The Authority has a significant capital improvement program designed to enhance service, meet regulatory requirements and provide for the ongoing renovation of its capital assets. The Board of Directors annually approves the capital improvement program and in June 2003 adopted a five-year capital spending cap that limited total expenditures for Fiscal Years 2004 through 2008 to \$1.1 billion. This cap was established to balance the priority needs of the systems with the financial resources of the Authority. Projected spending through the end of FY 2008 indicates that total CIP expenditures for FY 2004 through FY 2008 will be \$906.9 million, or almost 20 percent below the established cap. Nearly one-third of the under spending is attributable to unused contingency amounts, with the remainder reflecting the net impact of additions, deletions, modifications and schedule slippage of ongoing projects in the CIP. The cap policy also requires that a new cap be set by the Board of Directors for the next planning period. The proposed FY 2009 CIP contains a cap of \$1.16 billion for the next planning period FY 2009 to FY 2013.

Since its creation in 1985, the Authority has focused on the execution of two major capital initiatives: the Boston Harbor Clean up, and the Integrated Water Supply Improvement Program. A total of approximately \$6.9 billion has been spent on capital projects since 1985, with nearly \$6.0 billion spent on these two initiatives. The major elements of these programs are complete and operational: the Deer Island Treatment Plant (the "DITP") went fully on-line in 2001, the Metro West Water Supply Tunnel (the "MWWST") and the John J. Carroll Water Treatment Plant (the "Carroll WTP") were put in service in 2003 and 2005, respectively. Approximately \$0.5 Billion remains to be spent on these initiatives, most of which is for the last phases of the program for combined sewer overflow ("CSO") control.

The Proposed FY 2009 CIP reflects the changing nature of the Authority's capital needs. With the substantial completion of the Boston Harbor Clean Up and the Integrated Water Supply Plan, the focus of the Authority's CIP is shifting towards asset renovation and system reliability and redundancy. In FY 2007, the Authority completed the development of an Authority-wide master plan for the period FY 2007 through FY 2048. The purpose of this effort was to develop an understanding of the Authority's near term and long term investment needs. In aggregate, the master plan identified approximately \$3.1 billion of

projects over the FY 2007- FY 2048 time frame. The master planning process added \$218 million in expenditures to the CIP for the period FY 2009 through FY 2013. In response to the rapidly escalating costs of energy, the Authority has embarked on several projects to reduce demand or augment supplies with solar, wind and hydroelectric power. Projected spending in the Proposed FY 2009 CIP for FY 2009 is \$288.5 million. The largest components of this amount are for control of CSO, in the amount of \$125.4 million and asset protection at the DITP, in the amount of \$34.7 million. Based on recently available information, the total costs for the CSO control program are likely to increase above the \$840 million contained in the Proposed FY 2009 CIP. Preliminary estimates suggest that the increase could be as much as \$69 million in excess of that figure.

The Authority, with the assistance and support of the Advisory Board and many others, to date has secured substantial state and federal financial assistance for its construction programs. The Authority has aggressively sought alternative, less expensive means of achieving compliance with the various legal and regulatory requirements imposed upon it. In assessing the present organization and management'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.

Significant progress has been made in the development of required new facilities and compliance with a complex range of regulatory requirements. The Authority is focusing on properly operating and maintaining its systems, including properly planning the timing of major replacement and rehabilitation projects. In our investigations, we have found that the Authority's facilities are well operated and maintained, especially in light of the age and condition of many facilities.

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 continuously evaluates and adjusts its organizational structure and staffing needs to properly address emerging issues and shifting priorities.
- 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, maintaining 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 seeking and obtaining additional federal and state funding, while controlling capital and operational spending.

- The Authority is placing new emphasis on developing programs and procedures for effectively operating and maintaining new and existing water and wastewater facilities. In addition, the Authority continues to devote substantial attention to maintaining and enhancing water quality as it operates existing and develops new water facilities.
- In response to the federally mandated Bioterrorism Act, the Authority has assessed and implemented a security improvement program at the critical water facilities throughout the system. The security improvement program includes several degrees of operational and procedural requirements and emergency response plans that are directly tied to the National Homeland Security Readiness System.

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. The flows to the plant have averaged approximately 330 million gallons per day (mgd) during calendar 2007 and peak daily flows in excess of 1.0 billion gallons per day have been treated. The Authority operates the DITP under a NPDES permit that took effect in August 2000 and expired in August 2005. However the conditions of the expired permit remain in effect until a new NPDES permit becomes final. The Authority expects, and we concur, that there will should be no material changes to the numerical effluent limits in the new NPDES.
- 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. 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 existing NPDES permit. The Authority expects, and we concur, that there should be no material changes to the numerical effluent limits in a revised DITP permit.
- The Transport System is generally well-operated and maintained. Significant improvements have been made to the North System through the construction of new pump stations and a new screenings facility. Several South System pump stations and interceptors in need of repair and replacement are in the process, or have been, upgraded. In accordance with the CIP, the major project for the South System improvements, known as the Braintree-Weymouth Relief Facilities, is nearing completion. Major elements of that project were put into service in November 2004 and in early 2005, and the project is expected to be complete by late Spring 2008. All work under the consent order has been completed.

- 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. The Authority's Proposed FY 2009 CIP anticipates spending \$21 million for these purposes in FY 2009 and a total of \$104 million for FY 2009- FY 2013.

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 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.

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 (the "LTCP"), comprising 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. Since 1997, the Authority has made substantial progress in implementing the LTCP projects: through FY 2008 the Authority is projected to expend \$523 million on the CSO plan, and will have completed 22 of the 35 projects contained in the LTCP. The total cost of the CSO control plan as contained in the Proposed FY 2009 CIP is \$840 million, an increase of \$29 million over the FY 2008 CIP. The increase reflects adjustments to ongoing projects that result from more complete cost information. The Authority has recently received cost information with respect to sewer separation projects in the Town of Brookline and the Reserve Channel section in the City of Boston that could increase the total cost of the CSO program by \$69 million. This information is under review by the Authority.

Water Supply and Use

- The Authority has concluded, and we concur, that long-term demand will remain below the safe yield of its water supply sources of 300 mgd for at least the next 10 years. Demand has fallen from 334 mgd in calendar year 1987 to 215 mgd in calendar year 2007. 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. Recently the Town of Reading and the Dedham-Westwood Water District have become members of the Waterworks System, adding approximately 2 mgd to demand. The Authority continues to seek additional customers to the system to increase sales.

- Water levels in the Authority's reservoir are normal for this time of year, with the Quabbin and Wachusett Reservoirs at 94 percent of capacity as of March 1, 2008. At this level, the reservoirs contain over 5 years worth of water at current demand levels. The Authority has programs in place to reduce demand, if supplies were to decline precipitously.

Water Quality and Treatment

- The Authority continues to act prudently to address the requirements of the SDWA Amendments and Massachusetts drinking water regulations. The SDWA Amendments required the Authority to construct a water treatment plant for the Wachusett Reservoir with disinfection, corrosion control, and, if required, filtration. (The Carroll WTP is the result of that requirement.) Based on the Proposed FY 2009 CIP, the estimated total cost for the Authority's Waterworks System Improvement Projects is approximately \$2.38 billion, with \$773 million to be expended in FY 2009 and beyond. Approximately \$431 million is projected to be expended from FY 2009 through FY 2013.
- The Authority has begun work to add ultra violet treatment at the Carroll WTP. This additional disinfection process is required to comply with the Long Term 2 Surface Water Treatment Rule that requires two primary disinfectants be used on unfiltered water sources. The Carroll WTP was designed to accommodate this second process train. The total estimated cost of this project is \$60 million with the project to be completed by FY 2014.
- The Authority delivers an average of 215 mgd of treated water to its partially and fully supplied customers. This water consistently meets all regulatory requirements required for potable water.

Water Pumping Stations and Other Facilities

- The overall pumping system appears to be well operated and maintained. Several key pumping stations have undergone significant rehabilitation 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 2008 through FY 2013 based on the Authority's approved FY 2008 CEB and the FY 2008 CIP, the Proposed FY 2009 CEB and the Proposed FY 2009 CIP and certain economic assumptions that we believe are reasonable. We project that through FY 2013 the Authority's combined revenue requirement will increase at an average annual rate of 6.0 percent. Typical combined annual household bills are projected to increase from \$1,072 in FY 2008, to \$1,386 in FY 2013, using the MWRA Advisory Board's benchmark of typical 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.

- The projections as stated above are based on the continued receipt of annual debt service assistance from the Commonwealth's Water and Sewer Rate Relief Fund (the "Fund") over the entire forecast period. However, there can be no assurance that such debt service assistance will be provided in all future years. In FY 2007, the Commonwealth's appropriation to the fund was eliminated through actions of the Governor. The funding was partially restored by legislative action that same fiscal year. The Governor's budget for FY 2009 includes an appropriation of \$15 million for the Fund and the Authority anticipates receiving \$11.25 from the Fund in FY 2009, which we believe is reasonable. If the Commonwealth does not fund debt service assistance in the future at projected levels, the Authority's rate revenue requirement will increase by the amount of debt service assistance projected to be received.
- 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 maintain a relatively smooth pattern of 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 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

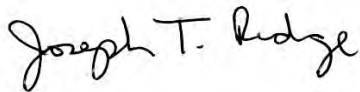
- The Authority has developed budgeting procedures, financial information systems, and controls, which appear to be sound and appropriate for its needs. Based on our review of policies and procedures, we believe that the Authority's management receives adequate expenditure and variance reports for purposes 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 that makes adequate provision for efficient operation and maintenance of the wastewater and water 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 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 with a large initial "J" and a long, sweeping underline.

Joseph T. Ridge
Vice President

Financial Requirements

1.1 Introduction

The purposes of this section are to describe:

- Projected Authority expenses for FY 2008 through FY 2013.
- 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 2007, the FY 2008 CEB, the FY 2008 CIP, the Proposed FY 2009 CEB, the Proposed FY 2009 CIP, and the Authority's projections of grant receipts, escrows, and participation in the Massachusetts Water Pollution Abatement Trust State Revolving Fund (the "SRF"). The Proposed FY 2009 CEB and Proposed FY 2009 CIP have not been approved by the Authority's Board of Directors and therefore may change prior to final adoption, which is expected to be in June 2008.

We have projected the Authority's revenue requirements taking into account present expenditures, anticipated schedules for capital improvements, FY 2007 year-end balances in various funds and accounts, FY 2007 operating results, current fund balances (as of April 2008), the Authority's CIP and CEB (approved FY 2008 and Proposed FY 2009), and the covenants of the General Bond Resolution, as amended and supplemented (the "General Bond Resolution" or the "Resolution"). Our projections reflect Authority assumptions regarding the schedule, timing and cost of certain key capital projects.

1.2 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 as part of its approved FY 2008 budget and the FY 2009 budgetary planning process. 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:

- All future variable rate debt is assumed to carry a 4 percent interest rate. Future senior debt is assumed to be 40-year debt at an interest rate of approximately 6.0 percent. Sewer and Water SRF debt issued during FY 2008 and beyond will carry an effective interest rate of 2 percent. Sewer SRF debt will be issued with a 30-year term and Water SRF with a 20-year term.
- All refunded debt under the Series 2008 Bonds will carry an effective interest rate of 4 percent and there will be no change in the annual debt service paid by the Authority from previous year's planning assumptions.
- 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 greater impact in the longer term.
- Operating and maintenance costs are projected to inflate at an average annual rate of 4.0 percent. Projects scheduled to come on line from FY 2008 to FY 2013 are projected to have a modest impact on the Authority's total operating expenses.
- Capital spending is based on the 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 2008 is added to FY 2011 anticipated CIP expenditures.
- The projections assume that the Authority will receive \$11.25 million in debt service assistance in FY 2009 and each fiscal year thereafter and we believe that that is a reasonable assumption. However, it is possible that the Commonwealth will not fully fund debt service assistance and this will require the Authority to increase other revenues to offset any such reductions. The Governor's proposed FY 2009 budget includes an appropriation of \$15 million for the State's debt assistance fund, which, if approved, will provide \$11.25 million to the Authority.

The projections reported herein are based on the preceding assumptions.

1.3 Rate Revenue Requirements

In developing projected rate revenue requirements as shown in Tables 1 through 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.

1.3.1 Direct Expenses

Projected direct expenses are summarized in Table 1 and discussed in the following sections. Direct expenditures are projected to increase from approximately \$206.6 million in FY 2008 to approximately \$253.3 million in FY 2013, an average annual increase of approximately 4.2 percent. These projections reflect the costs of operating and maintaining the Authority's existing system, as well as the incremental costs associated with new facilities that the Authority anticipates becoming operational during this time.

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Sewer Fund Direct Expenses (1)	\$153,139	\$159,012	\$165,324	\$172,264	\$179,570	\$186,753
Waterworks Fund Direct Expense (2)	<u>\$53,500</u>	<u>\$56,305</u>	<u>\$58,907</u>	<u>\$61,411</u>	<u>\$63,874</u>	<u>\$66,591</u>
Total Direct Expenses	\$206,639	\$215,317	\$224,230	\$233,675	\$243,444	\$253,344

(1) Includes wastewater treatment, 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.

(2) Includes Waterworks Division, Clinton Wastewater Treatment Plant, water portions of FOD, and allocated Engineering and Construction, Laboratory Services and Administrative.

Note: Details may not add exactly due to rounding.

Sewer fund direct expenses, as presented in Table 1, exclude the Clinton Wastewater Treatment Plant (the "Clinton WWTP") expenses, but include allocated Administrative expenses. Sewer fund direct expenses are projected to increase at an average annual rate of 4.0 percent from FY 2008 to FY 2013, reflecting the assumed inflation increases for operating existing facilities. The Clinton WWTP 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. For FY 2008 through FY 2013, 69 percent of allocable direct administrative expenses were allocated to the Sewer fund. Allocated direct administration expenses are included in the direct fund expenses shown in Table 1.

The Waterworks fund direct expenses are projected to increase at an average annual rate of 4.5 percent between FY 2008 and FY 2013. The Waterworks fund expenses include Clinton WWTP costs.

Table 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 2008 through FY 2013. Labor costs are the Authority's largest line item current direct expense representing approximately 53 percent of operating expenses and are projected to increase from \$109.6 million in FY 2008 to \$133.4 million in FY 2013. This is an average annual increase of 4 percent over that period.

Category	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Labor	\$109,627	\$114,061	\$118,624	\$123,368	\$128,303	\$133,435
Chemicals	\$8,703	\$9,468	\$9,847	\$10,241	\$10,723	\$11,152
Utilities	\$26,533	\$27,433	\$28,391	\$29,527	\$31,030	\$32,271
Maintenance & Materials	\$30,792	\$33,069	\$34,832	\$36,607	\$38,099	\$39,623
Services	<u>\$30,985</u>	<u>\$31,286</u>	<u>\$32,537</u>	<u>\$33,933</u>	<u>\$35,290</u>	<u>\$36,864</u>
Total Direct Expenses	\$206,639	\$215,317	\$224,230	\$233,675	\$243,444	\$253,344

Note: Details may not add exactly due to rounding.

Chemical costs account for approximately 4 percent of direct expenses and are estimated to increase at an average annual rate of 5.1 percent between FY 2008 and FY 2013. This reflects chemical budget increases at the DITP, Clinton WWTP, and for general water operations between FY 2008 and FY 2009 of 11 percent, 27 percent, and 9 percent respectively.

Utilities, which represent close to 13 percent of direct expenses, are expected to increase at an average annual rate of 4.0 percent between FY 2008 and FY 2013.

Maintenance and materials, which represent 15.5 percent of direct expenses, are projected to increase an average annual rate of 5.2 percent from FY 2008 to FY 2013. The increase is due to significant increases in budgeted costs between FY 2008 and FY 2009 at several of the facilities and for lab and for the Toxic Reduction and Control Department (TRAC) cost categories.

1.3.2 Indirect Expenses

Indirect expenses for FY 2008 through FY 2013 are summarized in Table 3. Indirect expenses include a number of cost items that reflect financial commitments by the Authority that 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 water or sewer utility.

Category	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Insurance	\$2,500	\$2,500	\$2,600	\$2,704	\$2,812	\$2,925
Watershed/PILOT	\$23,207	\$23,868	\$24,341	\$27,227	\$27,767	\$28,321
Cable Substation Lease	\$4,347	\$4,061	\$4,196	\$3,634	\$3,477	\$4,079
Mitigation	\$1,419	\$1,445	\$1,481	\$1,518	\$1,556	\$1,595
GASB 45 - Retiree Healthcare Contribution	\$7,099	\$7,642	\$8,247	\$8,880	\$9,536	\$10,213
Reserves Additions	\$1,655	\$1,674	\$1,677	\$1,643	\$1,769	\$1,922
Pension Fund Deposits	<u>\$4,233</u>	<u>\$5,314</u>	<u>\$5,587</u>	<u>\$5,786</u>	<u>\$5,985</u>	<u>\$6,183</u>
Total Indirect Expenses	\$44,460	\$46,503	\$48,129	\$51,391	\$52,903	\$55,239

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 Department of Conservation and Recreation'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.

Cable and Substation Lease: A subsidiary of the Boston Edison Company ("BECo") 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 BECo'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 Authority's DITP. This mitigation payment will equal \$693,150 in FY 2009. 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. The mitigation payment to Quincy will equal \$752,090 in FY 2008.

GASB 45 – Retiree Healthcare Contribution: The Authority has reported its GASB 45 liability in its financial statements as required. The Authority has elected to

pursue the prefunding option and has budgeted to deposit approximately \$7.1 million in FY 2008 and \$7.6 million in FY 2009 of the accrued liability. In addition, the Authority has funded the current liability for FY 2008 at approximately \$1.7 million and \$1.9 million for FY 2009. The contributions for pre-funding retiree healthcare costs are projected to increase to \$10.2 million by FY 2013 based on recommendations from an April 2007 actuarial report.

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.

Pension Fund Contribution: The Authority is budgeted to deposit approximately \$4.2 million in FY 2008 and \$5.3 million in FY 2009 into the Retirement Fund. During FY 2008, the Retirement Board adopted a new assessment methodology that is more in line with the 105 retirement systems in the Commonwealth organized under the Chapter 32 of the Massachusetts General Laws. Using the new methodology, the Massachusetts Water Resources Authority Retirement System funding level decreased from a fully funded level to 87 percent funding. The Retirement Board has chosen to recognize this liability and voted to adopt a seventeen year amortization schedule to bring the program back to the 100 percent funding level.

1.3.3 Reserve Funds

The Authority is required by the General Resolution to meet funding requirements for certain funds. Table 4 shows the anticipated deposits to maintain the mandated reserve levels.

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 previous two tables, less the amounts expended for Watershed/PILOT and Reserve additions).

At the end of FY 2007, the Operating Reserve had a balance of \$36.1 million. In FY 2008 through FY 2011, we project mandatory contributions to the reserve of \$1.7 million each year. The contributions in FY 2012 and FY 2013 are \$1.8 million and \$1.9 million, respectively. The Authority has in the past, and may in the future, pre-fund required Reserve Fund deposits.

The General Resolution requires the Authority to fund an Insurance Reserve Fund to a level confirmed by a qualified insurance consultant. At the end of FY 2007, the Insurance Reserve Fund balance was approximately \$19 million. Based on a FY 2007 Insurance Reserve Fund review performed by a third-party consultant, the \$19 million level was

deemed acceptable and reasonable. The Insurance Reserve Fund Requirement has not been independently reviewed or evaluated by CDM.

Reserve Fund	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Operating (1)	\$1,655	\$1,674	\$1,677	\$1,643	\$1,769	\$1,922
Insurance	\$0	\$0	\$0	\$0	\$0	\$0
Renewal and Replacement	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total Fund Deposits	\$1,655	\$1,674	\$1,677	\$1,643	\$1,769	\$1,922

Note: Details may not add exactly due to rounding.

(1) = Deposits to the operating reserve will be made through the Deer Island reserve fund.

The General 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 water and wastewater 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 system, and not previously identified to be financed from the Operating Fund. The Renewal and Replacement Reserve Fund requirement is currently established at \$35 million, as set forth in a report in 2003 by CDM, the Authority’s Consulting Engineer, and reconfirmed in 2005. 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.

1.3.4 Capital Spending

The projected capital spending for FY 2008 through FY 2013 is presented in Table 5, based on the Proposed FY 2009 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 2008. 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 are based on projected cash expenditures. The contingency in a particular year is estimated to be 10 percent of projected spending, except for the North Dorchester Bay CSO Storage Tunnel where a 15 percent contingency rate is applied.

Water and Sewer System capital spending is projected to decline as the Authority completes major elements of the Water Program and the various improvements in the water storage system. Projected capital spending is in line with the Authority's self-imposed five-year capital spending cap, which for FY 2004 to FY 2008 is approximately \$1.1 billion. The Authority will establish a cap for FY 2009 to FY 2013 capital spending at its June 2008 Board of Directors meeting. The Proposed FY 2009 CIP includes a cap for the for the period FY 2009 through FY 2013 of \$1.16 billion. This CIP also includes approximately \$37 million in current revenue for wastewater and water capital requirements from FY 2008 to FY 2013.

The projected Waterworks CIP spending is based on the proposed revised schedule for projects under the Wachusett Consent Order. The Authority is evaluating additional disinfections stages at the Carroll WTP to enhance water quality and to comply with recent Safe Drinking Water Act (the "SDWA") requirements; however, this is unlikely to impact the Authority's expenditures significantly during this forecast period.

Table 5
Projected Capital Spending, Uninflated and Inflated, FY 2008-FY 2013
(\$ in 000s)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Sewer System (1)						
Contracted	\$97,400	\$77,795	\$18,209	\$17,396	\$9,873	\$5,085
Uncontracted-2009 \$	\$38,195	\$98,377	\$125,369	\$105,033	\$80,673	\$52,571
Contingency-2009 \$	<u>\$16,749</u>	<u>\$20,610</u>	<u>\$15,021</u>	<u>\$13,102</u>	<u>\$9,617</u>	<u>\$6,403</u>
Subtotal-2009 \$	\$152,345	\$196,782	\$158,600	\$135,531	\$100,162	\$64,059
Waterworks System (1)						
Contracted	\$24,512	\$15,213	\$17,832	\$3,148	\$115	(\$938)
Uncontracted-2009 \$	\$46,385	\$50,827	\$75,131	\$77,201	\$91,312	\$91,273
Contingency-2009 \$	<u>\$6,887</u>	<u>\$5,502</u>	<u>\$8,199</u>	<u>\$6,956</u>	<u>\$7,738</u>	<u>\$7,655</u>
Subtotal-2009 \$	\$77,783	\$71,542	\$101,163	\$87,304	\$99,165	\$97,989
Total CIP-Uninflated	\$230,128	\$268,324	\$259,762	\$222,836	\$199,328	\$162,048
Total CIP-Inflated	\$232,449	\$272,398	\$270,869	\$238,157	\$218,807	\$182,639
Note: Details may not add exactly due to rounding.						
(1) Included allocated Administrative CIP projects.						

Table 6 presents the projected flow of funds within the Construction Fund from FY 2008 through FY 2013. Most construction funding is projected to be financed with long-term debt or state revolving fund loans. This table is based on an assumption that SRF funding remains stable while grant funding will not be available.

Table 6						
Construction Fund Projected Cash Flow, FY 2008-FY 2013						
(\$ in 000s)						
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Construction Needs (1)	\$197,582	\$250,305	\$251,905	\$225,679	\$213,226	\$182,330
Financed by:						
Balance: Begin. of Year	\$74,846	\$97,869	\$72,064	\$40,700	\$31,735	\$29,546
Tax Exempt Com. Paper	\$50,000	\$0	\$50,000	\$0	\$0	\$0
Long Term Debt	\$88,835	\$120,000	\$123,041	\$168,214	\$161,537	\$135,558
State Revolving Fund	\$77,270	\$100,000	\$42,000	\$42,000	\$42,000	\$42,000
Pay As You Go	\$4,500	\$4,500	\$5,500	\$6,500	\$7,500	\$8,500
Grants	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Balance: End of Year	\$97,869	\$72,064	\$40,700	\$31,735	\$29,546	\$33,274
Note: Details may not add exactly due to rounding.						
(1) Construction needs is approximately 85 percent of Total CIP--Inflated line shown on bottom of Table 5, plus 2/3's of the amount deferred three years earlier.						

The Balance: End of Year is equal to the sum of the available sources, less projected construction needs. Projected construction needs are equal to 85 percent of the total inflated construction needs presented at the bottom of Table 5 plus two-thirds of the remaining 15 percent deferred from three years prior.

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 which, 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 7 presents existing and projected debt service resulting from the projected capital spending program and assumes that the Authority is not constrained by its Debt Limitation. Annual debt service in a year is based on the monthly debt service deposits that are required in accordance with the Resolution.

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Senior Debt						
Principal to be Issued in FY (1)	\$100,000	\$100,000	\$138,339	\$187,788	\$180,478	\$152,041
Existing Senior Debt Service	\$170,726	\$174,939	\$184,072	\$211,514	\$201,894	\$237,999
Future Senior Debt Service	<u>\$0</u>	<u>\$2,472</u>	<u>\$4,597</u>	<u>\$6,240</u>	<u>\$5,997</u>	<u>\$5,052</u>
Total Senior Debt Service	\$170,726	\$177,411	\$188,669	\$217,754	\$207,891	\$243,051
Debt Service Assistance	(\$8,326)	(\$5,189)	(\$4,880)	(\$5,394)	(\$5,057)	(\$5,441)
Bond Redemption Account	\$0	\$0	\$0	(\$18,364)	(\$1,900)	(\$13,000)
Net Senior Debt Service	\$162,400	\$172,222	\$183,789	\$193,996	\$200,934	\$224,610
Subordinated/SRF Debt						
Principal to be Issued in FY (1)	\$77,270	\$80,000	\$42,000	\$42,000	\$42,000	\$42,000
Existing Sub./SRF Debt Service	\$145,355	\$147,119	\$181,075	\$186,828	\$195,024	\$202,410
Future Subordinated/SRF Debt Service	<u>\$0</u>	<u>\$3,959</u>	<u>\$1,426</u>	<u>\$1,426</u>	<u>\$1,426</u>	<u>\$1,426</u>
Total Subordinated Debt Service	\$145,355	\$151,078	\$182,501	\$188,254	\$196,450	\$203,836
Debt Service Assistance	(\$8,924)	(\$6,061)	(\$6,370)	(\$5,856)	(\$6,193)	(\$5,809)
Net Subordinated Debt Service	\$136,431	\$145,017	\$176,131	\$182,398	\$190,257	\$198,027
Total Debt Service	\$298,831	\$317,239	\$359,920	\$376,394	\$391,191	\$422,637
(1) Total Principal amount represents the amount of bonds required to provide the Construction Fund Deposit shown on line 1 of Table 6, 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 \$170.7 million in FY 2008, to approximately \$243.1 million in FY 2013. In Table 7, Senior Debt Service is reduced by the current and anticipated funds in the Bond Redemption Account as well as the receipt of debt service assistance. The Bond Redemption Account is a valuable rate-smoothing tool available to the Authority. The Authority estimates that it will have approximately \$35.4 million in the Bond Redemption Account at the beginning of the forecast period.

Subordinated debt service, including SRF, the Series 2008 Bonds, and other subordinated Authority debt, is projected to increase from \$145.4 million in FY 2008 to \$203.8 million in FY 2013.

1.3.5 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 \$46.7 million in FY 2008 and are expected to increase to a total of \$52.4 million by FY 2013. Table 8 summarizes these sources from FY 2008 through FY 2013.

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Rate Stabilization Fund Withdrawal	\$0	\$5,179	\$15,806	\$11,752	\$785	\$6,817
Miscellaneous	\$17,352	\$15,011	\$15,570	\$14,713	\$15,385	\$15,628
Investment Income	<u>\$29,328</u>	<u>\$18,032</u>	<u>\$28,249</u>	<u>\$28,684</u>	<u>\$29,110</u>	<u>\$30,000</u>
TOTAL	\$46,680	\$38,221	\$59,626	\$55,149	\$45,280	\$52,444

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 2007 was approximately \$29 million. However, the beginning of FY 2008 was budgeted at \$43.7 million, reflecting a net add back of \$6 million in the Sewer utility for only using a portion of the budgeted withdrawal and an addition of an \$8.8 million surplus in the Water utility. Based on the projected withdrawals of Rate Stabilization, the Fund will be depleted by FY 2014.

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 WWTP. Between FY 2008 and FY 2013, the Authority is projected to receive approximately \$25.7 million from the communities served by the Chicopee Valley Aqueduct (the "CVA") under the contractual service agreements. The

Authority also receives a variety of fees, penalties and charges in their normal course of business.

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. Total investment income is projected to increase from approximately \$29.3 million in FY 2008, to approximately \$30 million in FY 2013. The fluctuations in investment income between FY 2008 and FY 2013 partially reflect changes in 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.

1.4. Rate Revenue Requirement and Retail Customer Impacts

1.4.1 Rate Revenue Requirement

Table 9 summarizes our rate projections for FY 2008 through FY 2013. In FY 2008, the Authority's rate revenue requirement increased by approximately 4.5 percent over FY 2007 levels to a total of approximately \$517.8 million. The projected increase for FY 2009 is to \$548.6 million, an increase of 5.9 percent. 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 the anticipated FY 2009 amount, approximately \$366.0 million will be required to meet the expenses of the Sewer System, including allocated administrative and indirect expenses, and approximately \$182.5 million for the Waterworks System.

Rate revenues are projected to increase to \$692.1 million in FY 2013, an average annual increase of approximately 6.0 percent from FY 2008 levels. For the Sewer System, the rate revenue requirement is projected to increase from \$349.5 million to approximately \$483.2 million, an average annual increase of approximately 6.7 percent. The Waterworks System revenue requirement is projected to increase from \$168.3 million in FY 2008 to approximately \$208.9 million in FY 2013, an average annual increase of 4.4 percent. (These projections assume the Authority receives approximately \$11.25 million per year in debt service assistance for FY 2009 through FY 2013. There can be no assurance that the Authority will receive any or all of such amount.)

Table 9 is based on the Proposed FY 2009 CIP and the Proposed FY 2009 CEB. If the projections were based solely on the FY 2008 CIP and FY 2008 CEB, projected rate increases would be approximately 5.8 percent for FY 2009 through FY 2013.

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Wastewater Rate Revenue	\$349,505	\$366,007	\$398,298	\$432,759	\$447,230	\$483,177
Water Rate Revenue	<u>\$168,293</u>	<u>\$182,548</u>	<u>\$183,073</u>	<u>\$183,270</u>	<u>\$205,746</u>	<u>\$208,882</u>
Total Rate Revenue	\$517,798	\$548,555	\$581,371	\$616,028	\$652,976	\$692,059
Annual Rate Increase	4.5%	5.9%	6.0%	6.0%	6.0%	6.0%
Cumulative Increase		5.9%	12.3%	19.0%	26.1%	33.7%

Note: Details may not add exactly due to rounding.

The relatively more rapid percentage increase in the Wastewater System rate revenue requirement reflects the financing and operational costs associated with the implementation of the Combined Sewer Overflow (CSO) program. Conversely, the Waterworks System rate revenue requirement increases are relatively lower, reflecting the completion of major elements of the water capital improvement program.

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 obtains debt service assistance as well as uses the Rate Stabilization Fund consistent with the General Resolution and the Bond Redemption Account to smooth future projected rate increases. If debt service assistance is eliminated for FY 2009, a rate increase of approximately 8.1 percent would be required if the Authority were to elect to offset the loss only through rate revenues; future year impacts would be more moderate.

1.4.2 Rate Allocation Methodology

The Authority's charges for the services of the Waterworks and Wastewater 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 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.

1.4.2.1 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 2008, the unit cost of water equals \$2,399 per

million gallons; in FY 2009, the cost totals \$2,546 per million gallons and based on the Authority's projections approximately \$2,554 by FY 2010.

1.4.2.2 Contractual Agreements for Water Service

Twenty-four of the 61 Authority 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. Three of these communities (Chicopee, South Hadley Fire District, and Wilbraham) are served from the Chicopee Valley Aqueduct, and have a separate rate, the CVA rate. There are four additional local bodies served by the Authority: these include state hospitals and the Massachusetts Department of Conservation and Recreation. Clinton is also considered a water-served community; however, Clinton withdraws its first 800 million gallons 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 recently added Reading and the Dedham-Westwood Water District as member communities.

1.4.2.3 Wastewater Rate Methodology

The Authority's sewer rate methodology encompasses the following elements:

Operation and Maintenance Expense: Each Local Body's annual allocation in FY 2008 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 2008, 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.

1.4.2.4 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 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 Boston Water and Sewer Commission, the Lynn Water and Sewer Commission, the Dedham-Westwood Water District, and the Lynnfield Water District, which collectively accounted for approximately 32 percent of total rate revenues in FY 2008), 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 state aid intercept has been used only six 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 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.

1.4.3 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 FY 2007 survey, the Authority has estimated that during FY 2008 the average annual household charges for water and wastewater service across the 22 Local Bodies receiving both services will total \$1,072, using an industry standard benchmark that the average household consumes 90,000 gallons per year. We project that in FY 2009 and FY 2010 the average household bill assuming 90,000 gallons average annual consumption will increase to approximately \$1,132 and \$1,187, respectively. When making these projections, we have assumed (1) that the Local Body which provides retail services receives 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 percent annually through FY 2013, and (4) that the Authority's charges constitute approximately 44 percent of the Local Bodies' charges in FY 2008.

Table 10 summarizes the projected annual household bills through FY 2013 assuming average household consumption of 90,000 gallons per year. Typical annual household bills are projected to increase to approximately \$1,386 in FY 2013. Of this amount, \$617 is the Authority wholesale charge and \$769 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. The Authority has estimated that average annual consumption in the service area is approximately 61,000 gallons per year per household, 68 percent of the industry benchmark. Consequently, the average annual household bills described above 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 2008 would be approximately \$726; in FY 2013, \$940.

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Combined						
Local	\$603	\$633	\$664	\$697	\$732	\$769
MWRA	<u>\$469</u>	<u>\$500</u>	<u>\$523</u>	<u>\$548</u>	<u>\$588</u>	<u>\$617</u>
Total	\$1,072	\$1,132	\$1,187	\$1,245	\$1,320	\$1,386
Water						
Local	\$215	\$226	\$237	\$249	\$262	\$275
MWRA	<u>\$222</u>	<u>\$241</u>	<u>\$242</u>	<u>\$242</u>	<u>\$272</u>	<u>\$276</u>
Total	\$438	\$467	\$479	\$491	\$533	\$551
Sewer						
Local	\$387	\$407	\$427	\$448	\$471	\$494
MWRA	<u>\$247</u>	<u>\$259</u>	<u>\$281</u>	<u>\$306</u>	<u>\$316</u>	<u>\$341</u>
Total	\$634	\$665	\$708	\$754	\$787	\$836
Note: Details may not add exactly due to rounding.						
(1) Assumes annual average consumption of 90,000 gallons per year.						

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*, November 2007. The survey found an average annual combined water and sewer household bill of approximately \$743 assuming 90,000 gallons of water use compared to \$1,069 for all 60 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.

1.5. Compliance with the General Resolution

Table 11 summarizes our evaluation of the Authority's compliance with certain terms of the General Resolution from FY 2008 through FY 2013. The data included in this table regarding non-rate revenues, operating expenses, debt service assistance and reserve fund deposits are described in subsequent 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 General Resolution.

Projected annual revenue requirements of the Authority, including operation and maintenance expenses, debt service, and deposits into the various reserve funds are discussed subsequently. The Authority may deposit certain year-end surpluses from operations into the Rate Stabilization Fund and use the accumulated balance in this fund to mitigate the impact of future increases in revenue requirement, subject to the terms of the General 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 General 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 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, under its Supplemental Resolution, 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 SRF bonds (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 the debt service assistance as a direct credit to debt service.

As shown in Table 11, the Authority is projected to generate sufficient revenues to comply with the applicable coverage requirements. The projected Primary Bond Coverage Ratio meets or exceeds the 120 percent requirement for all forecasted years. The Supplemental Coverage Ratio (CORE) meets or exceeds the requirement of 10 percent. The Authority is projecting that it will be required to make a deposit to the CORE Fund in FY 2013 of approximately \$1.6 million. The Secured Bond Coverage Ratio is projected to surpass the 110 percent level in all years.

The projected deposits into the CORE Fund 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 equals or 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.

Revenues	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Non-Rate Revenues						
Rate Stabilization Fund	\$0	\$5,179	\$15,806	\$11,752	\$785	\$6,817
Miscellaneous	\$17,352	\$15,011	\$15,570	\$14,713	\$15,385	\$15,628
Investment Income	\$29,328	\$18,032	\$28,249	\$28,684	\$29,110	\$30,000
Rate Revenue Requirement	<u>\$517,798</u>	<u>\$548,555</u>	<u>\$581,371</u>	<u>\$616,028</u>	<u>\$652,976</u>	<u>\$692,059</u>
Total Revenue	\$564,478	\$586,776	\$640,996	\$671,178	\$698,256	\$744,503
Operating Expenses	<u>\$251,100</u>	<u>\$261,820</u>	<u>\$272,359</u>	<u>\$285,066</u>	<u>\$296,348</u>	<u>\$308,583</u>
Net Operating Revenues	\$313,378	\$324,956	\$368,637	\$386,111	\$401,909	\$435,920
Debt Service						
Senior Debt Service	\$170,726	\$177,411	\$188,669	\$217,754	\$207,891	\$243,051
Debt Service Assistance & Bond Redemption Account	(\$17,250)	(\$11,250)	(\$11,250)	(\$29,614)	(\$13,150)	(\$24,250)
Secured Debt Service	<u>\$145,355</u>	<u>\$151,078</u>	<u>\$182,501</u>	<u>\$188,254</u>	<u>\$196,450</u>	<u>\$203,836</u>
Total Debt Service	\$298,831	\$317,239	\$359,920	\$376,394	\$391,191	\$422,637
CORE Deposit	\$0	\$0	\$0	\$0	\$0	\$1,566

Watershed and PILOT	\$23,207	\$23,868	\$24,341	\$27,227	\$27,767	\$28,321
Reserve Fund Deposits	\$1,655	\$1,674	\$1,677	\$1,643	\$1,769	\$1,922
Rate Stabilization Fund Deposits	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Balance Available Year End (Surplus)	\$0	\$0	\$0	\$0	\$0	\$1,566
Rate Covenant Test						
Primary Coverage¹	218.3	209.0	220.6	218.9	219.9	211.7
Core Fund Balance	\$20,314	\$20,314	\$20,314	\$20,314	\$20,314	\$21,880
Core Coverage	13.2%	12.2%	11.4%	10.8%	10.4%	10.0%
Secured Coverage²	112.1	110.8	110.4	111.0	111.0	111.0

Note: Details may not add exactly due to rounding.

- 1 Primary Coverage equals Net Revenues divided by Senior Debt. Net Revenues equals Total Revenues less operating expenses, plus Watershed/Pilot plus Reserve Fund Deposits less Capital Lease payments.
- 2 Secured Coverage equals Net Revenues divided by Total Debt. Net Revenues equals Total Revenues less operating expenses, plus Watershed/Pilot plus Reserve Fund Deposits less Capital Lease payments. Total Debt is net of debt service associated with the Authority's Water Pipeline program totaling \$3.7 million in FY 2008, \$5.3 million in FY 2009, and \$5.4 million in FY 2010 and subsequent years.

Table 11 shows the financial projections for the Authority and their compliance with the Rate Covenants. Throughout all years of this financial projection, FY 2008 through FY 2013, the Authority is projected to comply with the Primary and Secondary Bond Coverage Ratios as well as the required CORE Fund Coverage.

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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 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 Bonds described in this Official Statement on behalf of themselves and all subsequent holders of such 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 2008 Series A 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 Eighteenth Supplemental Resolution relating to the Authority’s Multi-Modal Subordinated General Revenue Bonds, 1997 Series A and B, the Twenty-Third Supplemental Resolution relating to the Authority’s Multi-Modal Subordinated General Revenue Refunding Bonds, 1998 Series D, the Twenty-Fourth Supplemental Resolution relating to the Authority’s Multi-Modal Subordinated General Revenue Bonds, 1999 Series A and B, the Twenty-Fifth Supplemental Resolution relating to the Authority’s Subordinated General Revenue Bonds, 1999 Series C and D, the Twenty-Seventh Supplemental Resolution relating to the Authority’s Tax-Exempt Commercial Paper Notes, Series 1999, the Thirtieth Supplemental Resolution relating to the Authority’s Multi-Modal Subordinated General Revenue Refunding Bonds, 2000 Series B, the Thirty-First Supplemental Resolution relating to the Authority’s Multi-Modal Subordinated General Revenue Refunding Bonds, 2000 Series C, the Thirty-Fourth Supplemental Resolution relating to the Authority’s Multi-Modal Subordinated General Revenue Bonds, 2001 Series A and 2001 Series B, the Thirty-Ninth Supplemental Resolution relating to the Authority’s Multi-Modal Subordinated General Revenue Refunding Bonds, 2002 Series C through G and the Fifty-Fourth Supplemental Resolution relating to the Authority’s Multi-Modal Subordinated General Revenue Refunding Bonds, 2008 Series A through F.

“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 the Division of Finance and Development or the Treasurer of the Authority

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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.

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“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

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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.

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“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

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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

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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.

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“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)

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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 froth 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.*

APPENDIX C

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

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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 of 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

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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

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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.

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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.

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(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]”.

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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.

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(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

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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

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shall be transferred to and deposited in a separate subaccount established within the Construction Fund. (Section 520)

Depositories

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 Depositories in trust for the Trustee. Moneys or securities in the Operating Fund shall be deposited by the Authority with one or more Depositories 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)

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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 depositories 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 Depository; 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

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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

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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

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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

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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

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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.

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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;

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(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

APPENDIX C

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

APPENDIX C

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 the 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)

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APPENDIX D

PROPOSED FORM OF BOND COUNSEL OPINION

[Dated Date of Issuance]

Massachusetts Water Resources Authority
Charlestown Navy Yard
100 First Avenue
Boston, Massachusetts 02129

Re: \$_____ Massachusetts Water Resources Authority
Multi-Modal Subordinated General Revenue Refunding Bonds,
2008 Series A - F (collectively, the "Bonds")

Ladies and Gentlemen:

We have acted as Bond Counsel 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 Fifty-Fourth Supplemental Resolution of the Authority adopted February 13, 2008 as Amended and Supplemented on March 12, 2008 (the "Supplemental Resolution"), and the Issuance Resolution of the Authority adopted February 13, 2008 as amended and supplemented by the Amendment and Supplement to Issuance Resolution adopted on March 12, 2008 (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.

The Bonds are being issued to currently refund certain Outstanding Bonds.

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Boston, MA 02110
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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.
- (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 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; however, 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 therefrom, including any profit made on the sale thereof, are exempt from taxes imposed by existing Massachusetts laws, although the Bonds and the interest 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.

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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APPENDIX E

TABLE OF REFUNDED BONDS

Supplemental Resolution	Series of Bonds	Redemption Date	CUSIP
Eighteenth Supplemental Resolution Authorizing the Issuance of up to \$175,000,000 Multi-Modal Subordinated General Revenue Bonds, 1997 Series A and 1997 Series B	\$87,500,000 MWRA Multi-Modal Subordinated General Revenue Bonds, 1997 Series A	June 2, 2008	576049NK2
Eighteenth Supplemental Resolution Authorizing the Issuance of up to \$175,000,000 Multi-Modal Subordinated General Revenue Bonds, 1997 Series A and 1997 Series B	\$87,500,000 MWRA Multi-Modal Subordinated General Revenue Bonds, 1997 Series B	June 2, 2008	576049NN6
Twenty-Third Supplemental Resolution Authorizing the Issuance of up to \$350,000,000 Multi-Modal Subordinated General Revenue Refunding Bonds, 1998 Series D	\$198,895,000 MWRA Multi-Modal Subordinated General Revenue Refunding Bonds, 1998 Series D	June 2, 2008	576049RS1
Twenty-Fourth Supplemental Resolution Authorizing the Issuance of up to \$195,000,000 Multi-Modal Subordinated General Revenue Bonds, 1999 Series A and 1999 Series B	\$97,500,000 MWRA Multi-Modal Subordinated General Revenue Bonds, 1999 Series A	June 2, 2008	576049RT9
Twenty-Fifth Supplemental Resolution Authorizing the Issuance of up to \$150,000,000 Subordinated General Revenue Bonds, 1999 Series C and 1999 Series D	\$75,000,000 MWRA Subordinated General Revenue Bonds, 1999 Series C Periodic Auction Reset Securities (PARS)	June 2, 2008	576049SB7
Twenty-Fifth Supplemental Resolution Authorizing the Issuance of up to \$150,000,000 Subordinated General Revenue Bonds, 1999 Series C and 1999 Series D	\$75,000,000 MWRA Subordinated General Revenue Bonds, 1999 Series D Select Auction Variable Rate Securities (SAVRS)	June 11, 2008	576049SC5
Thirtieth Supplemental Resolution Authorizing the Issuance of up to \$150,000,000 Multi-Modal Subordinated General Revenue Refunding Bonds, 2000 Series B	\$135,300,000 Massachusetts Water Resources Authority Multi-Modal Subordinated General Revenue Refunding Bonds, 2000 Series B	July 1, 2008	576049UP3
Thirty-First Supplemental Resolution Authorizing the Issuance of up to \$150,000,000 Multi-Modal Subordinated General Revenue Refunding Bonds, 2000 Series C	\$135,300,000 Massachusetts Water Resources Authority Multi-Modal Subordinated General Revenue Refunding Bonds, 2000 Series C	July 1, 2008	576049UQ1
Thirty-Fourth Supplemental Resolution Authorizing the Issuance of up to \$180,000,000 Multi-Modal Subordinated General Revenue Bonds, 2001 Series A and 2001 Series B	\$95,000,000 MWRA Multi-Modal Subordinated General Revenue Bonds, 2001 Series A	June 2, 2008	576049WN6

APPENDIX E

Supplemental Resolution	Series of Bonds	Redemption Date	CUSIP
Thirty-Fourth Supplemental Resolution Authorizing the Issuance of up to \$180,000,000 Multi-Modal Subordinated General Revenue Bonds, 2001 Series A and 2001 Series B	\$85,000,000 MWRA Multi-Modal Subordinated General Revenue Bonds, 2001 Series B	June 2, 2008	576049WP1
Thirty-Ninth Supplemental Resolution Authorizing the Issuance of up to \$430,000,000 Multi-Modal Subordinated General Revenue Refunding Bonds, Part 3 Relating to the Issuance of \$83,400,000 Multi-Modal Subordinated General Revenue Refunding Bonds, 2002 Series E	\$83,400,000 MWRA Multi-Modal Subordinated General Revenue Refunding Bonds, 2002 Series E (Auction Rate Securities)	May 29, 2008	576049YG9
Thirty-Ninth Supplemental Resolution Authorizing the Issuance of up to \$430,000,000 Multi-Modal Subordinated General Revenue Refunding Bonds, Part 4 Relating to the Issuance of \$90,900,000 Multi-Modal Subordinated General Revenue Refunding Bonds, 2002 Series F	\$44,400,000 MWRA Multi-Modal Subordinated General Revenue Refunding Bonds, 2002 Series F	June 4, 2008	576049YJ3
Thirty-Ninth Supplemental Resolution Authorizing the Issuance of up to \$430,000,000 Multi-Modal Subordinated General Revenue Refunding Bonds, Part 4 Relating to the Issuance of \$90,900,000 Multi-Modal Subordinated General Revenue Refunding Bonds, 2002 Series F	\$46,500,000 MWRA Multi-Modal Subordinated General Revenue Refunding Bonds, 2002 Series F	May 30, 2008	576049YK0
Thirty-Ninth Supplemental Resolution Authorizing the Issuance of up to \$430,000,000 Multi-Modal Subordinated General Revenue Refunding Bonds, Part 5 Relating to the Issuance of \$99,250,000 Multi-Modal Subordinated General Revenue Refunding Bonds, 2002 Series G	\$48,500,000 MWRA Multi-Modal Subordinated General Revenue Refunding Bonds, 2002 Series G	June 4, 2008	576049YE4
Thirty-Ninth Supplemental Resolution Authorizing the Issuance of up to \$430,000,000 Multi-Modal Subordinated General Revenue Refunding Bonds, Part 5 Relating to the Issuance of \$99,250,000 Multi-Modal Subordinated General Revenue Refunding Bonds, 2002 Series G	\$50,750,000 MWRA Multi-Modal Subordinated General Revenue Refunding Bonds, 2002 Series G	May 30, 2008	576049YF1

APPENDIX F

SUMMARY OF CERTAIN PROVISIONS OF THE STANDBY BOND PURCHASE AGREEMENT

LIQUIDITY FACILITY ISSUER: DEXIA CREDIT LOCAL, ACTING THROUGH ITS NEW YORK BRANCH

INITIAL LIQUIDITY FACILITY TERM: MAY 29, 2008 TO MAY 28, 2011

* * *

The following summarizes certain provisions of the Standby Bond Purchase Agreement, to which document, in its entirety, reference is made for the complete provisions thereof. The provisions of any Alternate Liquidity Facility may be different from those summarized below. Capitalized terms used in this summary and not otherwise defined in this summary or elsewhere in this Official Statement shall have the meanings assigned to such terms at the end of this summary or in Appendix C, as applicable.

Subject to the terms and conditions of the Standby Bond Purchase Agreement, the Liquidity Facility Issuer will agree from time to time during the Purchase Period to extend credit to the Authority through the purchase of Eligible Bonds, at the Purchase Price, on a Purchase Date. The portion of the Purchase Price paid for any Eligible Bonds constituting principal, which shall be in Authorized Denominations, purchased on any Purchase Date shall not exceed the lesser of 100% of the principal amount of such Eligible Bonds and the Available Principal Commitment (calculated in each case, without giving effect to any purchase of Eligible Bonds by the Liquidity Facility Issuer on such date) at the time 11:00 a.m. on such Purchase Date. The portion of the Purchase Price paid for any Eligible Bonds constituting Accrued Interest on such Eligible Bonds purchased on any Purchase Date shall not exceed the lesser of the accrued and unpaid interest on such Eligible Bonds (excluding Defaulted Interest and, if the Purchase Date is an Interest Payment Date, excluding all accrued interest) and the Available Interest Commitment, (calculated in each case without giving effect to any purchase of Eligible Bonds by the Liquidity Facility Issuer on such date) at 11:00 a.m. on such Purchase Date. Any Eligible Bonds so purchased shall thereupon constitute Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Bank Rate and the Bank Bonds have other characteristics of Bank Bonds as set forth in the Standby Bond Purchase Agreement, in the Resolution and in the Series A Bonds. Amounts drawn under the Standby Bond Purchase Agreement may only be used to pay the Purchase Price of Series A Bonds which are Eligible Bonds and may not be used to pay the principal of and interest on any other Series A Bonds or for any other purpose. Amounts drawn under the Standby Bond Purchase Agreement that are not used to purchase Eligible Bonds shall be immediately returned to the Liquidity Facility Issuer.

The Available Commitment is, as of any day, the sum of the Available Principal Commitment and the Available Interest Commitment, in each case as of such day. The Available Principal Commitment is initially Three Hundred Thirty Eight Million Five Thousand Dollars (\$338,005,000) and thereafter shall mean such initial amount adjusted from time to time as follows:

- (a) Upon any reduction in the Available Principal Commitment pursuant to the Standby Bond Purchase Agreement, downward by the amount of such reduction;
- (b) Downward by the principal amount of any Series A Bonds purchased by the Liquidity Facility Issuer pursuant to Standby Bond Purchase Agreement; and
- (c) Upward by the principal amount of any Series A Bonds previously purchased by the Liquidity Facility Issuer pursuant to the Standby Bond Purchase Agreement, which a Bank Bondholder elects to retain pursuant to the Standby Bond Purchase Agreement or that are sold or deemed sold by a Bank Bondholder pursuant to the Standby Bond Purchase Agreement (regardless of the Purchase Price received for such Series A Bonds).

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Any adjustment to the Available Principal Commitment pursuant to clauses (a), (b) or (c) of this paragraph shall occur simultaneously with the occurrence of the events described in such clauses.

The Available Interest Commitment is initially Three Million Seven Hundred Seventy-Eight Thousand Two Hundred Forty-Eight Dollars (\$3,778,248) (an amount equal to thirty-four (34) days' interest on the Series A Bonds, computed as if the Series A Bonds bore interest at the rate of twelve percent (12%) per annum) based on a year of 365 days. The Available Interest Commitment may be adjusted from time to time as follows: (a) downward by an amount that bears the same proportion to such amount as the amount of a reduction in the Available Principal Commitment pursuant to the immediately preceding paragraph bears to the Available Principal Commitment prior to such reduction; and (b) upward by an amount that bears the same proportion to such amount as the amount of any increase in the Available Principal Commitment pursuant to clause (c) of the immediately preceding paragraph bears to the Available Principal Commitment prior to such increase; provided that after giving effect to such adjustment the Available Interest Commitment shall never exceed Three Million Seven Hundred Seventy-Eight Thousand Two Hundred Forty-Eight Dollars (\$3,778,248). Any adjustments pursuant to clauses (a) and (b) of this paragraph shall occur simultaneously with the event requiring such adjustment.

The Purchase Period is the period from the date the Standby Bond Purchase Agreement is executed and delivered to and including the earliest of (a) May 28, 2011, as such date may be extended from time to time by the Liquidity Facility Issuer pursuant to the Standby Bond Purchase Agreement; provided that if any such date is not a Business Day, the Expiration Date shall be the next preceding Business Day (the "Expiration Date"), (b) the date on which no Eligible Bonds are Outstanding, and (c) the date on which the Available Commitment and the Liquidity Facility Issuer's obligation to purchase Eligible Bonds is terminated in its entirety (i) upon the conversion of the interest rate borne by the Series A Bonds to an interest rate mode other than a Weekly Mode, (ii) upon the redemption, repayment or defeasance or other payment or deemed payment of the Bonds, (iii) upon the delivery of an Alternate Liquidity Facility or delivery of notice by the Authority to the Liquidity Facility Issuer and the Tender Agent terminating the Available Commitment or (iv) in connection with an Event of Default under the Standby Bond Purchase Agreement, as described below.

Events of Default

The occurrence of any of the events described in paragraphs (a) or (b) below constitutes an Event of Default under the Standby Bond Purchase Agreement. Upon the occurrence of an Event of Default, the Liquidity Facility Issuer may exercise the remedies described in paragraph (c) below.

(a) Events of Default not Permitting Immediate Termination or Suspension.

(i) Payments. The Authority shall fail to pay when due any amount owed by the Authority to the Liquidity Facility Issuer pursuant to the Standby Bond Purchase Agreement, other than those specified in section (b) below, and such failure continues for five days.

(ii) Representations. Any representation or warranty made by or on behalf of the Authority in the Standby Bond Purchase Agreement or in any Related Document or in any certificate or statement delivered thereunder shall prove to have been incorrect or untrue in any material respect when made or deemed to have been made.

(iii) Covenants. The Authority shall fail to perform certain of the affirmative covenants (regarding use of Series A Bond proceeds and use of proceeds of Bank Bonds) or the various negative covenants contained in the Standby Bond Purchase Agreement.

(iv) Other Covenants. The Authority shall fail to perform or observe any term, covenant or agreement (other than ones described in any other paragraph of this section (a)) contained in the Standby Bond Purchase Agreement or the Related Documents on its part to be performed or observed which failure continues for 10 days or more.

(v) **Default on Debt.** Default by the Authority in the payment of any amount due in respect of any Debt owed to the Liquidity Facility Issuer or default by the Authority in the payment of any amount due in respect of any other Debt in an aggregate amount in excess of \$5,000,000 (measured in the case of any Interest Rate Protection Agreement, by the Authority's Exposure thereunder), as and when the same shall become due, or default under any mortgage, agreement or other instrument under or pursuant to which such Debt is incurred or issued, and continuance of such default beyond the period of grace, if any, allowed with respect thereto, or the occurrence of any act or omission by the Authority under any such mortgage agreement or other instrument which results in such Debt becoming, or being capable of becoming, immediately due and payable (or, with respect to any Interest Rate Protection Agreement, which results in such Interest Rate Protection Agreement being terminated early or being capable of being terminated early).

(vi) **Invalidity.** Any provision of the Standby Bond Purchase Agreement, the Series A Bonds or any of the Related Documents shall cease to be valid and binding, or the Authority shall contest any such provision, or the Authority or any agent or trustee on behalf of any of them, shall deny that it has any further liability under any provision of the Standby Bond Purchase Agreement, the Series A Bonds or any of the Related Documents.

(vii) **Other Documents.** Any event of default under any of the Related Documents shall occur.

(viii) **Downgrade.** The rating assigned to any Material Debt (other than the Water Pollution Abatement Obligations) of the Authority by Moody's, S&P or Fitch shall be withdrawn, suspended or fall below "A2" by Moody's or "A" by S&P or "A" by Fitch.

(ix) **Taxability.** A ruling, assessment, notice of deficiency or technical advice by the Internal Revenue Service shall be rendered to the effect that interest on the Series A Bonds is includable in the gross income of the holder(s) or owner(s) of such Series A Bonds and either (i) the Authority, after it has been notified by the Internal Revenue Service, shall not challenge such ruling, assessment, notice or advice in a court of law during the period within which such challenge is permitted or (ii) the Authority shall challenge such ruling, assessment, notice or advice and a court of law make a determination, not subject to appeal or review by another court of law, that such ruling, assessment, notice or advice is correctly rendered.

(b) **Events of Default Permitting Immediate Suspension or Termination.** Default or Events of Default which will result in the immediate termination of the Liquidity Facility Authority's obligation to advance funds under the Standby Bond Purchase Agreement as described in paragraph (c)(i) below or immediately suspend such obligation as described in paragraphs (c)(ii) and (c)(iii) below.

(i) **Event of Insolvency.** An Event of Insolvency shall have occurred with respect to the Authority.

(ii) **Payment Default.** Any failure, wholly or partially, to make timely any payment of principal or interest required to be made (A) on the Series A Bonds or (B) on any other Material Debt.

(iii) **Contest of Validity.** The Authority shall (A) claim that any provisions of the Resolution, the Series A Bonds or the Standby Bond Purchase Agreement that provide for the payment of principal or interest on the Series A Bonds are not valid or binding on the Authority, (B) repudiate its obligations under any provisions of the Resolution, the Series A Bonds or the Standby Bond Purchase Agreement that provide for the payment of principal or interest on the Series A Bonds or its obligation to repay any Material Debt and/or (C) initiate any legal proceedings to seek an adjudication that any of the provisions of the Resolution, the Tender Agent Agreement, the Remarketing Agreement, the Series A Bonds or the Standby Bond Purchase

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Agreement that provide for the payment of principal or interest on the Series A Bonds are not valid or binding on the Authority.

(iv) Invalidation. Any court of competent jurisdiction or other governmental entity with jurisdiction to rule on the validity of the Standby Bond Purchase Agreement, the Series A Bonds or the Resolution shall declare, find or rule in a final non-appealable judgment that the Standby Bond Purchase Agreement, the Series A Bonds or the Resolution is not valid or not binding on the Authority.

(v) Downgrade. The underlying ratings assigned to any Material Debt (other than the Water Pollution Abatement Obligations) of the Authority by each Rating Agency shall be withdrawn or suspended for credit related reasons or lowered below “Baa3” by Moody’s, “BBB-” by S&P and “BBB-” by Fitch.

(vi) Judgments. Entry of filing of any judgment, writ or warrant of attachment or of any similar process in an amount in excess of \$25,000,000 against the Authority or against any of its property and failure of the affected entity to vacate, bond, stay or contest in good faith such judgment, writ, warrant of attachment or other process for a period of 60 days or failure to pay or satisfy such judgment within 60 days or as otherwise required by such judgment, writ or warrant of attachment.

(c) Remedies. Upon the occurrence of a Default or an Event of Default hereunder, the Liquidity Facility Issuer may take one or more of the following actions:

(i) Upon the occurrence of any Event of Default described in paragraphs (b)(i), (ii), (iv), (v) or (vi) (each an "Immediate Termination Event"), the Purchase Period and the obligation of the Liquidity Facility Issuer to purchase Eligible Bonds shall immediately terminate without notice or demand, and thereafter the Liquidity Facility Issuer shall be under no obligation to purchase Eligible Bonds. Upon such Immediate Termination Event, the Liquidity Facility Issuer shall promptly give written notice of the same to the Trustee, the Authority, the Tender Agent and the Remarketing Agent; provided, that the Liquidity Facility Issuer shall incur no liability of any kind by reason of its failure to give such notice, and such failure shall in no way affect the termination of the Available Commitment and the Liquidity Facility Issuer's obligation to advance amounts for the purchase of Eligible Bonds pursuant to the Standby Bond Purchase Agreement.

(ii) Upon the occurrence of an Event of Default described in paragraph (b)(iii) above (an “Immediate Suspension Event”) the Liquidity Facility Issuer’s obligations to purchase Eligible Bonds shall be immediately suspended without notice or demand and thereafter the Liquidity Facility Issuer shall be under no obligation to advance amounts for the purchase of Series A Bonds until the Available Commitment is reinstated as described in this paragraph (c)(ii). Promptly upon the Liquidity Facility Issuer’s obtaining knowledge of any such Immediate Suspension Event, the Liquidity Facility Issuer shall give written notice of the same to the Authority, the Tender Agent, the Trustee and Remarketing Agent of such suspension; provided, however, that the Liquidity Facility Issuer shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Liquidity Facility Issuer’s obligations under the Standby Bond Purchase Agreement. If a court with jurisdiction to rule on the validity of the documents described in paragraph (b)(iii) above shall enter a final, non-appealable judgment that any such document is not valid and binding on the Authority, then the Available Commitment, the Purchase Period and the Liquidity Facility Issuer’s obligation to advance amounts for the purchase of Eligible Bonds shall immediately terminate. If a court with jurisdiction to rule on the validity of such documents shall find or rule that such documents are valid and binding on the Authority, the Liquidity Facility Issuer’s obligations to purchase Eligible Bonds under the Standby Bond Purchase Agreement shall be automatically reinstated and the terms of the Standby Bond Purchase Agreement will continue in full force and effect (unless the Liquidity Facility Issuer’s obligation to purchase Eligible Bonds shall otherwise have terminated or been suspended in accordance with the terms of the Standby

Bond Purchase Agreement). Notwithstanding the foregoing, if, upon the earlier of the last day of the Purchase Period or the date which is two (2) years after the effective date of suspension of the Liquidity Facility Issuer's obligations described in this paragraph (c)(ii), litigation is still pending or a judgment regarding the validity of the obligations described in paragraph (b)(iii) above as is the subject of such Event of Default has not been obtained, then the Available Commitment, the Purchase Period and the obligation of the Liquidity Facility Issuer to purchase Eligible Bonds shall at such time immediately terminate, and thereafter the Liquidity Facility Issuer shall be under no obligation to purchase Eligible Bonds.

(iii) Upon the occurrence of a Default described in paragraph (b)(i) above (also an "Immediate Suspension Event"), the Liquidity Facility Issuer's obligation to purchase Eligible Bonds shall be immediately suspended without notice or demand and thereafter the Liquidity Facility Issuer shall be under no obligation to purchase Eligible Bonds until such obligation is reinstated as described in this paragraph (c)(iii). Promptly upon the Liquidity Facility Issuer obtaining knowledge of any such Default, the Liquidity Facility Issuer shall give written notice of the same to the Authority, the Trustee, the Remarketing Agent and the Tender Agent; provided, however, that the Liquidity Facility Issuer shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way effect the suspension of the Liquidity Facility Issuer's obligations under the Standby Bond Purchase Agreement. In the event that such Default is not cured and becomes an Event of Default, the Liquidity Facility Issuer's obligation to purchase Eligible Bonds shall automatically terminate as described in paragraph (c)(i) above. In the event such Default is cured prior to becoming an Immediate Termination Event, the Liquidity Facility Issuer's obligations shall be automatically reinstated and the terms of the Standby Bond Purchase Agreement will continue in full force and effect (unless the Liquidity Facility Issuer's obligation to advance amounts for the purchase of Series A Bonds shall otherwise have terminated or been suspended or in accordance with the terms of the Standby Bond Purchase Agreement).

(iv) Upon the occurrence of a Default described in paragraph (b)(iv) (following the entry of an announcement, ruling or finding subject to further proceeding and prior to the entry of a final non-appealable judgment), the Liquidity Facility Issuer's obligation to purchase Eligible Bonds shall be immediately suspended (also an "Immediate Suspension Event") without notice or demand and thereafter the Liquidity Facility Issuer shall be under no obligation to purchase Eligible Bonds until its obligation is reinstated as described in this paragraph (c)(iv). Promptly upon the Liquidity Facility Issuer obtaining knowledge of any such Default, the Liquidity Facility Issuer shall give written notice of the same to the Authority, the Remarketing Agent, the Trustee and the Tender Agent; provided, however, that the Liquidity Facility Issuer shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way effect the suspension of the Liquidity Facility Issuer's obligation under the Standby Bond Purchase Agreement. In the event a court with jurisdiction to rule on the validity of the provision(s) described in paragraph (b)(iv) shall thereafter enter a final, non-appealable judgment that such provision(s) is not valid and binding on the Authority, then the Liquidity Facility Issuer's obligation to purchase Eligible Bonds shall immediately and automatically terminate as described in paragraph (c)(i). If a court with jurisdiction to rule on the validity of the provision(s) described in paragraph (b)(iv) shall thereafter enter a final, non-appealable judgment that such provision(s) is valid and binding on the Authority, then the Liquidity Facility Issuer's obligations hereunder shall be automatically reinstated and the terms of the Standby Bond Purchase Agreement will continue in full force and effect (unless the Liquidity Facility Issuer's obligation to purchase Eligible Bonds shall otherwise have terminated or been suspended in accordance with the terms of the Standby Bond Purchase Agreement. Notwithstanding the foregoing, if, upon the earlier of the last day of the Purchase Period or the date which is two (2) years after the effective date of suspension of the Liquidity Facility Issuer's obligations as described in paragraph(c)(iv), litigation is still pending and a judgment regarding the validity of the provision(s) described in paragraph (b)(iv), as is the subject of such Default, has not been obtained, then the Available Commitment and the obligation of the Liquidity Facility Issuer to purchase Eligible Bonds shall at

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such time terminate without notice or demand and thereafter, the Liquidity Facility Issuer shall be under no obligation to purchase Eligible Bonds.

(v) Upon the occurrence of an Event of Default described in paragraph (a) above, the Liquidity Facility Issuer may give written notice of such Event of Default to the Authority, the Trustee, the Tender Agent and Remarketing Agent stating that the Standby Bond Purchase Agreement shall terminate 30 days after such notice is received by the Trustee and directing that the Series A Bonds be called for Default Tender. The Available Commitment, the Purchase Period and the obligation of the Liquidity Facility Issuer to purchase Eligible Bonds shall terminate 30 days after such notice is received by the Trustee and the Tender Agent, and on such date the Available Commitment shall terminate and the Liquidity Facility Issuer shall be under no obligation hereunder to purchase Eligible Bonds.

(vi) Upon the occurrence of any Event of Default, (A) all amounts owed to the Liquidity Facility Issuer under the Standby Bond Purchase Agreement and under any Bank Bonds shall bear interest at the Default Rate (as defined in the Standby Bond Purchase Agreement) until paid, (B) the Liquidity Facility Issuer may by written notice to the Authority declare that all amounts owed to the Liquidity Facility Issuer under the Standby Bond Purchase Agreement and with respect to the Bank Bonds to be immediately due and payable whereupon such amounts shall be immediately due and payable (provided, that the obligations of the Authority under the Standby Bond Purchase Agreement and under the Bank Bonds shall be and become automatically and immediately due and payable without such notice upon the occurrence of an Immediate Termination Event described in paragraph (b)(i) above), (C) the Liquidity Facility Issuer may, by written notice to the Authority, the Tender Agent and the Trustee, declare the Bank Bonds to be subject to immediate mandatory redemption in which case the Bank Bonds shall be immediately redeemed, and (D) the Liquidity Facility Issuer shall have all remedies provided at law or equity, including, without limitation, the right of set-off and specific performance. The Liquidity Facility Issuer shall promptly provide written notice to the Trustee, the Tender Agent and the Authority of any acceleration of the amounts due under the Standby Bond Purchase Agreement. Notwithstanding the foregoing, if, upon the earlier of the last day of the Purchase Period or the date which is two (2) years after the effective date of suspension of the Liquidity Facility Issuer's obligations as described in paragraph(c)(iv), litigation is still pending and a judgment regarding the validity of the provision(s) described in paragraph (b)(iv), as is the subject of such Default, has not been obtained, then the Available Commitment and the obligation of the Liquidity Facility Issuer to purchase Eligible Bonds shall at such time terminate without notice or demand and thereafter, the Liquidity Facility Issuer shall be under no obligation to purchase Eligible Bonds.

(vii) In the case of any Event of Default under the Standby Bond Purchase Agreement, the Liquidity Facility Issuer shall have the right, but not the obligation, to cure any such Event of Default (in which case the Authority shall reimburse the Liquidity Facility Issuer therefor pursuant to the Standby Bond Purchase Agreement).

As used in this summary of the Standby Bond Purchase Agreement, the following terms shall have the following meanings:

“Accrued Interest” means that portion of the Purchase Price paid by the Liquidity Facility Issuer for Eligible Bonds constituting accrued but unpaid interest on such Eligible Bonds.

“Affiliate” means any other Person controlling or controlled by or under common control with the Authority. For purposes of this definition, “control,” when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting rights, membership, the power to appoint members, trustees or directors, by contract or otherwise.

“Alternate Liquidity Facility” means a replacement standby bond purchase agreement or other liquidity facility meeting the requirements of an *“Alternate Liquidity Facility”* set forth in the Resolution.

"*Authorized Denominations*" shall have the meaning assigned in the Supplemental Resolution.

"*Bank Bond*" means each Series A Bond purchased by the Liquidity Facility Issuer pursuant to the Standby Bond Purchase Agreement and held by or for the account of a Bank Bondholder in accordance with the terms of the Standby Bond Purchase Agreement, until purchased from the Bank Bondholder or retained by the Bank Bondholder in accordance with the Standby Bond Purchase Agreement or redeemed in accordance with the Standby Bond Purchase Agreement or otherwise.

"*Bank Bondholder*" means the Liquidity Facility Issuer (but only in its capacity as owner (which as used in the Standby Bond Purchase Agreement shall mean beneficial owner if at the relevant time Bank Bonds are held in book-entry form) of Bank Bonds pursuant to the Standby Bond Purchase Agreement) and any other Person to whom a Bank Bondholder has sold Bank Bonds pursuant to the Standby Bond Purchase Agreement.

"*Business Day*" means any day other than (a) a day on which banks located in the cities in which the principal office of any of the Tender Agent, the Remarketing Agent, the Trustee or the Liquidity Facility Issuer is located are required or authorized by law to close, (b) a day on which the New York Stock Exchange is closed, or (c) a Saturday or Sunday. For purposes of this definition, the Liquidity Facility Issuer's principal office shall be that office at which a Notice of Bank Purchase (as defined in the Standby Bond Purchase Agreement) is to be presented under the Standby Bond Purchase Agreement.

"*Debt*" means with respect to any Person, all items that would be classified as a liability in accordance with generally accepted accounting principles, including, without limitation, (a) indebtedness or liability for borrowed money, or for the deferred purchase price of property or services (including trade obligations); (b) obligations as lessee under leases which should have been, or should be, recorded as capital leases in accordance with generally accepted accounting principles; (c) current liabilities in respect of unfunded benefits under employee benefit, retirement or pension plans; (d) obligations issued for the account of any other Person; (e) all obligations arising under acceptance facilities; (f) all guarantees, endorsements (other than for collection or deposit in the ordinary course of business) and other contingent obligations to purchase, to provide funds for payment, to supply funds to invest in any other Person or otherwise to assure a creditor against loss; (g) obligations secured by any mortgage, lien, pledge, security interest or other charge or encumbrance on property, whether or not the obligations have been assumed and (h) obligations of such Person under Interest Rate Protection Agreements.

"*Default*" means the occurrence of any event or the existence of any condition which with the giving of notice, the passage of time, or both, would constitute an Event of Default.

"*Default Tender*" means a mandatory tender of the Series A Bonds pursuant to the Supplemental Resolution resulting from the Liquidity Facility Issuer's delivery of a Termination Notice to the Tender Agent, the Trustee and Remarketing Agent upon the occurrence of an Event of Default described in paragraph (a) above.

"*Defaulted Interest*" means accrued interest on the Series A Bonds which was not paid when due under the terms of the Resolution or any amounts accruing on amounts owed on the Series A Bonds by reason of such amounts being not paid when due.

"*Eligible Bonds*" means any Series A Bond Outstanding under and entitled to the benefits of the Resolution which bear interest at the Weekly Mode and that are tendered or deemed tendered for purchase pursuant to the Supplemental Resolution as described in "THE BONDS" -- "OPTIONAL AND MANDATORY TENDER OF SERIES X BONDS WHILE IN THE WEEKLY MODE" herein, other than any such Series A Bond which (a) is a Bank Bond or (b) is owned by or on behalf of or is held for the account or for the benefit of the Authority or any Affiliate of the Authority.

"*Event of Insolvency*" means, with respect to any Person, the occurrence of one or more of the following events:

- (a) the issuance, under the laws of any state or under the laws of the United States of America, of an order of rehabilitation, liquidation or dissolution of such Person;

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(b) the commencement by or against such Person of a case or other proceeding seeking liquidation, reorganization or other relief with respect to such Person or its debts under any bankruptcy, insolvency, reorganization or other similar state or federal law now or hereafter in effect, including, without limitation, the appointment of a trustee, receiver, liquidator, custodian or other similar official for such Person or any substantial part of its property or there shall be appointed or designated with respect to it, an entity such as an organization, board, commission, authority, agency or body to monitor, review, oversee, recommend or declare a financial emergency or similar state of financial distress with respect to it or there shall be declared or introduced or proposed for consideration by it or by any legislative or regulatory body with competent jurisdiction over it, the existence of a state of financial emergency or similar state of financial distress in respect of it and, in the case of commencement of a case or proceeding against such Person or such appointment or designation, such case, proceeding, appointment or designation is not dismissed, discharged or vacated for a period of 60 days;

(c) the making of an assignment for the benefit of creditors by such Person;

(d) the failure of such Person to generally pay its debts as they become due;

(e) the declaration of a moratorium, debt adjustment, debt restructuring or comparable extraordinary restriction with respect to the payment of the debts of such Person;

(f) such Person shall admit in writing its inability to pay its debts when due; or

(g) the initiation of any actions to authorize any of the foregoing by or on behalf of such Person.

“*Excess Interest Amount*” means any interest that would have been due and payable for any period but for the operation of the following sentence. If the amount of interest payable under the Standby Bond Purchase Agreement under any Bank Bond for any period in accordance with terms of the Standby Bond Purchase Agreement exceeds the amount of interest that would be payable for such period had interest for such period been calculated at the Maximum Rate, then interest for such period shall be payable in an amount calculated at the Maximum Rate for such period.

“*Exposure*” means, for any date with respect to a Person and any Interest Rate Protection Agreement, the amount of any Settlement Amount that would be payable by such Person if such Interest Rate Protection Agreement were terminated as of such date. Exposure shall be determined in accordance with the standard methods of calculating such exposure under similar arrangements as prescribed from time to time by the Liquidity Facility Issuer, taking into account the methodology for calculating amounts due upon early termination as set forth in the related Interest Rate Protection Agreement and the notional principal amount, term and other relevant provisions thereof.

“*Interest Rate Protection Agreement*” means an interest rate swap, cap or collar agreement or similar arrangement between any Person and a financial institution providing for the transfer or mitigation of interest rate risks either generally or under specific contingencies.

“*Material Debt*” means (a) the Series A Bonds (b) any debt or obligation of the Authority the payment of which is secured by a lien on the Revenues which ranks on a parity with or senior to the lien on the Revenues that secures the Series A Bonds.

“*Maximum Rate*” means the maximum rate of interest on the relevant obligation permitted by applicable law without regard to any filing made by a lender with respect to notice of rates in excess of any statutory or regulatory threshold interest rate.

“*Outstanding*” when used with regard to Series A Bonds shall have the meaning assigned in the Resolution.

“*Person*” means an individual, a corporation, a partnership, an association, an agency, an authority, a joint venture, a trust, a business trust, a limited liability company or any other entity or organization, including a governmental entity or political subdivision or an agency or instrumentality thereof.

“*Purchase Date*” means any Business Day during the Purchase Period on which the Liquidity Facility Issuer is required to purchase Eligible Bonds pursuant to the Standby Bond Purchase Agreement.

“*Purchase Price*” means, with respect to any Eligible Bond as of any date, one hundred percent of the principal amount of such Eligible Bond plus accrued and unpaid interest thereon to the Purchase Date but in no event to exceed the Available Commitment; provided, however, if the Purchase Date for any Eligible Bond is also an Interest Payment Date for such Eligible Bond, the Purchase Price for such Eligible Bond shall not include accrued but unpaid interest on such Eligible Bond; and provided, further, in no event shall the Purchase Price of any Series A Bond include Defaulted Interest accrued on such Series A Bond or any premium owed with respect to any Series A Bond.

“*Rating Agency*” means S&P, Moody’s or Fitch or any successor or additional rating agency that rates the Series A Bonds at the written request of the Authority with the written consent of the Liquidity Facility Issuer.

“*Related Documents*” means the Standby Bond Purchase Agreement, the Series A Bonds, the Resolution, the Remarketing Agreement, the Tender Agent Agreement and any exhibits, instruments or agreements relating thereto.

“*Revenues*” shall have the meaning assigned to such term in the General Bond Resolution.

“*Settlement Amount*” means, with respect to a Person and any Interest Rate Protection Agreement, any amount payable by such Person under the terms of such Interest Rate Protection Agreement in respect of, or intended to compensate the other party for, the value of such Interest Rate Protection Agreement upon early termination thereof.

“*Water Pollution Abatement Obligations*” shall have the meaning assigned to such term in the General Bond Resolution.

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APPENDIX G

INFORMATION CONCERNING THE LIQUIDITY FACILITY ISSUER

Dexia Credit Local (“Dexia”) is a subsidiary of the Dexia Group, which was created in 1996. The Dexia Group is a major European banking organization that is the product of several cross-border mergers. Dexia is an authentically European bank in terms of both its management organization and the scope of its different lines of business. The Dexia Group is listed on the Brussels, Paris and Luxembourg stock exchanges. With a stock market capitalization of over 20 billion euros as of December 31, 2007, the Dexia Group ranks in the top third of the Euronext 100 companies.

Dexia specializes in the Dexia Group’s first line of business – public and project finance and financial services for the public sector. Dexia has recognized expertise in local public sector financing and project finance. It is backed by a network of specialized banks, which employ over 3,500 professionals. Through this network of subsidiaries, affiliates and branches, Dexia is present in almost all of the countries of the European Union as well as Central Europe, the United States of America and Canada. Dexia also has operations in Latin America, the Asian-Pacific Region including Australia, and the countries around the Mediterranean.

Dexia is a bank with its principal office located in La Défense, France. In issuing the facility, Dexia will act through its New York Branch, which is licensed by the Banking Department of the State of New York as an unincorporated branch of Dexia. Dexia is the leading local authority lender in Europe, funding its lending activities in 2007 primarily through the issuance of euro and U.S. dollar-denominated bonds. In 2007, total funding raised by Dexia and Dexia Municipal Agency was 18.2 billion euros.

The Dexia Group is the owner of Financial Security Assurance Holdings Ltd. (“FSA Holdings”), the holding company for Financial Security Assurance Inc., a leading financial guaranty insurer.

As of December 31, 2007, Dexia had total consolidated assets of 345 billion euros, outstanding medium and long-term loans to customers of 285.1 billion euros and shareholders’ equity of over 6.29 billion euros (Tier I plus Tier II), and for the year then ended had consolidated net income of 991 million euros. These figures were determined in accordance with generally accepted accounting principles in France. Dexia maintains its records and prepares its financial statements in euros. At December 31, 2007, the exchange rate was 1.0000 euro equals 1.4721 United States dollar. Such exchange rate fluctuates from time to time.

Dexia is rated Aa1 long-term and P-1 short-term by Moody’s, AA long-term and A-1+ short-term by S&P, and AA+ long-term and F1+ short-term by Fitch.

Dexia will provide without charge a copy of its most recent publicly available annual report. Written requests should be directed to: Dexia Credit Local, New York Branch, 445 Park Avenue, 8th Floor, New York, New York 10022, Attention: General Manager. The delivery of this information shall not create any implication that the information contained or referred to herein is correct as of any time subsequent to its date.

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