

Executive Summary

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FY09 Capital Improvement Program

Overview

MWRA was created by the Massachusetts legislature in 1985 and since that time has invested over \$6.9 billion to modernize and improve the wastewater and waterworks systems serving its member communities. Of the total expenditures to date, nearly three-fourths have supported improvements to the wastewater treatment, interceptor, pumping, and combined sewer overflow systems. The remaining fourth has supported waterworks treatment, transmission, distribution, and water supply protection improvements. The Proposed FY09 CIP budget totals \$4.9 billion with projected spending of \$288.5 million for FY09, including contingency.

MWRA's sewage treatment system has undergone a nearly complete transformation under the federally mandated, \$3.8 billion Boston Harbor Project. Now complete, the project included: a new Deer Island Treatment Plant with primary and secondary treatment capabilities; a new 5-mile Inter-Island Tunnel that combined two separate sewer systems into one; a sludge-to-fertilizer facility; and a 9.5-mile Effluent Outfall Tunnel to discharge treated wastewater away from shallow Boston Harbor into deeper waters and the stronger currents of Massachusetts Bay.

MWRA's Integrated Water Supply Improvement program is a \$1.7 billion series of projects that consists of aggressive watershed protection, modernized water treatment facilities and distribution system improvements including construction of covered storage facilities and pipeline rehabilitation projects. This program is nearly complete and includes the \$437 million John J. Carroll Water Treatment Plant, a state-of-the-art ozonation facility with capacity to treat 405 mgd of drinking water, which was completed in 2005 pursuant to the Safe Drinking Water Act (SDWA). The plant treats water delivered from the Wachusett Reservoir with ozonation and chloramination. The plan also includes the 17.6-mile MetroWest Supply Tunnel which was placed in service in November 2004 and runs parallel to the Mass Turnpike. The new tunnel greatly enhances the security, capacity and reliability of MWRA's entire water transmission system. Prior to 2004, the MWRA relied on a single 1940's-era surface aqueduct, the Hultman Aqueduct, to serve all of metropolitan Boston. With its leaks and aging valves, the Hultman had to be taken off-line for major repairs. Before the MetroWest Tunnel, failure of the Hultman could have caused nearly complete interruption of Boston's water supply. This would have been a disaster for the region's public health, safety and economy.

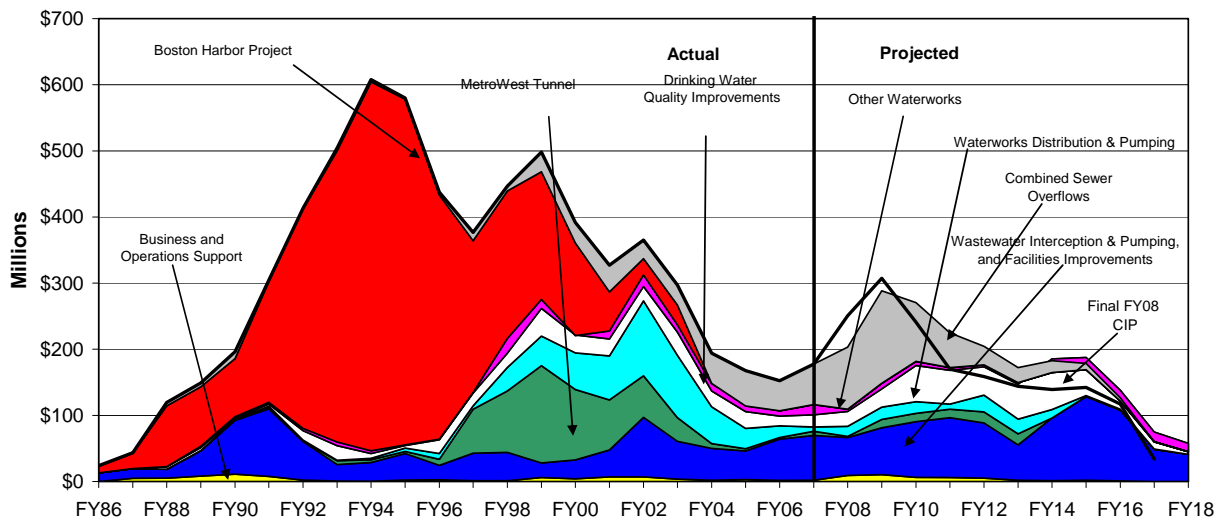
With the completion of the Deer Island facilities and the winding down of the Water Supply Improvement program, the MWRA now spends a proportionately large part of its CIP budget on the Combined Sewer Overflow ("CSO") projects mandated by state and federal agencies. The CSO program encompasses 25 projects with a total budget of \$840.3 million with spending of \$411.7 million through FY07 and a remaining balance of \$428.6 million. In 1987, MWRA entered a stipulation in the Federal District Court Order in the Boston Harbor Case by which it accepted responsibility for developing and implementing a long-term CSO control plan for all combined sewer overflows hydraulically connected to MWRA's system, including the outfalls owned and operated by the communities of Boston, Cambridge, Chelsea, Somerville, and a small section of Brookline. Since then, MWRA has conducted site-specific and watershed-based planning to meet short-term control requirements pursuant to federal regulations and develop a long-term control plan

to bring the Boston area CSOs into compliance with the Federal Clean Water Act and State Water Quality Standards.

As the MWRA matures as an agency, a greater proportion of its capital budget will be designated for Asset Protection and Maintenance initiatives, absent new regulatory mandates, to preserve these operating assets. The design of this long-term strategy for capital work is identified in the Authority’s recently completed Master Plan.

The graph below highlights major capital improvement spending by program categories, both completed (actual) and remaining (projected).

MWRA CAPITAL PROGRAM FY86-18



Proposed FY09 CAPITAL IMPROVEMENT PROGRAM Actual and Projected Expenditures

Expended To-Date	Projected Expenditures Beyond FY07
\$6.8 billion	\$2.3 billion

MWRA’s Green Initiatives

Building upon its track record in sustainable resource use – most notably dramatic system-wide reductions in water demand, 100% beneficial reuse of biosolids, self-generation of approximately 25% of Deer’s Island power needs, and maximizing revenue through hydropower – MWRA continues to work aggressively to use its resources efficiently, respond appropriately to climate change, and reduce the environmental impacts of its daily operations. Key initiatives now underway or planned for FY09 include the following:

- A comprehensive “green energy” initiative that is expected to bring solar, wind and hydroelectric power either alone or in combination to a number of MWRA facilities.
- Retrofitting of diesel-powered vehicles and equipment and continued purchase of alternative fuel vehicles.
- Comprehensive energy audits at the John Carroll Water Treatment Plant, the Chelsea Facility, and Deer Island Treatment Plant facilities.
- A feasibility study to replace the existing steam turbine generator on Deer Island with a more efficient unit.

MWRA will continue to assign high priority in its capital and current expense budgets to projects which demonstrate its commitment to energy efficiency and environmental sustainability and will seek to maximize grant funding to improve the economic efficiency of green energy projects.

PROPOSED FY09 CIP

As shown in Table 1 below, the MWRA’s total capital budget is \$4.9 billion, including contingency, of which \$2.3 billion remains to be expended. Budgeted spending for FY09, including contingency, is \$288.5 million. The CSO program represents the largest program initiative in terms of spending with a FY09 budget of \$125.4 million in FY09 and accounts for over 26% of Authority spending over the FY09-13 period.

Table 1

Fiscal Year 2009 CAPITAL IMPROVEMENT PROGRAM (\$ in 000'S)									
	Total Contract Amount	Total \$ Thru FY07	Balance 6/30/07	FY2008 Estimate	FY2009	Sub-Total 5-Year FY04-08	Sub-Total 5-Year FY09-13	Sub-Total Beyond FY13	Total 10-Year FY04-13
Wastewater System Improvements	2,299,925	1,071,648	1,228,277	133,686	181,458	536,487	600,804	493,786	1,137,291
Interception & Pumping	703,259	465,703	237,556	26,083	21,116	149,297	103,681	107,791	252,978
Treatment	457,082	43,635	413,447	9,410	36,146	42,891	189,249	214,788	232,140
Residuals	212,381	63,811	148,570	97	1,025	7,289	6,473	141,999	13,762
CSO	840,328	411,710	428,618	93,961	125,396	300,331	303,948	30,708	604,279
Other	86,875	86,788	87	4,136	-2,226	41,180	-2,547	-1,503	38,633
Waterworks System Improvements	2,378,894	1,556,463	822,432	60,651	71,003	341,484	431,184	330,596	772,668
Drinking Water Quality Improvements	645,375	496,769	148,606	15,199	16,956	125,714	83,495	49,912	209,209
Transmission	989,426	659,736	329,690	19,323	20,689	59,619	115,615	194,751	175,234
Distribution And Pumping	713,364	280,912	432,452	22,700	25,113	105,001	208,565	201,186	313,566
Other	30,729	119,045	-88,316	3,429	8,245	51,150	23,509	-115,253	74,659
Business & Operations Support	78,481	38,741	39,740	9,117	9,631	17,257	27,043	3,579	44,300
SUB-TOTAL	4,757,300	2,666,852	2,090,449	203,454	262,092	895,228	1,059,031	827,961	1,954,259
Contingency	164,367		164,367	0	26,406	0	102,147	62,220	102,147
Total MWRA w/ Contingency	4,921,667	2,666,852	2,254,816	203,454	288,498	895,228	1,161,178	890,181	2,056,407

FY09 Capital Highlights

The Proposed FY09 CIP, including contingency and inflation to FY09 dollars, is \$895.2 million for fiscal years 2004-2008, \$1,161.2 million for fiscal years 2009-2013, and net projected spending of \$890.2 million for fiscal years 2014 and beyond which is primarily driven by spending on new

projects from the Master Plan. The FY14-18 spending estimate will grow in future budget cycles as additional Master Plan projects are incorporated. The total contract spending in the Proposed FY09 CIP is \$4.9 billion, including contingency, of which \$2.7 billion has been spent through FY07. The Proposed FY09 CIP includes 78 projects/subphases from the Master Plan with the highest priority ratings totaling \$986.2 million. In the Proposed FY09 CIP, 11 projects/subphases totaling \$31.0 million were added from the Master Plan.

Highlights of Project Changes from the Final FY08 CIP to the Proposed FY09 CIP

The Proposed FY09 CIP represents updated spending and schedules for projects contained in the FY08 CIP and new spending on 18 new water and wastewater projects and subphases totaling \$36.7 million. These additional projects and subphases represent those capital initiatives outside of the FY08 CIP that staff recommend as most essential to assure reliable service to MWRA's customers. The Proposed FY09 CIP increased \$206.4 million above the Final FY08 CIP approved by the Board in June 2007 with the majority of the increased spending, \$140.6 million, occurring in the FY09-13 timeframe.

Table 2

MWRA Capital Program \$ in Millions	Final FY08 CIP	Proposed FY09 CIP	\$ Chge.	% Chge.	FY09-13 \$ Chge.	Beyond FY13 \$ Chge.
Wastewater System Improvements	\$2,209.6	\$2,299.9	\$90.4	4.1%	\$90.1	(\$8.4)
Waterworks System Improvements	2,278.3	2,378.9	100.6	4.4%	27.9	86.8
Business & Operations Support	68.4	78.5	10.1	14.8%	9.5	0.0
Total MWRA	4,556.3	4,757.3	201.0	4.4%	127.5	78.5
Contingency	159.0	164.4	5.4	3.4%	13.1	15.1
Total MWRA w/Contingency	\$4,715.3	\$4,921.7	\$206.4	4.4%	\$140.6	\$93.5

Major Planned Spending for Fiscal Year 2009

Capital spending in FY09 is estimated to be \$288.5 million. Spending will be driven by several large projects, including the five projects listed below, which account for 54.4% of FY09 spending, including contingency:

Table 3

Project	Budgeted Project Spending in FY09	Total Project Budget Amount
North Dorchester Bay CSO Tunnel	\$63.2	\$227.3
DI Treatment Plant Asset Protection	34.7	378.0
East Boston Branch Sewer Relief	27.3	80.0
Morrissey Boulevard Drain	20.3	36.9
MetroWest Water Supply Tunnel	11.5	701.4
Top Five Total	\$157.0	\$1,423.6

Contingency

Contingency for each fiscal year is incorporated into the Capital Improvement Program to fund the uncertainties inherent in construction programs. MWRA uses a contingency budget to cover these costs in the event they exceed the approved budget. The contingency budget is calculated as a percentage of budgeted expenditures outlays (15% for tunnel construction and approximately 10% for all other projects).

The total contingency budget for the ten-year CIP (09-18) is \$164.4 million.

Master Plan and the Proposed FY09 CIP Process

In October and November of 2006, staff presented to the Board highlights of the Master Plan and identified over \$3.1 billion in system needs over the FY07-48 timeframe. The Wastewater portion of the Master Plan identified needs of \$2.0 billion and the Waterworks portion of the Master Plan presentation identified needs of \$1.1 billion. The Master Plan accounts for projects incorporated in the FY07 CIP, projects eliminated as line items in earlier CIP cycles, and newly-identified projects. All Master Plan projects were prioritized on a scale from 1 to 5, with 1 being projects considered critical and 5 considered desirable. It is important to note that much of the future spending outlined in the Master Plan is for the repair or replacement of existing infrastructure (water distribution lines, wastewater interceptors, and facility equipment), although water system redundancy is also a major theme. The rating scale and criteria is presented below:

Master Plan Prioritization	Risk Assessment
Priority One: Critical/Emergency Projects	Risk moderate to high/Consequence very high
Priority Two: Essential Projects	Risk variable/Consequence high
Priority Three: Necessary Projects	Risk moderate to high/Consequence moderate to low
Priority Four: Important Projects	Risk moderate/Consequences low
Priority Five: Desirable Projects	Risk/Consequence both low

Staff conducted an evaluation of remaining projects to determine which projects should be proposed for the FY09 CIP and the next five-year cap period. This evaluation process was driven by the prioritization of projects developed during Master Planning, organizational capacity, and financial feasibility. As a result, the projects contained in the Proposed FY09 CIP and their resulting schedules are designed to reflect these primary considerations. Refer to Appendix 3 for additional detail on projects included in the CIP from the Master Plan.

Projects initially rated 1-Critical/Emergency and 2-Essential Projects from the Master Plan were added to the CIP in the FY08 budget cycle and additional projects rated 3 or lower have been included in the Proposed FY09 CIP.

Projects included from the Master Plan:

Budget Cycle	Projects/ Subphases Added	\$ in Millions
Final FY08	67	\$955.2
Proposed FY09	11	\$31.0
Total from the Master Plan	78	\$986.2

In this budget cycle, 11 projects were added from the Master Plan totaling \$31.0 million of which \$17.6 million is projected to be spent in the FY09-FY13 timeframe. An additional 7 projects not identified in the Master Plan and totaling \$5.7 million were added this budget cycle, all planned for the FY09-13 period. Of the \$986.2 million added from the Master Plan, \$221.5 million or 22.5% is projected to be spent during the FY09-13 period.

It is important to note that much of the future spending outlined in the Master Plan is for the repair or replacement of existing infrastructure (water distribution lines, wastewater interceptors, and facility equipment), although water system redundancy is also a major theme. The MWRA's Master Plan can be found at www.mwra.com.

FY04-FY08 Spending Cap Overview and Analysis

In June 2003, the Board of Directors adopted the Final FY04 CIP and established a spending cap of \$1.1 billion for fiscal years 2004-2008. The MWRA complied with the FY04-08 spending limit, and all years within the cap period met the 20% change limit. Annual spending is allowed to be up to 20% above the initial budget amounts as long as the five-year total is not exceeded. Table 4 below, summarizes the Baseline cap.

Table 4

Baseline Cap - (est. June 2003)						
FY04-08						
(\$ in Millions)						
	FY04	FY05	FY06	FY07	FY08	Total FY04-08
Projected Expenditures	\$237.0	\$190.2	\$195.2	\$217.3	\$183.6	\$1,023.3
Contingency	19.4	14.1	15.5	19.8	18.1	86.9
Inflation on Unawarded Construction	0.0	0.8	5.8	13.0	16.1	35.7
Less: Chicopee Valley Aqueduct Projects	(5.4)	(1.5)	(1.4)	(0.1)	(3.0)	(11.4)
Baseline Cap	\$250.9	\$203.5	\$215.2	\$250.1	\$214.8	\$1,134.5

The actual FY04-07 spending plus FY08 projection results in a cap forecast of \$906.9 million (adjusted for contingency and CVA project spending) which is \$227.7 million or 20.1% below the original FY04 \$1.1 billion cap. Some of this underspending can be attributed to unused contingency funds of approximately \$68.8 million during the FY04-07 period, slippage in project spending (both unplanned and planned), adjustments to spending forecasts, lower than budgeted awards, and some project deletions. Removing contingency funds from the variance reduces the variance to \$140.7 million or 13.4% below the FY04-08 cap established in FY03.

Table 5

Spending Cap Analysis FY04-08 (\$ in Millions)						
	FY04 Actual	FY05 Actual	FY06 Actual	FY07 Actual	FY08	Total FY04-08
Projected Expenditures ¹	\$194.0	\$167.7	\$152.3	\$177.7	\$203.5	\$895.2
Contingency	0.0	0.0	0.0	0.0	20.6	20.6
Inflation on Unawarded Construction	0.0	0.0	0.0	0.0	0.0	0.0
Less: Chicopee Valley Aqueduct Projects	(0.4)	(0.5)	(2.4)	(3.3)	(2.4)	(9.0)
Proposed FY09 CIP FY04-08 CAP	\$193.6	\$167.2	\$150.0	\$174.4	\$221.7	\$906.9
FY04 Baseline Cap	\$250.9	\$203.5	\$215.2	\$250.1	\$214.8	\$1,134.5
Change (FY04 Baseline to Proposed FY09)						
FY04-08 CAP (\$ Change)	-\$57.4	-\$36.3	-\$65.2	-\$75.7	\$6.9	-\$227.7
FY04-08 CAP (% Change)	-22.9%	-17.9%	-30.3%	-30.3%	3.2%	-20.1%
FY04-08 CAP \$ Change w/o Contingency	-38.0	-22.2	-49.6	-55.9	25.0	-140.7
FY04-08 CAP % Change w/o Contingency	-16.4%	-11.7%	-24.9%	-24.3%	12.7%	-13.4%

The first cap experience revealed the challenges facing the Authority in execution of a complex capital improvement program which may be influenced by a variety of factors both inside and outside the Authority's control. The project mix in the CIP can deviate significantly from year to year depending upon the various stages of projects. As projects approach the construction phase the probability of "on time execution" increases and spending levels become more predictable.

Issues which are outside the Authority's control, such as regulatory requirements, site issues, environmental permitting and the timing of the loan program repayments, can greatly influence spending levels.

A detailed analysis of the changes over the past five-year period reveals that of approximately 102 projects identified in FY03 for the FY04-08 period, about half ended up being underspent and half were overspent. The major components for the underspending include \$128.0 million net underspending on projects and shifting schedules, and lower than projected contract awards. In addition, there was no need to draw from the \$68.8 million in budgeted contingency funds in the first 4 years of the cap.

As the Authority proposes the next spending cap for the FY09-13 timeframe during the FY09 budget cycle, the same challenges that contributed to underspending remain and as in the FY04-FY08 cap period the Authority will strive to balance the complex elements of this program, improve the execution of projects, and stay within the established cap ceiling level.

The Proposed FY09-13 Cap and Analysis

The Proposed FY09 CIP budget recommends that the FY09-13 cap be set at \$1.161 billion with the stipulation that annual spending for each fiscal year in that period may vary within plus or minus 20% from the base year estimate for that year as long as total spending for the five years does not exceed the cap. This proposed cap is only slightly greater than the original five-year cap of \$1.134 for FY04-08 established in June 2003 and reflects average annual spending of approximately \$232 million. The FY09-13 spending forecast has increased \$129.4 million in the Proposed FY09 CIP from the FY08 Final. This increase can be primarily attributed to the three factors below:

- New projects - \$23.4 million
- Change orders and new estimates - \$74.2 million
- Inflation - \$29.9 million

The increase includes the addition of 18 new projects/subphases with estimated spending of \$22.9 million in FY09-13 timeframe. Table 5 illustrates the spending forecast for the FY09-13 horizon.

Table 6

Proposed FY09 CIP FY09-13 Spending Forecast - CAP Estimate (\$ in Millions)						
	FY09	FY10	FY11	FY12	FY13	Total FY09-13
Projected Expenditures	\$262.1	\$247.3	\$205.8	\$186.6	\$157.2	\$1,059.0
Contingency	26.4	23.5	19.3	18.0	15.2	102.4
Inflation on Unawarded Construction	0.0	0.7	3.3	9.2	11.3	24.5
Less: Chicopee Valley Aqueduct Projects	(1.4)	(2.0)	(9.1)	(8.8)	(3.2)	(24.5)
Proposed FY09 CIP FY09-13 Spending	\$287.1	\$269.5	\$219.2	\$205.0	\$180.5	\$1,161.4
Final FY08 CIP						
Final FY08 CIP FY09-13 Spending	\$305.5	\$242.0	\$169.4	\$161.6	\$153.5	\$1,032.0
Change FY08 Final to Proposed FY09						
Proposed FY09-13 CAP (\$ Change)	-\$18.4	\$27.5	\$49.8	\$43.4	\$27.1	\$129.4
Proposed FY09-13 CAP (% Change)	-6.0%	11.4%	29.4%	26.8%	17.6%	12.5%

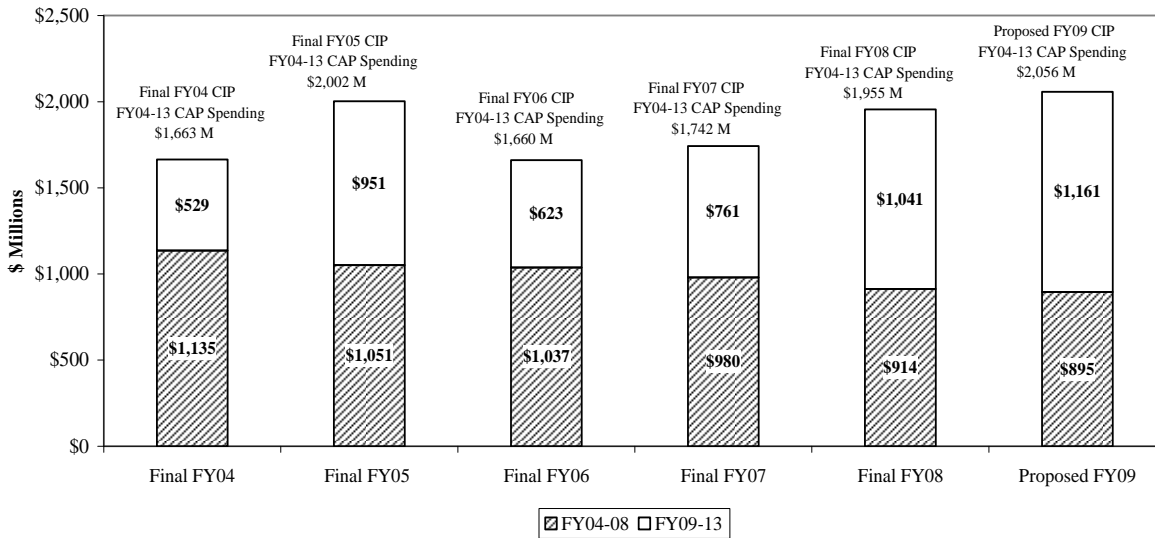
The Authority identified the needs of the programs taking into account the mandated project timeframes, the recommendations of the Master Plan, and current budgetary practices. Since 1985, over 80% of the Authority's spending has been on court mandated projects.

It is important to emphasize that major projects with significant spending in the FY09-13 timeframe are either currently under construction or soon to be awarded. The top 10 projects ranked in terms of FY09-13 spending account for 63% of spending in the period. This includes the following projects with FY09-13 spending in excess of \$25 million:

<u>Project</u>	<u>FY09-13 Spending in millions</u>	
• DI Treatment Plant Asset Protection	\$177.7	
• North Dorchester Bay CSO Tunnel	\$108.6	
• East Boston Branch Sewer Relief	\$69.4	
• MetroWest Water Supply Tunnel	\$65.0	
• NIH Redundancy & Covered Storage	\$56.9	
• Carroll Water Treatment Plant	\$52.7	
• New Connecting Mains to WASM 3	\$49.3	
• Reserved Channel Sewer Separation	\$38.3	
• Cambridge CAM002-004 Sewer Separation	\$29.5	
• I&P Facility Asset Protection	\$28.0	
Subtotal	\$675.4	63.0%

Proposed FY09 spending for the 10-year period encompassing FY04-13 is \$2.06 billion. The table below provides a summary by budget cycle of the planned spending.

MWRA Capital Spending Comparison
FY04-08 and FY09-13



Highlights of changes from Final FY08 to Proposed FY09 for the FY09-13 Cap Period

Wastewater:

Interception & Pumping:

- West Roxbury Tunnel total project spending increased by \$12.5 million due to accelerated schedule duration for the Tunnel Construction.
- Braintree-Weymouth Relief Facilities total project spending increased by \$10.0 million for Land Acquisition.

Treatment:

- Deer Island Treatment Plant Asset Protection total project spending increased by \$49.6 million primarily due to revised cost estimates/scope for several projects including Primary and Secondary Clarifier Rehabilitation, DI Switchgear Replacements, and Transformer Replacements.

Combined Sewer Overflow:

- North Dorchester Bay CSO Tunnel total project spending increased by \$10.5 million primarily due to a revised cost estimate for the Dewater/Odor Facilities.

- East Boston Branch Sewer Relief total project spending increased by \$5.0 million primarily due to revised cost estimate for micro-tunneling for the East Boston Branch Relief Sewer Construction contract.

Other Wastewater:

- I/I Local Financial Assistance Program total project spending decreased by \$19.7 million due to timing of loans, grants, and repayments by participating communities.

Water:

Drinking Water Quality Improvements:

- Low Service Storage Near Spot Pond total project spending decreased by \$14.4 million primarily due to a revised schedule for the Design/Build contract.

Transmission:

- Winsor Dam Hydroelectric total project spending increased by \$4.3 million primarily due to revised cost estimates for Shaft 12 Quabbin Aqueduct Sluice Gate and Winsor Power Station Pipeline.

Distribution and Pumping:

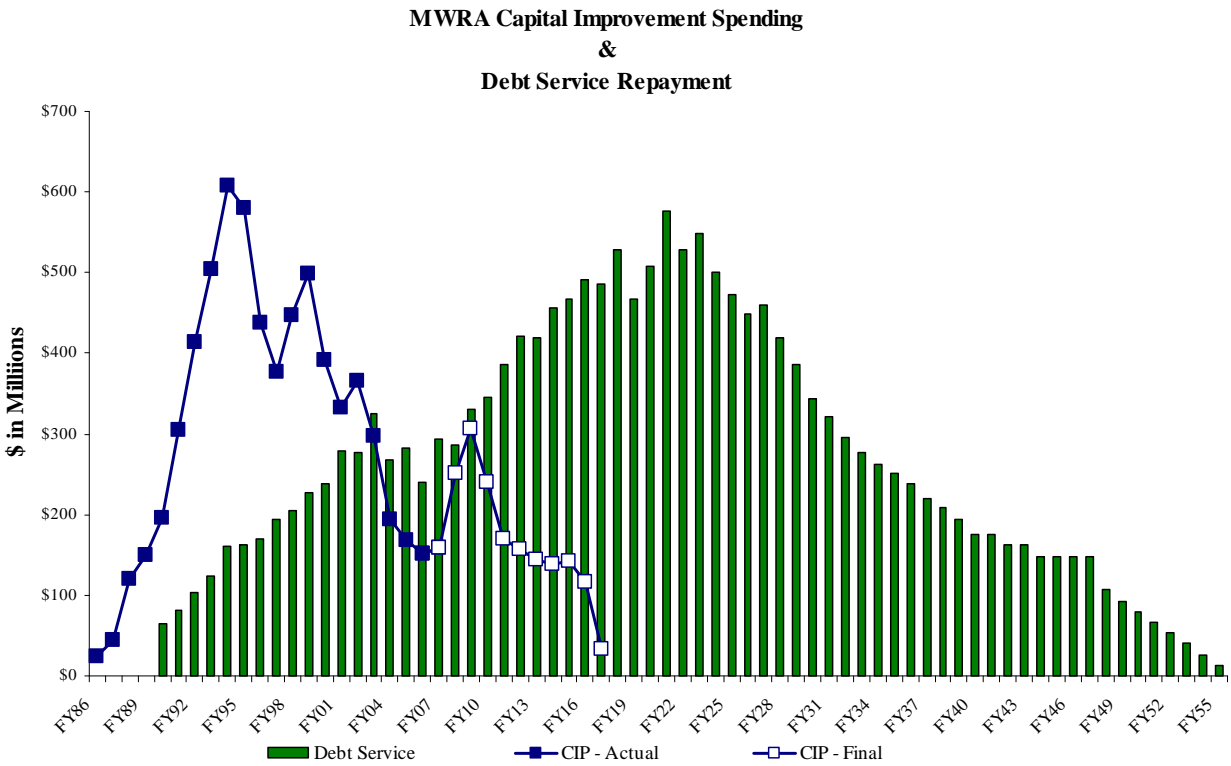
- Southern Extra High Redundancy and Storage (SEH) total project spending increased by \$44.3 million, but decreased slightly in the FY09-13 period, by \$4.1 million due to project scheduling.
- Northern Intermediate High Redundancy & Covered Storage total project spending increased by \$20.2 million primarily due to revised cost estimates for redundancy and storage contracts.
- New Connecting Mains-Shaft 7 to WASM 3 total project spending increased by \$9.4 million primarily due to revised schedules for South Segment (CP3) and Northeast Segment (CP5) contracts.

Outstanding Debt and Debt Management

The \$6.9 billion spent on MWRA's modernization efforts has relied heavily on debt financing. Total debt as of June 2007 reached \$5.6 billion consisting of senior and subordinated debt in addition to tax-exempt commercial paper. The Authority is significantly leveraged with long-term debt representing 70.5% of total assets, but the stability and predictability of operating cashflows can support a leveraged capital structure. The MWRA enjoys strong unenhanced debt ratings of Aa2, AA, and AA from Moody's, S&P, and Fitch, respectively.

The Authority's debt service obligation as a percent of total expenses has increased steadily 36% in 1990 to 57% in the Final FY08 Current Expense Budget. Much of this debt service is for completed projects. MWRA's capital spending, from its inception, has been dominated by court-mandated projects, which in total have accounted for 80% of capital spending to date.

The following graph illustrates the relationship between the MWRA's Capital Improvement Program and outstanding debt as of June 2007.



The Authority has actively managed its debt profile to take advantage of favorable interest rate environments, using swaps, advanced refundings, bond redemptions, and defeasance strategies to the advantage of its member communities.

As part of its multi-year rate management strategy, in FY07 the MWRA and its financial advisors identified the opportunity to refunding approximately \$675 million in long-term borrowings to generate rate relief for member communities. The restructuring generated both present value savings and budget relief in future years.

Project Budget Summaries and Detail of Changes

Information on individual project budgets and detail of changes is provided in the supplemental appendices, attached to this document.