

MWRA ADVISORY BOARD

COMMENTS AND RECOMMENDATIONS

on the MWRA's Proposed
Fiscal Year 2006
Current Expense Budget



The Community Advisory Board to the
Massachusetts Water Resources Authority

May 2005

I The MWRA Advisory Board...

was established by the state Legislature to represent the 60 communities in the MWRA service area. Through annual comments and recommendations on the Authority's proposed capital and current expense budgets and rates, the Advisory Board provides a ratepayer perspective on the MWRA's plans and policies to improve the region's water and sewer systems.

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Joseph E. Favaloro
Executive Director

PREFACE

Pursuant to its responsibility under Sections 8 and 23 of Chapter 372 of the Acts of 1984, the MWRA Advisory Board has undertaken a comprehensive review of the Authority's proposed Current Expense Budget for the fiscal year beginning July 1, 2005 (FY06). The Advisory Board's review has produced these *COMMENTS AND RECOMMENDATIONS*, which state the Advisory Board's opinions on a number of issues and policies, plus recommendations on proposed spending in each MWRA department. These Comments and Recommendations were approved at the May 19, 2005 meeting of the full Advisory Board.

These Comments and Recommendations were prepared by Joseph Favaloro, Ryan Ferrara and Cornelia Potter of the Advisory Board staff. Overall direction was provided by Vice Chairman for Finance, Bernard Cooper, with the participation of Advisory Board members.

The Advisory Board would like to express our thanks to MWRA staff for their assistance in reviewing the FY06 Proposed Current Expense Budget.

MWRA ADVISORY BOARD

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OVERVIEW

THE BUDGET IN BRIEF

The Massachusetts Water Resources Authority has proposed a Current Expense Budget (CEB) for Fiscal Year 2006 (beginning July 1, 2005) with total expenses of \$549,847,000 (before bond redemption and debt service offsets). These offsets amount to \$14,295,117 plus non-rate revenue and income of \$56,547,000 totaling \$70,842,117 (more than in FY04 and FY05, as the Authority begins to draw down more of its rate stabilization funds to ease the pace of rate revenue increases).

Table 1

MWRA Current Expense Budgets (\$000)				
	FY03 Actual	FY04 Actual	FY05 Final	FY06 Proposed
<i>Expenses</i>				
Direct Expenses	\$175,111	\$171,509	\$176,051	\$182,498
Indirect Expenses	33,587	31,810	34,575	37,924
Capital Financing	287,070	297,264	290,834	329,425
Subtotal: Expenses	\$495,768	\$500,583	\$501,460	\$549,847
<i>Revenues</i>				
Other User Charges/Other Revenue	\$12,388	\$14,679	\$10,448	\$11,181
Investment Income	31,388	23,604	24,134	26,608
Non-Recurring Revenue	29,025	0	0	15,684
Debt Service Assistance	0	4,063	0	0
Swap Receipts	0	5,817	4,593	2,109
Entrance Fees	0	432	432	432
Other Debt Service Offsets	8,425	21,675	8,853	14,295
Subtotal: Non-Rate Revenue	81,226	70,270	48,460	70,309
Rate Revenue	\$416,659	\$431,765	\$453,000	\$479,539
	\$ Increase	15,106	21,235	26,539
	% Increase	3.6%	3.9%	5.9%
<p>(1) The FY03 budget was amended by the Board of Directors in December 2002 to reflect the loss of \$47.2 million in rate stabilization.</p> <p>(2) In FY04 the towns of Marlborough and Southborough became part of the rate revenue base. The FY03 rate revenue has been restated to include \$2.6 million in Other User Charges revenue from Marlborough and Southborough.</p> <p>(3) The FY05 Rate Revenue Increase is based upon \$4.1 million in Debt Service Assistance received in FY04.</p>				

Rate revenue of \$479,539,069 is proposed, an increase of 5.86% (or \$26,539,056) from the amount budgeted in FY05. For FY05, the state legislature approved a budget including \$10 million in Debt Service Assistance for qualifying

Overview

communities statewide, of which the Authority received \$8,018,696. Because the Governor's proposed budget does not include funding for *Debt Service Assistance* in FY06, the Authority's proposed budget does not assume receipt of this funding support.

The proposed budget represents an increase of \$42,945,137 over the FY05 total budgeted expenses of \$492,606,703 (after the use of \$7,572,024 in bond redemption funds for FY05, plus \$8,800,000 from the FY04 surplus). Increases include \$6,446,972 for *Direct Expenses*, \$3,349,380 for additional *Indirect Expenses*, and \$33,148,799 for additional *Capital Financing Expense*.

Direct Expense spending is budgeted at \$182,497,764, a \$6.45 million increase (3.7%) over the \$176,050,806 budgeted for FY05. While Direct Expense Spending has been declining from FY00 through FY04, the proposed budget marks a gradual increase from FY05, as the agency absorbs the first full year costs of operating the new Walnut Hill Water Treatment Plant and the Braintree-Weymouth Intermediate Pump Station. Also pushing spending up are increased prices for *Electricity* and increased costs of *Health Insurance*. *Maintenance* spending also continues to increase annually by about \$1 million, particularly as major facilities age and certain equipment becomes obsolete.

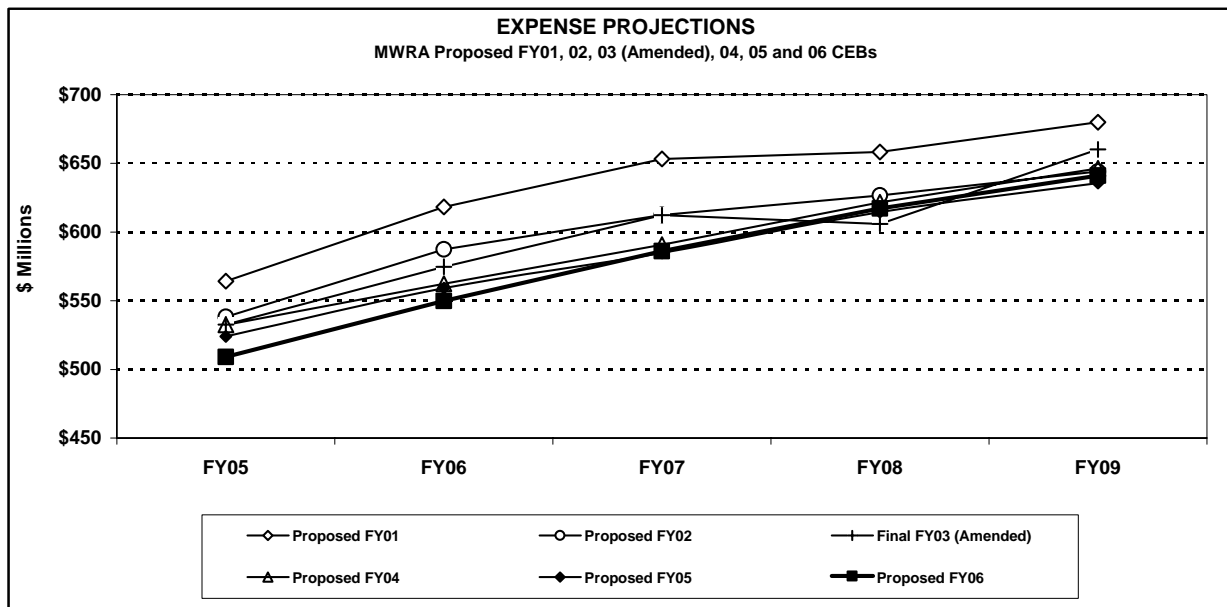
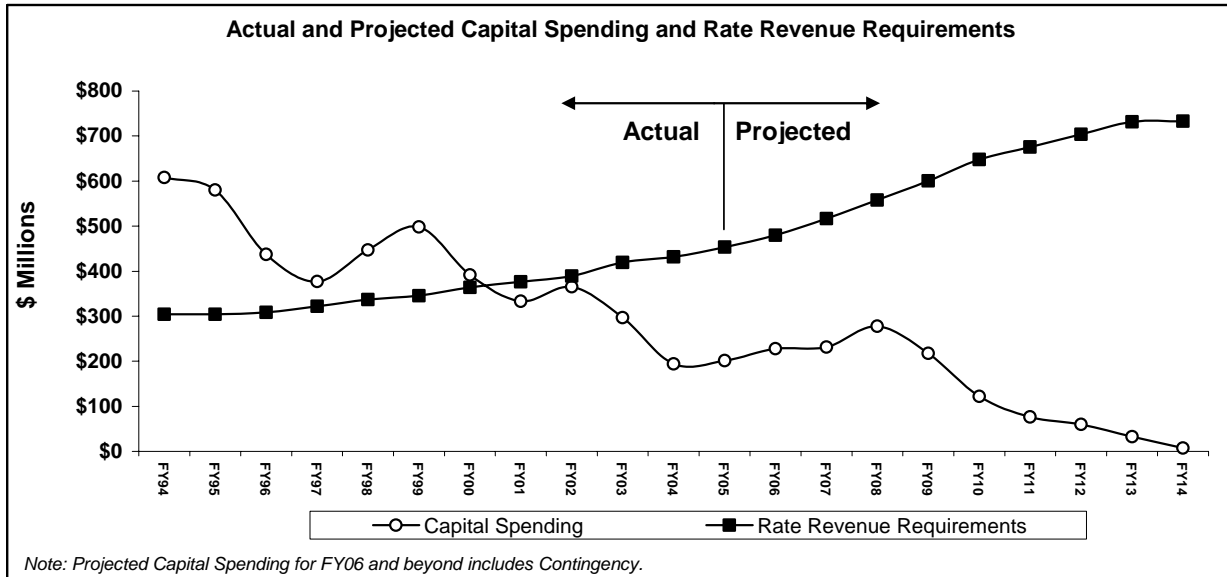
Indirect Expense spending is to increase by 9.7%, to \$37,924,012, in FY06. The budget includes \$24,572,577 for *Watershed/PILOT* payments, an increase of 12.7% or \$2,760,677. The *Insurance* program is to increase by \$100,000 to \$2,400,000; *BEC* payments decline slightly to \$4,723,435; *Mitigation* payments are budgeted at \$1,300,000; *Additions to Reserves* increase by \$350,000 to \$1,350,000; and the *Retirement Fund Addition* is budgeted at \$3,578,000, a 5% or \$170,468 increase from the amount budgeted in FY05.

Capital Financing Expense is expected to rise to \$315,130,064, an increase of 11.8% or \$33,148,799 over the \$281,981,265 contained in the FY05 budget (which already reflects the use of \$7,575,024 of bond redemption funds and \$8.9 million of variable rate debt service savings). The proposed FY06 budget reflects the use of \$11,280,000 in additional *Bond Redemption Funds* plus \$3,015,117 in *Variable Rate Debt Service Savings*.

Non-Rate Revenue totals \$56,012,771 from *Other User Charges*, *Other Revenue*, use of *Rate Stabilization Funds*, *SWAP Income* and *Investment Income*. *Investment* and *SWAP Income* both continue a steady decline which began in 1998 when actual receipts were over \$51 million as compared to the \$28.7 million budgeted for FY06.

The proposed *Current Expense Budget* of nearly \$550 million (before offsets), is nearly two and one-half times the proposed capital budget of \$227.7 million.

Figures 1 and 2



THE CURRENT ECONOMIC CLIMATE

Communities in the MWRA service area continue to face difficult economic conditions as the area's economy lags behind signs of recovery for other parts of the region and the nation. While recent receipts by the state have risen, the proposed state budget for FY06 includes only minimal spending growth. Modest increases in local aid are still overshadowed by the reductions of the previous years. A number of communities have deferred improvements to their own water and sewer systems because of lower revenues and other demands on local budgets.

THE ADVISORY BOARD’S REVIEW

As it does each year, the Advisory Board has conducted a detailed review of the Authority’s proposed budget and supporting materials. The Advisory Board has addressed Authority goals, objectives and schedules and has examined strategies for managing future budget growth and options for containing future rate increases.

The Advisory Board’s recommendations address appropriate and reasonable tightening of operating expenses; careful review and reasoned pursuit of non-rate revenues; an updated examination of capital financing, refinancing and restructuring opportunities, including the size and schedule for capital program spending; and the use of the Authority’s rates management reserves in a multi-year context.

The recent reassessment (August 2004) of the economic impact of additional investment in CSO control on MWRA communities and ratepayers concludes that the “broader economic burdens in Boston, Chelsea and the entire service area are already well above those ... in the vast majority of other areas” of the country. Furthermore, “these broader economic burdens have grown dramatically” since a similar finding by EPA in 1998. The analysis confirms earlier findings that “additional spending on CSO control would result in ‘substantial and widespread economic and social impact’ within the service area.”

Additional capital spending, whether it is for the CSO Control Program or for other capital projects, will only exacerbate these conditions. While the Authority has substantially reduced its proposed capital improvement program, it has increased spending in the next several years, resulting in increased rates as compared to those projected in the Final FY05 Capital Improvement Program.

Table 2

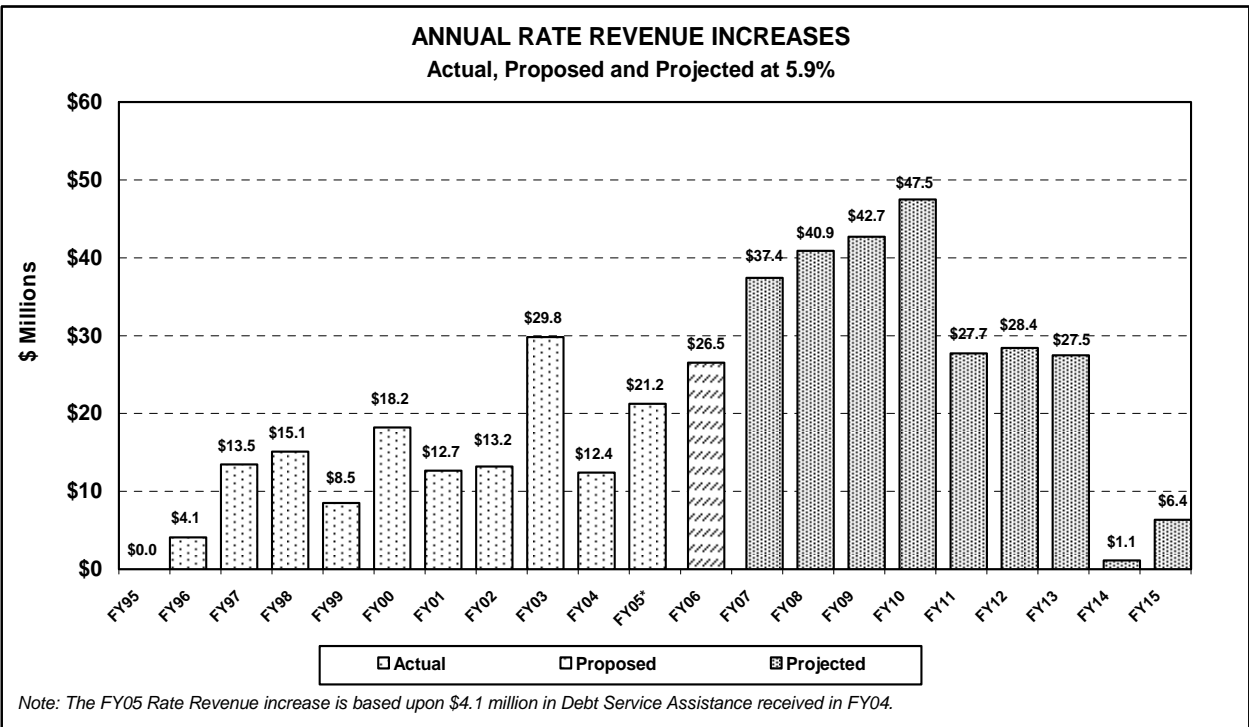
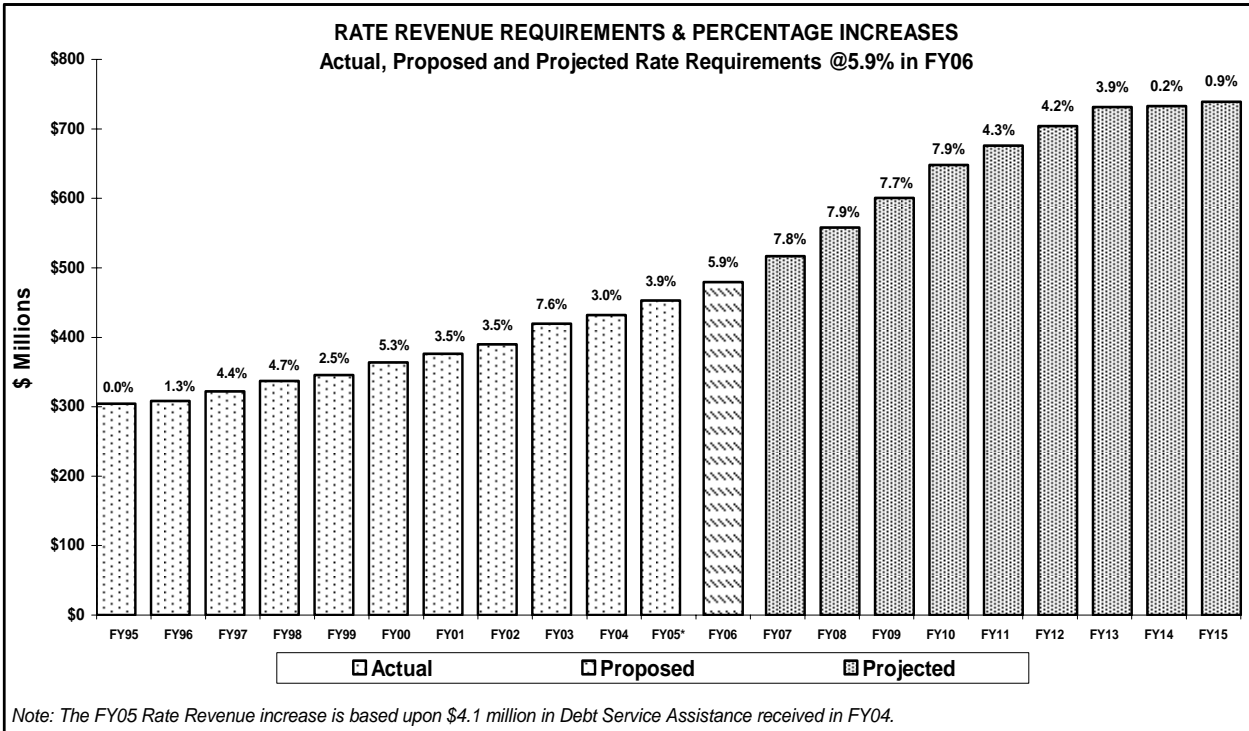
Proposed FY06 Current Expense Budget Planning Estimates (\$000)								
	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Total Expenses	\$535,552	\$573,366	\$605,506	\$641,068	\$690,446	\$717,940	\$746,439	\$774,393
Debt Service Assistance	0	0	0	0	0	0	0	0
Interest Income/Other Charges	40,330	39,672	39,575	40,488	41,507	42,166	42,242	42,723
Non-Recurring Revenue (Rate Stabilization)	15,684	16,744	8,087	34	897	0	0	0
Rate Revenue	\$479,538	\$516,950	\$557,844	\$600,546	\$648,042	\$675,774	\$704,197	\$731,670
Rate Revenue Increase	5.9%	7.8%	7.9%	7.7%	7.9%	4.3%	4.2%	3.9%

Current rate projections show rate revenue will cross the \$500 million mark in FY07 and be more than \$600 million just two years later in FY09. Rates are projected to be more than \$700 million by FY12. Setting spending limits and seeking debt service assistance from the Commonwealth will be important contributors to easing the impact of rate increases at these levels.

The Authority received \$46.5 million in state debt service assistance in FY00, \$51.3 million in FY01 and \$50.2 million in FY02. Due to state budgetary constraints, funding was

eliminated in FY03. Smaller amounts of funding were reintroduced in FY04, at just over \$4 million; by the current fiscal year (FY05), the legislature had restored just over \$8 million in state debt service assistance to the MWRA service area.

Figures 3 and 4



Overview

Given limited financial resources and rapidly rising rate requirements, largely due to sharply increasing debt service payments, the Advisory Board continues to urge that high priority be given to the master planning process, as recommended in the comments on the Capital Improvement Program and Budget. The Authority has committed to developing a master plan by summer 2006.

These *Comments and Recommendations* call for changes to a number of spending and non-rate revenue assumptions. However, because of the uncertainty regarding debt service assistance and higher projected rate increases in the future, ***the Advisory Board is recommending that as much of the spending reductions and non-rate revenue increases as possible be used to substitute for the use of \$10,408,683 in Rate Stabilization Funds proposed for FY06 and to reserve that amount to offset future rate increases.***

Table 3

**FISCAL YEAR 2006 CURRENT EXPENSE BUDGET
AS PROPOSED BY THE MWRA AND AS RECOMMENDED BY THE ADVISORY BOARD**

	MWRA Proposed FY06 Budget	Advisory Board Adjusted Budget	Advisory Board Recommendations
DIRECT EXPENSES			
Wages and Salaries	\$81,341,394	\$81,341,394	\$0
Overtime	3,415,736	3,413,236	(2,500)
Fringe Benefits	13,459,590	13,444,590	(15,000)
Workers' Compensation	1,300,000	1,200,000	(100,000)
Chemicals	7,021,659	6,981,659	(40,000)
Utilities and Energy	23,055,514	22,514,247	(541,267)
Maintenance	20,753,227	20,753,227	0
Training and Meetings	253,690	253,690	0
Professional Services	7,005,097	6,910,097	(95,000)
Other Materials	3,488,548	3,483,048	(5,500)
Other Services	21,403,312	20,868,812	(534,500)
Subtotal	<u>\$182,497,767</u>	<u>\$181,164,000</u>	<u>(\$1,333,767)</u>
INDIRECT EXPENSES			
Insurance	\$2,400,000	\$2,350,000	(\$50,000)
Watershed/PILOT	24,572,577	24,572,577	0
Mitigation	1,300,000	1,300,000	0
BECo Payment	4,723,435	4,570,951	(152,484)
Capital Financing	308,130,064	306,156,104	(1,973,960)
Additions to Reserves	1,350,000	93,958	(1,256,042)
Retirement Fund	3,578,000	3,578,000	0
Current Revenue/Capital	7,000,000	3,100,000	(3,900,000)
Subtotal	<u>\$353,054,076</u>	<u>\$345,721,590</u>	<u>(\$7,332,486)</u>
TOTAL EXPENSES	\$535,551,843	\$526,885,590	(\$8,666,253)
NON-RATE REVENUE AND INCOME			
Swap Receipts	2,109,000	2,109,000	0
Other User Charges	6,474,771	6,529,036	54,265
Hydropower	638,000	638,000	0
Permit Fees	1,908,000	1,908,000	0
Penalties	250,000	250,000	0
Commonwealth Reimbursements	867,000	867,000	0
Miscellaneous	543,000	543,000	0
Energy	500,000	500,000	0
Entrance Fees	432,000	432,000	0
Interest Income	26,608,000	28,296,165	1,688,165
Rate Stabilization	15,684,000	5,275,317	(10,408,683)
Subtotal	<u>\$56,013,771</u>	<u>\$47,347,518</u>	<u>(\$8,666,253)</u>
State Debt Service Assistance	\$0	\$0	\$0
TOTAL REVENUE	<u>\$535,551,843</u>	<u>\$526,885,590</u>	<u>\$0</u>
Total Advisory Board Reductions			\$0
RATE REVENUE REQUIREMENT	\$479,538,072	\$479,538,072	
RATE REVENUE INCREASE	\$26,538,059	\$26,538,059	\$0
Percent Increase from FY05 (1% = \$4,530,000)	5.86%	5.86%	
FY05 Rate Revenue = \$453,000,013			

COMMENTS ON LINE ITEMS

DIRECT EXPENSES

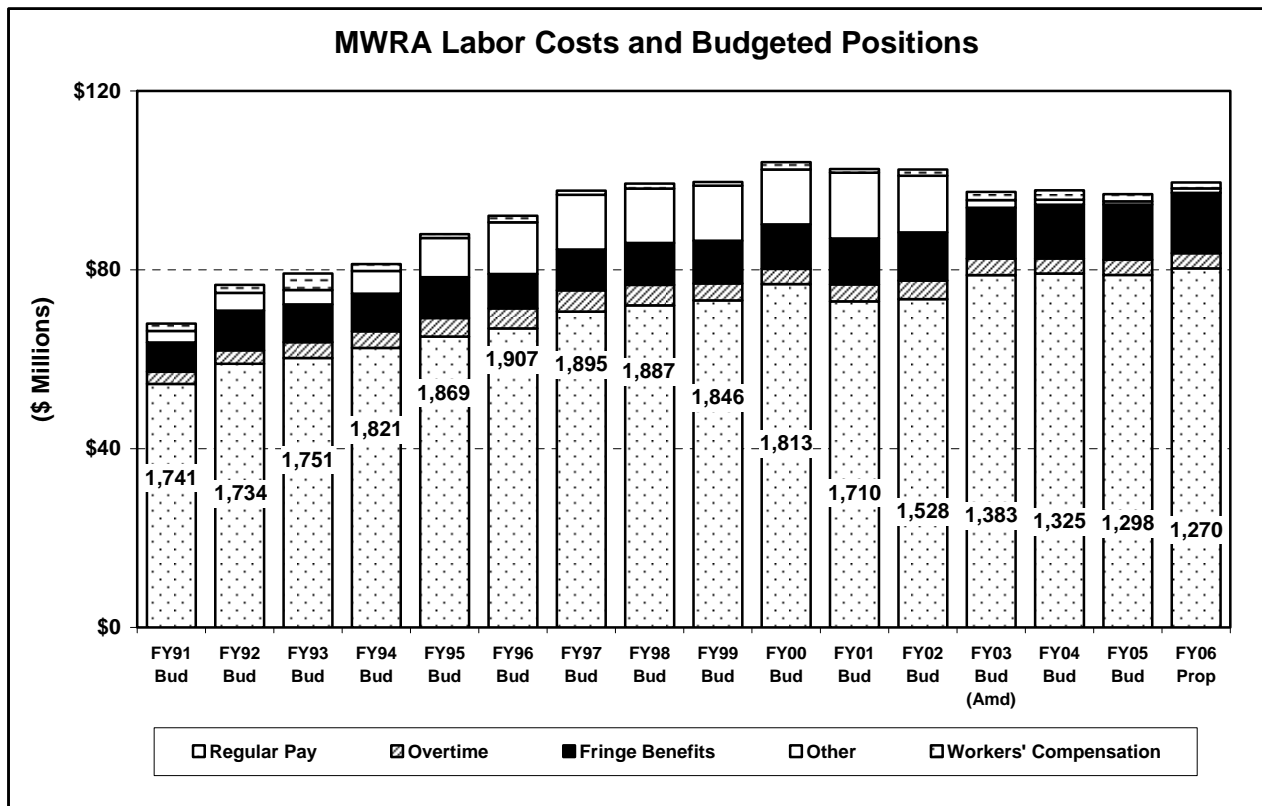
Labor and Benefits

The Authority is proposing a budget of \$99,516,720 for all *Personnel-Related Expenses* for FY06. The amount represents a 2.1% increase (\$2,044,291) from the \$97,472,428 budgeted for FY05. Personnel-Related costs include: *Wages and Salaries*, *Overtime*, *Fringe Benefits* and *Workers' Compensation* expenses and represent 54.5% of all proposed *Direct Expense* spending.

Wages and Salaries

The Authority is proposing a budget of \$81,341,394 for *Wages and Salaries* in FY06, a 1.5% increase (\$1,237,679) from the \$80,103,715 budgeted in FY05. Most of the amount - \$80,318,246 - is for *Regular Pay* for the equivalent of 1,270 positions. Other components of the *Wages and Salaries* category of spending are: *Shift Differential* \$171,359; *Holiday Pay* \$209,704; *Temporary Employees* \$178,085; *Interns* \$58,737; and *Standby Pay* \$405,263.

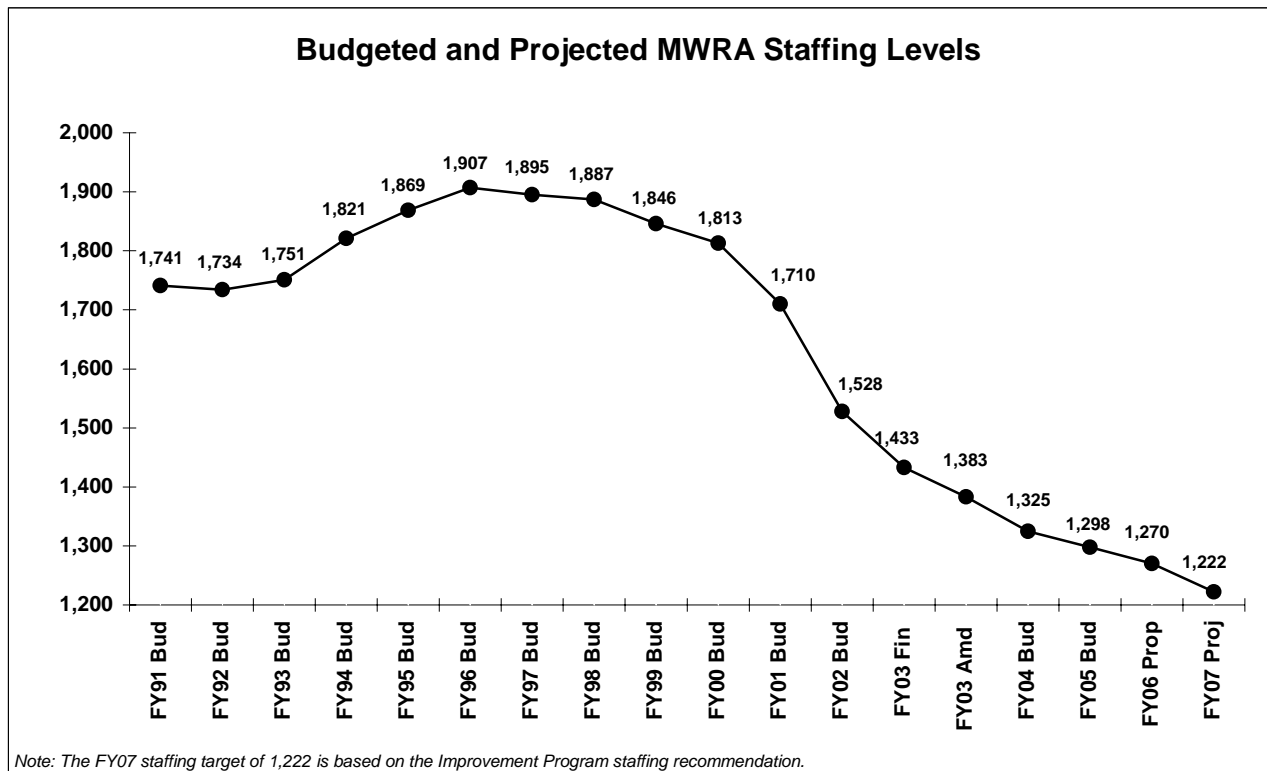
Figure 5



Regular Pay. The Authority is budgeting \$80,318,246 for *Regular Pay* for FY06, a 1.9% (\$1,469,047) increase over the \$78,849,199 budgeted in FY05. The budget supports 1,270 filled positions, as compared to the 1,298 positions funded in FY05, and continues a downward trend over the last ten years. The Authority is absorbing within the reduced staffing levels the new positions needed to operate the Walnut Hill Water Treatment Plant and is continuing efforts to automate facilities, improve staff productivity and achieve a range of other operating efficiencies. Two early retirement programs since FY03 have also contributed to the lowered staffing levels.

Temporary and Intern Employees. The Authority is proposing to spend \$178,085 on *Temporary Employees* in FY06, a 35.5% decrease (\$97,884) from the \$275,969 budgeted in FY05. Spending on *Temporary Employees* has been sharply reduced over the past four years and is now used primarily at the Central Laboratory and to manage vendor training initiatives at the Walnut Hill Water Treatment Plant and related services.

Figure 6



Intern spending also declines, to \$58,737. The proposed amount is 69% below (\$131,121) the \$189,858 budgeted for FY05. Spending on *Interns and Co-ops* has also been sharply reduced in recent years and is budgeted in just a few departments.

Shift Differential, Holiday Pay and Standby Pay. The Authority is proposing a budget of \$171,359 for *Shift Differential* in FY06, a 3.2% reduction from the amount budgeted in FY05. Spending through March is 1.7% below the year-to-date budget,

Comments on Line Items

reflecting slightly lower usage in the Field Operations Department. Use of *Shift Differential* continues to decline gradually.

Holiday Pay has been reduced by 15.3% to \$209,704 in FY06, continuing the gradual decline in spending for this budget category. Through March, spending has been 13.6% below budgeted amounts. *Standby Pay* is to increase by 11.4% to \$405,263 in FY06; spending through March has been 4.9% greater than the amount budgeted for the period. Staff note that increased use of *Standby Pay* contributes to reductions in *Overtime* spending.

Overtime

The Authority is proposing a budget of \$3,415,736 for *Overtime* expense in FY06, a 0.3% (\$11,573) increase over the \$3,404,162 budgeted for FY05. The budget represents a gradual decline in the use of *Overtime* and increasingly tight management of *Overtime* use. The increase is due to adjustments to *Wages* following union negotiations and represents a reduction in the number of *Overtime* hours. Agency-wide staffing has been held to 1,270 filled positions. The Authority will need to continue to manage *Overtime* spending tightly, while balancing its use in meeting its backlog goals.

Although spending through December was over budget by 8%, the severe winter weather of January and February pushed *Overtime* use well above budget. As of the end of March, *Overtime* spending reached \$2,883,225 or \$396,904 (16%) more than budgeted for the period. The Authority now projects *Overtime* spending to be \$518,000 more than the \$3,922,025 budgeted in FY05.

Nearly 64% of all *Overtime* spending (\$2,183,559) is budgeted for the *Field Operations Department*, including \$1,075,058 for operational coverage, \$584,456 for emergency-related overtime, and \$384,578 for planned overtime (mostly for maintenance). The total is virtually level-funded from FY05. Another 30.6% of the *Overtime* budget (\$1,044,528) is for the *Deer Island Wastewater Treatment Plant* and the *Clinton Wastewater Treatment Plant*, a 3.6% increase from the amount budgeted in FY05. *Overtime* for the *Support Services Division* is budgeted at \$54,103. All other *Operations Division Overtime* expense is budgeted at \$133,546 or 4% of the total.

- 1• **Reduce the *Overtime* budget at Fore River Staging Area (FRSA) in half, based on MWRA moving from the site by the end of calendar year 2005, for a reduction of \$2,500.**

Fringe Benefits

The Authority is proposing a budget of \$13,459,590 for *Fringe Benefits* in FY06, an 8.9% (\$1,095,039) increase over the \$12,364,551 budgeted for FY05. Included in this category of expense are \$11,288,800 for *Health Insurance*, \$826,629 for *Dental*

Insurance, \$70,000 for *Unemployment Insurance*, \$1,158,849 for *Medicare* expense, \$36,000 for *Tuition Reimbursement* and \$79,312 for *Overtime Meals*.

Spending through March on all categories of *Fringe Benefits* totaled \$9,043,264 or 2.5% below the amount budgeted for the period. Contributing to this variance is a lower level of filled positions than budgeted.

Health Insurance. The Authority staff have updated estimates for *Health Insurance* for FY06, based on updated rates. Budgeted amounts are expected to increase.

Dental Insurance. Rates for *Dental Insurance* have also been revised based on projected insurance rates and decline slightly.

Medicare. *Medicare* expense is budgeted at \$1,158,849 for FY06, a 17.2% increase from the \$988,792 budgeted for FY05. Spending through March is 3.3% greater than budgeted.

Unemployment Insurance. The Authority is proposing to budget \$70,000 for *Unemployment Insurance* in FY06, a \$20,000 reduction from the \$90,000 budgeted for FY05. Through March, the Authority has accrued \$34,503 for this expense, less than half the amount budgeted for the period. **Reassess the amount budgeted for *Unemployment Insurance* for FY06 and reduce by \$10,000.** •2•

Tuition Reimbursement. The Authority is proposing a budget of \$36,000 for *Tuition Reimbursement* in FY06, the same level as for FY05. Actual spending in FY03 and FY04 were close to this amount. Through March, the Authority has accrued \$13,068, half the amount budgeted for the period. **Revisit budgeted amounts for *Tuition Reimbursement* and reduce by \$5,000.** •3•

Workers' Compensation

The Authority is proposing a budget of \$1,300,000 for *Workers' Compensation* expense in FY06, a decrease of \$300,000 or 8.9% from the \$1,600,000 budgeted in FY05. The reduction comes in *Other* fees, examinations and reviews. Accruals through March have been \$1,041,905 or 13.2% below the \$1,200,000 budgeted for the period. Staff have projected that by the end of FY05, accruals will be \$1,149,500 or \$450,000 below the amount budgeted.

The Authority staff have reviewed all three categories of *Workers' Compensation* expenses. Based on increases to reserves in the last several years and the resolution of a number of outstanding cases, the Advisory Board believes that a further reduction is possible. **Reassess amounts budgeted for *Workers' Compensation* expense in FY06 and reduce the proposed budget by \$100,000.** •4•

OTHER DIRECT EXPENSES

Chemicals

The Authority is proposing a budget of \$7,021,659 for *Chemicals* expense in FY06, an increase of \$108,505 (or 1.6%) over the \$6,913,152 budgeted in FY05. Decreases in the budgets for *Sodium Hypochlorite*, *Other chemicals* used for odor control in the Wastewater system, *Polymer*, *Activated Carbon* and *Ferrous Chloride* have been more than offset by increases in spending for *Soda Ash* and *Liquid Oxygen* for the Walnut Hill Water Treatment Plant, as well as increases in the use of *Nitrazyme* to control corrosion in the Framingham sewers.

Soda Ash and *Sodium Hypochlorite* are the two largest components of the *Chemicals* budget.

Soda Ash. The Authority is proposing a budget of \$2,101,233 for *Soda Ash* in FY06, a 6.7% (\$132,351) increase from FY05. Spending through March reached \$1,448,765 or 2.1% below the \$1,480,291 budgeted for the period.

Soda Ash is primarily used in the water treatment process. For FY06, MWRA is budgeting \$2,036,429 for *Soda Ash* for use at the Walnut Hill Water Treatment Plant. *Soda Ash* is used to control alkalinity in MWRA drinking water. Alkalinity levels play an important role in MWRA meeting the terms of the Lead and Copper Rule. The current alkalinity target for the water system was increased to 40 mg/l from 35 mg/l in spring 2004. This adjustment has required higher dosages of *Soda Ash* than initially anticipated in the FY05 CEB. The Proposed FY06 CEB accordingly reflects an increase of \$134,000 to the Walnut Hill Water Treatment Plant *Soda Ash* budget. While the Advisory Board understands the reasoning behind increasing the *Soda Ash* line item, engineering staff anticipate alkalinity levels will be increased through the ozone treatment process. While the impact of the new treatment process on alkalinity levels is somewhat uncertain, indications from plant engineers warrant the assumption of some minimum risk within this line item. **Reduce the *Chemicals* - *Soda Ash* increase for the Walnut Hill Water Treatment Plant by \$15,000, reflecting the projected impact of the treatment process on alkalinity levels.**

•5•

Sodium Hypochlorite. The Authority is proposing a budget of \$2,221,549 for *Sodium Hypochlorite* in FY06, a 4.8% decrease (\$112,259) from the amount budgeted in FY05. The decrease reflects a decrease of \$66,000 due to the elimination of Norumbega as a dosing site and lower use for the Wastewater system. Although spending at Deer Island through March is 18% below the amount budgeted for the period, spending for next year reflects increased use to meet new regulatory requirements. The budget for this chemical is \$1,431,758 for Deer Island, 64% of the agency's total budget. The Authority is in the second year of a five-year contract.

Sodium Bisulfite. The Authority is proposing a budget of \$155,376 for *Sodium Bisulfite* in FY06, an increase of 4.4% or \$6,589. Spending through March has totaled \$84,750 or 13.2% (\$12,882) below the \$97,632 budgeted for the period. Nearly 55% of the amount budgeted in FY05 was for use at Deer Island where accruals through March are virtually on budget. The increased budget for FY06 is primarily to support a full year of the use of this chemical by the Waterworks program and at Deer Island where additional regulatory requirements are expected to result in increased use in FY06. The chemical is scheduled for rebid during the year.

Polymer. The Authority is proposing a budget of \$307,555 for *Polymer* in FY06, a 23.4% (\$94,081) decrease from the amount budgeted in FY05. Almost all of the chemical use is at Deer Island for thickening sludge; the remaining \$8,000 is used at the Clinton Wastewater Treatment Plant. The reduction reflects the activation of the sludge lines to transport sludge to the Fore River plant, which requires less thickening than barge operations. Through March, spending came to \$394,336, 19% greater than budgeted.

Activated Carbon. The Authority is proposing a budget of \$188,000 for *Activated Carbon* in FY06, a 21% (\$50,000) reduction from the amount budgeted in FY05. The chemical is used at Deer Island for odor control, where use is expected to increase. Through March, spending totaled \$156,293 or 34% lower than the \$238,000 budgeted for the period (and the full year).

Liquid Oxygen. The Authority is proposing a budget of \$553,329 for *Liquid Oxygen* in FY06, a 95% increase (\$269,305) from the FY05 budget. Almost all the funds are for the ozone generation process at the new Walnut Hill Water Treatment Plant. The remaining \$10,000 is for emergency backup at Deer Island.

Carbon Dioxide. The Authority is proposing a budget of \$334,283 for *Carbon Dioxide* in FY06, virtually level funded from the FY05 budget. The chemical is used in Water Operations to control the alkalinity of the water. Spending is 5% over budget through March.

Sodium Hydroxide. The Authority is proposing a budget of \$187,272 for *Sodium Hydroxide* in FY06, a 4.2% (\$7,488) increase from the \$179,784 budgeted in FY05. Much of the chemical is used at Deer Island for odor control, where spending through March has been 36% below the amount budgeted. Including lower usage in the Field Operations Department, year-to-date spending is 34% (\$45,240) lower than budgeted. Some of the lower usage is the result of cooler temperatures last summer and a credit from a previous year. **Reassess the proposed budget for *Sodium Hydroxide* in FY06 and reduce by an estimated \$25,000.**

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Ferrous Chloride. The Authority is proposing a budget of \$107,393 for *Ferrous Chloride* in FY06, a 25% reduction from the \$143,190 budgeted in FY05. Spending through March reached \$52,627, half the amount budgeted for the period. The variance

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is primarily due to the delay in the start of the sludge tunnel; the chemical is used to prevent struvite buildup.

Hydrogen Peroxide. The proposed budget includes \$175,586 for *Hydrogen Peroxide* in FY06, a 3.5% (\$6,381) decrease from the amount budgeted in FY05. Spending through March has been 3.6% greater than the amount budgeted. The chemical is used at Deer Island for hydrogen sulfide control.

Hydrofluosilic Acid. The Authority is proposing a budget of \$247,353 for *Hydrofluosilic Acid* in FY06, essentially level funded from FY05. The chemical is used at the Walnut Hill Water Treatment Plant. Through March, spending reached \$164,093 or 11.3% below the amount budgeted.

Utilities

The Authority is proposing a 24.5% increase in *Utilities* expense for FY06, a \$3,904,481 increase from \$19,151,033 to \$23,055,514. More than 77% of the amount budgeted is for *Electricity* -- \$17,811,403. Other Utilities in this category are: *Natural Gas* (\$795,368); *Water* (\$1,719,210); *Diesel Fuel* (\$2,600,317); and smaller amounts for *Propane*, *#2 Heating Oil*, *Oxygen*, *Acetelyn* and *Other Utilities* for the Central Laboratory (such as *Argon*, *Helium* and *Nitrogen*).

Utilities expense associated with the residuals pelletizing plant at Fore River (including natural gas and electricity) are incorporated into the pelletizing plant contract. This contract was rebid in 2001 and all the contractor costs are budgeted under *Other Services*.

MWRA intends to transfer services, currently provided at the warehouse and document management facility, out of the Fore River Staging Area (FRSA) and sell the vacated property on the open market. Staff estimate the remaining property and assets to be worth an estimated \$4 to \$5 million. The proceeds from the sale will be transferred to the wastewater capital construction fund as an offset against the initial borrowing utilized to purchase the FRSA property. Other portions of the site, formerly owned by MWRA, have already been sold. MWRA staff are currently assessing options where warehoused items can be transferred. The lone facility that will be retained at FRSA is the pellet plant, which is currently managed via an operations contract. The Proposed FY06 CEB assumes MWRA will be utilizing FRSA for the entire year. MWRA should adopt a more aggressive strategy to move from FRSA with a target of no later than the end of the 2005 calendar year. **Reduce the *Water*, *Electricity* and *Natural Gas* line-items at FRSA by half, based on MWRA moving from the site by the end of calendar year 2005, reflecting a net reduction of \$95,000.**

•7•

With the construction of the new water quality lab at the Chelsea Maintenance Facility, MWRA intends to surplus the Mystic Shops where the lab currently resides. The Proposed FY06 CEB includes funds to support the Mystic Shops Laboratory for the

entire year. MWRA now indicates the move to the new lab will occur in September 2005. **Reduce the *Laboratory Services Utilities* budget by \$6,563 and the *Operations - Western Operations and Maintenance Utilities* budget by \$5,183, reflecting the planned move of the water quality lab from the Mystic Shops to Chelsea in September 2005.**

•8•

Electricity. At \$17,811,403, *Electricity* expense is 21.5% of all non-personnel related Direct Expenses. The proposed budget increases by \$2,462,810 or 16% over the FY05 budget. It is the largest single subline item of *Other Direct Costs*, followed by the pelletizing contract at \$10,727,000. Much of the increase is to support the first full-year costs of the Walnut Hill Water Treatment Plant and the Braintree-Weymouth Intermediate Pump Station. In addition, the costs of *Electricity* at Deer Island are expected to increase.

The Authority's *Electricity* use is equivalent to the amount used by a small city's population.

The *Deer Island Wastewater Treatment Plant* accounts for 55% of the proposed *Electricity* budget. The Authority is proposing a 6.3% increase (of \$587,845) to \$9,894,587 for FY06. A new power supply contract is expected to be negotiated during this spring to replace the existing contract, which expires May 31, 2005. Planned maintenance projects are anticipated to affect digester gas production and the operating availability of the Steam Turbine Generator and the two Combustion Turbine Generators during certain times of the year. A five-year maintenance project was performed on the STG during FY05. Repairs to both hydropower turbines are out for bid in the spring 2005. Also, modifications to the electrical systems, including improvements in response to the power outages in April 2004, are underway. The Authority is estimating the purchase of 125.4 million kilowatt hours of *Electricity* in FY06.

Demand management and self-generation remain important goals for the operation of the Deer Island Wastewater Treatment Plant. For example, different operating strategies for the cryogenic facilities (part of secondary treatment) have a measurable impact on electricity demand. Self-generation varies considerably from day to day and season to season. The Advisory Board continues to support efforts to contain the demand for electricity and to optimize the generation of electricity at Deer Island. **Revisit *Electricity* requirements and self-generation estimates for Deer Island in FY06. The reduction of 0.25 million kilowatt hours of purchased *Electricity* per month could result in a budget reduction of \$238,424.**

•9•

The *Braintree-Weymouth Intermediate Pump Station* is the largest wastewater pump station off Deer Island. The Authority is budgeting \$607,899 for *Electricity* expense for the 50 mgd facility.

The Authority also expects to assume responsibility for operation of the *Walnut Hill Water Treatment Plant* in early June 2005. Staff point out that even though the facility has a much smaller load than Deer Island (about 20% of the amount from Deer

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Island), the facility does have significant self-generation assets that are permitted for non-emergency operation. A contract for one year or less is expected to be negotiated this spring. The Authority is proposing a budget for *Electricity* of \$2,071,929.

MWRA is budgeting \$94,000 to exercise the pumps at the Chestnut Hill Pumping Station on a monthly basis. Since the station would only be used in an emergency situation, the pumps need to be exercised on a regular basis to maintain functionality. This is a new protocol, thus MWRA staff are unsure what actual electricity costs will be.

- 10• **Reduce the *Electricity* line-item for the Chestnut Hill Pumping Station by \$5,000 to reflect exercising of the pumps at off-peak periods.** MWRA plans to closely observe this process and adjust the maintenance plan to maximize efficiency and control electricity costs.

MWRA anticipates beginning the Reliability Testing phase on June 16th, when treated water will be introduced into the distribution system. Other preliminary plant testing has been occurring over the past several months. As a consequence of the extensive testing at the plant, MWRA has been able to establish a baseline of electricity needs for the plant based upon actual use versus engineering estimates. MWRA staff now believe the \$113,583 contingency for electricity use at the Walnut Hill Water Treatment Plant can be eliminated.

- 11• **Remove the \$113,583 *Electricity* contingency line item for the Walnut Hill Water Treatment Plant based on actual electricity usage patterns observed during the Field and Functional Testing Phases of the facility start-up effort.**

MWRA is budgeting \$189,984 for the newly placed into service MetroWest Tunnel facilities. When the Proposed FY06 budget was developed, MWRA staff was still in the process of ensuring that all of the electricity accounts had been turned over to MWRA and establishing the base electricity use levels for the facilities. Most of the relevant information has been gathered and MWRA staff anticipate that the electricity line item can be cut.

- 12• **Reduce the *Operations-Electricity* line item by \$65,000, reflecting actual electricity usage patterns in MetroWest Tunnel facilities.**

Water. The Authority is proposing a budget of \$1,719,210 for *Water* in FY06, a 9.3% (\$145,602) increase over the amount budgeted for FY05. Through March, spending has been 7.1% greater than the \$1,182,662 budgeted for the period. Funding covers use at a number of wastewater and water facilities and for the Facilities Management Department. Most of the water use (\$1,307,529) is for the Deer Island Wastewater Treatment Plant. Through March, spending on *Water* expense reached \$1,267,136 or 7.1% greater than the budget for the period. Spending on Deer Island reached \$1,032,617 or nearly 13% greater than budgeted.

Diesel Fuel. The Authority is proposing a budget of \$2,600,317 for *Diesel Fuel* in FY06, a 66% increase over the \$1,567,094 budgeted in FY05. Through March, spending reached \$1,384,054 or more than twice the \$646,495 budgeted for the period. Earlier than budgeted purchases account for much of the variance; Deer Island utilized the backup CTGs (which are powered by diesel fuel) more frequently than budgeted in

order to participate in load response events, as requested by ISO New England, particularly during the winter months. FY05 participation resulted in a net avoided cost of \$495,000 through March.

Natural Gas. The Authority is budgeting \$795,368 for *Natural Gas* in FY06, an increase of 51% over the \$526,731 budgeted in FY05. Spending through March reached \$405,452, 8.3% more than the \$374,441 budgeted for the period due primarily to increased prices for *Natural Gas*.

With the construction of the new water quality lab at the Chelsea Maintenance Facility, MWRA intends to surplus the Mystic Shops where the lab currently resides. The Proposed FY06 CEB includes funds to support the Mystic Shops Laboratory for the entire year. MWRA now indicates the move to the new lab will occur in September 2005. **Reduce the Operations Administration - *Natural Gas* line item by \$12,514, reflecting the planned move of the water quality lab from the Mystic Shops to Chelsea in September 2005.**

•13•

Maintenance

The Authority is proposing a budget of \$20,753,227 for *Maintenance* expense in FY06, an increase of 5.1% or \$1,003,047. The proposed budget includes \$17,219,704 for *Maintenance* expense in the Operations Division (including \$9,592,627 for Deer Island; \$931,000 for maintenance performed by NEFCo at the Fore River Pelletizing Plant; \$222,000 for the Clinton Wastewater Treatment Plant; and \$5,861,353 for the Field Operations Department) and \$3,533,523 for the Support Division (including \$2,364,873 for computer software and hardware maintenance in the MIS Department and agency-wide computer licenses and upgrades).

Spending has been increasing by about \$1 million each year since at least FY02, when actual spending was \$16.35 million. By FY03, spending had risen to \$17.21 million, \$18.61 million in FY04 and \$19.75 million is budgeted for FY05. Spending through March reached \$12,921,171 or 8.4% (\$1,182,069) below the \$14,103,239 budgeted for the period. Of that amount, \$602,785 of the variance is due to lower than budgeted spending in the Operations Division and \$579,283 (25%) in lower spending in the Support Division. However, staff now project that by June 30, FY05 spending on *Maintenance* will reach \$20,176,016 or \$425,835 more than the amount budgeted for the full year.

Deer Island Maintenance. Just over 45% of all proposed *Maintenance* spending in FY06 is budgeted for the Deer Island Wastewater Treatment Plant. The proposed budget of \$9,592,627 is an 8.2% increase (\$723,254) from the \$8,869,373 budgeted for FY05 and is 72% of the \$1,003,047 increase for all *Maintenance* spending. Through March, spending came to \$6,238,992 or \$1,007,286 (13.9%) below the \$7,246,276 budgeted for the period (primarily due to later purchases of electrical equipment, transfer to the CIP of some other electrical equipment purchases, and later timing for

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roof replacement and painting and coating work). The monthly variance for March is \$521,681 or half the entire year-to-date variance.

The Authority reports the primary reasons for the proposed increase in *Maintenance* spending in FY06 are additional preventive and corrective maintenance activities, as the Deer Island plant and equipment age, and increases in project and service contracts persist. More than fourteen multi-year contracts expire just prior to the start of FY06 or during FY06. Staff project that *Maintenance* expense for Deer Island will continue to increase as the plant ages and certain equipment becomes obsolete.

- 14• Pellet Plant Maintenance. The Authority is proposing a budget of \$931,000 for *Maintenance* spending at the Fore River Pelletizing plant, \$37,000 lower than the \$968,000 budgeted for FY05. Spending through March has been \$772,432, just 1% over the \$766,254 budgeted for the period. Actual spending was \$1,024,448 in FY04 and \$1,177,862 in FY03. The fifteen-year operating contract with NEFCo, approved in March 2001, identifies annual levels of spending on operating and capital maintenance projects. However, future use of the plant after the close of the multi-year operating contract is uncertain. **Discuss plans for a multi-year maintenance plan and management of the plant and its equipment. Link the maintenance plans to other plans for asset management for the next ten years.**

Field Operations Department Maintenance. The Authority is proposing a budget of \$5,861,353 for *Maintenance* materials and services in the Field Operations Department in FY06. The amount represents a nearly 10% increase from the \$5,344,054 budgeted in FY05. The budget includes \$2,393,057 for *Maintenance Materials* and \$3,468,296 for *Maintenance Services*. Most of the increase is due to electrical services and building and grounds services for the first full year of the Walnut Hill Water Treatment Plant.

Included is funding of \$183,000 for the initial months of joint operation of the new Union Park CSO Facility (to be operated with the Boston Water and Sewer Commission); \$636,000 for Walnut Hill Water Treatment Plant service contracts; \$100,000 for Surge Valve Replacement; \$75,000 for Headworks repairs; \$50,000 for CSO alarm compliance; \$65,000 for Wastewater Meter Verification; \$63,000 for maintenance at the new Braintree-Weymouth Intermediate Pump Station; and \$64,000 for Manhole Rehabilitation.

Support Division Maintenance. The Authority is budgeting \$3,533,523 for *Maintenance* expense in the Support Division, a 9.7% (\$378,096) reduction from the amount budgeted in FY05. The amount includes \$350,000 for support and maintenance of the Authority's electronic security systems, \$345,450 for maintenance of the Chelsea, Charlestown Navy Yard and Fore River Shipyard facilities in the Facilities Management Department, \$472,000 for automotive materials and services in the Fleet Services Department, and \$2,364,996 for license and maintenance fees in the MIS Department.

Training and Meetings

The Authority is proposing a budget of \$253,690 for *Training and Meetings* expense in FY06, a \$32,847 (11.5%) decrease from the amount budgeted in FY05. The proposed budget represents reductions taken across all divisions. Spending through March totaled \$141,720 or 29% below the amount budgeted for the period, reflecting continued tight management of this category of expense.

Professional Services

Spending on *Professional Services* is projected to rise by 3.4% to \$7,005,097 in FY06. Nearly half this amount -- \$3,476,699 – is for *Laboratory Testing and Analysis* expense and another 28% (\$1,981,429) is for *Security* services.

Engineering Services. The Authority is proposing a budget of \$110,000 for outside Engineering Services in FY06, an increase of \$20,000 from FY05. Included in this category of expense are \$50,000 for an evaluation of the electrical conduit issues at the Nut Island Headworks and \$20,000 for beach nourishment studies, part of the Deer Island Department’s budget. These studies are conducted each year. The Advisory Board questions the need for these studies, especially on an annual basis. **Reassess the scope and frequency of beach nourishment studies and eliminate funding for FY06, for a reduction of \$20,000.**

•15•

Laboratory Testing and Analysis. The Authority is proposing a budget of \$3,476,699 for *Laboratory Testing and Analysis* services in FY06, a 1.5% reduction from the amount budgeted in FY05. Most of the funding for this category of expense (\$3,333,200) supports harbor and outfall monitoring studies. Spending is somewhat lower than in recent years due largely to modifications to the ambient monitoring plan and the transfer of some laboratory work from the outside consultant contract to the Central Laboratory on Deer Island. The multi-year harbor and outfall monitoring contract will be rebid this summer.

Included in this category of services is funding participation in a study of nuisance algae through the Sea Grant program. Plans for MWRA participation are evolving. **Update budget estimates for participation in Sea Grant studies in FY06 and reduce budgeted amounts by \$25,000.**

•16•

Legal Services. The Authority is proposing a budget of \$327,084 for a number of *Legal Services* in FY06, a reduction of 7% from the amount budgeted in FY05. Funding includes \$131,584 for outside legal counsel, \$130,000 for Workers’ Compensation third party claims administration, and \$55,500 for arbitration filing fees and arbitrator’s fees. Also included is \$10,000 for expert witness services, in anticipation of an appeal regarding the sulfate limits set for Nyacol (budgeted within the TRAC department). It now appears unlikely that these funds will be needed. **Update assumptions about the**

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need for expert witness services for the TRAC Department and reduce budgeted amounts by \$10,000.

- 18• The Labor Relations Department is budgeting \$130,000 for third party claims management of the Worker's Compensation program. The Proposed FY06 budget for this line item is increasing by \$35,000 from FY05 due to an increase in legal fees to defend against claims. Year-to-date spending through March for legal services is \$16,160, or 14% under budget. While the Advisory Board commends the Labor Relations Department's efforts to vigorously defend unwarranted claims, year-to-date spending patterns indicate the proposed increase for FY06 can be trimmed. **Reduce the proposed increase for the *Professional Services-Legal* line-item within the Labor Relations Department by \$15,000 reflecting year-to-date spending trends.** Active use of this line item in defending claims has helped MWRA reduce the projected costs for Worker's Compensation in the Proposed FY06 CEB by \$300,000, or 19%, compared to FY05.

- 19• *Audit Services.* The Authority is proposing a budget of \$190,000 for outside *Audit Services* in FY06, the same amount as budgeted in FY05. The Authority is in the process of rebidding the audit services contract. Actual spending in FY02, FY03 and FY04 was at or close to \$100,000. **Revisit budgeted amounts for *Audit Services* and reduce the proposed FY06 budget by at least \$20,000.**

- 20• *Deposit Services.* This \$20,000 line-item is for bank processing fees associated with such activities as check processing and transfer of funds. MWRA has recently entered into a four-year contract for Deposit Services, which will provide for some annual savings. **Reduce the *Deposit Services* line item in the Treasury Department by \$5,000 reflecting recently agreed to contract terms.**

Communications Services. The Authority is proposing a budget of \$161,791 for *Communications Services*, a 2% increase over the amount budgeted for FY05. This budget supports the Wastewater Advisory Committee and the Water Supply Citizens Advisory Committee.

Other Services. The Authority is proposing a budget of \$756,694 for a number of *Other Professional Services* for FY06, a 3.2% reduction from the amount budgeted in FY05. Funding in this category includes monies for the insurance consultant, trustee services, energy related services, expert witnesses, and special services for the Human Resources Department. Also included is funding for technical and professional development training and for the employee assistance program.

Security Services. The Authority is proposing a budget of \$1,981,429 for *Security Services* in FY06, an increase of \$326,888 or 20% from the amounts budgeted in FY05. Included are \$940,000 for the plant-wide security contract at Deer Island, \$372,835 for security coverage at the new Walnut Hill Water Treatment Plant and \$552,646 for security services at the Chelsea facility.

Other Materials

The Authority is proposing a 16.3% reduction in *Other Materials* spending in FY06, to \$3,488,548. The proposed budget includes \$186,962 for *Office Supplies*; \$112,322 for *Postage*; \$615,142 for *Lab and Testing Supplies*; \$232,458 for *Health and Safety* expense; \$250,950 for *Equipment and Furniture*; \$556,500 for *Vehicle Purchases*; \$274,887 for *Work Clothes*; \$966,170 for *Vehicle Expense*; \$132,424 for *Other Materials*; \$138,933 for *Computer Hardware*; \$12,500 for *Computer Software*; and \$9,300 for *Purchase Cards*.

Office Supplies. The Authority is proposing a 20% decrease in *Office Supplies* spending, from \$232,689 to \$186,962, in FY06. The amount would be the lowest in at least five years. Staffing levels continue to decline. Spending through March reached \$169,229 or just 3% below the budgeted amounts.

Postage. The Authority is proposing a budget of \$112,322 for *Postage* expense in FY06, a 55% decrease from the \$247,667 budgeted in FY05. Almost all of the funding (\$110,000) is for mailing the Consumer Confidence Report.

MWRA is close to agreeing to terms on a two-year contract for the production and mailing of the annual Consumer Confidence Report. Preliminary indications are the separate Printing and Postage line items can be reduced slightly. **Trim the *Postage* budget in the Planning Department by \$4,000, reflecting the preliminary bids for production and delivery of the Consumer Confidence Report.**

•21•

Lab & Testing Supplies. The Authority is proposing a budget of \$615,142 for *Laboratory and Testing Supplies* in FY06, a 12% increase from the \$548,115 budgeted in FY05. Actual spending was \$619,028 in FY04 and \$562,594 in FY03. Through March, spending has been \$480,866 or 17% greater than the amount budgeted for the period. Just over \$500,000 of the request is for supplies for the Central Laboratory on Deer Island where the number of tests has increased in the last year as the Authority has brought more testing activity in-house. Spending for the year-to-date and for the proposed FY06 budget reflects a correction to the under budgeted amount for FY05.

Health and Safety Materials. The proposed FY06 budget includes \$232,458 for *Health and Safety Materials*, virtually the same amount as for FY05, and is the lowest amount in at least five years. Spending through March has reached \$249,220, more than the entire year's budget.

Equipment and Furniture. The Authority is proposing a budget of 250,950 for *Equipment and Furniture* purchases in FY06, a reduction of 29% from the \$353,505 budgeted for FY05. Much of the amount is for the Central Laboratory and Deer Island testing requirements, including a nutrient analyzer, an ion chromatograph and a mercury analyzer fluorescence detector.

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Vehicle Replacements. The Authority is proposing a budget of \$556,500 for *Vehicle and related equipment* replacements in FY06, less than half the amount budgeted for FY05. The budget represents less than half the vehicles that had been scheduled for replacement. An additional nine vehicles will be purchased in the spring of FY05. In the past few years, the Authority has reduced the vehicle (and related equipment) fleet by 11% and reports that nearly half the remaining fleet is seven or more years old. Current replacement plans translate into a replacement cycle of 16 years.

Work Clothes. The Authority is proposing a 7% increase in *Work Clothes* expense, from \$256,566 to \$274,887 in FY06. Funding covers purchases of safety shoes, replacement boots and jackets and work uniforms. Spending for the year to date is 20% greater than budgeted.

Vehicle Expense. The Authority is proposing a 7% increase in *Vehicle Expense* in FY06, from the \$900,702 budgeted in FY05 to \$966,170, primarily for tolls, mileage reimbursement and bulk diesel and gasoline purchases. Spending through March was 12% below the amount budgeted for the period.

- 22• **Reduce the *Vehicle Expense* line item in the Planning Department by \$1,500 based upon year-to-date FY05 spending patterns.**

Other Materials. The Authority is proposing a nearly 13% reduction in budgeted amounts for a number of *Other Materials*, from \$151,864 to \$132,424. The amount would be the lowest in at least five years. The budget includes funding for water conservation kits, some mapping supplies and planter kits for the education program. Also included are oil spill containment supplies and clean fill used as cover for the Clinton Wastewater Treatment Plant landfill. The amount budgeted for clean fill is less than half the amount budgeted for FY05.

Computer Hardware and Software. The Authority is proposing to budget \$138,933 for *Computer Hardware* in FY06, a 12% increase from the amount budgeted in FY05. The initial request has already been reduced by \$210,000. The budget for Computer Software is to drop 86% to \$12,500.

Other Services

The Authority is proposing a budget of \$21,403,312 for *Other Services* spending in FY06, a reduction of \$129,259 (or 0.6%) from the \$21,532,570 budgeted for FY05. Half of all spending under this category of expense is for *Sludge Pelletization* at the Fore River plant. Other major components of this category are \$4,318,606 for *Lease* and related costs, \$1,181,906 for *Grit and Screenings Removal* and \$817,400 for the *Landfill Reservation Fee*.

With the construction of the Chelsea Water Quality Laboratory, MWRA intends to vacate the Somerville Mystic Laboratory in September. **Reduce the *Other Services – Telephone and Trash Removal* line items by a net \$1,425, reflecting the elimination of the Somerville Mystic Laboratory.** •23•

Printing and Duplicating. The Authority is proposing to budget \$366,517 for *Printing/Duplicating* expense in FY06, a 9.2% (\$37,080) reduction from the \$403,597 budgeted for FY05. Spending through March has been \$84,700, nearly 60% below the \$209,881 budgeted for the period. The Consumer Confidence Report, at \$130,000, accounts for 35% of the annual budget and is published in the spring.

MWRA is close to agreeing to terms on a two-year contract for the production and mailing of the annual Consumer Confidence Report. Preliminary indications are the separate *Printing and Postage* line items can be reduced slightly. **Trim the *Printing/Duplicating* budget in the Planning Department by \$2,000, reflecting the preliminary bids for production and delivery of the Consumer Confidence Report.** •24•

The *Printing/Duplicating* line-item in Public Affairs through March is \$25,501, or 76% under budget. Staff indicate the underspending is partially due to the limited production of monthly newsletters and the anticipated production of one-time, various items associated with the start-up of the Walnut Hill Water Treatment Plant. **Reduce the Public Affairs *Printing/Duplicating* line-item by \$5,000, reflecting limited production of the monthly newsletter and past years' and year-to-date underspending patterns.** •25•

The Rates and Budget Department is estimating the cost to print various budget documents at \$8,000. Both MWRA and the Advisory Board are benefiting from increased utilization of the digital distribution of budget related documents. For example, MWRA and Advisory Board documents are now regularly placed on their respective websites in electronic format. Utilization of this resource has allowed both organizations to reduce the amount of printed documents. **Cut the *Other Services - Printing/Duplicating* line item in Rates and Budget by \$3,000, reflecting enhanced use of the internet to distribute budget documents.** •26•

Health/Safety. The Authority is budgeting \$347,400 for *Health and Safety* related expense for FY06, less than a 1% increase over the FY05 budget.

Telephone. The Authority is proposing a 1.8% increase in *Telephone* expense for FY06 to \$1,315,664.

MWRA is budgeting \$702,071 for voice (telephone) and data services for 12 sites, a 6% increase from FY05. The development of an additional communications line will allow for savings in FY06. **Maintain the FY05 budget for the *Telephone* line item in MIS and trim the *Other Services* budget by \$36,000.** •27•

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- 28• Memberships/Dues/Subscriptions. The Authority is proposing a budget of \$364,437 for *Memberships, Dues and Subscriptions* in FY06, a 9% reduction from the FY05 budget and the lowest amount in more than five years. Included in this category of expense is \$30,000 to support The Boston Harbor Association's Marine Debris Program and the Back to the Beaches Program. Given the increasing pressure on the rates and the Authority's recognition of the need to tighten spending, this expense should be revisited. **Reconsider planned spending in support of the Marine Debris Program and the Back to the Beaches Program and reduce the budgeted amounts by \$30,000.**

- 29• Advertising. The Authority is proposing a budget of \$65,800 for *Advertising* expense in FY06, a 10% reduction from the FY05 budget. Included is \$35,000 for advertising for new positions and \$24,500 for advertising for purchasing, services and construction bids. The proposed Capital Budget now assumes fewer projects will be moving forward in the coming year and the proposed CEB assumes that fewer positions will be filled than earlier assumed. **Reassess Advertising expense for FY06 and reduce budgeted amounts by at least \$5,000.**

- 30• Space Lease/Rentals. *Lease and Rental* expense for office space and related expense is budgeted at \$4,318,606 or 0.9% (\$39,059) less than the amount budgeted for FY05. Nearly all of the budgeted amount (\$4,305,214) is for rent and related costs for Chelsea and for Building 39 in Charlestown. Rent for the remaining lease for Building 34 was accrued at the end of FY03. However, an annual parking credit of \$17,920 against Building 34 is not reflected in the budget in case the building is sublet. **Reconsider budgeting for the parking credit for Building 34 and reduce the budget by \$17,920.**

- 31• MWRA rents two buildings at the Charlestown Navy Yard, Buildings 34 and 39. MWRA has vacated Building 34 and expensed the Building 34 lease, at the end of Fiscal Year 2003. Both Building 34 and 36 leases expire in September 2006. MWRA's efforts to sub-lease the space have been unsuccessful to date. The Proposed FY06 CEB includes \$121,548 to cover taxes and operating costs associated with Building 34 and \$2,981,820 for rent, taxes and operating costs for Building 39. Taxes and operating costs fluctuate annually. MWRA believes there will be opportunities to reduce these variable expenses in FY06. **Reduce the Other Services - Space Lease Rentals for the Charlestown Navy Yard by \$30,000 reflecting updated estimates for taxes and operating costs in Buildings 34 and 39.**

Moving/Freight. The Authority is budgeting \$58,015 for *Moving and Freight* expense in FY06, a 21.2% decrease from the \$73,615 budgeted in FY05. Spending through March totaled \$37,044 or 21.5% (\$10,167) below the \$47,211 budgeted for the period. The budget covers the costs of shipping samples and equipment between the laboratories, as well as freight charges for purchases and returns at Authority facilities.

Other Rentals. The Authority is proposing a budget of \$156,882 for *Other Rentals* in FY06, a 2.3% reduction from FY05. Almost all the amount supports copier and pager leases.

Other Services. The Authority is proposing a budget of \$1,042,651 for a number of *Other Services* during FY06, an increase of \$131,974 or 14.5% from the FY05 budget. The budget includes funding for card access and door alarms at several buildings at Deer Island, camera installation at Deer Island, hazardous waste removal at the Central Laboratory at Deer Island, and funding for Eurasian milfoil removal at the Wachusett Reservoir.

Also included in the *Other Services* category of expense is \$468,417 for the operating expenses of the *Advisory Board* for FY06. Revisions to several components in this budget have resulted in a reduction to the proposed amounts. **Reduce the proposed budget for the MWRA Advisory Board to \$425,262 for a reduction of \$43,155.** •32•

The Planning Department is budgeting \$1,000 to fund a joint DEP/MWRA community workshop for Infiltration/Inflow (I/I) reduction, \$500 higher than budgeted in FY05. MWRA does not anticipate holding any regional meetings in FY05. **Delete all funding for the *Other Services-Other Services* line item in the Planning Department to support the I/I community workshop for a reduction of \$1,000.** The need for an I/I community meeting in FY06 is uncertain. If a meeting is required by DEP, MWRA should reallocate existing resources and ensure DEP provides appropriate financial support for the joint hosting of the community I/I workshop. •33•

Year-to-date spending on *Other Services-Other Services* in Public Affairs is \$5,277, or 57% under budget through March. **Reduce the Newsclip service by \$2,000 based upon progressively enhanced use of internet resources by MWRA staff to obtain newsclips.** •34•

Eliminate the \$1,000 contingency line-item for the removal of hazardous materials at FRSA based on the anticipated surplus of most of the site by the end of calendar year 2005. •35•

Grit and Screenings Removal. The Authority is proposing a budget of \$1,181,906 for *Grit and Screenings Removal* at Deer Island, Nut Island and the headworks, a 9.5% (\$102,248) increase over the amounts budgeted in FY05. Equipment improvements and the completion of new facilities have resulted in increased quantities being captured at several facilities where grit is removed, resulting in lower equipment wear and better sludge quality. The contract to haul and dispose of grit and screenings has recently been rebid for a two-year period at terms somewhat more favorable to the Authority than assumed in the proposed budget. **Update amounts budgeted for *Grit and Screenings Removal* and reduce by \$110,000.** •36•

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- 37• Sludge Pelletization. The Authority is budgeting \$10,727,000 for payments to the New England Fertilizer Company to process and dispose of sludge pellets. The amount is \$97,000 less than the amount budgeted for FY05. The proposed budget assumes slightly lower quantities and barging expense (now that sludge is delivered to Fore River by pipeline instead of barge) partially offset by inflation increases. The Authority is assuming that, on average, production rates will be 94.7 tons per day. **Reassess production estimates for sludge pelletization and reduce budgeted amounts by \$85,000 or one ton per day.**

Utah Landfill Reservation Fee. The Authority continues to budget \$817,400 for the annual reservation fee for the backup landfill in Utah. The Authority is required by the state DEP to maintain backup landfill capacity for sludge disposal, a requirement established a dozen years ago, prior to the completion and ongoing operation of the new pelletizing plant. A twenty-five year contract was approved in 1993 to provide this capacity at a landfill in Utah for an annual fee of \$1,250,000. Several years into the contract, the Authority negotiated an amendment, which reduced the annual reservation fee to \$817,400, reflecting recognition that annual sludge production was less than half the amount originally assumed.

As noted in previous comments, the risk of needing backup landfill space and transport capability has continued to decline as the Authority has completed the long-term plant expansion, improved pellet quality (resulting in improved marketability) and maintained lists of alternative landfills. At the time the backup landfill requirement was imposed, it was unique to the Authority and was not the result of a national regulatory requirement or national policy. The original capacity was sized for the then-estimated peak daily production of 260 tons per day. Actual average annual tons produced have been on the order of 90 tons per day.

- 38• Again, the Authority should continue to review its sludge and pellet storage capacities and reassess the amount of risk that needs to be covered by any backup agreement. The Authority has not deposited sludge or pellets in the backup facility since the completion of the pellet plant expansion contract and the startup of the fifteen-year pelletizing contract in March 2001. It should be possible to reduce the amount of landfill capacity that must be reserved, seek alternative (and closer) landfill sites, expand markets for pellets closer to and within the region and rethink transportation needs, as well as consider the opportunities for subleasing landfill space. **Revisit and rewrite the sludge backup disposal plan. At a minimum, renegotiate the sludge backup landfill contract to reduce reservation capacity and related costs by at least 20%, for a budget reduction of at least \$162,000.**

Permit Fees. The Authority is budgeting \$217,434 for *Permit Fee* expense in FY06, a 25% reduction from the \$288,600 budgeted in FY05. Included is \$118,000 for Permit Fee expense for the Deer Island Wastewater Treatment Plant. Spending through March has been \$48,105, less than half the amount budgeted for the period, primarily due to timing of the expense; the total year's budget is \$116,225. Also included in the

proposed budget is \$20,000 for technical support regarding permit renewal for the Residuals program.

Police Details. The Authority is budgeting \$423,600 for *Police Details* in FY06, a 16% decrease (\$81,248) from the amount budgeted in FY05. Spending through February has been 8% below the budgeted amounts.

INDIRECT EXPENSES

Insurance

The Authority is proposing an increase in the FY06 *Insurance* expense by \$100,000 to \$2,400,000. The increase supports an anticipated increase in *Premiums* charges. *Payments/Claims* are level-funded at \$700,000. Accruals through March reached \$1,653,712, or 4.1% below the \$1,725,000 budgeted for the period.

The Authority is in the process of rebidding its insurance coverage and is assessing the limits of coverage and self-retentions. The cost of the FY06 insurance program should be available in May. Some observers note that increased competition in the insurance market is likely to result in favorable terms for the Authority's next insurance procurement. **Update budgeted amounts for *Insurance* expense and reduce budgeted amounts by an estimated \$50,000.**

•39•

Additions to Reserves

The Authority's bond resolutions require three reserve funds: the Operating Reserve, the Insurance Reserve and the Renewal and Replacement Reserve.

The ***Operating Reserve*** must equal two months of budgeted MWRA operating costs (which include *Direct Expenses*, *Insurance*, *Mitigation*, *Retirement Fund* deposits, *BEC*o expense; the *Chelsea Lease* payments and, when required, additions to the *CORE Fund* are not considered Operating Expenses for purposes of the Operating Reserve Fund calculation). The proposed budget includes \$194,499,199 for FY06 Operating Expenses, which requires a reserve level of \$32,417,000. The current level of the Operating Reserve is \$32,067,000 or \$350,000 below the required level.

Acceptance of the Advisory Board's recommendations to reduce \$1,536,251 in Operating Expenses would reduce the Operating Reserve requirement to \$93,958. **Reassess the amount budgeted for the *Operating Reserve* deposit and reduce by \$256,042.**

•40•

The ***Insurance Reserve***, which is maintained to mitigate the budgetary risk of self-insurance, currently stands at \$18 million. In September 2003, the insurance consultant reviewed the adequacy of the reserve and stated that the *existing* level of the *Insurance Reserve Fund* was "reasonably adequate" although in the low range for the

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assumptions and characteristics of the then existing insurance program. Furthermore, the Authority's expanded planning and asset protection program serve to enhance efforts to reduce property risk. The risk management consultants also emphasize the "excellent debt rating of the Authority ... provides the ability to quickly raise funds by floating additional issues." Even so, the insurance advisor "suggested" that the Authority increase the Insurance Reserve by \$3 million over three years to the mid-point of the "acceptable range of \$18 million to \$25 million."

- 41• The Advisory Board takes particular note of the insurance advisor's observation regarding the Authority's ability to quickly raise funds. This has been further reinforced by the Authority's use of the Commercial Paper program through which funds can be raised within a day. This demonstrated capability should serve as not only the basis for not needing to increase the *Insurance Reserve* balance, but also to dissolve the fund and transfer it to the Rate Stabilization Reserves to ease the pace of rate increases, particularly after FY08 when the amounts currently in the reserves are projected to have been fully utilized. **Reassess the need for the *Insurance Reserve*, based on the existing ability to raise funds quickly. Delete funding for the *Insurance Reserve* addition for FY06 for a reduction of \$1 million. Do not accrue the *Insurance Reserve* addition of \$1 million for FY05. Gradually transfer the original \$18 million in the *Insurance Reserve* to the *Rate Stabilization Funds* for future rate smoothing.** These actions would result in an increase of \$20 million to the Rate Stabilization reserves.

The *Renewal and Replacement Reserve (RRR)* is funded at \$50 million. The consulting engineer reviews the reserve fund balances for appropriateness every three years. The most recent review, in fall 2002, confirmed the 1999 review that the RRR could be reduced to \$35 million. The Authority plans to transfer the \$15 million difference from the RRR to the Rate Stabilization Fund in future years when withdrawals will be needed to modify projected rate increases. In the meantime, the Authority invests these funds and records interest income under *Investment Income*. (See *Non-Rate Revenue*.) The multi-year planning projections reflect this planned transfer.

Watershed Reimbursement/Debt Service/PILOT Payments

MWRA is obligated under state law to reimburse the Department of Conservation and Recreation (DCR) for services provided by the Division of Water Supply Protection (DWSP), debt service on DCR land purchases and payments in lieu of taxes (PILOT). These obligations are offset by revenues from DCR operations that include forestry and hydroelectric power.

Table 4

EXPENSES	FY2004 Budgeted	FY2004 Actual	FY2005 Budgeted	FY2006 Budgeted
Division of Water Supply Protection Operating Costs	\$9,398,400	\$7,472,914	\$10,161,900	\$12,177,750
Debt Service	6,368,000	5,176,338	6,433,000	5,500,000
TOTAL	\$15,766,400	\$12,649,252	\$16,594,900	\$17,677,750
Payment In Lieu Of Taxes	5,261,000	5,029,106	5,217,000	6,894,827
TOTAL	\$21,027,400	\$17,678,358	\$21,811,900	\$24,572,577

Prior to FY05, the MWRA’s watershed system (comprised of the Quabbin, Ware, Wachusett and Sudbury Reservoirs) was managed by the Metropolitan District Commission (MDC). MDC became part of DCR in 2004. Funding for watershed management was subject to appropriation in the General Fund. The Commonwealth was reimbursed by the MWRA on a quarterly basis for costs associated with watershed management.

On March 10, 2004, the MWRA Board of Directors voted to enter into a Memorandum of Understanding (MOU) with DCR, “for the purpose of allocating and clarifying responsibilities with regard to the operation of the watershed and waterworks systems and to improve budgeting and accountability for the expenses currently reimbursed by the Authority.” The agreement replaced the 1992 MOU between MWRA and DCR and achieves two purported objectives: 1) establishing clear control by MWRA of important water related functions and 2) the instatement of fiscal accountability and oversight of DCR’s spending, work plan and activities.

Despite reimbursement from the MWRA, the watershed management fund experienced relatively steady cuts in funding over the years, consistent with reductions to the state budget. In an effort to provide sufficient financial support for watershed protection, the Advisory Board proceeded to work with MWRA and Senator Stephen Brewer (D-Barre) to move watershed management funding out of the General Fund and into a Trust in order to ensure a reliable stream of revenue for management and protection of the MWRA’s drinking water supply. The resulting Water Supply Protection Trust, established in the FY05 budget, moved the DWSP out of the General Fund. The Trust is overseen by a five-member Board of Trustees consisting of the Chairperson of the MWRA Advisory Board, the Secretary of the Executive Office of Environmental Affairs (or their appointee), the Executive Director of the MWRA, one person selected by the North Worcester County Quabbin Anglers and the Quabbin Fishermen’s Association and the President of the Swift River Valley Historical Society (or their appointee). Spending from the Trust is approved by the Board of Trustees and executed through the MOU.

During spring 2005, MWRA was informed by the Commonwealth of Massachusetts that the Water Supply Protection Trust is subject to an Executive Office of Administration and Finance (A&F) Overhead Charge to cover expenses incurred by the Commonwealth in managing the Trust. The A&F Overhead Charge is assessed

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upon all trusts managed by state employees unless explicitly exempted by the Executive Office of Administration and Finance. MWRA neglected to budget for the A&F Overhead Charge in FY05 since MWRA was unaware the Water Supply Protection Trust would be subject to a supplemental fee from the Commonwealth. The Advisory Board believes DCR purposefully withheld information regarding the existence of the A&F Overhead Charge. The A&F Overhead Charge for the Proposed FY06 CEB is 23.96% of the operating budget. This equates to an estimated \$1.4 million in FY05 and up to \$2 million in FY06 in unbudgeted expenses. DCR anticipates the FY05 A&F Overhead Charge can be covered through underspending in the DWSP operating budget which, through March, is significantly below budgeted targets. There is currently no funding set aside in the Proposed FY06 CEB to cover the FY06 A&F Overhead Charge.

If MWRA is forced to raise an additional \$2 million in rates in the Final FY06 CEB, the effect on communities would be significant. The most impacted communities would need to raise their retail rates to cover the following shortfalls:

Table 5

Top Ten Impacted Communities Resulting From Unbudgeted \$2 Million Administration and Finance Overhead Charge		
1	BOSTON	\$768,341
2	QUINCY	95,927
3	NEWTON	93,202
4	FRAMINGHAM	75,597
5	WALTHAM	73,547
6	SOMERVILLE	62,626
7	MALDEN	61,789
8	BROOKLINE	57,530
9	MEDFORD	53,873
10	LEXINGTON	47,659

MWRA has consistently paid a DCR Overhead Charge for employees who spend a portion of their time supporting DWSP activities through such administrative activities as payroll management, human resources administration and budget oversight. MWRA has been working with DCR to establish a mechanism for assessing which employees fall into this category and how much each individual dedicates to watershed-related tasks. To date, a clear and justifiable system for assessing these costs has not been established, yet DCR continues to bill the MWRA each fiscal year for these costs. The FY05 year-end estimated cost for the DCR Overhead Charge is \$505,000.

The Advisory Board maintains the Commonwealth is double charging ratepayers in assessing both the A&F and DCR Overhead Charges. If at any juncture the Advisory

Board was informed that duplicative charges would be assessed by the Commonwealth, the Advisory Board would have withdrawn its support for the Trust. The continued pursuit of the A&F Overhead Charge by the Commonwealth ignores the annual contribution made by MWRA to cover the DCR Overhead Charge, is a breach of the original spirit establishing the Trust and would be a misuse of ratepayer funds. **Obtain a detailed explanation of FY05 underspending in the Division of Water Supply Protection and withhold payment of the FY05 A&F Overhead Charge.** •42•

If MWRA is required to pay the A&F Overhead Charge in FY06, MWRA should recommend to the Board of Trustees for the Water Supply Protection Trust that the Division of Water Supply Protection FY06 operating budget be reduced to cover the A&F Overhead Charge assessed by the Commonwealth of Massachusetts. MWRA must work cooperatively with the Advisory Board to seek a legislative or administrative remedy to waive the A&F Overhead Charge. In the meantime, DWSP continues to languish under de facto hiring limits and an absence of leadership. Nearing the one-year anniversary of the establishment of the Water Supply Protection Trust, many of the initial issues that led to the establishment of the Trust remain unchanged. •43•

HEEC Agreement

The Authority is proposing to budget \$4,723,435 in FY06 for payments to the Harbor Electric Energy Company (a subsidiary of the Boston Edison Company, now NStar). The amounts repay the investment over a 25-year period of the installation of the cross-harbor electric cable to Deer Island and the construction of the power substation in South Boston. The payments should be gradually decreasing as more of the asset is depreciated. While the O&M charge has been increasing, the capacity charge is currently 4.7% lower than budgeted amounts. **Review the assumptions for the HEEC Payments in FY06 and reduce the budgeted amounts by \$152,484.** •44•

Mitigation

The proposed budget includes \$1,300,000 for *Mitigation Payments* of \$650,000 to the Town of Winthrop and \$650,000 to the City of Quincy. The amounts are 5% greater than the total budgeted for FY05 and are set by agreements with each community.

Pension Expense

The Authority is proposing an addition to the Retirement Fund of \$3,578,000 in FY06, a 5% or \$170,468 increase over the \$3,407,532 budgeted in FY05. The Authority reports the increase is based on the most recent actuarial valuation report; an updated report is in preparation and should be available later this spring. The Authority also

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prefunded the Retirement Fund addition during FY04, thereby reducing the required payments in FY05, FY06 and FY07. The pension fund addition also includes funds for the expenses of the Retirement Board, including four staff.

CAPITAL FINANCING EXPENSE/DEBT SERVICE

The Authority is proposing a budget for *Capital Financing Expense* of \$315,130,064 an increase of \$33,148,799 (11.8%) over the \$281,981,265 budgeted in FY05. *SRF and MWRA Debt Service* expense is budgeted at \$315,083,121; *Water Pipeline and Commercial Paper* interest are budgeted at \$4,125,000; *Current Revenue for the Capital Program* is budgeted at \$7,000,000; and the *Capital Lease* payment is budgeted at \$3,217,060. Partially offsetting the subtotal of \$329,425,181 are \$11,280,000 in *Bond Redemption Savings* and \$3,015,117 in *Variable Rate Debt Savings*. The Authority is not assuming receipt of *Debt Service Assistance*, considered an offset to Debt Service expense, since an amount was not included in the Governor’s Budget recommendations.

SRF Borrowings. The Authority is assuming debt service of \$34,977,556 relating to debt of \$839 million borrowed through the Commonwealth’s Water Pollution Abatement Trust (also referred to as the State Revolving Loan Fund or SRF). The Authority is assuming new borrowings in FY05 of \$47 million, with partial year debt service payments of \$1,426,270. The Authority may borrow more funds through the SRF program as the fall progresses.

Table 6

Proposed Fiscal Year 2006 Capital Financing Summary	
Debt Service	
Senior Debt	\$189,230,139
Subordinate Debt	90,875,426
State Revolving Loan Fund (SRF)	34,977,556
Current Revenue/Capital	7,000,000
Chelsea Lease	3,217,060
Water Pipeline - Commercial Paper	4,125,000
<i>Subtotal</i>	\$329,425,181
Debt Service Offsets	
Bond Redemption Savings	\$11,280,000
Prior Variable Rate Savings	0
Budget Year Variable Rate Savings	3,015,117
Debt Service Assistance	0
<i>Subtotal</i>	\$14,295,117
Net Capital Financing	\$315,130,064

MWRA Senior Debt Service. Budgeted amounts for debt service on MWRA *Senior Debt* in FY06 are proposed to be \$189,230,139 on \$2,666 million in outstanding debt. Assumptions include no new borrowing of senior debt. The Authority conducted a refunding transaction this spring with an estimated savings for FY06 of \$1,742,960. **Update assumptions relating to the spring 2005 refunding transactions and reduce the budgeted amount for *Senior Debt Service* in FY06 by at least \$1,742,960.**

•45•

MWRA Subordinate Debt Service. The proposed budget for FY06 includes \$90,875,426 for debt service on \$1,849 million of *Subordinate Debt*. Included in this amount is \$3,789,262 for debt service on a new borrowing of \$150 million planned for the fall of 2005. This borrowing may be rescheduled to earlier in the fall.

Local Water Pipeline Program Commercial Paper. Now in its sixth year, the Local Water Pipeline Improvement Loan Program provides \$25 million per year for a ten-year period to communities to replace and rehabilitate municipal water pipelines.

The Authority is proposing a budget of \$2,250,000 for debt service relating to commercial paper issued in support of the Local Water Pipeline Improvement Loan Program. The proposed FY06 CIP assumes that \$88,641,000 will have been distributed under the program through FY05, with repayments totaling \$16,694,000, leaving \$71,947,000 outstanding at the start of the fiscal year. The CIP also assumes that \$18,750,000 will be distributed during FY06 and that \$8,864,000 will be repaid during the year. **Update assumptions for *Local Water Pipeline Program Commercial Paper* and reduce the budgeted amount by \$106,000.**

•46•

Capital Interest on Commercial Paper. The Authority is also budgeting \$1,875,000 for payments on the interest on Commercial Paper borrowings, which up to this time had been capitalized. The Authority is obligated to retire the Commercial Paper with the completion and startup of the Walnut Hill Water Treatment Plant (which had been financed to date through the Commercial Paper Program) and reissue the borrowings as part of its regular financings. **Update assumptions for *Interest on the Commercial Paper Program* and reduce the budgeted amounts by an estimated \$125,000.**

•47•

Capital Lease. The Authority is budgeting \$3,217,060 for the fourth year of payments on the *Capital Lease* for the Chelsea facility. This is the same amount budgeted each year since 2002.

Debt Service Offsets. Among the credits that can be used to offset budgeted amounts for *Debt Service* (and also each debt service coverage requirement) are *Bond Redemption* funds and *Variable Rate Savings*. *Swap Receipts* associated with the 2000D bond issues (which was issued as fixed rate debt and swapped to variable) were previously treated as an offset to debt service but are now being treated as *Other Revenue*. *Entrance Fees* had also been treated as an offset to debt service in previous

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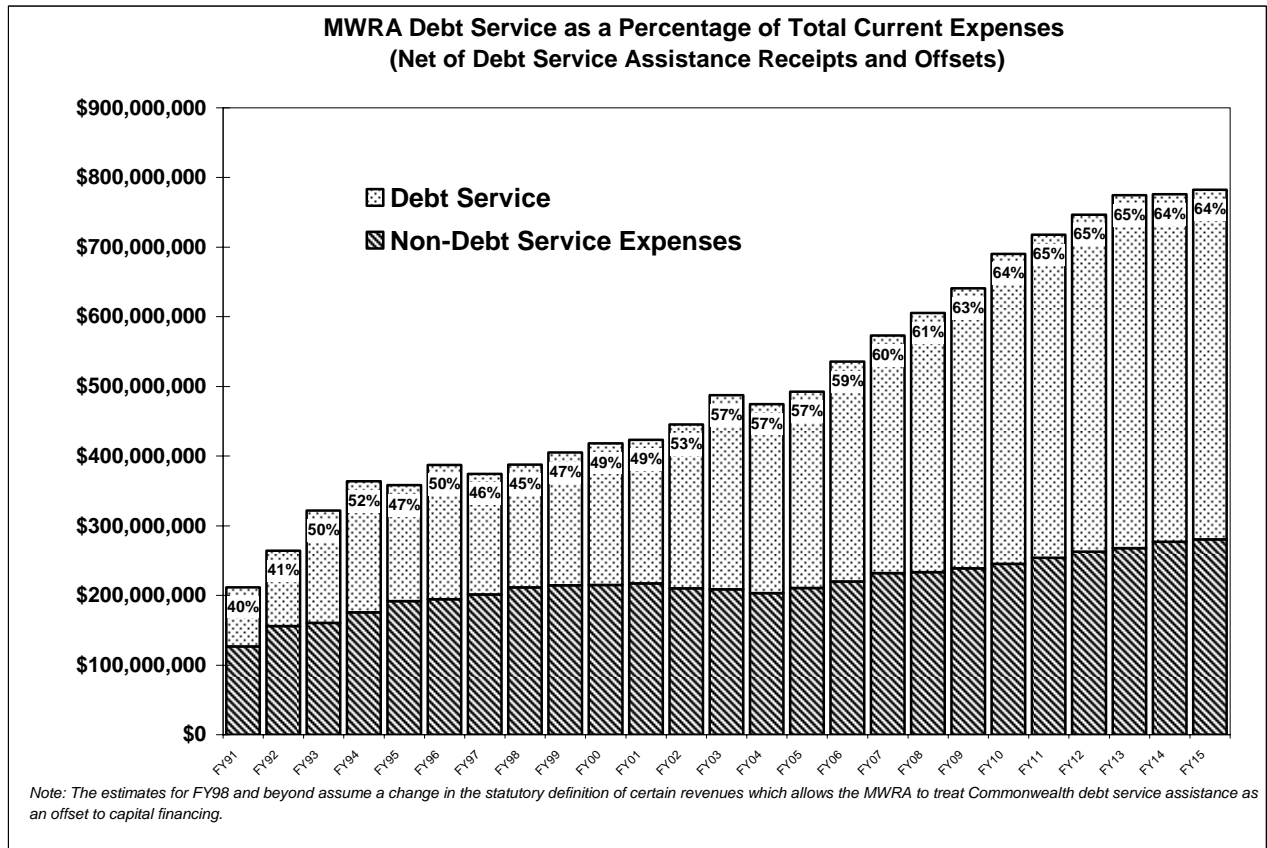
budgets, but are also now categorized as *Other Revenue*. *Debt Service Assistance*, when it has been available, is also treated as a *Debt Service Offset*.

The Authority is budgeting \$11,280,000 from the *Bond Redemption Account* in FY06 and \$3,015,117 from *Variable Rate Savings* (reflecting the reduction from an initial interest rate assumption of 4% to 3.5%).

The budget proposed by the House of Representatives includes \$12,500,000 for *Debt Service Assistance from the Commonwealth*. At this level of funding, the Authority could be eligible for approximately \$10,025,000 in *Debt Service Assistance*, equivalent to 2.213% in rate revenue in FY06. The Senate will begin its budget deliberations later this spring and the MWRA Advisory Board is optimistic that they, too, will include Debt Service Assistance funding in their version of the state budget for FY06.

- 48• **Update budgeted amounts for *Debt Service Assistance* from the Commonwealth. Utilize *Debt Service Assistance* receipts during FY06 to reduce FY06 community assessments.**

Figure 7



Use of Current Revenue to Fund Capital Projects. For FY06, the Authority is proposing to budget \$7,000,000 in *Current Revenue* to fund ongoing capital projects. The amount is a \$3 million increase over the \$4 million budgeted in FY05.

Starting in FY00, the Authority staff recommended funding some recurring capital expenditures with current revenue. Examples include capital equipment replacement, pipeline rehabilitation and valve replacement. Although the recommendation evolved as part of discussions concerning the need for replacement of capital equipment at Deer Island, the approach is also intended to apply to other wastewater, residuals and waterworks system and facility improvements. *Current Revenue* used to finance ongoing capital expenditures is not earmarked for specific projects. Funds are transferred to the *Construction Fund*, thereby reducing borrowing requirements for the year. The strategy avoids interest costs on funds that would otherwise have been borrowed.

The FY00 CEB included \$1 million for this category of expense. The amount has increased by \$1 million per year, to the \$7 million in the proposed budget. The planning projections assume annual increases of \$1 million per year, with the exception of FY07, when the increase is \$3 million. By FY10, the annual amount is projected to be \$13 million. The funds can also be used to meet the coverage requirement as defined in the bond covenants.

As expressed in previous *Comments and Recommendations*, the Advisory Board continues to question the amount budgeted, particularly when the amount exceeds the coverage requirement. This year's coverage amount is \$7 million more than required. Receipt of *Debt Service Assistance* also reduces the coverage requirement. **Accrue only the amount of *Current Revenue for the Capital Program* needed to meet the coverage requirement in FY05. Lower the budgeted amount of *Current Revenue for the Capital Program* to the amount needed to meet coverage in FY06 for a reduction of at least \$3,900,000. At year end, accrue only the amount of *Current Revenue* needed to meet the actual FY06 coverage requirement. Transfer the excess amounts to the *Rate Stabilization Funds* for use in easing future rate increases.**

•49•

REVENUE

Non-Rate Revenue and Income

The Authority is budgeting *Non-Rate Revenue and Income* of \$56,012,771 in FY06: *Other User Charges* of \$6,474,771; *Other Revenue* of \$4,705,000; *Entrance Fees* of \$432,000; *Investment Income and Swap Receipts* of \$28,717,000; and a drawdown from the *Rate Stabilization Fund* of \$15,684,000.

Other User Charges

Income from *Other User Charges* is budgeted at \$6,474,771 for FY06, a 10%, or \$583,236, increase from the \$5,891,535 budgeted in FY05. The charges are paid by 14 communities or other entities receiving water or sewer services from the MWRA. Income under this category of revenue comes primarily from communities receiving water service under special agreements and includes: \$3,313,200 from the *CVA communities* (Chicopee, Wilbraham and South Hadley); \$500,000 for payments associated with *Clinton's allocated costs* for the Authority's operation of the Clinton Wastewater Treatment Plant, plus \$97,133 from the *Town of Lancaster* (portions of which are also served by the Clinton Wastewater Treatment Plant); \$80,102 from the *City of Worcester*; \$350,000 for acceptance of *water treatment plant residuals* for treatment at Deer Island; and a transfer payment of \$1,810,923 from the sewer side of the budget to water revenue for the cost of *water used for operation of the Deer Island Wastewater Treatment Plant*. Another \$261,267 is budgeted from *several other entities*. In FY04, Marlborough and Southborough were recategorized from *Other Users* to the rate revenue base.

- 50• City of Worcester. The Authority has proposed a budget of \$80,102 for payments from the *City of Worcester*. More recent estimates put this figure slightly higher at \$87,500. **Update the amount budgeted for income from the City of Worcester, for an increase of \$7,398.**

- 51• Clinton Wastewater Treatment Plant. The proposed budget includes \$500,000 to be appropriated by the Commonwealth for the Town of Clinton to pay the MWRA for part of the cost of operating and maintaining the *Clinton Wastewater Treatment Plant*. Another \$97,133 is budgeted for payments from the *Lancaster Sewer District*. The plant serves the communities of Clinton and (a small portion of) Lancaster. The actual cost of operating the plant is budgeted at \$1,111,808 plus allocated costs which bring the total costs of the Clinton plant to \$1,312,423 for FY06. Income estimates from the Lancaster Sewer District are now expected to be \$119,000. **Update the amount budgeted for income from the Lancaster Sewer District, for an increase of \$21,867.**

- 52• Water Treatment Plant Residuals. The Authority is estimating receipts of \$350,000 from nine water treatment plants whose residuals are discharged to the Authority's sewer system for treatment at Deer Island. More recent estimates increase the amount to \$375,000. **Update budgeted income for payments relating to Water Treatment Plant Residuals, for an increase of \$25,000.**

Other Revenue

The proposed budget includes \$4,705,000 for *Other Revenue* from other customers and revenue services. Included are: \$1,908,000 for anticipated revenue from the *TRAC Permit Fee* program; \$250,000 for potential income from *TRAC Penalties*; \$638,000 for anticipated revenue for *Hydropower Revenue* at the Cosgrove Intake;

\$867,000 for *Chemical Cost Reimbursements* from the Commonwealth; and \$1,042,000 in *Miscellaneous Other Income*.

TRAC Permit Fee Income. The Authority has budgeted \$1,908,000 for fees charged to industries and other permitted customers that discharge toxic and other regulated wastes into the sewer system. The amount is a 4.4% increase over the amount budgeted for FY05. The Permit Fee Program is intended to recover the costs of operating the program. Receipts through March have totaled \$1,845,344 or just over the budgeted amount for the full year. Actual receipts in FY04 were \$1,831,224.

Penalties. The Authority is level-funding anticipated penalty income at \$250,000. Income is difficult to predict and varies from year to year. Receipts through March were \$312,525. Receipts in FY04 were \$71,075.

Hydropower Revenue. The Authority estimated hydropower revenue for FY06 at \$638,185 from the Cosgrove Hydropower facility. More recently, the Authority has reported that preliminary tests have shown a 50% decrease in kilowatts produced. In addition, the Authority has reviewed assumptions regarding rate revenue per kilowatt hour, since, with deregulation, rates change monthly. The revised estimate of FY06 income is now \$319,810 or half the original estimate.

Chemical Cost Reimbursement. The Authority continues to budget \$867,000 for *Chemical Cost Reimbursements* from the Commonwealth. The budget is based on the amount the MWRA is entitled to by statute, as a (now partial) reimbursement for the cost of chemicals used in wastewater treatment.

Miscellaneous Other Income. The Authority is proposing to budget \$1,042,000 for income from several other sources, including: \$112,000 for *Fore River Shipyard Lease Income*; \$500,000 for *Renewable Portfolio Credits*; \$30,000 from *Antenna Licenses*; and \$400,000 from *Other Sources* (such as the sale of surplus property and receipt of gas tax rebates).

The Authority has received energy related revenue through March totaling \$1,544,688, including revenue from participation in the Load Response Program of \$744,000 and Renewable Portfolio Standard (RPS) credits of \$665,000.

The Authority is hiring additional staff to be able to continue water quality testing for several watershed associations. The Advisory Board believes that the Authority should seek payment for Laboratory services provided to outside clients. **Establish and implement service charges for Laboratory services for outside clients.**

•53•

Entrance Fees. The Authority is budgeting \$432,000 for *Entrance Fee* income related to the *Town of Stoughton*. In addition, the *Town of Wilmington* has requested a six-month emergency connection to the MWRA Waterworks system. **Update the Entrance Fee line item to reflect the asset value contribution associated with the six-month water emergency connection to the Town of Wilmington.**

•54•

Investment Income

The Authority is assuming *Investment Income* of \$28,717,000 for FY06, including *Swap Receipts* of \$2,109,000. The amount is virtually unchanged from the amount budgeted in FY05. Income through March totaled \$26,057,151 or 21.6% (\$4,636,958) more than budgeted for the period, reflecting higher interest rates than had been assumed in the FY05 budget.

Over the last five or more years, falling interest rates and lower fund balances have resulted in lowered expectations for *Investment Income*. In previous budgets, the Authority has estimated that a 1% difference between assumed and actual interest rates could change *Investment Income* by an estimated \$3 million.

In FY01, *Investment Income* totaled \$47.71 million. Average fund balances have fallen from \$754 million in June 2001 to \$692 million as of February 2005 (net of the Swap balance of \$150 million). Interest rates have fallen dramatically over the same period, although since June 2004, short-term rates have turned upward and are expected to continue their “measured” climb.

- 55• Budget assumptions for *Investment Income* are closely linked to the Authority’s plans for capital financing and the management of debt service payments. As noted in previous *Comments and Recommendations*, the Advisory Board urges the Authority to review and update assumptions and strategies for investing each fund category in its portfolio. **Review all appropriate options for enhancing *Investment Income* from both the long-term and short-term funds. Analyze investment horizons and update interest rate assumptions and increase *Investment Income* by at least \$1,688,165.**

Swap Receipts. The Authority is assuming *Swap Receipts* relating to the 2000D bond issue of \$2,109,000 for FY06, less than half the \$4,593,000 budgeted in FY05. Income through March totaled \$4,173,406 or 21% more than budgeted. The positive variance is shrinking, however, reflecting the steady rise in short-term interest rates since the start of the fiscal year. The proposed budget assumes short-term rates will average 3.5% in FY06.

Non-Recurring Revenue: Rate Stabilization Funds

The Authority is proposing the use of \$15,684,000 from the *Rate Stabilization Fund* in FY06. Incorporated into the *Capital Finance* line-item is the use of \$11,280,000 from the *Bond Redemption Account*. Thus, the total amount to be withdrawn from the *Rate Stabilization Funds* in FY06 is \$26,964,000. The Authority is assuming all remaining monies in the *Rate Stabilization Fund* and the *Bond Redemption Account*, totaling \$50 million, will be drawn down in the next two years, FY07 and FY08.

- 56• By FY09 the rate stabilization funds will be exhausted and by FY10, the rate increase could be \$48 million, or 7.9%. **Use as much of the \$10,408,683 of the**

Advisory Board’s recommended expense reductions and non-rate revenue increases as possible to lower the FY06 use of the Rate Stabilization Fund. Reserve these funds for future years to ease projected rate revenue increases. The recommendation keeps the proposed rate increase at 5.86% unless debt service assistance is funded for FY06.

As noted in previous *Comments and Recommendations*, planning estimates “generally use conservative assumptions to ensure that MWRA rate increases will not be higher than projected.” The Authority has identified a number of areas where costs may decrease, including lower than anticipated borrowing rates or higher rates for investment income, positive year-end variances, more opportunities for SRF borrowing, debt refinancing opportunities, lower or later capital spending and lower operating expenses. Even so, the Authority currently projects that the rate stabilization fund and the bond redemption fund will be fully utilized between FY06 through FY08.

Rate Revenue

The Authority is proposing *Rate Revenue* receipts of \$479,538,069 for FY06, a 5.86% increase over the amount budgeted for FY05.

ACTION PLAN TO CONTROL RATE INCREASES

In previous *Comments and Recommendations*, the Advisory Board has recommended that the Authority develop a multi-year action plan for controlling rates. Some elements of such a plan can be implemented fairly quickly; others take considerable lead time before their effect is felt. **Update and approve an Action Plan for controlling rates.** Among the components of the Action Plan should be:

•57•

Review Regulatory Limits

- Reduce harbor and outfall monitoring scope and reporting frequency
- Review need for Utah landfill
- Lift limitations on self generation at Deer Island and reclassify hydropower generation to receive green energy credits

Modify Operating Strategies

- Expand self-generation capabilities at Deer Island and Walnut Hill
- Pursue wind generation
- Explore opportunities for energy cogeneration at the pellet plant
- Implement additional strategies to control peak power demands
- Seek lower cost office space

Modify and Tighten Budget Management

- Pursue debt service refunding and restructuring opportunities
- Expand SRF funding where possible

Policy Recommendations

- Review Insurance Reserve requirements
- Review Investment Income strategy
- Remain within the limitations of the existing capital spending cap
- Set the next capital spending cap

Expand Other, Non-Rate Revenue

- Pursue additional sale of water
- Sell some services such as laboratory analysis services
- Establish fees for standby water rights
- Seek additional debt service assistance
- Evaluate other revenue sources

POLICY RECOMMENDATIONS

Finance Discussion Group

- 58• A number of the Advisory Board's recommendations address different ways to approach budget management. **Create a Finance Discussion Group to address a number of issues including: capitalization policy, use of current revenue for the capital program, assigning the water and sewer split for certain expenses and for surpluses (and use of the Rate Stabilization Funds), use of coverage and other items, as suggested.**

A related agenda item should include how certain expenses are categorized as operating or capital financing expense, as offsets to expenses or as non-rate revenue. Differences in categorizing certain revenues and expenses can impact Operating Reserve requirements (by \$160,000 for each \$1,000,000 in lower operating expense) or coverage requirements (by \$100,000 for each \$1,000,000 in lower coverage requirements).

Fleet Management

Recommendation #71 in the *Advisory Board's Comments and Recommendations on the MWRA's Proposed Fiscal Year 2005 Current Expense Budget* requested MWRA undertake the following actions regarding fleet management:

Undertake a thorough review of the organization's entire fleet operations program. This examination should focus on the anticipated resources required to maintain MWRA's vehicle/equipment fleet in both the short-term (three to five years) and long-term (five to ten years). The assessment should examine the areas of fuel, parts and maintenance.

MWRA should include a benchmarking study of how MWRA services compare to similar organizations and industry best management practices. The final report should also include a cost-benefit analysis of outsourcing specific components of fleet operations (e.g. parts, preventative maintenance, repairs, etc.). Work cooperatively with MWRA Advisory Board staff to develop the document and report the findings from the assessment to the MWRA Board of Directors in December 2004.

MWRA responded as follows, "Agree. Staff will work to complete review of the fleet operations program. This will be a collaborative effort from within the organization. Staff will seek to complete this report in FY05, but depending on the final scope, it may be after December 2004."

Through April, the report has yet to be provided to the Advisory Board. MWRA should work to enhance internal controls to coordinate commitments made to the Advisory Board. **The Advisory Board repeats the request made in Recommendation #71 from the FY05 *Comments and Recommendations* document for MWRA to provide a report examining MWRA's entire fleet operations as previously agreed to by MWRA.**

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MWRA Business Plan

The MWRA Business Plan is described on the MWRA website as a "strategic road map" consisting of a mission statement, five organizational goals, ten objectives and 43 strategies. Many of the strategies are outdated and the targeted period for implementation of the Business Plan, Fiscal Year 2000-2005, is nearing an end. The Advisory Board was told a more concise Business Plan with updated strategies would be developed. The revised Business Plan has yet to be produced and the status of the effort is currently unclear. The Advisory Board recognizes the importance of strategic organizational planning and understands the means and methods to develop and articulate these goals can take many forms. **Update the Board of Directors at the June Board hearing on the status of the MWRA Business Plan or substitute strategic planning effort.**

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With the most recent alterations to the Capital Improvement Program, the progressive decline of staffing resources and the start up of major facilities, MWRA should reassess and develop new strategies that reflect updated goals. The organization should eliminate reference to the outdated FY2000-2005 Business Plan on the MWRA website and seek to update the revised strategic plan. MWRA must recommit to developing and articulating organizational goals that management, staff and member communities can respectively support. There have been many significant changes, both internal and external to the MWRA, since publication of the last Business Plan. The strategic plan should be updated to reflect these shifts.

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