

Attachment D
Responses to Advisory Board Comments & Recommendations on MWRA's
Proposed Fiscal Year 2007 Current Expense Budget

Recommendation Summary: 33 Monetary
 17 Non-Monetary

MWRA staff support 54%, or \$5.1 million of the recommended expense reductions and nearly 97%, or \$2.6 million of the recommended increased non-rate revenue for a total adjustment of \$7.7 million. Responses to the non-monetary comments and recommendations are elaborated upon below.

1. Convene a working committee of the MWRA staff, the Advisory Board and the Financial Advisor to revisit the rates management strategy.

Response:

Agree. In the summer of 2006, a working committee will be convened of members from the Board of Directors, MWRA staff, Advisory Board staff, and Financial Advisors to revisit long term rate strategies, as well as reserve requirements under the existing bond resolution. Other Advisory Board comments related to the insurance reserve and the RRR reserve should be discussed as part of this working committee.

2. Develop a debt restructuring plan to provide sustainable and predictable rate revenue requirements through FY 2013.

Response:

Agree. The working committee established this summer should set the parameters to develop a debt restructuring plan to better match the asset useful life with the related debt outstanding. This recommendation supports intergenerational equity and will provide some relief to rate revenue requirements over the next several years.

3. Reassess amounts budgeted for Worker's Compensation expense in FY07 and reduce the proposed budget by at least \$40,000.

Response:

Disagree. Spending for Workers' Compensation is unpredictable. Changes are made to reserves on a regular basis for new and existing cases based on updated medical information. Staff propose to add \$100,000 to the Medical Payments item for FY07 as part of the Spring Revisit process based on FY06 spending. Even with this addition the proposed FY07 budget is less than the prior three year average expense for Workers' Compensation (average spending for FY04, FY05 and (projected) FY06 was \$1,175,354).

4. Update assumptions for enterococcus treatment at Deer Island and reduce Sodium Hypochlorite expense by an estimated \$250,000.

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Response:

Disagree. Deer Island's NPDES permit has expired and is subject to renewal at this time. The FY07 CEB is based on the assumption the new permit will not be in effect until January 2007 and thus only incorporates six months of the Sodium Hypochlorite cost increases associated with the expected requirements. Staff cannot predict how quickly or how long it may take to renew this permit with the regulators.

5. Update assumptions for enterococcus treatment at Deer Island and reduce Sodium Bisulfite expense by an estimated \$115,000.

Response:

Disagree. Deer Island's NPDES permit has expired and is subject to renewal at this time. The FY07 CEB is based on the assumption the new permit will not be in effect until January 2007 and thus only incorporates six months of the Sodium Bisulfite cost increases associated with the expected requirements. Staff cannot predict how quickly or how long it may take to renew this permit with the regulators.

6. Update assumptions for Polymer use at Deer Island and reduce budgeted amounts by at least \$75,000.

Response:

Partially agree. Deer Island agrees to reduce the Proposed FY07 CEB by \$67,278 to reflect lower actual dosing levels offset by an 8% increase in unit prices.

7. Revisit assumptions for Hydrogen Peroxide use at Deer Island and reduce budgeted amounts by at least \$75,000.

Response:

Agree. Based on revised calculations, Deer Island will reduce the budget for this chemical by \$95,807.

8. Revisit assumptions for STG generation at Deer Island and reduce the purchased Electricity budget by an estimated \$87,750.

Response:

Partially agree. Deer Island agrees to reduce the Proposed FY07 CEB by \$15,000. Deer Island's revised calculations increase budgeted STG output by 127,000 kwh based on the most recent three year average. Included in the average are the past two winters when plant thermal demand has been lower than previous years due to repairs and improvements to thermal heat exchangers that have allowed DI to run the plant heat loop at a lower temperature during the high thermal demand months with a resultant decrease in boiler fuel oil use. Less fuel to the boilers results in less steam out and thus less STG generation. However, the value of the decreased self-generation from the STG is more than offset by lower diesel fuel usage resulting in a net overall savings. The only way to guarantee meeting the recommendation would be to burn fuel oil in excess of Deer Island's thermal demand, which is uneconomical.

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9. Investigate the possibility of siting wind energy at other Authority locations, including Nut Island, Norumbega, the Quabbin Reservoir and the new Water Treatment Plant. Update assumptions for siting wind energy at Deer Island and report to the Board of Directors on costs and a schedule for installation as well as the potential for siting at other Authority locations.

Response:

Agree. MWRA staff will evaluate feasibility of developing wind energy resources at other MWRA locations and will report to the Board upon completion of the evaluation. Assessment will focus on locations where MWRA has significant continuous energy loads (e.g. Carroll Water Treatment Plant and Nut Island Headworks) which can utilize the entire output of on-site generation, thereby avoiding not only the cost of energy but also the transmission and distribution charges assessed by local distribution companies (NSTAR and NGrid) to maximize economic benefits. MWRA will also examine smaller loads with high average costs per kilowatt hour (e.g. Hingham Pump Station) which may be suitable for the application of smaller scale technology. To the extent possible, MWRA will seek to obtain technical support and funding from the Massachusetts Technology Collaborative to support this effort.

The schedule and cost assumptions for the Deer Island wind power initiative are dependent upon the outcome of FAA decisions regarding height of the generators and therefore have not been updated from what has previously been reported. Upon release of the FAA's decision, Deer Island staff will begin work on the next phase of this project including updates of cost estimates and the schedule. However, even under the most optimistic schedule projections, it is unlikely implementation of this project will have an impact on the FY07 CEB.

10. Reduce the Water Operations - Electricity, Skyline Drive line item by \$50,000 reflecting MWRA efforts to enhance hydroelectricity generation at Cosgrove.

Response:

Agree. Based on revised calculations, Field Operations Department will reduce the budget for this item by \$75,000.

11. Report to the Board of Directors at the rate hearing on the current operational issues with the Cosgrove hydroelectric turbines and the measures staff plan to implement to maximize use of the turbines while maintaining the reliable operation of the CWTP.

Response:

Agree. MWRA agrees to report on the status of this issue to the Board of Directors. Regular reports are provided in the orange notebook and additional information can be provided as required. To address the operational issues, staff recently modified settings on the emergency generator and automatic transfer switch to accelerate transfer of power to the JJCWTP and then successfully tested these modifications under different conditions.

12. Cut the CWTP diesel fuel budget by \$481,383, reflecting the scaled back use of the on-site back up electricity generators.

Response:

Agree. MWRA will reduce the budget for this item by \$497,297 based on revised calculations of use.

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13. Report to the Board of Directors in September on the long-term plan to evaluate and control energy costs at the CWTP including participation in a load response program similar to the current program at the Deer Island Wastewater Treatment Plant.

Response:

During this first year of plant operation, management has focused on understanding the plant's operations and ensuring reliability for all systems. As plant operations become more steady-state during the next year or two, management will evaluate energy cost-control and revenue-generating opportunities and will periodically report on the status of the topic to the Board of Directors.

14. Report to the Board of Directors in September on plans for the pelletizing plant's long term future, including maintenance scope and priorities in the upcoming Master Plan.

Response:

Agree. MWRA is addressing the future of the pelletizing plant in the master planning process and will report to the Board on this topic during presentation of the Master Plan.

15. Update budgeted amounts for Building and Grounds Services in the Field Operations Department for a reduction of \$23,250.

Response:

Agree. MWRA will reduce the budget for this item by \$25,000.

16. Update assumptions for operation of the Union Park CSO Facility in FY07, and reduce budgeted amounts by at least \$100,000.

Response:

Agree. MWRA will reduce the budget for Union Park operations by \$250,000 to reflect the change in the schedule for start-up.

17. Reassess the frequency of beach nourishment studies at Deer Island and reduce Professional Services spending by \$25,000.

Response:

Disagree. The annual beach nourishment studies are required by the permit associated with construction of the sea wall.

18. Reassess budgeted amounts for Legal Services in the Human Resources Department and reduce by at least \$15,000.

Response:

Disagree. Increased spending for this item is anticipated during FY07. The contract for the Workers' Compensation Third-Party Administrator will be re-bid during FY07. An increase for that contract is anticipated. In addition, a transition expense is anticipated if the contract is awarded to another vendor.

19. Reduce the Comptroller's Professional Services line item by \$11,000 to reflect the May 10, 2006 award of the new Auditing contract.

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Response:
Agree.

20. Update assumptions for Security Services expense at Deer Island and reduce budgeted amounts by \$40,000.

Response:
Disagree. Deer Island's FY07 security services budget covers the annual cost of the existing contract based on current levels of spending plus additional funds for maintenance of the security cameras. The Deer Island security maintenance budget has been combined with the central security maintenance budget. We are currently replacing some of the Deer Island cameras, which are very old. We will be replacing additional equipment in the next several years.

21. Reduce the Procurement - Materials Management Printer/Copier Paper line item by \$6,350 representing a per employee projection of \$60.

Response:
Agree.

22. Reassess the Printing budget for the Education Program, and reduce budgeted amounts by at least \$10,000.

Response:
Partially agree: After careful evaluation of the School Education Program printing budget, staff have agreed to reduce printing of the Water From Source To Sea Newsletter by \$1,000, and Water Quality Manuals by \$2,000.

23. Reduce the Public Affairs - Printing and Duplicating budget by \$3,000 reflecting enhanced use of the intranet to communicate to employees and plans to develop a web-based newsletter in FY07.

Response:
Agree: Staff will reduce printing of the Annual Report by \$5,000 and Electronic Printing Services by \$3,000, for a total of \$8,000. It is staff's intention to resume the production of an Annual Report. If the FY05 report cannot be completed by the end of FY06, the FY06 report will be completed in the Fall, FY07. Although there has been no spending in Electronic Printing so far this fiscal year, this is an item that is generally used on an as-needed basis and cannot be predicted - as is the case with brochures and upcoming projects.

24. Revisit assumptions for Advertising in the Human Resources Department and reduce budgeted amounts by at least \$10,000.

Response:
Partially agree. Human Resources Department agrees to reduce this item by \$5,000.

25. Reassess the budgeted amounts for Lease costs for Building 34, and reduce by \$190,168.

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Response:

Partially agree. A reduction of \$151,745 is included in the Spring Revisit. This is based on updated operating cost and tax expenses.

26. Reduce the Other Services - Space/Lease/Rentals line item by at least \$35,000 to reflect the reduction in rented space at Building 39 beginning in September 2006.

Response:

Disagree. Operating and Tax expenses were already reduced in the proposed budget.

27. Reduce the Other Services - Other Services budget within the Real Property and Environmental Management Department by \$30,000 reflecting the completion of the Turkey Hill Soil Remediation project in FY06.

Response:

Agree. The Spring Revisit reflects an increase of \$28,000 for this item. This includes a \$58,000 increase for the Lake Cochituate Groundwater monitoring contract (which will continue into FY07) that is partially offset by the \$30,000 savings from the early completion of the Turkey Hill project.

28. Reduce the Rates and Budget Other Services - Other Services line item by \$2,424, reflecting an annual 3% increase in the inflation projection line-item.

Response:

Agree.

29. Reassess the amount budgeted for the Operating Reserve deposit and reduce by \$279,221.

Response:

Partially agree. The required balance in the Operating Reserve is 1/16th of operating expenses which include directs, insurance, mitigation, pension and HEEDCo. Since the spring revisit increased the overall operating expenses for the Final FY0 CEB, the actual reserve balance deposit for FY07 has increased.

30. Direct the Insurance Consultant to discuss the size and need for the reserve in its upcoming report.

Response:

Agree. Staff will direct the Insurance Consultant to prepare a triennial review of the insurance reserve in FY07, as required by the bond resolution.

31. Reassess the need for the Insurance Reserve and for the RRR Reserve, given the excess capacity in the Tax Exempt Commercial Paper Program.

Response:

Agree. The Tax Exempt Commercial Paper Program has excess capacity based on the current CIP spending plan which may continue in future years. This additional ability to raise capital funds for extraordinary events or catastrophic repairs will be brought to the attention of both independent consultants during their individual review of each reserve's required fund balance.

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32. Reopen and amend the Report of the Consulting Engineer to include a more thorough discussion of the size and even the need for the RRR Reserve given the excess capacity in the Commercial Paper program.

Response:

Partially agree. The RRR reserve balance of \$50 million is a requirement of the current NPDES permit. Any decrease to this reserve balance will need to be negotiated as part of the permit renewal process. This report is required to be prepared by an independent consultant every three years and is next scheduled to be completed in December of 2008. The working committee established to review rates management strategies should review this request and evaluate its appropriateness at this time.

33. Continue to work with the Advisory Board in pursuing a legislative remedy to eliminate the A&F Overhead Charge. MWRA should also work with Advisory Board staff to have DCR establish a clear and effective methodology for establishing how administrative costs and expenses for shared personnel or agency resources shall be allocated among DWSP and DCR.

Response:

Agree. The MWRA has been working with the Advisory Board in pursuit of the A&F fee waiver and both organizations are hopeful that the overhead chargeback will be eliminated. In addition, the MWRA and especially DWSP staff have worked to refine the methodology for assigning appropriate shared costs between DWSP and DCR and ensure accurate review prior to submitting the request for reimbursement. The new methodology will be documented and available.

34. Work cooperatively with the MWRA Advisory Board to support the State Auditor's review of the MWRA/DWSP Trust in an effort to ensure accountability for all participating parties.

Response:

Agree. The MWRA will provide all information necessary and work collaboratively with DWSP to ensure an accurate and timely audit.

35. Reflect the updated revaluation of watershed property within the Final FY07 CEB reflecting a savings of \$594,269 in the PILOT line item.

Response:

Agree. Based on the revaluation of watershed property completed after the proposed FY07 CEB was submitted, the revised payments are considerably lower than anticipated.

36. Report back to the MWRA Board of Directors at the rate hearing on staff's progress in pursuing the cost reduction/avoidance measures outlined in the October PILOT staff summary.

Response:

The most significant measures to reduce PILOT payments outlined in the October 2005 staff summary require legislative action. MWRA staff propose to meet with the Advisory Board staff to co-develop a strategy and proposed draft legislation and return to the Board with recommendations this fall.

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37. Reduce the Proposed FY07 watershed debt service line item by \$930,283, reflecting the recent agreement with the Commonwealth's Treasurer's Office to reschedule the watershed debt service payment schedule.

Response:

Agree. Staff have successfully negotiated level debt service payments to the Commonwealth from FY07 through FY22, while achieving present value saving of over 6%.

38. Update assumptions for MWRA Debt Service for a reduction of at least \$2,032,137.

Response:

Agree. In March 2006, staff refunded and restructured \$286 million of outstanding debt while achieving over \$2 million of savings in FY07 debt service payments.

39. Revisit assumptions for Variable Rate Debt Service and reduce budgeted amounts by at least \$3,028,125.

Response:

Disagree. Variable Rate Debt Service was budgeted at 4.75 % while it has historically been budgeted at 4%. Based on current economic conditions, it seems prudent to budget conservatively at this time. Any variable rate savings should be used to directly offset the use of rate stabilization funds in FY07.

40. Update assumptions for Local Water Pipeline Program Commercial Paper and reduce the budgeted amount by \$894,732.

Response:

Partially agree. Staff revised funding rate, resulting in \$525,000 reduction.

41. Update budgeted amounts for Debt Service Assistance from the Commonwealth. Utilize Debt Service Assistance receipts during FY07 to reduce FY07 community assessments.

Response:

Agree. The MWRA will use all FY07 Debt Service Assistance (DSA) to reduce FY07 community assessments and the wholesale water rate. There are currently two figures under debate in the House and Senate Conference Committee and as such final receipts have yet to be determined. Staff will incorporate the lower figure of \$15 million in DSA statewide by estimating MWRA share at 75% or \$11.25 million in its FY07 Final Budget - until additional information is available. Any additional DSA receipts will be used to further reduce assessments and the wholesale water rate; and lack of DSA would also have an impact and drive up the FY07 rate increase.

42. Utilize fines to ensure compliance with the Authority's TRAC reporting and performance requirements. Report to the Board of Directors and the Advisory Board on the total number of violations in all categories over the last two years.

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Response:

Agree. MWRA will report on this topic at an appropriate time to the Board of Directors. In FY04, TRAC fined 32 permitted entities and collected \$68,900 in penalty revenue. In FY05, TRAC fined 10 permitted entities and collected \$330,000 in penalty revenue.

43. Add \$15,000 to the Revenue - Other Revenue line item in anticipation of the fourth emergency water connection of the Town of Wilmington to the MWRA Waterworks System.

Response:

Agree.

44. Add \$100,000 to the Other User Charges - Non-rate Revenue and Income line item, reflecting reimbursement of planned operations and maintenance expenses on the Rutland-Holden Sewers.

Response:

Partially agree. Miscellaneous revenue was increased by \$40,000, based on analysis provided by Operations staff.

45. Provide an update to the Board of Directors at the June rate hearing on the status of the transfer of the Rutland-Holden Sewers to its user communities and provide a schedule for implementation of the transfer.

Response:

MWRA will pursue transfer of the Rutland-Holden Sewers to its user communities at the direction of the Board of Directors. MWRA management has discussed this topic with officials from user communities during FY06 but to date, the communities have not been willing to accept a transfer of the Rutland-Holden sewers.

46. Add \$15,000 to the Revenue - Other Revenue line item to reflect the sublease of MWRA office space in Building 34 at the Charlestown Navy Yard.

Response:

Disagree. The current agreement with MGH runs through the end of June. If MGH does not elect to extend this agreement beyond July 1, all revenue generated would have been in FY06. If they choose to extend it would only be for 1 - 2 months, as our lease agreement for Building 34 terminates in September.

47. Revisit assumptions for interest rates and fund balances relating to Investment Income and increase budgeted amounts by at least \$2,498,370.

Response:

Agree. Based on the March 2006 bond transaction, estimated fund balances for debt service reserve and bond redemptions funds will be higher than originally anticipated. Revised assumptions will increase the estimated investment income by at least \$2.5 million. Any additional investment income should be used to directly offset the use of rate stabilization funds in FY07.

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48. Reduce FY07 use of the Rate Stabilization Fund by \$12,062,462. Reserve these funds for future years to ease projected rate revenue increases.

Response:

MWRA staff support 54% or \$5.1 million of the recommended expense reductions and nearly 97% or \$2.6 million of the recommended increased non-rate revenue for a total adjustment of \$7.7 million.

49. Continue to seek opportunities for responsible expansion of the water distribution system which will provide economic benefit, while striving for no negative impact on the interests of the existing member communities.

Response:

System expansion is currently being discussed by the MWRA Board of Directors. Staff will continue to respond to all information requests from cities and towns exploring membership in the MWRA, but will not engage in actively soliciting new members without such direction from the Board.

50. Develop a Request for Proposals (RFP) with the objective of identifying a commercial entity to package, market and distribute MWRA bottled water.

Response:

Bottling MWRA water is a major initiative and as such a policy decision for MWRA's Board of Directors. Staff should brief Board members on the considerations involved in such an initiative before developing an RFP.