

MWRA ADVISORY BOARD



FY 2008

Comments and Recommendations
on the MWRA's
Current Expense Budget

The Community Advisory Board to the
Massachusetts Water Resources Authority

May 2007

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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Comments and Recommendations

On the MWRA's Proposed
Fiscal Year 2008
Current Expense Budget

May 2007

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, 2007 (FY08). 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 17, 2007 meeting of the full Advisory Board.

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

All base information for figures and tables, schematics and photographs contained within the *Comments and Recommendations* document are provided by MWRA or their consultants, unless otherwise noted.

The Advisory Board extends its appreciation to MWRA staff for their assistance in reviewing the FY08 Current Expense Budget.

MWRA ADVISORY BOARD

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INTRODUCTION

In its *Comments and Recommendations* on the Proposed FY08 Capital Improvement Program (CIP), the Advisory Board noted that the Massachusetts Water Resources Authority (MWRA) is at a critical juncture in its development as an agency. As it nears completion of many of its largest mandated projects and programs, the Authority must address the other capital needs it faces, and then ultimately turn its attention toward adequately maintaining and servicing its infrastructure and new facilities. The Advisory Board also stressed the link between the Capital Improvement Program and the operational and financial resources needed to successfully execute it – resources found within the Current Expense Budget (CEB).

In discussing the link between the CIP and CEB, it is important to note that debt service makes up the single largest component of the CEB (56.6% in the Proposed FY08 CEB). As such, any changes to this line item directly impact the overall rate revenue requirement and, thus, the wholesale rate increases passed on to the MWRA's member communities. In effect, one of the most effective ways to manage rates is to manage the capital program. Toward this end the Advisory Board has recommended three major initiatives that recently came to fruition: the CIP spending cap, restructuring the Authority's existing debt, and the development of a Master Plan.

The CIP spending cap helps to control capital spending from year to year and to ensure that capital spending does not exceed a pre-determined amount for any given five-year period. In January 2007, the Authority undertook a major restructuring of its long-term debt with the intention of providing additional rate relief in future years. Also in January 2007, the Authority submitted the first draft of its Water and Wastewater Master Plans, which identified \$3.1 billion in capital needs over the next forty years. All three of these actions followed the Advisory Board's recommendations, which centered on the concept of setting rate increases that were sustainable and predictable by managing the Capital Improvement Program and the resulting debt service payments.

In addition to managing rates through the capital program, the Advisory Board reviews the CEB each year with a goal of monitoring expenses and curbing those that may be unnecessary or reassessing risk and proposing alternative budgets. Through the years the Advisory Board has developed recommendations that have significantly reduced annual spending at the Authority. Over the ten-year period from FY08-FY17 rate revenue requirements are projected to grow by over \$334 million.

Recognizing that rate revenue is not a one-year problem, the Advisory Board has adopted a multi-year rate strategy that strives to develop an approach that provides sustainable and predictable wholesale increases for MWRA communities.

A component of the Advisory Board's strategy has been to substitute reductions in various line items for rate stabilization and bond redemption funds to be used as non-rate revenue. The aim with this substitution has been to preserve these funds for rate relief in future "problem" years.

OVERVIEW

THE BUDGET IN BRIEF

The Massachusetts Water Resources Authority has proposed a Current Expense Budget of \$589.3 million for Fiscal Year 2008 (beginning July 1, 2007). Non-Rate Revenue and Investment Income totaling \$46.2 million, plus use of \$4.6 million from reserves and receipt of an estimated \$11.25 million from the state-wide Debt Service Assistance program (DSA), leave \$527.2 million to be raised from rate revenue, an increase of \$31.8 million, or 6.4%, from the amount budgeted in FY07.

Table 1

MWRA CURRENT EXPENSE BUDGET				
(\$000s)				
	FY05	FY06	FY07	FY08
	Actual	Actual	Budget	Proposed
<i><u>Expenses</u></i>				
Direct Expenses	176,821	189,666	203,679	212,782
Indirect Expenses	33,217	35,154	39,211	42,569
Capital Financing	296,666	304,389	333,000	333,908
Subtotal Expenses	506,704	529,210	575,890	589,258
<i><u>Offsets</u></i>				
Variable Rate Debt	(12,496)	-	-	-
Bond Redemption	-	-	-	(2,924)
Debt Service Assistance	(8,019)	(9,631)	(18,750)	(11,250)
Subtotal Offsets	(20,515)	(9,631)	(18,750)	(14,174)
Net Expenses	\$486,189	\$519,579	\$557,140	\$575,084
<i><u>Revenues</u></i>				
Other User Charges	6,601	10,309	7,458	7,468
Other Revenue	5,725	8,455	4,734	5,070
Rate Stabilization	-	10,740	12,577	1,670
Investment Income	34,927	43,762	37,012	33,717
Subtotal Non-Rate Revenue	47,253	73,267	61,781	47,925
Rate Revenue	444,269	472,220	495,359	527,159
Total Revenue and Income	\$491,522	\$545,486	\$557,140	\$575,084
	\$ Increase	19,220	23,139	31,801
	% Increase	4.2%	4.9%	6.4%
<small>Note: % and \$ increases compare budgeted amounts</small>				

The Debt Service Assistance receipts are based on an estimated 75% share of the \$15 million included in the Governor's Budget, filed in February.

The Authority treats Debt Service Assistance and use of monies from the Bond Redemption Fund as offsets to capital financing expenses. Thus, Table I-1 in the Proposed FY08 CEB document lists "Total Expenses" of \$575.1 million, an increase of \$17.9 million, or 3.2%, from the \$557.1 million budgeted in FY07.

Table 2

THE FULL RATE REVENUE REQUIREMENT FOR THE PROPOSED FISCAL YEAR 2008 CEB	
FY07 Rate Revenue Requirement is:	495,358,764
The <u>ACTUAL</u> FY08 Rate Revenue Requirement is:	543,003,016
An Increase of:	\$ 47,644,252
or:	9.6%
MWRA is Proposing to Utilize One-Time Reserves in FY08 to Reduce the Rate Revenue Requirement to Under 7%	
Actual FY08 Rate Revenue Requirement	543,003,016
Bond Redemption	(2,924,000)
Rate Stabilization	(1,669,655)
Debt Service Assistance	(11,250,000)
Revised FY08 Rate Revenue Requirement	\$ 527,159,361
An Increase of:	\$ 31,800,597
or:	6.4%

Direct Expense spending is budgeted at \$212.8 million, a \$9.1 million increase or 4.5% over the \$203.7 million budgeted in FY07. While *Direct Expense* spending declined from FY00 through FY04, the budget has been increasing as the agency absorbs the full year costs of the new John J. Carroll Water Treatment Plant (CWTP), the Braintree-Weymouth Intermediate Pump Station, and, more recently, the Union Park Pump Station/CSO Treatment Facility. Also putting pressure on the budget have been increased prices and use of *Electricity* and *Diesel Fuel*, *Natural Gas*, certain *Chemicals* (especially *Soda Ash*), as well as increased costs of *Health* and *Dental Insurance* and *Medicare* expense. *Maintenance* expense increases by \$2.3 million, or nearly 10%, as major facilities age and certain equipment becomes obsolete.

Indirect Expense spending is budgeted at \$42.6 million, an increase of \$3.36 million or 8.6% from the \$39.2 million budgeted in FY07. Contributing to the

increase are a 4% increase to the *Pension Fund* deposit and a \$0.1 million increase to *Insurance* expense. New to the budget is \$4.5 million in funding for *Post-employment Benefits* to meet the requirements of GASB 45.

Capital Financing Expenses increase by less than 1%, or \$0.9 million, to \$333.9 million and reflects the measurable reduction to previously projected debt service payments due to the restructuring transaction in January 2007. As of the final FY07 budget, projections for FY08 *Capital Financing* expense spending had been \$375.2 million or over \$41 million more than what is currently proposed. Treated as offsets to *Capital Financing* expenses are \$2.9 million in “drawdowns” from the *Bond Redemption Fund* and \$11.25 million from the statewide *Debt Service Assistance* program (assumed to be funded at the \$15 million level in the Governor’s budget).

Non-Rate Revenue of \$47.9 million comes from *Other User Charges*, *Other Revenue*, a drawdown from the *Rate Stabilization Fund*, and *Investment Income*.

Rate Revenue of \$527,159,363 is proposed, a 6.4% increase over the \$495,358,764 budgeted in FY07. Even with the significant benefits of reduced debt service payments resulting from the January 2007 restructuring transaction, the \$31,800,599 increase in *Rate Revenue* is the largest dollar increase in a dozen or more years. (See Figure 2.)

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.

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

MAINTAINING SUSTAINABLE AND PREDICTABLE RATES

As noted in its *Comments and Recommendations on the MWRA’s Proposed FY08 Capital Improvement Program (CIP)*, the Advisory Board highlighted the two challenges facing the Authority, namely the collision between capital needs and the financial reality of addressing them. Indeed, the Authority’s Master Plan identified \$3.1 billion in future capital needs over the next 40 years. The Advisory Board also noted that the Capital Improvement Program is inextricably linked to the operational capacity of the Authority and thereby the Current Expense Budget. Authority staff needs to prepare and manage capital projects as well as operate and maintain current system facilities and infrastructure to deliver service to ratepayers on a daily basis. Therefore, the Advisory Board concluded that ensuring the Authority has the

proper operational and financial resources to manage its Capital Improvement Program is essential to the Authority's long-term success.

From a financial perspective, the Capital Improvement Program also plays a large role in the CEB in the form of debt service. Indeed, debt service (not including offsets) makes up 58% of the Proposed FY08 CEB. Being the largest expense category in the CEB, any changes to debt service have a measurable impact upon the overall CEB and, thereby, the MWRA's rate revenue requirement.

Nearly 92% of the Authority's revenue comes from rate revenue. Consequently, MWRA ratepayers feel the direct impact of rate increases not only from year to year, but also cumulatively over the years. In examining long-range forecasts and projections of the Authority's debt and the increasing ratio of debt service to operating expenses, it is clear that the Authority faces a multi-year challenge. In recent years, the Advisory Board had advocated for restructuring the Authority's debt to assist in the creation of a multi-year rates management strategy. After considerable discussion and evaluation of alternative scenarios, the Authority undertook a major restructuring of its debt in January 2007.

Before this restructuring, the rate revenue requirement was projected to total \$3.2 billion over the next five years (FY08-12). The Proposed FY08 CEB includes \$2.9 billion for this same period, demonstrating that the restructuring reduced the rate revenue requirement by over \$200 million over the next five years. This comes at a time when the state and many of the communities within the MWRA's service area are facing difficult economic times and provides both relief and stability toward water and sewer costs for MWRA ratepayers.

Figure 1

RATE REVENUE REQUIREMENTS & PERCENTAGE INCREASES
ACTUAL, PROPOSED AND PROJECTED RATE REQUIREMENTS @ 6.4% IN FY08

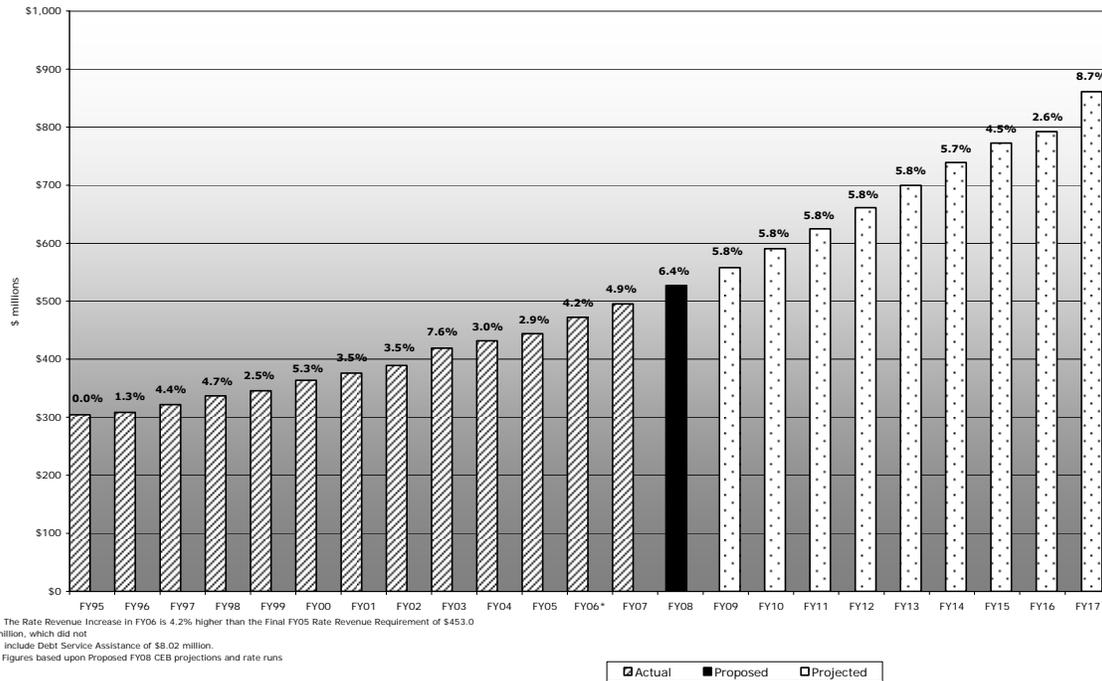
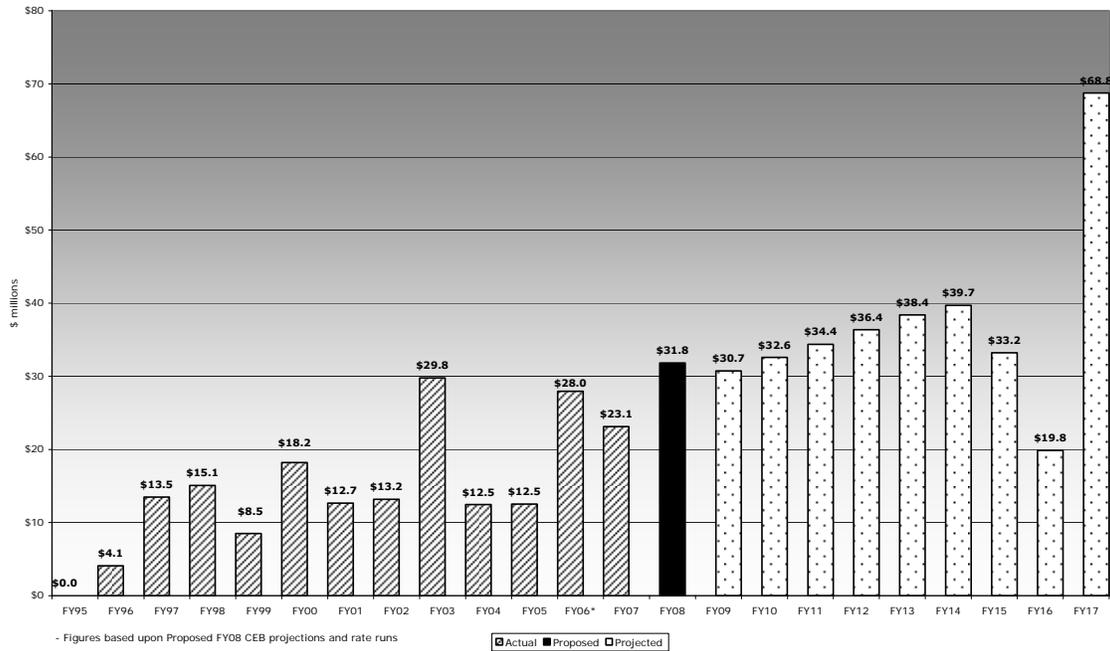


Figure 2

ANNUAL RATE REVENUE REQUIREMENT INCREASES
ACTUAL, PROPOSED AND PROJECTED AT 6.4%



Addressing the capital needs identified in the Master Plan will require the Authority to borrow consistently in future years, adding to the large amount of debt it has already incurred for the Capital Improvement Program to date. Because debt service is such a large portion of the Authority's CEB and will continue to be a large expense as it continues to address future capital needs, it is important to keep the costs associated with debt service as low as possible. This means the Authority will want to position itself as a highly desirable, highly rated borrower to the investment community. With respect to this goal, the Authority's financial advisors have pointed out, it is important for an agency with a large amount of debt to show a willingness to raise rates sufficiently to meet its debt service management obligations. As a result, the financial advisors have cautioned against artificially lowering the Authority rates below the 4-5% range; doing so could jeopardize the Authority's credit rating and/or increase the cost of borrowing, which would ultimately increase assessments to communities.

As representatives of the MWRA ratepayers, the Advisory Board, therefore, has a responsibility to keep costs for debt service down by maintaining the confidence of the investment community. However, the Advisory Board also has an interest in reducing rate increases as much as possible to keep the ratepayers' increases affordable as well. The Advisory Board, therefore, continues to recommend an overall rates management strategy that balances the need to keep wholesale increases at sustainable and predictable levels as the Authority simultaneously positions itself as a highly desirable, highly rated borrower to the investment community. Achieving the best balance between these two objectives provides a challenge and focuses the Advisory Board's review of the Authority's Proposed FY08 CEB.

As a result the Advisory Board's review looks to achieve the following objectives in pursuit of the overall goal of maintaining sustainable and predictable rate increases.

- 1) Preserve and promote rate stabilization funds for future "problem" years
- 2) Recommend reasonable reductions to the Proposed FY08 CEB, while noting the uncertainties and risks associated with budgeting assumptions
- 3) Maintain the Authority's credit rating and attractiveness to the investment community by following the financial advisors' guidelines

Table 3

**FISCAL YEAR 2008 CURRENT EXPENSE BUDGET
AS PROPOSED BY THE MWRA AND AS RECOMMENDED BY THE ADVISORY BOARD**

	MWRA Proposed FY08 Budget	Advisory Board Adjusted Budget	Advisory Board Recommendations
DIRECT EXPENSES			
Wages and Salaries	\$89,191,461	89,191,461	\$0
Overtime	3,844,290	3,844,290	\$0
Fringe Benefits	16,964,925	16,464,925	(\$500,000)
Workers' Compensation	1,400,000	1,400,000	\$0
Chemicals	9,580,879	8,467,879	(\$1,113,000)
Utilities and Energy	28,569,727	27,066,727	(\$1,503,000)
Maintenance	26,592,930	26,592,930	\$0
Training and Meetings	222,252	222,252	\$0
Professional Services	8,095,373	8,195,373	\$100,000
Other Materials	5,175,459	5,175,459	\$0
Other Services	23,144,334	23,004,715	(\$139,619)
Subtotal	\$212,781,630	\$209,626,011	(\$3,155,619)
INDIRECT EXPENSES			
Insurance	\$2,600,000	2,600,000	\$0
HEEC Payment	4,347,200	4,347,200	\$0
Mitigation	1,419,223	1,419,223	\$0
Retirement Fund	4,233,329	4,233,329	\$0
Postemployment Benefits	4,500,000	2,250,000	(\$2,250,000)
Watershed/PILOT	23,207,147	23,207,147	\$0
Capital Financing	333,908,010	329,052,595	(\$4,855,415)
Additions to Reserves	2,261,874	1,360,938	(\$900,937)
Subtotal	\$376,476,783	\$368,470,432	(\$8,006,352)
TOTAL EXPENSES	\$589,258,413	\$578,096,443	(\$11,161,971)
OFFSETS			
Bond Redemption Savings	(2,924,000)	0	\$2,924,000
State Debt Service Assistance	(11,250,000)	(11,250,000)	\$0
Subtotal	(\$14,174,000)	(\$11,250,000)	\$2,924,000
NET EXPENSES	575,084,413	566,846,443	(8,237,971)
NON-RATE REVENUE AND INCOME			
Other User Charges	6,748,199	6,748,199	0
Hydropower	186,266	186,266	0
Permit Fees	1,925,000	1,925,000	0
Penalties	220,000	220,000	0
Commonwealth Reimbursements	867,000	867,000	0
Miscellaneous	466,000	466,000	0
Energy	1,405,900	1,405,900	0
Entrance Fees	719,980	719,980	0
Interest Income	33,717,052	35,217,052	1,500,000
Rate Stabilization	1,669,655	0	(1,669,655)
Subtotal	\$47,925,052	\$47,755,397	(\$169,655)
TOTAL REVENUE	\$575,084,413	\$566,846,443	(\$8,068,316)
Total Advisory Board Reductions			
Without AB's Postemployment benefits recommendation			
RATE REVENUE REQUIREMENT	\$527,159,361	\$521,716,046	
RATE REVENUE INCREASE	\$31,800,597	\$26,357,282	
Percent Increase from FY07 (1% = \$4,953,587)	6.42%	5.32%	
RATE REVENUE REQUIREMENT	\$527,159,361	\$519,091,046	
RATE REVENUE INCREASE	\$31,800,597	\$23,732,282	(\$8,068,316)
Percent Increase from FY07 (1% = \$4,953,587)	6.42%	4.79%	

FY07 Rate Revenue = \$495,358,764

COMMENTS ON LINE ITEMS

DIRECT EXPENSES

LABOR AND BENEFITS

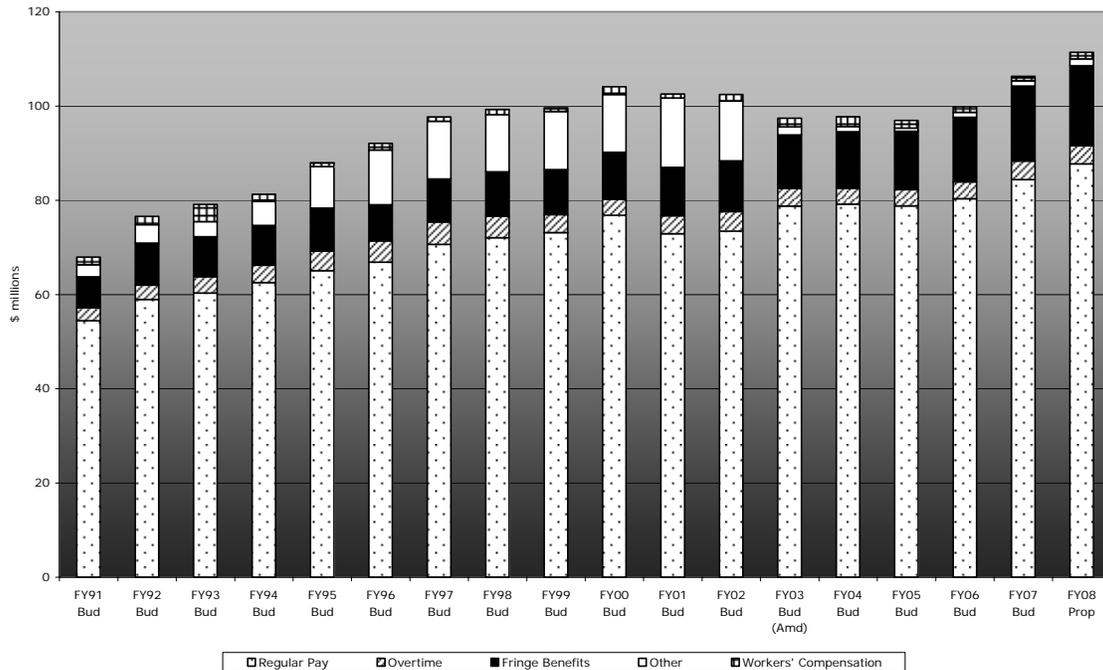
The Authority is proposing a budget of \$111,400,678 for all *Personnel-Related Expenses* for FY08. The amount represents a \$5,064,672 increase, or 4.8%, from the \$106,336,007 budgeted for FY07. *Personnel-Related Expense* includes: *Wages and Salaries*, *Overtime*, *Fringe Benefits* and *Workers' Compensation* expense and represents 52.35% of all proposed *Direct Expense* spending.

Wages and Salaries

The Authority is proposing a budget of \$89,191,461 for *Wages and Salaries* in FY08, a \$3,627,293 increase, or 4.2%, from the \$85,564,169 budgeted in FY07. Most of the amount – \$87,757,482 – is for *Regular Pay* (and leave balance accruals for 1,255 positions). Other components of the *Wages and Salaries* category of spending are: *Shift Differential* \$186,235; *Holiday Pay* \$262,453; *Temporary Employees* \$501,791; *Interns* \$56,750; and *Stand By Pay* \$426,750.

Figure 3

MWRA LABOR COSTS AND BUDGETED POSITIONS



Regular Pay. The Authority is budgeting \$87,757,482 for *Regular Pay* for FY08, an increase of 4.0% or \$3,365,867 from the amount budgeted in FY07. The proposed budget supports the equivalent of 1,255 filled positions and represents no net increase in the number of filled positions in the last two years. The proposed budget includes funds for negotiated increases in salaries and for estimated leave balance accruals. Since FY97, the Authority has reduced staffing by more than 500 positions, a decrease of approximately 30%.

Projections of spending by the end of FY07 put spending on Regular Pay at \$82,242,461 or 2.5% (\$2,149,155) below the \$84,391,616 budgeted for the year. Compared with the budget request for next year, the increase would be \$5,515,021 or an increase of 6.7%. The Authority can be expected to revisit the budget request based on more recent estimates of negotiated increases and revisions to leave balance accruals.

Temporary and Intern Employees. The Authority is proposing to spend \$501,791 on *Temporary Employees* in FY08, more than double the amount budgeted in FY07. Spending through March reached \$242,011 - nearly the full amount budgeted for the year.

Intern spending declines to \$56,750 - a \$16,975 or 23% reduction from the \$73,725 budgeted in FY07. *Intern* spending continues its decline during recent years and is budgeted in just a few departments.

Shift Differential, Holiday Pay, and Stand By Pay. The Authority is proposing a budget of \$186,235 for *Shift Differential* in FY08, a 2.4% reduction from the amount budgeted in FY07. Spending has been below budgeted amounts for the year to date.

Holiday Pay increases by less than 1% to \$262,453. Spending for the year to date has been close to budgeted amounts. *Stand By Pay* increases by just over 5% to \$426,750 in FY08. Spending for the year to date has been between 1-2% of the budgeted amount and is expected to end the year nearly on budget.

Overtime

The Authority is proposing a budget of \$3,844,292 for *Overtime* expense in FY08, a 1.9% increase (\$70,824) over the \$3,773,468 budgeted for FY07. The increase reflects salary adjustments and increased emergency overtime use partially offset by reduced use of overtime for coverage. Nearly 74% of *Overtime* expense occurs in the Operations Division (where 98% of the agency's *Overtime* spending is budgeted) is for coverage and emergency overtime, while just over 25% is for planned (project) and training overtime expense. Spending through March, agency-wide, totaled \$2,653,126 or 6.6% (\$187,587) below budgeted amounts. Spending in March was 40% above the budgeted amount, reflecting the impact of several days of rain. Increased spending can also be expected in the last quarter, due to wet weather events, including the extended period of rain in April.

Fringe Benefits*

The Authority is proposing a budget of \$16,964,925 for *Fringe Benefits* in FY08 - a 6.3% increase over the \$15,958,370 budgeted for FY07. Included in this category of expense are: \$14,539,124 for *Health Insurance*, \$910,196 for *Dental Insurance*, \$60,000 for *Unemployment Insurance*, \$1,351,261 for *Medicare* payments, \$31,000 for *Tuition Reimbursement* and \$73,344 for *Overtime Meals*.

Spending through March on all categories of *Fringe Benefits* totaled \$11,282,667 or \$665,610 (5.6%) less than the \$11,948,278 than the amount budgeted for the period. Contributing to this variance are lower than budgeted accruals for all categories of *Fringe Benefits*, most notably *Health Insurance* and *Medicare* expense. The Authority projects that by year end spending will total \$15,184,802 or 4.8% below (\$773,568) budgeted amounts.

Health Insurance. The Authority is budgeting \$14,539,124 for Health Insurance expense in FY08, an increase of 6.8% from the \$13,617,386 budgeted for FY07. The amount is based on a higher assumed increase for insurance rates than was recently announced by the Group Insurance Commission (GIC). **Update budgeted amounts for *Health Insurance* in FY08 and reduce the proposed budget by at least \$500,000.**

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Dental Insurance. The Authority is budgeting \$910,196 for *Dental Insurance* expense in FY08 - an increase of 10% from the \$827,451 budgeted in FY07. The Authority is in the process of updating the estimates.

Medicare. *Medicare* expense is budgeted at \$1,351,261 - a 3% increase from the \$1,311,904 budgeted in FY07. Actual spending for FY07 is projected to be \$1,131,855.

Unemployment Insurance. The Authority is proposing to budget \$60,000 for *Unemployment Insurance* in FY08 - a 33% or \$30,000 decrease from the \$90,000 budgeted in FY07. Projections for the FY07 year end put spending at \$42,981.

Tuition Reimbursement. The Authority is proposing a budget of \$31,000 for *Tuition Reimbursement* in FY08, the same as for FY07 and FY06. The Authority projects the full amount will be accrued for FY07.

Overtime Meals. The Authority is proposing to budget \$73,344 for *Overtime Meals* in FY08, a 9% or \$7,285 reduction from the \$80,629 budgeted in FY07. Spending through March came to \$52,855, or 12.6%, below the \$60,472 budgeted for the period. By year end, the Authority projects spending of \$69,801.

Workers' Compensation

The Authority is proposing a budget of \$1,400,000 for *Workers' Compensation* expense in FY08, an increase of \$360,000 or 35%. Proposed are \$840,000 for *Compensation Payments* (nearly double the \$435,000 budgeted in FY07), \$490,000 for *Medical Payments* (a \$10,000 or 2% reduction from the \$500,000 budgeted in

FY07) and \$70,000 for *Other* fees, examinations and reviews (a \$35,000 or 33% reduction).

Through March, accruals totaled \$879,529, nearly \$100,000 or 13% more than the amount budgeted for the period. The Authority now projects that by the end of the current fiscal year, accruals will reach \$1,302,018 or 25% more than the amount budgeted.

OTHER DIRECT EXPENSES

Chemicals*

The Authority is proposing a budget of \$9,580,878 for *Chemicals* expense in FY08, an increase of 13.6% or \$1,149,672 over the \$8,431,210 budgeted in FY07. The proposed budgets for ten chemicals have risen while the budgets for eight other chemicals have declined. The most notable increases are for *Soda Ash*, *Sodium Bisulfite* and *Ferrous Chloride* while the most measurable decreases were for *Sodium Hypochlorite*, *Carbon Dioxide* and *Activated Carbon*.

Soda Ash and *Sodium Hypochlorite* are the two largest components of the *Chemicals* budget. Together they total \$5,769,571 or 60% of the entire *Chemicals* budget.

Soda Ash. The Authority is proposing a budget of \$3,142,321 for *Soda Ash* in FY08, a 50% or \$1,045,535 increase over the \$2,096,787 budgeted in FY07. Spending through March reached \$1,573,704 or 4.4% (\$66,571) more than budgeted for the period. The Authority projects spending by year end of \$2,231,787 or \$135,000 (6.4%) more than the amount budgeted for FY07.

Most of the chemical is used at the John J. Carroll Water Treatment Plant (CWTP) -- \$3,062,443; the rest -- \$79,878 -- is used at the Clinton Wastewater Treatment Plant to provide alkalinity to the secondary activated sludge system and for nitrification. Staff report that the increase is due to a 12% dosage increase to meet lead and copper rules (contributing \$200,000 to the increase) and a 60% price increase (contributing \$800,000 to the increase). Dosage rates are under discussion.

Sodium Hypochlorite. The Authority is proposing a budget for *Sodium Hypochlorite* of \$2,627,250 - a 15% or \$452,118 decrease from the \$3,079,369 budgeted in FY07. Spending through March was \$1,716,731 or 30% (\$737,302) below the amount budgeted for the period. Projections for spending by year end are \$2,083,369 or 32% (\$996,000) below the year's budget.

Most of the chemical is used at the Deer Island Wastewater Treatment Plant (DITP) for disinfection and for odor control. Another \$835,625 is budgeted for CWTP. Additional use is budgeted for the Headworks and CSO facilities and at the Clinton Wastewater Treatment Plant, as well as the Ware facility.

The proposed budget assumes that the next NPDES permit will be in place for the full fiscal year. However, staff report that there is little indication that the process of drafting the next permit has even begun, and once the permit is prepared there will need to be an allowance for a full review period. The Advisory Board anticipates that this process, for the second largest treatment plant in the country (as well as the

new permits for the Clinton plant and for the other Wastewater system facilities) can be expected to take a full year. **Reassess expectations for expanded treatment requirements and implementation schedules and limit expanded funding for Sodium Hypochlorite and Sodium Bisulfite in FY08 to no more than the fourth quarter, for a reduction of at least \$828,000.**

•2•

Sodium Bisulfite. The Authority is proposing a budget of \$920,553 for *Sodium Bisulfite*, more than double the \$435,694 budgeted in FY07. The budgeted amount for FY07 was more than double the amount budgeted in FY06. Spending through March was \$180,068 or 19% (\$42,334) below the amount budgeted for the period. Projections for year end spending total \$189,694 or 57% (\$246,000) below the amount budgeted.

More than 80% of the budget is for use at DITP or \$756,945. As with *Sodium Hypochlorite*, the chemical is also used at the Water Treatment Plant and at the Headworks and CSO facilities and the Clinton Wastewater Treatment Plant.

The FY07 budget assumed six months of enhanced treatment for enterococcus, expected to be included in the next NPDES permit. The FY08 budget assumed that the new permit will be in place for the full fiscal year. Consistent with the expectations for use of *Sodium Hypochlorite* and reasonable expectations for timing of implementation of the next NPDES permit, the Advisory Board recommends reductions to the proposed budget for *Sodium Bisulfite* in FY08. These reductions are incorporated in the recommendation for *Sodium Hypochlorite*, above.

The Authority staff also report that the price of *Sodium Bisulfite* has dropped by more than one-third. **Update budgeted amounts for Sodium Bisulfite expense in FY08 and reduce by an estimated \$270,000.**

•3•

Polymer. The Authority is proposing a budget of \$311,450 for *Polymer* in FY08, a 6% (\$17,366) increase from the \$294,084 budgeted in FY07. Through March, spending was \$88,985 or 59% (\$125,807) below the amount budgeted for the period. The Authority projects that by year end, spending will be \$214,084 or 27% (\$80,000) below the amount budgeted. The chemical is used primarily at DITP to treat waste activated sludge. Dosage has been reduced 25% based on performance improvements since FY04.

•4•

Update assumptions for the use of Polymer at Deer Island and reduce budgeted amounts by an estimated \$15,000.

Activated Carbon. The Authority is proposing a budget of \$231,131 for *Activated Carbon* in FY08, a 16% (\$44,068) reduction from the \$275,199 budgeted in FY07. Through March, spending was \$131,706, within 4% of the amount budgeted for the period. The Authority projects that by the end of the fiscal year spending will be on budget. The chemical is used at Deer Island for odor control.

Liquid Oxygen. The Authority is proposing a budget of \$455,932 for *Liquid Oxygen* in FY08, just \$2,000 below the \$457,968 budgeted for FY07. Spending through March has been \$366,775 or 6.4% (\$22,101) greater than the amount budgeted for the year to date. Projections for year-end spending are \$475,299 or 3.8% more than the amount budgeted for the full year. The chemical is used primarily at the Water Treatment Plant where its use is highly dependent on the cost of Electricity.

Carbon Dioxide. The Authority is proposing a budget of \$247,082 for *Carbon Dioxide* in FY08, a 27% reduction (\$90,163) from the \$337,245 budgeted in FY07. Spending

through March was \$129,652 or 47.4% (\$116,819) below the amount budgeted for the period. Projections for year-end spending are \$218,245 or 35.3% (\$119,000) below the amount budgeted for the year. The chemical is used at CWTP.

Sodium Hydroxide. The Authority is proposing a budget of \$225,889 for *Sodium Hydroxide* in FY08, a 2% reduction from the \$230,565 budgeted in FY07. Spending through March was \$180,688, within 1% of the amount budgeted for the period. The Authority projects FY07 spending will be \$245,564. The chemical is used at the four headworks facilities and at Deer Island for odor control.

Ferrous Chloride. The Authority is proposing a budget of \$205,009 for *Ferrous Chloride* in FY08 - an 83.5% increase (\$93,274) from the \$111,736 budgeted in FY07. Spending through March was \$58,377, 29% (\$23,795) below the amount budgeted for the period. The chemical is used at Deer Island for odor control and struvite control; the budget reflects actual operating data and an estimated price increase.

The Authority also uses *Ferric Chloride* instead of *Ferrous Chloride* to control struvite due to the high demand in the market for *Ferrous Chloride* and its limited availability throughout the industry. The Authority has not budgeted for *Ferric Chloride* in FY08; through March 2007, the Authority had accrued \$189,117 for *Ferric Chloride* and had (slightly) under-spent its year-to-date budget for *Ferrous Chloride*.

Hydrogen Peroxide. The proposed budget includes \$141,295 for *Hydrogen Peroxide* in FY08, a 17.8% (\$21,391) increase over the \$119,903 budgeted for FY07. Spending through March came to \$62,499 or 48% (\$57,404) below the amount budgeted for the period. The Authority projects spending by the end of the fiscal year will be on budget. The chemical is used at Deer Island for hydrogen sulfide control.

Hydrofluosilic Acid. The Authority is proposing a budget of \$499,337 for *Hydrofluosilic Acid* in FY08, a 14.4% (\$62,774) increase over the \$436,564 budgeted in FY07. The chemical is used at CWTP. Spending through March was \$272,493 or 14% (\$44,044) below the amount budgeted for the period. The Authority projects year-end spending of \$403,564.

Nitrazyme. The Authority is proposing a budget of \$263,658 for *Nitrazyme* and a related chemical, VX456, in FY08, a 15% (\$34,433) increase over the \$229,225 budgeted in FY07. Spending through March reached \$158,353, nearly 11% below the amount budgeted for the period. Staff now project that year-end spending will reach \$21,225 or 8% below the amount budgeted for the full year. The chemical is used in the Framingham Extension Sewer during the warm months to control corrosion.

Other Chemicals. The Authority is budgeting \$111,254 for several *Other Chemicals*, an 18% (\$24,200) reduction from the \$135,454 budgeted in FY07. The combined budget for these chemicals has been declining gradually for several years. Among these chemicals are various *Odor Control* chemicals for the Wastewater Operations Department, *Boiler* chemicals for various Headworks and CSO facilities, *Aluminum Sulfate* for phosphorus removal at the Clinton Wastewater Treatment Plant, *Boiler* chemicals at the Deer Island plant, *Digester Gas* chemicals also at the Deer Island plant, plus several other smaller items. The Authority projects that spending by year end will total \$94,454.

Utilities*

The Authority is proposing a 6.1% decrease in *Utilities* expense for FY08, a \$1,847,160 reduction from the \$30,416,888 budgeted in FY07 to \$28,569,727. Nearly 77% of all *Utilities* spending is for *Electricity* or \$21,974,426. Other *Utilities* in this category of expense are: *Natural Gas* (\$1,086,298); *Water* (\$2,244,182); *Diesel Fuel* (\$3,096,590); plus smaller amounts for *Oxygen*, *Acetelyn*, *Other Utilities* (for the Laboratory at Deer Island), *#2 Heating Oil*, and *Propane*.

Utilities expense associated with the residuals pelletizing plant at Fore River (including *Natural Gas* and *Electricity*) are incorporated into the pelletizing plant contract with the New England Fertilizer Company (NEFCo). The contract was re-bid in 2001 for a fifteen-year period and all the contractor costs are budgeted under *Other Services*.

Natural Gas. The Authority is budgeting \$1,086,298 for *Natural Gas* in FY08, less than a 1% increase over the \$1,082,220 budgeted for FY07. Spending through March came to \$668,192 or 21% (\$176,329) below the amount budgeted for the period. Projections for year-end spending come to \$811,589 or 25% below the year's budget. *Natural Gas* is used at a number of *Water* and *Wastewater* facilities and at the administration and maintenance facilities in *Chelsea*. The largest consumer of *Natural Gas* is *CWTP*, with a proposed budget of \$467,350.

Authority staff report that use remains fairly constant, with increases for *CWTP* and full year costs for the *Union Park Pumping* and *CSO* facility offset by decreases in other areas. Much of the year-to-date under-spending has been at *CWTP* as well as some *Wastewater* facilities. **Update assumptions for *Natural Gas* expense for**

•5• **FY08 and reduce budgeted amounts by at least \$200,000.**

Electricity. At \$21,974,426, *Electricity* expense is 22% of all non-personnel related *Direct Expenses* (which total \$101,380,953). It is the largest single sub-line item of *Other Direct Costs*, followed by the pelletizing plant expense of \$14,437,507 (under *Other Services*).

The proposed budget decreases by 4.7%, or \$1,095,704, as compared to the FY07 budget. The decrease is driven by lower assumptions for electricity prices, which at this time last year were still showing the impact of the hurricanes of the summer of 2005 and anticipated impacts of what then was projected to be a significant hurricane year. Instead, prices have dropped, resulting in measurably lower spending during FY07 than originally anticipated. Two major contracts are out for bid as of April, with responses due in May.

The *Deer Island Wastewater Treatment Plant* accounts for 63% of the total proposed budget for *Electricity*. The Authority is proposing a 7.4% decrease (or \$1,106,168) to \$13,877,992 for FY08. A new power supply contract is expected to be negotiated in May to replace the existing contract, which expires May 31, 2007.

Another 35% of the total proposed *Electricity* budget is for *Wastewater* and *Waterworks* facilities managed by the *Field Operations Department*, including *CWTP*, *Water* and *Wastewater* pump stations, headworks and *CSO* facilities. The Authority is proposing a budget of \$7,703,623 or a 1% increase over the \$7,608,833 budgeted

in FY07. Budgeted usage is expected to decrease at CWTP and some water pump stations, partially offset by increases at recently completed CSO facilities (Union Park and BOS019) and other wastewater pump stations. Pricing is expected to increase slightly. The contract to supply many of these facilities is also out for bid with a decision expected in May. The largest user of *Electricity* in FOD is CWTP with a proposed budget of \$1,544,304.

Electricity is also budgeted for the Clinton Wastewater Treatment Plant (\$59,179), the Chelsea facility (\$437,387) and at Charlestown (\$187,168).

Through March, agency wide *Electricity* expense totaled \$13,190,028 or 23% (\$3,978,194) below the budgeted amount for the year to date. Staff now projects expenses for year end will reach \$17,436,879 or 24.4% (\$5,633,251) below the amount budgeted for FY07. Comparing the projected level of spending with the proposed budget for FY08, the increase would be \$4,537,547 or an increase of 26%. While energy prices have been variable and the Authority's current supply contracts have been priced entirely in the real time market, the Advisory Board believes the Authority can tighten budgeted amounts for *Electricity* expense. **Revisit**

•6• **assumptions for *Electricity* expense in FY08 and reduce budgeted amounts by at least \$1,195,000.**

The proposed budget for *Electricity* expense at Deer Island includes assumptions regarding self generation from the Steam Turbine Generator (STG), two Combustion Turbine Generators (CTGs) and two Hydropower Turbines. The budget assumes that 166.3 million kWh will be required, that 37.9 million kWh will be generated and 128.4 kWh will be purchased. Estimates are based on historical averages and are adjusted for maintenance and for changing operating strategies. Power generated by the STG and the CTGs is to increase slightly; increased CTG operation reflects assumed increased hours for wet weather operations when the Authority runs the CTGs while drawing electricity through the cable to ensure uninterrupted power during particularly large storms. Budgeted power generated by the Hydropower turbines declines by 0.75 million kWh from 6.5 million kWh to 5.76 million kWh.

The amount assumed for self-generation at Deer Island is 22.8% of the estimated *Electricity* needs. In the past, the Authority has anticipated generating closer to 25% of its Deer Island *Electricity* needs. While this has been a function of the price and demand response programs structured by ISO New England, there is still some variability from year to year in STG and Hydropower turbine production. **Review**

•7• **alternative self-generation strategies and seek to increase self-generation of *Electricity* at Deer Island. Reduce the budgeted amount by \$108,000.**

Each additional million kWh of self generation could offset an estimated \$108,000 of purchased electricity.

Water. The Authority is proposing a budget of \$2,244,182 for *Water* in FY08, a 3.7% (\$80,518) increase from the \$2,163,664 budgeted for FY07. Spending through March came to \$1,661,178 or 4.1% more than the amount budgeted for the period. Funding covers use at a number of wastewater and water facilities. Reduction in usage is budgeted for the Nut Island, Commercial Point and Prison Point facilities and at CWTP, while usage is expected to remain the same as FY07 at Deer Island. Price increases accounts for the overall increase in the FY08 budget for *Water*. The charge is offset by a balancing receipt under *Non-Rate Revenue*.

Diesel Fuel. The Authority is proposing a budget of \$3,096,590 for *Diesel Fuel* in FY08, a 21.3% decrease (\$839,958) from the \$3,936,548 budgeted in FY07. The Authority is budgeting \$1,332,666 for Wastewater Operations, \$165,604 for Water Operations (including \$82,000 for CWTP), and \$1,594,500 for DITP. Usage at Deer Island is assumed to be just over one-half what it was in FY06. Price assumptions are unchanged from FY07 levels.

Through March, spending totaled \$1,917,610 or 34% (\$984,821) below the amount budgeted for the period. The Authority projects that year-end spending will total \$2,610,548 or nearly 34% (\$1,326,000) below the amount budgeted for the full year. Use can be expected to increase in the spring, reflecting concurrent operation of the CTGs with purchased electricity to ensure power reliability during the extended period of heavy rain during the middle of April.

Maintenance

The Authority is proposing a budget of \$26,592,930 for *Maintenance* expense in FY08, an increase of 9.6% or \$2,321,310 over the \$24,271,620 budgeted in FY07. Spending has been increasing by \$1 million or more each year since FY02, when actual spending was \$16.35 million. Spending rose to \$17.21 million in FY03, \$18.61 million in FY04, \$20.17 million in FY05 and \$19.48 million in FY06. Projections for FY07 total \$24.48 million. Spending through March was \$16,218,033, within 1% of the amount budgeted for the period.

The proposed budget includes \$22,859,442 for *Maintenance* expense in the Operations Division, \$3,275,856 for the Support Division (including funding \$0.742 million for Fleet Services and nearly \$2.5 million for MIS) and \$457,632 for the Executive Division (for the Office of Emergency Preparedness security systems maintenance service contracts and equipment replacements plus the inclusion of other services from several other departments that are now consolidated into this Office).

Maintenance expense in the Operations Division includes: \$12,941,889 for Deer Island; \$1,631,334 for work performed by NEFCo at the Fore River Pelletizing Plant; \$178,672 for the Clinton Wastewater Treatment Plant; \$360,679 for Laboratory modifications and services contracts for the Department of Laboratory Services; \$7,736,583 for the Field Operations Department; and \$10,285 for service contracts for specialized printers and plotters in the Engineering and Construction Department.

Deer Island Maintenance. Just under 50% of all proposed *Maintenance* spending in FY08 is budgeted for the *Deer Island Wastewater Treatment Plant*. The proposed budget of \$12,941,889 represents a 15% increase, or \$1,686,121, over the \$11,255,768 budgeted in FY07. The Authority projects that FY07 year-end spending will reach \$11,506,000, just over the amount budgeted for the full year. Of the amount budgeted for FY08, \$4,931,000 is for *Maintenance Equipment* (38%) and \$8,010,889 (62%) is for *Maintenance Services*. Just over \$7 million of the proposed budget is for *Plant and Machinery Materials and Services*; another \$2 million is for *Electrical Equipment and Services*. The Authority plans to spend \$1.1 million on facilities painting and coatings plus \$1.1 million for various roof replacements. Also planned are new contracts for Variable Frequency Drive services, replacements for the existing Able pumps, replacements for existing rolling stock, vent piping replacements, and new odor control piping, among many other projects.

Pellet Plant Maintenance. The Authority is proposing a budget of \$1,631,334 for *Maintenance* spending at the *Fore River Pelletizing Plant*, less than a 1% increase from the amount budgeted in FY07. The fifteen-year operating contract with NEFCo, approved in March 2001, identifies annual levels of spending on operating and capital maintenance projects. Longer term plans for plant technology and maintenance have been included in the first draft of the Master Plan, published in January 2007.

Clinton Wastewater Treatment Plant Maintenance. The Authority is proposing a budget of \$178,672 for *Maintenance* expense at the *Clinton Wastewater Treatment Plant*, a 13.6% (\$28,113) reduction from the amount budgeted in FY07. The plant will be sixteen years old in FY08 and staff anticipate increased maintenance needs in the future. Funding of \$51,131 is included for *Plant and Machinery Materials* plus \$52,925 for *Plant and Machinery Services*, plus additional funding for sealcoat of plant roadways and for instrumentation services.

Field Operations Department Maintenance. The Authority is proposing a budget of \$7,736,583 for *Maintenance* materials and services in the Field Operations Department in FY08. The amount represents a 3.6% (\$272,149) increase over the \$7,464,434 budgeted in FY07. The budget includes \$944,020 for project maintenance, \$415,474 for equipment (spare parts), \$2,989,675 for day-to-day needs, and \$3,387,413 for service contracts. Much of the increase relates to a service contract for tank cleaning at the CWTP and increased service contract costs associated with full year operation of the Union Park CSO facility. Funding for western water operations and maintenance totals \$1,980,480 (including the Water Treatment Plant maintenance) and funding for Metropolitan Maintenance for water and wastewater facility and system maintenance is \$4,419,649.

Training and Meetings

The Authority is proposing a budget of \$222,252 for *Training and Meetings* expense in FY08, a 5.4% (\$12,611) reduction from the \$234,863 budgeted in FY07. Spending through March came to \$201,454 or 7% above the amount budgeted for the period.

Professional Services*

Spending on *Professional Services* is budgeted at \$8,095,373 - a 7.9% (\$594,877) increase over the \$7,500,496 budgeted for FY07. Nearly 44% of this amount -- \$3,556,291 -- is for *Laboratory Testing and Analysis* expense and another 30% -- \$2,472,522 -- is for *Security Services*.

Engineering Services. The Authority is proposing a budget of \$590,000 for outside *Engineering Services* in FY08, an increase of \$150,000 or 34% from the FY07 budget of \$440,000. Included in this category of expense are \$50,000 for Local Limits testing at Deer Island and the Clinton plant, as expected to be required in the new NPDES permit; \$100,000 for a landfill closure plan at the Clinton Wastewater Treatment Plant; \$50,000 for two beach nourishment studies at Deer Island; \$50,000 for as-needed engineering services to support Waterworks Western

Operations plus \$100,000 for as-needed engineering services for the Metropolitan Maintenance Unit; \$50,000 for dam inspection technical services plus \$100,000 for dam inspections; and \$25,000 for a Rutland-Holden capacity study.

- 8• The Advisory Board has previously commented on the need for the beach nourishment studies, with the Authority pointing out that the studies are a permit requirement. **Explore options for revising permit requirements for two annual beach nourishment studies at Deer Island, with the goal of reducing the number and frequency of the studies.**

Laboratory Testing and Analysis. The Authority is proposing a budget of \$3,556,291 for *Laboratory Testing and Analysis* services in FY08, an increase of just under 1% (or \$25,915) from the \$3,530,376 budgeted in FY07. Most of the funding for this category of expense (\$3,284,997 or 92%) supports harbor and outfall monitoring studies. The amount is a 0.5% increase over the \$3,269,252 budgeted for FY07. The Authority also budgets \$167,434 for outside *Laboratory Testing and Analysis* services for the Central Laboratory, and smaller amounts for outside testing for the Deer Island Wastewater Treatment Plant and for specialized testing services in the Field Operations Department plus \$30,000 for a study of phosphorus removal for the Clinton Wastewater Treatment Plant.

- 9• Staff report that work has begun on a second major review of the monitoring plan, with discussion of modifications anticipated for the summer 2007. Procurement of contracts for fieldwork in 2008 is also anticipated for the summer 2007. The first major review of the monitoring plan took place in 2003 and resulted in about \$900,000 per year in savings. **Discuss options for rescoping and tightening the cost of future harbor and outfall monitoring.**

Legal Services. The Authority is proposing a budget of \$271,500 for a number of *Legal Services* in FY08, the same amount budgeted in FY07. Actual spending was \$172,915 in FY06 and \$200,155 in FY05. Spending through March has been \$134,942 or 34% below the \$203,625 budgeted for the period. The Authority projects that spending by year end will be \$213,252. Most of the funding supports outside *Legal Services* for the Law Division and for third party claims administration and arbitrator's fees in the Human Resources Department.

Audit Services. The Authority is budgeting \$189,000 for *Audit Services* in FY07, the same as that budgeted for FY07. A new three-year contract was awarded in May 2006. Accruals through March have been the same as budgeted.

Communications Services. The Authority is budgeting \$171,390 for *Communications Services* in FY08, a 5.2% increase over the \$162,852 budgeted in FY07. The budget supports the Wastewater Advisory Committee and the Water Supply Citizens Advisory Committee.

Other Professional Services. The Authority is proposing \$833,270 for a number of *Other Professional Services* for FY08, a 19.4% decrease from the \$1,033,211 budgeted for FY07. The primary reason for the decrease is the transfer to the CIP of a \$250,000 infrastructure study for the pelletizing plant at Fore River. Other funding includes \$10,000 for the Gulf of Maine Ocean Observing System for water quality data; \$70,000 for maintenance related services for the Deer Island plant; \$50,000 for an energy audit and \$50,000 for energy related advisory services; \$25,000 for an engineering consultant for the planning estimates model; \$90,000 for trustee

services; \$25,000 for the financial advisor relating to rates management; \$30,000 for arbitrage consulting services; \$45,000 for the insurance consultant; \$90,000 for other professional services in the Law Division; \$25,000 for services for the Human Resources Department, \$161,500 for Technical Training and \$57,820 for Professional Development Training, \$25,500 for the Employee Assistance Program and \$28,050 for medical services to comply with OSHA and other regulations.

Security Services. The Authority is proposing a budget of \$2,472,522 for *Security Services* in FY08, a 32.1% (\$600,365) increase over the \$1,872,157 budgeted for FY07. Included are \$955,454 for *Security Services* at Deer Island, \$606,094 for services for the Chelsea facility and \$413,214 for services for the Carroll Water Treatment Plant and \$132,658 for services at the Charlestown Navy Yard. Also included is \$132,658 for roving guard services at various wastewater and water facilities during construction projects plus \$100,156 for an account manager to manage the guard services contract and \$132,000 for security patrol vehicles. Spending on *Security Services* through March has been nearly on budget. Spending as of the end of FY07 is projected to be just 2% below the amount budgeted for the year.

Other Materials

The Authority is proposing a budget of \$5,175,459 for a number of *Other Materials* in FY08, a 19.1% (\$829,641) increase over the \$4,345,817 budgeted for FY07. Included in this category of expense are: *Office Supplies, Postage, Laboratory and Testing Supplies, Health and Safety Materials, Equipment/Furniture, Vehicle Purchases/Replacements, Work Clothes, Vehicle Expense, Other Materials, Computer Hardware, and Computer Software* and charges to *Purchase Cards*.

Office Supplies. The Authority is proposing a budget for *Office Supplies* of \$185,248 a 2.5% (\$4,478) increase over the \$180,769 budgeted for FY07. Staffing levels are essentially at a steady state, although costs for certain items are rising. Spending through March reached \$182,426 or 35% more than the amount budgeted for the period. The Authority projects spending of \$248,551 by the end of the fiscal year.

Postage. The Authority is proposing a budget of \$215,767 for *Postage* expense in FY08, an increase of 25.2% (\$43,407) from the \$172,360 budgeted in FY07. Spending through March was \$55,667, nearly twice the amount budgeted for the period. The Authority projects spending by year end will reach \$191,592. Some \$109,000 is budgeted for mailing the Consumer Confidence Report, which takes place later in the spring. Also budgeted is \$106,000 for USPS and UPS usage. Postal rates are to rise this spring.

Laboratory and Testing Supplies. The Authority is proposing a budget of \$766,097 for *Laboratory and Testing Supplies* in FY08, a 16.5% or \$108,305 increase over the \$657,792 budgeted for FY07. Spending through March was \$463,451 or 6% below the \$493,344 budgeted for the period. The Authority projects that spending will be virtually on budget by the end of the fiscal year.

Health and Safety Materials. The proposed budget includes \$324,531 for *Health and Safety Materials*, a \$55,642 (20.7%) increase over the \$268,889 budgeted for FY07. Spending through March came to \$199,738, within 1% of the amount budgeted for

the period. The Authority projects that spending by the end of the year will be within 1% of the amount budgeted.

Equipment/Furniture. The Authority is proposing a budget of \$308,530 for *Equipment and Furniture* purchases in FY08, an increase of \$30,201 (10.9%) from the \$278,329 budgeted in FY07. Spending through March has been \$240,557 or 62% more than the amount budgeted for the period. The Authority projects that by the end of the year spending will reach \$358,329 or \$80,000 (28.7%) more than the amount budgeted. Funding is for monitoring equipment for the security guards, radios and radio equipment, as well as equipment for the Central Laboratory.

Vehicle Purchases/Replacements. The Authority is proposing a budget of \$1,500,000 for *Vehicle* and related equipment *Replacements* in FY08, a \$550,000 increase over the amount budgeted for FY07. Through March, spending was \$73,514, well below the \$425,000 budgeted for the period. The Authority projects that by the end of this fiscal year spending will reach \$1,788,484 as the agency updates the fleet after several years of curtailed spending. In the past few years, the Authority has reduced the vehicle (and related equipment) fleet by 11% and reports that more than 62% of the fleet is seven or more years old.

Work Clothes. The Authority is proposing a budget of \$403,979 for *Work Clothes*, a 41.9% (\$119,324) increase over the \$284,655 budgeted in FY07. Funding includes purchases of safety shoes and boots, replacement boots and jackets and work uniforms or clothing allowances. Spending through March came to \$275,232 or \$61,335 (28.7%) more than the amount budgeted for the period. The Authority projects that spending by the end of the current fiscal year will reach \$437,884 or \$153,229 more than the amount budgeted. Spending in FY06 totaled \$691,130. Staff report that a new uniform policy is being developed.

Vehicle Expense. The Authority is proposing a budget of \$968,495 for *Vehicle Expense*, a 16.9% (\$196,257) decrease from the \$1,164,752 budgeted for FY07. Spending through March came to \$712,009 or 18.6% (\$163,056) below the amount budgeted for the period. The Authority projects that by the end of FY07 spending will be \$950,809.

Other Materials. The Authority is proposing a budget of \$115,976 for a number of *Other Materials* in FY08, a 5.9% (\$6,505) increase over the \$109,471 budgeted for FY07. Spending through March was \$64,320 or 20.5% below the \$80,883 budgeted for the period. The Authority projects spending by the end of FY07 to be \$107,576. The budget includes funding for water conservation kits, training materials, fill used as cover for the Clinton Wastewater Treatment Plant landfill, mapping and graphic artist supplies and oil spill containment supplies.

Computer Hardware and Software. The Authority is proposing to budget \$375,216 for *Computer Hardware* in FY08, an increase of 56.9% (\$136,036) from the amount budgeted in FY07. Through March, spending was \$83,286. *Computer Software* is budgeted at \$5,300; no funds have been accrued through March.

Other Services*

The Authority is proposing a budget of \$23,144,334 for *Other Services* spending in FY08, an increase of 4.5% or \$1,001,920 from the \$22,142,414 budgeted in FY07. More than 62% of all spending under this category of expense is for *Sludge Pelletization* at the Fore River plant. Other major components of this category are \$3,054,333 for *Lease* and related costs, \$1,069,380 for *Grit and Screenings Removal*, \$1,176,490 for a number of *Other Services* and \$1,373,140 for *Telephone* expense.

Printing and Duplicating. The Authority is proposing a budget of \$351,766 for *Printing/Duplicating* expense in FY08, a 3.9% (\$13,294) increase from the \$338,472 budgeted in FY07. The budget includes funding for printing the Consumer Confidence Report, education program publications, the Annual Report, budget documents and reports, planter kit boxes and other items. Spending through March was \$90,169 or 44% below the \$162,248 budgeted for the period. The Consumer Confidence Report is published in the fourth quarter.

Health/Safety Services. The Authority is budgeting \$413,146 for *Health and Safety* services for FY08, less than a 1% increase from the \$411,067 budgeted for FY07. Spending through March has been \$284,423 or 7.7% below the amount budgeted for the period. Spending is expected to be close to budget by the end of the fiscal year. Most of the proposed budget -- \$368,646 -- is for ambulance, fire extinguisher and hazardous materials services at the Deer Island Wastewater Treatment Plant.

Telephone. The Authority is proposing a 5.1% increase in *Telephone* expense for FY08 to \$1,373,140. Costs include \$740,543 for all voice and data costs managed by the MIS Department. Another \$617,080 is for *Telephone* related service for the Operations Division including metering and monitoring expense. Through March, spending reached \$1,052,422 or 9.1% (\$88,000) more than the \$964,422 budgeted for the period. The Authority projects that spending by the end of the fiscal year will reach \$1,382,874.

Memberships/Dues/Subscriptions. The Authority is proposing a budget of \$462,112 for *Memberships, Dues and Subscriptions* in FY08, a 23.8% (\$88,715) increase over the \$373,397 budgeted in FY07. Much of the increase supports professional memberships and dues for the Operations Division including the reintroduction of membership in the Water Environment Research Foundation. Funding also covers library memberships and subscriptions.

Recently, one of the organizations for which *Dues* was budgeted has suspended operations. **•10• Reduce budgeted amounts for *Memberships and Dues* by \$6,580.**

Advertising. The Authority is proposing a budget of \$60,200 for *Advertising* expense in FY08, a 1.8% decrease from the \$61,300 budgeted in FY07. Included in the budget are \$25,000 for recruiting advertising and \$30,000 for contract advertising. Through March, spending was \$48,367 or 5.1% (\$2,342) more than the amount budgeted for the period. The Authority projects by year end spending will be \$56,338 or 8.1% below the amount budgeted for the year.

Space Lease/Rentals. The Authority is proposing a budget of \$3,054,333 for *Lease and Rental* expense in FY08, an 8.3% (\$275,560) reduction from the \$3,329,893

budgeted for FY07. Included in the budget are: \$1,311,327 for annual rent for the Chelsea facility; \$115,000 for a one-year lease extension for the Nay Street facility; and \$1,574,506 for rent at the Charlestown Navy Yard. Rent has declined in recent years as the Authority has reduced the amount of space it occupies at the Navy Yard.

Moving/Freight. The Authority is proposing a 6.8% increase (\$4,000), from \$58,915 to \$62,915, in FY08 for *Moving and Freight* expense. Funding covers courier services and freight charges for purchases and returns (in Procurement). Year-end spending is now projected to be \$116,590, nearly double the year's budget.

Other Rentals. The Authority is proposing a budget of \$141,834 for *Other Rentals* in FY08, a 4.4% (\$6,500) reduction from the \$148,334 budgeted for FY07. Funding is primarily for copier and mail equipment leases. Projected spending by the end of the current fiscal year is \$145,734.

Other Services. The Authority is proposing a budget of \$1,176,490 for a number of *Other Services* during FY08, a 12.3% increase (\$128,682) over the \$1,047,808 budgeted in FY07. The budget includes funding for fax, copier and printer maintenance services, the annual oil boom service charge at Deer Island (\$21,000); \$195,000 for Eurasian milfoil surveys and removal; \$29,000 for hazardous waste removal from the Deer Island and Quabbin laboratories; and \$262,500 for *Remediation* projects.

Also included in the *Other Services* category of expense is \$442,442 for the operating expenses of the *Advisory Board*. The *Advisory Board* has recently updated its proposed budget and voted to approve the revised budget for FY08. **Update**

- 11• **budgeted amounts for the *Advisory Board's* operating budget for a reduction of \$9,359.**

Grit and Screenings Removal. The Authority is proposing a budget of \$1,069,380 for *Grit and Screenings Removal* at Deer Island, Nut Island, certain pump stations, CSO facilities and the headworks facilities, a 1.6% decrease (\$16,941) from the \$1,086,321 budgeted for FY07. Spending through March was \$611,703 or 20.5% (\$157,323) less than the \$769,026 budgeted for the period. The Authority projects FY07 spending will be \$890,783. The contract has recently been re-bid; the Advisory Board believes the budgeted amount for FY08 can be reduced. **Update cost**

- 12• **estimates for *Grit and Screenings Removal* and reduce budgeted amounts for FY08 by an estimated \$123,680.**

Sludge Pelletization. The Authority is budgeting \$14,437,507 for payments to the New England Fertilizer Company to process and dispose of sludge pellets. The amount is 8.2% (\$1,090,507) greater than the \$13,347,000 budgeted for FY07. The increase is based on an increase in excess quantities (over a base of 90 tons per day) plus an inflation factor, primarily for gas and electricity. In addition, capital maintenance work performed by the contractor is budgeted at \$1,631,334 in the *Maintenance* category of expense. During FY07, excess quantities are running at levels greater than those assumed in the proposed budget. Through March, spending has been running 5.6% (\$551,306) more than the \$9,929,076 budgeted for the period. The Authority is projecting by the end of FY07 spending will reach \$13,947,000 or \$600,000 more than the amount budgeted for the year.

Permit Fees. The Authority is budgeting \$162,511 for *Permit Fee* expense in FY08, a 33.8% (\$83,150) decrease from the \$245,661 budgeted in FY07. Actual spending in

FY06 was \$143,252. The FY08 budget includes \$10,000 for the new NPDES permit. Also included is \$105,000 for specific permits and related services for the Deer Island Wastewater Treatment Plant.

Police Details. The Authority is proposing a budget of \$379,000 for *Police Detail* expense in FY08, a 2.3% (\$9,100) reduction from the \$388,100 budgeted in FY07. The Authority is projecting spending by the end of the fiscal year of \$447,100, a 15.2% (\$59,000) increase over the annual budget.

INDIRECT EXPENSES

Insurance

The Authority is proposing an increase in FY08 to the *Insurance* expense of \$100,000, or 5.6%, to \$2,600,000. The increase supports an anticipated rise in *Premiums* charges. *Payments/Claims* are level-funded at \$700,000. Accruals through March are \$1,747,450 or \$127,550 (6.8%) below the amount budgeted for the year to date. Projections for the remainder of FY07 put expected accruals at the budgeted amount of \$2,500,000.

The Authority is in the process of re-bidding its *Insurance* coverage and is assessing the limits of coverage and self-retentions. Staff has also developed a multi-tiered approach to achieve the best pricing available. At the same time, staff note the insurance market has experienced massive losses because of the recent hurricanes and extreme weather events and increased exposure to terrorism losses. Carriers are still not willing to commit to pricing for more than a one-year period. Yet, as was the case a year ago, staff indicates the process of renewal is likely to result in competitive bidding.

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 payments, Retirement Fund deposits, Post Employment Benefits, BECo/HEEC expense and the Chelsea Lease payment). When required, additions to the CORE Fund are not considered Operating Expenses for purposes of the Operating Reserve Fund calculation. The proposed FY08 budget includes \$229,881,383 for FY08 Operating Expenses, which would require a reserve level of \$38,313,564. The current level of the reserve is \$36,051,690 or \$2,261,874 below the new required level.

Acceptance of the Advisory Board's recommendations to reduce \$5,405,619 in *Operating Expenses* (*Direct Expenses* plus applicable *Indirect Expenses*, as defined by the Authority) would reduce the *Operating Reserve* deposit requirement by \$900,937. **Reassess the amount budgeted for deposit to the *Operating Reserve* and reduce by at least \$900,937.**

The *Insurance Reserve*, which is maintained to mitigate the budgetary risk of self-insurance, currently stands at \$19 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 assumptions and characteristics of the insurance program at that time.

Furthermore, the Authority’s expanded planning and asset protection programs serve to enhance efforts to reduce property risk. The risk management consultants also emphasized 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.”

The Authority’s Insurance consultant has recently updated the Insurance Reserve Fund Report again, as of February 2007. The consultant has concluded that “an acceptable range for the Fund level is in the range of \$16 million to \$19 million, with a conservative/maximum level of \$23 million. As such, we believe the current \$19 million Fund reserve amount is adequate. ... Like the previous Fund report, we believe that the likelihood of multiple large events over several years is remote. Therefore, should the Fund be drawn down due to losses, replenishment to levels outlined may take place over a number of years. Should the Fund be used, the minimum level for the fund should be \$7,500,000. If the Fund reaches this level with use, it should be replenished over a three-year period to anticipate the ultimate average losses, which may be incurred in each fiscal year.”

The *Renewal and Replacement Reserve* (RRR) is funded at \$50 million. The Consulting Engineer reviews the reserve fund balance for appropriateness no less than every three years. The most recent review, in the fall of 2005, confirmed previous reviews 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/PILOT Payments/Debt Service

The Authority is proposing a budget of \$23,207,147 for the many components of *Watershed Reimbursement* in FY08, a 1.1% (\$254,313) reduction from the \$23,461,460 budgeted in FY07. The Authority currently projects FY07 spending by year end of \$22,266,460 or 5.1% (\$1,195,000) below the amount budgeted.

The proposed FY08 budget includes \$12,234,545 for expenses associated with the *Division of Watershed Management*, a 3% increase (\$354,849) over the \$11,879,696 budgeted for FY07. *Payments in Lieu of Taxes* (PILOT) are budgeted at \$6,040,000 or 1.1% (\$67,069) over the \$5,972,931 budgeted for FY07. *Debt Service on Watershed Land* purchases declines by 12.1% (or \$676,231) to \$4,932,602 from the \$5,608,833 budgeted for FY07.

Table 4

EXPENSES	FY2006 Budgeted	FY2006 Actual	FY2007 Budgeted	FY2008 Budgeted
Division of Water Supply Protection Operating Costs	\$12,077,755	\$10,603,920	\$11,879,696	\$12,234,545
Debt Service	5,329,588	5,292,380	5,608,833	4,932,602
TOTAL	\$17,407,343	\$15,896,300	\$17,488,529	\$17,167,147
Payment In Lieu Of Taxes	6,894,824	5,919,709	5,972,931	6,040,000
TOTAL	\$24,302,167	\$21,816,009	\$23,461,460	\$23,207,147

- Derived from MWRA data

HEEC Agreement

The Authority is proposing to budget \$4,347,200 in FY08 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 to install the cross-harbor electric cable to Deer Island and the construction of the power substation in South Boston.

The capacity charge, representing the payment of debt-related expense, has been gradually decreasing as more of the asset is depreciated; the proposed budget includes \$3,568,600 or a 7.1% (\$272,780) reduction from the amount budgeted in FY07. Through March, spending has been \$120,305 or 4.1% below the amount budgeted for the year to date.

The operating and maintenance charge is to be budgeted at \$778,600 in FY08, a reduction of 7.3% from the \$840,000 budgeted in FY07. Spending through March reached \$381,200 or 31.1% below the amount budgeted for the period. Together, year-to-date spending on both categories of HEEC related expense has been 8.5% below the amount budgeted. The Authority projects that by year end spending will be \$4,351,380 or \$330,000 (7.0%) below the amount budgeted for the year.

New this year is a category termed "Special Projects" to be funded at \$230,000.

Mitigation Payments

The proposed budget includes \$1,419,223 for *Mitigation Payments* of \$736,317 to the City of Quincy and \$682,906 to the Town of Winthrop in FY08. The combined total is a 1.6% increase from the amounts budgeted in FY07. The amounts are set by an agreement with each community.

Pension Expense

The Authority is proposing an addition to the *Retirement Fund* of \$4,233,329 in FY08, a 4.4% increase of \$180,122 over the \$4,053,207 budgeted in FY07. The Authority reports the increase is based on the most recent actuarial valuation report issued in January 2005 and updated as of February 2006. The Authority also pre-

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

Post Employment Benefits*

For the first year, the Authority proposes to begin to fund the obligation to provide *Post Employment Benefits* as required by GASB 45. Also referred to as Other Post Employment Benefits (in addition to pensions) (OPEB), these benefits include healthcare and may include life insurance when provided separately from a pension plan.

The proposed budget includes \$4,500,000 for the FY08 contribution. Since the proposed budget was prepared, Authority staff report that the annual required contribution (ARC) may be closer to \$9,500,000 for FY08 (less the amount already budgeted for current retirees under *Fringe Benefits*). A draft actuarial report to the Authority is under review. The report sets out alternatives for the annual required contribution, which reflects a 30-year, 4.5% annual increasing amortization of the unfunded actuarial accrued liability. The projections assume a closed group population (no new hires) and an annual rate of investment return of 8.25%. It should be pointed out that if the full \$9,500,000 outlined in the actuarial report were to be funded in the Final FY08 Budget, the wholesale rate would increase by one full percent.

The Governor's proposed budget calls for the creation of a Study Commission on Retiree Benefit Liability. The Commission is to investigate and study the Commonwealth's liability for paying retiree health care and other non-pension benefits. The Commission is to report findings and recommendations, including any proposed legislation, to the Senate and the House of Representatives no later than December 1, 2007. The Authority may wish to consult the considerations and findings of the Commission and other institutions before it establishes its own approach to meeting the requirements of GASB 45.

The Advisory Board notes that virtually every public entity will be required to address how it will fund this new requirement and through what investment vehicle(s) the funding will be invested. It is important that the Authority evaluate all options and vehicles for addressing this obligation prior to committing to an overall approach. The Authority may also wish to determine if further outside assistance is needed to evaluate these options.

The Advisory Board proposes that the Authority allow itself additional time to evaluate its options and obligations before providing an estimated full year's funding for this new category of expense. **Evaluate options and obligations for meeting the provisions of GASB 45 between the spring 2007 and spring 2008.**

- 14• **Establish a vehicle for investing and managing the GASB 45 benefits by the spring of 2008, and provide initial funding during the final quarter of FY08 of \$2,250,000. Develop a payment schedule for subsequent years. Reduce the budgeted amount in the FY08 budget by \$2,250,000.**

- 15• As part of the evaluation period, discussion with other interested parties would be useful. **Establish a working committee to discuss options and agree upon solutions for meeting the Authority's GASB 45 benefits obligations.** Members

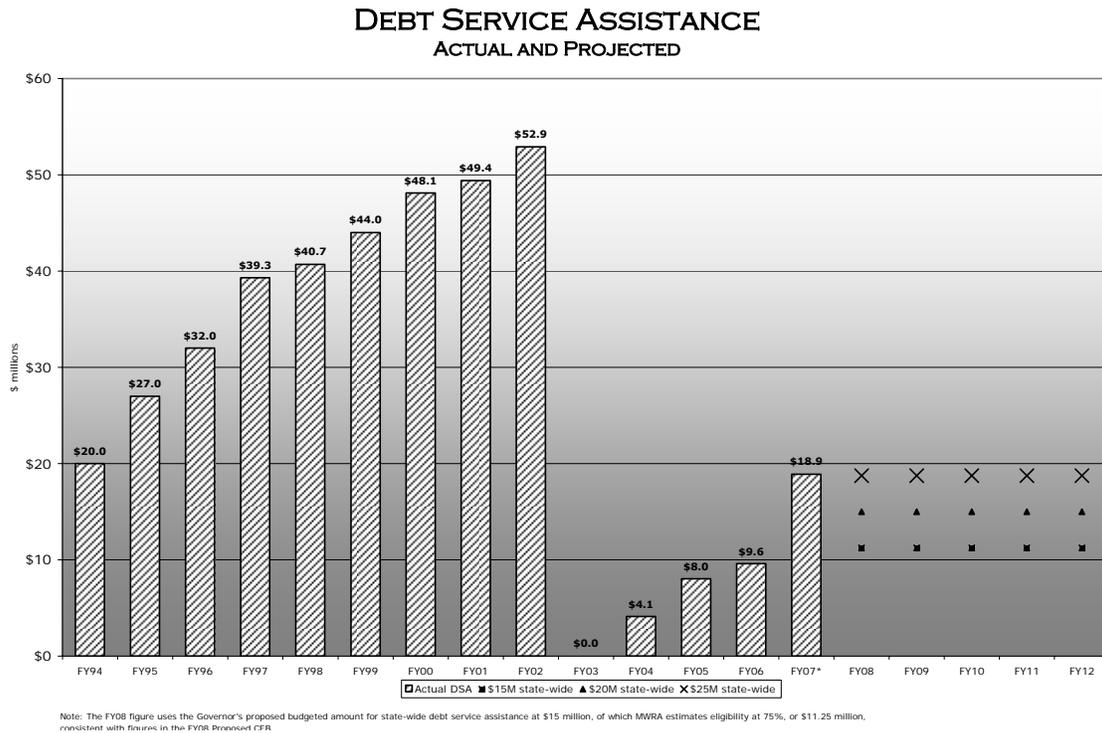
could include Authority and Advisory Board staff and members of the Board of Directors, with guidance from bond counsel, the financial advisors and outside consulting staff.

- 16• **Exempt Post Employment Retirement Benefits from Operating Expenses for purposes of calculating the annual Operating Reserve deposit requirement.**

Capital Financing Expense /Debt Service*

The Authority is proposing a budget for *Capital Financing Expense* of \$333,908,010 before debt service offsets. Less *Bond Redemption Savings* of \$2,924,000 and projected *Debt Service Assistance* receipts of \$11,250,000 (associated with an assumed 75% of the \$15,000,000 included in the Governor’s budget), net *Capital Financing Expense* is proposed to be \$319,734,010.

Figure 4



SRF Borrowings. The Authority is assuming debt service of \$48,138,260 relating to \$992 million borrowed through the Commonwealth’s Water Pollution Abatement Trust (also referred to as the *State Revolving Loan Fund* or SRF). Of this amount, the Authority is assuming new borrowings of \$75 million requiring debt service payments during FY08 of \$3,992,258 (including the cost of issuance).

Table 5

Proposed Fiscal Year 2008 Capital Financing Summary	
Debt Service	
Senior Debt	\$175,345,113
Subordinate Debt	98,582,580
State Revolving Loan Fund (SRF)	48,138,259
Current Revenue/Capital	4,500,000
Chelsea Lease	3,217,060
Water Pipeline - Commercial Paper	4,125,000
<i>Subtotal</i>	\$333,908,012
Debt Service Offsets	
Bond Redemption Savings	\$2,924,000
Prior Variable Rate Savings	0
Budget Year Variable Rate Savings	0
Debt Service Assistance	11,250,000
<i>Subtotal</i>	\$14,174,000
Net Capital Financing	\$319,734,012

MWRA Senior and Subordinate Debt Service.

The Authority is proposing a budget of \$273,927,693 for *Debt Service* on both *Senior* and *Subordinated Debt*: \$175,345,110 for debt service on \$3,223 million of outstanding and new Senior Debt and \$98,582,580 on \$1,526 million of Subordinated Debt. The proposal assumes new borrowing during FY08 of \$100 million requiring Debt Service payments during FY08 of \$2,500,000.

•17•

The Authority is unlikely to need to borrow as early as the assumptions anticipate. If the Authority delays the planned borrowing by two months, the *Debt Service* budget for Senior Debt Service can be reduced. **Reassess borrowing plans for FY08 and reduce the *Capital Financing* budget for new borrowings by at least \$909,090.**

•18•

The Authority is planning a bond defeasance transaction during May or June, consistent with the restructuring transaction assumptions in January. Staff report that the transaction can be expected to yield savings over the next five years. **Update *Debt Service* assumptions for FY08, as they relate to the upcoming bond defeasance transaction, and reduce budgeted amounts by \$2,011,537 plus \$107,600.**

•19•

The Authority is also assuming a 4.75% interest rate for Debt Service on Variable Rate Debt. However, as of March, the Authority is reporting that the interest rate on its Variable Rate Debt is closer to 3.5%. **Revisit assumptions for *Debt Service on Variable Rate Debt* and reduce budgeted amounts by at least \$1,477,188.**

Local Water Pipeline Commercial Paper Program. Now in its eighth 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.

•20•

The Authority is proposing a budget of \$4,125,000 for debt service relating to the commercial paper issued in support of the Local Water Pipeline Loan Program. The amount is \$400,000 below the amount budgeted for FY07, during which actual variable interest rates have been well below budgeted assumptions. **Update assumptions for interest on *Local Water Pipeline Program Commercial Paper* and reduce the budgeted amount by at least \$350,000.** The Authority is projecting FY07 expense of \$3,725,000, unchanged from the budgeted amount. Actual expense in FY06 was \$2,284,282.

Capital Lease. The Authority is budgeting \$3,217,060 for the sixth 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 to offset debt service coverage requirements)

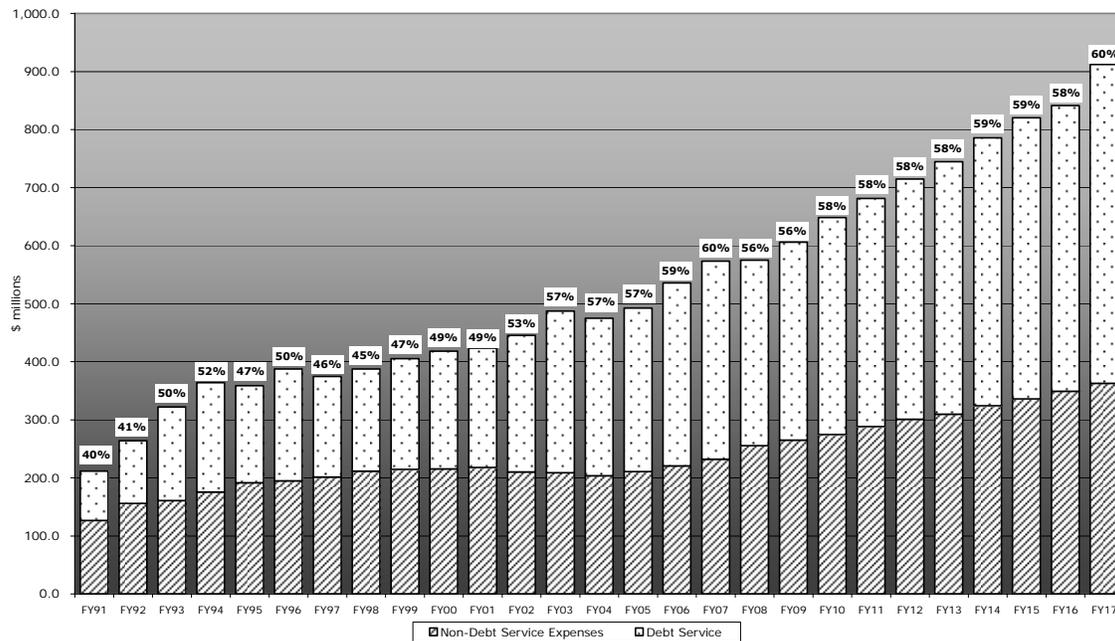
are *Bond Redemption Funds* and *Variable Rate Savings*. The Authority is budgeting \$2,924,000 from the *Bond Redemption Fund* for FY08. No *Variable Rate Savings* from previous years are assumed.

- 21• **Use \$2,924,000 from the Advisory Board’s recommended reductions to reverse the planned use of *Bond Redemption Funds* in FY08.** These funds should be reserved for managing future rate revenue requirements.

Debt Service Assistance is also treated as a *Debt Service Offset*. The budget submitted to the Legislature by the Governor’s Office includes \$15,000,000 for the statewide *Debt Service Assistance* program. At this level of funding, the Authority estimates that it could be eligible for \$11,250,000 in *Debt Service Assistance*. Also under discussion are alternative levels of funding for the statewide *Debt Service Assistance* program of \$20,000,000 and \$25,000,000. Deliberations will continue throughout the spring.

Figure 5

**MWRA DEBT SERVICE AS PERCENTAGE OF TOTAL CURRENT EXPENSE
(NET OF DEBT SERVICE ASSISTANCE AND OFFSETS)**



Use of Current Revenue to Fund Capital Projects. For FY08, the Authority is proposing to budget \$4,500,000 in Current Revenue to fund ongoing capital projects. The amount is nearly \$405,000 greater than the \$4,095,080 included in the FY07 budget.

Debt Service Reserves. The Authority reports that the average balance in the *Debt Service Reserve* is nearly \$275 million. The required balance is equal to the sum of the average annual debt service for outstanding issues. The Authority notes that the fund can be used to pay debt service when the amount for a specific debt series in the reserve is greater than the remaining debt service. Projected senior debt service

•22•

for FY08 is \$175.3 million. **Discuss options for use of the excess *Debt Service Reserves*.**

REVENUE

Non-Rate Revenue and Income

The Authority is budgeting *Non-Rate Revenue and Income* of \$47,925,050 in FY08: *Other User Charges* of \$7,468,178; *Other Revenue* of \$5,070,166; *Rate Stabilization* of \$1,669,654; and *Investment Income* of \$33,717,052.

Other User Charges

The Authority's proposed budget for *Other User Charges* in FY08 is \$7,468,178 an increase of less than 1% (\$10,366) from the \$7,457,812 budgeted in FY07. The Authority now projects that receipts in FY07 will reach \$8,457,812 or 13.4% (\$1,000,001) greater than budgeted. The difference is due to unbudgeted *Entrance Fees* of \$1,000,000 from the Town of Reading.

City of Worcester. The Authority has proposed a budget of \$108,351 for payments from the City of Worcester. The payment is an increase from the \$94,616 budgeted in FY07.

Clinton and Lancaster. The Authority is assuming a payment from the *Town of Clinton* of \$500,000 plus \$163,044 from the *Lancaster Sewer District* in FY08. The Lancaster payment is an increase from the \$140,358 payment budgeted in FY07. Total costs of operating the Clinton Wastewater Treatment Plant for FY08 come to \$1,369,625; added to this are overhead costs allocated to the plant of \$318,444, which brings the total cost of the plant to \$1,688,069 in the proposed FY08 budget.

Revenue from Regular Water Customers. The Authority is proposing a budget of \$2,178,907 from five *Regular Water Customers* in FY08: \$97,222 from Westborough State Hospital; \$108,567 from the Fernald School; \$22,059 from DCR Pools and Parks; \$33,088 from the Commonwealth Zoological Society; and \$1,917,971 as a transfer payment from the Deer Island Wastewater Treatment Plant to the Waterworks side of the ledger.

Revenue from Other Customers. The Authority is also budgeting payments from two other customers: \$67,945 from Regis College and \$14,641 from the New England Center for Children. Both are sewer customers.

Payments from Chicopee Valley Aqueduct (CVA) Communities. The Authority is budgeting payments totaling \$3,368,755 from the three *CVA Communities*: \$2,395,532 from Chicopee; \$442,470 from Wilbraham; and \$530,753 from South Hadley.

Water Treatment Plant Residuals. The Authority is also budgeting payments of \$315,000 from nine water treatment plants whose residuals are discharged to the Authority's sewer system for treatment at Deer Island.

Other Revenue

The Authority is budgeting *Other Revenue* of \$5,070,166 for FY08. The amount is a 7.1% increase (\$335,791) from the \$4,734,375 budgeted in FY07.

TRAC Permit Fee Income. The Authority is budgeting \$1,925,000 for *Fees* charged to industries and other permitted customers that discharge toxic and other regulated wastes into the sewer system. The amount is a \$25,000 reduction (1.3%) from the \$1,950,000 budgeted for FY07. Actual receipts in FY06 were \$1,910,134. Through March, receipts have been 4.7% below budgeted amounts.

Penalties. The Authority is proposing to reduce anticipated *Penalty* income by \$30,000 (12%) from \$250,000 to \$220,000. Income is difficult to predict and varies from year to year. Receipts through March have reached \$520,341, more than twice the year's budgeted amount.

Wilmington Emergency Use. The Authority is budgeting \$31,000 for an *Emergency Surcharge* payment from the Town of Wilmington.

Hydropower. Revenue from *Hydropower* generation is budgeted at \$186,266 in FY08. The amount is nearly \$100,000 less than the \$286,000 budgeted in FY07. Projections for year end revenue for FY07 earnings are at \$169,000. Staff is currently reassessing rates and plans for operations.

Payments from the Commonwealth. The Authority continues to budget \$867,000 for *Chemical Cost Reimbursement* 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 (primarily) in wastewater treatment.

Miscellaneous Revenues. The Authority is budgeting \$1,840,900 for *Miscellaneous Revenues*. The largest payment in this category is \$1,405,900 for anticipated revenues from Renewable Portfolio Credits; \$125,000 from the Fore River Railroad Corporation fees and leases; \$70,000 from Antennae Licenses; and \$240,000 in other Miscellaneous Revenues.

Entrance Fees

The Authority is budgeting \$719,980 for *Entrance Fee* income for FY08. In FY07 the Authority had budgeted \$553,128; projections for year end earnings are \$1,000,000 higher, at \$1,553,128; the receipts reflect full payment by the Town of Reading instead of annual payments over a multi-year period. The payments in the proposed budget are from Stoughton, the Dedham-Westwood Water District and several other entities; the amounts are expected to be revisited during the spring.

Non-Recurring Revenue: Rate Stabilization Funds*

- 23• The Authority is proposing the use of \$1,669,655 from the *Rate Stabilization Fund* in FY08. The Authority is currently assuming that all remaining funds in the *Rate Stabilization Fund* will be withdrawn over the next five years. The Advisory Board's recommendations should be used to reduce this proposed use of monies from the *Rate Stabilization Fund*. **Reduce FY08 use of \$1,669,655 from the *Rate Stabilization Fund*. Reserve these funds for future years to ease projected rate revenue increases.**

Investment Income*

The Authority is assuming *Investment Income* of \$33,717,052 for FY08, a 9% decrease, or a reduction of \$3,295,218. Income through March totaled \$30,146,990 or \$1,853,223 (6.6%) more than the \$28,293,766 budgeted for the period due largely to greater than budgeted income for the Debt Service Fund and Operating Fund.

The Authority budgeted \$37,012,270 for *Interest Income* in FY07 and now projects income by the end of the fiscal year to reach \$39,826,600, more than \$6 million more (15.3%) than the amount proposed for FY08.

- 24• Interest rates have remained relatively stable over the last year. Short term rates may increase in the near future, according to recent observations about expected action by the Federal Reserve Board. **Lower utilization of the *Rate Stabilization Fund* and the *Bond Redemption Fund* should allow for modification of the proposed budget's assumptions. Revisit assumptions for interest rates and fund balances relating to Investment Income and increase budgeted amounts by at least \$1,500,000.**

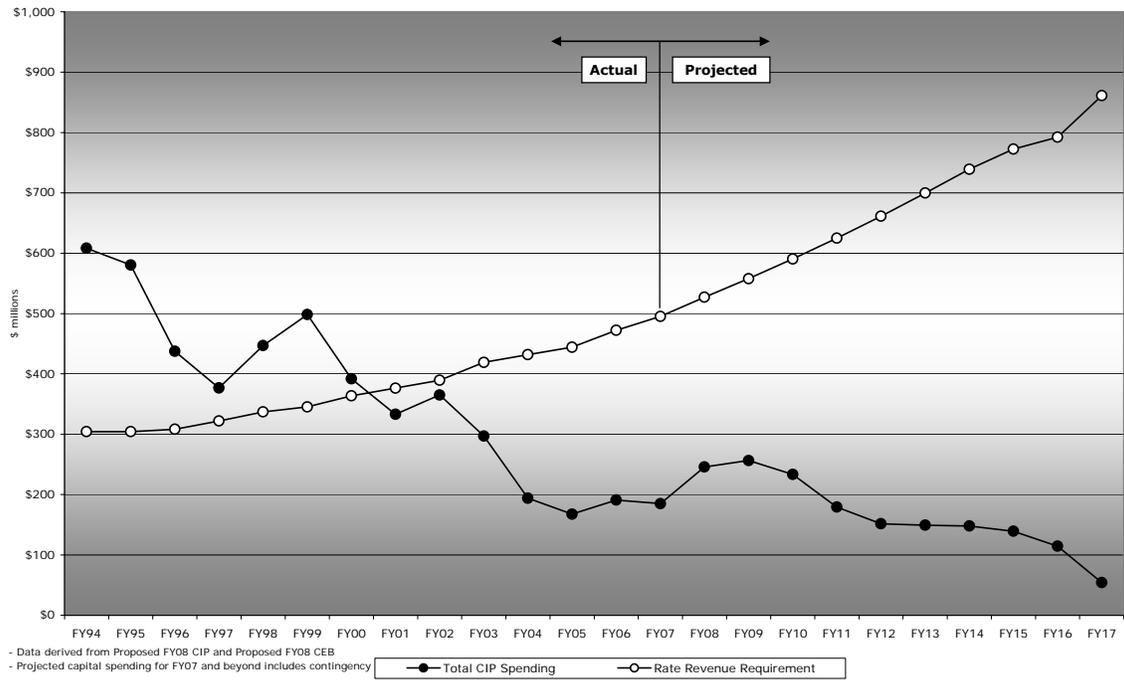
Rate Revenue*

The Authority is proposing *Rate Revenue* receipts of \$527,159,363 for FY08, a 6.42% increase over the \$495,358,764 budgeted in FY07. The amount is 92% of total revenue of \$575,084,413. Rate revenue requirements continue to rise, despite the restructuring transaction and lower capital spending, as compared to the past, due principally to continued increases in debt service payments on the borrowings issued to support the capital program. (See Figure 6 below as well as Figure 5 under *Capital Financing*.)

- 25• The Advisory Board's recommendations call for a net reduction to *Rate Revenue* of \$8,060,639 in FY08, resulting in a revised *Rate Revenue* increase of 4.79%. **Reduce FY08 *Rate Revenue* by \$8,060,639.**

Figure 6

**ACTUAL AND PROJECTED CAPITAL SPENDING
AND RATE REVENUE REQUIREMENTS**



POLICY RECOMMENDATIONS

Staffing Study*

•26•

In its Comments and Recommendations to the Proposed FY08 Capital Improvement Program (CIP), the Advisory Board recommended that the Authority evaluate the operational tools and resources it has available to successfully execute its capital program as scheduled. Toward this end, **the Advisory Board recommends that \$100,000 be added into *Professional Services* to allow the Authority to conduct a staffing study, focusing on divisions with staff responsible for the development, design, and management of capital projects.**

Water System Expansion

The Authority continues to receive applications for admission to the water system. Under discussion are the admission of the Town of Reading (as a permanent member of the system), Town of Wilmington, and the former Naval Air Base in Weymouth. While the exact dates of admission and the size of the respective entrance fees are not yet established, all three entities are in line for potential approval in FY08 or FY09.

The Advisory Board has formally recommended that the Authority develop a plan to market and make available up to 36 million gallons of water per day to non-MWRA communities that meet the criteria established in MWRA Policy # OP.10, Admission of a New Community to the MWRA Water System. The scope of the supply being made available to non-MWRA communities shall be revisited in five years when MWRA staff will provide an update to the MWRA Board of Directors on current and projected member and non-member water demands.

Over the past year, the Authority has reached out and communicated with all parties involved with this issue; however, it is critical to move forward and answer the unanswered questions.

•27•

One area of discussion related to system expansion is the need to develop a release plan relative to the Quabbin and Wachusett Reservoirs. **The Advisory Board recommends that the Authority utilize in house and professional services to develop a release plan by late fall 2007.**

Use of Surplus Funds*

Each year the Authority ends the fiscal year with some surplus funds. As the annual Current Expense Budget grows, a surplus that appears small in percentage terms, such as 1% or 2%, can result in a surplus of \$5 to \$10 million or more. The Authority needs to develop policy guidance for the utilization of these funds. Such a policy should include the assignment of funds to five categories: the repayment of

principal, the reduction of the next year's assessments, deposit to the rate stabilization funds, pre-funding certain liabilities and the payment of one time costs.

- 28● **Develop a policy statement for the utilization of year end surplus funds.** A recommended weight for each element of the policy would be:

- 35% repay principal
- 30% reduce the next year's assessments
- 15% deposit to the rate stabilization funds for managing rates in the future
- 10% pre-fund certain liabilities
- 10% pay one time costs

MWRA Policies and Procedures*

During the early years of the Authority's existence, staff developed *Policies and Procedures* for four major areas of activity: Administrative Policies, Finance Policies, Human Resources Policies and Operations Policies. Some of these policies have been reviewed and updated recently, including Admission of New Community to MWRA Water System, Admission of New Community to MWRA Sewer System and Emergency Water Supply Withdrawal. Other policies have not been formally updated for ten or more years. **Conduct a systematic review of the Authority's *Policies and Procedures* and update as needed.** Even where significant changes are not necessary, ensuring that the review and confirmation of the Authority's policies are current would be beneficial.

- 29●

LIST OF RECOMMENDATIONS

1. Update budgeted amounts for Health Insurance in FY08 and reduce the proposed budget by at least \$500,000. (Page 11)
2. Reassess expectations for expanded treatment requirements and implementation schedules and limit expanded funding for Sodium Hypochlorite and Sodium Bisulfite in FY08 to no more than the fourth quarter, for a reduction of at least \$828,000. (Page 13)
3. Update budgeted amounts for Sodium Bisulfite expense in FY08 and reduce by an estimated \$270,000. (Page 13)
4. Update assumptions for the use of Polymer at Deer Island and reduce budgeted amounts by an estimated \$15,000. (Page 13)
5. Update assumptions for Natural Gas expense for FY08 and reduce budgeted amounts by at least \$200,000. (Page 15)
6. Revisit assumptions for Electricity expense in FY08 and reduce budgeted amounts by at least \$1,195,000. (Page 16)
7. Review alternative self-generation strategies and seek to increase self generation of Electricity at Deer Island. Reduce the budgeted amount by \$108,000. (Page 16)
8. Explore options for revising permit requirements for two annual beach nourishment studies at Deer Island with the goal of reducing the number and frequency of the studies. (Page 19)
9. Discuss options for rescoping and tightening the cost of future harbor and outfall monitoring. (Page 19)
10. Reduce budgeted amounts for Memberships and Dues by \$6,580. (Page 22)
11. Update budgeted amounts for the Advisory Board's operating budget for a reduction of \$9,359. (Page 23)
12. Update cost estimates for Grit and Screenings Removal and reduce budgeted amounts for FY08 by an estimated \$123,680. (Page 23)
13. Reassess the amount budgeted for deposit to the Operating Reserve and reduce by at least \$900,937. (Page 24)
14. Evaluate options and obligations for meeting the provisions of GASB 45 between the spring 2007 and spring 2008. Establish a vehicle for investing and managing the GASB 45 benefits by the spring of 2008 and provide initial funding during the final quarter of FY08 of \$2,250,000. Develop a payment schedule for subsequent years. Reduce the budgeted amount in the FY08 budget by \$2,250,000. (Page 27)

15. Establish a working committee to discuss options and agree upon solutions for meeting the Authority's GASB 45 benefits obligations. (Page 27)
16. Exempt Post Employment Retirement Benefits from Operating Expenses for purposes of calculating the annual Operating Reserve deposit requirement. (Page 28)
17. Reassess borrowing plans for FY08 and reduce the Capital Financing budget for new borrowings by at least \$909,090. (Page 29)
18. Update Debt Service assumptions for FY08, as they relate to the upcoming bond defeasance transaction, and reduce budgeted amounts by \$2,011,537 plus \$107,600. (Page 29)
19. Revisit assumptions for Debt Service on Variable Rate Debt and reduce budgeted amounts by at least \$1,477,188. (Page 29)
20. Update assumptions for interest on Local Water Pipeline Program Commercial Paper and reduce the budgeted amount by at least \$350,000. (Page 29)
21. Use \$2,924,000 from the Advisory Board's recommended reductions to reverse the planned use of Bond Redemption Funds in FY08. (Page 30)
22. Discuss options for use of the excess Debt Service Reserves. (Page 31)
23. Reduce FY08 use of \$1,669,655 from the Rate Stabilization Fund. Reserve these funds for future years to ease projected rate revenue increases. (Page 33)
24. Lower utilization of the Rate Stabilization Fund and the Bond Redemption Fund should allow for modification of the proposed budget's assumptions. Revisit assumptions for interest rates and fund balances relating to Investment Income and increase budgeted amounts by at least \$1,500,000. (Page 33)
25. Reduce FY08 Rate Revenue by \$8,060,639. (Page 33)
26. Add \$100,000 into Professional Services to allow the Authority to conduct a staffing study, focusing on divisions with staff responsible for the development, design and management of capital projects. (Page 35)
27. Utilize in house and professional services to develop a release plan for the Quabbin and Wachusett Reservoirs by late fall 2007. (Page 35)
28. Develop a policy statement for the utilization of year-end surplus funds. (Page 36)
29. Conduct a systematic review of the Authority's Policies and Procedures and update as needed. (Page 36)

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 Robert Angelo/J. Timothy Walsh
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 Zigmund A. Peret
 Michael Woods/Robert Antico
 Stephen Swymer
 Fred Russell
 Robert Moylan, Jr.

Gubernatorial Appointees:

Quabbin and Ware Watershed - J.R. Greene
Wachusett Watershed - Barbara Wyatt
Environmental Protection - Vacant
Boston Harbor - Vacant
Boston Harbor - Vacant
Connecticut River Basin - Vacant

MAPC Appointee:

Edward G. Bates

*Member of Executive Committee

**Chairman of Executive Committee

Advisory Board Designees to the MWRA Board of Directors:

John Carroll – *Norwood*
 Andrew Pappastergion – *Brookline*
 Joseph Foti – *Chelsea*

