

MWRA ADVISORY BOARD



FY 2009

Comments and Recommendations
on the MWRA's
Current Expense Budget

The Community Advisory Board to the
Massachusetts Water Resources Authority

May 2008

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 2009
Current Expense Budget

May 2008

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, 2008 (FY09). 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 15, 2008 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 FY09 Current Expense Budget.

MWRA ADVISORY BOARD

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INTRODUCTION

The Massachusetts Water Resources Authority (MWRA) points out in its Proposed FY09 Current Expense Budget (CEB) that the current financial climate is difficult and the resulting cost of meeting their operational needs has increased significantly and could increase further. Indeed, the Authority faces significant potential increases in costs for utilities, fuel, health insurance, and debt service. There is rarely a year in which developing the proposed CEB is trouble-free, but the challenges facing the Authority this year are in many ways both significant and unique.

However, while the Authority has pointed out these pressure points and outlined their impact upon the Current Expense Budget, one must also remember that they are not alone in facing these challenges. The MWRA Advisory Board's primary role is to represent the perspectives of both the MWRA ratepayers and the member communities, and, toward that end, this year's *Comments and Recommendations* on the Proposed FY09 CEB were developed within this context.

Much as the Authority is presented with increases in costs for utilities, fuel, and health insurance so, too, are the cities and towns. As the Authority comes to terms and develops a strategy to deal with the implications of GASB45 relating to the unfunded liability for Other Post-Employment Benefits (OPEB) so, too, are the cities and towns. As the Authority begins to contend with the fallout from the sub-prime market crisis, the taxpayers within the communities are struggling to keep their homes and businesses, all of which has direct implications for the cities and towns.

Moreover, the communities are facing additional challenges in the form of state aid and local revenues that cannot keep pace with the reality of ever-increasing costs providing several basic service needs to their residents and commercial taxpayers – education, public safety, economic development, trash removal and recycling, roadway maintenance, as well as water and sewer services.

In effect, the communities are feeling the effects of many of these costs twice – first in their own budgets, but second in the increases they receive upon their MWRA assessments.

When reviewing the Proposed FY09 CEB, it becomes clear that the Authority faces the daunting challenge of meeting its operational needs and obligations within the context of extremely challenging and unpredictable financial times. However, the Advisory Board's review strives to balance these rising costs with its long-standing objective for rates that are not only sustainable and predictable, but also reasonable within the paradigm of the struggles facing member communities and ratepayers.

OVERVIEW

THE BUDGET IN BRIEF

The Massachusetts Water Resources Authority has proposed a Current Expense Budget of \$598.0 million for Fiscal Year 2009 (beginning July 1, 2008). *Non-Rate Revenue* and *Investment Income* totaling \$33.0 million, plus use of \$5.2 million from the *Rate Stabilization Reserve* and receipt of an estimated \$11.25 million from the state-wide *Debt Service Assistance* program (DSA), leave \$548.6 million to be raised from *Rate Revenue*, an increase of \$30.8 million or 5.9% from the amount budgeted in FY08.

Table 1

MWRA CURRENT EXPENSE BUDGET				
(\$000s)				
	FY06 Actual	FY07 Actual	FY08 Budget	FY09 Proposed
<u>Expenses</u>				
Direct Expenses	189,666	193,912	206,639	215,317
Indirect Expenses	35,154	36,173	44,460	46,503
Capital Financing	304,389	341,694	331,003	336,206
Subtotal Expenses	529,210	571,779	582,103	598,026
<u>Offsets</u>				
Variable Rate Debt	-	(4,295)	(375)	-
Bond Redemption	-	-	-	-
Debt Service Assistance	(9,631)	(18,937)	(17,250)	(11,250)
Subtotal Offsets	(9,631)	(23,233)	(17,625)	(11,250)
Net Expenses	\$519,579	\$548,546	\$564,478	\$586,776
<u>Revenues</u>				
Other User Charges	10,309	8,871	7,565	7,839
Other Revenue	8,455	6,246	5,241	5,325
Rate Stabilization	10,740	-	-	5,179
Investment Income	43,762	40,262	33,873	19,879
Subtotal Non-Rate Revenue	73,267	55,379	46,680	38,221
Rate Revenue	472,220	495,359	517,798	548,555
Total Revenue and Income	\$545,486	\$550,738	\$564,478	\$586,776
	\$ Increase	\$23,139	\$22,439	\$30,757
	% Increase	4.9%	4.5%	5.9%
Note: % and \$ increases compare budgeted amounts				

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

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 FY09 CEB document lists "Total Expenses" of \$586.8 million, an increase of \$22.3 million or 4.0% from the \$564.5 million budgeted in FY08.

Table 2

THE FULL RATE REVENUE REQUIREMENT FOR THE PROPOSED FISCAL YEAR 2009 CEB	
FY08 Rate Revenue Requirement is:	\$517,797,832
The <u>ACTUAL</u> FY09 Rate Revenue Requirement is:	564,983,517
An Increase of:	\$ 47,185,685
or:	9.1%
Actual FY09 Rate Revenue Requirement	\$564,983,517
Bond Redemption	-
Rate Stabilization	(5,178,517)
Debt Service Assistance	(11,250,000)
Revised FY09 Rate Revenue Requirement	\$ 548,555,000
An Increase of:	\$ 30,757,168
or:	5.9%

Direct Expense spending is budgeted at \$215.3 million, an \$8.7 million or 4.2% increase over the \$206.6 million budgeted in FY08. 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 Carroll Water Treatment Plant (CWTP), the Braintree-Weymouth Intermediate Pump Station, and 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*, certain *Chemicals* (such as *Soda Ash*), as well as increased costs of *Health Insurance* and *Medicare* expense. *Maintenance* expense increases by \$2.37 million, or nearly 10%, as major facilities age and certain equipment becomes obsolete.

Indirect Expense spending is budgeted at \$46.5 million, an increase of 4.6%, or \$2.0 million, from the \$44.5 million budgeted in FY08. Contributing to the increase are a \$1.1 million increase (25.5%) to the *Pension Fund* deposit, a \$0.5 million

increase (7.6%) to the *Post-employment Benefits* contribution and a \$0.66 million (\$2.8%) increase to the *Watershed/PILOT* charge.

Capital Financing Expenses increase by \$15.4 million (4.9%) to \$328.8 million. *Debt Service* payments (including other *Capital Financing* related expenses) are proposed at \$340.0 million, a 2.7% or \$9.0 million increase over the \$331 million budgeted in FY08. *Debt Service Assistance* of \$11.25 million is treated as an offset to Capital Financing expense; the amount is 75% of the \$15 million that was included in the Governor's budget filed in January.

Non-Rate Revenue of \$42.0 million comes from *Other User Charges*, *Other Revenue*, a drawdown from the *Rate Stabilization Fund*, and *Investment Income*.

Rate Revenue of \$548.6 million is proposed, a 5.9% or \$30.8 million increase over the \$517.8 million budgeted in FY08.

RATE REVENUE REQUIREMENTS & PERCENTAGE INCREASES
ACTUAL, PROPOSED AND PROJECTED RATE REVENUE REQUIREMENTS @ 5.9% IN FY09

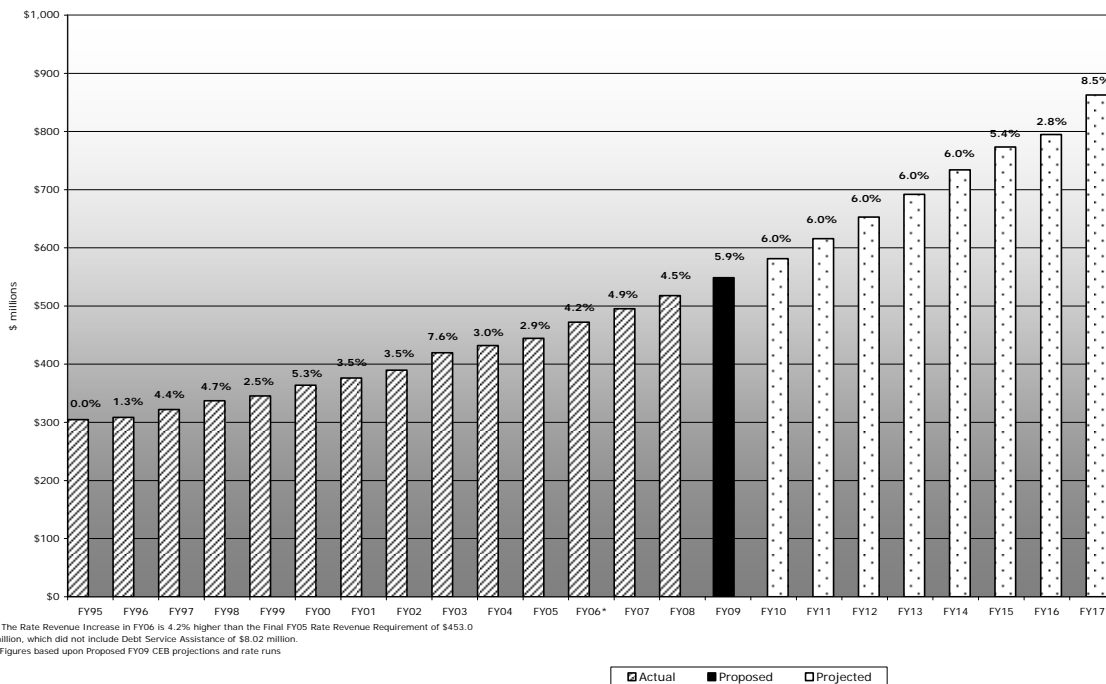


Figure 1

Even with the significant benefits of reduced debt service payments resulting from the January 2007 restructuring transaction and from the upcoming bond defeasance transaction (which is incorporated into the proposed CEB), the \$30.8 million increase in *Rate Revenue* is the largest dollar increase in more than a dozen years (Figure 2).

ANNUAL RATE REVENUE REQUIREMENT INCREASES
ACTUAL, PROPOSED AND PROJECTED AT 5.9%

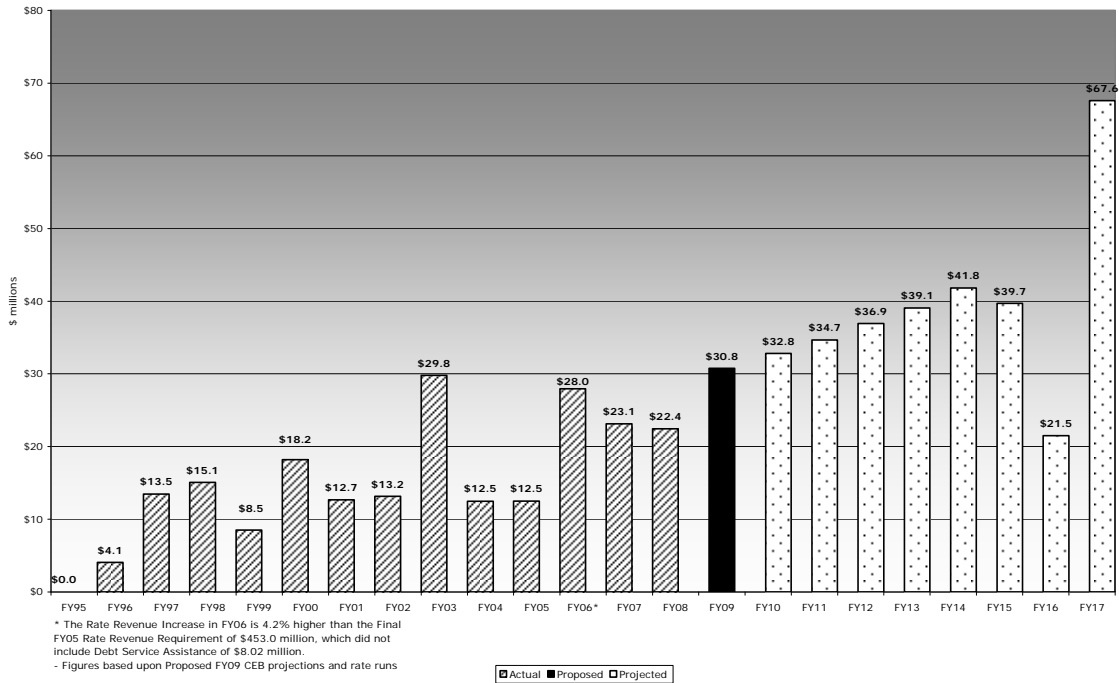


Figure 2

THE MWRA ADVISORY BOARD'S REVIEW

As it does each year, the MWRA 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; and 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.

In the process of updating budget assumptions and preparing the final FY09 CEB, Authority staff has identified a number of uncertainties and risks. Among them are: the interest rate to be assumed for variable rate debt; the short-term and long-term interest rates to be assumed for investment income; timing and amounts of new borrowing; utility and chemical pricing; the timing and requirements of the new Deer Island and Clinton NPDES permits; impacts of the potential Deer Island cable relocation/protection project; and assumptions about weather.

The Advisory Board's recommendations total \$15.5 million in revised spending and income assumptions. The changes allow for a placeholder for spring revisit adjustments of \$2.6 million, the reversal of all \$5.2 million of rate stabilization funds

to be reserved for easing rate increases in subsequent years, and the reduction of the rate revenue requirement of \$7.7 million, for a revised rate increase of 4.45% (Table 3).

Table 3

**FISCAL YEAR 2009 CURRENT EXPENSE BUDGET
AS PROPOSED BY THE MWRA AND AS RECOMMENDED BY THE ADVISORY BOARD**

	MWRA Proposed FY09 Budget	Advisory Board Adjusted Budget	Advisory Board Recommendations
DIRECT EXPENSES			
Wages and Salaries	\$90,883,540	90,683,540	(\$200,000)
Overtime	3,906,671	3,906,671	\$0
Fringe Benefits	17,870,870	17,870,870	\$0
Workers' Compensation	1,400,000	1,325,000	(\$75,000)
Chemicals	9,468,383	9,468,383	\$0
Utilities and Energy	27,433,120	27,123,120	(\$310,000)
Maintenance	28,139,126	28,139,126	\$0
Training and Meetings	290,913	290,913	\$0
Professional Services	7,717,586	7,717,586	\$0
Other Materials	4,929,801	4,929,801	\$0
Other Services	23,277,122	23,067,122	(\$210,000)
Potential Spring Revisits		2,600,000	\$2,600,000
Subtotal	\$215,317,132	\$217,122,132	\$1,805,000
INDIRECT EXPENSES			
Insurance	\$2,500,000	2,450,000	(\$50,000)
HEEC Payment	4,061,027	4,061,027	\$0
Mitigation	1,445,234	1,445,234	\$0
Retirement Fund	5,314,218	5,314,218	\$0
Post Employment Benefits	7,641,697	3,841,697	(\$3,800,000)
Watershed/PILOT	23,867,630	22,267,630	(\$1,600,000)
Capital Financing	336,206,013	329,256,013	(\$6,950,000)
Additions to Reserves	1,673,539	692,423	(\$981,116)
Subtotal	\$382,709,358	\$369,328,242	(\$13,381,116)
TOTAL EXPENSES	\$598,026,490	\$586,450,374	(\$11,576,116)
OFFSETS			
Bond Redemption Savings	0	0	\$0
State Debt Service Assistance	-\$11,250,000	(11,250,000)	\$0
Subtotal	(\$11,250,000)	(\$11,250,000)	\$0
NET EXPENSES	586,776,490	575,200,374	(11,576,116)
NON-RATE REVENUE AND INCOME			
Other User Charges	7,285,462	7,285,462	0
Hydropower	162,241	162,241	0
Permit Fees	1,800,000	1,800,000	0
Penalties	220,100	220,100	0
Commonwealth Reimbursements	867,000	867,000	0
Miscellaneous	626,000	626,000	0
Energy	1,650,000	1,650,000	0
Entrance Fees	553,128	553,128	0
Interest Income	19,879,043	21,179,043	1,300,000
Rate Stabilization	5,178,517	0	(5,178,517)
Subtotal	\$38,221,491	\$34,342,974	(\$3,878,517)
TOTAL REVENUE	\$586,776,490	\$575,200,374	
RATE REVENUE REQUIREMENT	\$548,554,999	\$540,857,400	(\$7,697,599)
RATE REVENUE INCREASE	\$30,757,167	\$23,059,568	(\$7,697,599)
Percent Increase from FY08 (1% = \$5,177,978)	5.94%	4.45%	
<i>FY08 Rate Revenue = \$517,797,832</i>			
Total Advisory Board Reductions			(\$15,476,116)

COMMENTS ON LINE ITEMS

DIRECT EXPENSES

LABOR AND BENEFITS

The Authority is proposing a budget of \$114,061,083 for all *Personnel-Related Expenses* for FY09. The amount represents a \$4,433,888 (4.0%) increase from the \$109,627,195 budgeted for FY08. *Personnel-Related Expense* includes: *Wages and Salaries*, *Overtime*, *Fringe Benefits* and *Workers' Compensation* expense and represents 53% of all proposed *Direct Expense* spending.

Wages and Salaries*

The Authority is proposing a budget of \$90,883,542 for *Wages and Salaries* in FY09, a \$2,792,081 increase, or 3.2%, from the \$88,091,461 budgeted in FY08. Most of the amount is for *Regular Pay* -- \$89,368,997. Other components of the *Wages and Salaries* category of spending are: *Shift Differential* \$213,510; *Holiday Pay* \$233,045; *Temporary Employees* \$467,629; *Interns* \$51,263; and *Stand By Pay* \$549,098.

MWRA LABOR COSTS AND BUDGETED POSITIONS

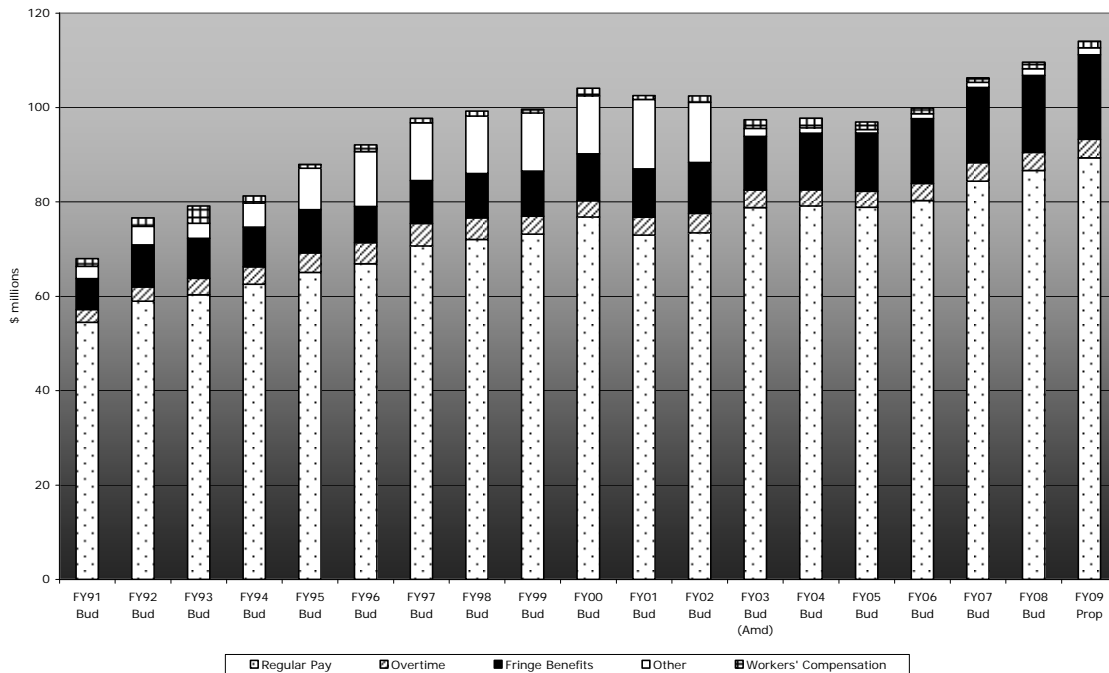


Figure 3

Regular Pay. The Authority is budgeting \$89,368,997 for *Regular Pay* for FY09, an increase of 3.1% or \$2,711,515 from the amount budgeted for FY08. The proposed budget supports the equivalent of 1,255 filled positions less a vacancy adjustment for six positions. The proposed budget includes funds for recently 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 FY08 put spending on *Regular Pay* at \$84,988,857 or 1.9% (\$1,668,625) below the \$86,657,482 budgeted for the year. Filled positions are now at 1,235 positions. Until certain vacant positions are filled, a number of positions are filled on an acting basis by existing staff. A number of other positions are authorized but unfunded. **Review and provide a report to the Advisory Board on all acting positions and any positions that have remained unfilled for more than six months. Revisit the vacancy rate with an eye to further reductions to *Regular Pay* of \$200,000.**

• 1 •

Temporary and Intern Employees. The Authority is proposing to spend \$467,629 on *Temporary Employees* in FY09, a 7% reduction from the \$501,791 budgeted in FY08. Spending through March totaled \$232,017 or \$133,406 (37%) below budgeted amounts for the period. The Authority currently projects year-end spending of \$308,920.

Intern spending is to decline from the \$56,751 budgeted for FY08 to \$51,263 in FY09, a 9.7% or \$5,488 decline. Spending through March totaled \$60,100 and projections for year-end spending are estimated at \$79,705.

Shift Differential, Holiday Pay and Stand By Pay. The Authority is proposing a budget of \$213,510 for *Shift Differential* in FY09, a 14.6% increase from the \$186,235 budgeted in FY08. Spending has been 2% greater than budgeted amounts for the year to date, but is projected to be 5% below budget by year end.

Holiday Pay is to decrease by 11.2% (\$29,407) to \$233,045 in FY09. Spending has been 2% lower than budget for the year to date, and is projected to be 5% below budgeted amounts by year end. *Stand By Pay* is to increase to \$549,098 in FY09, an increase of \$122,348 (28.7%). Spending for the year to date reached \$372,712 or 16.4% (\$52,620) greater than budgeted and is projected to reach \$522,919 by year end.

Overtime

The Authority is proposing a budget of \$3,906,671 for *Overtime* expense in FY09, a 1.1% increase (\$42,381) over the \$3,864,290 budgeted for FY08. The increase reflects salary adjustments for planned spending on maintenance and on waterworks operations (particularly equipment repair). Spending through March has been on budget, at \$2,817,046. Just over 98% of all *Overtime* spending is in the Operations Division, or \$3,833,556. Of this amount, 67%, or \$2,586,227, is for coverage and emergency overtime expense and 33%, or \$1,247,329, is for planned and training-related overtime. The number of *Overtime* hours declines, as does the dollar amount of budgeted *Overtime* as a percent of total *Regular Pay*. Spending can vary by plus or minus \$200,000 per year depending on wet weather events.

Fringe Benefits*

The Authority is proposing a budget of \$17,870,870 for *Fringe Benefits* in FY09, a 9.8% increase (\$1,599,426) over the \$16,271,444 budgeted for FY08. Included in this category of expense are: \$15,408,253 for *Health Insurance*, \$923,956 for *Dental Insurance*, \$60,000 for *Unemployment Insurance*, \$1,368,870 for *Medicare* payments, \$31,000 for *Tuition Reimbursement* and \$78,791 for *Overtime Meals*.

Spending through March on all categories of *Fringe Benefits* totaled \$11,614,831 or \$570,496 (4.7%) less than the \$12,185,327 budgeted for the period. Contributing to this variance are five of the six categories of *Fringe Benefits*, most notably *Health Insurance* and *Medicare* expense. The Authority projects that by year end spending will total \$15,454,790 or 5% (\$816,654) below the budgeted amounts.

Health Insurance. The Authority is budgeting \$15,408,253 for *Health Insurance* expense in FY09, an 11.1% increase (\$1,536,253) from the \$13,872,000 budgeted for FY08. Spending through March was \$10,060,480 or \$343,520 (3.3%) below the amount budgeted for the period. The Authority reports that fewer employees and retirees have participated in the health insurance program than had been assumed. The proposed budget assumes a rate increase of 10%.

Dental Insurance. The Authority is budgeting \$923,956 for *Dental Insurance* expense in FY09, an increase of 2.2% (\$19,956) from the \$904,000 budgeted in FY08. The proposed budget assumes an increase of 5% in premium charges. The Authority is projecting spending by year end of \$832,070 or 8% below the budget.

Medicare. *Medicare* expense is budgeted at \$1,368,870 or 3% (\$39,870) over the \$1,329,000 budgeted in FY08. Through March, spending totaled \$818,053 or \$178,697 (18%) below the amount budgeted for the period. The Authority projects spending by year end of \$1,094,340 or 17.7% (\$234,660) below the amount budgeted for the year. Spending for the previous three years has been \$1,062,000 or lower. **Revisit assumptions for Medicare expense for FY09 with an eye to reducing the proposed budget.**

• 2 •

Unemployment Insurance. The Authority is proposing to budget \$60,000 for *Unemployment Insurance* in FY09, the same amount as budgeted for FY08. Spending through March was \$40,851 or 20% greater than the amount budgeted for the period. The Authority projects spending by year end will total \$48,247.

Tuition Reimbursement. The Authority is proposing a budget of \$31,000 for *Tuition Reimbursement* in FY09, the same for FY08 and previous years. The Authority projects that spending will be close to the budgeted amount by year end.

Overtime Meals. The Authority is proposing to budget \$78,791 for *Overtime Meals* in FY09, a 4.4% increase from the \$75,444 budgeted for FY08. Spending through March was \$55,475 or 2% below the amount budgeted for the period. The Authority projects spending of \$72,944 by year end.

Workers' Compensation*

The Authority is proposing a budget of \$1,400,000 for *Workers' Compensation* expense in FY09, the same amount as budgeted for FY08. Proposed are \$840,000 for *Compensation Payments*, \$490,000 for *Medical Payments*, and \$70,000 for *Other* fees, examinations and reviews. Through March, spending came to \$837,283 or 19.7% (\$204,917) below the amount budgeted for the period. The Authority projects that by year end spending will total \$1,246,300 or \$153,700 (11%) below the amount budgeted due to lower *Compensation Payments*. Actual spending for the previous three years was below the FY08 projection, as the Authority has resolved a number of open claims.

• 3 •

Revisit assumptions for *Workers' Compensation* expense for FY09 and reduce the budget by \$75,000.

OTHER DIRECT EXPENSES

Chemicals

The Authority is proposing a budget of \$9,468,383 for *Chemicals* expense in FY09, an increase of 8.8% (\$765,451) over the \$8,702,932 budgeted in FY08. Costs of eleven of the fourteen chemicals have increased, while the budgets for three others have been reduced.

Soda Ash and *Sodium Hypochlorite* are the two largest components of the *Chemicals* budget. Together they total \$5,274,622 or 56% of the entire *Chemicals* budget.

Soda Ash. The Authority is proposing a budget of \$3,108,104 for *Soda Ash* in FY09, a 5% (\$146,688) increase over the \$2,961,416 budgeted in FY08. Spending through March reached \$2,126,306 or 3.2% (\$70,100) below the amount budgeted for the period. Projections for year-end spending are for \$2,942,000 or 0.7% (\$19,416) below the amount budgeted.

Most of the chemical is used at the Carroll Water Treatment Plant -- \$3,009,980; the rest -- \$98,124 -- is used at the Clinton Wastewater Treatment Plant to provide alkalinity to the secondary activated sludge system and for nitrification.

Sodium Hypochlorite. The Authority is proposing a budget for *Sodium Hypochlorite* of \$2,166,518, less than a 1% (\$5,483) decrease from the \$2,172,000 budgeted in FY08. Spending through March came to \$1,338,625 or \$191,407 (12.5%) below the amount budgeted. The Authority currently projects spending by year end to be \$2,099,000 or \$73,000 (3.4%) below budgeted amounts.

Most of the chemical -- \$1,093,178 -- is used at the Deer Island Wastewater Treatment Plant (DITP) for disinfection and for odor control. Another \$894,806 is budgeted for the Carroll Water Treatment Plant (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 last quarter of the fiscal year and, therefore, reflects additional dosing for the Deer Island plant to meet anticipated additional treatment requirements.

Sodium Bisulfite. The Authority is proposing a budget of \$418,742 for *Sodium Bisulfite*, a 39% (\$117,561) increase over the \$301,181 budgeted for FY08. Spending through March was \$225,002 or 17.1% (\$32,812) more than the amount budgeted. The Authority projects that by year end spending will come to \$274,000 or 9% (\$27,181) below the year's budget. An increased dosing rate is assumed for FY09, relating to the increased treatment requirements for enterococcus assumed to be in the upcoming new NPDES permit.

Polymer. The Authority is proposing a budget of \$314,754 for *Polymer* in FY09, an 8.4% (424,506) increase over the \$290,248 budgeted in FY08. Spending through March came to \$297,040 or 36.5% (\$79,354) more than the budgeted amount. The Authority projects spending by year end will be \$408,000 or 40.6% (\$117,752) more than budget. The chemical is used primarily at Deer Island to treat waste activated sludge. Dosage and pricing are increasing and the Authority anticipates an increase to the proposed budget.

Activated Carbon. The Authority is proposing a budget of \$231,131 for *Activated Carbon* in FY09, within 1% of the amount budgeted for FY08. Spending through March totaled \$129,430 or 12% more than the amount budgeted; projections show spending at the budgeted level by year end. The chemical is used at Deer Island for odor control.

Liquid Oxygen. The Authority is proposing a budget of \$599,059 for *Liquid Oxygen* in FY09, a 10% (\$66,424) reduction from the \$655,483 budgeted for FY08. Through March, spending came to \$421,587 or 12.7% (\$61,102) below the amount budgeted. The Authority is projecting spending of \$653,000 by year end. The chemical is used at the Carroll Water Treatment Plant.

Carbon Dioxide. The Authority is proposing a budget of \$305,924 for *Carbon Dioxide* in FY09, an 11.2% (\$30,920) increase over the \$275,004 budgeted in FY08. Spending through March came to \$170,883 or 17.5% (\$36,330) below the amount budgeted for the period. The Authority is projecting spending of \$253,000 by year end. The chemical is used at the Carroll Water Treatment Plant.

Sodium Hydroxide. The Authority is proposing a budget of \$249,102 for *Sodium Hydroxide* in FY09, a 10.3% (\$23,213) increase over the \$225,889 budgeted for FY08. Spending through March was \$223,704 or 27.9% (\$48,826) more than budgeted. The Authority now predicts spending of \$241,000 by year end. The chemical is used at Deer Island and at the four headworks for odor control.

Ferrous Chloride. The Authority is proposing a budget of \$422,877 for *Ferrous Chloride* in FY09, a 65.7% (\$167,719) increase over the \$255,159 budgeted for FY08. Spending through March was \$69,918 or 62.8% (\$117,786) less than budgeted. The Authority is now projecting spending by year end of \$70,000 or \$185,159 (72.6%) below the amount budgeted. The chemical is used at Deer Island for odor control and struvite control.

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 does not budget for *Ferric Chloride*; through March the Authority has accrued \$318,016 and now projects that by year-end it will spend \$353,000.

Hydrogen Peroxide. The proposed budget includes \$155,424 for Hydrogen Peroxide in FY09, a 10% (\$14,129) increase over the \$141,295 budgeted for FY08. Spending through March came to \$328,887 or 138.7% (\$191,133) more than budgeted. The Authority now projects spending by year end will reach \$346,000. The chemical is used at Deer Island for hydrogen sulfide control.

Hydrofluosilic Acid. The Authority is proposing a budget of \$860,315 for *Hydrofluosilic Acid* in FY09, a 50.8% (\$289,772) increase from the \$570,543 budgeted for FY08. Through March spending came to \$486,919 or 16.1% (\$67,505) over budget. The Authority now projects spending by year end of \$721,543, or \$151,000 over the budgeted amount. The chemical is used at the Carroll Water Treatment Plant.

Nitrazyme. The Authority is proposing a budget of \$252,525 for *Nitrazyme* and a related chemical, *VX456*, in FY09, a 4.2% (\$11,133) decrease from the \$263,658 budgeted in FY08. Spending through March totaled \$226,970 or 4.2% (\$9,094) greater than budgeted and projects spending by year end of \$263,000. The chemical is used in the Framingham Extension Sewer during the warm months to control corrosion.

Other Chemicals. The Authority is budgeting \$132,957 for several *Other Chemicals*, a 14.8% (\$17,131) increase from the \$115,826 budgeted for FY08. Spending through March was \$38,898 or 55.4% (\$48,403) lower than the amount budgeted. The Authority now projects spending by year end of \$107,000.

Utilities*

The Authority is proposing a budget of \$27,433,120 for *Utilities* expense in FY09, a 3.4% (\$900,423) increase over the \$26,532,694 budgeted for FY08. The increase is driven by higher prices for *Electricity*. *Electricity* expense accounts for nearly 77% of all *Utilities* spending and is to rise 4.8% (\$956,544) to \$21,017,685. Other *Utilities* include: *Natural Gas* (\$910,932), *Water* (\$2,144,873), *Diesel Fuel* (\$3,000,434), 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 rebid in 2001 for a fifteen-year period and all the contractor costs are budgeted under *Other Services*.

Natural Gas. The Authority is budgeting \$910,932 for *Natural Gas* in FY09, a 1% (\$7,563) decrease from the \$918,495 budgeted in FY08. Spending through March came to \$605,365 or 23% (\$179,317) below the amount budgeted for the period. Projections for spending by year end total \$736,000 or 20% (\$182,495) below the budgeted amount. *Natural Gas* is used at a number of water and wastewater facilities in the Field Operations Division. **Revisit usage assumptions for *Natural Gas* and reduce budgeted amounts by \$75,000.**

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Electricity. The Authority is proposing to budget \$21,017,685 for *Electricity* expense in FY09, a 4.8% (\$956,544) increase over the \$20,061,141 budgeted in FY08. The amount is 21% of all non-personnel related *Direct Expenses* (which total \$101,256,052). It is the largest single subline item of *Other Direct Costs*, followed by the pelletizing plant expense of \$14,635,367 (under *Other Services*). Most of the expense is for the Operations Division, \$20,854,717; the remaining \$162,971 is budgeted for the Facilities Management Department in the Support Division.

The Deer Island Wastewater Treatment Plant accounts for 62% of the total proposed budget for *Electricity* expense. The Authority is proposing a 6.3% increase (\$775,006) to \$13,129,745 for FY09. The number already reflects a reduction of \$400,000 to the earlier request for FY09. The proposed budget also reflects reduced output from the STG during installation of a second lower pressure turbine during the year. While the Authority is projecting spending by year end to be \$376,000 below budget, spending through March totaled \$10,092,206 or \$694,983 (7.4%) more than the amount budgeted for the period. While prices for the first five months of the fiscal year were lower than budgeted amounts, prices have been rising since December. Projections of future prices continue to be revised upward and represent a significant area of budget risk for the Authority.

The Deer Island *Electricity* budget also includes \$200,000 for the anticipated purchase of Renewable Greenhouse Gas Initiative credits. More recent information puts estimates measurably lower. **Revisit budgeted amount for the purchase of RGGI credits in FY09 and reduce the budget for *Electricity* for Deer Island by \$105,000.**

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Another 36% of the total proposed *Electricity* budget is for Wastewater and Waterworks facilities managed by the Field Operations Department, including the water treatment plant, water and wastewater pump stations, headworks and CSO facilities, as well as the Chelsea facility. The Authority is proposing a budget of \$7,478,823, a 2% (\$165,232) increase from the \$7,313,692 budgeted for FY08. The increase reflects net increases for both usage and price. Spending through March totaled \$5,205,605 or 4.1% (\$221,462) below budgeted amounts.

Electricity is also budgeted for the Clinton Wastewater Treatment Plant \$246,147, a 20% or \$40,503 increase over the \$205,644 budgeted for FY08 and for offices at the Charlestown Navy Yard (\$162,971).

Through March, agency-wide *Electricity* expense totaled \$15,570,726 or 3% (\$449,314) more than the amount budgeted for the year to date. Staff project expenses for the year end will reach \$19,752,472 or 1.5% (\$308,669) less than the amount budgeted for the year.

Electricity demand is partially offset by self generation, most notably at Deer Island, where electricity generated by the Steam Turbine Generator, two Combustion Turbine Generators and two Hydropower Turbines reduces purchased power by 22-24%. At the same time, the Authority has been investigating opportunities for reducing purchased power by reducing demand at a number of facilities. For example, lighting retrofits at Deer Island and a number of other facilities should contribute to reduced demand during FY09. **Revisit assumptions about conservation of *Electricity* use across the agency and reduce budgeted amounts for *Electricity* by at least \$130,000.**

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Water. The Authority is proposing a budget of \$2,144,873 for *Water* in FY09, a 4.3% (\$97,149) decrease from the \$2,242,021 budgeted for FY08. Deer Island accounts for \$1,830,813 of the proposed budget. Spending through March came to \$1,446,798 or 14.2% (\$239,292) below the amount budgeted and reflects, among other things, decreased usage following repair of water leaks. The Authority projects accruals by year end of \$1,925,000 or 14% (\$317,021) less than the amount budgeted. The charge is offset by a balancing receipt under *Non-Rate Revenue*.

Diesel Fuel. The Authority is proposing a budget of \$3,000,434 for *Diesel Fuel* in FY09, a 2.0% increase (\$57,627) from the \$2,942,806 budgeted in FY08. The Authority is budgeting \$1,640,048 for Wastewater Operations, \$119,166 for Water Operations and \$1,239,999 for Deer Island. Higher pricing is nearly offset by reduced usage, especially at Deer Island (in the boilers). Spending through March totaled \$1,309,262 or 32% (\$606,281) lower than the amount budgeted. The Authority staff now project spending by year end to be \$2,136,806 or 27.4% (\$806,000) below the budgeted amount.

Maintenance*

The Authority is proposing a budget of \$28,139,126 for *Maintenance* expense in FY09, an increase of 9.2% (\$2,370,317) over the \$25,768,810 budgeted for FY08. Spending has been increasing from the \$20 million or so in FY05 and FY06 to nearly \$26 million in FY07 and FY08. Spending through March was \$18,136,382 or 1.4% (\$246,344) more than the amount budgeted for the period. The Authority now projects spending by year end will reach \$26,886,652 or 4.3% (\$1,117,842) more than the FY08 budget.

The proposed budget includes \$24,389,933 for *Maintenance* expense in the Operations Division, \$3,287,560 for the Support Division (including funding of \$747,250 for Fleet Services and \$2,500,010 for MIS) and \$461,633 for the Office of Emergency Preparedness (for security systems maintenance service contracts and new and replacement equipment).

Maintenance expense in the Operations Division includes: \$14,609,850 for Deer Island; \$1,296,549 for work performed by NEFCo at the Fore River Pelletizing Plant; \$322,044 for the Clinton Wastewater Treatment Plant; \$325,414 for the Department of Laboratory Services; \$7,825,597 for the Field Operations Department; and \$10,480 for service contracts for specialized printers and plotters in the Engineering and Construction Department. Projections of future prices continue to be revised upward and together with the potential for increased operation costs of the combustion turbine generators (CTGs), which run on diesel fuel, represent another significant area of budgetary risk for the Authority.

Deer Island Maintenance. Just over 50% of all proposed *Maintenance* spending in FY09 is budgeted for the Deer Island Wastewater Treatment Plant. The proposed budget of \$14,609,850 represents a 17.4% (\$2,167,962) increase over the \$12,441,888 budgeted for FY08. Just over 40% of the total, or \$4,736,000, is for materials and nearly 60%, or \$9,873,850, is for services. Just over \$8 million of the proposed budget is for Plant and Machinery Materials and Services; another \$2.3 million is for Electrical Equipment and Services. The Authority plans to spend \$1.5 million on facilities painting and coatings plus \$1.5 million on roof replacement for a number of buildings. Also planned are the replacement of obsolete elevator

controllers, access modification in the residuals area, replacement of obsolete analyzers for the thermal power plant stack emission monitoring system, installation of additional fire protection, damper replacement and butterfly valve repair, among many other projects.

Pellet Plant Maintenance. The Authority is proposing a budget of \$1,296,549 for *Maintenance* spending at the Fore River Pelletizing Plant, a reduction of 20.5% (\$334,785) from the amount budgeted in FY08. The fifteen-year operating contract with NEFCo, approved in March 2001, identifies annual levels of spending on specific operating and capital maintenance projects. Longer term plans for plant technology and maintenance have been included in the Master Plan and the CIP reflects anticipated spending on some of these projects in the coming years. The Authority is presently preparing to go out for bid for a facility condition assessment and utility reliability study for the plant.

Clinton Wastewater Treatment Plant Maintenance. The Authority is proposing a budget of \$322,044 for *Maintenance* expense at the Clinton Wastewater Treatment Plant, an 80.2% (\$143,372) increase from the amount budgeted in FY08. The plant will be seventeen years old in FY09 and staff anticipate increased maintenance needs in the future. The budget includes \$200,000 for inspecting and cleaning the first of two digesters.

- 7• **Update the schedule for *Maintenance* expense for planned digester cleaning at the Clinton Wastewater Treatment Plant.**

Field Operations Department Maintenance. The Authority is proposing a budget of \$7,825,597 for *Maintenance* materials and services in the Field Operations Department in FY09. The amount represents a 5.5% (\$410,735) increase over the \$7,414,862 budgeted for FY08. The amount includes \$1,511,500 for project maintenance, \$3,081,189 for day to day needs and spare parts, and \$3,232,907 for service contracts. Much of the increase relates to two new contracts, one to enhance the ability to track operational preventive maintenance work and the other to service the wastewater meters as the warranty period expires. Funding for western water operations and maintenance totals \$1,694,718 (including the water treatment plant maintenance); funding for maintenance of the wastewater and water systems and facilities within the Route 128 area is \$4,724,707.

Office of Emergency Preparedness Maintenance. The Authority is budgeting \$461,633 for *Maintenance* expense for the Office of Emergency Preparedness. Included is \$440,000 for *Specialized Equipment Materials*. Spending for this category of expense through March has been more than 90% below the amount budgeted for the period and assumptions for future spending are being reassessed.

- 8• **Revisit assumptions for *Specialized Equipment Materials* in the Office of Emergency Preparedness.**

Management Information System Maintenance. The Authority is proposing a budget of \$2,500,010 for *Maintenance* related expense in the MIS Department for FY09, less than a 1% increase for FY09. The funding supports computer maintenance materials and services and various licenses and maintenance agreements and support throughout the agency.

Training and Meetings

The Authority is proposing a budget of \$290,913 for Training and Meetings expense in FY09, a 31% increase over the \$222,252 budgeted for FY08. Spending through March came to \$148,878 or \$19,307 below the amount budgeted for the period.

Professional Services*

Spending on *Professional Services* is budgeted at \$7,717,586 for FY09, a 1.9% (\$151,702) reduction from the \$7,869,288 budgeted for FY08. *Laboratory Testing and Analysis Services* account for 40% (\$3,089,267) and *Security Services* for another 27% (\$2,118,369) of the total. Spending through March for all categories of Professional Services came to \$4,650,914 or 15.2% (\$833,370) below the amount budgeted.

Engineering Services. The Authority is proposing a budget of \$940,000 for outside *Engineering Services* in FY09, a 58% (\$345,000) increase over the \$595,000 budgeted for FY08. Included in this category of expense are \$100,000 for dam safety inspections, \$50,000 for sewer easement surveys for the Rutland-Holden sewers, \$10,000 for a community water audit pilot program, \$20,000 for design support for Deer Island plant operations, \$500,000 for as needed engineering services for the Deer Island plant and \$100,000 for as-needed engineering services for Field Operations, both due to a change in budget policy, and \$50,000 for two beach nourishment studies for Deer Island.

The Advisory Board has previously commented on the need for the beach nourishment studies, which had been a requirement of a permit obtained for the construction of the eastern seawall early in the Boston Harbor Project. Past studies have shown that the potential for beach erosion has not materialized. **Negotiate**

- 9. **termination of the requirement to conduct future beach nourishment studies.**

Laboratory Testing and Analysis. The Authority is proposing a budget of \$3,089,267 for *Laboratory Testing and Analysis* services in FY09, a 10.6% (\$367,024) reduction from the \$3,456,291 budgeted for FY08. Most of the funding for this category of expense (\$2,860,576 or 92.6%) supports harbor and outfall monitoring studies. The amount is 10%, or \$324,421, below the \$3,194,997 budgeted for FY08, the result of some work now being done in-house. The Authority also budgets \$184,231 for outside *Laboratory and Testing Analysis* services for the Central Laboratory, and smaller amounts for outside testing service for the Deer Island Wastewater Treatment Plant and for specialized testing services in the Field Operations Department.

Future levels of spending on harbor and outfall monitoring will be a function of the next NPDES permit, still in development. The Authority has worked over recent years to modify and reduce the scope of some of the work, reducing the frequency of sampling and reporting of some parameters. Other cost reductions have resulted from bringing some of the work in-house. Results of work performed to date confirm the remarkable benefits of the Deer Island plant and related projects for the health of the harbor and the outfall area. **Continue to rework and reshape the harbor**

- 10 • **and outfall monitoring program and report on the potential for additional cost savings of a program defined outside the regulatory framework.** Even with the reductions between the FY08 and Proposed FY09 budget, the Environmental Quality Department budget totals \$4.45 million.

Legal Services. The Authority is proposing a budget of \$271,000 for a number of *Legal Services* in FY09, just under the \$271,500 budgeted for FY08. Spending through March has been \$152,328 or 25% below the amount budgeted for the period. Much 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*, the same amount as for FY08 and FY07. A three-year contract was awarded in May 2006. Accruals through March have been the same as budgeted.

Communications Services. The Authority is budgeting \$174,697 for *Communications Services* in FY09, a 1.9% (\$3,306) increase from the amount budgeted in FY08. The budget supports the Wastewater Advisory Committee and the Water Supply Citizens Advisory Committee.

Other Professional Services. The Authority is proposing \$923,853 for a number of *Other Professional Services* for FY09, a 10.6% (\$109,417) decrease from the \$1,033,270 budgeted for FY08. Funding includes \$10,000 for the Gulf of Maine Ocean Observing System, \$45,000 for the insurance consultant, \$50,000 for energy related advisory services, \$90,000 for trustee services, \$25,000 for financial advisor services related to rates management, \$90,000 for other legal services for the Law Division,

Security Services. The Authority is proposing a budget of \$2,118,369 for *Security Services* in FY09, a 1% (\$23,067) decrease from the \$2,141,436 budgeted for FY08. Included are: \$538,960 for *Security Services* for the Chelsea facility, \$860,000 for services at the Deer Island Wastewater Treatment Plant, \$340,836 for services at the Carroll Water Treatment Plant, \$122,380 for services at the Charlestown Navy Yard and \$125,831 for roving guard services. Through March, spending came to \$1,351,855 or 17% (\$277,555) below budgeted amounts for the period. **Revisit**

- 11 • **assumptions for budgeted amounts for *Security Services* in FY09.**

Other Materials

The Authority is proposing a budget of \$4,929,801 for a number of *Other Materials* in FY09, a 1.9% decrease (\$93,057) from the \$5,022,858 budgeted in FY08. 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 \$192,703, a 4% (\$7,456) increase over the \$185,247 budgeted for FY08. Spending through March reached \$190,785 or 37% (\$51,521) more than the amount budgeted for the period. By year end the Authority projects spending will total \$207,538.

Postage. The Authority is proposing a budget of \$221,123 for *Postage* expense in FY09, virtually the same amount as the \$221,167 budgeted in FY08. Spending through March was \$59,372 or 2% (\$1,232) below the amount budgeted for the period. The Authority projects spending by year end will reach \$222,400. Some \$118,500 is budgeted for mailing the Consumer Confidence Report, which takes place in late spring. Also budgeted is \$101,400 for USPS and UPS usage. Postal rates are to rise this spring.

Laboratory and Testing Supplies. The Authority is proposing a budget of \$770,236 for *Laboratory and Testing Supplies* in FY09, a 0.5% (\$4,139) increase over the \$766,097 budgeted in FY08. Spending through March was \$505,987 or 13.8% (\$81,086) below the amount budgeted for the period. By year end the Authority projects spending will reach \$808,000.

Health and Safety Materials. The proposed budget includes \$309,046 for *Health and Safety Materials*, a 3.2% (\$9,515) increase over the \$299,531 budgeted for FY08. Spending through March totaled \$267,037 or 18.8% (\$42,226) more than the amount budgeted for the period. The Authority projects that by year-end spending will reach \$397,211 or 32.6% (\$97,680) more than budgeted.

Equipment/Furniture. The Authority is proposing a budget of \$329,430 for *Equipment and Furniture* purchases in FY09, a 6.8% (\$20,900) increase from the \$308,530 budgeted in FY08. Spending through March was \$130,689 or 35.6% (\$72,291) below the amount budgeted for the period. The Authority projects spending by year end of \$311,000. 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 \$1,150,000 for *Vehicle Purchases* and related equipment *Replacements* in FY09, a 15.9% (\$217,000) decrease from the \$1,367,000 budgeted for FY08. Through March, the Authority spent \$410,098 on this category of expense.

Work Clothes. The Authority is proposing a budget of \$366,988 for *Work Clothes*, a 9.2% (\$36,991) reduction from the \$403,979 budgeted for FY08. Funding includes purchases of safety shoes and boots, replacement boots and jackets and work uniforms or clothing allowances. Spending through March came to \$247,062 or 19.1% (\$58,480) below the amount budgeted for the period. The Authority projects that spending by year-end will reach \$397,560.

Vehicle Expense. The Authority is proposing a budget of \$1,049,071 for *Vehicle Expense*, 8.3% (\$80,576) more than the \$968,495 budgeted for FY08. Spending through March came to \$773,717 or 6.3% (\$45,898) more than the amount budgeted for the period. Projections for year-end spending are \$996,384.

Other Materials. The Authority is proposing a budget of \$147,101 for a number of *Other Materials* in FY09, a 26.8% (\$31,125) increase over the \$115,976 budgeted in FY08. Spending through March was \$136,665 or 72.2% (\$57,295) more than the amount budgeted for the period. Projections for year end spending total \$149,617 due primarily to increased costs of fill used as cover for the sludge landfill at the Clinton Wastewater Treatment Plant. In addition to landfill cover, funding is for water conservation kits, training materials, mapping and graphic artist supplies and oil spill containment supplies.

Computer Hardware. The Authority is proposing to budget \$385,383 for *Computer Hardware* and printers, plotters and scanners in FY09, a 2.7% (\$10,167) increase over the amount budgeted in FY08. Spending through March was \$213,276 while spending by year end is projected to be \$464,916.

Other Services*

The Authority is proposing a budget of \$23,277,123 for various *Other Services* spending in FY09, an increase of 1.7% (\$383,728) from the \$22,893,395 budgeted in FY08. Nearly 63% of all spending under this category of expense is for *Sludge Pelletization* at the Fore River plant. Other major components of this category are \$3,039,850 for Lease and related costs, \$1,069,801 for *Grit and Screenings Removal* and \$1,392,802 for *Telephone* expense.

Printing and Duplicating. The Authority is proposing a budget of \$334,769 for *Printing/Duplicating* expense in FY09, a 4.8% (\$16,997) decrease from the \$351,766 budgeted in FY08. The budget includes funding for printing the Consumer Confidence Report, education program publications, the Annual Report, budget documents and reports, and other items. Spending through March was \$112,193 or 32% below the \$164,953 budgeted for the period. Spending for the previous three years has been under \$290,000.

Health/Safety Services. The Authority is budgeting \$434,000 for *Health and Safety Services* for FY09, a 5% increase from the \$413,146 budgeted in FY08. Spending through March was \$291,743 or 5.8% (\$18,117) below the amount budgeted for the period. Most of the proposed budget -- \$397,000 -- is for ambulance, fire extinguisher and hazardous materials clean up services. Of that amount \$320,000 is budgeted for the ambulance service contract, which is being rebid this spring.

Telephone. The Authority is proposing a budget of \$1,392,802 for *Telephone* expense for FY09, a 1.4% (\$19,662) increase from FY08. Costs include \$740,543 for all voice and data costs managed by the MIS Department, the same amount as budgeted in FY08. Another \$635,810 is for *Telephone* related service for the Operations Division including metering and monitoring expense. Through March, spending totaled \$982,562, within 4.4% of the amount budgeted for the period.

Memberships/Dues/Subscriptions. The Authority is proposing a budget of \$504,513 for *Memberships, Dues and Subscriptions* in FY09, a 1.2% (\$6,019) decrease from the \$510,532 budgeted in FY08. Most of the amount supports professional memberships and dues for the Operations Division including membership in the Water Environment Research Foundation. Funding also covers library memberships and subscriptions.

Advertising. The Authority is proposing a budget of \$68,500 for *Advertising* expense in FY09, an \$8,300 increase over the \$60,200 budgeted in FY08. Included in the budget are \$25,000 for recruiting advertising and \$40,000 for contract advertising. Through March, spending was \$42,139 or 8.5% below the \$46,075 budgeted for the period.

Space Lease/Rentals. The Authority is proposing a budget of \$3,039,850 for *Lease and Rental* expense in FY09, a 2.4% (\$70,517) increase from the \$2,969,333

budgeted for FY08. Included in the budget are: \$1,380,066 for annual rent for the Chelsea facility; \$20,000 for six-month rental of space in Malden; and \$1,586,292 for rent at the Charlestown Navy Yard. Spending through March was \$2,134,894 or 4.3% (\$96,630) below the amount budgeted for the period.

Moving/Freight. The Authority is proposing a budget of \$84,215, a 34% (\$21,300) increase over the \$62,915 budgeted for FY08. Spending was greater in the previous two years. Funding covers delivery and freight charges. Through March, spending totaled \$98,618.

Other Rentals. The Authority is proposing a budget of \$143,134 for *Other Rentals* in FY09, less than 1% more than the \$141,834 budgeted for FY08. Funding is primarily for copier and mail equipment leases. Spending through March was \$94,257, within 8% of the amount budgeted for the period.

Other Services. The Authority is proposing a budget of \$1,069,801 for a number of *Other Services* during FY09, an 8.4% (\$82,671) increase from the \$987,130 budgeted in FY08. The budget includes funding for fax, copier and printer maintenance services; the annual oil boom service charge at Deer Island (\$21,000); \$100,000 for the control of invasive aquatic plants in MWRA/DCR reservoirs; \$40,000 for septage removal; \$29,000 for hazardous waste removal from the Deer Island and Quabbin laboratories; and \$299,300 for Remediation projects. Also included in the *Other Services* category of expense is \$441,745 for the operating expenses of the *Advisory Board*.

Grit and Screenings Removal. The Authority is proposing a budget of \$914,114 for *Grit and Screenings Removal* at Deer Island, Nut Island, certain pump stations, CSO facilities and the headworks facilities, a 12.5% (\$130,266) decrease from the \$1,044,380 budgeted for FY08. The decrease is based on reduced quantities from the amounts assumed for FY08. Spending in FY07 was \$881,530. Spending through March was \$677,756 or 11% under budgeted amounts, as higher quantities in the last three months have closed the significantly lower amounts removed during the dry summer and fall. Recent projections point to a slight increase to the assumed quantities for the final budget for FY09. A new contract is to be bid in spring 2009.

Sludge Pelletization. The Authority is budgeting \$14,635,367 for payments to the New England Fertilizer Company to process and dispose of sludge pellets. The amount is 1.4% (\$197,860) greater than the \$14,437,507 budgeted for FY08. The increase reflects inflation assumptions for FY09; quantity assumptions remain the same at 108 tons per day. Through March, spending totaled \$10,107,813 or 6.1% (\$656,533) below the amount budgeted for the period. The Authority is projecting slightly lower quantities, on average, for the year-end totals. **Update assumptions for sludge quantities in FY09 for a reduction of at least \$210,000.** The revision represents a reduction of two tons of sludge pellets.

• 12 •

Permit Fees. The Authority is budgeting \$213,058 for *Permit Fee* expense in FY09, a 31.1% increase (\$50,546) from the \$162,512 budgeted for FY08. Actual spending through March reached \$109,690 or 25% (\$21,587) more than the amount budgeted for the period.

Police Details. The Authority is proposing a budget of \$443,000 for *Police Detail* expense in FY09, a 17% (\$64,000) increase from the \$379,000 budgeted for FY08. Through March, spending reached \$380,184.

INDIRECT EXPENSES

Insurance*

The Authority is proposing to budget \$2,500,000 for *Insurance* expense in FY09, the same amount as budgeted in FY08. Accruals through March are \$1,688,923 or 10% (\$186,080) below budgeted amounts for the period. The lower spending is primarily the result of lower payments/claims.

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. While recent response by bidders has limited terms to no more than a year, the Authority has structured this year's documents to invite longer terms. Staff indicate that the process of renewal is likely to result in competitive bidding. Bids are due in May. The Authority is now projecting that spending by year end will be closer to \$2,450,000 or \$50,000 less than the amount budgeted. This experience, plus the expectation of increased competition this spring, suggests that the Authority can revise the budget for FY09.

- 13. **Revisit the budgeted amount for *Insurance* expense for FY09 and reduce the proposed budget by at least \$50,000.**

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 FY09 budget includes \$236,279,308 for FY09 Operating Expenses. At this level, the Operating Reserve would need to be funded at \$39,379,885. The current level is \$37,706,345 or \$1,673,539 below the new required level.

Acceptance of the Advisory Board's recommendations to reduce \$830,000 in Operating Expenses would reduce the Operating Reserve deposit requirement by \$132,500. The Advisory Board is also recommending that the Post-Employment Benefits budget not be included in the calculation for the Operating Reserve. Exempting this category of expense would result in a reduction of \$1,273,616 in FY09. At the same time, the Advisory Board is recognizing that the Spring Revisit process is likely to result in some increased costs above the assumptions reflected in the proposed Current Expense Budget. Additional net increases of \$2,600,000 would require an Operating Reserve deposit of \$433,333. **Reduce the *Operating***

- 14. **Reserve deposit requirement by \$981,116.**

The *Insurance Reserve*, which is maintained to mitigate the budgetary risk of self-insurance, currently stands at \$19 million. In February 2007, the insurance consultant completed its review of the adequacy of the Insurance Reserve Fund. The consultant 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 and Income) The multi-year planning projections reflect this planned transfer.

Watershed Reimbursement/PILOT Payments/Debt Service*

The Authority is proposing a budget of \$23,867,630 for the several components of Watershed Reimbursement in FY09, a 2.8% (\$660,483) increase from the \$23,207,147 budgeted in FY08. The Authority currently projects FY08 spending by year-end will be above budget by \$123,000 due to an estimated \$160,000 for PILOT payments based on the actual tax rates set by local communities, offset by \$37,000 in lower operating expenses.

The Proposed FY09 Watershed Budget includes \$14,484,523 total expenses associated with the Division of Watershed Management, a 7.1% increase (\$964,978) over the \$13,519,545 budgeted for FY08. This is offset by proposed revenue in FY09 of \$1,453,000, or a 13.1% increase. Combined, the net expenses are budgeted at \$13,031,523, a 6.5% increase (\$796,975) over the \$12,234,548 budgeted for FY08. Payments in Lieu of Taxes (PILOT) are budgeted at \$5,903,505 or 2.3% (\$136,491) lower than the \$6,039,996 budgeted for FY08. Debt Service on Watershed Land purchases remains level at \$4,932,602 according to revised and updated payment schedules.

While the revenues increase by 13.1% in the Proposed FY09 budget, the estimates are still low compared to historical performance. Taking an average of actual revenues for the past three years (including projections for FY08) yields higher figure than is currently budgeted.

Moreover, the total expenses are proposed at a 7.1% increase over the FY08 approved budget. Arguably, the Division of Watershed Management has reached a “steady state” under the stewardship of the MWRA and the Water Supply Protection Trust, thus making a 7.1% increase highly unusual. In fact, it would seem more likely for the increase to more closely follow the MWRA’s increase.

At the time of this writing, the office of the Comptroller for the Commonwealth has revised the fringe rate to be applied to the division's budget from 38.32% to approximately 24.5%. The Comptroller's office has informed Advisory Board staff that the reduction in fringe rate for FY09 relates directly to the OPEB liability of the Commonwealth. The Proposed FY09 budget included full funding for the division's OPEB liability. At this time, the Governor has not proposed any funding for the Commonwealth's OPEB liability, and the Legislature has indicated that it is not likely to include funding in the final budget. As such, the fringe rate has been reduced.

For these reasons – the historical performance of the division's revenues, the "steady state" of the division, and the adjustment to the fringe rate generated by the Comptroller – **the Advisory Board recommends that the Authority revisit the proposed budget for the *Division of Watershed Management* and reduce budgeted amounts by \$1,600,000.**

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Table 4

EXPENSES	FY2007 Budgeted	FY2007 Actual	FY2008 Budgeted	FY2009 Proposed	Increase %
Division of Water Supply					
Protection Operating Expenses	\$13,106,000	\$12,820,133	\$13,519,545	\$14,484,523	7.1%
Revenue	\$1,226,000	\$1,427,384	\$1,285,000	\$1,453,000	13.1%
Net	\$11,880,000	\$11,392,749	\$12,234,545	\$13,031,523	6.5%
Debt Service	5,608,833	5,608,833	5,608,833	5,608,833	0.0%
TOTAL	\$17,488,833	\$17,001,582	\$17,843,378	\$18,640,356	4.5%
Payment In Lieu Of Taxes	5,972,931	5,969,049	6,040,000	5,903,505	-2.3%
TOTAL	\$23,461,764	\$22,970,631	\$23,883,378	\$24,543,861	2.8%

- Derived from MWRA data

HEEC Agreement

The Authority is proposing to budget \$4,061,027 in FY09 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. Through March, spending totaled \$3,106,700 or 4% (\$127,000) below the amount budgeted for the period.

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 \$3,394,027 or a 4.9% (\$174,575) reduction from the amount budgeted in FY08.

The operating and maintenance charge is to be budgeted at \$667,000 or a 14.3% reduction (\$111,598) from the \$778,598 budgeted in FY08. This category of expense includes \$100,000 for special projects, as compared to the \$230,000 budgeted in FY08. Thus, the operating and maintenance charge, net of special projects, is rising. Current projections for year-end spending for HEEC payments are unchanged from the original budgeted amounts.

Mitigation Payments

The proposed budget includes \$1,445,234 for *Mitigation Payments* of \$752,085 to the City of Quincy and \$693,149 to the Town of Winthrop in FY09. The combined total is a 1.8% increase from the amounts budgeted in FY08. The amounts are set by an agreement with each community.

Pension Expense

The Authority is proposing an addition to the *Retirement Fund* of \$5,314,218 in FY08, a 25.5% increase (\$1,080,889) over the \$4,233,329 budgeted in FY08. The amount is based on the most recent actuarial valuation report issued in January 2005, updated in recent months to reflect a revised rule in calculating the Authority's annual payment. The Authority had pre-funded the *Retirement Fund* addition during FY04, thereby reducing the required payments in FY05, FY06 and FY07. The pension fund also includes funds for the expenses of the Retirement Board, including four staff members.

Post-Employment Benefits

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

The proposed budget includes \$7,641,697 for the FY09 contribution, an increase of 7.6% (or \$542,801) from the amount budgeted in FY08. The Authority also budgets for the healthcare costs of current retirees under Fringe Benefits.

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. The Authority has formed a working committee to guide its decisions regarding GASB 45.

Still open for discussion is whether this expense should be considered an Operating Expense for purposes of meeting the Operating Reserve deposit requirement. The requirement is one-sixth of the related expense; at \$9,000,000 the deposit requirement is valued at \$1,500,000. **Exempt *Post-Employment Retirement Benefits* from Operating Expenses for purposes of calculating the annual Operating Reserve deposit requirement.** The GASB 45 obligation is itself already a reserve and including it in the Operating Reserve requirement is adding a reserve on top of a reserve.

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The proposed budgeted amount of \$7,641,697 is based on the results of an actuarial study, which is to be updated every two years. The amount is nearly 4.5 times the \$1,717,530 budgeted for current retirees' health insurance in FY09.

At the time of this writing, the office of the Comptroller for the Commonwealth has confirmed that the Governor does not anticipate funding any of the OPEB liability for the Commonwealth beyond the first year (FY08).

Last year the Authority made the decision to begin addressing this liability by fully funding the FY08 annual required contribution (ARC) according to the Authority's actuarial study for OPEB. The Authority also convened a committee to evaluate and discuss options for investment vehicles for the funds.

Taking these two steps already places the Authority in the top percentile of public entities addressing this liability. This clearly indicates that the Authority takes the liability seriously and is taking steps to address it. Moreover, the rating agencies have not yet indicated what impact, if any, carrying some or all of an agency's OPEB liability would have upon the agency's credit rating.

Because the Authority is arguably addressing this liability, the impact upon the Authority's credit rating for carrying some of its liability is unknown, and given the many pressures on the budget for next year and for the several years to follow, the Authority should be reconsidering what is a defensible amount to fund the OPEB obligation in FY09. **Reassess the budgeted amount for *Post-Employment Benefits* in FY09 and reduce the amount by \$3,800,000.** The revised contribution would be half the actuarial study's recommendation.

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Capital Financing Expense/Debt Service*

The Authority is proposing a budget for *Capital Financing Expense* of \$336,206,013 before debt service offsets. Less *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 \$324,956,014.

DEBT SERVICE ASSISTANCE

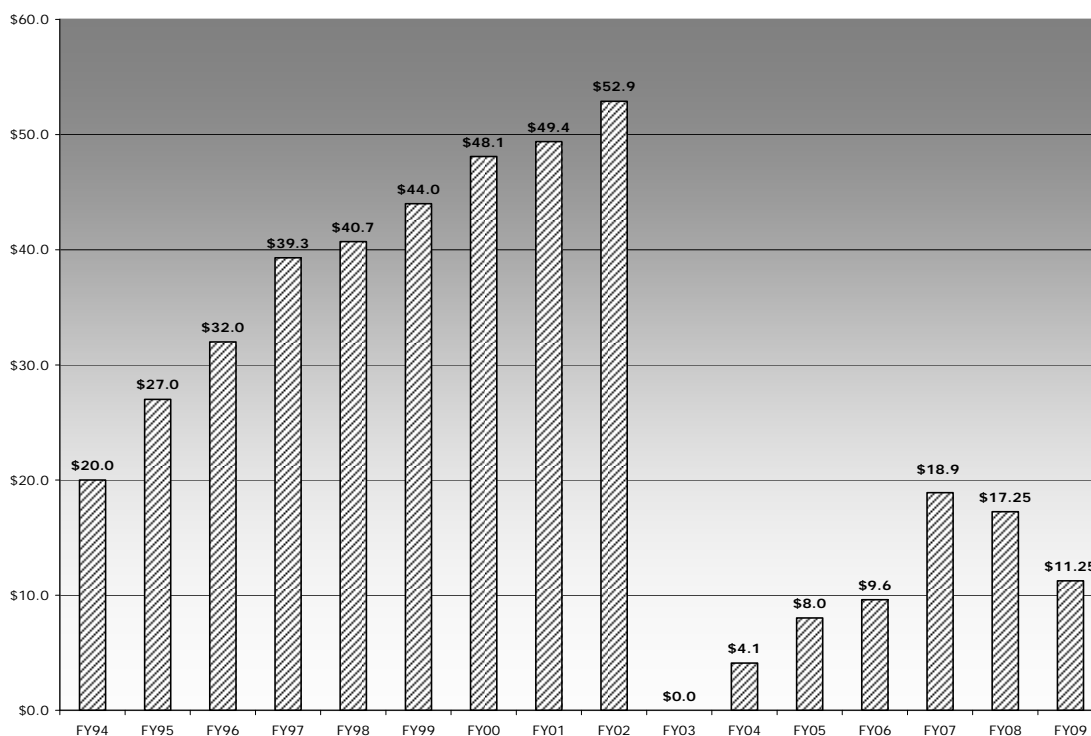


Figure 4

SRF Borrowings. The Authority is assuming debt service of \$54,177,684 relating to \$997 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 \$100 million requiring debt service payments during FY09 of \$2,789,094.

MWRA Senior and Subordinate Debt Service. The Authority is proposing a budget of \$177,411,192 for Senior Debt Service plus \$93,200,077 for Subordinate Debt Service. As of December 31, 2007, the Authority had \$3.08 billion of outstanding senior debt and \$1.5 billion of outstanding subordinate debt. The total SRF debt and MWRA debt as of the end of December was \$5.595 billion. Plans include new senior borrowings totaling \$250 million.

Table 5

Proposed Fiscal Year 2009 Capital Financing Summary	
Debt Service	
Senior Debt	\$177,411,192
Subordinate Debt	93,200,077
State Revolving Loan Fund (SRF)	54,177,684
Current Revenue/Capital	4,500,000
Chelsea Lease	3,217,060
Water Pipeline - Commercial Paper	3,700,000
<i>Subtotal</i>	\$336,206,013
Debt Service Offsets	
Bond Redemption Savings	\$0
Prior Variable Rate Savings	0
Budget Year Variable Rate Savings	0
Debt Service Assistance	11,250,000
<i>Subtotal</i>	\$11,250,000
Net Capital Financing	\$324,956,013

The Authority's borrowing plans continue to evolve and current plans to issue new senior bonds this spring and again next winter are changing. The Advisory Board believes that the debt service budget for these new borrowings, currently sized at \$10,191,472, can be reduced. **Revisit assumptions for the issuance of new senior debt and reduce budgeted amounts for *Debt Service* by an estimated \$1,800,000.**

• 18 •

The Authority plans a refinancing transaction later this spring, which is expected to reduce a portion of the debt service for subordinate debt in FY09. **Update budgeted amounts for subordinate *Debt Service* to reflect the upcoming refinancing and reduce debt service by \$3,000,000.**

• 19 •

The refinancing is expected to result in lowered interest rates as compared to the unusually high variable rates that the Authority has experienced in recent months due to the widespread impacts of the sub-prime mortgage crisis. The Authority has assumed an interest rate of 4.25% for variable rate debt for FY09. Once the transaction has taken place, the Authority anticipates the rates to rebalance at the Securities Industry and Financial Markets Association (SIFMA) rate, which currently is at 2.5%. **Revisit assumptions for subordinate *Debt Service* for FY09 and reduce budgeted amounts by at least \$2,000,000.**

• 20 •

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

The Authority is proposing a budget of \$3,700,000 for debt service relating to the commercial paper issued in support of the *Local Water Pipeline Loan Program*. The amount is \$425,004 (10%) below the \$4,125,004 budgeted for FY08. Interest rates have been declining. **Update assumptions for interest payments on *Local Water Pipeline Program Commercial Paper* and reduce the budgeted amount by at least \$150,000.**

• 21 •

Capital Lease. The Authority is budgeting \$3,217,060 for the seventh year of payments on the *Capital Lease* for the Chelsea facility. This is the same amount budgeted each year since 2002. The Authority treats this expense as an operating expense for purposes of calculating the coverage requirement called for in the bond covenants. Otherwise, this is considered a capital financing expense.

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 use of *Bond Redemption Funds* and *Variable Rate Savings*. The Authority has already applied certain *Bond Redemption Funds* in previous transactions, including up to \$20 million during FY08 to benefit FY09 and several years thereafter. No *Variable Rate Savings* from previous years are assumed, as the Authority now accrues actual savings in the year in which they occur.

Debt Service Assistance is also treated as a *Debt Service Offset*. The budget submitted earlier this year 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*. The Authority received \$16,980,000 in April 2008, in support of the FY08 CEB, as compared to the \$17,250,000 budgeted. This represents a 73.8%

share of the state-wise program versus the 75% currently budgeted. Deliberations will continue through the spring.

Use of Current Revenue to Fund Capital Projects. For FY09, the Authority is proposing to budget \$4,500,000 in *Current Revenue* to fund ongoing capital projects. The amount is the same as the amount budgeted for FY08.

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. The May refunding transaction is expected to include the use of \$34 million freed up by the refunding of certain subordinate debt that had been swapped to fixed rate debt; the refunding transaction will result in subordinate debt that no longer requires this reserve amount.

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

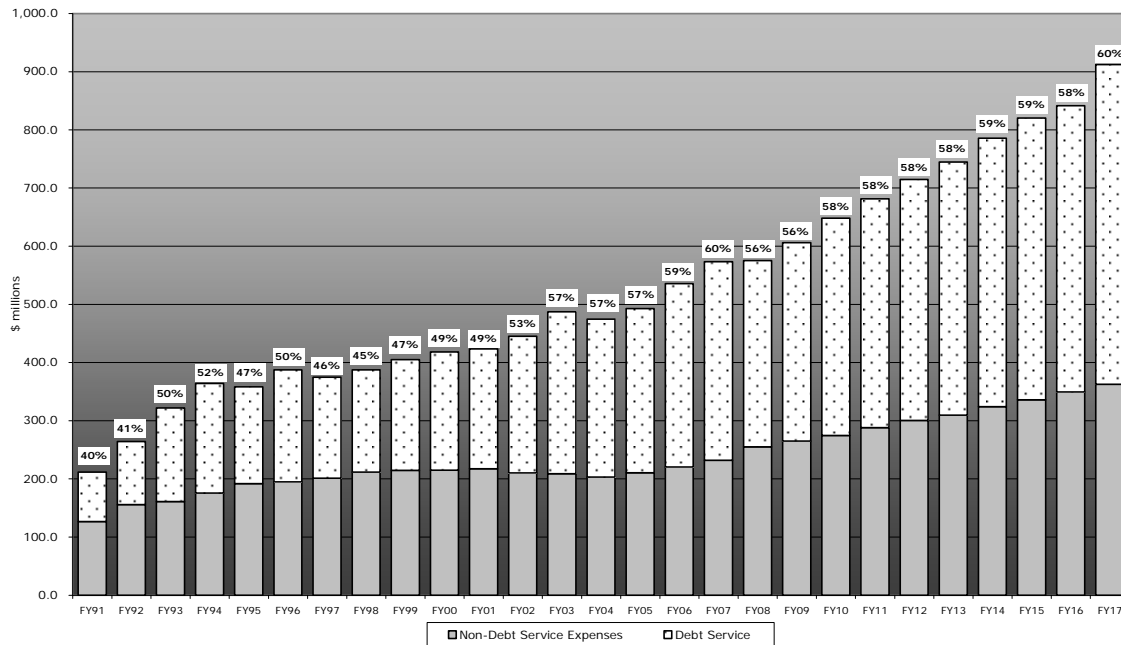


Figure 5

REVENUE

Non-Rate Revenue and Income

The Authority is budgeting *Non-Rate Revenue and Income* of \$38,221,490 in FY09: *Other User Charges* of \$7,285,461; *Other Revenue* of \$5,325,341; *Entrance Fees* of \$553,128; use of *Rate Stabilization Funds* of \$5,178,517; and *Investment Income* of \$19,879,043.

Other User Charges

The Authority's proposed budget for Other User Charges in FY09 is \$7,285,461, an increase of 7.6% (\$513,391) from the \$6,772,071 budgeted in FY08. The Authority currently projects that receipts in FY08 will reach the budgeted amount.

City of Worcester. The Authority has proposed a budget of \$122,134 for payments from the City of Worcester. The payment is an increase from the \$104,264 budgeted in FY08.

Clinton and Lancaster. The Authority is assuming a payment from the Town of Clinton of \$500,000 (the amount represents reimbursement of costs for operating the Clinton Wastewater Treatment Plant, capped at this amount by legislation, Chapter 307 of the Acts of 1987) plus \$202,284 from the Lancaster Sewer District in FY09. The Lancaster payment is an increase from the \$158,293 payment budgeted in FY08. Total costs of operating the Clinton Wastewater Treatment Plant for FY09 come to \$1,543,847; added to this are overhead costs of \$338,156, which brings the total cost of the plant to \$1,882,003 in the proposed FY09 budget. The \$500,000 payment relates to the town's hosting part of the Wachusett Reservoir. The town does not pay for water.

The Town of Clinton is considering the sale of water from the Wekepeke reservoirs in Sterling. Estimates of annual revenue to the town are \$286,000. Since the payment to MWRA for sewer service has been capped at \$500,000 and the actual cost is over \$1 million per year, any additional income from water sales should be paid to the MWRA.

Revenue from Regular Water Customers. The Authority is proposing to budget \$2,095,724 from five Regular Water Customers in FY09: \$92,057 from Westborough State Hospital; \$115,242 from the Fernald School; \$23,045 from DCR Pools and Parks; \$23,045 from the Commonwealth Zoological Society; and \$1,830,813 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: \$61,544 from Regis College and \$13,558 from the New England Center for Children. Both are sewer customers.

Payments from Chicopee Valley Aqueduct (CVA) Communities. The Authority is budgeting payments totaling \$3,914,218 from the three CVA Communities:

\$2,763,179 from Chicopee; \$537,932 from Wilbraham; and \$613,107 from South Hadley.

Water Treatment Plant Residuals. The Authority is also budgeting payments of \$376,000 from nine water treatment plans whose residuals are discharged to the Authority's sewer system for treatment at Deer Island.

Other Revenue

The Authority is budgeting *Other Revenue* of \$5,325,341 for FY09. The amount is a 1.6% increase (\$84,118) from the \$5,241,223 budgeted in FY08.

TRAC Permit Fee Income. The Authority is budgeting \$1,800,000 for permit and monitoring Fees charged to industries and other permitted customers that discharge toxic and other regulated wastes into the sewer system. The amount is a \$125,000 (6.5%) reduction from the \$1,950,000 budgeted in FY08. Actual receipts in FY07 were \$1,912,000. Authority staff note that the amount is a function of the number of industrial users and that the number of photo processors in the service area has decreased. However, receipts through March totaled \$1,855,992.

Penalties. The Authority is proposing to budget \$220,100 for *Penalties*, a slight increase from the \$220,000 budgeted for FY08. Income is difficult to predict and varies from year to year. Receipts for FY07 were \$595,341, but were \$93,638 in FY06.

Hydropower. Revenue from *Hydropower* generation is budgeted at \$162,241 for FY09, a reduction of \$22,082 (12%) from the \$184,323 budgeted in FY08. The Cosgrove hydropower facility has an annual output of 7 million kWh. Receipts through March came to \$117,918, or 4% (\$4,960) below the amount budgeted for the period due to lower flows and delays in the end of half plant operations.

In addition, hydropower is generated at the Oakdale hydropower facility, which has an annual output of 10 million kWh. Output is sold to West Boylston with revenue treated as an offset to DCR watershed management charges. Oakdale income in FY07 came to \$635,676; FY08 receipts are now projected to be \$940,000. Assumptions for FY09 are revenue of \$750,000.

Renewable Portfolio Credits. The Authority is budgeting \$1,650,000 for *Renewable Portfolio Credits* and load reduction income in FY09, a 17% (\$244,100) increase over the \$1,405,900 budgeted in FY08. Revenue through March came to \$1,759,070. Projections for revenue by year end total \$1,960,900.

Payments from the Commonwealth. The Authority continues to budget \$867,000 for the *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 \$626,000 for *Miscellaneous Revenues*. Included in this category are: \$175,000 from Fore River Railroad Corporation fees and leases; \$125,000 in estimated payments for Antenna Licenses; and \$326,000 in other *Miscellaneous* revenues. Through March, receipts from this last subcategory totaled \$1,017,265.

Entrance Fees. The Authority is budgeting \$553,128 for *Entrance Fee* income for FY09. The payments reflect the current annual payments due from Stoughton and the Dedham-Westwood Water District.

Non-Recurring Revenue: Rate Stabilization Fund

The Authority is proposing the use of \$5,178,517 from the *Rate Stabilization Fund* in FY09. Rate projections show assumed use of all remaining monies in the Rate Stabilization Fund between FY09 and FY14. The Authority has avoided drawing down the Fund in FY08 and in FY07; in FY06, \$10,739,948 was drawn from the Fund. The Advisory Board's recommendations should be used to reduce the proposed use of monies from the Fund. **Reduce FY09 use of \$5,178,517 from the *Rate Stabilization Fund*. Reserve these funds for future years to ease projected rate revenue increases.**

• 22 •

Investment Income*

The Authority is assuming *Investment Income* of \$19,879,043 for FY09, a 41.3% decrease (\$13,994,001) from the FY08 budgeted amount of \$33,873,044. The Authority is assuming a sharp drop in interest rates. The budgeted amount is half the actual investment earnings of FY07, just two years earlier. Through March, *Investment Income* came to \$26,660,357 or 6.4% more (\$1,614,826) than budgeted. The Authority staff now project earnings by year end to be \$34,672,400 or \$799,356 (2.4%) more than budgeted.

As part of the spring revisit process, Authority staff will review assumptions for fund balances and interest rates. The Advisory Board believes that the budget can be increased. **Reassess assumptions for *Investment Income* for FY09 and increase budgeted amounts by at least \$1,300,000.**

• 23 •

RATE REVENUE

The Authority is proposing *Rate Revenue* receipts of \$548,555,000, an increase of 5.9% or \$30,757,168 over the \$517,797,832 budgeted in FY08. The amount is 91.7% of total revenue of \$598,026,490. *Non-Rate Revenue* and *Investment Income* total \$38,221,490 or 6.4% of all revenues. *Debt Service Assistance* receipts, treated as an offset to *Capital Financing Expense* of \$11,250,000, represent the remaining 1.9% of all revenues.

Rate revenue requirements continue to rise, despite the major restructuring transaction of January 2007, the planned refinancing and restructuring transaction this spring, plus lower capital spending than in the 1990's. This is due to continued measurable increases in annual debt service payments on the borrowings issued to support the capital program.

The Advisory Board's recommendations call for a net reduction to *Rate Revenue* of \$7,696,766 in FY09, resulting in a revised *Rate Revenue* increase of 4.45%. **Reduce FY09 *Rate Revenue* by \$7,697,599 for a revised rate increase of 4.45%.**

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ACTUAL AND PROJECTED CAPITAL SPENDING AND RATE REVENUE REQUIREMENTS

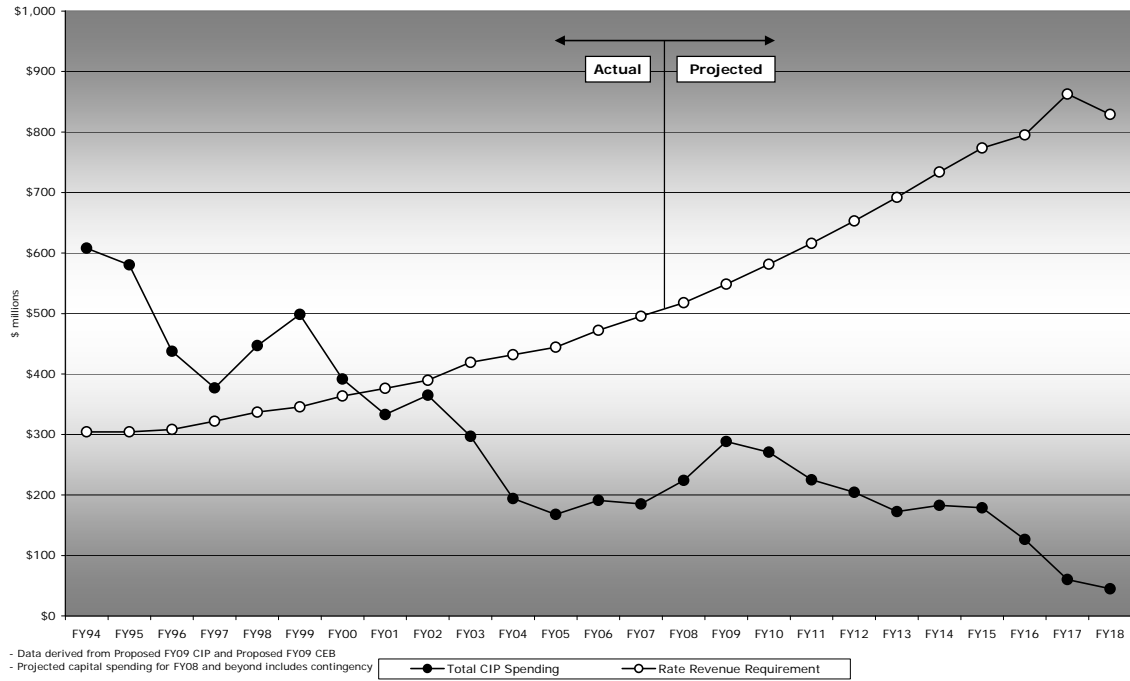


Figure 6

LIST OF RECOMMENDATIONS

1. Review and provide a report to the Advisory Board on all acting positions and any positions that have remained unfilled for more than six months. Revisit the vacancy rate with an eye to further reductions to *Regular Pay* of \$200,000.
2. Revisit assumptions for *Medicare* expense for FY09 with an eye to reducing the proposed budget.
3. Revisit assumptions for *Workers' Compensation* expense for FY09 and reduce the budget by \$75,000.
4. Revisit usage assumptions for *Natural Gas* and reduce budgeted amounts by \$75,000.
5. Revisit budgeted amount for the purchase of RGGI credits in FY09 and reduce the budget for *Electricity* for Deer Island by \$105,000.
6. Revisit assumptions about conservation of *Electricity* use across the agency and reduce budgeted amounts for *Electricity* by at least \$130,000.
7. Update the schedule for *Maintenance* expense for planned digester cleaning at the Clinton Wastewater Treatment Plant.
8. Revisit assumptions for *Specialized Equipment Materials* in the Office of Emergency Preparedness.
9. Negotiate termination of the requirement to conduct future beach nourishment studies.
10. Continue to rework and reshape the harbor and outfall monitoring program and report on the potential for additional cost savings of a program defined outside the regulatory framework.
11. Revisit assumptions for budgeted amounts for *Security Services* in FY09.
12. Update assumptions for sludge quantities in FY09 for a reduction of at least \$210,000.
13. Revisit the budgeted amount for *Insurance* expense for FY09 and reduce the proposed budget by at least \$50,000.
14. Reduce the *Operating Reserve* deposit requirement by \$981,116.
15. Revisit the proposed budget for the *Division of Watershed Management* and reduce budgeted amounts by \$1,600,000.
16. Exempt *Post-Employment Retirement Benefits* from Operating Expenses for purposes of calculating the annual Operating Reserve deposit requirement.

17. Reassess the budgeted amount for *Post-Employment Benefits* in FY09 and reduce the amount by \$3,800,000.
18. Revisit assumptions for the issuance of new senior debt and reduce budgeted amounts for *Debt Service* by an estimated \$1,800,000.
19. Update budgeted amounts for subordinate *Debt Service* to reflect the upcoming refinancing and reduce debt service by \$3,000,000.
20. Revisit assumptions for subordinate *Debt Service* for FY09 and reduce budgeted amounts by at least \$2,000,000.
21. Update assumptions for interest payments on *Local Water Pipeline Program Commercial Paper* and reduce the budgeted amount by at least \$150,000.
22. Reduce FY09 use of \$5,178,517 from the *Rate Stabilization Fund*. Reserve these funds for future years to ease projected rate revenue increases.
23. Reassess assumptions for *Investment Income* for FY09 and increase budgeted amounts by at least \$1,300,000.
24. Reduce FY09 *Rate Revenue* by \$7,697,599 for a revised rate increase of 4.45%.

ADVISORY BOARD MEMBERS

CITY/TOWN

ARLINGTON
 ASHLAND
 BEDFORD
 BELMONT
 BOSTON
 BRAINTREE
 BROOKLINE
 BURLINGTON
 CAMBRIDGE
 CANTON
 CHELSEA
 CHICOPEE
 CLINTON
 DEDHAM
 EVERETT
 FRAMINGHAM
 HINGHAM
 HOLBROOK
 LEOMINSTER
 LEXINGTON
 LYNN
 LYNNFIELD
 MALDEN
 MARBLEHEAD
 MARLBOROUGH
 MEDFORD
 MELROSE
 MILTON
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 NATICK
 NEEDHAM
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 NORWOOD
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 QUINCY
 RANDOLPH
 READING
 REVERE
 SAUGUS
 SOMERVILLE
 SOUTH HADLEY
 SOUTHBOROUGH
 STONEHAM
 STOUGHTON
 SWAMPSCOTT
 WAKEFIELD
 WALPOLE
 WALTHAM
 WATERTOWN
 WELLESLEY
 WESTON
 WESTWOOD
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 Hon. Konstantina B. Lukes

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 Edward Maguire
 Richard Warrington
 Peter Castanino
 John Sullivan, Jr.*
 Greg Riley
 Charles Barry
 John Sanchez*
 Timothy MacDonald*
 Edward Sullivan*
 Andrew DeSantis *
 Allen Ryczek/Walter Ruzsala
 David Field
 Jon E. Norton
 Peter Sellers
 Edmund Demko/Michael Salerno
 Thomas Cummings
 William Hadley*
 Jay Fink*
 Bruce Kenerson
 John Russell
 Dana Snow
 Doran Crouse
 Cassandra Koutalidis
 Ben Lagman/Ron Seaboyer*
 Katherine Haynes Dunphy**
 Timothy Dooling
 John Cosgrove/Robert Lewis
 Lou Taverna*
 Kara Buzanoski/John L. Meader
 Bernard Cooper*
 Peter Smyrnios
 Brian Carlisle*
 Paul J. Connors
 Edward McIntire, Jr.*
 Sam MacDonald/Donald Goodwin
 Joseph Attubato
 Carol Antonelli*
 John Mikuszewski
 Karen Galligan
 Jeffrey Oxman
 Lawrence J. Barrett*/Mark Stankiewicz
 Gino A. Cresta, Jr.
 Richard Stinson
 Patrick Fasanello
 Gerald Mee
 Walter Woods*
 Earl J. Forman
 Robert Angelo/J. Timothy Walsh
 Michael L.J. Chiasson
 Zigmund A. Peret
 Michael Woods/Robert Antico
 Stephen Swymer
 Anthony Blazejowski
 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

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