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**INDEPENDENT STATE AUDITOR'S REPORT
ON THE
DEPARTMENT OF CONSERVATION AND RECREATION (DCR)
AND THE
MASSACHUSETTS WATER RESOURCES AUTHORITY (MWRA)
COMPLIANCE WITH WATERSHED AGREEMENT REQUIREMENTS**

**OFFICIAL AUDIT
REPORT
AUGUST 2, 2007**

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Prior to the creation of the Massachusetts Water Resources Authority (MWRA) by Chapter 372 of the Acts of 1984, the Metropolitan District Commission (MDC) was solely responsible for the metropolitan Boston water system. That act established the waterworks and watershed systems and allocated statutory responsibilities for these systems to the MWRA and MDC, respectively. In July 2003, the Division of Water Supply Protection (hereinafter referred as the “Watershed Agency”) of the Department of Conservation and Recreation (DCR), within the Executive Office of Environmental Affairs, assumed responsibility for the construction, maintenance, and operation of the watershed systems from the MDC.

The waterworks and watershed systems are regulated under the federal Safe Drinking Water Act (SDWA) and state drinking water laws. The regulatory and enforcement authority under the SDWA has been delegated by the United States Environmental Protection Agency (USEPA) to the Commonwealth of Massachusetts Department of Environmental Protection (DEP). On April 27, 2004, MWRA and DCR entered into an Interagency Memorandum of Understanding (MOU) concerning the coordination and implementation of their respective responsibilities established by statute, administration, court action, and agreement in regard to the protection, construction, operation, maintenance and improvement of water supply resources, facilities, and infrastructure within the watershed and waterworks systems.

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We reviewed the billing practices and procedures under the MOU and supporting documentation provided to MWRA by DCR’s Watershed Division for fiscal years 2005 and 2006. Although reimbursement invoices were required to be submitted by DCR to MWRA on the last day of each quarter, this requirement was not always met, which resulted in several untimely reimbursement payments to DCR. We also noted several overtime billing discrepancies in the amount of \$64,000 that occurred in fiscal year 2005 but not in fiscal year 2006. The assignment of additional staff and improved communications has resulted in recent improvements in both these areas.

We also noted that MGL 59, §5G required MWRA to make payments in lieu of taxes (PILOT) totaling approximately \$690,000 in fiscal years 2005 and 2006 on properties that are no longer considered to be part of the watershed system. In addition, MWRA continued to make what it believes to be extra PILOT payments totaling approximately \$842,000 in fiscal years 2005 and 2006 for annexed lands six communities received when the Quabbin Reservoir was created.

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INTRODUCTION

Background

Prior to the creation of the Massachusetts Water Resources Authority (MWRA) by Chapter 372 of the Acts of 1984, the Metropolitan District Commission (MDC) was solely responsible for the metropolitan Boston water system. Chapter 372 established the waterworks and watershed systems and allocated statutory responsibilities for these systems to the MWRA and MDC, respectively.

The Department of Conservation and Recreation (DCR) was created in July 2003, when the Legislature merged the MDC and the Department of Environmental Management (DEM). Chapter 26 of the Acts of 2003 transferred the responsibilities of the former MDC Division of Watershed Management entirely to DCR's Division of Water Supply Protection (hereinafter referred as the "Watershed Agency"). The names have changed, but the mission remains constant: to provide pure water through responsible management of over 100,000 acres of land and the water within the Quabbin Reservoir, Ware River, Wachusett Reservoir, and Sudbury Reservoir watersheds. (See Appendices I, II, III, and IV.) The MWRA operates the waterworks systems that distribute this source water to over 2 million customers in 50 communities (see Appendix V).

The waterworks and watershed systems are regulated under the federal Safe Drinking Water Act (SDWA) and state drinking water laws. The regulatory and enforcement authority under the SDWA has been delegated by the United States Environmental Protection Agency (USEPA) to the Commonwealth of Massachusetts Department of Environmental Protection (DEP).

On April 27, 2004, MWRA and DCR entered into an Interagency Memorandum of Understanding (MOU) concerning the coordination and implementation of their respective responsibilities established by statute, administration, court action, and agreement in regard to the protection, construction, operation, maintenance, and improvement of water supply resources, facilities, and infrastructure within the watershed and waterworks systems.

In addition, the Legislature further enhanced the ability of DCR's Office of Watershed Management to maintain the drinking water supply by establishing a Water Supply Protection Trust, created by Chapter 149 of the Acts of 2004. The Trust provides a mechanism to fund those activities of DCR that are reimbursed by the MWRA in order to ensure that sufficient resources are devoted to

mutually agreed-upon watershed priorities, as set forth in the annual Work Plan required by the MOU.

The Water Supply Protection Trust has a five-person Board of Trustees composed of the MWRA Executive Director, the Secretary of the Executive Office of Environmental Affairs or appointee, the President of the Swift River Historical Society or his designee, the chairperson of the MWRA advisory board, and a member jointly selected by the North Worcester County Quabbin Anglers Association and the Quabbin Fishermen's Association. Each spring for the following fiscal year beginning in July, the board reviews and approves the Watershed Agency's operating plan, the operating budget, the capital budget, and other aspects of the annual work plan prepared jointly by DCR and MWRA.

MWRA's ratepayers fund the Office of Watershed Management's annual multi-million-dollar budget, including costs associated with land acquisition and, as required by MGL 59, §5G, payments in lieu of taxes (PILOT) on certain properties. The MOU, developed soon after the creation of DCR, was signed into effect in April 2004. A key provision of the MOU is the requirement for an annual work plan and budget that details all of the Watershed Agency's functions.

**Office of Watershed Management Funding for Fiscal Years 2005 and 2006 and
Budgeted Amounts for 2007**

	Actual FY 2005	Actual FY 2006	Budget FY 2007
Salaries and Overtime	\$ 6,034,265	\$ 6,712,464	\$ 7,571,000
Fringe Benefits	1,687,644	1,871,863	2,497,000
Other*	<u>1,933,658*</u>	<u>2,975,020</u>	<u>3,038,000</u>
<i>Total Costs and Expenses</i>	<u>9,655,567</u>	<u>11,559,347</u>	<u>13,106,000</u>
Credit from Income-Producing Activities	(1,738,462)	(1,366,142)	(1,226,304)
<i>Subtotal Watershed Reimbursement</i>	<u>7,917,105</u>	<u>10,193,205</u>	<u>11,879,696</u>
Debt Service Costs	5,176,338	5,820,772	5,608,833
Land Acquisition Costs	0	0	8,000,000
Pilot Payments	<u>5,076,573</u>	<u>5,919,709</u>	<u>5,969,049</u>
<i>Net Payments</i>	<u>\$18,170,016</u>	<u>\$21,933,686</u>	<u>\$31,457,578</u>

* Excludes indirect costs of \$1,394,498 in fiscal year 2005 assessed to the Watershed Trust by the Commonwealth, challenged by MWRA, and reimbursed to the Trust in September 2006.

Audit Scope, Objectives, and Methodology

Our audit included a review of MWRA and DCR compliance with certain administrative and financial requirements of the Interagency MOU between MWRA and DCR for fiscal years 2005 and 2006. The objectives of our audit were to determine whether watershed costs were being accurately billed and accounted for in accordance with the MOU and whether adequate documentation existed to support the annual assessments.

To accomplish our objectives, we reviewed applicable laws, regulations, agreements, and procedures governing the program and interviewed officials of the MWRA, DCR, and the Office of the State Comptroller (OSC). In addition, we reviewed personnel costs and conducted site visits to the watershed locations and reviewed applicable procedures relating to the forestry and hydroelectric activities, the acquisition of machinery, equipment, and land, and the PILOT program.

Our audit was conducted in accordance with applicable generally accepted government auditing standards and included such audit tests and procedures as we considered necessary under the circumstances.

At the conclusion of our review, we provided MWRA and DCR with drafts of the report for comment, and their responses have been considered in the preparation of this report.

AUDIT RESULTS

MWRA AND DCR COMPLIANCE WITH WATERSHED AGREEMENT REQUIREMENTS

We reviewed the billing practices and procedures under the Interagency Memorandum of Understanding (MOU) and supporting documentation provided to the Massachusetts Water Resources Authority (MWRA) by the Department of Conservation and Recreation's (DCR) Watershed Division for fiscal years 2005 and 2006. We found that, although reimbursement invoices were required to be submitted by DCR to MWRA on the last day of each quarter, this requirement was not always met, which resulted in several untimely reimbursement payments to DCR. We also noted several billing discrepancies that occurred in fiscal year 2005 (no such discrepancies were noted for fiscal year 2006). The assignment of additional staff and improved communications has resulted in recent improvements in both these areas.

We also noted that Massachusetts General Law (MGL) 59, §5G required MWRA to make payments in lieu of taxes (PILOT) totaling approximately \$690,000 in fiscal years 2005 and 2006 on properties that are no longer considered to be part of the watershed system. In addition, MWRA continued to make what it believes to be extra PILOT payments totaling approximately \$842,000 in fiscal years 2005 and 2006 for annexed lands received by six communities when the Quabbin Reservoir was created.

Late Submittal of Invoices

Our review identified several instances in which Watershed Agency invoices were not being submitted to MWRA on a timely basis. Under the Interagency Memorandum of Understanding (MOU), reimbursement invoices are to be submitted to MWRA on the last day of each quarter. This requirement was determined by both parties to be unattainable, and the submittal date was extended to the end of the following month. Despite the change of invoice due date, several instances of invoicing delays continued, which resulted in untimely reimbursement payments. However, the assignment of additional staff and improved communications has resulted in improvements in this area.

Recommendation

The Interagency MOU should be amended to reflect the extension date of invoice submittals to the end of the month following the completion of the quarter.

Review of Payroll and Related Charges

For fiscal years 2005 and 2006, the following costs were incurred by the Watershed Agency for salaries, overtime payments, and fringe benefits:

	Actual FY 2005	Actual FY 2006
Salaries and Overtime	\$6,034,265	\$6,712,464
Fringe Benefits	<u>1,687,644</u>	<u>1,871,863</u>
Total	<u>\$7,721,909</u>	<u>\$8,584,327</u>

Our review disclosed that a majority of the employees work directly for the Watershed Agency; however, there is also a shared component. For example, several of the administrative employees who work for DCR also spend some time on Watershed Agency activities. These employees are considered “shared services.” DCR drafted a Shared Services Methodology that is used to allocate the costs of shared personnel between DCR and the Watershed Agency. This method has been used since fiscal year 2005. The shared services allocations have been approved by MWRA, and DCR submits quarterly reports for these activities to MWRA for review.

We reviewed \$1,079,676, or 18%, of fiscal year 2005 salaries and overtime and \$1,288,128, or 19%, of fiscal year 2006 salaries and overtime. Our review identified several allocation errors during fiscal year 2005 composed of overtime charges in the amount of \$64,000 incurred for non-Watershed Agency purposes. The errors were corrected, and management oversight control strengthened in fiscal year 2006. Our review of fiscal year 2006 personnel charges did not identify any salary allocation errors.

We also met with an official of the Office of the State Comptroller (OSC) to review the Watershed Agency’s fringe benefit rate, which consists of employee pensions, group insurance, retirement insurance, and long-term disability payments. Chapter 29, Section 5B, of the Massachusetts General Laws requires the state to recover fringe benefits from the various agencies. The OSC and the U.S. Department of Health and Human Services established the statewide rate, which must meet Office of Management and Budget (OMB) Circular A133 and OMB A87 standards and guidelines. Once the fringe benefit rate is determined, all state agencies are provided the new rate.

Our interview at the OSC confirmed that there are several layers of oversight regarding the fringe benefit rate calculation. We were advised that changing or allowing an exemption to the approved rate is a legislative matter. Accordingly, the fringe benefit rate charged to MWRA for Watershed Agency personnel is determined by federal and state mandate, and DCR is not responsible for its calculation.

Recommendation

DCR/MWRA internal audits should periodically test the internal controls over time charges under the MOU.

Watershed Vehicle and Equipment Purchases

During fiscal year 2005, vehicles and equipment purchases totaled \$154,965, or approximately 8% of the Other Cost category identified on page 2. During fiscal year 2006, purchases were budgeted in the amount of \$262,000; however, the Watershed Agency spent \$695,000 for vehicles/equipment. The additional funds became available because payroll costs were substantially under budget, and with MWRA's approval the funds were used to purchase additional vehicles and equipment representing approximately 23% of the Other Cost category for that year. To ensure that the equipment was being utilized for Watershed Agency purposes only and that all purchases were necessary and reasonable, we selected various equipment items to review, including four extended cab pickup trucks, a front-end loader, a forklift, an excavator, and two utility tractors. We found that all the equipment was stored at Watershed Agency facilities and utilized strictly for Watershed Agency purposes. The trucks are used for maintenance purposes, the loader to maintain the watershed roadways, the excavator to work the quarry, and the tractors to maintain lawns and dams. Both DCR and MWRA agree that the newly purchased equipment items are needed for Watershed Agency maintenance.

Our review of the newly acquired equipment and vehicles found that the required billing practices and procedures were met and that the purchases appeared necessary to maintain the Watershed Agency.

Watershed Agency Income-Producing Activities

Our review of Watershed Agency income-producing activities found that the two largest income producers were from hydroelectric and forestry activities. During fiscal years 2005 and 2006, the

following revenues were generated to offset the costs assessed to MWRA to operate the Watershed Agency.

	FY 2005	FY 2006	Total
Forestry	\$ 892,390	\$ 592,367	\$1,484,757
Hydroelectric	648,678	573,393	1,222,071
Other	<u>197,394</u>	<u>200,382</u>	<u>397,776</u>
Total	<u>\$1,738,462</u>	<u>\$1,366,142</u>	<u>\$3,104,604</u>

During our audit we examined DCR's forestry procedures, met with foresters, and toured both the Wachusett and Quabbin watersheds. We also examined the MWRA-managed Cosgrove Intake and Power Plant in Clinton, which produces hydroelectricity. Our review revealed the following:

a. Forestry

The watersheds contain various tree types, including Black Oak, Red Maple, Red Oak, White Pine, Black Cherry, and White Ash. According to DCR, the silvicultural management¹ of these areas helps preserve the resiliency of the forest, which in turn helps the watersheds safeguard the quality of the drinking water supply. It is important to note that the goal of silvicultural management is not to generate revenue; rather, the logging of the area is done to regenerate and stimulate the forest around the watersheds.

During our tour we observed the selection, cutting, and loading of trimmed timber. We also inspected areas that were forested in the past three years and viewed the natural reforestation process, as hundreds of three- to four-foot seedlings were growing in previously cleared areas. The process for silvicultural management is as follows.

Foresters at the Wachusett and Quabbin facilities determine the tree lots that need to be thinned and select, mark, and inventory the trees to be cut. The forester uses the inventory data to generate a minimum bid price for the entire lot of trees. The price takes into consideration the market rate of wood products, condition of trees (knots), and the location of the lot. Several areas of the watershed are difficult to reach, and therefore the lot price is reduced to reflect this.

¹ The care and cultivation of forest trees

Once a price is set, the lot is advertised for bidding. The lots are available to be viewed by loggers, and bid documents need to be completed by a predetermined cut-off date. After the cut-off date, DCR reviews the bids and notifies the winning bidder. If the highest bidder declines, the second-highest bidder is contacted.

Winning bidders must remit a 10% payment to the Watershed Agency and have one year to pay in full. If payment is not made within the one-year period, the logger no longer holds a right to the lumber, and the 10% payment is kept by the Watershed Agency. Payment must be made in full before the lot can be cleared. Watershed Agency officials, who oversee the process and allow access to the property, indicated that it is more cost-effective to have outside contractors bid on and clear the land than to use Watershed Agency resources.

Budgeted forestry income is lower than previous years due to global competition. Specifically, we were advised that China and Russia are able to provide lumber at lower prices, thus impacting loggers in Central Massachusetts.

We reviewed forestry bidding and billing practices and procedures and are satisfied that proper internal controls are in place.

b. Hydroelectric

Hydroelectric income is realized from the sale of energy produced at two facilities: the Cosgrove Intake and Power Plant in Clinton and the Oakdale Power Station in Oakdale. Both hydroelectric units are located in MWRA-owned or -managed buildings, and MWRA owns, operates, and maintains these units. Electrical generation varies based upon timing of water transfers between Quabbin and Wachusett Reservoirs, water supply demand, and construction-related activities. MWRA provides metered electrical generation and other information to DCR on a monthly basis, which is used to compute the offset rate in DCR quarterly billings.

We reviewed selected power generation reports and billing practices and procedures and are satisfied that proper internal controls are in place.

Debt Service Costs

The earlier MDC Watershed Land Acquisition Program was funded from the following three bond issuances: Commonwealth Open Space Bonds issued in 1983 and 1987 of \$3 million and \$30 million, respectively, and a \$135 million bond issuance by the Watershed Protection Act of 1992. Although the annual bond payments are made out of the Commonwealth's General Fund, MWRA reimburses the Commonwealth for these payments. MWRA currently pays 100% of watershed land acquisitions costs. Debt service payments have been scheduled from fiscal year 2005 through fiscal year 2022 totaling \$98,258,399. Debt service payments made in fiscal years 2005 and 2006 total \$5,176,338 and \$5,820,772, respectively, for prior land acquisitions.

The original rate payment schedule called for higher payments in some years and lower payments in the final four years. In order to ease the financial burden to its ratepayers, MWRA requested, and received permission on April 1, 2006 from the State Treasurer, to level out the debt service payments.

Our review of debt service payments indicated that the debt service payment system is both well organized and well managed.

Land Acquisition

The purpose of the Watershed Land Acquisition Program is to protect sensitive watershed land from urbanization and to restore and maintain stable forest cover on this land. The chief value of this program is to help maintain high water quality into the future.

The watershed is vast in area, and the Watershed Agency currently manages over 100,000 acres of land owned by the Commonwealth specifically for water supply protection. The Watershed Agency also holds Conservation Restrictions on more than 2,000 acres of privately held property.

From the completion of the Quabbin Reservoir project (1938 to the mid 1980s), the Watershed Agency made sporadic land acquisitions, generally triggered when an especially critical parcel was endangered by development. Development booms in the 1950s and 1960s had significant impacts on the Sudbury and Wachusett watersheds. Consequently, several cases of lowered water quality due to land development had occurred.

We were advised that 1986 Safe Drinking Water Act (SDWA) Regulations and the extensive building boom of the 1980s were the key driving forces behind the watershed land acquisition program. The regulations specifically linked land ownership and management to necessary protection, while the building boom represented an imminent threat to critical watershed land. Together, these two factors brought the need for this program into focus.

During our audit period, there were no land acquisition purchases. The MWRA Board of Directors set aside voting on land acquisition until an Executive Office for Administration and Finance (EOAF) indirect fee assessment issue was resolved. The fees assessed by EOAF totaled \$1,394,498 in fiscal year 2005. As a result of the Water Supply Protection Trust's efforts, a waiver of the EOAF fees was granted. Subsequently, MWRA's Board of Directors voted to reinstate the land acquisition program at its October 2006 monthly board meeting.

We were advised that owning and managing watershed lands surrounding a water supply source is recognized as the most direct and proven method of protecting the water sources' long-term quality because:

- A forested watershed provides the best quality water.
- The purchase of undeveloped land protects water sources from development that can alter vegetation and drainage and add impervious areas that could cause pollutants to move more quickly toward streams.
- The purchase of vegetated buffers provides natural "treatment" protection to lessen water quality impacts of future development.
- The purchase of problem properties effectively halts the problem of activity or use, and ensures proper clean up or re-vegetation of the site.

There are two methods used by DCR to control land for the protection of the watersheds: Fee Simple and Conservation Restriction.

A Fee Simple acquisition of land for watershed protection occurs through a "friendly" taking by the Commonwealth with DCR as the agent. The land and title is acquired from the deeded owner for a market rate fee determined by an independent appraisal. Upon completion of the sale, title of the land goes to the Commonwealth and the land remains under DCR management.

This land incurs Payment in Lieu of Taxes (PILOT) annually, as discussed in the following section.

A Conservation Restriction (CR) is the act of purchasing from the landowner certain rights to use the land. The landowner retains title of the land and remains the owner of record. The landowner also continues to pay taxes on the land, generally at a reduced rate due either to Chapter 61 status for forestry or agricultural classification, or due to the reduced value as undeveloped land. DCR has a CR policy that expressly excludes certain activities and land uses that would be detrimental to watershed and water quality protection of the land. A CR purchase is typically approximately 80% of a Fee Simple purchase for a similar parcel. A CR purchase also does not result in a PILOT payment to the community because ownership has not been transferred.

The Land Acquisition Panel (LAP) comprised of staff from the Watershed Agency and MWRA makes recommendations as to the land that should be acquired. The land acquisition recommendations are sent to MWRA's Board of Directors for final approval and allocation of funds. The DCR Commissioner and Department of Capital Asset Management (DCAM) approvals are also required.

There were no land acquisitions in fiscal years 2005 and 2006 or during the first six months of fiscal year 2007. Acquisition activity began in February 2007 on parcels previously approved by the MWRA board, and additional parcels were presented to the board for approval and funding in January and April 2007. Land acquisitions are budgeted for \$8 million in fiscal year 2007.

Our review of the land acquisition program indicated that proper controls are in place to ensure the efficient and effective management of the program

Payments in Lieu of Taxes (PILOT)

The Watershed Agency PILOT program, (MGL 59, §5G) requires regular PILOT payments to 31 communities comprising the Quabbin, Ware River, Wachusett, and Sudbury Reservoirs and watershed areas.

Money for the Watershed Agency PILOT program comes from the MWRA ratepayers who use the reservoir waters. MWRA is statutorily required to provide DCR with the funds needed to

make the PILOT payment and DCR makes the annual payment to each community in the program. MWRA payments for PILOT totaled \$5,076,573 in fiscal year 2005, \$5,919,709 in fiscal year 2006, and the 2007 payment is estimated to be approximately \$5,969,049.

The PILOT amount is determined by multiplying the Department of Revenue's valuation of the land by the highest property tax classification in the town where the property is located. M.G.L. Chapter 59 §5G provides that the Watershed Agency PILOT payment can never be less than that of the previous year, even if the value of the land or tax rate decreased.

a. PILOT Payments Being Made on Non-Watershed Properties

The Watershed Agency is currently making PILOT payments for properties located in the following towns that comprise the South Sudbury Basin but no longer serve any water supply protection purpose. DCR and MWRA agree that the ownership, maintenance, and future improvement of these properties should no longer be included as a part of the watershed system for which MWRA has financial responsibility. This has been a long-standing condition, inherited from MDC in 2003. These lands are remnants from the period when the South Sudbury basin was an active part of the Boston water supply system. DCR and MWRA mutually support the transfer of management responsibility for these properties to other appropriate entities so that the costs for operation, maintenance, and management of non-water supply assets are not funded through the Watershed accounts. However, the mechanics for implementing this are still under development. The cost of these payments to MWRA ratepayers in fiscal years 2005 and 2006 was as follows:

	Fiscal Year 2005	Fiscal Year 2006
Ashland	\$ 38,273	\$ 44,190
Framingham*	187,867	230,588
Hopkinton	50,239	50,239
Westborough	<u>22,212</u>	<u>65,756</u>
Total	<u>\$298,591</u>	<u>\$390,773</u>

* A portion of the Framingham watershed properties will be retained.

MWRA advised us that net savings of at least \$300,000 annually will be realized when the non-active watershed properties are removed from the PILOT program.

Recommendation

MWRA and the Watershed Agency should intensify their efforts to resolve the non-active watershed properties PILOT payment issue in a timely manner.

b. Extra PILOT Payments

MWRA pays in excess of \$420,000 annually in extra PILOT payments to six Western Massachusetts communities for lands that these communities received when four townships were disincorporated to create the Quabbin Reservoir. The following schedule provides the PILOT payments for the annexed lands in fiscal year 2006. This same amount was also paid in fiscal year 2005.

Town Receiving Annexed Lands	A Original Acreage	B Annexed Acreage	C Combined Acreage (A+B)	D FY06 Primary Pilot Payment (for C)	E Extra FY06 PILOT Payment on only Annexed Land (for B only)	F Total FY06 PILOT Payment (D+E)
Belchertown	2,520	670	3,190	\$147,395	\$ 24,488	\$ 171,883
Hardwick	4,128	150	4,278	53,882	879	54,761
New Salem	12,198	11,580	23,778	190,394	74,087	264,481
Pelham	4,894	1,080	5,974	151,648	35,216	186,864
Petersham	2,033	10,000	12,033	201,153	137,825	338,978
Ware	<u>980</u>	<u>3,865</u>	<u>4,845</u>	<u>171,506</u>	<u>148,716</u>	<u>320,222</u>
Total	<u>26,753</u>	<u>27,345</u>	<u>54,018</u>	<u>\$915,978</u>	<u>\$421,211</u>	<u>\$1,337,189</u>

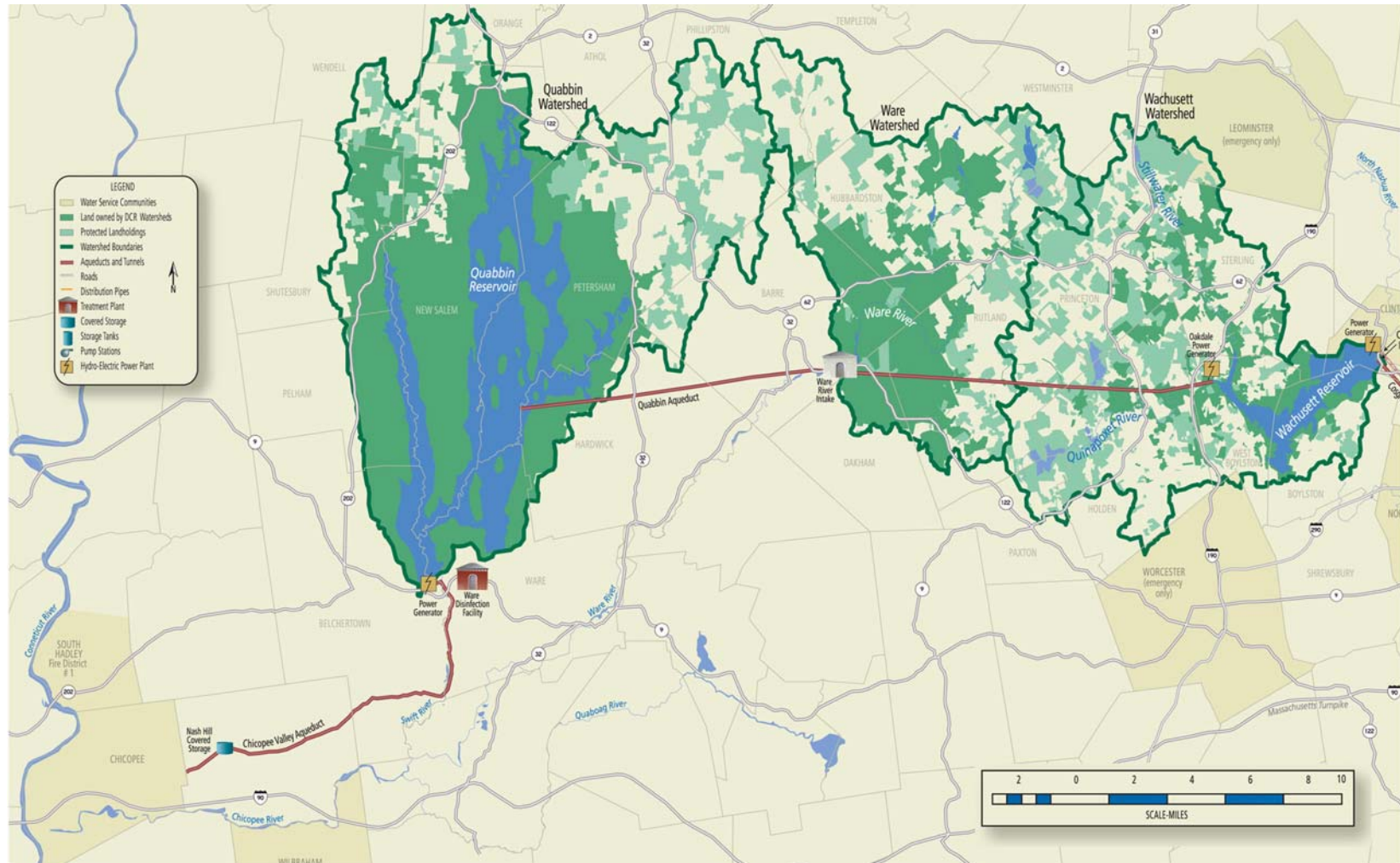
In December 2001, MWRA's Internal Audit Department issued a report dealing with the PILOT Payment Program. The report noted that there is no apparent logical reason for making PILOT payments twice for the same piece of land. The report recommended that consideration be given to eliminating the extra payments to the six communities, but noted that to do so would require changes to be made to the current law (MGL59, §5G). Although current MWRA management concurs that there is no apparent reason for making PILOT payments twice for the same piece of land, according to DCR and MWRA officials, nothing had been done to bring this

issue to the attention of the Legislature for their consideration and clarification until January 2007.

Although DCR and MWRA were aware that it would require legislative action to resolve this long-standing issue, it took until January 2007 for a legislative proposal to be submitted. Whether the proposal will be approved, disapproved, or modified is not known at this time. Because this issue calls for a legislative determination and clarification to be made, we are making no recommendation at this time.

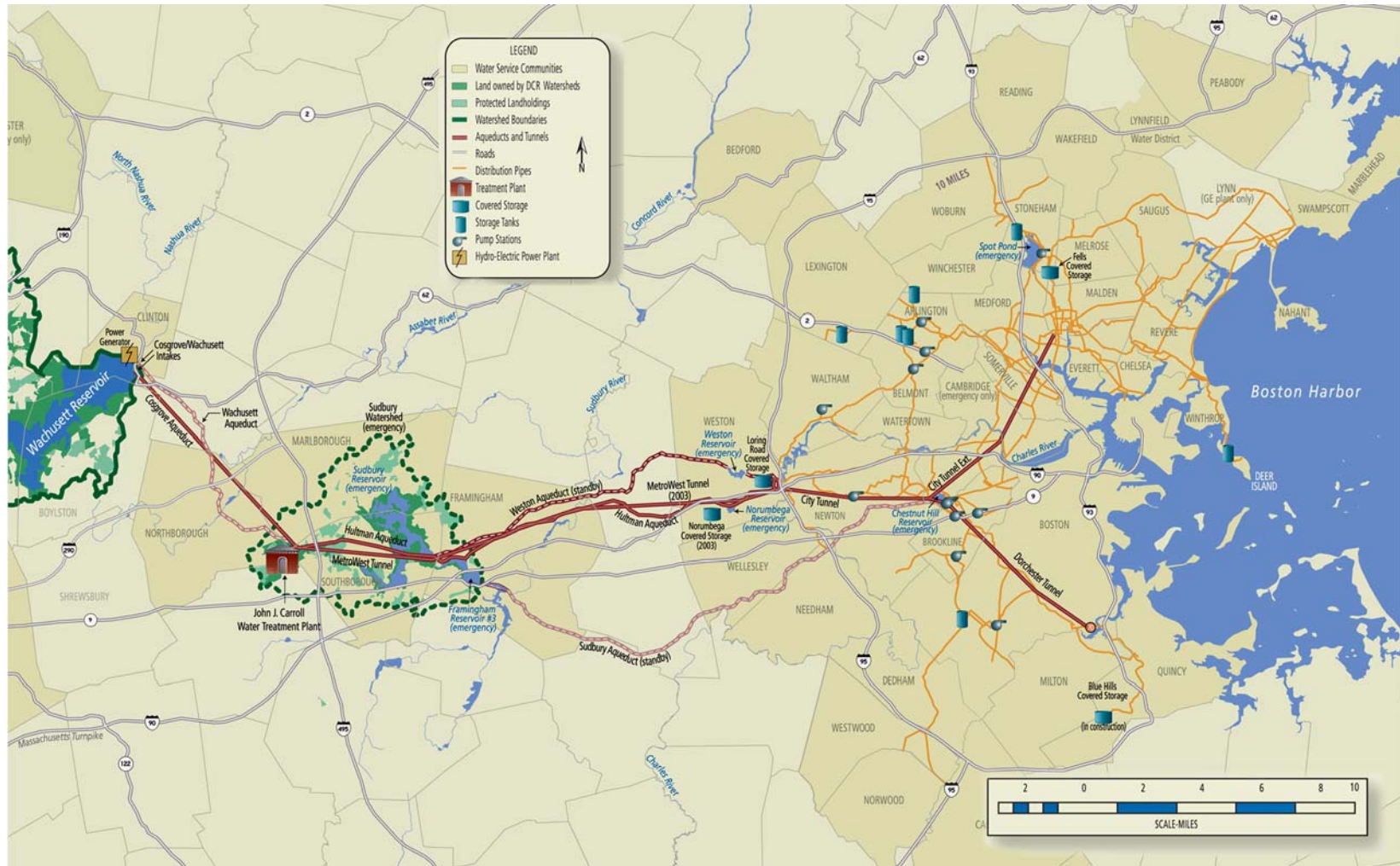
APPENDIX I

MWRA Water Transmission System – West (Quabbin, Ware, and Wachusett Watershed Areas)



APPENDIX II

MWRA Water Transmission System – East



APPENDIX III

Quabbin Reservoir



APPENDIX IV

Aerial View of Wachusett Reservoir



APPENDIX V

Communities Provided Water Services By MWRA

Community	Services provided by MWRA
Arlington	Water and Sewer
Bedford	Water (partially supplied), Sewer
Belmont	Water and Sewer
Boston	Water and Sewer
Brookline	Water and Sewer
Cambridge	Water (emergency backup only), Sewer
Canton	Water (partially supplied), Sewer
Chelsea	Water and Sewer
Chicopee	Water
Clinton	Water and Sewer
Dedham	Water (partially supplied), Sewer
Everett	Water and Sewer
Framingham	Water and Sewer
Leominster	Water (emergency back-up only)
Lexington	Water and sewer
Lynn (GE only)	Water (partially supplied)
Lynnfield Water District	Water
Malden	Water and Sewer
Marblehead	Water
Marlborough	Water (partially supplied)
Medford	Water and Sewer
Melrose	Water and Sewer
Milton	Water and Sewer
Nahant	Water

Needham	Water (partially supplied), Sewer
Newton	Water and Sewer
Northborough	Water (partially supplied)
Norwood	Water and Sewer
Peabody	Water (partially supplied)
Quincy	Water and Sewer
Reading	Water and Sewer
Revere	Water and Sewer
Saugus	Water
Somerville	Water and Sewer
Southborough	Water
South Hadley Fire District #1	Water
Stoneham	Water and Sewer
Stoughton	Water (partially supplied), Sewer
Swampscott	Water
Wakefield	Water (partially supplied), Sewer
Waltham	Water and Sewer
Watertown	Water and Sewer
Wellesley	Water (partially supplied), Sewer
Weston	Water
Westwood	Water (partially supplied), Sewer
Wilbraham	Water
Winchester	Water (partially supplied), Sewer
Winthrop	Water and Sewer
Woburn	Water (partially supplied), Sewer
Worcester	Water (emergency back-up only)