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BGR MEDIA RELEASE

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Sewerage & Water Board Privatization at a Critical Stage

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The Bureau of Governmental Research released today a follow-up study to its June 2001 report on the Sewerage & Water Board's ("S&WB") proposed privatization. The new study reassesses the S&WB's selection process in light of developments over the past year and discusses certain critical issues with the S&WB's proposed service agreement.

The report, which was based on a study by Raftelis Financial Consulting, PA of Charlotte, North Carolina, finds that the procurement documents and process suffered from deficiencies that could limit the benefit of privatization to the S&WB and its ratepayers. It also finds that, because of a deeply flawed evaluation process, the Special Evaluation Committee's ("SEC") review lacked rigor and was too general and subjective to provide meaningful guidance to the S&WB.

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Despite the problems that have plagued the S&WB's procurement, BGR's report concludes that the S&WB still has an opportunity to remedy deficiencies in the service contract and procurement process. It recommends:

- Amending the S&WB's Request for Proposals and the service contract,
- Providing proposers with an opportunity to revise their pricing, and
- Reconvening the SEC or appointing a new evaluation committee to assess proposals pursuant to a detailed, rigorous process.

BGR's report specifically discusses 22 deficiencies in the procurement. Some, like the failure to consider electricity costs in evaluating cost and the draconian penalty provisions for termination, are structural defects that could significantly impact the total cost of the privatization, regardless of which proposer is selected. Others, like the failure to provide the SEC with adequate guidance, are procedural deficiencies that could adversely affect the S&WB's ability to identify and select the proposal offering the greatest total value to the S&WB and its customers.

In order to maximize financial benefits to the S&WB and its customers and ensure a thorough, objective evaluation, BGR's report sets forth 16 recommendations. Critical recommendations to be implemented by the S&WB include:

- Prepare a credible baseline against which to measure savings from the proposals.
- Amend the RFP to:
 - Factor future electricity costs into the evaluation of the cost of the proposals.
 - Establish baseline costs for pass-throughs before the contract is executed and eliminate the pass-through for insurance.
 - Eliminate price adjustments that could serve as a potential disincentive to repair of water pipes.

- Reduce the penalties for termination for convenience and eliminate the penalty for termination for natural disasters, such as hurricanes. The penalty, which the S&WB is required to pay in addition to the contractor's unamortized capital investments and termination costs, could equal \$30 million, or one-third of the S&WB's current water/wastewater budget.
- Restart the evaluation process by reconvening the SEC or appointing a new evaluation committee to prepare a thorough, independent evaluation of the proposals.
- Provide the evaluation committee with a detailed professional analysis of the proposals and rigorous protocols for conducting their evaluation.
- Require the SEC to conduct its evaluation in accordance with the requirements of the RFP, including the assignment of scores to the proposals based on the weights specified in the RFP.
- Accept the evaluation committee's recommendation or conduct its own evaluation on the basis set forth above and provide detailed explanations of variations from the evaluation committee's scoring.

Anne Milling, chairman of BGR, stated: "BGR realizes that amending the procurement process involves risk, inconvenience, and additional expense. It nonetheless believes that corrective action is preferable to continuing with a flawed process that could result in twenty years of unnecessary expense for the S&WB and its ratepayers."

BRG's report can be found at its website, www.bgr.org.

BGR is a private, nonpartisan, nonprofit citizen-supported research organization. Since its founding in 1932, it has been dedicated to informed public policy-making and the effective use of public resources in the New Orleans metropolitan area. For more information call 525-4152 or visit BGR's website.