Report of Proposal Evaluation

Sewerage & Water Board
of New Orleans
Water and Wastewater
Systems Managed Competition

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Preface by the Bureau of Governmental Research

For more than a year and a half, the Sewerage & Water Board ("S&WB") has actively pursued a procurement for the private management, operation, and maintenance of the S&WB's water and wastewater systems. This week the S&WB is scheduled to take a critical step in the process: deciding whether or not to contract out (privatize) these large and vitally important segments of it operation.

The Bureau of Governmental Research ("BGR") has been closely following the S&WB's procurement process since its inception. In June 2001, BGR, with the help of experts in water/wastewater privatization, prepared and issued a detailed analysis of the proposed privatization and the draft procurement documents. In that study, Privatization of Water and Wastewater Systems in New Orleans: BGR Analysis of Sewerage and Water Board of New Orleans Proposal, BGR concluded that, while privatization had the potential for cost reductions, the S&WB's procurement suffered from serious shortcomings that could, individually and in the aggregate, seriously impact competition and the ultimate cost to the S&WB's ratepayers.

As the privatization process progressed, some of the troubling issues identified in BGR's 2001 study remained unresolved and other problems surfaced. In February 2002 BGR retained Raftelis Financial Consulting, PA ("RFC") to undertake two additional studies: one reassessing the S&WB's procurement process in light of developments since BGR's initial study and another evaluating the proposals submitted in response to the S&WB's Request for Proposals. The results of the reassessment of the procurement process were issued in BGR's June 2002 study entitled Sewerage & Water Board Privatization at a Critical Juncture.

The results of Raftelis' evaluation of proposals are set forth in the following RFC report. BGR is making the report available to the S&WB and the public with the following observations:

1. Evaluations necessarily have a subjective element, and reasonable people can differ on many points. RFC has worked hard to diminish subjectivity by establishing and following a rigorous framework for review.

2. In addition to providing the benefit of an expert opinion on the merits of proposals, the RFC report provides an excellent example of an analytic framework that promotes a disciplined, useful analysis of proposals. It stands in marked contrast to the very general description of proposals provided by the S&WB's financial advisory team to the S&WB's Special Evaluation Committee.

3. The conclusions contained in the RFC report are those of RFC and are based on their independent analysis. BGR is not endorsing any particular proposal.

4. An evaluation of proposals is only one of a number of critical elements missing in the evaluation process. Unless the S&WB makes significant

changes to its process, it will undermine its ability to choose the proposal offering the greatest value to the S&WB.

5. .Unless the proposed privatization contract is modified in significant ways, the total cost of privatization may be significantly more than anticipated, regardless of which proposer is chosen.

In its June 2002 report, Sewerage & Water Board Privatization at a Critical Juncture, BGR identified serious flaws in the procurement process and in the draft procurement contracts that could prevent the S&WB from maximizing the benefits of its procurement. Some of the flaws 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. Others are structural ones that could significantly impact the total cost of the proposed privatization, regardless of which proposer is chosen.

To address procedural flaws, BGR made a series of recommendations, including the following:

1. In order to reflect increases in the service fee attributable to annual inflation adjustments, the S&WB should analyze the cost effectiveness of the proposals using a net present value analysis.

2. The S&WB should prepare a credible baseline against which proposals can be compared.

3. The S&WB should factor electricity and other pass-through costs into the evaluation.

4. The S&WB should collect adequate information to assess the impact of the proposed operating plan on pass-through costs, including electricity, insurance and residuals disposal costs.

5. To limit subjectivity, the S&WB should also clarify existing evaluation criteria and subcriteria, allocate points among subcriteria, provide the evaluators with a detailed professional analysis of proposals, and establish rigorous protocols for documenting, collecting, and consolidating evaluations of the individual members of the board.

BGR's June 2002 report also recommended modifying the proposed service contract to remedy the following structural defects:

1. Pass-through Costs. The proposed contract contains inappropriate and poorly constructed pass-through provisions. The pass-through provision for energy costs does not promote responsible energy consumption by the operator. The baseline for the pass-through of residuals disposal costs is open to manipulation. The insurance provisions are contradictory, and one of them passes on costs that are more appropriately in the control of the system operator. As a result of the pass-through provisions, privatization could cost significantly more than the annual price set forth in the proposals.

2. Disincentive to Repairs. The Service Fee is structured in a way that could act as a disincentive to repair of the water pipes. In addition, the proposed adjustment thresholds could require immediate adjustments to the Annual Service Fee.

3. Termination Penalties. The termination provisions impose penalties of up to $30 million for termination by the S&WB. The S&WB has not provided a reasonable explanation for the exorbitant penalties. The end result is that termination for convenience is illusory. More disturbing, the penalties apply if the S&WB is forced to terminate a contractor because of a natural disaster.

4. Approval of Subcontracts. Although the S&WB has indicated that it intends to seek elimination of a contract provision requiring S&WB approval of certain professional services contracts, the revision has not yet been made. Nor have the documents been amended to state clearly that the chosen contractor has the right to choose qualified disadvantaged business enterprises without interference from the S&WB.

BGR in correspondence to the S&WB has expressed concern over other aspects of the proposed contract, including revenue enhancement provisions that appear to cover future bulk sales of water. Because those provisions stipulate the basis on which future revenues from revenue-enhancement programs would be shared, they are in effect setting the financial terms of a joint venture long before the true value of the right to sell water can be ascertained. The right to sell bulk water should be specifically excluded from the revenue enhancement provisions, and the contract should be revised to maximize and protect the S&WB's independence in that regard. To the extent that the cooperation of the system operator is nonetheless needed for bulk water sales, the terms of any such sale should be negotiated when a specific proposal materializes.

BGR issued its June 2002 study on the procurement process in the hope that the S&WB would address the serious problems with the process and the proposed contract. The S&WB did address the issue of a baseline, although the analysis did not take into account inflation or any necessary increases in the level of maintenance and repair. It has not taken action on the other BGR recommendations.

BGR urges the S&WB to consider the BGR and RFC reports carefully and to implement the recommendations set forth in them. Regardless of the risk and expense, corrective action is preferable to continuing with a flawed process and contract that could result in twenty years of unnecessary and unanticipated expense for the ratepayers of New Orleans.

BGR Position

BGR has maintained that the S&WB should pursue privatization only if the procurement process and contract are designed to maximize cost reductions and other benefits to the public. Unfortunately, the S&WB's process and proposed contract still suffer from serious flaws that will prevent the ratepayers of New Orleans from reaping the maximum benefits of privatization. Accordingly, BGR opposes the proposed privatization in its current form and will remain opposed to it until the many serious problems with the process and contract are addressed.

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Water and Wastewater Systems Managed Competition

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Executive Summary

In 1999, the Sewerage and Water Board of New Orleans ("S&WB") decided to begin a competitive procurement process to select a contractor to manage, operate and maintain the water and wastewater systems ("Systems") that serve the City of New Orleans, Louisiana. In order to allow a team of current S&WB employees to participate in the competition, the S&WB elected to pursue the procurement as a managed competition. With the assistance of its financial advisors ("Financial Advisors"), the S&WB in February 2001 prepared and released a draft Request for Qualification/Request for Proposals ("RFQ/RFP"). In January 2002, the S&WB prepared and issued a final RFQ/RFP to interested parties.

In response to the RFQ/RFP, the S&WB received Statements of Qualification ("SOQs") and technical approaches from three private companies and an abbreviated SOQ from the Managed Competition Employee Committee ("MCEC"). The three private companies that submitted SOQs were: US Filter ("USF"), United Water ("UW") and OMI/Thames. Based on review of the SOQs, all three of the private companies that responded to the draft RFQ/RFP were determined to be qualified to perform the requested scope of services. The MCEC was automatically deemed qualified. Consequently, all three private firms and the MCEC were designated as Qualified Respondents ("Respondents").

The final Request for Proposals ("RFP") was prepared with the assistance of the Financial Advisors and incorporated several revisions based upon input from the Respondents and others. In response to the RFP, the S&WB received proposals from USF, UW and the MCEC ("Proposers"). The S&WB is currently in the process of evaluating proposals in anticipation of selecting a preferred proposal.

In February 2002, the Bureau of Governmental Research ("BGR") retained Raftelis Financial Consulting, PA ("RFC") to review the managed competition process being used by the S&WB and evaluate the proposals submitted in response to the RFP. RFC identified several aspects of the evaluation and selection process that could limit the S&WB's ability to identify and select the most advantageous proposal and prevent the S&WB from maximizing the benefits of the procurement process. It also identified corrective actions that could be taken by the S&WB. The results of RFC's analysis were included in a BGR report entitled *Sewerage & Water Board Privatization at a Critical Point.*

This report details the results of the evaluation of proposals submitted in response to the S&WB's RFP. The evaluation examined the proposals with respect to the evaluation criteria provided in the RFP.

It should be noted that RFC attempted to review all of the documents related to the S&WB procurement in an effort to perform a thorough and objective evaluation of the proposals. However, to the extent that certain documents were either unknown to RFC or unavailable for review, or if the information that was reviewed was misinterpreted in any way, RFC reserves the right to revise its opinions based on additional review.

Evaluation Process

The proposals submitted in response to the S&WB's RFP were reviewed by the Evaluation Team, which consisted of RFC and the engineering firm of Jordan, Jones & Goulding. The evaluation process consisted of an initial review of the proposals in order to gain a broad understanding of what the Proposers were offering and to identify any information that may have been missing from the proposals. The Evaluation Team then performed a thorough qualitative evaluation of each proposal to help identify the proposal that would offer the greatest total value to the S&WB and its customers. In an effort to gain a better understanding of the proposals and to clarify information provided by the Proposers, the Evaluation Team attended the Proposers' presentations to the S&WB's Special Evaluation Committee ("SEC"), initiated proposal clarification conference calls with each of the three Proposers and reviewed videotapes of the Proposers' presentations to the S&WB. The purpose of the clarification conference calls was to seek clarification of information and plans included in the proposals. The Evaluation Team did not request additional information that was not required by the RFP.

The evaluation process focused primarily on the contents of each Proposer's written proposal. When appropriate, information gained as a result of these presentations and conference calls was factored into the evaluation. However, when information that was provided in presentations or through clarification calls clearly conflicted with information provided in the formal proposal, the Evaluation Team based its evaluation on the information included in the written proposals.

The evaluation focused on identifying the strengths and weaknesses of each proposal with respect to the Evaluation Criteria to help identify the proposal that would provide the S&WB with the greatest total value. Proposals were characterized as being unacceptable, marginal, acceptable, advantageous or highly advantageous with respect to each sub-criterion. An unacceptable rating indicates that either the proposal did not provide the required information with respect to a sub-criterion or that the proposed approach will clearly not meet the S&WB's objectives. A characterization as marginal indicates that there are some concerns on the part of the Evaluation Team as to whether the proposal relative to a certain sub-criterion will provide benefit to the S&WB. An acceptable rating indicates that the proposal should provide benefits, while an advantageous or highly advantageous characterization indicates that the proposal will clearly provide benefits to the S&WB.

During the evaluation of each proposal the Evaluation Team took into account both the degree to which the proposal met the requirements of the Service Agreement or the MOU, as well as the value offered by the proposal with respect to each sub-criterion. The distinction between these two considerations is particularly important with respect to the MCEC proposal. Because of differences in the allocation of risk and the scope of services defined in the Service Agreement and the MOU, the MOU does not offer the same benefit to the S&WB as does the Service Agreement. It would not, however, be appropriate to assess overly severe penalties to the MCEC proposal simply because of differences in the terms of the agreements. However, since the primary objective of the procurement process is to select the proposal that offers the greatest value to the S&WB

and its customers, the difference in benefits provided by the MOU and Service Agreement cannot be ignored during the evaluation.

It should also be noted that certain provisions of the MOU effectively prevent the MCEC from competing on an equal footing with the private firms. In particular, provisions relating to third party contracting limit the degree to which the MCEC can develop innovative approaches to meeting DBE requirements. Additionally, the fact that the MCEC will be governed by the same rules and guidelines currently in effect with respect to employee related matters limits its ability to develop creative approaches that could potentially prove beneficial to the employees of the Systems. To the extent possible and where appropriate, the Evaluation Team has taken these limitations into consideration during the evaluation process.

Scoring

It is the Evaluation Team's understanding that the selection of the preferred proposal will be based on scoring of the proposals performed by the S&WB. However, the RFP only assigned point values to each of the primary evaluation criteria and did not address how those points should be divided between the various sub-criteria under each of the primary criteria. To facilitate a more objective scoring process, the Evaluation Team assigned point values to each sub-criterion based on its determination of the relative importance of each. It should be noted that the RFP's descriptions of the proposal requirements with respect to each of the evaluation criteria were somewhat vague. As a result, the S&WB's objectives with respect to each criteria are not completely clear. Point allocations to the sub-criteria were based on the Evaluation Team's past experience with similar procurements and a careful review of the RFP, Service Agreement, and MOU in order to develop an understanding of the S&WB's objectives with respect to this procurement. The Evaluation Team recommends that the S&WB use a scoring approach similar to the one presented in this report to determine the preferred proposal.

It is likely that the Evaluation Team would have developed different criteria and a different scoring approach. However, since each of the proposals was prepared in a manner to specifically address the Evaluation Criteria described in the RFP, it would have been counter-productive to make significant modifications to the Evaluation Criteria and scoring approach.

The RFP also requested that the Proposers include with their proposals Creative Approaches to operating and maintaining the Systems. Since the RFP neither provided a description of how the Creative Approaches were to be evaluated nor assigned any point value to be used in scoring the Creative Approaches, the Evaluation Team decided that the Creative Approaches would not be considered in the overall evaluation of proposals. The Evaluation Team examined the Creative Approach proposals in order to determine whether they merited further investigation. The results of this review are presented in Appendix A.

Results of Proposal Evaluation

Cost Effectiveness 250 points

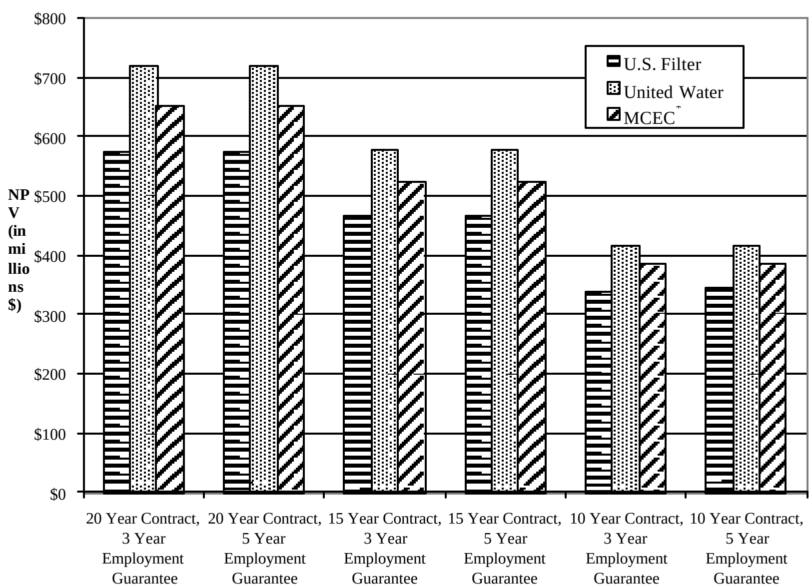
This criterion addressed the financial and economic implications of the proposals. The evaluation sub-criteria and the points allocated to each are:

- Total costs to manage, operate and maintain the Systems – 175 points
- Financial viability of the proposals – 60 points
- Completeness, clarity and correctness of the cost proposal – 15 points

Using computerized financial models the Evaluation Team calculated the net present value ("NPV") of costs associated with each proposal under a variety of scenarios. Calculation and comparison of the NPV of proposed costs is superior to a simple comparison of proposed annual service fees in that the NPV analysis provides a better understanding of the long-term financial impact of each proposal.

In order to facilitate an equitable comparison of the proposals submitted by the private firms with the proposal submitted by the MCEC, the Evaluation Team made adjustments to exclude costs associated with requirements imposed on the private proposers but not the MCEC. The results of the NPV analysis are shown in Figure ES-1 and in Appendix B.

Figure ES-1 Summary of NPV Analysis of Costs Under Base Case



* The proposed MOU with the MCEC does not include any employee retention guarantees.

Managed Competition Employee Committee

MCEC's proposal results in the second lowest NPV of costs to the S&WB, regardless of the term of the contract. In addition, its Cost Proposal includes all of the required information in the required format. However, statements made by the MCEC in its cost proposal and in its presentations to the SEC and the S&WB indicate that its proposed Annual Service Fee will not be sufficient to cover its costs to manage, operate and maintain the Systems during the first three years of the contract term. Based on this evaluation, the MCEC proposal is considered to be advantageous with respect to Cost Effectiveness, but it is not as beneficial as the USF proposal.

United Water

UW's proposal results in the highest NPV of costs to the S&WB, regardless of the term of the contract or the length of the employee retention commitment. UW's cost proposal did not conform to the requirements of the RFP in that its flow and loading adjustments were not presented in the correct format; however, this deficiency was corrected through the submission of additional information to the Evaluation Team. There is no reason to believe that UW's proposed Annual Service Fee is not sufficient to allow it to perform the required scope of services and meet all requirements of the Service Agreement. Based on this evaluation, the UW proposal is considered to be advantageous with respect to Cost Effectiveness; however it does not offer the economic benefits offered by the other two proposals.

US Filter

Analysis of the proposals indicates that the USF proposal is the most advantageous with respect to Cost Effectiveness. As shown in Figure ES-1 and Appendix B of the full report, USF's proposal results in the lowest NPV of costs to the S&WB regardless of the term of the contract or the length of the employee retention commitment. In addition, its Cost Proposal includes all of the required information in the required format, and there is no reason to believe that USF's proposed Annual Service Fee is not sufficient to allow it to perform the required scope of services and meet all requirements of the Service Agreement. Based on this evaluation, the USF proposal is considered to be advantageous with respect to Cost Effectiveness.

The following table summarizes the results of the evaluation of proposals with respect to each sub-criterion for Cost Effectiveness. A more detailed analysis can be found in the body of the report.

Sub-criterion	Maximum Points	Quality of Proposal		
		MCEC	UW	USF
Total costs to manage, operate and maintain the Systems	175	AD	A	HA
Financial viability of the proposals	60	M	HA	A
Completeness, clarity and correctness of the cost proposal	15	AD	A	AD
U –Unacceptable, M–Marginal, A-Acceptable, AD-Advantageous, HA-Highly Advantageous				

As noted above, in preparing its analysis, the Evaluation Team based its evaluation on the information provided by the proposers in response to the S&WB's RFP. Unfortunately, the S&WB did not request information that is critical to an accurate assessment of Cost Effectiveness. Relevant information that should have been requested includes information on the impact of a Proposer's operating approach on electricity costs, estimates of other pass-through costs, and an indication of which portions of each Proposer's proposed service fee were related to specific activities such as salaries, maintenance, repair and replacement, chemicals, etc. Had such information been available, the results of the analysis of Cost Effectiveness might have been different.

Technical Approach   250 points

This criterion examines each Proposer's proposed approach to performing the scope of services defined in the Service Agreement and MOU. The evaluation sub-criteria specified by the S&WB and the points allocated to them by the Evaluation Team are:

- Operation and Management plan and proposed practices – 55 points
- Maintenance Management Plan – 45 points
- Suggestions for the S&WB's capital improvement plan – 10 points
- Plan to assure Consent Decree compliance – 20 points
- Plan for interaction with regulatory agencies – 20 points
- Understanding of contract performance and compliance requirements – 20 points
- Customer service plan – 25 points
- Proposed plan for emergencies – 15 points
- Staffing plan – 15 points
- Transition of services – 25 points

Managed Competition Employee Committee

The MCEC proposal contains a limited number of innovative changes or modifications to the S&WB's current operations with relatively few capital improvements. The MCEC's recommended capital improvements include the installation of a closed loop potable water cooling tower at the East Bank wastewater treatment plant ("WWTP"). This is a valuable modification that will greatly help the operation of the High Purity Oxygen Generation System. However, it is apparent that the MCEC does not believe that the Systems are in need of the major rehabilitation proposed by both private companies, a position that is belied by some of the significant operational problems that currently exist within the Systems.

The MCEC's Maintenance Management plan proposes expanding the existing CASSWORKS computerized maintenance system (CMMS) to perform additional asset management functions. While this might be cost effective, there is some question as to whether the existing system can be adequately adapted to meet the Systems' needs on a long-term basis. The MCEC plan lacks specific discussion of predictive maintenance procedures and performance measures to track efficiency and productivity.

The MCEC provides the most suggestions for the S&WB's capital improvement plan but does not address the potential benefits and cost savings.

The MCEC staff is the most experienced of the three proposers in dealing with the provisions of the S&WB's Consent Decree and the specific agencies that regulate the S&WB's activities. The MCEC proposal demonstrates a good understanding of the performance and compliance requirements of the MOU.

With respect to customer service, the MCEC proposes staff reorganization in the customer service department, extensive training of the staff by outside consultants, and the installation of a new customer service database. It proposes to assess the desirability of switching to automatic read technology through a test conversion of 100 meters. The MCEC's proposal does not discuss the specifics of the training efforts. Nor does it discuss performance measures that would be used to track the efficiency and productivity of the department. The MCEC's proposal does not provide additional payment options for S&WB customers. It does not contain details to support its assertion that customer service will be improved.

The MCEC's experience in dealing with the specific types of major emergencies that have been experienced in the New Orleans region is an asset. However, the absence of discussion of emergency plans for the wastewater facilities and security measures are weaknesses in its emergency preparedness proposal.

The MCEC acknowledges the need for staff reduction, increased efficiency and additional training of employees. The plan indicates that the MCEC would eventually reduce staff to approximately 530 employees. However, its proposal is weak with respect to the wastewater staffing plan and lacks specific training programs and schedules.

The MCEC transition plan examines the effect of transition on the private sector employees now operating the wastewater treatment plant. It appears to assume that they are the only employees for whom transition will be an issue. While the effects of transition of services to the MCEC should be minimal relative to the impacts of transitioning to a private company, the transition plan should address the incorporation of new operating procedures and training programs. This is something that the MCEC proposal fails to adequately address and at which the MCEC has limited experience.

Based on these factors, the MCEC proposal is considered to be advantageous with respect to the Technical Approach criterion, but not as strong as the other two proposals.

United Water

The UW proposal includes the most substantial amount of beneficial capital improvements and an operational approach that should ensure efficient operation of the Systems. The proposed modifications demonstrate a good understanding of the needs and weaknesses of the Systems and a great deal of creativity.

Beneficial improvements include the complete rehabilitation of the High Purity Oxygen Generation System, installation of microscreens, and conversion of the old primary sedimentation basins to a sludge thickener at the East Bank WWTP. UW also recognized the need to discontinue the use of process water for cooling in the High Purity Oxygen Generation System at the East Bank WWTP. The proposal includes numerous other capital improvements and modifications throughout the system. Added instrumentation (SCADA), and automation (filter operation and automatic reading of large meters) have been shown to increase efficiency of operation and help to reduce required staffing levels.

The technical proposal dealing with the day-to-day operations of the water and wastewater facilities and the capital improvements included in the base price addresses specific needs for the system and indicates an above-average approach to increasing the efficiency of the Systems.

The UW Maintenance Management Plan proposes expanding and modifying the existing CASSWORKS system to perform all asset management functions. While the continued use of the CASSWORKS system may be cost effective, there is some question as to whether the existing system can be adequately adapted to meet the Systems' needs on a long-term basis. The UW plan provides a detailed proposal for restructuring maintenance efforts using state-of-the industry standards and performance measures. The plan provides specific schedules for predictive and preventative maintenance and provides a good discussion on the use of performance measures and benchmarking.

UW's discussion of suggestions for the S&WB's capital improvement plan is of a limited scope and lacks specifics pertaining to potential cost savings.

UW has extensive experience in dealing with regulatory agencies in other regions and demonstrates a good understanding of the requirements of the Consent Decree. Its proposal demonstrates a good understanding of the performance and compliance requirements of the contract.

The UW proposal provides for specific improvements to customer service, including increased payment options for S&WB customers and automating the large meter reading operation. Unlike the MCEC and USF, UW plans to continue using the existing customer service database. This could be a significant shortcoming in the UW proposal, in that it is likely that the existing CAMS system will not meet the Systems' long-term needs with respect to one of the S&WB's core requirements, i.e., improved customer service.

The absence of any specific discussion regarding security or its response to emergencies involving the wastewater system is a negative in the UW plan for dealing with emergencies.

UW plans to operate and maintain the Systems with 500 employees. Its staffing plan describes a specific approach to the organization and training of employees that should prove to be advantageous to the S&WB.

UW is experienced at transitioning services from the public sector to the private, and its plan demonstrates a significant commitment of resources to transition. However, the proposal does not discuss the transition of the current wastewater operations.

The UW proposal addresses capital and operational modifications to all facets of the Systems that should ensure increased efficiency. Additionally, its proposal demonstrates that it has a clear understanding of how it will operate each component of the Systems. Based on all of these strengths, the UW Technical Approach proposal is considered to be the most advantageous.

US Filter

USF proposes to include some significant capital investment in the S&WB's facilities, including new and/or expanded SCADA systems at all facilities, rehabilitation of the High Purity Oxygen Generation System at the East Bank WWTP, and installation of a gravity thickener at the East Bank WWTP. USF recognizes the need to discontinue use of process water in the cooling system of the High Purity Oxygen Generation system at the East Bank WWTP.

The USF proposal describes specific performance measures and process controls historically used by the company to document performance and efficiency at its facilities. USF's discussion of its approach to developing detailed Standard Operating Procedures consistent with current industry standards indicates that USF will place an appropriate level of emphasis on this matter.

Although the level of capital investment is less than that proposed by UW and its proposal lacks some of the creativity demonstrated by UW in dealing with certain issues, USF's improvements should increase efficiency and performance throughout the Systems. The Evaluation Team has some concern, however, about USF's continued use of one of the secondary clarifiers as a sludge thickener at the East Bank WWTP, since this reduces the final sedimentation capacity of the facility by 12.5%. The concern is somewhat mitigated by the fact that the USF staff currently operating this facility has established workable protocols for this operation.

The USF Maintenance Management plan presents a comprehensive approach to improving maintenance. USF proposes to replace the existing CASSWORKS system. This eliminates the question of the viability of the system over the long term. It also proposes state-of-the-industry standards for predictive and preventative maintenance.

USF's suggestions for the S&WB's capital improvement plan lack specific cost benefit projections.

USF demonstrates a good understanding of the Consent Decree requirements and has extensive experience in dealing with regulatory agencies, particularly the agencies that regulate the Systems. Its proposal demonstrates a good understanding of the contract performance and compliance requirements.

USF presents a very comprehensive approach to improving customer service through better planning and communication. USF's customer service plan includes replacing the existing customer information system with a new one. Although the transition between systems may cause problems initially, the new system should outperform the existing one and will allow for real time processing and recordkeeping. The USF plan calls for increased payment options and other improvements in its customer service plan. The proposed meter reading plan should increase metering accuracy; however, the plan for increasing meter reading efficiency lacks detail.

USF provides extensive discussion of security issues in its plan for dealing with emergencies. However, the absence of any specific discussion regarding major water system emergencies or hurricanes and flooding is a shortcoming of the USF proposal.

The USF staffing plan calls for reducing the number of employees to 365. The reductions may be considered slightly too aggressive but not unreasonable. The USF staffing plan describes a specific approach to the organization and training of employees, but leaves some questions unanswered with respect to remote monitoring.

USF is experienced at transitioning services from the public sector to the private. Its proposal contains a detailed transition plan that adequately addresses all aspects of an effective transition plan for all services.

The USF proposal provides a comprehensive technical plan and is considered to be advantageous, but not as advantageous as the technical approach proposed by UW.

The following table summarizes the results of the evaluation of proposals with respect to each sub-criterion for Technical Approach. A more detailed analysis can be found in the body of the report.

Sub-criterion	**Maximum Points**	**Quality of Proposal**		
		MCEC	**UW**	**USF**
Operation and Management Plan	55	A	AD	AD
Maintenance Management Plan	45	M	AD	AD
Suggestions for Capital Improvements	10	A	M	M
Consent Decree Compliance	20	HA	AD	AD
Regulatory Agencies	20	HA	AD	AD
Understanding of Contract	20	AD	AD	AD
Customer Service Plan	25	A	AD	AD
Emergency Plan	15	M	M	M
Staffing Plan	15	A	AD	A
Transition of Services	25	A	AD	AD
U –Unacceptable, M–Marginal, A-Acceptable, AD-Advantageous, HA-Highly Advantageous				

UW presents the strongest Technical Approach proposal. Both the UW proposal and the USF proposal include a number of capital projects that should increase the efficiency of the Systems and raise the quality of service provided to the S&WB customers. However, UW's operations and management plan was stronger than USF's primarily because there is some apparent uncertainty on the part of the USF team with regard to the operation of some components of the Systems. The MCEC proposal only includes a limited number of proposed capital modifications and its proposed approach to operating and maintaining the Systems was far too similar to the status quo.

One potentially significant weakness of UW's technical proposal is the continued use of the existing maintenance, management and customer service software packages. Both of these packages are relatively old and their ability to meet the long-term needs of the Systems is questionable. This potential weakness does not, however, outweigh the other advantages offered by the UW proposal for Technical Approach.

Disadvantaged Business Enterprise Plan 175 points

This criterion examines each Proposer's proposed approach to meeting the S&WB's DBE participation requirements. The evaluation sub-criteria specified by the S&WB and the points allocated to them by the Evaluation Team are:

- Management opportunities – 35 points
- Types of functions, services and supplies – 50 points
- Named subcontractors, suppliers, and professional service providers – 50 points
- Ability to meet or exceed DBE participation goals – 40 points

A lack of clarity in the RFP, Service Agreement and MOU with respect to the DBE requirements severely limited the Evaluation Team's ability to perform a meaningful evaluation of the proposals with respect to this criterion. The requirements are unclear in a number of respects.

First, it is not clear whether the proposers were required to identify the specific DBE firms with which they would contract to perform services if they won the procurement. The RFP did not specifically require that Proposers identify the specific DBE firms that they would utilize. However, the proposed Service Agreement and the MOU indicate that the Proposers must submit, as part of their technical proposal, "…the full names, addresses and contact information, area of work, and dollar value of each category of sufficient value to meet the minimum percent participation by qualified DBEs for the year in which the Contract Date is expected to occur and the following calendar year…." The Evaluation Team interpreted the documents as requiring the submission of the requested information.

Second, the method for determining compliance with the DBE requirements is not clearly articulated in the RFP, Service Agreement or MOU. Although the Service Agreement and MOU give percentages for DBE participation for different types of subcontracts, it is unclear how these percentages are to be applied (e.g., by each contract or by each type of contract). For the purpose of this evaluation, each proposal was assessed relative to its apparent ability to ensure the required DBE participation for each type of contract. In addition, there is uncertainty as to what type of costs could be considered in the computation.

For a more detailed discussion of the ambiguities related to the DBE requirements, see pages four to six of the main body of the report. The S&WB should clarify the DBE requirements and require the Proposers to submit additional information in response to the S&WB clarification.

As a result of the lack of clarity, the evaluation of the DBE plans not only examined whether the proposals provide the information necessary to demonstrate compliance with the DBE requirements, but also addressed whether each Proposer's approach to meeting the DBE requirements would allow it to meet the requirements.

Managed Competition Employee Committee

The MCEC demonstrates a strong commitment to providing management opportunities to socially and/or economically disadvantaged persons. Eight of the thirteen management team members, including the member holding the highest position, are members of minority groups.

For the most part, the MCEC provides the required information with respect to its DBE plan. The list of contracts provided by the MCEC identifies specific services that DBEs will provide, the specific DBE firms that would provide services and supplies, and indicates the value of the DBE participation. The proposal fails to demonstrate full compliance with the DBE percentage participation requirements.

The lack of an outreach program and the shortfall in DBE participation under construction contracts are weaknesses in the MCEC proposal. However, if it is not hindered by S&WB contracting restrictions, the MCEC team should be capable of meeting the DBE requirements. Based on these factors, the MCEC proposal is considered to be advantageous with respect to this criterion.

United Water

Although the UW proposal does not specifically address the role of socially and/or economically disadvantaged persons on its management team, it is apparent from presentations to the SEC that members of minority groups will hold management positions. In addition, a member of a minority group holds the highest management position.

The UW proposal includes a list of DBE contractors that provide services in 22 areas. However, the proposal neither indicates that UW has committed to using specific DBE firms to perform these services nor demonstrates that the percentage DBE requirements for each contract category will be met. As a result, its proposal does not appear to comply with the requirements set forth in Schedule 16 of the Service Agreement.

The UW proposal names only three specific subcontractors that UW has committed to use. It indicates that UW has signed MOUs with DBE partners; however, it does not provide the names of the firms that have signed the MOUs or the types of services that they will provide. Although it provides a list of 26 DBEs that have been identified as potential subcontractors, it indicates that it has not yet developed relationships with them.

The UW proposal includes a commitment to exceed the DBE participation goals. In its proposal, UW commits to utilize DBE firms for 50% of outsourced non-professional services and supplies, 50% for outsourced professional services and 34% of outsourced construction contracts. The increased percentage commitment is considered a strength of its proposal. However, UW's proposal only provides a minimal level of specific information to support its commitment.

The actual value of services to be provided by DBEs is unclear. In its proposal, UW commits $19 million to DBEs in the first year of the contract; however, in its presentations to the SEC and S&WB, the UW team indicated that the value of DBE participation would only be approximately $12.2 million.

UW has sufficient experience meeting DBE requirements for other contracts and it is apparent that it has made a significant effort to identify potential DBE partners. However, its proposal lacks detail with respect to its plan to ensure DBE compliance, and it does not appear that it has received commitments from many DBE firms. While UW should be capable of meeting or exceeding the DBE requirements, its proposal does not contain sufficient information to fully support its ability to do so. As a result, the UW proposal is considered to be marginal and less advantageous than the other two proposals with respect to the DBE criterion.

US Filter

US Filter demonstrates a strong commitment to including socially and/or economically disadvantaged persons on the management team, stating that 40% of its 19-member management team is comprised of minorities and women. A member of a minority group occupies the highest position on its management, and USF has included a representative from a DBE firm on its management team.

The USF proposal states that USF offers DBE opportunities in over 100 areas. It names DBE firms that are members of its team and provides 50 letters of commitment in numerous fields. However, with the exception of the team members, the proposal does not indicate the actual firms that will be used to provide supplies and services. Nor does the proposal demonstrate that USF will meet the percentage participation requirements for each contract type. As a result, the USF proposal does not appear to comply with the proposal requirements set forth in Schedule 16 of the Service Agreement.

In its presentation to the S&WB, USF stated that it is committed to 50% DBE participation. This statement conflicts with its formal proposal in which it guaranteed compliance with the DBE requirements and stated that it would strive to exceed the requirements. In addition, the dollar value of USF's commitment is unclear. The proposal states that USF has committed $3.5 million annually to DBE requirements. However, in correspondence provided to the S&WB after presentations to the SEC, USF indicates that it would commit approximately $9.4 million to DBE firms. At the meeting with the S&WB, USF indicates that it is committing approximately $18 million a year to local, minority and women-owned businesses.

The USF proposal includes detailed action steps to assure the DBE program's success. In addition, USF has established a meaningful DBE outreach program and has significant experience meeting DBE requirements of other contracts. The combination of USF's experience in the New Orleans area and familiarity with local DBEs, as well as its steps to achieve these goals, are a good foundation for a successful program.

Based on all the factors, USF's proposal is considered to be marginal with respect to the DBE criterion, but slightly more advantageous than the UW proposal.

The following table summarizes the results of the evaluation of proposals with respect to each sub-criterion for Disadvantaged Business Enterprise Plans. A more detailed analysis can be found in the body of the report.

Sub-criterion	**Maximum Points**	**Quality of Proposal**		
		MCEC	**UW**	**USF**
Management opportunities	35	HA	AD	AD
Types of functions, services and supplies	50	A	M	M
Named subcontractors, suppliers, and professional service providers	50	AD	U	U
Ability to meet or exceed DBE participation goals	40	A	AD	A
U –Unacceptable, M–Marginal, A-Acceptable, AD-Advantageous, HA-Highly Advantageous				

While it is apparent that all three of the Proposers should be capable of meeting the S&WB's DBE requirements, both UW and USF fail to provide much of the required information with respect to their DBE plans. As a result, they do not demonstrate that they would definitely meet the S&WB's DBE participation requirements. USF's proposal provides the most comprehensive and detailed approach to meeting the DBE goals. However, the MCEC proposal provided more specific information related to the specific firms that will provide services and supplies and is therefore considered to be the most advantageous proposal with respect to this criterion.

Employee Compensation and Benefits Package; Employment Relations and Career Development Program 175 points

This criterion examines each Proposer's proposed plan relating to employee compensation and benefits, employee relations and career development. The evaluation sub-criterion specified by the S&WB for this criterion and the points allocated to them by the Evaluation Team are:

- Proposed employee compensation and benefits package – 75 points
- Scope of training programs – 40 points
- Breadth of human resource plans – 30 points
- Responsiveness to employee career development objectives – 30 points

With respect to the employees of the Systems, the S&WB desires a safe, secure and productive work environment that provides enhanced opportunities for career development and professional growth. Specifically, the Service Agreement requires that private firms guarantee employment for a designated group of current S&WB employees ("Affected Employees") for either three or five years. In addition, the S&WB is requiring a 5% increase in pay and the provision of a benefits package that is equal to or better than the benefits package currently provided by the S&WB.

It should be noted that the decision as to the desirability of one pension plan over another is a personal decision based on individual employment and retirement goals and can only be determined on an individual basis. Therefore, the evaluation of proposals with respect to this criterion focused more on compensation, employee relations and career development. A detailed comparison of the economic benefits offered by the proposed pension plans was not performed, and therefore the evaluation for this sub-criterion did not take into account the potential economic benefits of the proposed retirement benefits plan.

Managed Competition Employee Committee

The MCEC proposal provides a good level of detail on the benefits and compensation to be offered and the few changes that would be made to the existing benefits and compensation. The MCEC plan is essentially the same as the status quo and therefore provides the Affected Employees with a level of security that is not present after the three to five-year guarantee offered by the private firms. However, its plan does not include the 5% pay raise that the other Proposers were required to include and offers few, if any, benefits over the status quo. Although the MCEC proposal includes a gainsharing plan, it does not provide sufficient detail to judge the value to employees.

The MCEC's training programs are good on a conceptual level but are lacking in specific details, and the human resources plan lacks depth. With respect to career development, the MCEC proposal indicates that the MCEC plans to work with the Civil Service Commission (CSC) to expand a career development model that has been implemented in the S&WB for some employees. The proposal lacks detail on how, and to what extent, such a program would be implemented.

It should not be ignored that the S&WB and the CSC maintain a significant level of control over employee-related matters under the provisions of the MOU. Therefore, the implementation of the plan would not be completely under the MCEC's control.

By virtue of the fact that it provides the employees with the highest level of security, the MCEC's employee compensation and benefits package proposal is considered to be advantageous. However, it is not as strong as the other two proposals because the strength of the MCEC compensation and benefits package was countered by the relative weakness of its approach to the other aspects of this criterion.

United Water

UW includes the mandated 5% pay increase and states that its philosophy includes "variable pay opportunities." It does not, however, address whether such a policy would be implemented on this project. The proposal adjusts the vesting and benefit formula to meet regulatory requirements and includes a new 401k and stock purchase plan. UW also proposes that employees will receive equal or better benefits for the entire life of the contract, not just for the three to five year period required by the RFP. In its presentation to the S&WB, UW stated that it also guarantees no lay-offs during the life of the contract; however, no reference to this guarantee was found in its formal proposal. The proposal could prove to be more beneficial to the employees than the status quo with respect to compensation; however, there is still a question as to whether the UW plan provides the same level of job security that is offered by the MCEC proposal.

Although UW provides a good overall approach to training and has strong experience in this area, the proposal does not include many details. UW's human resources plan is acceptable, but not as comprehensive as the plan offered by USF. For career development UW would implement an established program used in other projects. UW has significant experience in this area and describes a strong program with many positive attributes.

The UW proposal is considered to be advantageous with respect to the Employee Compensation and Benefits Package, Employment Relations and Career Development Program.

US Filter

The USF proposal includes the mandated 5% pay increase and a statement that its service fee includes performance-based bonuses, which typically average between 3 and 5%. The proposal adjusts the vesting and benefit formula to meet regulatory requirements and includes other new benefits, including a 401k plan, a stock purchase plan and group home and auto insurance. It does not address changes in the compensation and benefits package that could occur after the 3 or 5 year employee retention period, nor does it offer the long-term job security that is offered by the MCEC proposal.

USF's proposal overall provides excellent detail to support well-conceived and desirable training and human resources packages. With respect to career development, USF demonstrates a strong commitment to implementing a program that provides good opportunities for the Systems' employees. USF has experience implementing similar programs at other facilities and shows a strong understanding of what is required in these areas. As a result of these factors, USF's proposal with respect to Employee Compensation and Benefits Package, Employment Relations and Career Development Program is considered to be advantageous.

The following table summarizes the results of the evaluation of proposals with respect to each sub-criterion for Employee Compensation and Benefits Package, Employment Relations and Career Development Program. A more detailed analysis can be found in the body of the report.

Sub-criterion	Maximum Points	Quality of Proposal		
		MCEC	UW	USF
Proposed employee compensation and benefits package	75	AD	AD	AD
Scope of training programs	40	AD	AD	AD
Breadth of human resource plans	30	A	AD	HA
Responsiveness to employee career development objectives	30	A	AD	AD
U –Unacceptable, M–Marginal, A-Acceptable, AD-Advantageous, HA-Highly Advantageous				

All three Proposers offer compensation and benefits packages that should be equal to or better than those currently offered to the Affected Employees by the S&WB. While the MCEC package is less desirable than the other two Proposers' packages with respect to compensation, it offers more long-term job and benefits security than the other two packages. The USF proposal offers the least long-term security since it provides no employment or benefits guarantees after the three to five year guarantee period. The USF proposal is, however, stronger with respect to the human resources plan, employee training and career development.

Quality of Management Team 100 points

This criterion examines each Proposer's proposed management team's ability to increase the efficiency and effectiveness of the Systems. The evaluation sub-criteria specified by the S&WB and the points allocated to them by the Evaluation Team are:

- Management Team – 40 points
- Current and Previous Experience – 50 points
- Financial Strength of Proposer and Guarantor – 10 points

This criterion assesses the relevant experience and qualifications of each Proposer and its proposed management team, including its system and facility experience and its specific areas of experience. Specific emphasis was placed on assessing the extent to which members of the proposed management team had previous experience managing, operating and maintaining facilities similar to the facilities that comprise the Systems.

Managed Competition Employee Committee

The MCEC team consists of individuals with a history of work with the S&WB and the City of New Orleans and is complemented by HDR Engineering, which will bring experience to the operation of the wastewater treatment plants. However, with the exception of one team member employed by HDR, the team members lack advanced degrees. The MCEC team has limited industry experience outside New Orleans. In addition, the MCEC proposal does not demonstrate a management commitment to change or experience leading change, optimization, or efficiency initiatives.

The MCEC team draws on the financial resources of the S&WB to guarantee its long-term viability. However, this does not reduce the S&WB's risk with respect to long-term costs to operate the Systems or liability resulting from negligence. Both private proposals significantly reduce this risk. Primarily due to the MCEC's experience operating the Systems, its proposal is considered to be advantageous with respect to Quality of the Management Team.

United Water

UW has assembled a strong management team for its proposal. The team consists of a core group with advanced degrees and experience in utility operation and business administration. A transition team with experience in optimization, utility privatization and in transitioning utility operations from the public sector to the private sector will support the core team. The UW management team also demonstrates a significant history of relevant industry experience and has operated comparably sized water and wastewater systems. However, recent events in Atlanta are a reason for concern.

United Water Resources (UWR), Guarantor of the UW team, has historically posted solid financial results; however, no separate financial statements are available since it became a wholly owned subsidiary of ONDEO. Unless UWR's financial position has declined significantly since its purchase by ONDEO, its financial resources should be adequate to guarantee the performance as well as the long-term viability of the UW team. However, should the S&WB elect to enter into a long-term contract with UW, it should require that UWR produce evidence that its financial position is equal to or better than its financial position prior to its takeover by ONDEO.

Based on all the factors, UW is considered to be highly advantageous with respect to Quality of the Management Team.

US Filter

USF has assembled a strong management team comprised of a core of individuals with industry experience, including experience in the wastewater treatment plants of the S&WB. Its management team has advanced degrees in related fields and USF has indicated a commitment to keeping its team in place in New Orleans for a significant period of time. The team is complemented with a transition team experienced in utility optimization and in transitioning utility operations from the public sector to the private sector.

Vivendi Environment (VE), Guarantor of the USF team, has historically performed well financially. Although recent market activity relative to VE's former parent company does introduce some uncertainty with respect to VE's long-term financial viability, VE's financial resources should be adequate to guarantee the performance, as well as the long-term viability, of the USF team. While there is every indication that VE will be largely unaffected by the financial troubles of its former parent company, the uncertainty associated with the current situation does decrease its desirability as the Guarantor of a long-term contract. If the S&WB selects USF for this project, the Service Agreement should require USF to secure an alternative Guarantor if VE experiences a material decline in financial strength.

Despite the concerns about the financial strength of VE, the depth and experience of USF's management team results in the USF proposal being considered highly advantageous with respect to Quality of the Management Team.

The following table summarizes the results of the evaluation of proposals with respect to each sub-criterion for Quality of Management Team. A more detailed analysis can be found in the body of the report.

Sub-criterion	Maximum Points	Quality of Proposal		
		MCEC	**UW**	**USF**
Management Team	40	AD	HA	HA
Current and Previous Experience	50	AD	AD	AD
Financial Strength of Proposer and Guarantor	10	A	AD	AD
U –Unacceptable, M–Marginal, A-Acceptable, AD-Advantageous, HA-Highly Advantageous				

Both UW and USF have significant experience operating water and wastewater systems and both management teams include many qualified individuals with significant experience. The fact that UW is currently experiencing problems associated with its contract to operate Atlanta's water system and that USF has experienced problems at the S&WB's wastewater treatment plants causes some concern. However, both companies have a long history of successful privatization projects. USF's knowledge of the wastewater treatment plants gives it a slight advantage over UW with respect to this criterion. The MCEC team has the most experience of the three Proposers in the operation of the Systems; however, the fact that the majority of its experience is limited to the Systems raises doubt concerning its ability to increase efficiency through the identification and implementation of innovative approaches. Additionally, the MCEC cannot offer the price guarantee offered by the private firms.

Employee Transition Plan 50 points

The evaluation sub-criteria specified by the S&WB and the points allocated to them by the Evaluation Team are:

- Overall efficiency of transition plan – 25 points
- Proposed schedule for employee interviews – 5 points
- Plans for job assignments and responsibilities – 15 points
- Employee training objectives and plans – 5 points

This criterion addresses the quality and effectiveness of the Employee Transition Plan. An effective employee transition plan should detail the responsibilities that the Affected

Employees will have both during and after the formal transition period. It should also address the assessment of employee skills and define the mechanism whereby employees are either provided with the necessary training or reassigned to positions that more effectively take advantage of their skills and training.

Managed Competition Employee Committee

The MCEC Employee Transition plan focuses on operations transition and contains very little information on employee transition. The MCEC incorrectly assumes that only forty employees will be transitioned. As a result, it fails to recognize that the MCEC must dramatically change the way in which the Systems are operated and that the necessary operational changes will have a marked impact on the Affected Employees. The MCEC plan does not provide for formal interviews of employees and it appears to leave employees in their current positions without any formal re-evaluation of job assignments. While leaving employees in their current positions during the transition period would contribute to a smoother formal transition, the failure to discuss job reassignments as part of a restructuring is a major weakness. The MCEC plan makes only a cursory reference to training in the proposed transition schedule. Based on these factors, the MCEC proposal is considered to be marginal with respect to this criterion.

United Water

The UW Employee Transition plan provides detailed information on the activities that would occur in the immediate transition period; however, it fails to address restructuring after the formal transition period. The UW plan for interviews is logical but is lacking in depth. With respect to job assignments, UW's plan to leave employees in positions that are similar in scope to their current ones should result in a relatively smooth initial transition. However, its approach to skills assessment, restructuring, and job reassignment after the formal transition period is not well defined. The plan requires additional detail. Based on these factors, the UW proposal is considered to be acceptable with respect to this criterion.

US Filter

The USF proposal provides a detailed description of a well-reasoned and comprehensive employee transition plan. The USF proposal includes a logical and complete employee interview plan and treats training as an integral part of the employee transition plan. Like UW and the MCEC, USF plans to leave employees in positions similar in scope and responsibility during the initial contract period. Additionally, it proposes a major restructuring based on employee interviews and skills assessments in three to five years.

The USF transition plan appears to be a logical approach to ensuring that employees are placed in the appropriate job as a result of the restructuring. Based on these factors, the USF proposal is considered to be advantageous with respect to this criterion.

The following table summarizes the results of the evaluation of proposals with respect to each sub-criterion for Employee Transition Plan. A more detailed analysis can be found in the body of the report.

Sub-criterion	Maximum Points	Quality of Proposal		
		MCEC	UW	USF
Overall efficiency of transition plan	25	M	A	AD
Proposed schedule for employee interviews	5	M	A	AD
Plans for job assignments and responsibilities	15	M	A	AD
Employee training objectives and plans	5	M	AD	AD
U –Unacceptable, M–Marginal, A-Acceptable, AD-Advantageous, HA-Highly Advantageous				

USF and UW are both experienced in the process of transitioning employees from the public sector to the private sector and this experience is evident in their proposed employee transition plans. The UW proposal, however, fails to address the issue of job reassignment over the long-term and is therefore considered to be slightly less advantageous than the USF proposal. The MCEC apparently believes that employee transition will not be an issue since the Affected Employees will remain employees of the S&WB. This stance fails to recognize that the changes required to ensure that the objectives of this procurement are achieved will have a significant impact on the employees.

Section II - Evaluation of Proposals

Evaluation Process

The proposals submitted in response to the S&WB's RFP were reviewed by the Evaluation Team, which consisted of RFC and Jordan, Jones & Goulding. In its initial evaluation of the proposals, the Evaluation Team reviewed the proposals in an effort to achieve the following objectives: gain an understanding of the nature, terms, and conditions of each proposal; identify areas that needed clarification, additional information, or strengthening; and, preliminarily assess the extent to which the proposal is advantageous to the S&WB, in the S&WB's best interest, and meets the S&WB's objectives in conducting the procurement. As a result of its initial review, the Evaluation Team initiated conference calls with each of the Proposers seeking clarification of various sections of the proposals. It should be noted that individual members of the Evaluation Team were initially provided only with those sections of the proposals that pertained to the criteria that it was analyzing. This was done in an effort to maintain objectivity.

Subsequent to the initial review of the proposals, the Evaluation Team performed a thorough qualitative evaluation of each proposal. This evaluation focused on identifying the strengths and weaknesses of each proposal with respect to the Evaluation Criteria in an effort to identify the proposal that would provide the S&WB with the greatest total value. Proposals were characterized as being unacceptable, marginal, acceptable, advantageous or highly advantageous with respect to each sub-criterion. An unacceptable rating indicates that either the proposal did not provide the required information with respect to a sub-criterion or that the proposed approach will clearly not meet the S&WB's objectives. A characterization as marginal indicates that there are some concerns on the part of the Evaluation Team as to whether the proposal relative to a certain sub-criterion will provide benefit to the S&WB. An acceptable rating indicates that the proposal should provide benefits while an advantageous or highly advantageous characterization indicates that the proposal will clearly provide benefits to the S&WB.

For the most part, the Evaluation Team took into account only information that was provided in the proposals, during Proposer presentations to the SEC and S&WB or during proposal clarification conference calls with the Proposers. The only exception was that the Evaluation Team did take into account current financial market information related to the financial strength of the Guarantors. When information that was provided in presentations or through clarification calls clearly conflicted with information provided in the formal proposal, the Evaluation Team based its evaluation on the information included in the written proposals.

It should be noted that a great deal of detail in a proposal is not in itself a strength. However, if the proposal either did not provide enough detail to allow for a thorough evaluation, or if it was apparent that the lack of detail was the result of a poorly conceived plan, this lack of detail was considered a weakness.

In an effort to maintain continuity with the S&WB's process, the evaluation performed by the Evaluation Team used the Evaluation Criteria described in the S&WB's RFP. It is likely that the Evaluation Team would have developed different criteria. However, since each of the proposals was prepared in a manner to specifically address the Evaluation Criteria described in the RFP, it would have been counter-productive to make significant modifications to the Evaluation Criteria.

It should be noted that certain provisions of the MOU effectively prevent the MCEC from competing on an equal footing with the private firms. In particular, provisions relating to third party contracting limit the degree to which the MCEC can develop innovative approaches to meeting DBE requirements. Additionally, the fact that the MCEC will be governed by the same rules and guidelines currently in effect with respect to employee-related matters limits its ability to develop creative approaches that could potentially prove beneficial to the employees of the Systems. To the extent possible and where appropriate, the Evaluation Team has taken these limitations into consideration during the evaluation process.

During the evaluation of each proposal the Evaluation Team took into account both the degree to which the proposal met the requirements of the Service Agreement or the MOU as well as the value offered by the proposal with respect to each sub-criterion. The distinction between these two considerations is particularly important with respect to the MCEC proposal. Since the allocation of risk and the scope of services defined in the Service Agreement and the MOU differ in a number of respects, it would not be appropriate to assess overly severe penalties to the MCEC proposal simply because the provisions of the MOU relating to a certain sub-criterion do not offer the same benefit to the S&WB as do the provisions of the Service Agreement related to that same sub-criterion. However, since the primary objective of the procurement process is to select the proposal that offers the greatest value to the S&WB and its customer, the difference in benefits provided by the MOU and Service Agreement cannot be ignored during the evaluation.

Evaluation Criteria

Cost Effectiveness

This criterion addressed the financial and economic implications of the proposals. The following sub-criteria were examined:

- Total costs to manage, operate and maintain the System - In an effort to gain an understanding of the long-term economic impacts of each proposal, the Evaluation Team determined the net present value ("NPV") of costs associated with each proposal. This NPV analysis not only examined the NPV of costs under each of the alternatives for which the Proposers provided proposed prices, but also examined the potential impact on each proposal's NPV of flow and loadings adjustments.
- Financial viability of the proposals - This sub-criterion examines whether or not it is realistic to expect the Proposers to perform the requested scope of services for the proposed service fee.

- Completeness, clarity and correctness of the cost proposal – This sub-criterion addressed whether or not the Proposal provided the required information with respect to proposed cost and whether the Proposers completed the proposal forms in accordance with the RFP.

Technical Approach

This criterion examines each Proposer's proposed approach to performing the scope of services defined in the Service Agreement and MOU. The specific sub-criteria addressed under this criterion consist of:

- Operation and Management plan – A good Operation and Management plan will specify the approach to operating each major component of the Systems as well as describe the approach to operating any proposed capital modifications. The plan should also describe the benefits resulting from any proposed capital modifications and/or changes in the approach to operating the existing facilities.
- Maintenance Management plan – This sub-criterion addresses the Proposer's plans to keep the Systems in good working order throughout the term of the contract and return the Systems' assets to the S&WB at the end of the contract term in a condition that is equal to or better than their condition at the beginning of the contract. An effective Maintenance Management plan should demonstrate a proactive approach to maintenance that focuses on preventative and predictive maintenance. The plan should also include maintenance schedules.
- Suggestions for the S&WB's capital improvement plan that could result in potential cost savings to the S&WB - The proposals should provide a description of the projects, the anticipated cost of the project and a description of the benefits resulting from the implementation of the project by the S&WB.
- Plan to assure Consent Decree compliance – This sub-criterion assesses both the Proposer's demonstrated understanding of the Consent Decree requirements and its proposed approach to assure compliance with the requirements.
- Plan for interaction with regulatory agencies – Since the contractor will be responsible for maintaining regulatory compliance, it is critical that its proposal demonstrate a thorough understanding of the regulations that impact the Systems. This sub-criterion addresses the proposed approach to important regulatory matters such as environmental permitting and compliance monitoring and reporting.
- Understanding of contract performance and compliance requirements – This sub-criterion addresses whether the Proposer demonstrates a thorough understanding of the requirements placed on it by the Service Agreement/MOU.
- Customer service plan – Each Proposer's approach to providing prompt, effective customer service is addressed by this sub-criterion. In addition, this criterion also examines the way in which the proposal helps ensure the collection of revenues through meter reading, billing and collection activities. The customer service plan should provide an indication of how and when customer complaints will be

addressed, as well as a plan for ensuring the timely collection of revenues for services provided.

- Proposed plan for emergencies and other problems – This sub-criterion examines the proposed approach to both minor emergencies such as main breaks and sewer system back-ups, and major emergencies, such as hurricanes, floods or security threats. For minor emergencies, the definition of response times is important, while for major emergencies, it is critical to demonstrate that an emergency response plan will be in place that effectively addresses the potential impacts of major emergencies.
- Staffing plan – A well reasoned staffing plan not only defines the number of employees associated with each component of the Systems, but also addresses the level of expertise and training of the employees. The proposed staffing plan must meet the requirements of the proposed operating approach.
- Transition of services – A good transition plan will allow the contractor to implement proposed operating strategies and capital modifications without stakeholders of the Systems realizing that a transition is in effect. The plan should ensure the continuous provision of services, continuous regulatory compliance and the continuous collection of revenues.

Disadvantaged Business Enterprise Plans

The Evaluation of proposals with respect to this criterion proved to be difficult for a number of reasons. First, it was not clear whether the Proposers were required to identify the specific DBE firms with which they would contract to perform services in association with their contract with the S&WB. The RFP did not specifically require that the Proposers identify the specific DBE firms that they would utilize if selected. However, Section SC16.4 of Schedule 16 of the Service Agreement and Section SC4.4 of Schedule 4 of the MOU indicate that the Proposers must submit, as part of their technical proposals, "…the full names, addresses and contact information, area of work, and dollar value of each category of sufficient value to meet the minimum percent participation by qualified DBEs for the year in which the Contract Date is expected to occur and the following calendar year…." While the referenced language in SC16.4 and SC4.4 is somewhat unclear, it seems to require the Proposers to submit specific information pertaining to the DBE firms that they will utilize during the first two years of the contract and that this information must be sufficient to demonstrate that they will meet the DBE requirements during those two years.

Neither of the private firms submitted the type of information that Schedule 16 seems to require, and therefore each of their proposals could be considered non-responsive. While, for the most part, the MCEC submitted the required information, the dollar value of the DBE participation on contracts shown in the MCEC proposal for construction contracts is less than the required 34% of the total value of the construction contracts listed. Therefore, by virtue of the fact that the information provided by the MCEC with respect to DBE participation does not demonstrate that it will be in compliance, the MCEC proposal could also be considered non-responsive.

In the presentations that Proposers made to the S&WB it was apparent that neither of the private firms believed that they were required to provide the type of information that SC16.4 seems to require. In recognition of the possibility that the Proposers were confused by the lack of clarity in the RFP, the Evaluation Team decided not to consider the proposals non-responsive.

The evaluation of the DBE plans was further complicated by the fact that the DBE requirements and the way in which compliance with the requirements is to be determined was not clearly articulated in the RFP, Service Agreement or MOU. The RFP simply states that the proposals must meet the minimum requirements for DBE participation but fails to state what the requirements are. Both the Service Agreement and the MOU attempt to describe the DBE requirements in terms of a required percentage of DBE participation for the different types of sub-contracts. However, some clarification is needed as to how these percentages are to be applied. There are four possible interpretations of the minimum requirements outlined in the Service Agreement and MOU:

1. The participation percentages simply relate to the total cost of each type of contract; or
2. The minimum requirements must be met for each separate contract; or
3. A weighted average of DBE participation for all contracts can be used to meet the minimum requirements; or
4. An average of DBE participation for all contracts can be used to meet the minimum requirements.

For the purposes of this evaluation, each proposal was assessed relative to its apparent ability to ensure the required DBE participation with respect to each type of contract (construction-34%, professional services-35%, and supplies and non-professional services-13%). The S&WB should clarify the DBE requirements and require the Proposers to submit additional information in response to the S&WB clarification.

There also was apparent uncertainty related to what types of costs could be considered as contracted cost. For instance, it is apparent that at least one Proposer plans to apply all costs associated with maintaining the required insurance against its DBE commitment since the insurance will apparently be obtained through a DBE insurance broker.

It should also be noted that the sub-criterion addressing management opportunities was neither adequately defined in the RFP nor was it discussed in the Service Agreement or the MOU. The Evaluation Team determined that this sub-criterion relates to the inclusion of socially and/or economically disadvantaged persons in the proposed management team.

It can be presumed that the Proposers also had difficulty interpreting the DBE requirements and determining the type of information that was required to be provided since none of the proposals contain all of the information that seems to be required by Schedule 16 of the Service Agreement and Schedule 4 of the MOU.

Another point that should be recognized is that Section 6.02 of the MOU gives the S&WB complete control over the third-party contracts that can be entered into by the

MCEC. Therefore, the MCEC essentially has no control over whether or not they meet the S&WB's DBE requirements. As a result, the MCEC's DBE plan is somewhat meaningless. However, its DBE plan was evaluated in the same manner as the plans presented by the private firms.

As a result of the limitations imposed by the lack of clarity discussed above, the evaluation of the DBE plans not only examined whether the proposals provided the information necessary to demonstrate compliance with the DBE requirements, but also assessed whether each Proposer's approach to meeting the DBE requirements would allow them to meet the requirements. Sub-criteria examined relative to the proposed DBE plans included:

- Management opportunities afforded to socially and/or economically disadvantaged persons – The proposal should demonstrate a commitment to providing management opportunities to socially and/or economically disadvantaged persons.
- Types of functions, services, and supplies to be performed by DBEs – The proposed DBE plan should demonstrate that DBEs will provide a wide variety of services and that the value of these services will meet the DBE participation requirements.
- Named subcontractors, suppliers and professional service providers – This sub-criterion addressed the extent to which the Proposers identified DBE subcontractors, suppliers, and professional service providers that would perform services for the Proposer.
- Ability to meet or exceed DBE participation goals – This sub-criterion focused on the ability of the Proposers to meet or exceed the DBE requirements as expressed through their DBE plans presented in their proposals.

Employee Compensation and Benefits Package; Employment Relations and Career Development Program

With respect to the employees of the Systems, the S&WB desires a safe, secure and productive work environment that provides enhanced opportunities for career development and professional growth. Specifically, the Service Agreement requires that private firms guarantee employment for the Affected Employees for either three or five years. In addition, the S&WB requires the private firms to increase the Affected Employees' pay by 5% and provide a benefits package that is equal to or better than the benefits package currently being provided by the S&WB. The quality and effectiveness of the employee compensation, benefits, relations and career development program was evaluated with respect to the following sub-criteria:

- Employee Compensation and Benefits Package – The package proposed by the private firms must include at least a 5% increase in salary and benefits that are equal to or better than the current benefits package.

- Scope of training programs – The training plan should provide details pertaining to the type of training to be provided and a schedule for implementation of the training program.
- Breadth of human resource plans – The human resources plan should ensure that employees are treated fairly with respect to hiring, promotion, and termination. The plan should include mechanisms for addressing grievances.
- Responsiveness to employee career development objectives – The proposals should provide evidence that employees will have enhanced career development and professional growth opportunities.

Quality of Management Team

This criterion examines the relevant experience and qualifications of the Proposers and members of the proposed management teams, including their system and facility experience and their specific areas of experience. Specific emphasis was placed on assessing the extent to which members of the proposed management team had previous experience managing, operating and maintaining facilities similar to the facilities that comprise the Systems. Specific sub-criteria evaluated included:

- Management Team – Members of the management team should have significant previous experience performing the type of work that they will be performing on this project. When evaluating proposals with respect to this sub-criterion, special emphasis was placed on assessing previous experience on projects with scopes similar to the scope defined in the Service Agreement or MOU.
- Current and Previous Experience - Quality and quantity of experience of the Proposers in the management, operation and maintenance of all facilities and functions identified in the Service Agreement or MOU. Experience in similarly sized systems, facilities, and scope was emphasized.
- Financial Strength of Proposer and Guarantor – This sub-criterion examined not only each Proposer's long-term ability to meet the day-to-day financial obligations of the contract, but also the Guarantor's ability to meet the financial liability requirements set forth in the Guarantee.

Employee Transition Plan

This criterion addresses the quality and effectiveness of the employee transition plan. An effective employee transition plan should detail the responsibilities that the Affected Employees will have both during and after transition. It should also address the assessment of employee skills and define the mechanism whereby employees are either provided with the necessary training or reassigned to positions that more effectively take advantage of their skills and training. Sub-criteria examined included:

- Overall efficiency of transition plan - Evaluation with respect to this sub-criterion involved an assessment of whether the proposed plan would assure a well-organized and efficient transition of the Affected Employees.
- Proposed schedule for employee interviews - The quantity and quality of the interviews that the transitioned employees would receive were given major consideration for this sub-criterion. A progression of interviews from general and informative to skills assessment and career counseling for each employee is considered to be advantageous.
- Plans for job assignments and responsibilities – This sub-criterion focuses on the plans for job assignments and responsibilities with respect to whether they would ensure that employees' skills would match their job assignments.
- Employee training objectives and plans - The evaluation with respect to this sub-criterion focused on the degree to which the proposed transition plan incorporated employee training as an integral part of the transition plan.

Recommended Scoring System

It is the Evaluation Team's understanding that the selection of the preferred proposal will be based on scoring of the proposals performed by the S&WB. However, the RFP only assigned point values to each of the primary Evaluation Criteria and did not address how those points should be divided between the various sub-criteria under each of the primary criteria. To facilitate a more objective scoring process, the Evaluation Team assigned point values to each sub-criterion based on its determination of the relative importance of each.

Point allocations to the sub-criteria were based on the Evaluation Team's past experience with similar procurements and a careful review of the RFP, Service Agreement and MOU in order to develop an understanding of the S&WB's objectives with respect to this procurement. The Evaluation Team recommends that the S&WB use the revised scoring approach to determine the preferred proposal. The evaluation criteria and sub-criteria and the recommended number of points allocated to each are listed below.

Cost Effectiveness 250 points

- Total costs to manage, operate and maintain the Systems – 175 points
- Financial viability of the proposals – 60 points
- Completeness, clarity and correctness of the cost proposal – 15 points

Technical Approach 250 points

- Operation and Management plan and proposed practices – 55 points
- Maintenance Management Plan – 45 points
- Suggestions for the Board's capital improvement plan – 10 points
- Plan to assure Consent Decree compliance – 20 points
- Plan for interaction with regulatory agencies – 20 points
- Understanding of contract performance and compliance requirements – 20 points

- Customer service plan – 25 points
- Proposed plan for emergencies – 15 points
- Staffing plan – 15 points
- Transition of services – 25 points

Disadvantaged Business Enterprise Plans 175 points

- Management opportunities– 35 points
- Types of functions, services and supplies – 50 points
- Named subcontractors, suppliers, and professional service providers – 50 points
- Ability to meet or exceed DBE participation goals – 40 points

Employee Compensation and Benefits Package; Employment Relations and Career Development Program 175 points

- Proposed employee compensation and benefits package – 75 points
- Scope of training programs – 40 points
- Breadth of human resource plans – 30 points
- Responsiveness to employee career development objectives – 30 points

Quality of Management Team 100 points

- Management Team – 40 points
- Current and Previous Experience – 50 points
- Financial Strength of Proposer and Guarantor – 10 points

Employee Transition Plan 50 points

- Overall efficiency of transition plan – 25 points
- Proposed schedule for employee interviews – 5 points
- Plans for job assignments and responsibilities – 15 points
- Employee training objectives and plans – 5 points

The maximum number of points that can be assigned to any one proposal is 1,000 points.

The RFP also requested that the Proposers include with their proposals Creative Approaches to operating and maintaining the Systems. Since the RFP neither provided a description of how the Creative Approaches were to be evaluated nor assigned any point value to be used in scoring the Creative Approaches, the Evaluation Team decided that the Creative Approaches would not be considered in the overall evaluation of proposals. The Evaluation Team examined the Creative Approach proposals in order to determine whether they merited further investigation. The results of this review are presented in Appendix A of this report.

Section II - Results of Proposal Evaluation

Cost Effectiveness

Total Cost to Manage, Operate and Maintain the Systems

The first sub-criterion under the Cost Effectiveness criterion examines the total cost to manage, operate and maintain the systems. Comparison of proposals with respect to total cost under managed competition is by no means a straightforward process. The potential inequities between the private firms and the employee team relating to the required scope and risk allocation make a side-by-side comparison of cost effectiveness difficult. A simple side-by-side comparison of total proposed service fees fails to recognize the differences between the requirements of the MOU and the Service Agreement.

Apparently in an effort to allow for a more equitable comparison of the MCEC cost proposal with the cost proposals submitted by the private firms, the RFP required that the private firms specify the portions of their proposed service fees that were associated with Service Agreement requirements that were not requirements of the MOU. It is the Evaluation Team's understanding that the costs associated with these requirements were to be subtracted from the private firms' proposed prices in order to facilitate a more equitable comparison to the MCEC's proposed price. The costs that were to be provided separately and the Evaluation Team's understanding of the reason that these costs should be subtracted from the private firms' prices are provided below.

- Payment of Accrued Leave – It is the Evaluation Team's understanding that the costs associated with Accrued Leave would be borne by the private firms under the Service Agreement and by the S&WB under an MOU with the MCEC. Therefore, costs associated with Accrued Leave are not included in the MCEC proposal.
- Compliance with Occupational Safety and Health Administration ("OSHA") requirements – Since the MCEC would not be required to comply with OSHA requirements, costs associated with facility modifications and employee training necessary to comply with OSHA requirements are not included in the MCEC proposal.
- Maintenance of insurance – It is the Evaluation Team's understanding that the private proposers would assume insurance costs, whereas, under an MOU with the MCEC, the S&WB will still incur all costs associated with insuring the Systems against loss or damage. Therefore, costs associated with insurance coverage are not included in the MCEC proposal.
- Reimbursement of procurement costs – Since the private firms are required to pay the S&WB an amount equal to the costs associated with the managed competition procurement process, they have included the recovery of the payment to the S&WB in their proposed service fees. However, since the MCEC is not required to make such a payment to the S&WB, its price proposal does not include the recovery of this payment.

While this approach to comparing the private firms' cost proposals to the MCEC cost proposal is not foolproof, it does serve to provide an insight to the relative cost effectiveness of proposals that are significantly different in terms of the scope of services requested and allocation of risk. One point should be noted concerning the make-up of the service fee used to calculate the NPV for comparison of all three proposals. The RFP required that each Proposer, including the MCEC, also specify the costs associated with providing employee benefits required by the Service Agreement and MOU. The purpose for identifying this specific cost was to enable the S&WB to evaluate the cost differential between the three and five year guarantee periods. Since all Proposers are required to provide essentially the same benefits, the costs for providing employee benefits are included in the service fee.

Analytical Approach

The Evaluation Team developed financial models to determine the net present value of costs of each proposal over the term of the contract under each proposed alternative. The financial implications of each proposal were compared under a variety of scenarios. The Base Case Scenario assumed a 20-year contract term, three year employee retention and flow adjustments based on annual growth in water demand; it assumed no adjustments for increased wastewater loadings. Alternative Scenario A is identical to the Base Case except that Scenario A assumes wastewater loadings in excess of 110% of the Wastewater Loading Range in six of the years within the 20-year contract term.

Proposers were required to provide cost proposals that included proposed service fees for six different alternatives involving different contract terms and different employee retention requirements. While this evaluation focuses on the comparison of the proposals relative to the Base Case and Alternative Scenario A, an analysis was performed on each the Proposers' alternative cost proposals. All of the models included the same assumptions regarding the following:

- Annual Inflation Rate -3% – Based on Value Line inflation rate predictors.
- Present Value Discount Factor – 5% - Based on the S&WB's weighted average cost of capital
- Water and Wastewater Flow in Contract Year 1 - Water – 140 MGD; Wastewater – 103 MGD – Based on recent flow statistics presented in the S&WB's Comprehensive Annual Financial Reports
- Annual increase in total water and wastewater flows – 1% - While it is speculated that water demand in New Orleans may actually decline in the future, the assumption of minimal growth in demand allows for the consideration of water flow adjustments in the NPV analysis. The ranking of Proposer's NPVs did not change when analysis was performed using a variety of demand growth assumptions including positive, negative and zero growth assumptions.

The resulting NPV of costs for the proposals are summarized in Appendix B to this report and discussed below.

Base Case Comparison of All Three Proposals

In general, the comparison of the Cost Effectiveness of the proposals involved the calculation and comparison of the NPV of costs associated with each proposal. Calculation and comparison of the NPV of proposed costs is superior to a simple comparison of proposed annual service fees in that the NPV analysis provides a better understanding of the long-term financial impact of each proposal.

As previously discussed, the RFP required that the private firms specify the portion of their proposed service fees associated with certain Service Agreement requirements that were not requirements of the MOU. For the purposes of comparison of the private firms' cost proposals with the MCEC cost proposal, the above-noted costs have been excluded from the private firms' proposed service fees.

Results of Base Case Analysis

MCEC
Base Case NPV of costs = $650.0 million

United Water
Base Case NPV of costs = $719.1 million

US Filter
Base Case NPV of costs = $573.7 million

With an NPV of costs of approximately $574 million, the USF cost proposal represents the lowest total cost when comparing all three proposals under the Base Case Scenario. The MCEC proposal represents the second lowest cost and UW's proposal represents the highest cost. The same ranking holds true when comparing the NPV of costs of all proposals assuming a 15-year contract term and a 10-year contract term.

Alternative Scenario A Comparison of All Three Proposals

As previously described, in an effort to evaluate the impact of each Proposer's proposed wastewater loading adjustments, Alternative Scenario A included the additional assumption that wastewater loadings in six of the 20 years analyzed would exceed the Wastewater Loading Range. It should be noted that the flow and loadings adjustments presented in UW's proposal did not conform to the requirements of the RFP. However, UW subsequently provided flow and loading pricing information to the Evaluation Team in the appropriate format. This information was used in the financial analysis of UW's proposal.

Results of Alternative A Analysis

MCEC
Alternative Scenario A NPV of costs = $652.5 million

United Water
Alternative Scenario A NPV of costs = $721.8 million

US Filter
Alternative Scenario A NPV of costs = $577.9 million

With an NPV of costs of approximately $578 million, the USF cost proposal represents the lowest total cost when comparing all three proposals under Alternative Scenario A. The MCEC proposal represents the second lowest cost and UW's proposal represents the highest cost. The same ranking holds true when comparing the NPV of costs under Alternative Scenario A of all proposals assuming a 15-year contract term and a 10-year contract term.

The comparison of all proposals under Alternative Scenario A indicates that the difference between each Proposer's proposed wastewater loading adjustments is not significant enough to impact the relative ranking of cost proposals. Different assumptions regarding excessive flows and loadings could, however, yield different results.

Base Case Comparison of Private Firms Proposals

As described previously, certain costs were excluded from the private firms' cost proposals to allow for comparison with the MCEC cost proposal. For the purposes of comparing only the cost proposals submitted by the private firms, however, it is appropriate to include these costs in the proposed service fee. They have therefore been factored into the analysis. In order to differentiate the scenarios used for the purposes of comparing the private firms' proposals, the scenarios used in the comparison between the two private firms will be designated as Base Case Private and Alternative Scenario A Private.

Results of Base Case Private Analysis

United Water
Base Case Private NPV of costs = $742.0 million

US Filter
Base Case Private NPV of costs = $651.1 million

With an NPV of costs of approximately $651 million, the USF cost proposal represents the lowest total cost when comparing the private proposals under Base Case Private. The same ranking holds true when comparing the NPV of costs under Base Case Private of the private proposals assuming a 15-year contract term and a 10-year contract term.

Results of Alternative A Private Analysis

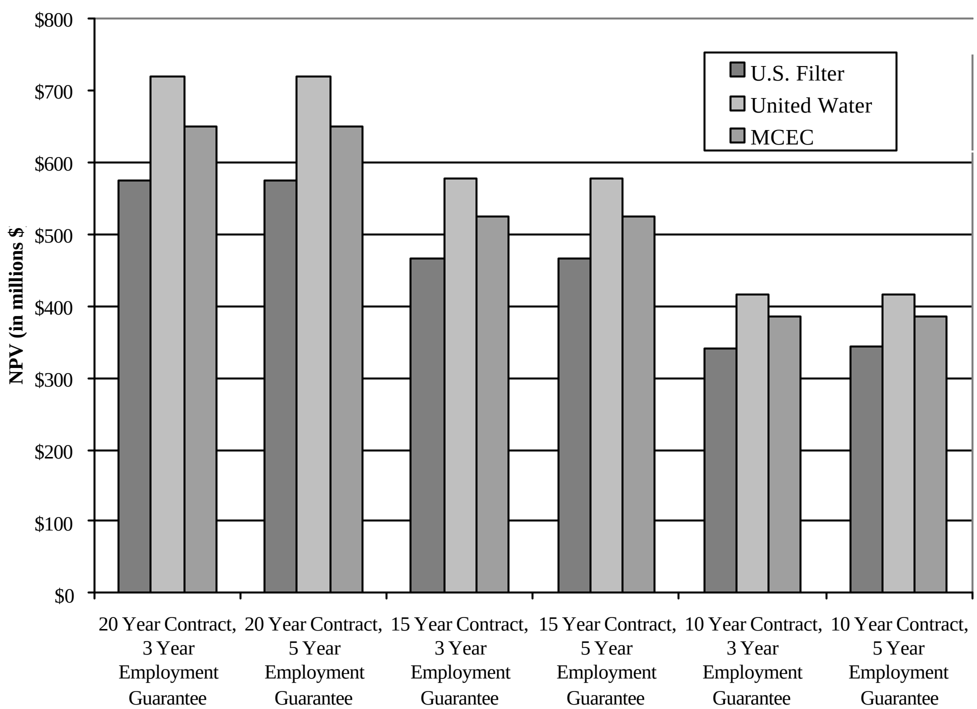
United Water
Alternative Scenario A Private NPV of costs = $744.8 million

US Filter
Alternative Scenario A Private NPV of costs = $655.3 million

With an NPV of costs of approximately $655 million, the USF cost proposal represents the lowest total cost when comparing the private proposals under Alternative Scenario A Private. The same ranking holds true when comparing the NPV of costs under Alternative Scenario A Private of the private proposals assuming a 15-year contract term and a 10-year contract term.

Figure 1 summarizes the results of the NPV analysis of the proposals under the Base Case scenario.

Figure 1 – Summary of NPV Analysis of Cost of Proposals Under Base Case Scenario



Note: The proposed MOU with the MCEC does not include any employee retention guarantees.

Unit Cost Comparison

In order to provide an additional point of comparison between the proposals in terms of cost, the Evaluation Team also determined the annual unit cost associated with each proposal for water treatment and delivery, wastewater collection and treatment and combined water and wastewater. All three proposals were compared with respect to average unit cost over the contract term under the Base Case scenario.

With an average cost of approximately $0.49 per thousand gallons of water treated and delivered, MCEC's proposal represented the lowest average unit cost for water. USF's and UW's proposals resulted in costs of approximately $0.50 per thousand gallons and $0.56 per thousand gallons, respectively.

With an average cost of approximately $0.62 per thousand gallons of wastewater collected and treated, USF's proposal represented the lowest average unit cost for wastewater. MCEC's and UW's proposals resulted in costs of approximately $0.63 per thousand gallons and $0.72 per thousand gallons, respectively.

With an average cost of approximately $1.11 per thousand gallons, USF's proposal represented the lowest average unit cost for water and wastewater combined. MCEC's and UW's proposals resulted in costs of approximately $1.12 per thousand gallons and $1.27 per thousand gallons, respectively.

Based on the results of the NPV and unit cost analyses, USF's proposal, with a Base Case NPV of costs of approximately $574 million and average unit costs of approximately $1.11 per thousand gallons, is considered to be highly advantageous with respect to this sub-criterion. The MCEC proposal, with an NPV of costs of approximately $650 million and average unit cost of approximately $1.12 per thousand gallons, is considered to be advantageous. The UW proposal, which has an NPV of costs of approximately $719 million and an average unit cost of $1.27 per thousand gallons, is considered to be acceptable.

Financial Viability of Proposals

This sub-criterion examines whether or not it is realistic to expect the Proposers to perform the requested scope of services for the proposed service fee. Since the RFP required very little information with respect to the nature of costs included in the service fee, a complete evaluation of the financial viability of the proposals is not possible. A more thorough analysis could have been performed if the RFP had required the Proposers to indicate which portions of their proposed service fee were related to specific activities, such as salaries, maintenance, repair and replacement, chemicals, etc. A discussion of the limited evaluation that was possible is provided below.

Managed Competition Employee Committee

The MCEC states in its proposal and during its presentation to the SEC that its proposed service fee would not be sufficient to cover the costs to manage, operate and maintain the Systems during the first three years of the contract term. Since the S&WB would be responsible for the costs that are not covered by the MCEC service fee, the true cost to the S&WB in the first three years would be greater than the MCEC's proposed service fee. Therefore, the MCEC proposal with respect to this sub-criterion is considered to be marginal.

United Water

Thorough examination of UW's proposal indicates that it has performed the due diligence necessary to develop a viable proposed service fee for this project. There is nothing within the proposal that would lead the Evaluation Team to believe that UW could not perform the requested scope of services for the proposed service fee. The fact that UW has the highest proposed price should in fact provide the S&WB with a certain level of comfort that the proposed service fee will provide it with the financial resources necessary to perform the required scope of services. Based on these factors, UW's proposal with respect to this sub-criterion is considered to be highly advantageous.

US Filter

Thorough examination of USF's proposal indicates that it has performed the due diligence necessary to develop a viable proposed service fee for this project. There is nothing within the proposal that would lead the Evaluation Team to believe that USF could not perform the requested scope of services for the proposed service fee. Therefore, USF's proposal is considered to be advantageous with respect to this sub-criterion.

Completeness, Clarity and Correctness of the Cost Proposals

This sub-criterion addresses whether or not the Proposers provided the information required by the RFP with respect to their proposed costs to manage, operate and maintain the Systems. The evaluation of this sub-criterion consisted primarily of determining whether the Proposers completed the proposal forms correctly. As previously discussed, the RFP should have required the Proposers to submit additional information regarding their proposed Annual Service Fee. However, since the Proposers were not required to provide additional cost details, they were not penalized for not doing so.

Managed Competition Employee Committee

The MCEC cost proposal contains no material omissions, and includes background discussions relating to different components of the cost proposal. The MCEC proposal is considered to be advantageous with respect to this sub-criterion.

United Water

UW did not provide proposed flow and loading adjustments according to the requirements of the RFP. As previously discussed, this deviation from requirements was rectified through the subsequent submission of flow and loading pricing information to the Evaluation Team. However, the Evaluation Team recommends that the S&WB take the appropriate steps to ensure that UW's revised flow and loadings pricing information is incorporated into UW's formal proposal.

As a result of the deficiencies in the original proposal, the UW proposal is only considered to be acceptable with respect to this sub-criterion.

US Filter

The USF cost proposal contains no material omissions, and includes background discussions relating to different components of the cost proposal. The USF proposal is considered to be advantageous with respect to this sub-criterion.

Summary of Cost Effectiveness Evaluation

MCEC's proposal results in the second lowest NPV of costs to the S&WB, regardless of the term of the contract or the length of the employee retention commitment. In addition, its Cost Proposal includes all of the required information in the required format. However, statements made by the MCEC in its cost proposal and in its presentation to the SEC and the S&WB indicate that its proposed Annual Service Fee will not be sufficient to cover its costs to manage, operate and maintain the Systems during the first three years of the contract term. Based on this evaluation, the MCEC proposal is considered to be advantageous, but not as beneficial as the USF proposal.

UW's proposal results in the highest NPV of costs to the S&WB, regardless of the term of the contract or the length of the employee retention commitment. UW's cost proposal did not conform to the requirements of the RFP in that the flow and loading adjustments were not presented in the correct format; however, this deficiency was corrected through the submission of additional information to the Evaluation Team. There is no reason to believe that UW's proposed Annual Service Fee is not sufficient to allow it to perform the required scope of services and meet all requirements of the Service Agreement. Based on this evaluation, the UW proposal is considered to be advantageous with respect to Cost Effectiveness; however, it does not offer the economic benefits offered by the other two proposals.

USF's proposal results in the lowest NPV of costs to the S&WB regardless of the term of the contract or the length of the employee retention commitment. In addition, its Cost Proposal includes all of the required information in the required format and there is no reason to believe that USF's proposed Annual Service Fee is not sufficient to allow it to perform the required scope of services and meet all requirements of the Service Agreement. Based on this evaluation, the USF proposal is considered to be highly advantageous with respect to Cost Effectiveness.

Technical Approach

Effective evaluation of the technical approaches described in the three proposals must primarily determine compliance with the scope and provisions of the RFP. Evaluation of the three technical plans should also include some analysis of the overall benefit to the S&WB through examination of innovative changes and capital improvements included in the proposal that go beyond the specific requirements of the RFP, but speak to the intended purpose of this process, which is to improve the performance, efficiency, and customer service of the S&WB.

Operation and Management Plan

The Operation and Management plans were evaluated on the basis of each Proposer's specific approach to operating the Systems' major components, including any proposed capital modifications. The Evaluation Team considered whether the proposal demonstrated a thorough understanding of the strengths and weaknesses of each facility, and specific recommendations or plans for improvements and/or upgrades. Creative incorporation and use of new technology to increase the Systems' performance and efficiency was also considered. The plan for establishment of defined Standard Operating Procedures throughout the system was considered an important aspect of the Operation and Management plan. In addition, the extent to which the plan defined specific performance measures that will be used to evaluate efficiency was examined.

<u>Managed Competition Employee Committee</u>

MCEC's proposal provides adequate information that supports its understanding of the problems resulting from the poor condition of some of the existing facilities, and its approach includes capital modifications that should address many of the existing problems. However, its proposal was limited in the quantity of new approaches to operating the Systems more efficiently and indicates that for the most part, the MCEC would continue using the standard operating procedures that are currently in use.

The MCEC's proposed modifications to the water system include the purchase and installation of instrumentation to continuously monitor and control ammonia feed. These modifications should increase the efficiency of the water treatment process.

With regard to the wastewater system, the MCEC proposes to repair or install instrumentation on aeration basins and secondary clarifiers at the East Bank WWTP and the installation of a closed loop potable water cooling tower for the high purity oxygen ("HPOX") system heat exchanger. This closed loop system would increase the efficiency of the cooling process and reduce maintenance requirements by eliminating the existing problems associated with excess solids in the process water that is currently being used for cooling purposes. Although the proposal did not specifically address issues related to the operation of the proposed cooling tower, subsequent discussions with the MCEC staff during a proposal clarification conference call indicated an understanding of the cooling tower operation and maintenance.

As a result of the conference call it was also determined that independent consultants have been engaged to assist in the evaluation of the HPOX system and the incineration systems. This use of outside expertise is good; however, it is possible that the evaluation of these components could result in recommendations for additional capital improvements that are not included in the MCEC proposal.

The MCEC proposal also included pilot testing for pumping trickling filter sloughings directly to the sludge thickener at the West Bank WWTP to help control odors and to restrict truck loading at West Bank WWTP depending on climatic conditions.

It is apparent that the MCEC will continue to use the secondary clarifier as a sludge thickener, which effectively reduces the final sedimentation capacity of the facility by 12.5%. While this practice is not an issue during periods of average flow, it could reduce the efficiency of the treatment process during peak flow periods. It therefore raises some concerns.

Many of the MCEC's proposed capital modifications to the Systems have the potential to increase efficiency and reduce operating costs. However, because the MCEC proposal is lacking with regard to specifics on process controls and performance measures, there is some doubt as to whether the MCEC's plans will actually result in increased efficiency.

In summary, although the MCEC proposal includes some capital modifications, it does not provide the same magnitude of capital improvements proposed by the private contractors. The Operation and Management plan is limited in the quantity of specific proposals for new approaches to running the system more effectively. The MCEC staff expressed its intent to use independent consultants to assist in the evaluation of the HPOX system and the incineration system. This could result in identification of additional modifications whose costs are not included in the proposal. It appears that the MCEC can meet the requirements of the MOU; its Operation and Management approach is considered to be acceptable.

United Water

UW demonstrates a good understanding of the strengths and weaknesses of the existing Systems. Its proposed Operation and Management plan includes several recommendations for modifications to the existing facilities that should improve efficiency. These recommendations include the implementation of Supervisory Control and Data Acquisition ("SCADA") technology at each plant and the installation of equipment to help control chemical feed at all of the water and wastewater plants. These improvements should result in increased efficiency.

Specific capital improvements and operational changes were proposed for the wastewater treatment plants. UW included costs for re-configuring the trickling filter recycle flow stream at the West Bank WWTP, which should help reduce odors. The recycle will be eliminated from the primary sedimentation basin and relocated to a point downstream of this unit process.

In another modification, elutriation water will be added to the gravity thickener at the West Bank WWTP to increase the efficiency of the process. This will result in a decrease in the volume of sludge transported to the East Bank WWTP and in sludge processing costs. UW also proposes to install microscreens in the influent channel of the East Bank WWTP. The microscreens will be sized to accommodate 250 MGD of influent flow, which is close to the hydraulic capacity of the facility, thereby eliminating the need for wet weather bypasses. Additionally, provisions are included in the design for isolation of this equipment for maintenance or a mechanical failure. The microscreens will facilitate the removal of a portion of the influent primary solids before they reach the reactor basins and will assure complete removal of rags and other inorganic materials. This will increase the efficiency of the de-watering process by reducing polymer requirements and increasing cake solids. In addition, the added BTU value of the primary solids should increase the efficiency of the incineration process.

UW has also included costs to convert the existing old primary sedimentation tanks at the East Bank WWTP to a sludge thickener and ultimately return the secondary clarifier currently being used as a thickener to its designed purpose. The UW staff indicated that they would use potassium permanganate for odor control in the proposed sludge thickeners. These improvements will effectively increase clarifier capacity to the design capacity.

UW has also included costs for rehabilitating one of the HPOX generation plants and outsourcing the oxygen plant's operation and maintenance. This modification should increase efficiency, but the true impact will be determined by the HPOX operating procedures, which were not discussed in detail.

During a proposal clarification conference call with the Evaluation Team, UW indicated that it intends to use either a glycol cooling system or potable water in the existing cooling system. As mentioned previously, either modification would increase cooling efficiency and reduce maintenance costs. The S&WB should take steps to ensure that the specifics of the chosen modification are incorporated into UW's formal proposal.

Water plant modifications include re-location of some chemical feed points and automation of the filter operation. UW also proposed to increase detention time at Carrollton by using all four detention basins.

For the most part, the UW proposal provides an adequate amount of detail describing how and why the proposed Operation and Maintenance plan will achieve its objectives. The proposal describes how UW will use specific process controls and performance measures historically used by the company to document performance and efficiency at its facilities. UW's approach to the development of detailed Standard Operating Procedures consistent with current industry standards was also discussed, indicating that UW will place an appropriate level of emphasis on this matter.

In summary, the UW proposal includes the most substantial amount of capital improvements to the system. The proposed modifications demonstrate a good understanding of the needs and weaknesses of the respective facilities and a great deal of creativity. The capital improvements outlined in the Operation and Management plan should have long-term benefits for the Systems. The points of uncertainty discussed above should be addressed in the planning and design phases of these modifications. Considering the overall approach to the Operation and Management plan, UW's proposal includes the most significant amount of beneficial capital improvements and an operational approach that should ensure efficient operation of the Systems. The UW Operation and Management plan is, therefore, considered to be advantageous.

US Filter

USF's proposal demonstrates a good understanding of the Systems' current capabilities. As a result of its experience operating the S&WB's wastewater treatment plants, USF appears to be especially attuned to the problems at the wastewater treatment facilities.

USF's proposed Operation and Management plan provides a detailed description of the company's general approach to operating the facilities. It proposes several facility modifications designed to enhance performance, including the implementation of SCADA at all facilities.

Proposed modifications at the West Bank WWTP include the elimination of trickling filter recycle flows from the primary sedimentation basin. Subsequent discussion with the USF staff revealed some uncertainty on its part regarding the specific approach to this reconfiguration. Additionally, in its discussion of odor control at the West Bank WWTP, USF proposes to apply powdered chlorine to control odors in grit and rag bins. This has generally proven ineffective and represents a safety hazard if oils or hydrocarbons are placed in the bins. It should be noted however that in clarification discussions with the USF team it was indicated that the proposed chlorine addition to the sludge for odor control would be an emergency alternative and not part of the day-to-day operations of the facility.

USF also has included the costs for rehabilitation of one of the HPOX generation plants. The USF proposal did not discuss the problems associated with using the facility's process water for cooling purposes; however, in subsequent discussions, USF indicated that it plans to use potable water in the cooling system. The advantages of this approach have been discussed in a previous section of this report. USF has also included the installation of a gravity belt thickener at the East Bank WWTP. The gravity thickener should improve the effectiveness of the de-watering process and ultimately, the incineration process, but will be an additional polymer addition point, which could result in additional chemical costs. These costs may be offset by increased incinerator efficiency.

Another modification proposed to address items identified by USF as "critical issues" at the East Bank WWTP included the conversion of the existing primary sedimentation basins into sludge thickeners. Subsequent discussion with the USF staff clarified that this would be an "emergency only" alternative and that the intent is to continue using one of the secondary clarifiers as the primary sludge thickener. There are two points of concern related to this approach. First, as previously discussed, use of the secondary clarifier as a sludge thickener reduces the facilities' clarification capacity by 12.5%. This concern is mitigated by the fact that the USF staff that currently operate this facility have developed operating protocols that have prevented problems that could result from the reduced clarification capacity. Second, this approach does raise questions about the value of the conversion of the primary sedimentation basins if they are not going to be utilized for their new intended purpose on a regular basis.

Proposed modifications to the Carrollton Water Plant included in USF's base price consist of the installation of mechanical mixers to improve chemical dispersion, alternate chemical feed and mixing points, and optimization of the types of mixing technology used at both facilities. USF also proposes to automate and improve filter performance at the water treatment plants, although no specifics were provided related to the plan to improve filter performance. USF has also included expansion of the Ferric Sulfate storage capacity from 16 to 52 thousand gallons on the East Bank to provide an added cushion during emergencies, which would limit chemical delivery. USF will also improve chemical spill containment at the West Bank raw water intake station.

The USF proposal describes specific performance measures and process controls historically used by the company to document performance and efficiency at its facilities. USF's discussion of its approach to developing detailed Standard Operating Procedures consistent with current industry standards indicates that USF will place an appropriate level of emphasis on this matter.

In summary, USF addresses some of the same weaknesses that currently exist in the Systems as does UW and has included substantial capital improvements in its proposal. For the most part, the modifications should be beneficial and most of them represent a different approach to solving the same problems. USF's Operation and Management plan does however have some potential weaknesses and leaves some questions with respect to facility modification unanswered. One potential weakness relates to USF's plan not to return the No. 4 secondary clarifier at the East Bank WWTP to its intended use. This decision would result in a continued 12.5% decrease in secondary clarification capacity at the plant. In addition, USF's response to clarification questions revealed that there was some uncertainty on the part of the USF staff related to the plan to eliminate the trickling filter recycle through the primaries at the West Bank WWTP**.** Additionally, the USF proposal lacks some of the creativity demonstrated by UW in dealing with similar issues such as improving solids handling at the East Bank WWTP.

Considering the overall approach to the Operation and Management plan, the USF proposal includes a significant amount of beneficial capital improvements providing long-term benefits to the system while detailing an operational approach that should increase the efficiency of the Systems. The USF Operation and Management plan is, therefore, considered to be advantageous, but not as advantageous as the plan proposed by UW.

Maintenance Management Plan

The degree to which each proposal provided specific approaches to minimizing reactive, breakdown maintenance and increasing preventative maintenance efforts was a key aspect in the evaluation of the Maintenance Management plans. The plans were also evaluated on the use of available technology for record keeping, work order tracking, manpower allocation, and inventory control. The proposed Maintenance Management plan should provide a specific, proactive approach to protecting the assets of the S&WB and assuring the good working condition of the system throughout and after the term of the contract. Specific preventative and predictive maintenance procedures and schedules should be addressed. The extent to which the Proposers defined the way they would use and track specific performance measures was also examined.

Managed Competition Employee Committee

The MCEC proposal addresses the overall maintenance requirements of the Systems' assets and discusses performance measures that will help ensure that the Systems are being properly maintained. The MCEC proposal does, however, fail to adequately address a plan for predictive maintenance indicating a less aggressive approach to maintenance that that presented by the other two Proposers. The MCEC proposes to expand the existing CASSWORKS computerized maintenance management system ("CMMS") to perform additional asset management functions. Discussions with the MCEC staff have indicated that the full capability of the CASSWORKS system has not been utilized. For instance, the S&WB owns, but has not implemented, the warehouse module that could be used for inventory control. There also appear to be some internal problems with the software that the staff feels can be adequately addressed. The plan is to continue to employ the current software support consultant to resolve these issues. While the continued use of the CASSWORKS system may be cost effective, there is some question as to whether the existing system can be adequately adapted to meet the Systems' needs on a long-term basis.

The MCEC also proposed the establishment of an "Infrastructure Condition Improvement" group in an effort to develop a system that will focus on appropriate identification and prioritization of asset management needs.

MCEC proposal addresses the fact that major improvements are necessary in the maintenance of the S&WB's assets, but it provides only a general description of how these improvements will be achieved. The lack of a detailed specific plan for predictive maintenance and uncertainty regarding the long-term effectiveness of the CASSWORKS system result in the MCEC proposal being considered marginal with respect to this sub-criterion.

United Water

UW proposed expanding and modifying the existing CASSWORKS system to perform all asset management functions. While the continued use of the CASSWORKS system may be cost effective, there is some question as to whether the existing system can be adequately adapted to meet the Systems' needs on a long-term basis. UW also provided specific schedules for predictive and preventative maintenance for each facility and the networks, and provided a good discussion on the use of performance measures and benchmarking to assess the effectiveness of its maintenance activities. With the exception of the above-mentioned questions related to the existing CASSWORKS system, UW's proposed Maintenance Management plan contained no real weaknesses.

UW provides a detailed proposal for restructuring maintenance efforts using state of the industry standards and performance measures. The focus of these efforts will be on scheduled maintenance rather than reactive breakdown repairs. The UW proposal is considered to be advantageous with respect to this sub-criterion, but slightly less advantageous than the USF proposal.

US Filter

USF proposes to replace the existing CASSWORKS system, which eliminates the question of the system's ability to perform over the long-term. However, it is not clear whether the new CMMS will be developed "in-house" or whether it is being provided by a separate vendor. Additionally, since the Consent Decree specifically requires the continued use of the CASSWORKS system, two systems will be required until USF has secured EPA approval of the new system. The USF proposal recognizes this issue and, in a proposal clarification conference call, USF indicated that running two different CMMS concurrently until approval is obtained would not be a problem. USF also indicated that, based on previous experience obtaining EPA approval for the proposed CMMS, the company is confident that EPA will approve the new system.

The USF Maintenance Management plan provides specific measures to break the cycle of reactive maintenance. Its proposal identifies "Key Performance Measures" and specific predictive maintenance techniques as well as predictive and preventative maintenance schedules.

The USF proposal presents a comprehensive approach to improving the maintenance efforts of the S&WB. USF also proposes state of the industry standards for predictive and preventative maintenance while also including a new CMMS system to track maintenance efforts, manpower usage and inventories. The USF proposal is considered to be advantageous with respect to this sub-criterion.

Recommendations for S&WB Capital Improvement Program

With respect to this sub-criterion, the proposals were evaluated based on specific recommendations for Capital Improvements that are not included in their proposals to be made by the S&WB designed to improve the efficiency and performance of the system. These suggested capital improvements are not included in the price of the proposals and are not necessary to the implementation of those proposals. The recommendations should include a detailed description of the improvement including projected benefits to the S&WB, cost of the capital improvement, and the long-term impact on the efficiency of the System.

Managed Competition Employee Committee

The MCEC proposal provides some specific suggestions for the S&WB's capital improvement plan; however, the proposal lacks specifics regarding these projects and did not demonstrate the potential economic benefits of its suggestions. The suggested wastewater projects included refractory repairs to the fluid bed incinerators, upgrading the ash removal system for the multiple hearth incinerator and unidentified improvements to the HPOX system. The MCEC also suggests replacement of filter media at the water treatment plants every 10 years.

Due to the lack of specifics relating to the anticipated benefits and costs of the recommended improvements, the MCEC proposal is considered to be only acceptable with respect to this sub-criterion.

United Water

UW mentions improvements to the Sycamore filters at the Carrollton plant, including the addition of an air scouring system to the backwash cycle and the addition of filter to waste connections to improve the efficiency of the backwash process. However, it is unclear whether UW recommends this project, and no specifics pertaining to potential cost savings resulting from the project were provided. This suggestion is not new, having been planned by the S&WB prior to the RFP.

Due to the limited scope of the UW discussion of suggestions to the S&WB's capital program, the UW proposal is considered to be marginal with respect to this sub-criterion.

US Filter

The USF proposal provides specific suggestions for the S&WB's capital program but does not provide information defining the potential economic benefits of its suggestions. These suggestions include installation of an air scouring system for all water plant filters that do not currently use this method for backwashing, and repairs to the structural leaks at the East Bank WWTP grit basin effluent channel and oxygen reactor basins. These improvements are currently underway or have been planned prior to the RFP.

The USF proposal provides no new suggestions for the S&WB's capital program and therefore is considered to be marginal with respect to this sub-criterion.

Consent Decree Compliance

Each proposal was evaluated with respect to the degree in which it demonstrated an understanding of the specific requirements of the Consent Decree, the Proposer's experience with similar situations and specific plans for coordination with the S&WB and its contractors.

Managed Competition Employee Committee

The MCEC has significant experience dealing with the specific requirements of the Consent Decree and has demonstrated its ability to continue working toward satisfying the Consent Decree requirements. By virtue of the fact that the MCEC is currently responsible for meeting the Consent Decree requirements, its proposal is considered to be highly advantageous with respect to this sub-criterion.

United Water

The UW proposal contained a thorough discussion of the Consent Decree requirements and demonstrated a thorough understanding of the requirements, although the proposal does not address coordination with the S&WB or S&WB contractors. While it is apparent that UW is capable of meeting the requirements of the Consent Decree, its lack of current experience in this matter and its failure to address coordination with the S&WB and S&WB contractors results in its proposal being considered advantageous with respect to this sub-criterion.

US Filter

The USF proposal demonstrates a thorough understanding of the Consent Decree requirements. However, the USF proposal also fails to discuss coordination with the S&WB and S&WB contractors with respect to Consent Decree issues.

USF's failure to address coordination with the S&WB and S&WB contractors is a weakness in its proposal with respect to this sub-criterion. As a result, its proposal with respect to this sub-criterion is considered to be advantageous.

Interaction with Regulatory Agencies

It was necessary that each proposal demonstrate a thorough understanding of all state and federal regulations affecting the Systems. Specific approaches for establishing and maintaining open communication with the regulatory authorities were examined. Experience in environmental permitting, compliance monitoring and reporting is an essential aspect of this sub-criterion.

Managed Competition Employee Committee

The MCEC has significant experience interacting with the various local, state and federal regulatory agencies, and the discussion of its approach to interaction with these agencies during the contract term was complete. In addition, since MCEC personnel are already familiar with the personnel at each of the agencies, there should be no need to establish new relationships with these personnel.

Due to the historical experience of the MCEC staff in dealing with this aspect of the Systems' operation, its proposal is considered to be highly advantageous with respect to this sub-criterion.

United Water

UW has a significant amount of experience addressing the regulatory aspects of operating and maintaining water and wastewater systems. Its proposal demonstrates an understanding of all regulatory requirements and indicates UW's willingness to accept responsibility for all reporting to the regulatory agencies. The UW proposal also outlines the process for reporting to the S&WB with respect to regulatory requirements. In addition, UW proposes the creation of a Customer Advisory Panel that would provide feedback related to the company's regulatory compliance record.

Based on these factors, the UW proposal is considered to be advantageous with respect to this sub-criterion. However, it is less advantageous than the proposals submitted by the MCEC and USF due to UW's lack of experience in dealing with the agencies that regulate the Systems.

US Filter

USF also has considerable experience interacting with regulatory agencies. The USF proposal demonstrates its understanding of and willingness to comply with all relevant regulatory requirements, including reporting requirements. As a result of its experience at the wastewater treatment facilities, USF has significant experience in complying with local regulatory requirements.

Based on these factors, the USF proposal is considered to be advantageous with respect to this sub-criterion.

Contract Performance and Requirements

Each proposal was evaluated with respect to the degree in which it demonstrated a thorough understanding of the specific requirements of the Service Agreement/MOU. This included an understanding of reporting requirements to the S&WB and an understanding of the coordination that will be required between the S&WB and the Contractor for reporting to regulatory agencies.

Managed Competition Employee Committee

The MCEC discussion of contract performance and compliance requirements indicates an appropriate understanding of the MOU and demonstrates a willingness to meet the requirements of the MOU. As a result, the MCEC proposal is considered to be advantageous with respect to this sub-criterion.

United Water

UW's proposal demonstrated an appropriate understanding of, and a willingness to comply with, all requirements of the Service Agreement. As a result, the UW proposal is considered to be advantageous with respect to this sub-criterion.

US Filter

USF's discussion of specific contract terms and provisions indicates an appropriate understanding of, and willingness to comply with, the requirements of the Service

Agreement. As a result, the USF proposal is considered to be advantageous with respect to this sub-criterion.

With respect to this sub-criterion, each proposal demonstrates a good understanding of the requirements and would be equally beneficial to the S&WB.

Customer Service Plan

Proposals were expected to provide a specific approach to improving customer relations and perceptions, ensuring timely complaint resolution, establishing and maintaining communication, billing, and timely collection of revenues. Specific plans for upgrading the efficiency of meter reading were also examined, as was each Proposer's level of experience in dealing with similarly sized operations and providing prompt, efficient customer service. Other aspects of the proposals that were examined include approaches to increasing revenues by providing for more effective collection, plans to implement required meter repair and replacement and specific quality control and performance measures used to track efficiency and ensure customer satisfaction.

Managed Competition Employee Committee

The MCEC approach to improving customer service includes extensive training efforts by outside consultants, the addition of satellite service centers and the use of part-time personnel at peak times in an effort to optimize customer relations through improved communication. With respect to increasing meter accuracy and meter reading efficiency, the MCEC also proposes to evaluate the conversion of large commercial meters to Automatic Meter Reading Technology by initially converting 100 of these meters and assessing the advantages and disadvantages of the system. The purchase of additional vehicles to increase the efficiency of meter readers is proposed.

While it is not clearly stated in its proposal, discussions with the MCEC staff indicated a commitment to replace the existing CAMS customer service database with a new information technology system. The MCEC has allocated $4 million in its base price proposal for this changeover. This is considered a strength of its proposal since the long-term effectiveness of the existing CAMS is questionable. At this time, the specific software package has not been identified. The staff intends to utilize its current software support consultant to modify the CAMS system for a period of up to one year while alternatives are evaluated. The proposal does not include new provisions for bill payments, such as electronic payments.

The MCEC proposal could result in some improvement over the status quo as a result of increased metering accuracy and updated customer service software; however, the proposal provides few details to support the MCEC's assertions that customer service will be greatly improved. As a result, the MCEC proposal is considered to be acceptable with respect to this sub-criterion.

United Water

UW has a great deal of experience in providing customer service, billing and collection and meter reading. Its proposed approach will provide a range of payment options including on-line, phone, credit card, and debit accounts. The UW proposal provides for a separate meter reading and inspection effort with meter maintenance moved from Plant Maintenance to Customer Service. UW proposes a number of initiatives aimed at increasing meter accuracy, including the conversion of 6,300 large meters to automatic read within the first six months of the contract term. One potential weakness of its approach to billing is the continued use of the existing CAMS system, which may not meet the long-term needs of the Systems.

The UW proposal, as a result of innovative approaches developed in other locations, should result in improved customer service and revenue collection. However, its reliance on the existing outdated customer information software raises some concerns about its approach to this sub-criterion. As a result, its proposal with respect to this sub-criterion is considered to be advantageous, but less beneficial than the USF proposal.

US Filter

The USF approach to customer service, billing and collection includes replacing the existing CAMS system with a new customer information system. This system has been identified and will be provided by Syntegra, which will also provide support and transition assistance. While the transition between systems may cause problems initially, the new system should outperform CAMS and will allow for real time processing and record keeping. The USF proposal includes an expansion of payment options to on-line, credit cards, debit and phone payment, as well as initiatives to increase meter accuracy within the Systems, the establishment of a "one stop shop" for customer interface, and a program to identify "special needs" customers and provide special literature and products to help these customers. The proposal also lists critical performance indicators to measure effectiveness. The USF proposal includes an acceptable approach to meter replacement but is weak with respect to its discussion of increasing meter reading efficiency.

USF presents the most comprehensive approach to improving customer service through better planning and communication. Its proposed meter replacement plan should increase metering accuracy. Its plan for increasing meter reading efficiency, however, lacks detail. Complete replacement of the customer service database with a proven system is a major factor in considering the USF proposal advantageous with respect to this sub-criterion.

Emergency Response Plan

Due to the historical precedents for flooding and hurricanes, the need for increased system security and the potential exposure of the water source to contamination, each proposal was evaluated on the basis of its specific approach to developing a plan to protect the Systems' integrity and to respond to an emergency situation. The degree to which the proposals provided for the establishment of specific Emergency Response Plans and Procedures was a key aspect of this portion of the evaluation. The Proposers' plans for ensuring prompt response and efficient resolution to minor emergencies such as line breaks or interruptions of services were also evaluated.

Managed Competition Employee Committee

The MCEC has demonstrated experience in dealing with emergency situations arising in the Systems. It already has an Emergency Response Plan in place that addresses hurricanes and floods; however, the wastewater treatment plants that are currently under private operation are not included in this plan, and no discussion of how these facilities would be incorporated into the existing plan is provided. Additionally, the MCEC simply states that security issues will be incorporated into its existing plan without providing any detail with respect to what the security plans will include.

The historical experience of the MCEC staff in dealing with major emergency situations over the years should be considered as an asset. However, its failure to address security issues and the wastewater treatment facilities currently under private operation are weaknesses of the MCEC proposal. Based on these factors, the MCEC proposal is considered to be marginal with respect to this sub-criterion, but slightly more advantageous than the plans presented by the other Proposers.

United Water

UW indicates that it will develop an emergency response plan for the water system that will address minor system emergencies as well as hurricanes and floods. The proposal does not specifically address response to emergencies with respect to the wastewater system. The proposal does provide emergency call out procedures and defined emergency response times. The UW proposal does not indicate to what extent security would be addressed in its emergency response plan.

The UW proposal discusses specific responses to minor emergencies such as line breaks and interruption of services. However, the proposal does not describe the specifics of the emergency response plan that UW proposes to develop for the water system, nor does it address the development of a plan for the wastewater system. The proposal does recognize that the plan should address responses to natural disasters. Therefore, UW's proposed emergency response plan is considered to be marginal.

US Filter

USF fails to provide a discussion of its plans for responses to major emergencies specifically affecting the water system, however, it does provide a plan for emergency response as part of its proposed approach to operating the wastewater system. While this plan may have been intended to cover both systems, the proposal should have included a specific plan for responses to major emergencies affecting the water system. The proposal also discusses detailed security measures for employees and visitors to the facilities. The USF proposal does not, however, provide a specific discussion of plans for natural disasters, such as hurricanes and floods.

The USF proposal discusses specific increases in system security and responses to minor emergencies, such as water and sewer line breaks and interruption of services. Improvement in these areas is an important aspect of the Emergency Response plan; however, protection of services during natural disasters must be considered as essential. While the USF proposal does address security issues, it neither addresses USF's specific plan to respond to major water system emergencies nor discusses protection of services during natural disasters. As a result, it is considered to be marginal.

Staffing Plan

Plans for deployment and utilization of personnel were evaluated for each proposal. Emphasis was placed on specific plans for addressing the training needs of the employees and the extent to which the plans include an initial skills evaluation to establish baseline performance levels followed by a specific, structured training schedule. The plans' inclusion of continued performance measures to track improvement was also examined.

Managed Competition Employee Committee

The MCEC proposal recognizes the need for staff reduction and indicates that the MCEC plans to eventually reduce staff to approximately 530 employees. With respect to the staffing plan, the MCEC provides specific job descriptions and responsibilities for the water system but provides only a general organization chart for the wastewater functions. Its proposal is weak with respect to the wastewater staffing plan and definition of employee training schedules and programs.

The MCEC staffing plan recognizes the need for staff reductions, increased efficiency and additional training of employees. However, the lack of specific schedules and programs detail its plans to reduce staff and train the remaining staff, as well as its failure to adequately address the staffing at the wastewater treatment plants, result in its proposal being considered only acceptable with respect to this sub-criterion.

United Water

UW recognizes the need to reduce the number of employees and plans to operate and maintain the Systems with 500 employees. UW's staffing plan includes detailed organization charts and specific job descriptions and responsibilities. Detailed training schedules and annual training requirements for all employees are also provided.

UW's plan to discontinue 24-hour manning of the raw water intake facilities raises questions related to remote monitoring frequency and responsibility. During a clarification conference, UW indicated that it has developed plans for dealing with these concerns through a variety of measures that include closed circuit television, alarm monitoring, scheduled, manned chemical deliveries and plans for increased monitoring of source water.

The UW staffing plan describes a specific approach to organization and training of employees that should prove to be beneficial to the S&WB. As a result, the UW proposal is considered to be advantageous with respect to this sub-criterion.

US Filter

USF also recognizes the need to reduce staffing and proposes to reduce the number of employees to approximately 365. USF proposes a detailed staffing plan, including organizational charts, enumerated training programs for all employees, and a detailed initial training needs assessment program. The proposal also eliminates the 24-hour manning of the raw water intake facilities without detailed discussion of emergency procedures. USF's staffing plan does not provide job descriptions or detailed descriptions of specific responsibilities.

USF's proposed staffing reductions may be considered slightly too aggressive but not unreasonable. Its staffing plan describes a specific approach to organization and training of employees but leaves some questions unanswered with respect to remote monitoring. As a result, its proposal with respect to this sub-criterion is considered to be acceptable; however, it is considered to be more beneficial than the MCEC proposal.

Transition Plan

Each proposal was evaluated on the basis of its plan to provide a seamless transition of service from the current S&WB operations to the contractor. The plan should include a description of the way in which operational changes will be effected as well as specific approaches to assuring uninterrupted water and wastewater service, customer billing, complaint resolution, and regulatory compliance. The experience level of each proposer in transition of services was also considered. While this sub-criterion focuses on the transition from one approach to operating and maintaining the facilities to another, it must be recognized the role of effective transition of employees cannot be ignored when evaluating transition plans.

Managed Competition Employee Committee

As the MCEC currently is responsible for the operation and maintenance of the majority of the Systems' facilities, it apparently believes that transition should only be an issue with respect to the previously mentioned wastewater treatment plants. While this may be true to a certain extent, this approach fails to recognize that significant changes must be made in the way the Systems are operated and maintained. The MCEC has examined the effects of transitioning the current WWTP employees to the public sector.

Since the MCEC staff currently operates the majority of the Systems' assets, the effects of the transition of these services to the MCEC should be minimal relative to the impacts of transitioning to one of the private Proposers. Transition, however, should also address the incorporation of new operating procedures and training programs, something that the

MCEC proposal fails to adequately address and in which the MCEC has limited experience. Therefore the MCEC proposal with respect to this sub-criterion is considered to be only acceptable.

United Water

UW has significant experience transitioning large systems from public to private operation, and its proposal demonstrates a significant commitment of resources to transition. UW plans to initially keep the Affected Employees in their current positions thereby reducing confusion that could result from the need to learn new job assignments. The UW proposal does, however, fail to discuss the transition of the current staff at the wastewater treatment plants.

Due to some uncertainty involving the transition of the wastewater treatment facilities, the UW proposal with respect to this sub-criterion is considered to be advantageous, but not as beneficial as the USF proposal.

US Filter

USF has significant experience transitioning employees from the public sector to the private sector. It provides a detailed transition plan that adequately addresses all aspects of an effective transition of services. By initially keeping Affected Employees in their current positions until a proper assessment of skills allows for appropriate reassignment, the company should reduce inefficiencies related to employees learning new job assignments.

The USF transition plan adequately addresses all aspects of an effective transition plan for all services. Therefore, the USF proposal with respect to this sub-criterion is considered to advantageous.

Summary of Technical Approach Evaluation

The MCEC proposal demonstrates a good understanding of the performance and compliance requirements of the MOU. However, it contains a limited number of innovative changes or modifications to the S&WB's current operations with few capital improvements.

The installation of a closed loop potable water cooling tower at the East Bank WWTP is a valuable modification that will greatly help the operation of the High Purity Oxygen Generation System. However, it is apparent that the MCEC does not believe that the Systems are in need of the major rehabilitation proposed by both private companies, a position that is belied by some of the significant operational problems that currently exist within the Systems.

The MCEC has proposed staff reorganization in the Customer Service department and extensive training of the staff by outside consultants. The specifics of these training efforts are not discussed. There are no additional payment options for S&WB customers proposed and no discussion of performance measures that would be used to track the efficiency and productivity of the department. The MCEC staff feels that the CAMS system will not fulfill the long-term needs of the project and have included the costs for a new customer information database.

The Maintenance Management plan lacks specific discussion of predictive maintenance procedures and performance measures to track efficiency and productivity. The MCEC provides the most suggestions for the S&WB's capital improvement plan but does not address the potential benefits and cost savings.

The MCEC staff is the most experienced of the three proposers in dealing with the provisions of the S&WB's Consent Decree and the specific agencies that regulate the S&WB's activities. Although the MCEC is the most experienced in dealing with the specific types of major emergencies that have been experienced in this region, the absence of discussions of emergency plans for the wastewater facilities and security measures are weaknesses in this section.

The MCEC acknowledges the need for staff reduction and additional training of employees. However, specific training programs and schedules are not discussed. Although continuity of the current level of services would be virtually assured with the MCEC staff, there is little discussion of the transition to the improved operations proposed by the MCEC. Based on these factors, the MCEC proposal is considered to be advantageous with respect to Technical Approach, but not as advantageous as the other two proposals.

The UW proposal demonstrates a good understanding of the performance and compliance requirements of the contract. The UW proposal contains a number of capital improvements and modifications that will be beneficial to the S&WB customers. The complete rehabilitation of the High Purity Oxygen Generation System, installation of microscreens, and conversion of the old primary sedimentation basins to a sludge thickener at the East Bank WWTP are significant improvements that should result in increased operational efficiency. UW also recognizes the need to discontinue the use of process water for cooling in the High Purity Oxygen Generation System at the East Bank WWTP. Numerous other capital improvements and modifications throughout the system are included in the base proposal and have been described above. Added instrumentation (SCADA) and automation (filter operation and automatic reading large meters) have been shown to increase efficiency of operation and help to reduce required staffing levels. The technical proposal dealing with the day-to-day operations of the water and wastewater facilities and the capital improvements included in the base price address specific needs for the system and indicate an above-average approach to increasing the efficiency of the Systems.

The Maintenance Management plan demonstrates a good understanding of the need for specific predictive and preventative maintenance procedures, schedules and performance measures. The UW proposal provides for specific improvements to customer service that include increased payment options for S&WB customers and automating the large meter reading operation. A major difference in the UW proposal, compared to the other two, is the company's commitment to continue using CAMS as the customer service database. This could be a significant shortcoming in the UW proposal, in that it is likely that the existing CAMS system will not meet the Systems long-term needs related to one of the core issues of the S&WB in this process, i.e. improved customer service.

UW has extensive experience in dealing with regulatory agencies in other regions, and demonstrates a good understanding of the requirements of the Consent Decree. The absence of any specific discussion regarding security or response to emergencies involving the wastewater system is a negative in the UW plan for dealing with emergencies.

The staffing plan details specific training programs and schedules for employees. UW is experienced at transitioning services from the public sector to the private, which should assure continuity of services. However, there is no discussion of the transition of the current wastewater operations.

The UW proposal addresses capital and operational modifications to all facets of the Systems that should ensure increased efficiency. Additionally, the proposal demonstrates that the company has a clear understanding of how it will operate each component of the Systems. Based on all of these factors, the UW Technical Approach proposal is considered to be advantageous.

The USF proposal demonstrates a good understanding of the contract performance and compliance requirements. USF proposes to include some significant capital investment in the S&WB's facilities, including new and/or expanded SCADA systems at all facilities, rehabilitation of the High Purity Oxygen Generation System at the East Bank WWTP, installation of a gravity thickener at the East Bank WWTP, implementation of a new software package for customer service, and a new CMMS software package for use at the facilities and in the field. USF recognizes the need to discontinue use of process water in the cooling system of the High Purity Oxygen Generation system at the East Bank WWTP.

Although the level of capital investment is less than that proposed by UW, US Filter's improvements should also increase efficiency and performance throughout the system. There is some concern, however, about the continued use of one of the secondary clarifiers as a sludge thickener at the East Bank WWTP, since this reduces the final sedimentation capacity of the facility by 12.5%. However, the USF staff currently on site has been doing this for some time and has established workable protocols for this operation. The Maintenance Management plan demonstrates a good understanding of the need for specific predictive maintenance procedures, schedules, and performance measures.

USF has identified a new software package to replace CAMS and has included this upgrade as well as increased payment options and other improvements in its customer service plan. Suggestions for the S&WB's capital improvement plan lack specific cost benefit projections.

USF demonstrates a good understanding of the Consent Decree requirements and has extensive experience in dealing with regulatory agencies, particularly the agencies that regulate the Systems. USF provides extensive discussion of security issues in its plan for dealing with emergencies. However, the absence of any specific discussion regarding the water system emergencies or hurricanes and flooding is a shortcoming of the USF proposal. The USF staffing plan and plan for transitioning of services are based on extensive experience in these areas and provide for specific training schedules and programs for employees.

The USF proposal provides a comprehensive technical plan that is considered to be advantageous, but is not considered to be as advantageous as the technical approach proposed by UW.

Disadvantaged Business Enterprise Plan

The Evaluation Team assessed each proposal with respect to the Disadvantaged Business Enterprise ("DBE") plan evaluation sub-criteria described previously and determined the strengths and weaknesses associated with each proposal. The evaluation was limited due to the lack of clarity in the RFP, Service Agreement and MOU with respect to the DBE requirements discussed on pages 4 to 6 of this report.

Management Opportunities

The proposals were evaluated with respect to its demonstrated commitment to providing management opportunities to socially and/or economically disadvantaged persons. Commitment was assessed by determining the extent to which socially and/or economically disadvantaged persons are included on the proposed management team.

Managed Competition Employee Committee

The MCEC demonstrates a strong commitment to providing management opportunities to socially and/or economically disadvantaged persons. While the MCEC proposal does not specifically identify the role of members of socially and/or economically disadvantaged persons on its management team, based on responses from the MCEC during a proposal clarification conference call and the MCEC's presentation to the S&WB it was determined that the management team consists of 13 members, of whom eight are members of minority groups. In addition, a member of a minority group holds the highest management position on the MCEC team. The MCEC proposal is considered to be highly advantageous with respect to this sub-criterion.

United Water

The UW proposal does not specifically address the role of socially and/or economically disadvantaged persons on its management team; however, based on its presentations to the SEC and the S&WB, it is apparent that four minority group members will hold management positions. Additionally, the highest management position on its team is held by a member of a minority group. Since its proposal does not specifically identify the number and types of management positions held by members of minority groups, UW's commitment with respect to this sub-criterion cannot be fully ascertained. As a result, its proposal is considered to be advantageous with respect to this sub-criterion, but slightly less advantageous than the USF proposal.

US Filter

USF's proposal does not provide specific information related to the number or types of management positions that would be held by socially and/or economically disadvantaged persons. However, USF demonstrates a strong commitment to including socially and/or economically disadvantaged persons on the management team within the description of its DBE plan, stating that 40% of its 19-member management team is comprised of minorities and women. Additionally, a member of a minority group occupies the highest position on its management team and USF has included a representative from a DBE firm (Metroplex) on its management team. While the USF proposal does not specify the number and types of positions on the management team that would be held by socially and/or economically disadvantaged persons, it does provide enough information to demonstrate that socially and/or economically disadvantaged persons would have a significant level of participation in the management of the Systems. As a result, USF's proposal is considered to be advantageous with respect to this sub-criterion.

Types of Functions, Services and Supplies Provided by DBEs

The evaluation of proposals with respect to this sub-criterion was based on an examination of information to be provided by the Proposers indicating the functions, services, and supplies that will be provided by DBEs. As discussed previously, the Service Agreement requires that Proposers indicate the DBE firms that they have committed to using on this project, describe the types of services they will be performing and demonstrate that the value of these services will make the Proposer compliant with the DBE requirements. This sub-criterion assesses whether each Proposer has specified the types of services that will be provided by DBEs and demonstrated that the value of the services will allow the Proposer to meet the DBE participation requirements for each contract category. Proposals that demonstrate that DBEs would provide a wide variety of services and that the DBE participation requirements for each contract category would be met were considered to be most advantageous with respect to this sub-criterion.

Managed Competition Employee Committee

The MCEC proposal provides a list of contracts currently in effect or pending in each of the three applicable areas. The proposal indicates that these contracts will remain in effect during the initial years of the contract and that efforts will be made to extend these contracts upon their expiration. In addition, the MCEC indicates that it will attempt to increase the number of contracts with DBEs and the proposal makes reference to lists of approved DBEs used by other departments of City government. However, since the dollar value of the DBE participation on contracts shown in the MCEC proposal for construction contracts is less than the minimum requirement of 34%, the MCEC fails to demonstrate that it would meet the percentage participation requirements for each contract type.

The list of contracts provided by the MCEC identifies the specific services that DBEs will provide and indicates the value of the DBE participation. However, the proposal fails to demonstrate that the MCEC would be in strict compliance with the percentage participation requirements. As a result, the MCEC proposal is considered to be only acceptable with respect to this sub-criterion.

United Water

The UW proposal includes a list of DBE contractors that provide services in twenty-two areas in both the professional and non-professional service categories. The proposal, however, fails to demonstrate that the percentage DBE requirements for each contract category will be met. The UW proposal does mention that DBE participation will be pursued in other areas; however, those areas are not specified in the proposal. UW's proposal does show an effort in designating different types of services for DBEs. However, many of these services will not be identified until after UW is awarded the contract.

The UW proposal indicates that it will use DBEs to provide a wide variety of functions, services and supplies; however, the proposal does not demonstrate that UW will be in compliance with the DBE requirements with respect to any of the three types of contracts. As a result, the UW proposal is considered to be marginal with respect to this sub-criterion.

US Filter

The USF proposal demonstrates that USF will strive to involve DBE firms in a number of different aspects of the project, but fails to demonstrate that the percentage DBE requirements for each contract category will be met. The proposal states that USF will offer DBE opportunities in over 100 areas and provides a list of contractors that could provide approximately 25 types of services. However, the proposal indicates that USF has not specifically identified the services that DBEs will perform if USF is selected.

The USF proposal indicates that it will use DBEs to provide a wide variety of functions, services and supplies. However, the proposal does not demonstrate compliance with the DBE requirements for any of the three contract categories. As a result, the USF proposal is considered to be marginal with respect to this sub-criterion.

Named Subcontractors, Suppliers and Professional Service Providers

The RFP did not specifically state that Proposers were required to identify the specific DBE firms that they would utilize if selected; however, the Service Agreement and MOU do require that the specific DBE firms be identified in the proposals. Therefore, the proposals were examined in order to determine the extent to which the Proposers have already identified DBE subcontractors with whom they will work if selected. Proposals that demonstrate that the Proposer has identified specific firms that will perform services for that Proposer are considered to be advantageous.

Managed Competition Employee Committee

As previously mentioned, the MCEC Proposal provides a list of construction, non-professional and professional services contracts currently in effect. The proposal indicates that these contractors will remain as the primary providers of these supplies and services. The MCEC proposal also indicates that the MCEC has identified other DBE subcontractors that may provide a variety of services if the MCEC is selected. Therefore, the MCEC proposal is considered to be advantageous with respect to this sub-criterion.

United Water

The UW proposal indicates that UW has signed MOUs with DBE partners; however, the proposal does not provide the names of the firms that have signed the MOUs, nor does it indicate the types of services the company will provide. The UW proposal also provides a list of 26 DBEs that have been identified as potential subcontractors but indicates that UW has not yet developed relationships with these firms. In its presentation to the S&WB, the UW team specifically states that it has not yet determined the specific DBE firms that the company will use if awarded the contract.

The UW proposal indicates that UW has identified some DBE partners that it may use if selected; however, it names only three specific DBE subcontractors that UW plans to use on this project. Therefore, the UW proposal is considered to be unacceptable with respect to this sub-criterion.

US Filter

USF has included DBE firms as major components of its team. However, the business relationship that USF has with these firms is not defined in the proposal, and it is unclear how their participation would be applied toward meeting the DBE participation requirements. USF also provides approximately 50 letters of commitment from DBEs in numerous fields; however, it does not specifically state which, if any, of these firms will actually participate in the project.

USF's proposal demonstrates that it has identified and made some type of commitment to working with a number of DBE firms; however, with the exception of the firms that are included as part of its team, the actual firms that will be used to provide services under the three different contract categories are not provided. Based on these factors, USF's proposal is considered to be unacceptable with respect to this sub-criterion, but slightly more beneficial than UW's proposal.

Ability to Meet or Exceed DBE Requirements

The evaluation of the proposals with respect to this sub-criterion focused on the ability of the Proposers to meet or exceed the DBE requirements as expressed through their DBE plans presented in their proposals. The evaluation took into consideration factors addressed by other sub-criteria under this criterion as well as other factors, including plans for the identification of DBE subcontractors through outreach programs and experience meeting DBE requirements in the past. It is apparent that the S&WB places a great deal of emphasis on DBE participation. Therefore, proposals that demonstrate a strong commitment to exceeding the DBE requirements presented in the RFP are judged to be more advantageous with respect to this sub-criterion.

Managed Competition Employee Committee

The MCEC plans to continue the DBE plan that is currently in effect in relation to the Systems. While the MCEC plans to meet the minimum DBE requirements for all three types of contracts, it is apparent from the information provided in the MCEC proposal that currently not all of the requirements are being met. Specifically, the dollar value of the DBE participation on contracts shown in the MCEC proposal for Construction Contracts is only approximately 26% of the total value of the construction contracts listed, which is below the minimum requirement of 34%. Since the MCEC is essentially proposing to continue the status quo, the fact that it is not currently in compliance is a concern. However, the DBE participation percentages shown for Professional Services and Supplies and Non-Professional Services exceed the minimum requirements of 35% and 13%, respectively.

The process of contacting prospective DBEs through an outreach program is not addressed in the proposal, since the MCEC felt that due to time constraints it was not in a position to have such a program in place prior to the proposal submission. However, the MCEC does plan to establish an outreach program upon being awarded the contract by the S&WB. In addition, the MCEC hopes to augment its pool of certified DBE firms with firms that have been certified by other departments of the City.

The MCEC has considerable experience meeting the DBE requirements of the S&WB and also has significant experience working with local DBE firms.

The MCEC proposal indicates that for the most part it would continue the status quo with respect to DBE participation. Since the S&WB must authorize all third party contracts, it is apparent that continuing the status quo is inevitable. Although the MCEC has a great deal of experience with respect to the S&WB's DBE requirements, its plan to ensure DBE compliance lacked detail. While it appears that the MCEC would be capable of meeting DBE requirements, its proposal was somewhat weak with respect to this sub-criterion and therefore is considered to be only acceptable.

United Water

The UW proposal includes a commitment to exceed the DBE participation goals specified in the RFP indicating that UW would utilize DBE firms for: 50% of outsourced non-professional services and supplies, 50% of outsourced professional services, and 34% of outsourced construction projects. However, the company's proposal provided a minimal level of specific information to support its commitment. Although its proposal identifies only three specific DBE subcontractors that will provide only $3.3 million worth of services or supplies, its proposal commits $19 million to DBEs in the first year of the contract. However, in its presentations to the SEC and the S&WB, the UW team indicated that the value of DBE participation would only be approximately $12.2 million. It appears that the $12.2 million figure does not include contracts for construction; however, this discrepancy makes it difficult to evaluate UW's DBE commitment.

The proposal includes a table that provides information on estimated DBE participation in certain categories. The information in this table, however, is not consistent with a similar table presented to the S&WB. Therefore, its commitment to DBE participation is unclear. However, one thing that is clear, is that UW is applying $6.7 million in insurance costs toward meeting DBE participation requirements. While UW may be using a DBE as its insurance broker, it is unlikely that the DBE community will realize the full benefit of this commitment since the broker will most likely keep only a relatively small portion of the $6.7 million.

UW has developed an outreach program and has held vendor fairs to become better acquainted with local DBEs, and it plans to continue outreach efforts if selected.

UW has shown a capability on other projects to establish partnerships with DBEs, and its proposal highlights the company's success in meeting the DBE requirements of the Atlanta contract as well as other contracts of similar size in the U.S.

It is apparent from past performance on other projects that UW is willing and able to meet and possibly exceed the DBE requirements of the Service Agreement. However, its proposal is lacking in detail and provides minimal evidence to indicate that it is actually prepared to meet the requirements on this project. Since the S&WB apparently places a high value on maximization of DBE participation, its commitment to exceed the DBE requirements should be considered a strength of the UW proposal. As a result, its proposal is considered to be advantageous with respect to this sub-criterion.

US Filter

The information that USF provides on its DBE plan in its proposal, letters to the S&WB, and presentations to the SEC and S&WB was fraught with inconsistencies. In its proposal, USF indicates that it will guarantee compliance with the DBE requirements through a $3.5 million commitment and will also strive to exceed the requirements. In correspondence provided to the S&WB after the presentations to the SEC, USF indicate that it would commit approximately $9.4 million to DBE firms. In its presentation to the S&WB, USF stated that it was committed to exceeding the DBE requirements by providing approximately $18 million in opportunities to DBEs. These discrepancies make it difficult to evaluate its DBE commitment.

It is apparent that the revised $9.4 million commitment includes using DBEs to provide services that were not included in the original proposal; however, what these additional services consist of is not clear. In its presentation to the S&WB, USF indicated that the

$18 million dollar figure represents 50% DBE participation. While this level of participation may be USF's goal, USF did not commit to 50% participation in its formal proposal.

It should be noted that in a letter to Mr. Charles Rice dated September 25, 2002, USF indicated that a large portion of the estimated value of DBE participation for the project is related to insurance services. As is the case with the UW proposal, it is unlikely that the DBE community will realize the full benefit of this commitment since the broker will most likely keep only a relatively small portion of the amount spent to maintain the required insurance coverage.

The proposal includes detailed action steps to ensure that the DBE program is successful. These include Documentation and Tracking, Monitoring and Accounting, and Continuous DBE Program Improvement. In addition, USF outlines a six-part plan in order to ensure that the minimum requirements are met for Construction Contracts. The detailed plan to ensure the success of the program is a strength.

Although the USF proposal fails to specifically identify both the type of work represented by this commitment and the firms that will perform this work, their proposal provides letters of interest and commitment from approximately 50 DBE firms.

USF has established a DBE outreach program and has developed a database of 500 businesses that were collected from a variety of sources including: the S&WB, the City of New Orleans, Aviation Board, Gulf South Minority Supplier Development Council, Minority Contractors Association, and New Orleans Black Book.

USF also has significant experience meeting DBE requirements of large contracts and has experience addressing the S&WB's DBE requirements as a result of its contract to operate the S&WB's wastewater treatment plants.

USF provides evidence in its proposal of its ability to meet the DBE requirements. The combination of its experience in the New Orleans area and its familiarity with local DBEs, as well as steps taken to achieve these goals, are a good foundation for a successful DBE program. However, the inconsistencies with respect to the value of its commitment indicates that it may not have a full understanding of the DBE requirements. Based on these factors, the USF proposal is considered to be only acceptable with respect to this sub-criterion.

Summary of DBE Plan Evaluation

For the most part, the MCEC provides the required information with respect to its DBE plan. This information identifies the specific DBE firms that would provide services and supplies in each of the three contract categories; however, it fails to demonstrate full compliance with the DBE requirements. If S&WB contracting restrictions do not hinder it, the MCEC team should be capable of meeting the DBE requirements. The lack of an outreach program and the shortfall in DBE participation under construction contracts were weaknesses in the group's proposal. Based on these factors, the MCEC is considered to be advantageous with respect to this criterion.

The UW proposal showed sufficient experience meeting DBE requirements for other contracts, and it is apparent that UW has made a significant effort to identify potential DBE partners. The proposal indicates that DBE's will provide a variety of functions, services and supplies; however, UW failed to provide much of the information relating to its DBE plan that seems to be required by Schedule 16 of the Service Agreement. The UW proposal lacks detail with respect to its plan to ensure DBE compliance, and it does not appear that UW has received commitments from many DBE firms. While UW should be capable of meeting or exceeding the DBE requirements, its proposal does not contain sufficient information to fully support its ability to do so. As a result, the UW proposal is considered to be marginal with respect to this criterion.

While USF presents a well thought out approach to meeting the DBE requirements of the Service Agreement, it fails to provide much of the required information with respect to its DBE plan. In addition, through correspondence and presentations to the SEC and S&WB, the USF provided information that was inconsistent with its formal proposal, leaving some doubt as to whether it fully understands the requirements. Its plan includes DBE involvement in providing a wide variety of functions, services, and supplies, and USF has apparently received commitments from a number of DBE firms. It has established a meaningful DBE outreach program and has significant experience meeting DBE requirements of other contracts. USF's proposal is considered to be marginal with respect to this criterion.

Employee Compensation and Benefits Package; Employment Relations and Career Development Program

The Evaluation Team evaluated each proposal with respect to the way that each addresses the requirement of the Service Agreement and MOU regarding the Proposer's relationship with its employees. The results of the evaluation are summarized below.

Proposed Employee Compensation and Benefits Package

The proposed compensation and benefits packages offered in the proposals were examined using the current compensation and benefits package as a baseline. In particular, the analysis considered such items as salary, medical benefits, tuition reimbursement, and retirement benefits, and how the proposed packages would prove more beneficial to the Affected Employees. The evaluation with respect to this sub-criterion focused on compensation and components of the proposed benefits package other than the retirement plan. It did not take into account the potential economic benefits of the proposed retirement benefits plans for two reasons: the determination as to whether one retirement benefits plan is more desirable than another is a personal decision that can only be made by each employee based on his or her individual retirement objectives, and a detailed analysis of the potential economic benefits resulting from the retirement benefits plans offered by each Proposer was not performed.

Managed Competition Employee Committee

The MCEC proposal proposes to potentially increase the benefits provided to employees with the addition of insurance for eye surgery and orthodontic procedures and the implementation of a "gainsharing" plan. The proposal does not, however, provide sufficient detail pertaining to the gainsharing plan to judge the benefit it would provide to employees. The orthodontic and eye surgery benefits are labeled as "suggested proposal/considerations" and it is not clear that the MCEC is actually committing to these benefits. Other benefits, such as base salary, tuition reimbursement, and retirement benefits are identical to current benefits.

While the MCEC's approach with respect to this criterion appears to be consistent with the requirements of the MOU, it should be noted that the MOU does not have many of the employee-related requirements that are included in the Service Agreement. Specifically, the MOU does not have the requirement for salary increases that is present in the Service Agreement.

Overall, the MCEC offers the status quo with the potential to add some additional benefits, including gainsharing. While the compensation and benefits package offered by the private firms may provide the employees with higher compensation and more options with respect to benefits, the MCEC plan provides the employees with a great deal more security than does the three to five year employee guarantee period of the Service Agreement. Taking these factors into consideration, the MCEC proposal is considered to be advantageous with respect to this sub-criterion.

United Water

The UW proposal includes the mandated 5% pay increase for all employees and states that the company's philosophy includes "variable pay opportunities" (i.e., bonuses), but it does not address if and how such a policy would be implemented on this project. In addition to benefits already received, UW had to adjust the vesting schedule and benefit formula to meet regulatory requirements. UW will also provide other new benefits, including a 401k and a stock purchase plan. UW's proposal indicates that its proposed benefits package will remain in effect for the life of the contract, not just for the three to five year period required by the S&WB. The proposal does not address compensation for employees hired after the start of the contract.

During a presentation to the S&WB, UW stated that it guaranteed no layoffs during the contract term. However, no reference to this guarantee was found in its written proposal; therefore, the nature of this commitment is not clear.

Overall, UW provides a strong proposal with respect to this sub-criterion. Its proposal could prove to be more beneficial to the employees than the status quo, particularly with respect to compensation. If UW proposed benefits package is indeed equal to or better than the current S&WB package, the fact that UW will make the package available for the entire life of the contract provides the employees with an added level of security. While the fact that there is less security related to continued employment reduces the desirability of UW's proposal, its proposal is still considered to be advantageous with respect to this sub-criterion, but less beneficial than the MCEC proposal.

US Filter

The USF proposal includes the mandated 5% pay increase for all employees. USF states that it typically averages between 3% and 5% performance bonus pay to employees and that its service fee includes performance-based incentives. In addition to the benefits already received, USF had to adjust the vesting schedule and benefit formula to meet regulatory requirements. USF will also provide other new benefits, including a 401k, group home and auto insurance, and a new credit union (in addition to supporting those members who remain with the current credit union). During the employee retention period, USF will continue to provide other benefits at the same levels as are currently provided, including health benefits and tuition reimbursement. However, there is no discussion of, or commitment to, compensation and benefits to be provided to current or future employees after the three to five year employee retention period. Employees hired after privatization will receive the standard USF compensation and benefits package.

USF also recognizes the Civil Service Commission's authority over the new benefits and compensation and has retained an experienced consultant to assist in working with the Civil Service Commission to get the new benefits approved.

USF's proposal provides the most detail with respect to the proposed employee compensation and benefits package. Its proposal outlines an overall plan that should prove beneficial to the employees with respect to both compensation and benefits. However, these advantages do not outweigh the greater level of security with respect to long-term job security offered by the MCEC plan or the fact that the employees could receive a less desirable benefits package after the three to five year guarantee period. Therefore, the USF proposal with respect to this sub-criterion is considered to be advantageous, but is less advantageous than the UW and MCEC proposals.

Scope of Training Programs

The evaluation with respect to this sub-criterion involved an examination of the training program offered in the proposals. Particular emphasis was placed on the number and types of classes to be offered, its potential applicability to the System's employees, and the progression of training for each employee. Each Proposer's experience in developing and managing training programs similar to those offered in the proposals was also considered.

Managed Competition Employee Committee

The MCEC proposal contains a good conceptual approach to employee training, but lacks details with respect to training programs and areas of focus. Specifically, it does not outline or enumerate in any detail the classes to be provided beyond the "train-the-trainer" and basic computer literacy classes. It specifically states that the MCEC will focus on "On-the-job" training. The MCEC does not provide much detail with respect to how training needs will be identified. This is particularly troubling since the MCEC should be in the best position to identify specific areas where training is needed. In addition, the MCEC fails to demonstrate that it has meaningful experience in the implementation of effective training programs.

Overall the MCEC's proposed training plan lacks definition and does not demonstrate a thorough understanding of the importance of a well-defined training program. Its plan did not provide detail with respect to specific classes that would be offered nor did it discuss the way in which training needs would be identified. The MCEC proposal is considered to be advantageous with respect to this sub-criterion, but not as strong as the proposals submitted by the other two Proposers.

United Water

UW provides a good general approach to training and has a great deal of experience in this area, but there are not many details shown in the proposal concerning the training program. The proposal does discuss the process by which training needs will be identified but does not describe or enumerate in any detail the types of classes to be offered.

Although UW provides a good overall approach and UW has strong experience in this area, its plan is not well defined. The UW plan is also considered to be advantageous, but slightly more advantageous than the MCEC plan by virtue of the fact that UW has significant experience in providing training to utility workforces.

US Filter

USF is very experienced with providing training programs as evidenced by its proposed training program. USF provides a high level of detail with regard to training programs that will be offered, including a list of over 30 potential programs to be offered. USF discusses how training needs for each employee will be identified and specifically addresses the issue of training requirements imposed by the Consent Decree. USF shows a strong commitment to having a work force trained above and beyond industry requirements and standards. An indicator of this commitment is its encouragement of all plant employees to pursue advanced certifications.

USF provides excellent detail to support a well-defined training program and procedures. As a result, its proposal is considered to be advantageous with respect to this sub-criterion and is slightly stronger than the proposal submitted by UW.

Breadth of Human Resources Plan

Evaluation with respect to this sub-criterion included an examination of the various aspects of the proposed human resources plan as a whole. The evaluation took into account some aspects of the proposed plan that are addressed in more detail by other sub-criteria but also considered other policies and components such as dispute management and hiring policies. The comprehensiveness of the overall human resources plan was the primary point of differentiation between the proposals.

Managed Competition Employee Committee

The MCEC proposal does not provide many details with respect to its human resources plan beyond the required sections covered by other evaluation criteria such as compensation, benefits, and training. MCEC's proposed plan does not address such issues as dispute management and hiring policies.

The MCEC proposal discusses the basic components of a human resource plan but does not demonstrate that the MCEC has developed a comprehensive human resources plan. As a result, the MCEC proposal is considered to be only acceptable with respect to this sub-criterion.

United Water

The UW proposal presents a good plan with respect to dispute resolution, labor relations, and health and safety, and is acceptable overall in these areas. The proposal does not address specific hiring policies, but does propose a "First Source Jobs Program" that will provide some opportunities within the Systems to new employees. The UW proposal presents an advantageous human resources plan.

US Filter

The USF proposal provides good descriptions of a well thought out human resources plan that covers many areas, including hiring policies, ethics, teamwork, dispute resolution, employee discipline, harassment, drug testing, and safety. USF's proposal provides a strong plan with an excellent level of detail.

The USF proposal presented the most comprehensive human resources plan and therefore is considered to be highly advantageous with respect to this sub-criterion.

Responsiveness to Employees Career Development Objectives

The career development program described in the proposals was examined with respect to how it would improve the career development potential for employees of the Systems. Consideration was given to policies that would be used to encourage employees to progress within the organization and to programs offered by the Proposers that would facilitate career development. Past experience in the implementation of such programs was also considered.

Managed Competition Employee Committee

The MCEC proposal includes some discussion of a career development model that has been implemented within the S&WB for some employees and how the MCEC intends to work with the Civil Service Commission to expand the use of such a model with the MCEC employees. The program described would provide good career development opportunities, but there is no description of how it would be implemented by the MCEC and how extensively it would be implemented. The proposal does not indicate that the MCEC has previous experience implementing career development programs other than the limited implementation of the previously mentioned career development model.

The MCEC provided an acceptable program but does not demonstrate a strong commitment to the widespread implementation of its program. As a result, MCEC's proposed plan is considered to be acceptable.

United Water

UW has an established program used in other projects that it would also use on this project. Its plan includes formal reviews and opportunities for career development both within the Systems and elsewhere within the UW organization. UW has significant experience in this area and provides examples in its proposal of how its program has provided benefits to employees. Overall, the proposal describes a strong program with many positive attributes.

UW proposes a good program that has been demonstrated to provide opportunities for UW's employees. Its proposal also demonstrates a strong commitment to implementation of the program. Overall, UW's proposal with respect to this sub-criterion is considered to be advantageous.

US Filter

USF's proposal describes a career development program that works in conjunction with its training program to develop an educated and experienced work force. USF demonstrates a strong commitment to employee development and training that leads to career advancement both locally and elsewhere within its organization. USF has successfully implemented similar programs on its other contract operations projects.

The proposed USF program provides good opportunities for the Systems' employees. USF also demonstrates a commitment to the implementation of the program throughout its operations. Overall, USF's proposal with respect to this sub-criterion is also considered to be advantageous.

Summary of Employee Compensation and Benefits Package; Employment Relations and Career Development Program Evaluation

The MCEC proposal provides a good level of detail on the benefits and compensation to be offered and the few changes that would be made to the existing benefits and compensation. The MCEC plan is essentially the same as the status quo and therefore provides the Affected Employees with a level of security that is not present after the three to five year guarantee included in the Service Agreement. However, its plan offers few, if any, benefits over the status quo. The MCEC proposal does not include the 5% pay raise that the other Proposers were required to include. The training programs are good on a conceptual level but are lacking in specific details. There is not a lot of breadth to the human resources plan described. The MCEC shows some commitment to employee career development, but there is a lack of detail on how such a program would be implemented. Based on these factors the MCEC proposal is considered to be advantageous with respect to Employee Compensation and Benefits; Employment Relations and Career Development, but not as strong as the UW proposal.

It should not be ignored that the S&WB and the CSC maintain a significant level of control over employee related matters under the provisions of the MOU. Therefore, even if the MCEC had presented an extremely desirable plan, the implementation of the plan would not be completely under its control.

UW's proposal provided very good plans in the areas of compensation, benefits, employee relations, and career development. The fact that UW will continue to offer its proposed benefits package after the three to five year guarantee period provides an added level of security for the Affected Employees. UW has experience implementing similar programs at other privatized facilities, and that experience is reflected in its proposal. It has many programs developed already that can be adapted for use on this project without having to start from scratch. In general, its proposal is very strong in this area; however, its proposed training program and overall human resources plan are not as strong as the programs proposed by USF. The UW proposal is considered to be advantageous with respect to the Employee Compensation and Benefits Package, Employment Relations and Career Development Program.

USF's proposal overall provided excellent detail in its description of a well thought-out and desirable package that addresses each aspect of compensation, benefits, employee relations, and career development. USF has experience implementing similar programs at its other privatized facilities and shows a strong understanding of what is required in these areas. Many of the components of its approach have already been developed for other similar operations, so the company has not had to develop a completely new plan. All areas of its proposal with respect to this sub-criterion were good, particularly the breadth of its human resources plan. Based on these factors, the USF proposal is considered to be advantageous with respect to the Employee Compensation and Benefits Package, Employment Relations and Career Development Program.

Quality of Management Team

The Evaluation Team evaluated each Proposer's proposed management team with respect to its demonstrated ability to enhance the efficiency of the Systems. A special emphasis was placed on previous experience of the management team in the operation of facilities similar in size and other characteristics to the Systems. A summary of the evaluations is provided below.

Management Team

The proposed management team was evaluated based on the experience of individual team members and the team structure as a whole. Team member work histories that included advanced degrees in related fields, diverse work experience within the water and wastewater industry, involvement in professional associations, and experience in system optimization were considered to be advantageous. In addition, the management team should be structured in a way that blends individual strengths and supports them with specific expertise for each functional area within the Systems.

Managed Competition Employee Committee

The MCEC management team is comprised almost exclusively of individuals with a long history of work experience with the S&WB and the City of New Orleans. As such, this team is most familiar with the Systems' operation. However, only one of the MCEC management team members, who is currently an employee of HDR, has an advanced degree in a relevant field such as civil engineering or business administration, and the MCEC resumes showed limited involvement in professional organizations. The MCEC team has, however, supplemented its qualifications with the inclusion of HDR employees on the group's management team. However, it is unclear whether these team members will remain as employees of HDR thus affording them easier access to the resources offered by HDR.

The MCEC team has not demonstrated, through past work experiences, a proficiency in system optimization or efficiency enhancements. While the MCEC proposal does mention that some business processes must change to meet stated goals, it does not demonstrate the skills or background to implement the type of change that will be necessary to provide the S&WB with the benefits it is seeking from this procurement.

While the MCEC has significant experience operating the majority of the Systems, its proposal failed to demonstrate that the management team has the skills necessary to implement the required changes. As a result, the MCEC proposal is considered to be advantageous with respect to this sub-criterion but not as strong as the proposals submitted by the other two Proposers.

United Water

The UW management team is for the most part comprised of individuals with advanced degrees in relevant fields. The majority of the management team possess a significant amount of experience both in operating water and wastewater systems similar to the Systems and in the privatization of large water and wastewater systems, nationally and internationally. It should be noted however, that the highest ranking member of its management team has no experience managing large water and wastewater utilities. The UW team also has considerable experience in support activities, such as customer service and human resources for comparably sized water and wastewater utilities. However, the company has no experience with the S&WB or with the Systems' facilities. The UW proposal makes no statement that the management team will be 100% dedicated to this project or that individuals will be committed to the project for specific duration. However, during a proposal clarification conference call, UW indicated that the management team would be fully dedicated the project. UW and its affiliates provide a good support structure that can furnish assistance to its locally based team.

The UW proposal demonstrated that its management team is technically qualified and has a great deal of diversified experience. It is also apparent that UW has sufficiently committed its management team to the project. Based on these factors, the UW proposal is considered to be highly advantageous with respect to this sub-criterion.

US Filter

The USF management team includes several individuals with advanced degrees in relevant fields and considerable experience, both in operating water and wastewater treatment systems and in the privatization of water and wastewater systems. However, as is the case with UW, the highest ranking member of the management team does not have experience managing large water or wastewater utilities. USF has experience working with the S&WB and experience operating the S&WB's wastewater treatment plants. While the experience of the USF management team in the operation of wastewater systems is for the most part limited to somewhat smaller systems, this was not perceived as a significant disadvantage. USF and its affiliates provide a strong support structure for its locally based team, which has indicated that it is committed to the project for a period of at least three years.

The USF proposal demonstrates that the company's management team is qualified and committed to implementing the changes necessary to provide the benefits the S&WB is seeking from this procurement. The USF team members have diversified experience and the technical qualifications necessary to identify and institute the changes that are required. However, most of their wastewater system experience is limited to somewhat smaller systems. The fact that USF has experience at the S&WB wastewater treatment plants is a considerable strength. As a result of these factors, USF's proposal is also considered to be highly advantageous with respect to this sub-criterion and slightly stronger than the UW proposal.

Current and Previous Experience

The Proposers were evaluated on the basis of their corporate experience in water and wastewater system operation, maintenance, and support functions. Each team was evaluated on its technical capability and demonstrated abilities of system optimization. Privatization experience was also considered in the evaluation of the private firm's proposals. Since the MCEC would not be required to privatize the Systems, privatization experience was not emphasized during the evaluation of its proposal. Special consideration was given to experience with systems comparable in size and scope to the S&WB.

Managed Competition Employee Committee

The MCEC has a great deal of experience operating the water treatment, transmission and distribution, and wastewater collection components of the Systems; however, its experience is, for the most part, limited to the Systems. Therefore, the MCEC may not be as capable of identifying and utilizing innovative approaches that have been developed in other locations. Experience in the privatization of public utilities is not required of the MCEC team since it would represent the status quo management structure of the S&WB in all areas except wastewater treatment**.** While the S&WB employees on the MCEC team have limited recent experience operating wastewater treatment plants, the addition of HDR employees to the management team provides significant wastewater treatment plant experience.

The MCEC has the necessary experience to manage the operation and maintenance of the Systems. However, its lack of experience outside the Systems raises questions concerning its ability to develop and implement innovative approaches that will increase the efficiency of the Systems. The MCEC proposal is considered to be advantageous with respect to this sub-criterion, but not as strong as the proposals submitted by the other two Proposers.

United Water

UW has extensive experience with operations of comparably sized water and wastewater systems, and its proposal demonstrates a history of the optimization and efficiency gains that are desired outcomes of the S&WB managed competition. It also has experience with privatization of large water and wastewater utilities, including transition of workers from the public to private sector. However, recent press indicates that the City of Atlanta has taken the first step towards possible termination of its contract with UW. While the specifics of UW's problems in Atlanta are unclear, it is apparent that UW has at the very least failed to properly manage its relationship with the City of Atlanta.

UW has significant experience operating utilities similar in size to the Systems, and its experience in a variety of locations and situations should allow it to develop and implement innovative solutions to the problems that are currently present in the Systems. However, recent events in Atlanta raise some concerns regarding UW's ability to manage a water system that, like the New Orleans system, has a history of maintenance under-funding. The UW proposal is considered to be advantageous with respect to this sub-criterion but not as advantageous as the USF proposal.

US Filter

USF has extensive experience in operations of comparably sized water systems; however, its wastewater experience is for the most part limited to smaller systems. It has operated the S&WB wastewater treatment plants since 1992. Although there have been problems with the wastewater treatment plants during its tenure, it has not been determined whether USF bears the responsibility for these problems.

USF also has experience with utility privatization and has transitioned numerous public employees to the private sector over the past ten years. Finally, the USF proposal demonstrates a history of the optimization and efficiency gains that are desired outcomes of the S&WB managed competition.

USF has significant experience operating water systems similar in size to the Systems in a variety of different locations and situations. While its wastewater system experience is for the most part limited to smaller systems, this weakness is countered by USF's knowledge of the S&WB wastewater treatment facilities. As a result of these factors, the USF proposal is considered to be advantageous with respect to this sub-criterion.

Financial Strength of Proposer

During the RFQ/SOQ phase of the procurement, all of the Proposers were determined to be financially capable of meeting the obligations of the Service Agreement and the Proposers were not required to submit financial information with their proposals. As a result, the only financial information that was provided by the Proposers was the information included in their SOQs. While for the most part this information was appropriate at the time it was submitted, it has become somewhat dated. Therefore, the Evaluation Team attempted to supplement this information with information that was readily available from a number of sources, including analysts' reports and the internet. The proposed Guarantors were evaluated based on financial performance and corporate capability to guarantee that the work can be performed at the proposed price and indemnify the S&WB against failure to perform under the Service Agreement or MOU. The evaluation included a general analysis of revenues, profitability, and net worth.

Managed Competition Employee Committee

In terms of financial viability, the MCEC team meets the requirements of the MOU simply because the MOU makes no requirements with respect to financial viability. The fact that the MCEC can draw on the financial resources of the S&WB helps ensure its long-term viability; however, this does not serve to reduce the financial risk faced by the S&WB.

The MCEC meets the financial strength requirements of the MOU; however, the fact that the MCEC has no guarantor to accept any potential financial liability resulting from a failure to perform or negligence cannot be ignored. Therefore, the MCEC proposal is considered to be acceptable with respect to this criterion.

United Water

United Water Resources ("UWR") serves as the Guarantor of the UW team. Since UWR became a wholly owned subsidiary of ONDEO in July of 2001, it is no longer required to prepare separate financial statements. Therefore, information for fiscal year 2000 is the most recent financial information available for UWR. With a 2000 net worth of approximately $500 million and an A- bond rating, UWR should, at that time, have been able to provide the UW team with the financial support necessary to ensure the long-term financial viability of the team. However, since there is no readily available current financial information for UWR, its financial strength could not be fully assessed. While the required guarantee of performance substantially reduces the financial risk faced by the S&WB, there is some uncertainty relative to UWR's current financial position.

Unless UWR's financial position has declined significantly since its purchase by ONDEO, the financial strength of UW's guarantor should provide significant assurance that UW will have the financial capability to perform the required services on a long-term basis. In addition, UW's parent company guarantee should significantly reduce the financial risk faced by the S&WB should UW fail to perform the services as required. These factors led to the UW proposal being considered as advantageous with respect to this sub-criterion. However, should the S&WB elect to enter into a long-term contract with UW, the S&WB should require that UWR produce evidence that its financial position is equal to or better than its financial position prior to its takeover by ONDEO.

US Filter

Vivendi Environment ("VE") serves as the Guarantor for the USF team. With a 2001 net worth of approximately $5 billion and BBB+/Baa1 bond ratings, VE apparently has the resources to assure the long-term financial viability of the USF team, as well as provide the guarantee of performance that significantly reduces the financial risk currently faced by the S&WB. Although recent financial market activity with respect to VE's former parent company, Vivendi Universal, has resulted in some uncertainty regarding VE's long-term financial strength, analysts of VE and Vivendi Universal indicate that VE's attempts to distance itself from Vivendi Universal and the fact that Vivendi Universal no longer holds a majority of VE's shares should effectively insulate VE from the problems faced by its parent.

The financial capabilities of USF's guarantor should provide significant assurance that USF will have the financial capability to perform the required services on a long-term basis. Despite the recent market trends with respect to Vivendi Universal, USF's parent company guarantee significantly reduces the financial risk faced by the S&WB should USF fail to perform the services as required. Based on these factors, USF's proposal is considered to be advantageous with respect to this sub-criterion.

Summary of Quality of Management Team Evaluation

The MCEC team consists of individuals with a history of work with the S&WB and the City of New Orleans and is complemented by HDR Engineering, which will bring experience to the operation of the wastewater treatment plants. However, the team members lack advanced degrees and, other than HDR, the MCEC team has limited industry experience outside New Orleans. In addition, the MCEC proposal does not demonstrate a management commitment to change or experience leading change, optimization, or efficiency initiatives. The MCEC team draws on the financial resources of the S&WB to guarantee its long-term viability. However, this does not provide the S&WB with any indemnification against failure to meet proposal cost guarantees or liability resulting from negligence. Both private proposals significantly reduce these risks. Based on these factors, MCEC proposal is considered to be advantageous with respect to Quality of the Management Team.

UW has also assembled a strong management team for its proposal. The team consists of a core group with advanced degrees and experience in utility operation and business administration. The core team is supported by a transition team. Both the core team and the transition team have experience in privatization, optimization and transitioning utility operations from the public sector to the private sector. The UW management team also demonstrates a history of industry experience and has operated comparably sized water and wastewater systems. However, recent activities in Atlanta are a reason for concern.

UWR, Guarantor of the UW team, has historically posted solid financial results; however, no separate financial statements are available since it became a wholly owned subsidiary of ONDEO. Unless UWR's financial position has declined significantly since its purchase by ONDEO, its financial resources should be adequate to guarantee the performance as well as the long-term viability of the UW team. However, prior to awarding a contract to UW, the S&WB should require UW to provide current financial information specific to its Guarantor, UWR. Based on these factors, the UW proposal is considered to be highly advantageous with respect to Quality of the Management Team.

The USF management team demonstrates a history of water and wastewater industry experience. The team is comprised of individuals with experience in operations and support of systems, including the wastewater treatment plants of the S&WB. In addition, VE, Guarantor of the USF team, has historically performed well financially. Although recent market activity relative to VE's former parent company does introduce some uncertainty with respect to VE's long-term financial viability, VE's financial resources should be adequate to guarantee the performance, as well as the long-term viability of the USF team. While there is every indication that VE will be largely unaffected by the financial troubles of its former parent company, the uncertainty associated with the current situation does decrease its desirability as the Guarantor of a long-term contract. If the S&WB selects USF for this project, the Service Agreement should require USF to secure an alternative Guarantor if VE experiences a material decline in financial strength. Despite the concerns about the financial strength of VE, the depth and experience of USF's management team results in the USF proposal being considered highly advantageous with respect to Quality of the Management Team.

Employee Transition Plan

The Evaluation Team assessed the proposals with respect to the degree in which the described Employee Transition plan assured a smooth transition of employees from either the public sector to the private sector, or in the case of the MCEC, from one organizational structure into a new organizational structure. The evaluation did not focus solely on the administrative aspects of the transition but also addressed whether the proposed approach ensured that the available human resources would be utilized effectively both during the initial period of the contract and long-term.

Overall Efficiency of the Transition Plan

Evaluation with respect to this sub-criterion involved an assessment of whether the proposed plan would assure a well-organized and efficient transition of the Affected Employees. The plan should consider all Affected Employees from the moment the contract is awarded, through the formal transition period, and into the initial three to five years of the contract. Well reasoned plans that were presented in sufficient detail were considered to be more advantageous. Previous experience transitioning large workforces was also taken into consideration.

Managed Competition Employee Committee

Overall, the MCEC employee transition plan is weak with little discussion of the plan itself. The proposal states that, since the majority of the Systems' employees are already S&WB employees, the MCEC will only be required to transition the forty employees that are currently employed by USF to operate the wastewater treatment plants. While technically this may be the case, it fails to recognize that in order to achieve the efficiency gains that are one of the objectives of this procurement, the MCEC must dramatically change the way in which the Systems are operated and maintained. The effect of this change on many MCEC employees will be remarkably similar to changing jobs and therefore transition of these employees will require more effort than the MCEC proposal recognizes.

The MCEC's lack of experience transitioning large work forces and its failure to recognize that all of the Affected Employees will require transitioning of some type raise questions regarding whether the MCEC employee transition plan will ensure a smooth and efficient transition. As a result, the MCEC proposal is considered marginal with respect to this sub-criterion.

United Water

UW's proposal provides a detailed description of the activities that will occur during the eight-week transition period. This includes a progression from general orientation meetings relating to employee benefits, job assignments and substance abuse testing. These orientation meetings will be followed by individualized interviews and training assessments. A local change management firm that has knowledge of issues unique to the New Orleans area will be utilized to provide change management services, monitor the transition, educate UW management on local issues, and modify training programs as required. In addition, UW has significant experience transitioning large public sector employee groups to the private sector, including experience in Atlanta, Milwaukee, Indianapolis, and Buffalo. UW's proposal does, however, fail to address any type of restructuring that will most likely be necessary after the formal transition period.

While UW's proposal presents a well thought out approach to transitioning the Affected Employees that should ensure a smooth transition, it fails to address whether any job reassignment will take place after the formal transition period. As a result, the UW proposal is considered to be acceptable with respect to this sub-criterion.

US Filter

The USF proposal provides a detailed description of what appears to be a well reasoned and thought out employee transition plan. The plan addresses such areas as personnel orientation, employee benefits orientation, employee interviews, job assignments, drug testing and organizational restructuring. In addition, the USF proposal provides good detail on the transition team for USF, including the number of employees involved in each phase, the experience of upper management, and the amount of preparation that has been put forth in formulating a transition plan. Sufficient communication will be provided among the transition team members through daily meetings during the eight-week transition period.

USF has significant experience transitioning employees from the public to the private sector. This experience has been mostly in international transitions that are larger in scope and size than New Orleans. USF also has knowledge of executing transitions in New Orleans through its operation of the wastewater treatment plants.

The USF proposal presents a detailed, well-reasoned and comprehensive approach to transitioning the Affected Employees, and USF has experience transitioning S&WB employees. Therefore, its proposal is considered to be advantageous with respect to this sub-criterion.

Employee Interview Schedule

The quantity and quality of the interviews that the transitioned employees would receive were given major consideration for this sub-criterion. A progression of interviews from general and informative to skills assessment and career counseling for each employee is desirable. Also, the amount of contact with management the employees could expect during the transition period was considered.

Managed Competition Employee Committee

While the MCEC provides a detailed schedule for operations and maintenance issues, the schedule for transitioning personnel appears to be an afterthought. The interviews of personnel are related mostly to operation and maintenance issues. The only items offered in terms of a schedule are a skills assessment and staff orientation and briefing with a three-month time frame in which this will occur. Apparently no formal interviews will be conducted of either present S&WB personnel or the forty personnel that are defined by the MCEC as true transition employees. Since a transition from the S&WB to the MCEC would take place if the MCEC took control, the Evaluation Team considers that all current employees would be transitioned and that a detailed analysis of all personnel should be conducted by the MCEC. Based on these factors, the MCEC proposal is considered to be marginal with respect to this sub-criterion.

United Water

The UW proposal presents a logical approach to employee interviews. The individual employee interviews will commence the first day following the commencement of the contract and continue for thirty days. These interviews will provide a benchmark for each employee and scheduled feedback will be provided afterwards in the form of ninety-day quarterly reviews. This is, however, the only formal opportunity presented in the employee transition section of the proposal for employees and their managers to communicate during the transition. UW does not make clear who will participate in these interviews should the manager also be one of the transitioned employees.

Two programs for employee interviews, the Employee Development Review Program and the Performance and Development process, are described in the proposal; however some clarification is needed as to how the two relate with one another and if any overlap exists between the two.

The UW proposal lacks some of the detail presented in the USF proposal and is considered to be only acceptable with respect to this sub-criterion.

US Filter

The USF proposal also presents a logical and complete employee interview plan. The plan includes a schedule of interviews that progress from basic to more in-depth as the transition period progresses. Throughout the transition, the USF transition team will make itself available to S&WB employees twenty-four hours a day. The employees will be provided with initial personal interviews, and as the transition period progresses more in-depth interviews will be conducted. A detailed schedule is provided in the appendices.

The orientation program is complete and requires no clarification in terms of scheduling or the objectives set forth. The USF proposal is considered to be advantageous with respect to this sub-criterion.

Plans for Job Assignments and Responsibilities

The plans for job assignments and responsibilities were assessed with respect to whether they would ensure that employee skills would match their job assignments. The proposed plan for reevaluating job assignments both during and after the formal transition period was taken into account. The goal of any such reevaluation should be to put in place the most efficient organization possible.

Managed Competition Employee Committee

The MCEC proposal recognizes the advantages of keeping the Affected Employees in their current positions during the formal transition period, but does not discuss plans for after the transition period. It appears that the MCEC plans to have all employees remain in their current positions without any formal reevaluation of job assignments.

The failure to implement a formal process to reevaluate job assignments and apparently leave employees in their current positions for the long term is a major weakness of the MCEC proposal with respect to this sub-criterion. As a result, the MCEC proposal is considered to be marginal in this area.

United Water

UW proposes to assign all current employees to positions that are similar in scope and responsibility to their current positions. Career growth and development are noted but no detail is given regarding plans for reorganization or job reassignment in the future. It appears that a change in job assignment and responsibility rests solely with the employee and would be evaluated on an individual basis and not as part of an overall plan.

The UW approach to job assignments, which recognizes the advantages of keeping the Affected Employees in positions with which they are familiar, should result in a relatively smooth transition. However, UW's plan for assessing skills and reassigning jobs based on the results of this assessment is somewhat lacking. While the UW proposal does include some job reassignment based on skills assessment during the initial period of the contract term, its approach to skills assessment and job reassignment once the formal transition period has ended is not well defined. As a result, the company's proposal with respect to this sub-criterion is considered to be only acceptable.

US Filter

USF plans to keep employees in positions similar in scope and responsibility to their current position during the initial contract period with the certainty for major restructuring in three to five years. According to the USF proposal, this organizational restructuring will be based on employee interviews and skills assessments. The information gained through the initial interviews during the transition period will be a valuable tool in ascertaining the magnitude of the restructuring that will be required.

The USF proposal recognizes the advantages of keeping employees in similar positions to the ones they hold now during the initial transition period, while also recognizing that significant restructuring of job assignments will be required at some point. The transition plan presented in the company's proposal appears to be a logical approach to ensuring that employees are placed in the appropriate job as a result of the restructuring. As a result, the company's proposal is considered to be advantageous with respect to this sub-criterion.

Employee Training Objectives and Plans

The Evaluation Team was uncertain as to how this sub-criterion differed from the employees training plan sub-criterion under the Employee Compensation and Benefits Package, Employment Relations and Career Development Program criteria. The evaluation with respect to this sub-criterion consisted of an assessment of the degree to which the proposed transition plan incorporated employee training as an integral part of the transition plan.

Managed Competition Employee Committee

The MCEC proposal makes only a cursory reference to employee training in its proposed transition schedule. As a result, the MCEC proposal is considered to be marginal with respect to this sub-criterion.

United Water

The UW proposal indicates that training will be an integral part of its employee transition plan. Its transition plan includes an apprenticeship program and addresses safety compliance, cross training, and operator certification. UW's proposal is considered to be advantageous with respect to this sub-criterion.

US Filter

The USF proposal presents training as an integral part of its employee transition plan. Its plan addresses technical training, managerial training and employee cross-training as well as safety training. USF's proposal is considered to be advantageous with respect to this sub-criterion.

Summary of Employee Transition Plan Evaluation

The MCEC employee transition plan focuses more on operations transition and very little on employee transition. In addition, the MCEC's assumption that only forty employees will be transitioned is a bit short sighted and fails to recognize the impact that the operational changes that must occur will have a marked impact on the Affected Employees. Based on these factors, the MCEC proposal is considered to be marginal with respect to this criterion.

The UW employee transition plan is well reasoned; however, its plan does not appear to be as comprehensive as the plan presented by USF and fails to address if and how employees would be moved to positions that are a better match for their skills after the initial transition period. UW's proposal with respect to this criterion is lacking in detail and further clarification of some of the aspects of the plan is needed. Based on these factors, the UW proposal is considered to be acceptable with respect to this criterion.

The USF proposal provides a complete discussion of a well reasoned and comprehensive employee transition plan that should ensure a smooth transition, as well as ensure that employees end up in the positions for which they are best suited. Based on these factors, the USF proposal is considered to be advantageous with respect to this criterion.

Appendix A
Creative Approaches

Evaluation of Creative Approaches

Since the RFP neither provided a description of how the Creative Approaches were to be evaluated nor assigned any point value to be used in scoring the Creative Approaches, the Evaluation Team decided that the Creative Approaches would not be considered in the overall evaluation of proposals. In general, none of the Proposers provided much detail with respect to their proposed Creative Approaches; therefore, it was not possible to fully determine the benefit to the S&WB. However, in order to determine the potential benefits of the Creative Approaches that were proposed, the Evaluation Team examined each Proposer's Creative Approaches.

Managed Competition Employee Committee

Creative Approach 1

The MCEC proposed to manage, operate and maintain all S&WB systems including Drainage, Power and Management but did not provide any information pertaining to the potential economic benefit of this approach. While this proposal could offer some potential benefits in that it would ensure continuity and consistency of the management approach throughout the S&WB and help eliminate redundancy of management positions, it is essentially the same as the status quo. As a result, it is difficult to see how it would result in the changes that would be necessary to realize the benefits the S&WB is seeking through this procurement.

Creative Approach 2

The MCEC also proposes a contract term of 5 years instead of the 10, 15 or 20 year term considered as part of the current procurement. This proposal would offer the S&WB more flexibility by allowing for a change in contractors at the end of the shorter contract term if the selected contractor was not providing the desired benefits; however, this would require another costly procurement process. In addition, it is unlikely that the S&WB would realize the same level of economic benefits that would be realized under a long-term scenario. This argument is supported by the fact that the MCEC indicates that its annual service fee under a five-year contract would be approximately 5% higher than its proposed fee under a 20-year contract.

Creative Approach 3

The MCEC also proposes omitting the provision of the MOU that would require it to purchase and install a new telephone system separate from the system used by the S&WB. This proposal would eliminate the need of the MCEC to incur the cost of a new telephone system. However, since the MCEC proposal provides no indication as to how the S&WB would benefit from this cost savings, it is impossible to determine whether the economic benefits would justify the potential complications associated with two organizations using the same telephone system.

Creative Approach 4

The next Creative Approach proposed by the MCEC involves the MCEC providing inter-office mail service to the entire S&WB organization. While this proposal seems to have merit in that it would eliminate potential duplication of inter-office mail handling services, it is impossible to determine the magnitude of the economic benefit to the S&WB since the proposal provides no information relating to the potential cost savings.

Creative Approach 5

The MCEC also offers as a Creative Approach prompt deposit of customer receipts. The idea that the MCEC considers this to be a Creative Approach is somewhat disturbing. Depositing receipts as quickly as possible is simply a sound business practice and should be expected as part of any Proposer's base proposal.

Creative Approach 6

The MCEC also proposes to increase revenues through the sale of bottled water and the sale of water to wholesale customers. While the sale of bottled water proposal may have some public relations benefits, historically, not many municipal bottled water programs have operated at a profit. The sale of water to wholesale customers should offer substantial benefits in that it uses the S&WB's excess capacity to generate revenues and should be pursued by the S&WB regardless of who is awarded the contract.

Creative Approach 7

The next Creative Approaches proposed by the MCEC involve two different alternative meter replacement plans. The first alternative would eliminate the requirement to replace all meters with all-bronze meters. Since all-bronze meters are relatively expensive, this proposal could result in lower costs to the S&WB. The MCEC proposal indicates that under a 20-year contract the group could reduce its annual service fee by approximately $319,000 per year if the S&WB accepts this proposal. Prior to accepting this proposal the S&WB should obtain from the MCEC some guarantee that the long-term accuracy of the replacement meters used by the MCEC is comparable to the long-term accuracy of the all-bronze meters.

Creative Approach 8

The second alternative meter replacement proposal involves the elimination of the requirement to test and calibrate all 1 and 2 inch meters within the first three years of the contract. The MCEC proposal indicates that the group's annual service fee would be reduced by approximately $6,000 if this proposal is accepted. While this proposal has some merit in that it results in a lower annual service fee, it is likely that the increase in meter accuracy resulting from the current meter testing and calibration requirements would result in revenue increases greater than the proposed reduction in the annual service fee.

Creative Approach 9

The MCEC also proposes the beneficial reuse of 12,500 dry tons per year of wastewater residuals but does not give an indication of the economic benefits of this proposal. While beneficial reuse of wastewater residuals can result in lower total costs associated with residuals disposal, it is also subject to stringent environmental regulation. If changes in regulatory requirements result in beneficial reuse cost increases, these increases would be the responsibility of the S&WB. Therefore, if the S&WB accepts this proposal, it should require that the MCEC guarantee that residuals disposal costs will under no circumstances be greater than the costs associated with the current residuals disposal practices.

Creative Approach 10

The MCEC next Creative Approach involves the construction of additional elevated storage tanks in order to decrease the reliance on pumping to maintain transmission and distribution system pressure. However, due to confusing language in the description of this approach, it is unclear whether the MCEC is recommending this approach or not. The proposal does indicate that the cost for each elevated storage tank would be $2.5 million but does not indicate what the potential operating cost decreases would be.

Creative Approach 11

The MCEC also proposes to market its laboratory testing capabilities to parties in need of these services. While this proposal may be a viable source of additional revenues, there are several concerns associated with it. First, outside laboratory work would compete for the resources and facilities needed to perform S&WB laboratory services. This competition could jeopardize the quality and timeliness of laboratory services necessary to operate the Systems.

Second, the S&WB would most likely be required to accept liability for the accuracy of the laboratory testing results it provides to outside customers. Since the S&WB's primary objective is to provide high quality services to the residents of New Orleans, it should consider carefully whether it is in its best interest to accept the liability associated with providing laboratory services to outside parties.

Finally, it is anticipated that there will be additional costs associated with obtaining and maintaining the certifications and permits necessary to operate what in essence would be a commercial laboratory. A careful analysis should be performed to ensure that the recovery of these costs through the rates and fees charged to outside customers would not require that these rates and fees be non-competitive when compared to the rates and fees charged by other commercial laboratories.

Creative Approach 12

This proposal recommends increased marketing of reclaimed water to various industries that are capable of using non-potable water in their processes. While the MCEC provides very little detail with respect to this Creative Approach, many utilities across the country have demonstrated that the marketing of reclaimed water is a viable revenue enhancement alternative. Regardless of which Proposer is eventually selected for this project, the S&WB should actively pursue the sale of reclaimed water.

Creative Approach 13

This Creative Approach involves converting from the use of gaseous chlorine to sodium hypochlorite for disinfection at the water treatment plants. The benefit of this approach would be increased safety at the facilities and decreased liability associated with a release of gaseous chlorine into the environment. This option would require a significant capital investment on the part of the S&WB and the operating costs associated with sodium hypochlorite disinfection are typically higher than the cost of using gaseous chlorine. Therefore, prior to pursuing this option, the S&WB must carefully consider whether the benefits justify the additional cost.

Creative Approach 14

The MCEC recommends modifying the existing employee residency requirements such that residents from surrounding parishes could be employed at S&WB facilities. The benefit of this option would be a larger labor pool, which typically results in a more skilled workforce. This is an attractive recommendation that should definitely be considered. However, there are obviously political implications that must be taken into consideration.

Creative Approach 15

The MCEC proposes the sale of "logo products" as a source of additional revenue. Similar to the bottled water proposal, this option may have some benefits in terms of public relations but is unlikely to generate a significant increase in revenues.

With respect to Creative Approaches, the MCEC provided the greatest number of proposals. For the most part, however, its proposals lack sufficient detail to determine the true benefit to the S&WB of the MCEC's Creative Approaches. The group's proposals to enhance revenues through the sale of water to wholesale customers and the marketing of reclaimed water are initiatives that the S&WB should definitely take into consideration. The group's proposal to switch from gaseous chlorine to sodium hypochlorite also has merit and warrants further consideration by the S&WB. For the most part however, the MCEC proposal fails to demonstrate the potential benefits offered by its Creative Approaches.

United Water

Creative Approach 1

This proposal involves allowing the Service Fee and Flow and Loadings Adjustments to increase annually by 100% of the Consumer Price Index as opposed to the 80% specified in the RFP. If this change were allowed, UW indicates that it would lower its proposed annual Service Fee from $48,906,215 for a 20-year contract term to $46,974,000. Using the same economic assumptions used for the Cost Effectiveness analysis, this proposal would result in the payments by the S&WB being decreased by a total of approximately $8 million over the first seven years of the contract. However, the Service Fee in Years 8 through 20 would be higher and the NPV of costs under this Creative Approach would be approximately $8 million dollars higher than under the Base Case. If inflation was greater than the 3% assumed in the economic model, the difference in NPV would be even greater. Therefore, while this approach would free up some funds that the S&WB could use for capital improvements during the initial years of the contract, it does not appear that this short-term benefit would outweigh the additional long-term cost.

Creative Approach 2

UW's second proposed Creative Approach simply describes the revenue enhancements that would result if it performed the scope of services required by the current Service Agreement. While this proposal highlights some of the benefits that the S&WB would realize as a result of meter replacement and more accurate billing, it does not appear to offer any benefits beyond those that would be realized under the current plan.

Creative Approach 3

This proposal involves having the S&WB directly fund the capital improvements that UW has included in its Technical Approach. Under the likely assumption that the S&WB's cost of capital is lower than UW's cost of capital, this proposal would result in savings to the S&WB. The UW proposal indicates that the annual Service Fee under this scenario could be reduced by $800,000; however, the basis for these estimated savings is not explained in the proposal. While this approach would most likely result in lower costs, it would effectively reduce the S&WB's capacity to fund other much needed capital improvements by the amount of the capital plan proposed by UW.

This proposal could prove to be beneficial to the S&WB if it is determined that it has the capacity to fund both the proposed capital improvements and the projects currently in its capital improvement plan. Regardless of which team is eventually selected for this project, the S&WB should investigate this option.

Creative Approach 4

Like the MCEC, UW also proposes the conversion from the use of gaseous chlorine for disinfection at the water treatment plants to the use of sodium hypochlorite. This is a viable approach and would result in increased safety at the facilities and decreased liability associated with a release of gaseous chlorine into the environment. However, this option would require a $1.1 million capital investment on the part of the S&WB and the Service Fee would be increased by $768,000 per year. Therefore, prior to pursuing this option, the S&WB must carefully consider whether the benefits of increased safety justify the additional cost.

Creative Approach 5

This proposal involves replacing the existing cryogenic oxygen system with a Vapor Pressure Swing Adsorption ("VPSA") system. While the proposal provides very little detail with respect to this approach, it is apparent that it would result in lower annual power costs; however, this power cost reduction would be offset by a $577,200 increase in the annual Service Fee for a 20-year contract. Since the proposal does not provide any information with respect to the dollar amount of the electricity cost savings, it is impossible to determine the true economic impact of this approach.

Creative Approach 6

This proposal is similar to Creative Approach 4 in that it involves a conversion from the use of gaseous chlorine for disinfection at the wastewater treatment plants to the use of sodium hypochlorite. As indicated earlier, this is a viable option that would result in increased safety; however, the high variability of wet weather flows to the wastewater treatment plants and decreased water quality during high flows could make this process difficult to control during rain events. Since this option would involve a $900,000 capital investment and increase the Service Fee by $512,000 per year, the S&WB must carefully evaluate whether the increased safety justifies the additional cost.

Creative Approach 7

This approach involves modifying the headworks area at the West Bank wastewater treatment plant in an effort to reduce odors. The proposed modifications include covering the grit tanks, increasing the airflow in the tanks and treating the resulting gases in the existing odor control units. While this approach may result in decreased odors, the increased air in grit basins could result in carryover of grit to primaries, sludge thickener, and incinerators. In addition, treatment of the additional gases that would result would be a deviation from the original design criteria of the odor control system.

UW also indicates that this approach could potentially result in lower costs, but it does not propose a decrease in the Service Fee. Therefore, the benefits to the S&WB are questionable.

Creative Approach 8

This proposal essentially involves modifying the current Service Agreement to the effect that the S&WB will pay UW only for those residential meters that are actually replaced as opposed to paying UW a fixed price through the Service Fee to replace these meters, regardless of how many meters are replaced. The UW proposal indicates that the Service Fee allows for the replacement of 48,000 meters; therefore, if the S&WB believes that the actual number of meters that will require replacement is less the 48,000, then this approach would be beneficial. However, if the S&WB believes that more than 48,000 meters will require replacement or if there is a great deal of uncertainty with respect to the number of meters that will need to be replaced, then the S&WB would be better off under the current Service Agreement.

Creative Approach 9

This approach involves deviating from the current requirements of the RFP that the meter testing program comply with meter testing guidelines set forth in AWWA manual M6. The AWWA guidelines are just that, guidelines, and are not necessarily the most effective approach in every situation. To the extent that UW can provide the S&WB with a meter testing plan that will ensure meter accuracy, the S&WB should consider this approach.

Creative Approach 10

UW proposes to decrease meter reading frequency to once every other month but will continue to bill monthly. This would require that every other bill would be based on an estimate of water use for that month that the meter was not read. The proposal indicates that the Service Fee would be reduced by $300,000. While this approach would result in significant cost savings, it would probably have adverse customer relations impacts. Therefore, the Evaluation Team does not recommend that the S&WB pursue this approach at this time, but it should reserve the right to reduce meter reading requirements at a later date in return for an appropriate decrease in the annual Service Fee.

UW's Creative Approaches proposal provided a number of interesting alternatives to the current requirements of the RFP and Service Agreement. However, its proposal for the most part lacked the detail necessary to make a definitive judgment of the benefits that the alternatives would offer to the S&WB. With respect to the Creative Approaches proposed by UW, the S&WB should definitely consider modifying its meter testing requirements and should investigate further the option of converting from gaseous chlorine disinfection to the use of sodium hypochlorite. In addition, the S&WB should reserve the right to reduce meter reading requirements at a later date.

US Filter

Creative Approach 1

USF proposes to perform a detailed meter replacement study that would more accurately determine the Systems' meter replacement requirements. Based on the results of this study, USF would develop an alternative to the meter replacement program required by the Service Agreement. The proposed cost of the study is $200,000 and USF estimates that the potential savings that would result from the alternative meter replacement program would be $50 million over 20 years.

While it is likely that a meter replacement study would result in a more appropriate meter replacement program, the S&WB should ask that USF fund the study in return for an appropriate share of the savings that will result. This approach would probably still result in savings to the S&WB while reducing the S&WB's risk.

Creative Approach 2

USF also proposes to reduce meter reading requirements to once every other month. As discussed under the section on UW's Creative Approaches, the S&WB should not take this approach initially, but should reserve the right to do so in the future in return for an appropriate reduction in the annual Service Fee.

Creative Approach 3

USF proposes to institute a program whereby haulers of septic tank waste will be allowed to dispose of wastes at the East Bank wastewater treatment plant. This approach would involve USF funding the construction of a waste receiving station and then developing and implementing a waste acceptance program. The potential benefit is additional revenues that would be shared by the S&WB and USF. On the negative side, this approach would increase the risk of wastes containing constituents that could upset the treatment process being introduced into the system. However, if the agreement is structured in a way that will place the risk of this occurrence on USF, this could be an advantageous approach and therefore should be investigated further.

Creative Approach 4

This proposal involves USF taking responsibility for the maintenance of all vehicles within the S&WB fleet, not just those vehicles that are used on the Systems. In addition, USF proposes to market fleet maintenance services to other governmental departments in the New Orleans region. While the proposal does not provide any specifics regarding the economic benefit of this proposal, it seems reasonable to assume that one consolidated fleet maintenance program for the entire S&WB would be more efficient. However, the S&WB must consider whether USF, a company that specializes in operating and maintaining water and wastewater systems, is the most appropriate company to perform this fleet maintenance function.

Creative Approach 5

USF proposes to eliminate the use of liquid chlorine at the Carrolton water treatment plant and convert to the use of sodium hypochlorite, which will be generated at an onsite sodium hypochlorite generation system. While this approach would decrease the hazards associated with the use of chlorine, it would require a significant capital investment to construct the sodium hypochlorite generation facilities. As expressed earlier, the S&WB must consider whether the increases in safety merit the additional costs associated with this approach.

Creative Approach 6

This proposed approach involves the use of incinerator ash as backfill for sewer trench excavations. The benefits of this proposal include reduced residuals disposal costs and a reduction in the purchase of suitable backfill material. However, this plan would require the approval of federal, state and local environmental regulatory agencies and could result in increased environmental liability to the S&WB that could far outweigh the potential savings. Therefore, unless USF agrees to accept all liability associated with this practice, the S&WB should not consider this approach.

Creative Approach 7

USF also proposes two alternative employee benefits plans. The first alternative would be to replace the employee benefits required by the Service Agreement with USF's standard employee benefits package. USF indicates that savings for this approach under a 20-year contract with a five-year employee retention requirement would be $1,025,000; however, it is not clear whether this is an annual amount or the total over the term of the contract, or whether this is the proposed reduction in the annual Service Fee if the S&WB elects to pursue this approach.

The second alternative suggests that the current retired employee benefits required by the Service Agreement duplicate benefits provided by Medicare and are therefore an unneeded expense. USF proposes a replacement plan that does not include benefits provided by Medicare. Acceptance of its proposed plan would result in a $400,000 reduction in its proposed annual Service Fee.

The USF proposal provides very little detail with respect to these very complicated approaches and therefore a determination as to desirability is impossible; however, the S&WB should request additional information on these approaches so that it can make an informed decision on this matter.

USF provided the fewest Creative Approaches; however, except for its employee benefits options, it provided a significant amount of detail with respect to its proposed alternatives. The S&WB should consider further the option of reducing meter reading requirements and the conversion from chlorine to sodium hypochlorite at the Carrollton water treatment plant. Additionally, the S&WB should ask that USF fund the proposed meter replacement study in return for an appropriate share of the potential savings.

Appendix B
Cost Effectiveness Schedules

Schedule B-1 Results of NPV Analysis Under Base Case Scenario

(In millions $)

	Alternative 1	Alternative 2	Alternative 3	Alternative 4	Alternative 5	Alternative 6
	20 Year Contract, 3 Year Employment Guarante	20 Year Contract, 5 Year Employment Guarante	15 Year Contract, 3 Year Employment Guarante	15 Year Contract, 5 Year Employment Guarante	10 Year Contract, 3 Year Employment Guarante	10 Year Contract, 5 Year Employment Guarante
TOTAL NPV OVER CONTRACT TERM						
Excluding adjustments						
U.S. Filter	$573.7	$575.3	$464.8	$465.7	$339.2	$344.3
United Water	$719.1	$719.1	$576.1	$576.1	$415.6	$415.6
MCEC	$650.0	$650.0	$523.4	$523.4	$383.6	$383.6
Including all costs						
U.S. Filter	$651.1	$652.6	$529.6	$530.5	$388.6	$393.7
United Water	$742.0	$742.0	$594.3	$594.3	$428.5	$428.5
BEGINNING SERVICE FEES						
U.S. Filter						
Water	$22.4	$22.4	$22.8	$23.0	$23.8	$24.1
Wastewate	$20.6	$20.6	$20.8	$21.0	$21.7	$22.0
United Water						
Water	$25.1	$25.1	$25.3	$25.3	$25.8	$25.8
Wastewate	$23.8	$23.8	$24.0	$24.0	$24.5	$24.5
MCEC						
Water	$22.0	$22.0	$22.3	$22.3	$23.1	$23.1
Wastewate	$20.8	$20.8	$21.1	$21.1	$21.8	$21.8

Schedule B-2 Results of NPV Analysis Under Alternative A Scenario

(In millions $)

	Alternative 1 20 Year Contract, 3 Year Employment Guarante	Alternative 2 20 Year Contract, 5 Year Employment Guarante	Alternative 3 15 Year Contract, 3 Year Employment Guarante	Alternative 4 15 Year Contract, 5 Year Employment Guarante	Alternative 5 10 Year Contract, 3 Year Employment Guarante	Alternative 6 10 Year Contract, 5 Year Employment Guarante
TOTAL NPV OVER CONTRACT TERM						
Excluding adjustments						
U.S. Filter	$577.9	$579.4	$464.8	$469.9	$343.4	$348.5
United Water	$721.8	$721.8	$578.8	$578.8	$418.3	$418.3
MCEC	$652.5	$652.5	$525.9	$525.9	$386.0	$386.0
Including all costs						
U.S. Filter	$655.3	$656.8	$529.6	$534.7	$392.8	$397.9
United Water	$744.8	$744.8	$597.0	$597.0	$431.3	$431.3
BEGINNING SERVICE FEES						
U.S. Filter						
Water	$22.4	$22.4	$22.8	$23.0	$23.8	$24.1
Wastewate	$20.6	$20.6	$20.8	$21.0	$21.7	$22.0
United Water						
Water	$25.1	$25.1	$25.3	$25.3	$25.8	$25.8
Wastewate	$23.8	$23.8	$24.0	$24.0	$24.5	$24.5
MCEC						
Water	$22.0	$22.0	$22.3	$22.3	$23.1	$23.1
Wastewate	$20.8	$20.8	$21.1	$21.1	$21.8	$21.8

Report of Proposal Evaluation

Sewerage and Water Board of New Orleans
Water and Wastewater Systems Managed Competition

Prepared for:

The Bureau of Governmental Research

By:

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