MWRA Advisory Board Summary
Of the
MWRA Board of Directors Meeting
Wednesday, April 13, 2011

A meeting of the Board of Directors of the Massachusetts Water Resources Authority was held on April 13, 2011 at the Charlestown Navy Yard. **Present:** Chair Rick Sullivan, Joel Barrera and Michael Gove, Gubernatorial Appointees; Andrew Pappastergion and Joseph Foti, Advisory Board Representatives; Vincent Mannering, Kevin Cotter and James Hunt III, City of Boston Representatives; Jack Walsh, City of Quincy Representative. **Absent:** John Carroll, Advisory Board Representative & Marie Turner, Town of Winthrop Representative.

Report of the Chair

Chairman of the Board Rick Sullivan called the meeting to order. Mr. Sullivan requested a moment of silence for the tragedy passing of Vice Chairman John Carroll's grandson.

Report of the Executive Director

Executive Director Fred Laskey reported that on April 20th, the MWRA will be receiving a joint award from the Massachusetts Department of Environmental Protection (DEP) and the US Environmental Protection Agency (EPA) for the use of American Recovery and Reinvestment Act funded energy projects. The MWRA will realize energy costs savings by the use of these completed projects, including a FloDesign Wind Turbine and solar installations being available online and South Boston storage and pumping facilities are scheduled to be up and running by the summer of 2011.

Mr. Laskey also informed the Board that House Ways and Means released its budget and included line items of $500,000 for Debt Service Assistance as well as funds for the Clinton Wastewater Treatment Plant.

APPROVALS

Bond Defeasance of Future Debt Service

The Board voted to authorize the Executive Director or his designee, on behalf of the Authority, to enter into and execute all necessary agreements and other instruments to escrow up to $28,500,000 of outstanding MWRA debt to maturity.

MWRA staff recommended the use of the current year's surplus to reduce future year rate increases by defeasing or prepaying debt. In this case, the projected FY11 $28 million surplus will be utilized to prepay debt coming due primarily in FY14; The Authority anticipates benefits of $1.2 million in FY12 and FY13. The defeasance of debt, coupled with aggressive management of the operational expenses, has been the backbone of the Authority's ability to keep rates consistently low. Because the MWRA has effectively defeased debt, the average increase in rates has been held to 3.8% since FY07.

Memorandum of Agreement between MWRA and the Town of Milton-Southern Spine Distribution Mains, Section 107, Phase 2: Amendment 1

The Board voted to authorize the Executive Director, on behalf of the Authority, to approve Amendment 1 to the Memorandum of Agreement between the Town of Milton and MWRA regarding Contract 7099, Southern Spine Distribution Mains, Section 107 Phase 2.

The $75 million Southern Spine Distribution Mains Project involves the rehabilitation and/or replacement of three water transmission mains, Sections 21, 22 and 43, serving the communities of Boston, Milton, and Quincy. This project is needed to modernize the water distribution system, portions of which are over 100 years old, and to fully utilize the new Blue Hills Covered Storage Facility.

Under this Amendment, the Town of Milton proposes to reimburse MWRA for a greater length of locally own-water main (a total of 7,721 linear feet compared to the originally estimated length of 4,800 linear feet) for total amount of $579,075. In exchange, the MWRA will provide full overlay payment in the areas previously deleted on Adams Streets.

This amendment benefits both the Town and the MWRA. Based on the low unit bid price of $10 per square yard of paying, the added cost of the increased overlay paving would be approximately $100,000. The Town of Milton would be unable to receive anywhere close to that unit cost if it was required to procure its own paving contract. Staff recommended approval of this amendment because the cost of the increased paving will be more than offset by the difference in reimbursement costs from Milton for the increased locally-owned pipeline installations, which will be $232,500. The project is expected to be completed in April of 2013.

Extension of Employment Contract, Senior Laboratory Technician, Department of Laboratory Services, Deer Island

The Board voted to approve the extension of the employment contract for Mr. Keith M. Stocks, Senior Laboratory Technician, Department of Laboratory Services, Deer Island, for one year from May 15, 2011 to May 14, 2012, at the current hourly rate of $18.00, for an annual compensation not to exceed $37,440.00.

The Department of Laboratory Services has a continuing need for contract staff to assist with both seasonal workload increases and the additional work that resulted from MWRA's decision to bring in house more of the Harbor and Outfall Monitoring sampling now required by its NPDES permit.

Mr. Keith Stocks has been a contract employee at MWRA since May of 2009 performing lab testing and field sampling. He performs prescribed procedures on water and wastewater samples and assists scientists, compiling and preparing data, and operating and performing basic maintenance on laboratory equipment. Mr. Stocks now has two years of direct experience and in the last year has been trained and certified on a variety of chemistry tests and has become an integral part of the Laboratory team.

Extension of Employment Contract, Special Consultant

The Board voted to approve an extension of the employment contract for Mr. Kevin P. Feeley for one year from May 6, 2011 to May 5, 2012 at the current hourly rate of $74.53.

Mr. Feeley was hired as a special consultant to assist staff with a multitude of complex issues arising from the May 1, 2010 water emergency. Since that time, Mr. Feeley has brought his extensive knowledge of the MWRA's contractual policies and procedures to assist MWRA staff as they sort through various contracts associated with the MetroWest Tunnel project. Staff recommended keeping this contract for another year during the conclusion of the investigation and legal follow-up.

CONTRACT AWARDS

Integrated Financial, Procurement and Human Resources/Payroll Management System Maintenance and Support: Lawson Associates, Inc.

The Board voted to approve the award of a sole source purchase order contract for the annual maintenance and support of the integrated financial, procurement and human resources/payroll management system to Lawson Associates, Inc., and to authorize the Executive Director, on behalf of the Authority, to execute and deliver said contract in an amount not to exceed $557,074.14 for a period of one year from June 1, 2011 to May 31, 2012.

Director of Administration and Finance Rachel Madden explained that Lawson Enterprise Resource Planning (ERP) core system supports numerous MWRA function areas including Human Resources, Payroll, Finance, Procurement, and Materials Management. This support is achieved through a variety of application modules which include: Accounts Payable, Accounts Receivable, Asset Management, Billing, Cash Ledger, Enterprise Budgeting, General Ledger, Human Resources, Materials Management, Payroll, Purchasing, Requisitioning and Time Management. These modules have a total of 829 users.

All applications typically require periodic upgrades to enhance functionality, introduce new technology, and maintain vendor support. The latest Lawson environment and application was implemented in May 2009 and was required to maintain vendor support.

There was discussion amongst Board members about reducing the number of users in order to cut down the cost of the service. Ms. Madden reported that in the industry, the value for these services is very good but staff will look into it more when they conduct a study. At the present time, renewal of the annual maintenance agreement ensures that MWRA receives vendor support, product patches, version releases and software upgrades.

Janitorial Services at the Deer Island Treatment Plant: Empire Cleaning, Inc., Contract WRA-3233

The Board voted to approve the award of Contract WRA-3233, Janitorial Services at the Deer Island Treatment Plant, to the lowest eligible and responsible bidder, Empire Cleaning, Inc., and to authorize the Executive Director, on behalf of the Authority, to execute and deliver said contract in an amount not to exceed $1,861,260 for a term of three years from the Notice to Proceed.

The MWRA has been contracting janitorial and window cleaning services for 14 buildings at the Deer Island Treatment Plant for the past 15 years under five successive, three-year contracts. The contract includes all necessary labor, equipment, materials, supplies, with the exception of paper products and hand soap, which MWRA procures separately. The contractor is required to implement and manage a comprehensive janitorial program intended to protect and maintain the facilities and provide a healthy, clean environment for MWRA staff and visitors.

Human Machine Interface, Deer Island: Emerson Process Management Power & Water Solutions, Inc., Contract 6884

The Board voted to approved the award of Contract 6884, Human Machine Interface, Deer Island, to the lowest eligible and responsible bidder, Emerson Process Management Power & Water Solutions, Inc., and to authorize the Executive Director, on behalf of the Authority, to execute and deliver said contract in an amount not to exceed $1,302,198 for a term of 48 months from the Notice to Proceed.

The Deer Island Treatment Plant is controlled by a $24 million process instrumentation and control system, commonly referred to as “PICS”. PICS enables staff to execute overall process control, as well as centralized monitoring, of the entire treatment plant with minimal staffing. Process data from PICS is also available throughout MWRA via the MIS network and is essential for compliance reporting, plant optimization efforts, budgeting and “event” evaluations.

All of the information gathered from the process is sent to primary and back-up control rooms and is displayed through a human machine interface (HMI). The operators use this HMI as the main tool for monitoring and control of the process at both the treatment plant and the Thermal/Power Plant.

Emerson is a multi-national corporation based in St. Louis and has major clients in the wastewater industry. MWRA conducted a very thorough review of the contract with Emerson and believes Emerson understands the scope of the work and can complete the assignment for the bid price.

Ultraviolet Disinfection Facilities at Carroll Water Treatment Plant: Daniel O'Connell Sons, Inc., Contract 6924

The Board voted to approve the award of Contract No. 6924, Ultraviolet Disinfection Facilities at the Carroll Water Treatment Plant, to the lowest eligible and responsible bidder, Daniel O'Connell's Sons, Inc., and to authorize the Executive Director, on behalf of the Authority, to execute and deliver said contract in the bid amount of $29,413,382.00 for a term of 1,420 calendar days from the Notice to Proceed.

The Environmental Protection Agency's Long Term 2 Enhance Surface Water Treatment Rule requires MWRA to add an additional disinfectant at the Carroll Water Treatment Plant (CWTP). Under the new rule, all unfiltered water systems must have two primary means of disinfection. Based on the findings of pilot testing and other research, staff has concluded that Ultraviolet light disinfection is the strongest and most cost-effective solution at the CWTP.

MWRA and AECOM have concluded that Daniel O'Connell's Sons, Inc. possesses the skill, ability, and integrity necessary to perform the work under this contract and can perform the work for the price bid, which includes the payment of prevailing wages.

CONTRACT AMENDMENTS/CHANGE ORDERS

East Boston Branch Sewer Interceptor Relief: Barletta Heavy Division, Inc., Contract 6257, Change Order 14

The Board voted to authorize the Executive Director, on behalf of the Authority, to approve Change Order No. 14 to decrease the amount of Contract No. 6257 with Barletta Heavy Division, Inc., East Boston Branch Sewer Relief, by a lump sum credit amount of $644,570.11, decreasing the contract amount from $62,739,787.60 to $62,095,217.49, with no increase in contract term.

Contract 6257 began in July 2008, and for which Substantial Completion was reached on July 30, 2010, and involved construction of approximately 2.5 miles of 24-, 36-, 48- and 66-inch-diameter combined sewers on Chelsea, East Eagle, Condor, Border, Marginal, Orleans, Gove, Bremen and Porter Streets in East Boston.

Contract 6257 is the second contract of the East Boston Sewer Relief Project. The first contract, Contract 6840, was completed in 2005 and involved the rehabilitation of approximately 6,000 feet of existing East Boston Branch Sewer. Under the third and final contract, Contract 6841, which began in April 2009, the Contractor replaced approximately one mile of existing 12- and 15- inch-diameter combined sewers on Marginal, New, Maverick, Border, and Jeffries Streets in East Boston, primarily by pipe bursting; the contract reached Substantial Completion on July 8, 2010.

Together, these three contracts comprise the East Boston Branch Sewer Relief Project recommended in the 1997 Final CSO Facilities Plan/EIR and will significantly reduce the frequency and volume of combined sewer overflows from Outfalls BOS003-014 in East Boston by replacing the 113-year-old East Boston Branch Sewer with either larger replacement or rehabilitated pipelines.

The change order covers an increase of $71,659 for traffic control, decreases totaling $686,097 for certain unit price and allowance items including decreases in excavated materials and a reduction of $30,131 related to the deletion of relocation of electrical duct bank and BWSC water mains.

Lynnfield/Saugus Pipelines Project: Albanese Brothers, Inc., Contract 6584, Change Order 1

The Board voted to authorize the Executive Director, on behalf of the Authority, to approve Change Order No. 1 to increase the amount of Contract No. 6584 with Albanese Brothers, Inc., Lynnfield/Saugus Pipelines Project, in an amount not to exceed $265,000.00.

Chief Operating Officer Michael Hornbrook reported that the Massachusetts Department of Transportation (MassDOT) modified its permit for this project to preclude the contractor from working a five-day week, as originally planned and bid, due to traffic concerns from the bridge work MassDOT will be performing on weekends on I-93 in the same region. This modification occurred after award of this contract, this change order is necessary to reflect the change in schedule. The MWRA will be working closely with MassDOT to evaluate the traffic impacts from the I-93 project. If it turns out that those impacts are lower than anticipated, MWRA will request that the contractor be able to return to the original five-day schedule.

Board Member Joe Foti asked if Saugus would be absorbing their share of the additional cost of the change to the contract schedule. Deputy Chief Operating Officer John Vetere explained that MassDot took away Sundays as a day to complete the work. Mr. Vetere said this is a wrinkle that we have run into because the detour during construction is substantial. MassDot changed this after the contract was awarded. Mr. Foti responded by stating he would not be prepared to vote unless he knew Saugus is paying a portion of the cost. Mr. Vetere explained that there will be a discussion with Saugus regarding their share of the cost.

INFORMATION

Delegated Authority Report

MWRA staff reported a list of actions taken by the Executive Director under delegated authority for the period of March 1, 2011 through March 31, 2011. The purpose of the notebook is to see where there are problems and to take corrective action.

FY2011 2nd Quarter Orange Notebook

Mr. Hornbrook and Ms. Madden presented performance indicators for operational, financial, workforce and customer service parameters tracked by MWRA management each month.

It was reported that the Authority is on target in mainline valve replacements and blowout valve replacements; the Authority is above the target when handling Main Line valve replacements and blow-off valves. In addition, there are also several construction projects ahead of schedule.

2010 Annual Update on New Connections to the MWRA System

Policy and Planning Manager Pam Heidell reported that staff is required to provide the Board of Directors with an annual update on the status of new connections to MWRA's system.

Ms. Heidell highlighted some of the details from the report. Ms. Heidell noted that in 2010, there were no new connections to the MWRA water or sewer systems from entities outside the MWRA service area. The report also summarizes recent connections to the MWRA system and tracks water withdrawals and sewer discharges against approved volumes as set forth in water supply and sewer connection agreements. In 2010, all water supply withdrawals by new communities and straddle connections were well below the volumes stipulated in their contracts. Similarly, all sewer connections with reporting requirements reported wastewater discharges below their approved contract limits (prior to 2007, the sewer connection agreements did not include annual reporting requirements).

Ms. Heidell also provided information on entities expressing interest in potential admission to the MWRA water or sewer system.

Other Post Employment Benefits (OPEB) Liability Update

Ms. Madden noted that a recent Boston Globe article examined both the pension and health insurance costs of future retirees from local colleges and universities. She discussed that top colleges and universities are faced with the same challenges as many municipalities and states in funding current and future retiree pension and health insurance benefits. Ms. Madden gave Harvard as an example by stating their pension liability is at $763 million but their health insurance liability exceeds that amount at $812 million. Other Post Employment Benefits or OPEB has escalated as both life expectancy and health care costs have grown in recent years.

The Authority made a payment of $800,000 to a reserve account for the OPEB obligation in FY2010 but presently funds only the current retiree health insurance costs on a pay-as-you-go basis. The MWRA pay-as-you-go retiree health care expenses will exceed its annual required pension contribution starting in FY2016. By the final year of the pension funding schedule in 2024, the pay-as-you-go amount will exceed the pension contribution by in excess of $3.5 million.

As mentioned in the Globe article, "medical liabilities are overtaking pension obligations at universities nationwide." The same is true for the Authority. Currently, the Authority's OPEB liability exceeds its unfunded pension liability. As of FY2011, the unfunded pension liability is $43 million, while the unfunded OPEB liability is $60.2 million. With the advent of Government Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* in FY2008, employers are required to report a liability in their financial statements. The effect of Statement No. 45 is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses and changes in net assets when a future retiree earns their OPEB benefits, rather than when they use their benefit. To the extent that an entity does not fund their actuarially required contribution, an OPEB liability is recognized on the balance sheet. This liability can only be reduced when funding is committed against it, such as by contributions to an Irrevocable Trust established specifically for this purpose.

There was some discussion among Board members about the Irrevocable Trust. Board Member Vincent Mannering was not convinced the Trust was a solid option because the contribution number is subject to change. Mr. Laskey stated the Trust is not the end all but sticking to a conservative plan is the Authority's main focus. Ms. Madden explained that she mentioned the Trust because it is the only way to get credit and create a sustainable source of funding. The most important thing to rating agencies is to develop and stay consistent with a plan.

Advisory Board Executive Director Joseph Favaloro stated that there are no easy answers in handling OPEB. The reality of the situation is that from FY12 to FY17, MWRA Rate Revenue Requirements will climb to $811 million. The goal in handling this is to keep decisions in play to make the OPEB obligation manageable for communities and ratepayers. Mr. Favaloro stated that you cannot fund OPEB while you also maintain an aggressive pension schedule; keep the focus on the pension. There also needs to be a discussion on how to handle the Authority's debt. We cannot solve all of our liabilities issues all at once.

The Net OPEB Liability under an unfunded schedule is in excess of $958 million. As this mounting liability grows, the Authority will need to evaluate options to begin a funding strategy to address its OPEB obligation. The Authority will need to revisit the establishment of an irrevocable trust, potentially redefine health insurance benefits and retiree eligibility-in conjunction with the Group Insurance Commission, and commit to a regular funding schedule that demonstrates a concerted effort to fund these retiree benefits.

FY2011 Financial Update and Summary as of March 2011

Total year-to-date expenses are lower than budget by $19.0 million or 4.3% and total revenues are higher than budget by $62,000 for a net variance of $19.0 million. Ms. Madden reported that as a result of the MWRA's aggressive efforts to control operational costs, the maximization of the benefit of favorable interest rates, and a disciplined multi-year rates strategy, staff is able to recommend the use of the projected FY11 surplus to defease some $28 million in debt due primarily in FY14.