

**MWRA Board of Directors Meeting
September 12, 2012
Voting Summary Sheet**

| Item Name | Type | Notes | Vote | Discussion Highlights | Attachments |
|--|----------------|--|-----------|-----------------------|-------------|
| Approval of Minutes | n/a | n/a | Unanimous | | |
| Report of the Chair | n/a | n/a | n/a | * | |
| Report of the Executive Director | n/a | n/a | n/a | * | |
| Options for Fiscal Year Close-out | Approval | Authorized the use of FY12 budget surplus of \$9.8 Million to defease future debt service Authorized continuation of defeasance account in FY12 for depositing potential Capital Finance budget surpluses during the year, with the intension of using the funds for FY13 bond defeasance | Unanimous | * | |
| PCR Amendments-September 2012 | Approval | Title change to a vacant position in Operations to meet department needs Title change to a vacant position in Administration and Finance to address service needs | Unanimous | | |
| Installation of a Distributed Antenna System: In-Building Cellular, WRA-3489Q | Contract Award | Approved Purchase Order Contract WRA-3489-Q/State Blanket Contract ITC45 to In-Building Cellular For bid amount of \$489,830.45 | Unanimous | * | |
| Struvite, Scum, Sludge, and Grit Removal Services at the Deer Island Treatment Plant: Clear Harbors Environmental Services, Bid WRA-3513 | Contract Award | Approved award of a two-year purchase order contract to Clean Harbors Environmental Services Amount not to exceed \$696,400 | Unanimous | | |
| Concrete/Steel Restoration and Coating Phase IV, Deer Island Treatment Plant: Atlas Painting and Sheeting Co., Contract S513 | Contract Award | Approved award of Contract S513 to Atlas Painting and Sheeting Corp. For bid amount of \$1,839,000 For term of 540 calendar days | Unanimous | * | |
| Technical Assistance Consulting Services-Deer Island Treatment Plant | Contract Award | Approved recommendation to award three contracts as needed to AECOM Technical Services; Fay, Spofford & Thorndike; and Dewberry Engineers, Inc. Amount not to exceed \$1,600,000 For a term of 3 years | Withdrawn | * | |
| Sudbury Aqueduct Pressurization and Connections Alternatives Analysis and MEPA Review: CDM Smith, Inc., Contract 7352 | Contract Award | Approved recommendation of the CDM Smith, Inc. Amount of \$3,405,107 For a term of 1,095 days | Unanimous | * | |

Administration and Finance
 Wastewater
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|---|------------------------------------|--|-----------|---|---|
| Ultraviolet Disinfection Facilities at the John J. Carroll Water Treatment Plant: Daniel O'Connell's Sons, Inc. Contract 6924, Change Order 8 | Contract Amendments /Change Orders | Approved Change Order 8 to Contract 6924 Amount not to exceed \$506,994 No increase in contract term | Unanimous | * | |
| FY2012 4 th Quarter Orange Notebook | Information | A presentation was given & highlighted the 10 year snapshot in addition to the other quarters so the board could see the long-term trends | n/a | * | * |
| Internal Audit Department Activities Report | Information | A presentation was given that explained the results of completed assignments from the prior year. | n/a | * | |
| Delegated Authority Report- July and August 2012 | Information | Discussion highlights focus on some questions surrounding fluoride treatment. MWRA is following all the rules in accordance with the center for disease control. | n/a | * | |
| Pension System Review Issues | Information | A presentation was given on MWRA's pension liability. MWRA consistent with the state in funding pension at 8% and expected to achieving full funding by 2024. | n/a | * | |
| FY12 Year-End Capital Program Spending Report | Information | Presentation made and available in BOD highlights. It was noted the DITP was elevated as the first infrastructure investment related to climate change. | n/a | * | * |
| FY12 Year-End Financial Update and Summary | Information | Presentation made on the current status for budget and last one for the FY12. It was noted retirement was lowering FTE's and it is a long process to get that number up. | n/a | * | * |

Administration and Finance
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MWRA Advisory Board Summary
of the
MWRA Board of Directors Meeting
Wednesday, September 12, 2012

- *Please note that this serves to highlight active discussion on agenda items at the Board of Directors meeting.*
- *Language directly from the staff summary is highlighted in grey, while the discussion remains in plain text.*
- *Please see the attached summary sheet for a complete list of Board actions.*
- *PowerPoint presentations made to the Board of Directors have been included in the September Discussion Highlights.*

A meeting of the Board of Directors of the Massachusetts Water Resources Authority was held on September 12, 2012 at the Charlestown Navy Yard. **Present:** Chair Rick Sullivan and Joel Barrera, Gubernatorial Appointees; Joseph Foti, Advisory Board Representative; Vincent Mannering, Kevin Cotter, and Brian Swett, City of Boston Representatives; Jack Walsh, City of Quincy Representative. **Absent:** Michael Gove, Gubernatorial Appointee; John Carroll and Andrew Pappastergion, Advisory Board Representatives.

Report of the Chair

Chairman Rick Sullivan asked for a moment of silence in memory of Marie Turner who was a long and loyal member of the Board.

Mr. Sullivan introduced the newest member of the Board, Brian Swett from the City of Boston. In addition, he also introduced Winthrop's Fire Chief Paul Flanagan who will be representing the Town of Winthrop and will be sworn in next month.

Report of the Executive Director

MWRA Executive Director Fred Laskey invited Jim Hunt III to stand before the Board. Mr. Laskey stated that Mr. Hunt has been an instrumental player on alternative energy projects at the MWRA. Mr. Laskey stated the Mr. Hunt was of great influence and held staff to a very high standard.

Mr. Hunt stated that the MWRA is one of the best public agencies in the state and in the nation. The MWRA is very conscious of its mission. The people that work for the MWRA including: union employees, middle management, and upper management, continue to hold a good structure with checks and balances. The MWRA does not get enough credit for all that has been done as a national leader of clean energy. Mr. Hunt expressed his appreciation for all the work that is done at the MWRA. Mr. Hunt stated that he has grown in his role and valued being part of the Board and the organization.

Executive Director of the MWRA Advisory Board Joseph Favaloro stated that he has had a working relationship with Mr. Hunt for longer than anyone else on the Board. Mr. Favaloro explained that he started working with Mr. Hunt over 20 years ago in Senator White's office when Mr. Hunt was part of the senator's staff. During this time, Mr. Hunt was a staff member that filed the first bills for the MWRA and Advisory Board. Mr. Favaloro said he has continued to work with Mr. Hunt during his days at the Executive Office of Environmental Affairs (EOEA), the City of Boston and on the Board of Directors. Mr. Favaloro stated that Mr. Hunt has always been an advocate for the ratepayers.

Mr. Laskey continued with his report. Mr. Laskey explained that there was an annual financial audit. There were not any issues and there was a clean bill of health on this item.

Mr. Laskey explained that an issue has developed in the last several days north of the city in the Fells Reservoir tanks. Director of Planning Steven Estes-Smargiassi was asked by Mr. Laskey to give some background on this item.

MWRA staff reported on how they detected and responded to changes in water quality at the Fells storage tank. Lowered chloramines residuals, and increased levels of nitrate were detected by both grab sampling and new on-line monitors. There were no problems with total coliform or other regulatory concerns. When typical response actions such as deep cycling the tank did not provide sufficient improvement, half the tank was drained and disinfected. The other half will be done subsequently. A review of tank operations, monitoring and actions triggers and response actions will be conducted over the winter.

Back in 2000, staff built a 3MG storage tank in the Fells Reservoir. The reservoir receives water from Norumbega, which serves four communities.

Staff has noted that the chlorine residual has been dropping but only at this tank. It seems to be dropping while inside the tank. Staff has tested for total coliform, which is an indicator of biological content. This has not been found.

Staff will drop the tank and fill it rapidly. Staff has also tried short-cycling, which is short pulses of water through the tank. It kept dropping every time. This approach did not seem to do the trick. Staff decided last week to isolate the tank, drain it and clean it out.

Director of Water Operations and Maintenance Mark Johnson explained that staff took the largest of the cells in the tank out of service and left the smaller ones on. The next step was a draining process with chlorine, let it sit, rinse it, fill it with system water and put it back into service by Friday.

Mr. Estes-Smargiassi stated that once this tank has been cleaned out, staff will take a look at the smaller cells more thoroughly. Mr. Estes-Smargiassi explained that staff uses chloramines, which is good to get to the ends of the system. If the chlorine is being burned off, then staff will end up with ammonia left there and this can cause nitrification. Staff is continuing to look at this. It is not known if the Fells tanks are different than other tanks. Staff wants to understand why it's behaving differently and determine if it could happen to other tanks in the system. There is a good monitoring system currently in place, which can catch problems early.

Chief Operating Officer Michael Hornbrook explained that the new system measures quality real-time. Mr. Estes-Smargiassi stated that this demonstrates the value of this new monitoring system.

Chairman Sullivan asked if there had been or will there be any public notice on this. Mr. Estes-Smargiassi explained that it is not needed in this situation. Mr. Laskey stated that if this had been left unchecked, this would have not led to the risk of total coliform.

Mr. Barerra asked for a Tri-Town update. Mr. Laskey stated that staff continues to meet and talk with communities. He sensed that at some point in September that there will be joint meetings with the Tri-Town board. Mr. Laskey believed the conversation has been encouraging.

Mr. Laskey also mentioned that staff chatted with DEP about stream flow initiative. Mr. Laskey also had an announcement from DEP that they were going to eliminate food from waste streams in a couple of years. One of the options will be to put them into digesters. Staff and MWRA consultants have been looking to see if there is anything that can be done to assist DEP and what the benefit to the MWRA would be from this policy change.

Approvals

Options for Fiscal Year Close-out

The Board voted to authorize the use of the fiscal year 2012 budget surplus of \$9.8 million to defease future debt service with the largest impact in 2016 resulting in lower Rate Revenue Requirements and consequently lower water assessments for MWRA communities

Further authorize the continuation of the Defeasance Account established for the first time in FY12, for depositing potential Capital Finance budget surpluses during the year, with the intention of using the funds for a FY13 bond defeasance

The discussion centered on the best use of budget surplus funds and whether the funds should be utilized to pay down pension liability or to defease debt. Board member Vincent Mannering asked if rating agencies would look favorably on the pension fund. Director of Administration and Finance Rachel Madden said yes, rating agencies would be in favor of this.

Mr. Mannering stated that he could argue either way, both are good options, though he is a fan of paying down the retirement fund because it is always better off to be ahead of the class on that.

Board member Joseph Foti stated that the Authority is already ahead of the game on the pension by going to full funding by 2024 instead of 2040. Mr. Mannering stated that would get pushed out because of the actuarial study down the line.

Board member Brian Swett stated that staff is assuming the 8% return if the deposit were to be made into the pension fund. Ms. Madden responded yes. Mr. Swett stated that the rate assumed on the defeasance was 3.25% because it's a variable rate. Ms. Madden clarified that the variable rate in staff's projections is 3.25%. If the pension is paid down then it's removed from our projections. The pension would still have to earn the 8% over time.

Mr. Swett asked how much it would be in FY12 for defeasance versus voluntary pension. Ms. Madden stated about \$39 million for defeasance and \$1.9 million in optional pension payment.

Board member John Walsh asked if it was an option for staff to split the amount between the pension and defeasance. Ms. Madden stated that staff looked at everything. This could be done but she believed the biggest bang for the buck would be to go full throttle with the pension or full throttle with the defeasance.

Staff made the decision based on the limitation of tools in the short-term to manage rates; this provides additional tools; long-term will have additional tools that staff does not have now; also, staff does not know if the interest rates will hold at this low level.

Mr. Favaloro stated that he believes there is a compelling argument on one versus the other toward defeasance. Simply stated, the MWRA can defease water debt. Mr. Laskey and I have spent much time with Tri-Town and the discussion is what the cost of water will be in FY16-19. This will make the MWRA more competitive in cost and will yield better long-term dividends than the \$4.1 million that appears to be left on the table by choosing defeasance over pension.

PCR Amendments-September 2012

The Board voted to approve the amendments to the Position Control Register (PCR) which include:

1. Title change to a vacant position in Operations (Program Manager, Process Control and Project Support to Program Manager, Wastewater Operations) to meet the need for program management in the Wastewater Operations Section.
2. Title change to a vacant position in the Administration & Finance, MIS Department (Programmer Analyst II to Technical Support Analyst) to address service needs identified in the IT Strategic Plan.

Contract Awards

Installation of a Distributed Antenna System: In-Building Cellular, WRA-3489Q

The Board voted to approve the award of Purchase Order Contract WRA-3489-Q/State Blanket Contract ITC45, for the installation of a Distributed Antenna System to the lowest eligible and responsible bidder, In-Building Cellular, and to authorize the Director of Administration and Finance, on behalf of the Authority, to execute and deliver said contract in the bid amount of \$489,830.45.

Mr. Laskey explained that this is a critically important item. The main mode of communication has some from radio to cell service. There had been a long running issue with the cell phone provider with core coverage and disconnections. The authority had Sprint Nextel and is now migrating to Verizon.

Mr. Mannering asked if it was push to talk service. Director of MIS Russell Murray explained that this is not in use anymore. The installation will be made to Verizon and there will be a budget for maintenance for one year.

Struvite, Scum, Sludge, and Grit Removal Services at the Deer Island Treatment Plant: Clear Harbors Environmental Services, Bid WRA-3513

The Board voted to approve the award of a two-year purchase order contract to provide struvite, scum, sludge and grit removal services at the Deer Island Treatment Plant to the lowest eligible and responsible bidder under Bid WRA-3513, Clean Harbors Environmental Services, and authorize the Director of Administration and Finance, on behalf of the Authority, to execute said purchase contract in the amount not to exceed \$696,400.

Concrete /Steel Restoration and Coating Phase IV, Deer Island Treatment Plant: Atlas Painting and Sheeting Corp., Contract S513

The Board voted to approve the award of Contract S513, Concrete /Steel Restoration and Coating, Phase IV, Deer Island Treatment Plant, to the lowest eligible and responsible bidder, Atlas Painting and Sheeting Corp., and to authorize the Executive Director, on behalf of the Authority, to execute and deliver said contract in the bid amount of \$1,839,000, for with a contract term of 540 calendar days from the Notice to Proceed.

Director of Deer Island Dan O'Brien gave highlights from the staff summary.

Mr. Foti asked if the contractor Atlas has done work at the location before and has any of the other three contractors done work there as well. Mr. O'Brien explained that yes, staff has used them in the past. SOEP Painting Corp. has been the most recent and Atlas has not been used for a while.

**Technical Assistance Consulting Services-Deer Island Treatment Plant
AECOM Technical Services, Inc.,-Contract 7399; Fay, Spofford & Thorndike, LLC-
Contract 7400; and Dewberry Engineers, Inc.-Contract 7434**

Mr. Hornbrook asked to withdraw this item because staff received a request to conduct a merit review of the bidding process. Staff expects to bring this item before the Board in October.

**Sudbury Aqueduct Pressurization and Connections Alternatives Analysis and MEPA
Review: CDM Smith, Inc., Contract 7352**

The Board voted to approve the recommendation of the Consultant Selection Committee to select CDM Smith, Inc. to provide consulting services to the Authority for Sudbury Aqueduct Pressurization and Connections Alternatives Analysis and MEPA Review, and to authorize the Chief Operating Officer, on behalf of the Authority, to execute Contract 7352 with CDM Smith, Inc. in an amount not to exceed \$3,405,107, for a contract term of 1,095 days from the Notice to Proceed.

Mr. Hornbrook and Chief Engineer Jae R. Kim gave an overview of the staff summary.

Mr. Cotter asked how long it would be until construction begins. Mr. Kim stated that staff is about five to six years away from construction. Mr. Hornbrook stated that once construction begins, it will be a five-year plan. Staff is aiming to get some redundancy to Shaft 7 at the Boston College campus in case something should happen with the valve and surface piping in that area.

Mr. Mannering asked if there were any bid protests expected. Mr. Hornbrook replied no.

Mr. Foti asked why staff has had to adjust calculations for four out of the six contractors. Senior Program Manager Frederick Brandon explained that the contractor submits detailed spreadsheets that are broken down by hourly rate, overhead rate and other direct costs. Staff actually goes through each individual proposal and recalculates their numbers. It is not uncommon that staff finds minor discrepancies in the spreadsheets. When staff reviews the proposals, staff reviews it based on the corrected calculations.

Mr. Foti asked if the corrected calculations could be in the contractor's favor or the MWRA's favor. Mr. Brandon stated that it could go either way. Generally, the approach did not change the total cost significantly or the order of cost.

Contract Amendments/Change Orders

Ultraviolet Disinfection Facilities at the John J. Carroll Water Treatment Plant: Daniel O'Connell's Sons, Inc. Contract 6924, Change Order 8

The Board voted to authorize the Executive Director, on behalf of the Authority, to approve Change Order 8 to increase the amount of Contract No. 6924 with Daniel O'Connell's Sons, Inc., Ultraviolet (UV) Disinfection Facilities, at the John J. Carroll Water Treatment Plant, in an amount not to exceed \$506,994 with no increase in contract term.

Further, to authorize the Executive Director to approve additional change orders as may be needed to Contract 6924 in an amount not to exceed the aggregate of \$250,000, in accordance with the Management Policies of the Board of Directors.

Deputy Chief Operating Officer John Vetere gave an overview of the staff summary.

Mr. Mannering asked about the issue raised about Ultraviolet (UV) effectiveness a while ago. Design manager Bill Sullivan explained that yes, there has been continued research into the effectiveness of UV. There have been some preliminary findings that show the correction factor may be smaller than originally believed. However, staff is moving to resolution, the problem is not as big as anticipated.

Mr. Swett asked if there is an international UV association. Is there a working group put together with consultants, academics, manufacturers, water workers, etc. This will figure out the exact correction factor. Mr. Laskey responded that EPA has been extremely non-committal.

Information

FY2012 4th Quarter Orange Notebook

Mr. Hornbrook gave a presentation on the FY2012 Fourth Quarter Orange Notebook, which included Deer Island maintenance metrics, water distribution valve exercising, and wastewater pipeline and structure inspections. Mr. Hornbrook highlighted a broad picture of a 10-year snapshot in addition to the other quarters so the board could see the long-term trends.

Mr. Mannering referred to page 6 in the Orange Notebook on the maintenance cost and replacement asset value. Mr. Mannering stated that the benchmark is 1-2%. However, in FY02, Deer Island Treatment Plant was a lot younger than it is now. Now in FY12, maintenance costs are creeping up to that top level. Are there any programs to make sure the MWRA is at that level as the age of the plant increases? Mr. Hornbrook stated that it is reflected in the capital budget, asset management is one of the biggest drivers in spending over the next 10 years. A lot of the capital asset management is out at Deer Island where a lot of equipment is being replaced because it has reached its useful life. Staff will be spending more on the capital side and that number should improve.

If you are interested in viewing the full presentation made at the September Board meeting, please click [here](#).

Internal Audit Department Activities Report

Director of Internal Audit John Mahoney gave a presentation and explained that every year the department presents the results of completed assignments from the prior year.

Mr. Walsh asked a question with regard to accrual and workers' compensation. Mr. Mahoney explained that the monthly accrual that is seen on the updates of the budget include estimated future payments and causes a lot of fluctuations. Mr. Laskey stated that the Authority does have a high percentage of recommendations that get implemented. Mr. Laskey also pointed out that senior managers and the Advisory Board have a lot of input on the areas they want scrutinized. The Advisory Board is very active and very good in finding weak areas for the Authority to work on.

Mr. Mahoney stated that there is a page in the orange notebook every quarter that lists audit recommendations by closed assignments and, which ones have not been closed yet. It also gives a snapshot of how many dollars the MWRA may have saved. There is also a highlight of that quarter on a particular assignment that staff may have been working on that may be of particular interest to the board. Right now, there is one on MIS equipment control, which is something staff should be finalizing in a month or so.

Mr. Mannering asked about workers' compensation and Cannon, Cochran Management Services Inc.? How would you evaluate them? Director of Human Resources Bob Donnelly responded that staff is going out to bid on workers' compensation.

Mr. Mannering stated that he understood that there was \$114,000 in savings but how was this money saved? Mr. Mahoney explained that when the contract is awarded, staff sends an audit team to look at what the proposed labor rate will be for the change order. Typically, the audit team will propose statutory rates and in reality there is a cap on the dollars of wages of those statutory rates. Staff is able to cut those rates by 75%. Similarly, on the worker's compensation, staff will propose a standard rate but their experienced modification package might have lowered that considerably.

Delegated Authority Report-July and August 2012

Mr. Mannering asked a question regarding the metro operations award for \$875,000. Mr. Mannering asked if the numbers of bidders can be placed on the documents for viewing. Ms. Madden responded that there were four bidders and the number can be put on the document for the next time.

Mr. Mannering asked how the addition of fluoride to the water was going. Is there any pushback on this? Mr. Estes-Smargiassi stated that the Center for Disease Control was going to adjust the number downward. Staff follows the public health rules. There was a discussion that the rate was going to be lowered, the process had started but then it was stopped.

Mr. Estes-Smargiassi explained that a consultation process had begun and that a lot of people were commenting on this. Mr. Estes-Smargiassi stated that he calls Washington every month or so on this item and he is no longer getting answers on the progress of this. Mr. Hornbrook stated that the recommendation is to lower the treatment, not eliminate.

Mr. Laskey stated that the concern has been that now people were getting too much fluoride since there's more of it in toothpaste and mouthwashes. In some cases, kids were getting too much fluoride and that was having a negative impact on their teeth. This is why it was proposed that staff bring lower levels of fluoride in water.

Mr. Estes-Smargiassi stated that there had been some issues with the quality of fluoride but staff does not purchase from that source any longer. Mr. Laskey stated that the MWRA is in a safe position in following all the rules.

Pension System Review Issues

Treasurer Tom Durkin gave a presentation on the pension system review issues. Mr. Durkin explained that some of the issues that are being faced by the retirement system and the MWRA as the plan sponsor is responsible for the liability.

Board member Kevin Cotter asked about the different actuarial assumptions on the various funds, are there other plans in the system that are higher than that? Mr. Durkin explained that 8.25% is the highest that the Public Employee Retirement Administration Commission (PERAC) will allow. Some are lower at 7.75% and it varies at 7.5% to 8.25% throughout the Commonwealth.

Mr. Swett asked that when staff stated the 8%, why was the assumption at a quarter below the maximum. Mr. Durkin explained that the MWRA is closer to the time horizon, so there shouldn't be such a risky portfolio as those systems that are in the 60% funded range. As the MWRA gets closer to the achieved target of 100%, it is important to dial back the risk, which then dials back the return. The 8.25% would be a bit aggressive so the MWRA is at 8%.

Mr. Swett asked if the time horizon of 40-60 years is for the 8% going forward. Mr. Durkin stated that if the MWRA was to achieve the 100% funding, then staff could dial back the risk even more. First, the MWRA has to make the unfunded liability go away, which is like paying a mortgage down. Those payments will go for another 11 years until 2024. After this is achieved, the normal costs remains and that is what the active employees are earning. The normal cost is about \$1.5 million and it's a small part of the total assessment that is being budgeted. The normal cost has it built into that 8% and will be earned as well.

Mr. Laskey noted the unfunded liability for Government Accounting Standards Board (GASB) and Other Post-Employment Benefits (OPEB). The new rules require the MWRA to treat OPEB as the unfunded pension liability and start to fund an account that the Authority pays for health benefits of the retirees in advance. The Board and staff are going to put that money into the pension for now. When the pension gets paid down, the MWRA will be in a position to get that budget surplus and then start funding OPEB. Staff is putting extra money into the pension as a combined OPEB and pension strategy.

Mr. Foti stated that staff should not forget that there will be a lot of employees retiring between now and 2024. Ms. Madden stated that the average age of employees is about 52.3 years old. Mr. Durkin stated that he didn't know the average age of the state's workforce.

Mr. Swett stated that it seems that time-frame is 40-60 years before achieving an 8% return. Mr. Swett wanted to know if there was data out there to play against that. Mr. Swett stated that this was a more challenging assumption given today's economic climate that the MWRA would be able to achieve the target between now and 2024. Mr. Swett asked if staff really think that over the next 12 years that achieving the 8% is possible. Mr. Durkin stated that Mr. Swett was quite valid with his statement. Mr. Durkin explained that many question him about why staff keeps that assumption. The MWRA's Retirement System has a very diverse portfolio. There are hedge funds, global international funds as well as real estate and private equity. Staff and New England Public Consultants (NEPC), which are the MWRA's financial advisors, also consult to the state. Staff feels confident that because NEPC consults with the state that it can achieve this assumption.

Mr. Swett stated that he was jumping into this conversation as a new Board member. Mr. Swett explained he believed it was great to see the MWRA in the top 10 of the 110 plus or minus retirement boards across the state. However, Mr. Swett wanted to see what the reaction has been from the other retirement boards in response to Treasurer Grossman reducing the interest rate to 8%. Are these other retirement boards making the adjustment or staying where they are?

Mr. Durkin stated that is an interesting point. Mr. Durkin explained that the public comments that he read in the newspaper from the Treasurer and PERAC stated that the investments were not going to change a lot. This can signal two things. First, the investments are going to change a little bit and that is how the 25 basis points will be achieved. Second, it could also be that the Treasurer's office and PERAC are recognizing that the investments are going to hold and there will be a return.

The MWRA investment consultants have targeted a bit less at 7.75% over the next 30 years, which is very close to what the same consultants are telling Treasurer Grossman. Mr. Durkin explained that with all the expertise that is at the PRIM fund and the same investment portfolio that the MWRA has but on a much smaller scale at 8%, he believed the MWRA is on the right track. Mr. Durkin believed that the MWRA is consistent with what the state is doing and is in a good place to achieving the target by 2024.

FY12 Year-End Capital Program Spending Report

Budget Director Kathy Soni gave a presentation on the FY12 Year-End Capital Spending Report.

Mr. Swett asked how much climate change preparedness is affecting the master plan recommendations since it's such a long-term plan. Mr. Estes-Smargiassi explained that it was a relatively small amount of impact at this point. Staff will have more rather than less supply of water moving forward. There have been some coastal cities that have been identified that will be affected in 50 years out or so. The Chelsea maintenance facility is already an issue and will get worse with the climate change so staff will look at that in order to see how that facility can be made a little more robust under certain flooding conditions. The wastewater operations have not been looked at and there is not sufficient data for addressing climate change. Staff is continuing to pay attention to this over the next 6-12 years and it will be noted in the Master Plan.

Mr. Estes-Smargiassi also noted that the Deer Island Treatment Plant (DITP) made the MWRA the first nationally recognized project that anticipated the impacts of climate change. DITP was raised up as the first infrastructure investment reflecting the potential future impacts to climate change.

If you are interested in viewing the full presentation, please click [here](#).

FY12 Year-End Financial Update and Summary

Ms. Madden made a presentation to the Board. Ms. Madden explained that every month that staff presents the status of the budget. The staff summary presented for this month is the last one for fiscal year 2012.

Mr. Swett asked if in the future there was a way to break out how much is being spent on defeasance on other debt service. Ms. Madden stated that this could be done.

Mr. Swett noted that Business and Operations Support came in significantly lower than budgeted and he asked for some clarification. Ms. Madden explained that an outside consultant was brought into the MWRA in order to do a strategic plan for the IT department. Staff had a capital plan laid out for the IT

department but the outside consultant was needed to come in and assess how the MWRA could be directed for the future. The consultant recommended some enhancements with hard machinery equipment and had some software suggestions. Staff put things on hold and then recalibrated what was already going to be spent. Staff was essentially doing the right thing but the consultant that was hired was just to make sure we were moving in the right direction.

Mr. Foti noted that under wages and salaries, there were 14 positions lower than what had been budgeted. Mr. Laskey explained that the Board is seeing a steady series of retirements and departures. The way the system works makes it a longer process to get positions filled. If a staff member leaves, the Authority posts the position internally and then it trickles down from there. Sometimes it's months before full-time equivalents (FTEs) get back to the level where it belongs. Staff has worked as hard and fast as possible but it's still an issue. It is taking staff longer than anticipated. There is a plan to know which position to eliminate and consolidate. Mr. Laskey stated that this is one of the top priorities now.

Mr. Mannering asked about investment income. He asked what was the MWRA budgeted at and what did the MWRA get in return? Ms. Madden stated that there was a 1% difference and the strategy on the short-term was to go a little longer.

Mr. Mannering asked how much of the debt is variable. Ms. Madden stated about 21% of the debt portfolio was variable.

Mr. Mannering asked if that number was coming down. Mr. Durkin stated that it is coming down naturally as the variable rate bonds are terminated. Mr. Mannering also wanted to know what was the average yield. Ms. Madden stated 4.43% is the average cost of debt on a fixed rate.

ATTACHMENT 1

| | June 2012 Year-to-Date | | | | | |
|-----------------------------------|---------------------------|-------------------------|---------------------------|--------------|-----------------------|---------------|
| | Period 12 YTD Budget | Period 12 YTD Actual | Period 12 YTD Variance | % | FY12 Approved | % Expended |
| EXPENSES | | | | | | |
| WAGES AND SALARIES | \$ 90,319,013 | \$ 89,887,813 | \$ (431,200) | -0.5% | \$ 90,319,013 | 99.5% |
| OVERTIME | 3,508,630 | 3,086,174 | (422,456) | -12.0% | 3,508,630 | 88.0% |
| FRINGE BENEFITS | 17,954,076 | 17,662,543 | (291,533) | -1.6% | 17,954,076 | 98.4% |
| WORKERS' COMPENSATION | 2,100,000 | 1,600,726 | (499,274) | -23.8% | 2,100,000 | 76.2% |
| CHEMICALS | 9,047,275 | 9,271,529 | 224,254 | 2.5% | 9,047,275 | 102.5% |
| ENERGY AND UTILITIES | 22,654,931 | 22,766,837 | 111,906 | 0.5% | 22,654,931 | 100.5% |
| MAINTENANCE | 29,470,020 | 26,776,012 | (2,694,008) | -9.1% | 29,470,020 | 90.9% |
| TRAINING AND MEETINGS | 251,550 | 184,228 | (67,322) | -26.8% | 251,550 | 73.2% |
| PROFESSIONAL SERVICES | 5,892,441 | 5,099,517 | (792,924) | -13.5% | 5,892,441 | 86.5% |
| OTHER MATERIALS | 4,765,483 | 5,513,699 | 748,216 | 15.7% | 4,765,483 | 115.7% |
| OTHER SERVICES | 23,323,074 | 22,985,815 | (337,259) | -1.4% | 23,323,074 | 98.6% |
| TOTAL DIRECT EXPENSES | \$ 209,286,493 | \$ 204,834,893 | \$ (4,451,598) | -2.1% | \$ 209,286,493 | 97.9% |
| INSURANCE | \$ 2,285,870 | \$ 2,076,961 | \$ (208,909) | -9.1% | \$ 2,285,870 | 90.9% |
| WATERSHED/PILOT | 25,576,274 | 25,629,604 | 53,330 | 0.2% | 25,576,274 | 100.2% |
| BECo PAYMENT | 3,965,500 | 3,561,130 | (404,370) | -10.2% | 3,965,500 | 89.8% |
| MITIGATION | 1,528,700 | 1,744,579 | 215,879 | 14.1% | 1,528,700 | 114.1% |
| ADDITIONS TO RESERVES | 195,467 | 195,467 | - | 0.0% | 195,467 | 100.0% |
| RETIREMENT FUND | 7,340,438 | 7,363,170 | 22,732 | 0.3% | 7,340,438 | 100.3% |
| POST EMPLOYEE BENEFITS | - | - | - | - | - | - |
| TOTAL INDIRECT EXPENSES | \$ 40,892,249 | \$ 40,570,911 | \$ (321,338) | -0.8% | \$ 40,892,249 | 99.2% |
| DEBT SERVICE | \$ 368,329,918 | \$ 365,136,323 | \$ (3,193,595) | -0.9% | \$ 367,979,918 | 99.2% |
| DEBT SERVICE ASSISTANCE | (350,000) | (384,323) | (34,323) | 9.8% | - | 0.0% |
| TOTAL DEBT SERVICE | \$ 367,979,918 | \$ 364,752,000 | \$ (3,227,918) | -0.9% | \$ 367,979,918 | 99.2% |
| TOTAL EXPENSES | \$ 618,158,660 | \$ 610,157,804 | \$ (8,000,853) | -1.3% | \$ 618,158,660 | 98.7% |
| REVENUE & INCOME | | | | | | |
| RATE REVENUE | \$ 589,700,000 | \$ 589,700,000 | \$ - | 0.0% | \$ 589,700,000 | 100.0% |
| OTHER USER CHARGES | 7,142,495 | 7,264,794 | 122,299 | 1.7% | 7,142,495 | 101.7% |
| OTHER REVENUE | 4,872,342 | 5,655,583 | 783,241 | 16.1% | 4,872,342 | 116.1% |
| RATE STABILIZATION | 1,091,780 | 1,091,780 | - | 0.0% | 1,091,780 | 100.0% |
| INVESTMENT INCOME | 15,352,043 | 16,267,463 | 915,420 | 6.0% | 15,352,043 | 106.0% |
| TOTAL REVENUE & INCOME | \$ 618,158,660 | \$ 619,979,620 | \$ 1,820,960 | 0.3% | \$ 618,158,660 | 100.3% |