

**MWRA ADVISORY BOARD MEETING
FEBRUARY 22, 2001
BRADLEY ESTATE
ROUTE 138, CANTON, MA**

MINUTES APPROVED AT THE APRIL 26, 2001 MEETING

Twenty-four members were present: Phil Farrington, ARLINGTON; E. A. Maguire, ASHLAND; John Sullivan, BOSTON; Edward Sullivan, CANTON; Andrew DeSantis, CHELSEA; Peter Messina, EVERETT; Al Renzi, FRAMINGHAM; J. R. Greene, GUBERNATORIAL APPOINTEE; Ralph Pecora, LEXINGTON; Bruce Kenerson, LYNNFIELD; Dana Snow, MARBLEHEAD; Lenny Riley, MEDFORD; Peter Hersey, MELROSE; Katherine Haynes Dunphy, MILTON; Jay Fink, NEWTON; Bernard Cooper, NORWOOD; Ted McIntire, READING; Joseph Foti, SOMERVILLE; Michael Hirsch, STOUGHTON; Walter Woods, WELLESLEY; Jean Thurston, WESTON; Timothy Walsh, WESTWOOD; Steve Olson, WEYMOUTH; Rob Antico, WILMINGTON.

Also present: John Carroll and Andrew Pappastergion, MWRA BOARD OF DIRECTORS; David Kubiak, Nadine Smoske and Pam Heidell, MWRA STAFF; Joe Favaloro, Cornelia Potter, Ryan Ferrara, Nathalie Grady and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

AGENDA

A. WELCOME

Chairman Joe Foti called the meeting to order at 11:55 a.m. Ed Sullivan, Advisory Board Secretary, welcomed everyone to Canton.

B. APPROVAL OF THE MINUTES FROM JANUARY 18, 2001

A Motion was made **TO APPROVE THE MINUTES FROM THE JANUARY 18, 2001 ADVISORY BOARD MEETING**. It was seconded and passed by unanimous vote.

C. REPORT OF THE EXECUTIVE DIRECTOR

Joseph Favaloro, Executive Director of the Advisory Board, noted that three individuals that have had a relationship with the Authority have decided to move on. Congressman J. Joseph Moakley, who was the force behind \$800+ million in federal funding to support MWRA costs and special grants from Congress, will not seek reelection. He will be sorely missed.

Governor Cellucci is leaving for an Ambassadorship to Canada and Doug MacDonald, Executive Director of the MWRA, is moving on to become the Secretary of Transportation for Washington State.

March is the month of the statutory public hearing on the Authority's Current Expense Budget. Notices will appear in the newspaper tomorrow, as well as postings in the communities. It is important to make community leaders and citizens aware of the budget and hearing process.

Mr. Favaloro welcomed Andrew DeSantis back to the Advisory Board.

D. PRESENTATION: COMBINED SEWER OVERFLOWS (CSO) ANNUAL REPORT – David Kubiak, MWRA Senior Program Manager, CSO Control Program

David Kubiak, Senior Program Manager of the CSO Control Program, stated that the court schedule requires MWRA to submit a CSO Annual Report every February. In the FY99 report, the theme was that the projects are moving from design into construction, and that MWRA was running into problems as well. The North Dorchester Bay/Reserved Channel CSO Project, Alewife Brook, floatables controls and a few other projects are increasing and there is a potential for schedule delays. The theme for FY00 is that there are many projects that are now complete, more projects are moving into construction, and for every issue raised last year, the Authority now has a work plan to pursue.

There are 25 CSO projects that cover a huge area. There are 84 CSO outfalls, of which 34 will be closed as part of the CSO plan, five will provide treatment and approximately 45 will be untreated CSO discharges that will activate during storm events. The CSO plan will eliminate CSO discharges to beaches and shellfish areas and meet water quality standards. Overall, about 3.3 billion gallons of flow will be reduced to .4 billion gallons, an 82% reduction, of which 95% will be treated.

Since 1994, when staff first presented the revised recommended plan, costs have been increasing, primarily associated with site-specific conditions. The other issue is mitigation of construction impacts in communities. One of the big-ticket items is odor control, as some of these facilities are close to residential areas. Design and construction of the 25 CSO projects is currently \$530 million. The approved FY00 budget for the CSO program was \$556 million; for FY01 \$570 million; and the total proposed budget in the FY02 CIP is \$567 million. There is the potential for over \$100 million in cost increases depending on regulatory decisions that have yet to be made.

The North Dorchester Bay/Reserved Channel CSO Project cost estimate was \$165 million. Today the cost estimate is \$209 million, but MWRA cannot acquire the land necessary for the CSO facility. MWRA is thus accounting for a three to four year delay.

Staff is recommending a project reassessment. One alternative would be for sewer separation to control CSO discharges to the Reserved Channel and would relieve the existing South Boston interceptor reducing overflow events to the Reserved Channel to about four a year. The cost of the alternative [\$100 million] is less than half the cost of the current plan.

The original Alewife Brook Sewer Separation Project cost was \$13 million, but has now reached \$70 million, which will be split with the City of Cambridge. The intent of the sewer separation was to reduce the discharges to the Brook to about four times per year. During design, Cambridge found that the conditions in the ground were different than the plans had shown. MWRA did a full evaluation of all of the original alternatives for CSO control. Results showed that the sewer separation is still the most cost-effective solution.

The Advisory Board is concerned about community projects and how the MWRA is managing the financial assistance program under which the CSO communities design and build some of the CSO projects. The Authority is not paying BWSC or Cambridge to build their projects. These are projects that MWRA has recommended under the CSO plan and that staff has determined are the most cost-effective solutions that meet water quality standards. Staff determined that it is in MWRA's and the community's interest for the community to design and construct these projects because they involve infrastructure that will be owned and operated by the community. The total cost of the community program is \$141 million as of the last time the financial assistance agreement was amended in October 1998.

A big issue for the Authority are NPDES permit negotiations for the Phase II CSO permit. Phase II requires MWRA to ensure that the discharges at these outfalls will be what the Authority projects them to be once the projects are completed.

MWRA's permit is for the outfalls that MWRA owns and operates. The permit does not carry requirements for outfalls that BWSC or Cambridge owns and operates; however, the Authority has to make sure that the plan achieves the intended results. EPA is proposing now to include all of the community outfalls in MWRA's permit to ensure that the plan works.

Walter Woods asked what the anticipated total dollar figure for the CSO Program is likely to be. Mr. Kubiak stated that the total budget for the CSO program, design, construction and all Authority work is approximately \$570 million, which does not include inflation through construction. Through 2008, the figure is approximately \$630 million. Potential risk factors could add more than \$100 million.

E. COMMITTEE REPORTS

Finance Committee - Phil Farrington/Katherine Dunphy

❖ **ACTION ITEM: ADVISORY BOARD COMMENTS AND RECOMMENDATIONS ON THE AUTHORITY'S PROPOSED FY02-04 CAPITAL IMPROVEMENT PROGRAM**

Cornelia Potter stated that last Friday the Executive Committee approved the Advisory Board's Comments and Recommendations to the Authority's proposed FY02-04 Capital Improvement Program (CIP).

This year's review is similar to previous reviews in that staff conducted the usual contract by contract review to ensure that the Authority's proposed budget was still supportable. However, there is an important difference in this year's review as it is the first time that the Authority has prepared a CIP program and budget based upon the spending cap that had been approved a year ago. This achievement was the result of a lot of effort from a lot of different directions by the Authority staff and the Board of Directors, as well as recommendations of the Advisory Board over a number of years.

Debt service is an expense that is now well over 50% of the Current Expense Budget. It is growing faster than operating expenses. In the last two or three years, there has been a 5% growth from just over 50% to 55-57% of total expenses that the Authority must add to its CEB every year. Thus, the capital budget review has enormous implications for rates over the multi-year period.

The ten-year budget totals \$1.9 billion. Over 50% of that amount is to be spent during the next three years; therefore staff's review is focused on that three-year period. Half of all capital spending is for Waterworks. Only five years ago, Waterworks spending was only 20% of the total capital program. Half of all Wastewater spending over the next ten years is for the CSO Control Program, a dominant component of the Authority's capital program.

Over the next three years the top five projects, however, are not CSOs, but Walnut Hill Water Treatment Plant, Braintree-Weymouth Relief Facility and MetroWest Tunnel, the Local Water Pipeline Improvement Loan Program distributions under that program, and the Norumbega Covered Storage Project. Over the ten year period, the Authority projects cost increases as compared to the last capital budget of nearly \$170 million, offset by decreases of \$83 million, for a net increase of about \$86 million.

Ralph Pecora asked how the Authority would account for increases that occur based on regulatory changes. Ms. Potter responded that this is where the Authority's development of a planning program is going to play an important part in the Authority's reassessment of what should be in the capital program. It may involve rescheduling projects and participating in the regulatory discussions to try to influence the interpretation of meeting the regulatory and scheduling requirements.

The Authority, in addition to the projects that are already under construction, is planning on awarding a whole series of new contracts. The twenty largest total more than half a billion dollars.

The capital-spending cap is the major directive on how the Authority formulates the capital program and how it spreads the expectation of cost and spending over the course of the ten-year window. Over the next several months, even if the Authority brings its plans for capital spending up to date and revises its expectations for spending this fiscal year, the spending cap for FY01 to FY11 of \$2.43 billion should remain unchanged.

The Advisory Board commends the Authority for having achieved a proposed budget that stays within the parameter of the cap. Advisory Board staff has identified over \$43 million of spending reductions that the Authority can achieve. More than half of that is in the Boston Harbor Project (BHP) where a whole series of service-related contracts can be revisited.

A Motion was made **TO APPROVE THE ADVISORY BOARD COMMENTS AND RECOMMENDATIONS TO THE AUTHORITY'S PROPOSED FY02-04 CAPITAL IMPROVEMENT PROGRAM.** It was seconded and passed by unanimous vote.

❖ **DISCUSSION: MWRA AWARD OF A 15-YEAR CONTRACT FOR THE OPERATION OF THE PELLET PLANT**

Rick Mills stated that the MWRA has operated the pelletizing facility at the Fore River Staging Area since late 1991 using a contractor, New England Fertilizer Company (NEFCo). In May 2000 an RFQ was issued. Five firms demonstrated that they were financially qualified, which was the only screening done at that time. At that point MWRA was still finalizing the Request for Proposals for a fifteen-year operating contract, making the contract long enough to allow the company to recoup their investment in developing markets for fertilizer and any changes or additions to the plant.

Under the current contract, NEFCo passes most of its energy costs, water and sewer charges and chemical expenses for the plant to the Authority because there was concern that if the costs were charged to the operator, MWRA would have to pay a risk premium. The contract structure was changed substantially now that the Authority can give bidders confidence about where those numbers are, making it the operator's responsibility so that there is an incentive to decrease chemical and energy usage and be more conservative with water and sewer usage.

The useful life of the pellet plant's equipment averages out to about fifteen years. If the operator were required to maintain and return the equipment in the condition that it started, there was some risk that MWRA would be paying a maintenance premium to recreate the existing facility fifteen years from now when there may be a better or less expensive technology.

Three bids were received in January 2001 from: Synagro-WWT, Inc., NEFCo and Azurix Corp. When the proposals came in, it turned out that Azurix Corp. could provide little in the way of experience in running a plant like this.

Typically MWRA evaluates the technical proposals, then opens the price proposal and re-ranks the proposals with price as just one factor. For this contract, MWRA decided that as long as the technical proposal met the requirements, then the price lowest price proposal would win. Both Synagro and NEFCo met the technical requirements. NEFCo was the low bidder at \$147 million for the fifteen years. Synagro was less than 4% higher at \$152 million.

Some of the savings reflect the capital changes made by the MWRA. In 2003 the Braintree-Weymouth interceptor is projected to be online and will be able to pump sludge from Deer Island to Fore River and can eliminate barging costs. By extending the current contract through the upcoming fifteen years and comparing it to the bid price, MWRA saved about \$93 million over the fifteen years, a 34% reduction in cost. For FY02 it allowed MWRA to reduce the budget by about \$6 million.

Katherine Haynes Dunphy asked how much the MWRA has invested in the plant. Mr. Mills replied that the plant's original construction cost was \$110 million, the current planned expansion project comes in just under \$50 million, for a net total of approximately \$160 million. The depreciated capital value on MWRA's books is about \$110 million. Ms. Dunphy asked how much the Authority expects to pay to replace the equipment in fifteen years. Mr. Mills stated that in year ten of this contract the Authority will review technologies and make a decision on whether to duplicate this technology or if there is something more efficient and make decisions at that time.

Ms. Dunphy asked how much of the savings in the recent bid was due to the MWRA putting money into the plant. Mr. Mills responded that 20% to 30% of the savings was due to improved efficiencies, or at least due to the contractor recognizing improved efficiencies. The last element is that those prices are final, there is an inflation factor related to the producer price index, but if it costs more to process the sludge, the cost falls on the contractor. The MWRA is protected by a \$20 million performance bond that is posted annually by the operator and a \$1 million letter of credit that can be drawn upon when the Authority deems that the operator is not meeting performance requirements.

NEFCo agreed that if they were the low bidder on this contract, they would institute the new pricing in the first full month following award. MWRA will start paying NEFCo under the new contract pricing beginning March 1st.

Dana Snow asked if fertilizer pellets must be produced. Mr. Mills replied that current permit approvals are for fertilizer production; however, MWRA has indicated in the documents that if another appropriate idea is developed that can save money and can be permitted, savings would be shared. So there is some economic incentive for NEFCo to identify less costly alternatives.

❖ **CEB BUDGET REVIEW PROCESS**

As of last Wednesday's Board of Directors meeting, the Authority has approved the outline of a Current Expense Budget. The MWRA has identified operating, debt service and other indirect expenses totaling over \$516 million for FY02. The Authority has already identified reductions in staffing levels at the pellet plant, efficiencies in chemical use and incorporated full-year use of the new outfall tunnel.

Executive Committee - Joe Foti

❖ **LEGISLATIVE UPDATE AND FY02 PRELIMINARY COMMUNITY ASSESSMENTS**

Mr. Favaloro stated that communities received their assessments from the MWRA providing a range from 5.9% to 9.7%, which reflects the action taken within the Governor's budget reducing the levels of debt service assistance for the MWRA and many other communities. A united effort from the cities and towns to send a strong and clear message to the Legislature is important to get debt service assistance restored to the pre-existing levels.

The Advisory Board is sending a letter to all of the communities, as well as individual local officials, which outlines the impacts of a cut in debt service assistance for each of the communities and begins to outline an approach to put debt service back on people's radar screens.

The MWRA Legislative Caucus convened last week and strongly endorsed restoring debt service assistance in the House and Senate versions of the budget. The potential impact between now and FY11 is \$214 million of additional rate revenue requirement that either comes from cuts in the MWRA budget or from communities.

Staff plans to begin telephone calls and meetings with CEOs to develop support for restoring debt service assistance. The House of Representatives budget will be debated the last week of April and the Senate budget debated before Memorial Day.

Operations Committee - Andy DeSantis

❖ **UPDATE: WATER SYSTEM EXPANSION – STOUGHTON**

Mr. Favaloro reported that discussion between Stoughton and Canton is ongoing regarding the construction of a water line through Canton. Because there was no finalization of that proposal, town meeting determined that it will take action in May on a choice between the MWRA (with Stoughton receiving water through Canton) and a desalinization option via a company called Bluestone. Two of the three members of the Board of Selectmen and the Stoughton Finance Committee have opted for the MWRA option. A two-thirds vote of the town meeting is required for support of either option.

Phil Farrington, former Stoughton Town Manager, added that the town meeting members did, by more than a two-thirds vote, appropriate money to continue the process of applying for permits for the MWRA. The project is not on hold. Negotiations are continuing with the Town of Canton in preparation for formal application to the MWRA.

F. QUESTIONS AND COMMENTS

G. ADJOURNMENT

A MOTION WAS MADE TO ADJOURN THE MEETING AT 1:35 P.M. It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary