

**MWRA ADVISORY BOARD MEETING
JANUARY 30, 2003
STATE HOUSE
ROOM 350, BOSTON, MA**

MINUTES APPROVED AT THE MARCH 20, 2003 MEETING

Twenty-four members were present: Edward Maguire, ASHLAND; Guy Carbone, BELMONT; John Sullivan, BOSTON; Darrin McAuliffe, BRAINTREE; Charles Barry, BROOKLINE; Ernie Williams, CANTON; Andrew DeSantis, CHELSEA; J. R. Greene and Barbara Wyatt, GUBERNATORIAL APPOINTEES; Ralph Pecora, LEXINGTON; Bruce Kenerson, LYNNFIELD; Ed Bates, MAPC; Dana Snow, MARBLEHEAD; Gabe Federico, MEDFORD; Katherine Haynes Dunphy, MILTON; Lou Taverna, NEWTON; Jay Fink, QUINCY; Peter Smyrnios, PEABODY; Ted McIntire, READING; Richard Stinson, WAKEFIELD; Don McCabe, Jr., WALTHAM; Earl Forman, WESTON; Al Renzi, WESTWOOD; Rob Antico, WILMINGTON.

Also present: Andrew Pappastergion and Joseph Foti, MWRA BOARD OF DIRECTORS; Doug Foy, Chief of Commonwealth Development; Allison Denison, Commonwealth Development; Rep. Anne Paulsen, BELMONT; Rep. Robert Coughlin, DEDHAM; Rep. Jay Kaufman, LEXINGTON; Rep. Paul Donato, MEDFORD; Rep. Walter Timilty, MILTON; Rep. Michael Rush, WEST ROXBURY; Rep. Paul Casey, WINCHESTER; Rep. Robert DeLeo, WINTHROP; Rich Howcroft, PEABODY; Mike Martello, WAKEFIELD; David Savoy, WALTHAM; Ed Bretschneider, WAC; Eileen Simonson, WSCAC; Martin Pillsbury, MAPC; Bill Guenther, MCWC; Fred Laskey, Michael Hornbrook, Pamela Heidell, Ria Convery and Charlene Rideout, MWRA STAFF; Joe Favaloro, Ryan Ferrara, Cornelia Potter, Nathalie Dailida and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

A. **WELCOME** – Representative Robert DeLeo, Chairman – MWRA Legislative Caucus
Chairman Katherine Haynes Dunphy called the meeting to order at 11:40 a.m. and introduced MWRA Legislative Caucus Chairman Robert DeLeo.

Rep. DeLeo stated that despite the dire financial circumstances, the Legislative Caucus intends to fight for water and sewer rate relief. Although the Caucus can appreciate that the Commonwealth can't be as kind as it has been in the past, it is important not to lose sight of the obligation and partnership that the Caucus shares with communities within the MWRA district.

Rep. DeLeo stated that MWRA has done a great job relative to cost cutting measures and keeping costs reasonable and the Advisory Board has been of immeasurable help. The Caucus is in the process of writing to the Governor in support of funding for debt service assistance and support for the transfer of the MDC Division of Watershed Management (DWM) to MWRA.

B. APPROVAL OF THE MINUTES FROM NOVEMBER 21, 2002

A Motion was made **TO APPROVE THE MINUTES FROM THE NOVEMBER 21, 2002 ADVISORY BOARD MEETING.** It was seconded and passed by unanimous vote.

C. INTRODUCTION/REMARKS: Douglas Foy, Chief of Commonwealth Development
Overseeing the State's Transportation, Housing and Environmental Departments

Douglas Foy, Chief of Commonwealth Development, stated that Governor Romney campaigned on a pledge to streamline and integrate the various functions of government and made a commitment to goals such as smart growth and a more integrated approach to the way the state spends its capital dollars, grows its economy and protects its communities.

As part of that commitment, the Governor created the Chief of Commonwealth Development position to have overall charge of the agencies of Environmental Affairs, Transportation and Housing. Mr. Foy hired the Secretaries of each of those agencies: Ellen Roy Herzfelder, Secretary of the Executive Office of Environmental Affairs (EOEA); Dan Grabauskas, Secretary of the Executive Office of Transportation and Construction (EOTC); and Jane Wallis Gumble, Director of the Department of Housing and Community Development (DHCD).

The goal of this effort is to integrate the strategies of these agencies in a more cooperative way to create a series of state strategic agendas that invest in the infrastructure of the Commonwealth and protect the assets it already has.

The Administration has announced a series of large strategic initiatives for EOTC, among them a "fix it first" policy that tries to keep existing roads and bridges from falling apart before spending money on new highways. For example, Massachusetts has 5,000 bridges, more than 600 of which are in serious disrepair. The investment rate for repairing these bridges is 12 bridges a year, so it would take 50 years to simply keep the existing 600 badly dilapidated bridges from falling down. Fifty years from now, when these 600 are finally repaired, there would be another 600 to 1,000 that are in terrible disrepair. A different strategy is needed to keep those bridges from falling down.

Similar kinds of initiatives will be undertaken at EOEA and DHCD to try to have a leaner, more streamlined, more strategic set of policies. It is an extremely difficult budget time right now for the Commonwealth. The austerity measures that everyone will have to live with and manage are going to be challenging, both this year and next.

The Administration has announced that MDC will be folded into a new metro parks approach within EOEA, which has implications for MWRA in terms of watershed issues. The various authorities are a critical part of an overall state strategic approach.

Guy Carbone suggested that the Administration consider a temporary reduction in the prevailing wage (to 80%) for Public Works projects. One way to do the repairs on bridges and highways and save a tremendous amount of money quickly, with relatively little pain, is to look at the prevailing wage statute.

Eileen Simonson, Water Supply Citizens Advisory Committee (WSCAC), stated that the MWRA Advisory Board has spearheaded legislation to transfer the DWM to MWRA, which pays 100% of all DWM costs including payments in lieu of taxes to all watershed communities. WSCAC

hopes that the Administration will support this transfer. Ms. Simonson stated that the legislation needs some tweaking, but the time is right for MWRA, which has demonstrated its ability to get things done, to take over the staff and operations of the DWM.

WSCAC is hopeful that communities, especially in eastern Massachusetts that see MWRA as a back up water supply, will look at their own resources before they approach the system. WSCAC does not begrudge the appropriate sale of needed water in these communities, but once they get in, they start saving water because they are required to by permit, while in fact they could have done it before and may have found that they didn't need MWRA water.

The Administration will certainly look at the option of transferring DWM to MWRA. There is an interesting balancing act that we are currently wrestling with regard to all of the independent or quasi-independent authorities. MWRA is the model of one of the best; there are others that are less capable. The notion of pushing state functions off to them and they end up going in a half-cocked direction is a concern. A more integrated approach that involves the Executive Branch, but also takes advantage of the strengths that come with independent authorities, is needed.

Bill Guenther, MassInsight/Mass Clean Water Council, stated that given the cut in debt service assistance, the state revolving fund remains the single source of funding for water projects. It is a federal program with state management attached. All of us need to be vigilant about making sure that the federal government keeps its part of that bargain and keeps the state match in place.

In picking up on the "fix it first" piece on the transportation side, which is really a priority setting program, that same kind of approach is needed for water and regulatory requirements. Communities with good public health and environmental projects are stuck in permitting because of disagreements over what might be the last 5% contribution. If the state could identify some of those projects and bring the different agencies together to move the projects forward, it could determine if projects are being held up based on good technical data or just somebody's idea. Mr. Foy stated that he is aware of the need to work on regulatory permitting.

Representative Anne Paulsen stated that she hoped Mr. Foy would listen to those who have not used the MDC as a patronage haven, but do understand the differences between the DEM and the MDC and the fact that both of them have been starved for money. Mr. Foy stated that the Homestead legacy is powerful and needs to be respected and honored. There is no doubt that there is an enormous amount of waste and duplication in the fact that there are three MDC and three DEM Harbor Islands, which makes absolutely no sense at all. Rep. Paulsen stated that "streamlining and fixing" is fine, but just "getting rid of" is not. Mr. Foy stated that the Administration is not getting rid of the metro parks function, but is getting rid of patronage, overlap and waste.

J. R. Greene pointed out that the Quabbin and Ware watersheds have a shortage of the people that maintain the watersheds. There seems to me to be plenty of "chiefs", but not enough "Indians". Mr. Foy stated that we all have to face the stark reality that the budget challenges going into the FY04 budget are fierce. The best ideas are needed on how to do very smart things with the limited resources available. If money is being wasted in one place and under-spent in other places that could provide a bigger return, the state needs to know about that. Those kinds of suggestions that spend the money better need to be applied across state

government.

David Savoy, retired Superintendent of Waltham Water & Sewer, stated that a key for the Commonwealth might be to set up committees to talk about water, infrastructure, bridges, etc. If communities get involved, the Administration will hear everything it may or may not want to hear. Mr. Foy agreed that one of the things a non-profit does well is tap into the brainpower and thoughtfulness of volunteer citizens that can help think through these challenges. State government has a mixed history on taking advantage of that and needs to get better.

Mr. Favaloro stated that he realized that debt service assistance would not be restored for FY03, but staff would likely pursue debt service assistance in FY04. It must be emphasized that MWRA's accomplishments and the incredible environmental gains that have occurred were at a cost of \$3-7 billion, which the Authority borrowed. For a relatively small dollar commitment from the Commonwealth, there is a huge environmental dividend that is paid. The Authority's base budget now is in the \$500 million range, together with the levels of increase that occur in FY03 to FY05, there is a possibility that the environmental gain will begin to get lost.

Darren McAuliffe suggested that Mr. Foy come back to the Advisory Board meetings every June and January to provide a status report. Mr. Foy welcomed the opportunity.

D. PRESENTATION: MWRA APPROACH TO WEATHERING THE FINANCIAL STORM –

Fred Laskey, MWRA Executive Director

Fred Laskey, MWRA Executive Director, thanked the Legislative Caucus for its support, guidance and advocacy on behalf of the Authority.

Debt service assistance was created in 1994 as a result of rate revolt and has worked well. MWRA has the data showing the rate increases before debt service assistance and after. For a very small amount of money in a \$23 billion state budget, the results were dramatic and real. The rates were brought down and stabilized and the plan worked as promised.

The Authority, over the last five years, has kept rates on pace with inflation (3.5%), which is a far cry from the double-digit rate increases that were projected in the not too distant past. The elimination of debt service assistance is not just a budget cut, it is a 10% reduction in MWRA's revenue base, a 10% reduction in all MWRA financial plans and in all bond perspectives and borrowings. Over the next five years, it translates into a \$250 million structural deficit for the Authority to absorb.

The Authority is in the process of outlining cuts, but MWRA's operating budget is lower than it was in FY99. Staffing levels have steadily been reduced through efficiencies, cross training, cross functionality, technology, and the rehabilitation of pump stations and headworks to make them unmanned. MWRA is working aggressively with the bargaining units for further reductions in staff.

The pellet plant is one of the largest private contracts in the country saving MWRA dramatic money over the 15 year contract. Deer Island is the second largest treatment plant in the country. MWRA is already driving down and controlling costs. There is not a lot of low-hanging fruit to simply make up a \$48 million reduction in state debt service assistance by cutting spending. It gets to a point of diminishing returns.

MWRA's operating budget has gone down; however, the total budget has gone up because of debt service and the need to "pay the mortgage" on all the capital projects. Debt service is 60% of the Authority's budget and is projected to be 65% of the budget by 2010.

MWRA has been aggressive in taking advantage of the low rates on its debt portfolio. The total debt cost averaged 4%.

MWRA has spent these funds on the Deer Island Wastewater Treatment Plant, CSOs, the Integrated Water System, etc. People say stop capital spending. Over 80% of the Authority's capital spending is mandated. Water main breaks are a constant reminder that MWRA is dealing with an aging infrastructure that needs to be upgraded and maintained.

Former Governor Swift suggested that MWRA use its reserves. MWRA has substantial reserves; however, almost \$350 million of those reserves can't be utilized because they are directly tied to bond issuances and lower interest rates. The bulk of the reserves have a negative financial impact on MWRA if used. There is \$118 million in reserves available to reduce rates. Before the cut in debt service assistance, the Authority had a five-year plan to use the reserves to cushion rate increases. If MWRA did use all the reserves and didn't raise the rates, the reserves would be gone and rate increases for FY05 would be around 17 to 18%. It was a position that was not defensible and the Board of Directors immediately directed staff to come up with an alternative plan to the Governor's proposal.

There were three basic approaches considered to deal with this crisis: 1) raise revenue 2) the use of reserves 3) spending reductions. The Board in its deliberations quickly realized that if it went too far down any one of these roads to solve this problem, it would create a crisis that could perhaps spin out of control and become worse for member communities. Wall Street warned MWRA about the measured use of reserves (60% of MWRA's budget pays the debt service and is directly impacted by MWRA maintaining a good bond rating). Raiding the reserves would cost communities more.

MWRA is under the watchful eyes of the regulators, who are already questioning spending cuts and staffing levels to the point where we are returning to the old MDC days. Mr. Laskey has assured the regulators that that is not the case.

The Board has been convinced that this is the time to transfer the DWM to MWRA because of fears about the quality of the maintenance of the watershed and its impact on MWRA's ability to deliver clean water and meet the standards of the regulators.

The Board of Directors voted to take one-third from each of the three areas: revenues, reserves and spending reductions. It means a mid-year rate increase, bringing the total increase to 6.9% and an accelerated use of reserves (from a five-year plan to a four-year plan).

MWRA laid off 50 employees and must absorb that reduction in addition to the 130 employees that took early retirement with no backfills. The Authority has a hiring freeze; managers' pay freeze; reduction in overtime; no new contract employees; is closing the south maintenance yard in Quincy and moving to Chelsea; and is in the process of consolidating two buildings at the Charlestown Navy Yard into one with the hope to sublet the building.

There will be no new vehicle purchases and MWRA is in the process of pulling in the domicile vehicles because it hasn't been able to refill positions in its maintenance crew to maintain the vehicles. The number of vehicles in the fleet is being reduced. The only out of state travel is business-related dealings with contractors and onsite visits.

MWRA has deferred \$63 million in capital spending to provide relief. The Board debated about the financial benefit or cost of that deferment. There is a good argument to be made that this is the time to do capital projects because with the bad economy the costs are low. However, with the severity of the situation, it was decided not to spend money that MWRA doesn't have.

The South Boston CSO project literally has a \$200 million swing from the lowest option to the highest option. MWRA is carrying \$210 million and needs to work with the regulators to come up with a reasonable plan to provide relief in that area without bankrupting the Authority. CSO issues remain in East Boston, Alewife and Cottage Pond. There are a lot of decisions still pending that will have some serious impact on the Authority.

FY04 is now showing a 5% rate increase. In light of the Governor filing his budget late, MWRA will file late and use that time to work with the Advisory Board to try to drive that increase down. The Advisory Board usually provides very good recommendations and a substantial portion have been incorporated into the budget.

John Sullivan asked what the long-term affect is with the rating agencies. Mr. Laskey stated that when a government agency loses 10% of its revenue and a structural deficit is created, their initial reaction is to view that negatively. Staff is working with the agencies to convince them that MWRA is in a solvent position.

Dana Snow noted that normally communities get budget estimates from MWRA in February to present to their own finance committees. Mr. Laskey stated that MWRA will probably give communities a worst case scenario, with the goal to drive lower than that number. Mr. Favaloro stated that communities will receive the supplemental FY03 assessment in the next couple of weeks. There is some concern that right on the heels of that the FY04 assessment will be sent.

Mr. Favaloro noted the Authority's commitment to go back to the court parties to see what can be shaken out of the CSO plan. Another critical piece that the Board voted on is if the Authority's budgeted amount for a contract is \$1 million and the bid comes in at \$800,000, that \$200,000 will no longer stay in the budget. The cap will immediately be reduced to reflect the awarded figure. It was the commitment and leadership of Mr. Laskey that got the Board of Directors to go along with the Advisory Board to ensure those types of things occur. It only works if people work together. Mr. Laskey stated that it is a team effort.

E. COMMITTEE REPORTS

Finance Committee – Albert Renzi, Jr.

ACTION ITEM: ADVISORY BOARD COMMENTS AND RECOMMENDATIONS ON THE MWRA'S FY03 CEB AMENDMENT

Cornelia Potter stated that as part of the process of meeting the budget shortfall caused by the omission of funding for state debt service assistance, the Authority submitted an amendment to the Advisory Board proposing a series of steps to close the gap. Earlier this fall staff already got

an amendment for the first \$14.3 million reduction. The Authority resubmitted its plans to meet the shortfall to include the full \$47+ million reduction that occurred in December.

The Board of Directors elected to distribute the reduction evenly across three major categories: one-third from total expenses; one-third from rate stabilization funds; and another third from the rate revenue increase at mid year.

The Authority has been working for a number of years to contain and cap a variety of spending categories, making it even more difficult as the Authority faces this kind of structural, multi-year deficit to find as much as may be needed to meet the entire shortfall from direct or other expenses. In essence we are concurring with the proposed package of spending reductions and revenue increases that the Authority proposed in its amendment. In large part, a lot of items are things that the Advisory Board has been saying for a number of years.

The Advisory Board asked for a report at the next Board of Directors meeting on plans to contain spending and enhance revenue for the remainder of FY03 and 04.

Staff has outlined major categories for developing a strategy of continuing to contain expenses and seek out non-rate revenue, as well as emphasize debt restructuring.

Staff urges the Authority to continue its efforts to reassess capital spending; to recommit to the master planning process; to continue to work with CIP cap goals; and seek additional modifications to the capital program, especially in the next three years, as well as the initial capital cap timeframe through 2010.

Additional reductions in staff may make it possible to relocate all Charlestown personnel to Chelsea or Deer Island. Seek opportunities to change chemical quantities, particularly at Deer Island. Expedite energy efficiency projects and demand management initiatives to reduce the actual use of energy.

MWRA's Outfall Monitoring Program is one of the largest in the country. Staff urges the Authority and the regulators to seek modifications for frequency of sampling and reporting and analysis that might feed the cost of that program.

A Motion was made **TO APPROVE THE ADVISORY BOARD COMMENTS AND RECOMMENDATIONS ON THE MWRA'S FY03 CEB AMENDMENT.** It was seconded and passed by unanimous vote.

STATUS: FY04-06 CIP BUDGET REVIEW

Staff is now in the process of reviewing the CIP, culminating at the March 20th Canton meeting.

Executive Committee – Katherine Haynes Dunphy

UPDATE: LEGISLATIVE PRIORITIES

The potential to transfer the DWM over to MWRA has become a more realistic possibility. With that in mind, staff has had discussions with the Secretary of EOEA and EPA.

Two pieces of legislation have been filed regarding the DWM transfer, one by Senator Shannon that the Advisory Board has been actively involved in and that WSCAC is actively supporting.

The second bill was filed in the Senate with no relationship to anyone in the service area. Senator Murray of Plymouth filed a bill that dismantles the MDC and moves DWM to MWRA.

Eileen Simonson stated that the Advisory Board members must be vigilant in their support of the transfer. The state's history is to transfer watershed lands to environmental management. It is a bad idea that will end up opening all those watersheds to activities that are not appropriate for water supply. The current Administration needs to be educated about what the difference is. Ownership of the land remains with the state, but MWRA has every right to manage that for water supply protection. Members should make sure that their Representatives and Senators know the difference.

Mr. Fink suggested that the issue of security should be thrown into the mix as another reason that MWRA should have oversight of the DWM.

Operations Committee – Jay Fink

UPDATE: WASTEWATER METER REPLACEMENT COMMITTEE

Mr. Fink stated that MWRA will be replacing its wastewater meters. The Committee has looked at issues such as who will go first or last and is working on a firm policy to deal with any problems related to significant changes from the current meters to the new meters so that all communities are treated fairly. The Authority has decided to use a three-year flow average as substitute data while the meters are offline. Technology has changed over the past ten years and the meters need to be upgraded.

STATUS: SYSTEM EXPANSION REQUESTS

Ms. Dunphy stated that some communities have expressed an interest in joining the MWRA. Those requests will be considered on the merits as they appear. It is a way to get revenue, but it has to be done in a manner that will not affect the communities that are already in the system or do harm to the environment.

F. QUESTIONS AND COMMENTS

G. ADJOURNMENT

A MOTION WAS MADE TO ADJOURN THE MEETING AT 12:51 P.M. It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary