

**MWRA ADVISORY BOARD MEETING  
JANUARY 15, 2004  
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MINUTES APPROVED AT THE FEBRUARY 26, 2004 MEETING

Twenty-four members were present: E. A. Maguire, ASHLAND; Peter Castanino, BELMONT; John Sullivan, BOSTON; Michael Trotta, CANTON; Jon E. Norton, EVERETT; J. R. Greene, GUBERNATORIAL APPOINTEE; William Hadley, LEXINGTON; Bruce Kenerson, LYNNFIELD; Ed Bates, MAPC; Dana Snow, MARBLEHEAD; Doran Crouse, MARLBOROUGH; Don Ouellette, MEDFORD; Katherine Haynes Dunphy, MILTON; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; Jay Fink, QUINCY; Ted McIntire, READING; Joan Lastovica, SOMERVILLE; Lawrence Barrett, STOUGHTON; Don McCabe, WALTHAM; Walter Woods, WELLESLEY; Earl Forman, WESTON; Albert Kirk, WILBRAHAM; Michael Woods, WILMINGTON.

Also present: John Carroll and Andrew Pappastergion, MWRA BOARD OF DIRECTORS; Paul Coviello and Glenn Garbati, EVERETT; Dennis Meehan, LEXINGTON; Richard Merson, NEEDHAM; Ana Singleton, STOUGHTON; Philip Jasset and Matt Boger, UCANE; Richard Testa, WAKEFIELD; Rob Antico, WILMINGTON; Carl Erickson, Ken Wissman and Pam Heidell, MWRA STAFF; Joe Favalaro, Cornelia Potter, Ryan Ferrara, Tracy Wadsworth and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

**A. WELCOME**

Chairman Katherine Haynes Dunphy called the meeting to order at 11:45 a.m.

**B. APPROVAL OF THE MINUTES FROM NOVEMBER 20, 2003**

A Motion was made **TO APPROVE THE MINUTES FROM THE NOVEMBER 20, 2003 ADVISORY BOARD MEETING.** It was seconded and passed by unanimous vote.

**C. PRESENTATION: MWRA PROPOSED FY2005-2007 CAPITAL IMPROVEMENT PLAN –**

Ken Wissman, Chief Financial Officer, and Carl Erickson, Budget Manager

Carl Erickson, MWRA Budget Manager, provided members with an overview of the MWRA's proposed FY05-07 Capital Improvement Plan (CIP).

There are two components to updating the CIP: 1) maintaining the CIP as a planning tool over a ten-year horizon and 2) compliance with the five-year spending cap. Finance staff works closely with all project managers to recognize the long-term needs of the water and wastewater systems.

As staff develops the ten-year plan, it must also remain in compliance with the Authority's five-year spending cap period of FY04-08. The \$1.1 billion cap was set by the MWRA Board of

Directors at its June 11, 2003 meeting and provides for variances of plus or minus 20% in each fiscal year as long as it does not exceed the overall \$1.1 billion total. Before the end of this five-year period, the Board must adopt a cap for the FY09-13 period, which the Authority expects to do in the latter part of the FY04-08 timeframe.

There was a net increase of \$75 million within the cap period, which was offset by an equal amount of reductions. Increases to projects already in the budget include claim settlements and additional change orders. The contingency budget, which covers unexpected changes, has been reduced because there is one less year in the current window. Schedule changes pushed some spending outside of the FY04-08 period, which resulted in revised spending assumptions. Some of the projects are too aggressive to meet the planned schedules. Of the new initiatives added to this proposed budget, \$43 million (15%) is expected to start within this cap period.

Looking at the cap over the five-year period, the proposed CIP and percentage change is within plus or minus 20%. The proposed budget includes \$290 million for new work, as compared to the final FY04 budget. Approximately 15% of the \$290 million is for spending within the FY04-08 cap period, with 85% in FY08 or beyond. Of the 85%, 15% starts in FY14. Since many of these new initiatives start several years out, the annual budget review process allows additional opportunities for review. Over the long term, staff wants to include these projects in the cap to reflect the potential needs of the system.

The largest new initiative is a \$115 million multi-year program to renew and rehabilitate wastewater interceptors, with portions beginning within this cap period. An Authority Task Force has inspected all the interceptors and made recommendations to prioritize maintenance based upon identified issues.

By 2012, regulations will require a secondary level of treatment for the Walnut Hill Water Treatment Plant. MWRA has included funds for UV treatment in the CIP.

Working with the Advisory Board, MWRA has added \$40 million for an additional Phase V of the I/I Program (\$18 million grant/\$22 million interest-free loan). Additional initiatives include repairs to the Sudbury Aqueduct; work on the Cambridge Branch Sewer; and an additional \$2 million for as-needed design services at Deer Island. A similar program (\$1.5 million) is also included for Walnut Hill start-up and a new general water/wastewater as-needed services program.

The Authority is transitioning from a few mega-projects into a greater number of smaller value capital improvements and more discretionary types of projects. MWRA has been largely structured to handle the bigger projects and part of getting through the transition period is the as-needed design services to keep the smaller projects moving. When there is an unexpected break, it tends to pull staff resources from some of the smaller projects. Looking back over FY03, staff realized that the number of projects expected to begin in the capital budget, versus the number actually achieved, showed that a lot of the small projects were delayed. MWRA wants to address this issue to ensure that it keeps up with the level of investment and improvements needed to the system. MWRA is also reviewing its resource availability in light of pending early retirements.

Mr. Erickson expressed his apologies that the proposed document, in the final proofing stage, is not yet with the Advisory Board for its review.

Cornelia Potter stated some of the new projects are still conceptual. What sort of commitment does approval of this CIP have for those conceptual projects included within this budget? Mr. Erickson stated that the Board of Directors has made it clear they do not want staff to use the CIP to start a small piece of design work and then come back and ask for \$50 million. Staff committed to provide the Board with advance notice of these projects.

Dana Snow asked why there is already a \$44 million upgrade for secondary UV treatment at Walnut Hill, a plant that is not online yet. Would filtration have eliminated the need for secondary treatment? Ryan Ferrara responded that because the Authority is an unfiltered system, there is a requirement for a secondary disinfectant.

Ms. Potter stated the Authority is trying to be more complete in its display of the ten-year capital program, however, there are additional items that the ten-year capital program could reflect. Those assumptions get absorbed in the multi-year planning projections, which in turn are used to help guide the more immediate rate decision making. Even though the level of commitment on certain elements of the capital program is still evolving, it begins to solidify the minute these new projects and programs get introduced. The Advisory Board must remain cognizant that this is an evolving process and not get too committed before the right kinds of discussions have taken place.

Walter Woods asked how monies flow on the payback for the I/I Program; the payback must be in the rates. Ken Wissman stated the \$40 million I/I Program is partially loans and partially grants. The loan portion, when communities repay it, goes back into the construction fund and is then used for other construction items. The portion that goes to the grants is never paid back by communities and is paid for in MWRA's debt service over the years.

Ms. Potter asked what is not in this ten-year program and what are the risks for other costs? Mr. Erickson stated that there are a number of alternatives being reevaluated for CSO projects.

Glenn Garbati stated the City of Everett is working on projects with funding from the Pipeline Assistance Program. Will there be any grants offered in the future for upgrading the water system? Mr. Favaloro stated that MWRA does offer some programs on an as-needed basis for leak detection. Beyond that, there are no plans for expansion into different programs. However, communities can request that the Authority explore different options through the Advisory Board's Operations Committee.

Mr. Favaloro stated a few years back there was a ten-year cap, which included \$100 million plus \$26 million inflation on an ongoing basis for the outyears. Now the Authority must live within the five-year cap and has stayed within that \$1.134 billion. The problem is, without the restraints of a ten-year cap, the Authority has added \$300+ million in spending within the same ten-year timeframe.

The Authority continues to load more projects in and does not plan to set a new cap for the next five years until the existing cap has almost expired. There is a reason for that. Once a project is identified in the CIP, magically it becomes real. Every year it is going to get layered. By the time the Advisory Board can look at the next cap, there will be so much money in there that we will be back where we started. The Advisory Board will battle with the MWRA over its plans to

keep throwing more and more money into spending without restraint. Any good engineer can identify more projects to bring forward, but, in reality, it is the communities that have to pay the bill. Communities have not yet recovered economically, so the MWRA has to be more cognizant of the pain that is out there before it begins to look at expansion in the CIP.

#### **D. COMMITTEE REPORTS**

##### **Finance Committee** – Bernie Cooper

##### **❖ PREVIEW: ADVISORY BOARD CIP REVIEW PROCESS**

Cornelia Potter stated the Advisory Board will continue to use its regularly scheduled meetings over the next six weeks to keep members informed on different aspects of this proposed budget. Members will receive updates on elements of the water and wastewater budgets through informational mailings. Themes will include: how this cap is working for the revised five-year period and the implications of subsequent years; affordability of cost increases that change scheduling; the potential for increases that have not already been identified specifically in the ten-year program; and the Master Planning process and MWRA Business Plan.

For some of the major new projects and programs, such as the interceptor repair program, the Authority staff has committed to provide the Board, in March and April, with more detailed information that discusses the new projects in the CIP.

##### **❖ STATUS: CURRENT EXPENSE BUDGET**

The Current Expense Budget (CEB) is beginning to take shape for FY05, with the Authority pulling together its assumptions on direct and indirect spending. There are tough decisions to be made on what the actual rate increase should be for next year. Feeding into that are assumptions about the lack of debt service assistance for FY05 and how that colors how the Authority positions itself. The proposed draft CEB will be submitted in just four weeks to the Board as a request to authorize transmittal of it to the Advisory Board for a sixty-day comment period.

Ms. Potter invited Mr. Wissman to fill members in on the Authority's identification of \$8 million in positive variance this year, for a potential fiscal year end surplus in the \$15 million range.

Mr. Wissman stated through December, staff is confident about a favorable trend toward an MWRA surplus at the end of this fiscal year. A number of alternatives are being discussed as to how to take advantage of that positive variance for the rest of this fiscal year to help reduce rates and charges in future years. One alternative is to reduce debt, which would reduce the number that needs to be raised in subsequent years. The insurance market has changed over the last six years, with the cost increasing by several million dollars. These monies could be used to fund the Insurance Reserves. To what degree should the Authority lower rates this year, which will require higher rates in future years? These discussions will be ongoing.

The Authority executed a bond issue of \$165 million at the lowest interest rate in its history, 4.65% for a 25-year maturity. The bond was purchased by Morgan Stanley/Dean Witter with the sole intention of distributing it to individual households in Massachusetts. The next borrowing will be in June unless there is a refunding opportunity available prior to then.

**Operations Committee** – Jay Fink

❖ **DISCUSSION: RESULTS OF ADVISORY BOARD COMMUNITY SURVEY ON I/I AND LOCAL PIPELINE ASSISTANCE PROGRAMS**

Joe Favaloro stated there were two topics on the Operations Committee Agenda last week: 1) discussion of the survey results on the water and wastewater grant/loan programs and 2) a discussion on Sanitary Sewer Overflows (SSOs).

Charlie Lombardi, MWRA Director of Transport, was at the Operations Committee meeting to discuss reporting of SSOs, as questions appear in Municipal Permits 7A and 7B. Mr. Lombardi provided a draft letter that requests communities, in the event that they do report their SSOs to DEP, keep MWRA in the same loop.

The Advisory Board sent out a survey on water and wastewater finance programs and received 90+% participation. Mr. Ferrara stated that the weighted vote participation was over 95%.

Forty of the 43 wastewater communities (93%) eligible for the I/I Program responded and 37 of the 38 communities eligible for the Local Water Pipeline Assistance Program responded.

Communities unanimously supported the continuation of the I/I Program. A slight majority (52%) of communities elected to continue with 45% grant/55% interest-free loans. The Operations Committee, at its January meeting, supported a \$40 million Phase V of the program and will discuss the grant/loan mix at its February meeting, along with further discussions on whether the payback period for the I/I Program should be five or ten years. Two-thirds (66%) of the respondents supported the \$40 million allocation, which the Authority has included in its proposed CIP.

Since some communities have not taken advantage of these programs, communities that have exhausted their allocations of I/I or Water Pipeline Programs have suggested that the unused funds be reallocated for other communities to use. Advisory Board staff was surprised to learn that two-thirds of a non-weighted vote of communities were in favor of a sunset provision. If there were a weighted vote, the number went up to 73% in the affirmative. The Operations Committee will determine how the sunset provision will be structured, making an effort to be fair to those communities with funding issues.

A number of communities that supported the sunset provision stated that funds should be used within a finite period. The majority opposed to the sunset provision said the Authority must respect the fact that communities are under unique pressures.

For both the I/I and Local Water Programs, communities suggested that MWRA provide more outreach to appeal to elected officials, mayors and town managers.

With regard to the Local Pipeline Program (currently an interest-free loan), communities suggested a grant portion be offered. Some communities mentioned simplifying the administration of the program. The primary objective in this program is to reduce unlined pipe. Communities felt the goal could be expanded.

Communities' commitments to take on local pipeline improvements averaged in the \$500,000

range and were even higher for I/I projects. Feedback from communities stated that some of these budgets are as high as they are based upon the MWRA providing these programs. A lot of these projects assume Authority funding is going to continue.

Issues for consideration at the next Operations Committee meeting will include a formal vote on the question of 45% grant/55% loan or some other mix and whether payback for loans should be five or ten years, with a weighted vote to provide clarity. Related to the sunset provision, there will be three primary questions: 1) If there will be a time limit for each phase, what date should be set? Communities need sufficient opportunities to plan and the sunset provision should not be punitive. 2) Which parties would be eligible for the redistributed funding? 3) By which method should these funds be reallocated? Staff is working on various options to provide a menu for the Operations Committee.

Dana Snow asked why there has to be a reallocation of funds. Why can't those funds simply be returned to the MWRA and be allocated out as part of the next \$40 million? If communities choose not to take part in either of the programs, there is probably a good reason within that community. If the money is reallocated, that hidden portion, which is either the grant portion or the interest-free loan portion, is then allocated evenly across the entire base. Mr. Favaloro noted that this option would be on the menu of choices.

Don Ouellette stated that a grant portion for the water pipeline program would make projects easier to sell to town councils. If these programs were not available, Medford would not be able to undertake these projects. Mr. Ferrara noted feedback from many communities stated that the primary funding for projects were based on the MWRA Local Financial Assistance Programs.

John Sullivan noted if a hypothetical town is paying for 40% of the water bill, but is only eligible for 25% of the loan program, that town would be paying more of the debt and not getting the equivalent benefit. Distributions for the water program work out mathematically. Boston may not want to do the grant program and may be satisfied with the current qualification based on miles of unlined pipe, whereas I/I is based on a proportional share of what communities pay in.

**Executive Committee** – Katherine Haynes Dunphy

❖ **UPDATE: LEGISLATIVE STRATEGY**

Mr. Favaloro welcomed the Advisory Board's new Government/Media Coordinator, Tracy Wadsworth, to the staff. Ms. Wadsworth gave a brief summary of her 8 to 9 years of work experience with the State Legislature, having served as the Director of the Legislative Women's Caucus and 2½ years as the Legislative person in the Office of Victim's Assistance.

Beginning next week, the Advisory Board has hired a consultant to assist in the Advisory Board's goal to transfer the former Division of Watershed Management (DWM) from the Commonwealth's General Fund, either to the MWRA or a Statutory Trust.

Robert Durand, the former Secretary of the Executive Office of Environmental Affairs, Chairman of the MWRA Board of Directors and State Senator, will be working for the Advisory Board to try to resolve issues in moving the division of water supply out of the General Fund. In the Advisory Board's view, the easiest way would be a transfer to the MWRA. However, the Administration is currently reviewing other alternatives that include a Statutory Trust, which would insulate the

division from the General Fund.

Mr. Durand will also work with all the different stakeholders, including the communities, the Administration, legislators, environmental and sportsmen's groups and all of the interests of central and western Massachusetts. Staff is pleased that Bob Durand and his partner, Chuck Anastas, have agreed to work on this endeavor.

❖ **PREVIEW: STATE BUDGET TIMELINE**

The Governor's budget (House 1) will be unveiled next week. Staff does not expect debt service assistance monies to be included in House 1. Debt service assistance was not included in last year's Governor's Budget, but was included in the House and Senate Budgets, made it through Conference Committee and was then vetoed by the Governor. The vote was then overridden by the House and Senate. There has been some indication that Governor will be putting more money into the Division of Water Supply budget. The Legislative Caucus has put pressure on the Department of Revenue to release the FY04 funds for debt service assistance, which should be issued in March. The MWRA's share is approximately \$4 million and will result in a reduction of the next payment due by communities.

As far as the overall condition of the state, the State House News quoted House Chairman of Ways and Means, John Rogers, "In reality state government faces a \$1.7 billion budget shortfall next year and most of the gap will have to be closed by spending cuts." Chairman Rogers painted a grim portrait of the state budget that contrasted with the rosy assessment by Governor Romney earlier in the week. Representative William Green, Chairman of Natural Resources said, "It is grim, it is going to be a tough year."

Mr. Favaloro stated that his concerns on the CIP and CEB of the Authority are all inter-related, with every indication that the end to the economic crunch is not near. FY05 is going to be a very difficult year. By law, the State Budget must be done by the last day of July.

**E. QUESTIONS AND COMMENTS**

**F. ADJOURNMENT**

**A MOTION WAS MADE TO ADJOURN THE MEETING AT 1:01 P.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary