MWRA ADVISORY BOARD MEETING
JANUARY 20, 2005
BRADLEY ESTATE
2468B WASHINGTON STREET, CANTON, MA – 11:30 A.M.
MINUTES APPROVED AT THE APRIL 28, 2005 MEETING

Forty-three people were in attendance, including twenty-five voting members: John Sanchez, ARLINGTON; E. A. Maguire, ASHLAND; Peter Churchill, BEDFORD; Peter Castanino, BELMONT; John Sullivan, BOSTON; Charles P. Barry, BROOKLINE; J. R. Greene, GUBERNATORIAL APPOINTEE; William Hadley, LEXINGTON; Jay Fink, LYNN; Bruce Kenerson, LYNNFIELD; Ed Bates, MAPC; Donald Ouellette, MEDFORD; Katherine Haynes Dunphy, MILTON; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; Ted McIntire, READING; Sam MacDonald, REVERE; Michael Collins, WAKEFIELD; Patrick Fasanello, WALPOLE; Ralph Pecora, WALTHAM; Walter Woods, WELLESLEY; Earl Forman, WESTON; Bradley Hayes, WEYMOUTH; Robert Angelo, WESTWOOD; Michael Woods, WILMINGTON.

Also present: Joe Foti, MWRA BOARD OF DIRECTORS; Don McCabe, ARLINGTON; David L. Savoy, WALTHAM; Michael Chiasson, WEYMOUTH; Rob Antico, WILMINGTON; Eileen Simonson, WSCAC; Phil Jasset and Matt Boger, UCANE; Fred Laskey, Michael Hornbrook, Laura Guadagno, Carl Erickson and Pamela Heidell, MWRA STAFF; Joe Favaloro, Cornelia Potter, Ryan Ferrara, Andrea Briggs and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

A. **WELCOME**
Chairman Katherine Haynes Dunphy called the meeting to order at 11:44 a.m.

B. **APPROVAL OF THE MINUTES FROM NOVEMBER 18, 2004**
A Motion was made **TO APPROVE THE MINUTES FROM THE NOVEMBER 18, 2004 ADVISORY BOARD MEETING.** It was seconded and passed by unanimous vote.

C. **REPORT OF THE EXECUTIVE DIRECTOR**
MWRA Advisory Board Executive Director Joseph Favaloro introduced new staff member, Andrea Briggs, who will serve as the Advisory Board's Government/Media Coordinator. Ms. Briggs previously served as Legislative Director for Senator Stephen Brewer.

Ms. Briggs will be working on a new monthly update called "News and Notes", which will be emailed to members and interested parties. The Advisory Board's goal is to expand its email base to communicate as frequently as possible through email.

Mr. Favaloro reported that the MWRA had its lowest water usage in over fifty years during calendar year 2004 with 213.44 million gallons per day (MGD). This usage was about 2.6%, or a little under 6 MGD, less than calendar 2003.

Further, the City of Boston had its lowest water usage in over 100 years at 77 MGD. Since 1985, MWRA usage has dropped by over 35%. Though this is good news for water conservation, the flip side is that costs need to be made up within the rate base.

A member asked what attributed to the drop. Mr. Favaloro responded the Authority and cities and towns have aggressively pursued leak detection and water conservation among other programs. Additionally, with price increases, people are more cognizant of their water usage.

Mr. Favaloro stated that Mr. Laskey has been up front and honest talking about the CSO Plan and the holistic approach – going the extra mile on the North Dorchester Bay Project and in return allowing the Charles River, Alewife and other basins to be held harmless with the level of control. The Authority is clearly doing a lot in those basins, but not to the level of control that was expected. The price tag on the Charles River for fishable, swimmable standard was $100+ million.

In the early 1990s, Representative Michael J. Sullivan railed at the Advisory Board and the MWRA about the rates, impacts and unfair methodology based on the suburbs versus the urban core cities. In his response to the Authority's approach reported in the *Response of the United States to the MWRA's Quarterly Compliance and Progress Report as of December 15, 2004,* Mr. Sullivan, now the U.S. Attorney, stated, *"The Charles River is now used for the primary contact sport of windsurfing. The Authority should, therefore, provide the highest degree of protection attainable for this vital resource."*

At any given time, the maximum amount of windsurfers that can go out on the Charles River is 20, which never happens because there are novice and expert sailors. The average may be 6 to 12 people. The U.S. Attorney appears to be calling for the Authority to spend an extra $100 million for 20 windsurfers.

D. **PRESENTATION: MWRA'S PROPOSED FY06 CAPITAL IMPROVEMENT PLAN** – Fred Laskey, Executive Director, Laura Guadagno, Director of Finance and Carl Erickson, Budget Director

MWRA Executive Director Fred Laskey stated to understand the MWRA's Proposed FY06 CIP, you need to take a step back into history. In FY04 there was a spirited debate amongst the Board about what the cap should be. The Authority had a three-year and a ten-year cap and the debate was should it be a hard cap or a rolling cap. The compromise was a five-year hard cap and a predictor of the next five years after that. That occurred in FY04.

In many ways, that cap frustrated the Advisory Board staff because they felt strongly that MWRA was not holding to its three-year cap and was simply rolling more and more projects, pushing spending out and not staying within the letter or the spirit of the cap. That FY04 cap, in the view of the Advisory Board, represented a $200 million increase from what was in the cap from FY03. The Board said let's end this fight over whether it is a rolling cap or a hard cap. What does the MWRA need? Staff provided an overview of the Capital Program and the Board provided a cap for those projects and told staff to live within it. The compromise was a hard five-year cap.

For this year's CIP, the MWRA is proposing a cap that represents a dramatic reduction from the cap that was approved last year and also has excluded a substantial number of projects that staff was trying to get into this year's spending plan. The Authority eliminated $420 million from the FY09-13 plan and excluded roughly $150 million in other projects that staff proposed to introduce into the CIP.

In FY05, the second year of the cap, MWRA added roughly $400 million in spending to the outyears. This year the Authority went back to the numbers that were originally approved by the Board in FY04, essentially a hard cap. While it is a substantial cut, it also shows that there was almost an unlimited appetite to spend, but the demands to maintain the system are very large and collide with the reality of MWRA's financial condition.

This reflection on rates was caused by the work of the sub-committee created by the Board of Directors to respond to John Carroll's recommendation that MWRA implement a 2½% cap on rates. The sub-committee reviewed various scenarios. Mr. Laskey stated any reasonable person would have to conclude that MWRA did not have the means, or a strategy, to pay for all of these projects.

MWRA's rates are increasing and becoming a heavier burden for ratepayers. The Authority is arguing in the courts that it cannot spend excessive amounts of money on CSOs because rates are already too high, backed up by expert analysis. Additionally, MWRA has a long-term financial strategy to smooth rates that was developed when staff realized that ratepayers would have to absorb roughly $4 billion in outstanding debt for construction of Deer Island. The strategy was to stretch payments out as far as 30 to 40 year bonds, refinancing and balloon payments to get beyond the point where the spending would slow down on Deer Island and then pay for the mortgage on that project. As Deer Island is coming down in spending, the Integrated Water Supply Improvement Program is at $2 billion. Now staff has to find a way to not spend and start paying off debt.

The smoothing strategy also assumed around $600 million in revenue from state Debt Service Assistance over ten years. This represented 10% of MWRA's income. With the elimination of the Debt Service Assistance program during the fiscal crisis in FY03, the Authority found a huge piece of its revenue stream carved out. At the same time, there were growing demands on MWRA's spending.

If the regulators have their way, the Authority's modest CSO program has the potential to go as high as $1 billion. The Authority is faced with the reality that the system is 100 years old in many spots and must be maintained. The strategy of paying off Deer Island when the spending stops is not there anymore because MWRA is continuing to spend at an aggressive rate. Capital spending must be reduced to a point where more debt is being paid off than is being added in a given year, including interest and principal.

The Authority has held the Deer Island asset protection funds stable because it is a huge investment that must be maintained. The Inflow/Infiltration and Local Pipeline Assistance Loan Programs have also been maintained. The Integrated Water Supply Improvement Program went up slightly due to construction increases. Maintenance and improvements to interception and pumping and water quality transmission will take the brunt of these reductions.

Debt service on bonds accounts for 58% of the MWRA budget this year. Within two years, debt service will account for two-thirds of the budget, leaving one-third for the operational budget. If utilities and other fixed costs are taken away, there is an even smaller pool of money within the operating budget. MWRA's FY05 operating budget is less than its FY99 budget. A number of years ago a consultant, Black and Veatch, was hired to provide targets for reductions in staff; the Authority has substantially beaten those targets every year and continues to bring the headcount down. MWRA is now down over 500 positions and performance indicators show that MWRA continues to do well.

Budget Director Carl Erickson stated the MWRA cap sets a limit of $1.134 billion for FY04-08. Recognizing the nature of capital project changes, the cap also provides flexibility that spending can change plus or minus 20% for each year of the five-year cap period.

As staff develops the FY09-13 budget, all existing projects, updated project costs, amendments, change orders and new project requests are reviewed. A limited amount of new capital spending was accepted this year. With the change in DCR, the Authority is now directly bonding and making land acquisition purchases, as well as taking over dam improvements. Inflation on un-awarded projects is a significant factor in increasing the budget.

Each year when creating the budget, un-awarded construction must be updated to current dollars. The Environmental News Record (ENR) index from December 2004 projects a 10% increase in materials. Raw materials, such as steel, have experienced the largest cost increase since the 1970s. These types of increases must be absorbed within the existing un-awarded projects and be balanced against total spending for the Authority.

MWRA has removed funding that was approved for last year for a multi-year $100 million Interceptor Renewal Program. Improvements to the West Roxbury Tunnel have been removed and repairs will be more narrowly focused on a critical piece of that tunnel.

The pace of spending at Deer Island is relatively unchanged. Greater spending within the cap period on the CSO Program is largely associated with changes to the North Dorchester Bay project.

MWRA is close to completion of the Walnut Hill Water Treatment Plant (WHWTP) and Norumbega Covered Storage. Funding is included in the budget for two primary disinfection measures that will be required by 2012. An Ultra Violet treatment plant will be added to the WHWTP to meet that requirement.

Much of the spending in the transmission category is for completing interconnections for the MetroWest Tunnel and the Hultman Aqueduct, new land acquisition and the Wachusett spillway and work at the Winsor Dam.

To recap, total MWRA spending complies with the cap set by the Board and the budget has been effectively reset to the levels of spending identified in the FY04 CIP.

Staff recognizes the debt burden and is taking steps to reset the levels of spending for the outyears by balancing the debt burden with the capital needs of the system and the regulatory requirements placed on the Authority. Master planning will help the Authority to place asset values and to prioritize the work that goes forward with limited capital resources.

Michael Collins of Wakefield stated MWRA has a lot of new and expensive equipment that is going to be operating under harsh conditions. Has staff factored when major equipment will be replaced and how is that figured into the CEB and CIP? Mr. Erickson said equipment that is operational or needs maintenance is funded through the CEB. Staff has identified replacement needs, making sure that equipment with shorter useful lives (10 years) are factored in and accounted for.

Mr. Collins stated for the past 12 years the Authority has made a diligent effort to identify what can be put into receiving waters and what the impacts would be. The regulators are still trying to set the target for violations of water quality standards. Mr. Collins expressed concern that these targets are out of the Authority's hands.

Chief Operating Officer Michael Hornbrook said in the Authority's NPDES permit, there are numerical limits on fecal coliform and residual chlorine that are hard and fast. MWRA has tried to develop a CSO program that, when complete, will meet water quality standards. To do that, and have remaining CSO discharges, water quality standards in certain receiving waters need to be changed from class B or SB, which is 100% swimmable and fishable, to Bcso or SBcso, which does allow some continued CSO discharges. The Authority has documented that this is the proper level of CSO treatment for those receiving waters. No additional water quality benefit would be achieved in going higher than these targets.

Mr. Laskey noted that it is unfair for the regulators to move the goal line or change the rules part way through the game. For instance, under the plan, sewer separation was the way to go. If staff knew that in the end, instead of spending $100 million MWRA would spend $300 million, staff might not have opted for sewer separation, but rather a Cottage Farm type facility or a new interceptor. MWRA's job is to make the regulators maintain their commitments for a holistic approach if the Authority does the right thing in South Boston. Spending more money will not provide an improvement in water quality on most of the other projects.

Chairman Dunphy said $425 million in spending has been removed from the CIP; however, she presumes these are projects that have value and are just being delayed. Mr. Laskey noted, for instance, the West Roxbury Tunnel is in tough shape in spots. Last year the original plan was to re-do the whole Tunnel at a cost of $80 million; now staff is looking at other alternatives. Staff is asking if just the worst areas can be repaired. What is the cost versus the benefit?

Chairman Dunphy said you have identified $150 million in new projects. What risks are we carrying in terms of balancing the environmental damage that might be caused by not doing a greater quality of improvement to the Charles River versus what damage might occur if you put these off and it is a bad decision? Mr. Laskey said there are a number of issues, one is maintenance of the current system. The headworks were rehabilitated a number of years back but in a heavy storm, it is all hands on deck to keep it operating manually. Should that be high on the list? Perhaps it should. In the south, redundancy and looping are needed toward Norwood and to the north as well.

Mr. Laskey added there are some weaknesses in the system, particularly now with Wilmington and Reading coming on. MWRA is going to need a more robust system to the north. The question is when and how do we get to it and how much does it cost? CSOs are looming over all of us. Hypothetically, we have $300 million for the beach at South Boston, which is under all the rules and is a good plan. On the other hand if we had $300 million to maintain our system, we could make a lot of hay. In light of the financial analysis, it seems irresponsible to plow ahead with those kinds of increases in spending. There was a $200 million increase in the budget from FY03 to 04, $450 million from FY04 to 05, and a $150 million increase looming from FY05 to 06. That kind of growth in spending is something the MWRA cannot afford.

Eileen Simonson of WSCAC asked if the Authority has the staff it needs to develop a timely Master Plan for the water and sewer systems. The question that Chairman Dunphy just raised about priorities and risk factors reiterates that there be an extensive and detailed process for laying out a Master Plan. WSCAC has concerns, for example, about some projects on the water side that have been put off. If the system keeps admitting new communities, there is going to be a cost in the northern sector. WSCAC would like to see the Master Planning process supported by the communities as a guide for your future expenditures. Mr. Laskey agreed. He also stated MWRA does have a good staff working on Master Planning. Even though MWRA has moved back to the FY04 budget, at that time the budget marked a huge increase in the MWRA budget; the Authority does have a robust spending plan, although a lot of it is driven by the regulators.

Mr. Favaloro said first and foremost the Advisory Board supports the Authority for embracing the fact that there is a finite amount of money and that it has to live within those dollars. The Advisory Board must make sure that every dollar spent equals the benefit that the dollar provides. Mr. Laskey noted that the Authority has done a good job of prioritizing where to spend the money in the portion of the capital budget it can control, taking CSOs out of the equation. Staff is focused on the critical needs, such as the need for rehabilitation to the WASMs up through Waltham and Arlington, which is one of the oldest pieces in the system with no backup.

Cornelia Potter noted that the proposed budget has CIP spending rising by $100 million in the next three years, the remaining years in the current cap period, before it falls by more than $500 million that the Authority has reduced or removed from this budget. Those numbers include contingency funds and other inflation adjustments. Funding does remain under the FY04-08 cap as a whole.

Again, the Advisory Board is reiterating the importance of the Master Planning process. The sharply reduced spending plan means Master Planning is that much more important as a place for identifying projects.

The CSO Program has increased by over $100 million in just the last two budget rounds and is 40% of all future spending. This increase reflects acceleration, or earlier scheduling, of the North Dorchester Bay project. CSOs are the dominant feature, at almost two-thirds of all wastewater spending and at more than one-third of all spending in the current cap period. By FY08, CSO spending is expected to be half of all spending for that year.

E. **COMMITTEE REPORTS**

Executive Committee – Katherine Haynes Dunphy

- **STATUS: ADVISORY BOARD LEGISLATIVE INITIATIVES**

Mr. Favaloro reported that the Chairman of the Advisory Board has been added as a voting member of the Board of Trustees for the Water Supply Protection Trust and will now be part of the decision-making process that will determine the protection of the watershed areas.

All other pieces of legislation discussed in November have been filed.

The Governor's House 1 Budget that kicks off the next five months of deliberation at the State House should be out next week. Chairman Dunphy sent a letter to the Governor outlining the importance of adding Debt Service Assistance (DSA) to his budget; however, there is not much chance it will be included in House 1. Last year the House provided $5 million in its budget and the Senate doubled it to $10 million, which went through Conference Committee, and finally was overridden when the Governor vetoed it. Staff hopes to be successful through the budget process to retain the $10 million, but doubts there will be an appreciation of that number.

- **PRESENTATION: IMPACTS/IMPLEMENTATION OF RECENTLY ENACTED WATER SUB-METERING LAW**

Beginning March 16th, a new sub-metering law will take affect that may impact cities and towns. Beginning on that date, landlords can now charge tenants for water and sewer use in apartments that are either open or once they become open. The landlord must put in individual meters that then tie back to the master meter. Cities and towns don't need to read anything but the master meter. The challenge would then be to make sure the readings on the sub-meters tie back to the master meter. The first time that does not happen, landlords will likely be calling the Water Department to ask why. The landlord is also responsible, prior to the issuance of a water/sewer bill, for installing water conservation devices in each of the units.

Advisory Board staff called the Greater Boston Real Estate Board, sponsors of the initiative, to ask about the regulations and found that none were in place. Staff contacted the Department of Public Health to encourage the development of regulations prior to the March 16 implementation date.

Operations Committee – Jay Fink

- **UPDATE: WASTEWATER METER REPLACEMENT PROGRAM**

Mr. Hornbrook provided members with a Staff Summary that went to the MWRA Board of Directors on January 12 with community specific information. All 217 wastewater meters have been installed on schedule, with 157 meters accepted. Sixty meters await the acceptance process because MWRA has not yet received documentation or meters were rejected because the flow difference was too high. Staff is working with the meter manufacturers. The goal is full acceptance of the meters by the end of January, followed by a 30-day test period of the system as a whole and then to go live in March per the original schedule.

Of the 157 accepted meters, 25 did not have change of flows; 83 of the meters were within 10% flow change (plus or minus); and 29 sites had greater than plus or minus 10%, mostly in small measurement meters between 1 and 5 MGD, with half of those at 1 MGD or less in flow measurement.

On February 16, updated information will be provided at a community-wide meeting.

Finance Committee – Bernard Cooper

- **STATUS: FY05 CEB**

Ms. Potter stated this year's Current Expense Budget (CEB) for revenue and expenses totals $493 million. Half way through the year, the Authority's spending has reached $231 million, $11 million below the amount budgeted. With the offset of shorter revenue, the overall difference in expenses is about $8.5 million.

The primary contributors to that difference between expenses and revenue are: $4 million for Direct Expenses (including $1.6 million for personnel), $3 million from Debt Service and $1 million in greater than budgeted revenue, especially investment income as short term rates are rising. Virtually every category in Direct Expenses is running below budgeted amounts.

Mr. Favaloro added that the Advisory Board's *Comments and Recommendations* for the FY06 CIP and CEB will likely be brought forward in March and May respectively.

- **UPDATE: RATE REVENUE REVIEW SUB-COMMITTEE**

Mr. Favaloro stated that the Rate Revenue Sub-Committee, comprised of MWRA Board members and MWRA and Advisory Board staff, had a healthy discussion related to the concept of a rate cap at different levels. However, development of a rate cap will not be a focus for the FY06 budget.

F. **ADJOURNMENT**

A MOTION WAS MADE TO ADJOURN THE MEETING AT 1:10 P.M. It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary