

**MWRA ADVISORY BOARD MEETING
JANUARY 19, 2006
STATE HOUSE
ROOM 350, BOSTON, MA
Minutes Approved at the February 23, 2006 Meeting**

Sixty-four people were in attendance, including twenty-three voting members: John Sanchez, ARLINGTON; E. A. Maguire, ASHLAND; Peter Castanino, BELMONT; Charles Barry, BROOKLINE; Andrew DeSantis, CHELSEA; Al Borgonzi, EVERETT; J. R. Greene, GUBERNATORIAL APPOINTEE; Dennis Meehan, LEXINGTON; Jay Fink, LYNN; Bruce Kenerson, LYNNFIELD; Don Ouellette, MEDFORD; Katherine Haynes Dunphy, MILTON; John Cosgrove, NEEDHAM; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; Ted McIntire, READING; Carol Antonelli, SOMERVILLE; Lawrence Barrett, STOUGHTON; Richard Stinson, WAKEFIELD; Walter Woods, WELLESLEY; Bob Angelo, WESTWOOD; Rob Antico, WILMINGTON; Steve Swymer, WINCHESTER.

Also present: John Carroll, Andrew Pappastergion and Joseph Foti, MWRA BOARD OF DIRECTORS; Jon Norton, EVERETT; Tom Holder, FRAMINGHAM; Michael Yunits, HOLBROOK TOWN ADMINISTRATOR; Barbara Stevens, LEXINGTON; Brian Carlisle, QUINCY; Ana Singleton, STOUGHTON; Jim Good and John Encanaceo, WAKEFIELD BOARD OF SELECTMEN; Hon. Jeannette McCarthy, MAYOR OF WALTHAM; Jay Corey, WOBURN CITY ENGINEER; Salvatore F. DiMasi, SPEAKER OF THE HOUSE; Robert A. Havern, STATE SENATOR; Paul Haley, FORMER CHAIRMAN OF HOUSE WAYS & MEANS; Representative Deborah D. Blumer; Representative Paul Donato; Representative Joseph Driscoll; Representative William Galvin; Representative Frank Hynes; Representative James R. Miceli; Representative Anne Paulsen; Representative David Sullivan; Jay Kuhlow, AIDE TO SENATOR BREWER; Tasha Poteat, AIDE TO HOUSE WAYS & MEANS CHAIRMAN ROBERT DeLEO; Stephany Collamore, AIDE TO REP. PEISCH; Eileen Simonson, WSCAC; Matt Boger and Phil Jasset, UCANE; Fred Laskey, Michael Hornbrook, Marian Orfeo, Michael Ralph, Tracy Wadsworth, Laura Guadagno and Patricia Filippone, MWRA STAFF; Joe Favaloro, Cornelia Potter, Ryan Ferrara and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

A. WELCOME

Chairman Katherine Haynes Dunphy called the meeting to order at 11:46 a.m. and welcomed everyone to the State House.

B. APPROVAL OF MINUTES FROM OCTOBER 20 AND NOVEMBER 17, 2005

A Motion was made **TO APPROVE THE MINUTES FROM THE OCTOBER 20, 2005 AND NOVEMBER 17, 2005 ADVISORY BOARD MEETINGS.** It was seconded and passed by unanimous vote.

C. PRESENTATION: MWRA ADVISORY BOARD LEGISLATORS OF THE YEAR PRESENTED TO THE HONORABLE SALAVATORE F. DI MASI, SPEAKER OF THE HOUSE, AND THE HONORABLE ROBERT A. HAVERN, SENATE ASSISTANT MAJORITY WHIP

Chairman Dunphy said we have the pleasure today to thank in person two legislators who have been long time supporters of rate relief for MWRA ratepayers. It is important to have legislators

working on our behalf to shepherd legislation through the many trips it has to take from start to the successful conclusion. Senator Robert Havern and Speaker Salvatore DiMasi have been advocates for working families and the people that need this assistance. In recognition of their efforts, plaques were presented.

Senator Havern thanked members and stated without Commonwealth Sewer Rate Relief funding in the legislature, water, a commodity that you have to have, would be unaffordable. This isn't just a good bill for the Authority; it is a good bill for all the ratepayers. That is why we keep fighting for it.

Speaker DiMasi thanked members and said many of his colleagues in the House have labored for years in supporting DSA. Sometimes we don't have enough money, but we have to prioritize. Mentioning the legislators in attendance by name, Speaker DiMasi stated many of these legislators make DSA their priority, especially for the people who can't afford it; elderly people on a fixed income that own their homes and need this assistance; without it, it would be unaffordable. The Speaker stated, "You can count on me to give as much help as I can."

D. PRESENTATION: POTENTIAL MWRA CURRENT EXPENSE BUDGET SHORTFALLS IN FY06 AND FY07 – Fred Laskey, MWRA Executive Director

MWRA Executive Director Fred Laskey said this is a critical year for the Authority in its efforts to get increased state Debt Service Assistance (DSA). There is great potential for substantial rate increases for ratepayers. The capital program is the engine that is driving the budget increases for the most part; the new twist this year is the rising energy costs.

Since the creation of the Authority in 1985, the highest spending was in 1993 at \$600 million. This past year the Authority spent about \$200 million. Bonds coming due have built the Boston Harbor Project, the MetroWest Tunnel, Spot Pond Mains, Norumbega Covered Storage, the Braintree-Weymouth facility, the WASM rehab, the John J. Carroll Water Treatment Plant (CWTP), Union Park, East Boston Branch, North Dorchester Bay CSOs and the remainder of the CSO program. The latest project is the addition of ultraviolet treatment at the CWTP as a secondary form of disinfection.

MWRA is spending what it is required to spend on mandated projects from the state and federal regulators and there is not a lot of extra spending. The mortgage payment takes up the predominance of spending, particularly on the Deer Island Wastewater Treatment Plant (DIWTP) and the Boston Harbor clean up; this creates the real pressure on the rates. By 2010, two-thirds of the MWRA's annual operating budget is going to be for debt service on bonds.

Debt Service and Indirect Expenses are expenses that are beyond the Authority's control. For Direct Expenses, which are daily operations, the Authority has maintained a flat budget since FY2000, controlling costs against inflation through cost saving measures. One of the main cost saving measures was a substantial reduction in staffing over the last eight years, particularly since 2001 when there was a sharp drop in staffing through efficiencies within the departments, use of automation and consolidation.

MWRA has spent \$5 or \$6 billion on facilities. Parts of Deer Island have been in operation for ten years and need to be maintained on a regular basis, so there is pressure to increase maintenance spending while at the same time trying to control costs.

The Authority has controlled its operating budget through consolidation of nine facilities into one major facility in Chelsea and is in the process of surplus and selling those assets. Most MWRA facilities have been automated; the Quincy Pump Station and the Braintree-Weymouth facility will be

coming online soon and will allow 24/7 coverage to be eliminated. All across the Authority, technology has dramatically changed the way the MWRA operates.

MWRA has had great luck in negotiating with its unions to achieve cross functionality with its tradespeople, maintenance and operations staff, which has paid a lot of benefits. Across the board, the Authority has had staffing reductions. Other expenses have dropped, as well, such as the MWRA fleet, which is down by 10%. The Authority went from three buildings in the Charlestown Navy Yard to now less than one building and is currently in the process of trying to dispose of the Fore River Shipyard. The Authority has now reached a point with its cost-saving measures where it is at a steady state; there is not much more that can be downsized. About one-third of the electricity at Deer Island is self generated.

On the capital side, in FY06 the Board of Directors, at staff's recommendation, eliminated \$420 million in capital spending over the next ten years because MWRA simply did not have a way to pay for it. Important projects have been eliminated or deferred in a calculated effort to try to stretch out capital spending until some point in the future to get some relief.

Finance staff has been aggressive in refinancing. Over the last several years, the Authority has refunded and refinanced about \$2.8 billion of debt for a savings of \$165 million in present dollar value. Unfortunately, the world is changing and the benefits of refunding have now become risks. Short-term rates have gone up 4.5%. Long term rates have been stable.

With the massive pump stations at Deer Island, the Authority consumes a lot of energy. Health care insurance has gone through the roof. Regulatory changes cause increasing stress on the Authority's budget. These are all issues that impact the Authority's budget and are beyond its control and have caused MWRA to file a \$6 million amendment in January to the Advisory Board for their review for increased costs for this year and next.

The mountain of debt service creates a daunting series of rate increases on a very high base; add to that debt service base \$5 million for utilities, \$5 million for increased interest rates; \$4 million in increased maintenance; \$2 million for health insurance and suddenly \$17.5 million of expenses that are beyond our control have been added, creating a 12.5% rate increase if it were to be filed with the Board today. The exercise for staff over the next several weeks is to try to reduce the 12.5% increase to under 10%.

It is also important to note that this 12.5% increase is based on a record use of \$35 million in rate stabilization reserves, indicative of a structural problem between rate revenue and expenditures. Reserves will be depleted in a year or so. The efforts of Advisory Board staff have been critical in talking about the need for state assistance. If MWRA can get the \$25 million that the Advisory Board is advocating, staff hopes to reach a 5.3% increase.

E. COMMITTEE REPORTS

Executive Committee – Katherine Haynes Dunphy

❖ **PRESENTATION: STATING THE CASE FOR DEBT SERVICE ASSISTANCE** – Katherine Haynes Dunphy, Chairman – MWRA Advisory Board

Mr. Favaloro said when he was first hired at the Advisory Board, the discussion was rate increases and rate revolt, all topics that were front and center. Through that discussion, one entity came to the forefront – the Legislature. [Mr. Favaloro's discussion coincided with a Power Point Presentation that can be found, along with Mr. Laskey's presentation, on the Advisory Board's website at www.mwraadvisoryboard.com under "The Case for Debt Service Assistance".]

The Legislature became a partner with the Advisory Board and the MWRA and fought with us for funding. As a result, MWRA had years of Debt Service Assistance and relatively smooth levels of rate increases.

Over the last few weeks, Advisory Board staff has gone to the communities to share what the next few years will look like, with \$200+ million increases, to try to come up with solutions. The MWRA Caucus has worked to restore DSA, achieving \$5 million the first year (of which MWRA received \$4 million); the following year \$10 million was allocated \$10 million (of which MWRA received \$8.7 million); and this fiscal year \$12 million was allocated (of which MWRA will receive \$10 million). These allocations went through the House and the Senate and were then vetoed by the Governor. The Legislature came through with overrides.

Water wholesale charges are going up \$76 million or 49%. Wastewater is going up 32% or \$131.4 million.

The Economic Policy Institute did a report on the cost of living in various metropolitan regions. It cost \$3,000 more to live (including all housing costs) in Boston than it does in Washington DC; it is nearly \$6,000 more than New York City and \$7,000 more than San Francisco. It costs \$20,000 more in Boston than in Chicago, Miami, Austin or Raleigh for an identical sized family for health care, child care, shelter, food, transportation and clothing costs. If it is not economically viable to put a business here and not economically viable to continue to live here, this area loses its clout and its ability to grow.

As part of a CSO reevaluation, Harvard Professor Robert Stavins did an analysis of the impacts. His report concluded that before another dime was spent on any project, there was already an economic burden for shelter costs, as defined by EPA, in the 90th percentile of 80 metropolitan areas evaluated. In certain communities, the economic burden was even more severe; especially Chelsea and Boston where shelter costs exceeded 30% of median household income.

Save the Harbor/Save the Bay did a report on the benefits of the clean up of Boston Harbor and concluded over the next 20 years, the benefit will be \$2.2 billion in new housing, retail space, etc. Over the next few years an additional billion dollars plus of growth is expected to come out of the harbor clean up. Those are dollars that are coming back into the Commonwealth; our goal is to try to get a few of them back as part of Debt Service Assistance.

To date, 41 communities have endorsed a Resolution in support of increased DSA funding [since then, 8 additional communities have endorsed the Resolution], representing almost 90% of the service area. There was a strong consensus on the \$25 million for FY07 and a goal of a formula driven number by FY11.

Chairman Dunphy said in 1985 MWRA took over the job of providing water and sewer services to more than two million residents in Massachusetts. In order to provide those services in an environmentally responsible way, MWRA immediately had to take on the job of fixing old facilities and building new facilities. Today much of the work has been completed and ratepayers and all Massachusetts residents see real public health and environmental benefits, a secure supply of clean drinking water and clean waterways. We are especially proud of transforming the dirtiest harbor in America into the crown jewel of the Boston area. But the cost has been huge, more than \$6 billion in upgrades so far, and \$1.3 billion over the next ten years. Debt service has grown to more than 60% of the budget so far and is still climbing.

In 1994, when the state was emerging from recession, it was clear that not only were the ratepayers suffering from sticker shock but water and sewer rates were threatening the economic recovery. Businesses and households could not afford double-digit rate increases.

The legislature, in its wisdom, established the Commonwealth Sewer Rate Relief Fund for MWRA communities and for other cities and towns throughout the state. MWRA that year received \$20 million in DSA which grew to more than \$50 million by 2002. Thanks in large part to DSA, MWRA rate increases in the late 80s and 90s stabilized at 5% or below. By the end of the decade there was another economic downturn. As revenues dropped, the state, in 2002, entirely cut the DSA program. MWRA managed to get through the year by reducing its work force, drawing down on reserves, and sending increased assessments to the cities and towns. Chairman Dunphy credited the legislators for immediately trying to restore the DSA program.

Unfunded federal mandates continue to dominate the budget. The costs of the court-ordered projects alone are about 45% of the court-ordered CSO projects. Those debt layers will continue to grow. The problem is not going away; in fact, it will get worse. The dollars are much bigger than they were ten years ago.

The Advisory Board encouraged MWRA to do an affordability study, which proved that rates are already unaffordable and are a real burden on low income and young working families, senior citizens and young graduates. High business costs are a concern for Massachusetts as well, so this is the right time for us to ask the legislature to take action to protect the Boston economy and make sure Boston is competitive with other metropolitan areas throughout the country.

The Honorable Jeanette McCarthy, Mayor of Waltham, stated for Waltham, it will be a 44% increase from FY06 to FY07, on top of what it is already paying. The EPA has said the Charles River, which goes right through the City of Waltham, must be cleaned up. Waltham has a mandated DEP consent order for sewer, so we are feeling the pinch as is everybody. Between water and sewer rates plus taxes, something has got to give.

Mayor McCarthy expressed appreciation to the Advisory Board for organizing communities. The five sewer projects that were mandated for Waltham are on a strict timeline. The Mayor stated that her local charter requires a five-year capital improvement program, which, unfortunately, must be prioritized by mandated projects and other worthy projects have been put off for years. The Mayor expressed her willingness to participate in any way possible to achieve the goal of increased funding for DSA.

Mr. Favaloro said for the next step, the Advisory Board will contact every Representative and Senator in the district to seek support on the Resolution, which will then be forwarded to the Senate President and Speaker of the House.

❖ **LEGISLATIVE UPDATE**

Mr. Favaloro acknowledged the presence of Representative Anne Paulsen, who has decided not to run for reelection. Rep. Paulsen served as an Advisory Board member and its Chairman of Finance prior to becoming a State Representative. Mr. Favaloro recognized her efforts and wished her well.

Finance Committee – Bernard Cooper

❖ **AMENDMENT TO FY06 MWRA CURRENT EXPENSE BUDGET**

Cornelia Potter stated the budget pressures facing the Authority are growing; already this year the Authority has identified more than \$6 million of greater than budgeted spending. Staff is proposing that this greater than budgeted spending will be offset by lower spending for debt service, lower spending for watershed payments in lieu of taxes and higher revenues for Deer Island; for the

balance of \$3.3 million, staff proposes to close the gap by using rate stabilization funds. Staff has 30 days to review this amendment and expects to bring comments and recommendations to the full Advisory Board at the next meeting on February 23.

❖ **SCHEDULE FOR ADVISORY BOARD REVIEW OF FY07 MWRA CAPITAL IMPROVEMENT PROGRAM AND CURRENT EXPENSE BUDGET**

The Authority has begun the process of preparing budget documents for FY07. At this point, the Capital Program for FY07 is nearing completion and going to the printer today. The formal initiation of the Advisory Board's 60-day review period begins upon receipt of the document with a vote expected at the March meeting. The proposed budget is within the five-year spending cap, with spending for the immediate year ahead of nearly \$230 million.

The process for preparing the FY07 Current Expense Budget (CEB) is well underway. The goal is to bring that increase in the single digits at possibly 9.5% even though there are a number of cost pressures for which the full year impact will cause a challenge to the Authority's ability to meet next year's budget. As was pointed out, it could have been as high as 12.5% without adjustments that were made. Advisory Board staff expects the Authority will be transmitting these proposals to the Board of Directors at its February meeting; the Advisory Board review process will move from mid-March to mid-May with a final vote at the May 18 meeting of the Advisory Board.

Mr. Favaloro reiterated, on the CEB, there is \$35 million in one time revenues that will be gone by FY08, which really translates into an approximately 20% increase if not for those funds. This is the reality. In speaking about DSA, it needs to be talked about in the context of one-time revenues that are bringing the number down from 20% to 12.5% down to a budget that the Authority staff intends to send to the Advisory Board. Looking at the whole picture is daunting.

Operations Committee – Jay Fink

❖ **PREVIEW: SYSTEM EXPANSION COMMITTEE MEETING**

Jay Fink stated there will be a System Expansion Committee meeting held at the Advisory Board office on February 2 from 10 a.m. to 12 p.m.

On another note, communities can now monitor their individual water and wastewater flows online. MWRA has made this information available and those needing further information can call Andrea Enos at 617-305-5809.

F. ADJOURNMENT

A MOTION WAS MADE TO ADJOURN THE MEETING AT 12:44 P.M. It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary