

**MWRA ADVISORY BOARD MEETING
FEBRUARY 23, 2006
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530 WASHINGTON STREET, WELLESLEY, MA
Minutes Approved at the April 27, 2006 Meeting**

Forty-three people were in attendance, including twenty-five voting members: Peter Castanino, BELMONT; Tim MacDonald, CAMBRIDGE; Ed Sullivan, CANTON; Al Borgonzi, EVERETT; J. R. Greene and Barbara Wyatt, GUBERNATORIAL APPOINTEES; Ed Demko, HINGHAM; Dennis Meehan, LEXINGTON; Jay Fink, LYNN; Bruce Kenerson, LYNNFIELD; Ed Bates, MAPC; Dana Snow, MARBLEHEAD; Doran Crouse, MARLBOROUGH; John Cosgrove, NEEDHAM; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; Sam MacDonald, REVERE; Carol Antonelli, SOMERVILLE; Richard Stinson, WAKEFIELD; Walter Woods, WELLESLEY; Earl Forman, WESTON; Bob Angelo, WESTWOOD; Michael Chiasson, WEYMOUTH; Zig Peret, WILBRAHAM; Rob Antico, WILMINGTON.

Also present: Andrew Pappastergion and Joseph Foti, MWRA BOARD OF DIRECTORS; Jon Norton and Mike Marchese, EVERETT; Brian Carlisle, QUINCY; William Shaughnessy, WELLESLEY; Ed Bretschneider, WAC; Matt Boger, UCANE; Fred Laskey, Michael Hornbrook, Joshua Das, Patricia Filippone, Jim Coyne and Pamela Heidell, MWRA STAFF; Joe Favaloro, Cornelia Potter, Ryan Ferrara and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

A. WELCOME

In the absence of Chairman Katherine Haynes Dunphy, Secretary Ed Sullivan called the meeting to order at 11:40 a.m. and introduced Wellesley Designee Walter Woods. On behalf of the Board of Selectmen, Mr. Woods welcomed everyone to Wellesley.

B. APPROVAL OF MINUTES FROM JANUARY 19, 2006

A Motion was made **TO APPROVE THE MINUTES FROM THE JANUARY 19, 2006 ADVISORY BOARD MEETING.** It was seconded and passed by unanimous vote.

C. PRESENTATION: MWRA'S PROPOSED FY07 CAPITAL IMPROVEMENT PLAN

– Michael Hornbrook, Chief Operating Officer

MWRA Chief Operating Officer Michael Hornbrook stated the Authority has submitted its Proposed FY07 Capital Improvement Program (CIP) to the Advisory Board for its comments. The vast majority of the projects that are driving the spending are court-ordered or administrative-ordered projects that have been mandated by the federal and state governments.

Through FY06, the mountain of debt looms large at the Authority for all the bonds and mortgages that were taken out to pay for spending that occurred in 1992 through 2006 and beyond. Very little of the principal has been paid off. In FY07 alone, debt service payments will increase \$30 million. Paying off those mortgages is a significant challenge. In addition, the Authority had been spending money faster than it was paying off the

principal and interest. Not until FY12 does the Authority project capital spending to be below payment on principal.

The Deer Island Wastewater Treatment Plant (DIWTP) has been in operation over ten years. MWRA is now starting to replace some of the equipment from wear and tear on Deer Island from the original bonds that it took to build Deer Island.

Approximately 60% of the Authority's current annual operating budget pays for debt service, meaning 60 cents of every dollar the MWRA brings in from rates pays for debt service on an annual basis; it doesn't leave a lot of room to pay for operating costs such as fuel, wages and salaries and other costs.

The loss of State Debt Service Assistance (DSA) in FY03 further compounded the impact of that debt. When the Authority started Deer Island and other capital improvement programs it was with a financial plan that incorporated not only ratepayer funds, but also State Debt Service Assistance. Over the years DSA was extremely effective in helping to keep rates at affordable levels at around 3 to 4% increases. Unfortunately, several years back, MWRA lost DSA, which further exasperated the outstanding debt issue and raised rates.

The Authority recognized this staggering debt service and began steps to address it. In June 2003, the MWRA Board of Directors set a capital spending cap of \$1.1 billion for the period FY04-08 and furthermore said that in any given year in that period, spending can only go up or down 20%.

In FY04 the Authority established a preliminary spending amount for FY04-08 and has been holding to that amount. A new five-year cap for the FY09-13 timeframe will likely be set in the FY08 budget cycle.

For the FY07 proposed budget, staff will request the Board's approval on a waiver of about \$21 million for additional Charles River CSO program control projects above the cap.

The FY07 proposed budget submitted to the Advisory Board for its review does meet the spending limits for the FY04-08 timeframe set by the MWRA Board of Directors; it assumes no new major capital initiatives other than the \$21 million CSO projects for the Charles River.

The FY07 CIP budget is basically a continuation of the capital program in the FY06 CIP; there are no new large initiatives in the FY07 budget. Excluding the new CSO projects, the total projected spending from FY04 to FY13 was the same as it was in the June 2003 Board vote. MWRA has been consistent in meeting budget limitations for total dollars in the FY04 to FY08 time period.

The Authority has excluded about \$600 million in water and wastewater capital projects that have been identified by an internal needs review from the FY07 budget. The reason is twofold. The first issue is affordability. Can the Authority continue to spend these capital funds and still have affordable rates? Secondly, MWRA is in the process of a master planning effort where it is trying to identify all capital project needs on the water and wastewater sides to prioritize projects.

The FY06 budget reduced spending in the out years by \$400 million because of the affordability issue. The total dollars spent in FY04-08 were below the \$1.1 billion cap set by the Board of Directors. MWRA is bringing its spending back to the level it was in FY04's projections for the outyears. In the proposed FY07 budget, total spending is still under the \$1.1 billion cap at \$1 billion. In the FY09-13 period, MWRA is projecting spending of \$653 million in that timeframe. The difference between the two periods relate to two items: \$10 million in costs shifted from one period to the next because of project schedule delays, but total dollars are still the same and the addition of \$21 million for the CSO projects. Other than that, the total dollar amount through FY13 is the same or less than in the FY06 CIP.

The funds proposed in the FY07 budget will be spent on the CSO Program, the Deer Island Asset Protection Program, the I/I and Water Loan Programs, the Integrated Water Supply Improvement Program, wastewater interception and pumping, water quality transmission and pumping and business operations. There will be level funding in these programs other than slight shifts up and down due to new cost estimates and scheduling, but no additional programs will be added. The only increase is \$21 million in the CSO Program for the three new Charles River projects that are being proposed; these projects will bring discharges to the Charles River down to a handful in a typical year.

Mr. Favaloro said in regard to the \$21 million for the three CSO projects, any discussions surrounding an exemption of the cap were based upon a real variance from EPA and DEP. One year later, there is still no variance, there is no exemption.

Mr. Hornbrook responded that there are still a number of items that MWRA is negotiating with EPA, DEP and the Department of Justice on the CSO Control Program. The Authority is seeking cost certainty for the next fifteen years with CSOs to ensure the scope of the program does not continue to increase as it has in the past. Staff has been in very long negotiations with DEP and EPA; however, staff now believes negotiations are at the finish line. EPA – Region 1 and Justice – New England are speaking today with the Justice Department and EPA enforcement in Washington DC. It is our goal to bring to the Board, at the next meeting, an agreement that allows MWRA fifteen years of certainty through a variance on the issues MWRA asked for.

Mr. Favaloro asked Mr. Hornbrook if he was committing that if the Authority does not have a written agreement, the MWRA will remove these projects. Mr. Hornbrook said the three CSO projects are not in the federal court order and MWRA is not asking for insertion in the federal court order until everything is agreed upon.

Mr. Favaloro said most of the projects are out to bid or ready for design in this construction season. Mr. Hornbrook responded that the projects will not be going out for design until the Board of Directors approves a comprehensive agreement. Staff is scheduling the projects for design in this calendar year, but Mr. Hornbrook committed to the Advisory Board that these projects will not move forward until a comprehensive agreement has been brought forward to the Board of Directors.

Mr. Hornbrook said the North Dorchester Bay Tunnel Project will be advertised in the spring. MWRA is under a federal court order to move forward with this project. Construction value of the entire project is about \$250 million.

Under the new Long-Term Surface Water Drinking Regulations, MWRA is required to have a second method of primary disinfection. Modifications are being made at the John J. Carroll Water Treatment Plant and the Chicopee Valley Aqueduct facility to add Ultra-Violet treatment at a cost of \$50 million, which is included in the capital budget.

Funds are also included for the Blue Hills Covered Storage project. This project has been held back because of an appeal by the Friends of the Blue Hills (FOB) on MWRA's wetlands variance issued by the Commissioner of DEP. FOB is claiming that MWRA should replicate all of the land as wetlands somewhere in the Blue Hills Reservation. The current open reservoir has no public access and no fishing. MWRA is proposing to build an eight-acre recreational pond designed to be enhanced so that fish and wetlands species will survive. Of the \$30 million allotted for the project, \$6 to \$8 million is for restoring the site, creating an open meadow and a wetland throughout the area.

MWRA is moving forward with the design/build portion of the Blue Hills Covered Storage Project while it awaits final resolution of the project in Superior Court on the appeal for the wetlands. Mr. Laskey added that the MWRA is "holding the line" on this project, stating that the open reservoir is manmade and the notion that MWRA should have to spend \$5 million to recreate wetlands miles away would be irresponsible to its ratepayers. When this is built, and people see the final product, MWRA believes they will be pleased.

Mr. Hornbrook said DEP has been very supportive on this project and has held the line with the MWRA as well.

In summary, spending projections, including inflation and contingency, meet the cap requirements for FY04 to FY08. MWRA will be evaluating and prioritizing additional projects as part of its master planning process.

Two open issues in the CIP budget remain: whether to increase funding in the I/I Grant/Loan Program and what the MWRA's share of the Cambridge/Alewife project will be.

Currently, 70% of the money allotted for the I/I Grant/Loan Program has been distributed. Ten communities, out of 43, have used their total allocations and up to five communities are expected to use their allotments within the next year. The Board of Directors asked if additional funds were allocated in the FY07 budget. Staff had not allocated funds for this program, but will revisit this issue.

Cost increases for the Cambridge/Alewife CSO Project have exceeded MWRA staff's estimates by \$20 million. MWRA is in negotiations with the City of Cambridge on cost sharing of this amount, which is not included in the proposed budget. When a determination of cost is made, it will be included in the FY07 budget and MWRA will have to make some shifts in spending to continue to meet the cap requirements.

Mr. Favaloro said the Advisory Board's *Comments and Recommendations*, to be presented next month, will not include additional funding for the I/I Grant/Loan Program. If

the Authority intends to contribute more funds to this program, it will have to cut funds from another project. The I/I program has worked well, but less than 25% of the communities have utilized their entire allotments. A solution should be found to reallocate the funds that are not being utilized.

Mr. Laskey stated this is an important debate. There is money that hasn't been used, yet 25% of the communities have used all of their money. In a way, to say the Authority will not put any more money into the program until the remaining communities use their funds penalizes those communities that have done the right thing. The intent of the program was to get communities to invest in their infrastructure. The issue needs more discussion.

Ms. Potter asked how much the Authority is proposing to contribute to the Cambridge/Alewife project. Mr. Hornbrook said the total dollar gap in current dollars is about \$20 million. MWRA is still in negotiations with Cambridge, but staff is trying to limit the Authority's exposure to about \$10 million. Ms. Potter asked if an assumption of the Authority's amount will be incorporated in the final CIP. Mr. Hornbrook said yes, which means staff will have to find room in the CIP for that amount.

MWRA recognizes the burden of capital spending; it is 60% of the operating budget. Staff has taken initial steps to try to limit spending in the outyears and has reset spending to match the FY04 time period that the Board approved. Staff is looking at prioritization, affordability and regulatory requirements as it looks at the out years and will continue to work with the Advisory Board members to seek increased DSA. The Master Plan will prioritize water and wastewater projects and is expected to be produced by July.

Mr. Laskey said if the Commonwealth had maintained its commitment to the DSA program, the debate about what is in the cap and what is not would be a different discussion. Mr. Laskey complemented Advisory Board member communities and staff for their strong support at the State House toward the substantial restoration of the DSA program.

Mr. Sullivan added that he attended a meeting in Canton, at which his State Representative was present. Participants at the meeting emphasized the importance of DSA to the Representative and he said hopefully other communities will sit down with their Representatives and Senators to emphasize it as well.

D. COMMITTEE REPORTS

Finance Committee – Bernard Cooper

❖ ACTION ITEM: ADVISORY BOARD COMMENTS AND RECOMMENDATIONS ON THE MWRA'S PROPOSED FY06 CURRENT EXPENSE BUDGET AMENDMENT

Ms. Potter stated that last month the Authority submitted an amendment to the Advisory Board in recognition of some greater than budgeted expenses within the FY06 budget.

The primary reason for the amendment has been greater than budgeted expenses, particularly energy and utilities, especially electricity and diesel fuel at Deer Island. There are other cost increases as well, including health insurance, chemical costs, rising short-term interest rates and increased costs due to increased pellet production.

Generally, increases in a number of categories of spending were simply offset by decreases in other areas.

Under utilities and energy, the \$5.8 million in forecasted greater than budgeted spending is the primary pressure point for this year's budget. Under non-rate revenue, the Authority receives revenue when it goes off the grid and runs the combustion turbine generators through a program run by the Independent System Operators (ISO) of New England, which has established a series of incentive programs to get large users who have backup capability to go off the grid at times the ISO needs it to. The Authority also gets payments under a newly created winter program to be off the system whether or not they are actually asked to go off the grid. When the Authority updates its numbers, Advisory Board staff anticipates the Authority will have an additional several hundred thousand dollars to draw on to close the budget gap.

For Indirect Expenses, although the Authority shows some reductions for PILOT payments, staff estimates additional reductions in the PILOT payment category from more recent information.

The Advisory Board recommends that the Authority close any remaining budget gaps with investment income, which is expected to bring in more revenue than anticipated. The overall message being, given the pressure on budgets in future projections, it is important to reserve as much rate stabilization for easing and managing the pace of rate increases as the Authority goes forward.

Next year's proposed rate increase of 9.8% was the result of offsets with some preliminary reductions in the budget request, together with nearly \$36 million in rate stabilization and bond redemption funds. This was the largest use of rate stabilization funds in many years. It is that significant reserve of rate stabilization monies in the year ahead that allows the Authority to stay in the single-digit rate increase range. This is sobering because the actual rate revenue requirement for next year was \$36 million higher than the rate increase of \$46 million.

A Motion was made **TO APPROVE THE ADVISORY BOARD COMMENTS AND RECOMMENDATIONS ON THE MWRA'S PROPOSED FY06 CURRENT EXPENSE BUDGET AMENDMENT.** It was seconded and passed by unanimous vote.

❖ **PREVIEW: FY07 CIP AND CEB BUDGET REVIEW**

Ms. Potter said Advisory Board staff is in the middle of CIP budget review. Issues for review include whether three new CSO projects should be exempted from the cap; how to treat the not yet included additional funding to support the Cambridge/Alewife CSO Program; and the importance of the Master Planning program and its availability on time to be a guiding presence as the Authority puts together its FY08 budget and begins discussion on the next five-year cap.

For the Current Expense Budget (CEB), the Authority expects current expenses will cross the \$600 million mark before the bond redemption and rate stabilization funds are applied. The rate revenue is at \$518 million, which represents the 9.8% increase required to support the new budget. Authority staff is in the process of preparing the document, which will be mailed in mid March. Advisory Board review will begin March 20 for a CEB vote at the May 8 meeting.

Executive Committee – Katherine Haynes Dunphy

❖ **UPDATE: THE CASE FOR DEBT SERVICE ASSISTANCE**

Mr. Favaloro stated staff has sent a letter to every MWRA area legislator to ask for their support in seeking more Debt Service Assistance (DSA). The mailing included a Resolution endorsed by 49 MWRA communities, representing nearly 98% of the district. Working with Chairman Ron Mariano, staff has also created a Legislator’s Resolution for legislators to sign in support of DSA. It is critical to get DSA on everyone’s radar screen.

Mr. Favaloro stated that Speaker DiMasi clearly understands the dilemma of rising water and sewer rates, but there are many priorities that legislators must consider. The Speaker was clear in his message that legislators need to ask him and Chairman DeLeo to address DSA in this budget. If not, chances for an increase are diminished. The next phase will be to send the individual Resolutions to the legislators from the communities they represent. The key is communities must keep the pressure on their legislators that DSA is a priority.

❖ **LEGISLATIVE UPDATE**

Mr. Favaloro stated Andrea Briggs has left the Advisory Board for a position with DEP and stated his hopes to have a new person on board in March.

Operations Committee – Jay Fink

❖ **PRESENTATION: PREVIEW AND SCHEDULE FOR CONSUMER CONFIDENCE REPORT** – Joshua Das, Project Manager – Public Health

Public Health Project Manager Joshua Das stated that the eight-page Annual Consumer Confidence Report (CCR) will be much the same as in previous years. The last page is a community letter that is specific to each community and should include information regarding the community’s relationship with MWRA. This year 14 communities that were above the lead action level must also include language that states that the community was above the action level and whether the community has testing and lead replacement programs.

Certain communities do local testing for asbestos in their local pipelines; if so, that information needs to be included in the CCR on the local community page per the Department of Environmental Protection.

Local community pages are due in draft form by March 17, with the final version expected by April 3. The MWRA portion will emphasize the CWTP and the switch to ozone treatment, information on ozone and a section on decreasing disinfection byproducts; otherwise, the text will probably be the same as last year’s version.

❖ **SYSTEM EXPANSION COMMITTEE UPDATE**

Ryan Ferrara stated that the System Expansion Committee will meet on Thursday, March 2, in Newton. Anyone interested in this topic should come to this meeting as it will be informative; items to be discussed will relate to changing the emergency fee structure and increasing some of those fees. There will also be discussion on methods to determine the entrance fee on the water side, which could have serious implications for communities joining the system. Attendance is encouraged.

The Operations Committee will meet after the System Expansion Committee meeting. An update will be given on the Local Pipeline Assistance and I/I Grant/Loan Programs.

Additionally, the MWRA is seeking a sense of whether communities still require the Technical Assistance Program to continue on the water side as the contract is due to expire.

Bernie Cooper added that the current process for communities to join the MWRA system can be daunting. In terms of ideas, how can we make it easier to attract other communities if members determine it is desirable? To the extent that people have ideas about how, and under what terms, the system should be expanded, please bring them forward.

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