

**MWRA ADVISORY BOARD MEETING
MAY 17, 2007
WELLESLEY FREE LIBRARY
530 WASHINGTON STREET, WELLESLEY, MA – 11:30 A.M.
MINUTES APPROVED AT THE JUNE 21, 2007 MEETING**

Fifty-seven people were in attendance, including thirty-two voting members: Peter Castanino, BELMONT; John P. Sullivan, BOSTON; Charles Barry, BROOKLINE; John Sanchez, BURLINGTON; Ed Sullivan, CANTON; Bert Taverna, CHELSEA; Jerry F. Sheehan, EVERETT; Peter Sellers, FRAMINGHAM; J.R. Greene and Barbara Wyatt, GUBERNATORIAL APPOINTEES; Ed Demko, HINGHAM; Bill Hadley, LEXINGTON; Claire Cavanagh, LYNN; Bruce Kenerson, LYNNFIELD; Jack Russell, MALDEN; Doran Crouse, MARLBOROUGH; Ben Lagman, MELROSE; Katherine Haynes Dunphy, MILTON; John Cosgrove, NEEDHAM; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; Peter Smyrnios, PEABODY; Ted McIntire, READING; Sam MacDonald, REVERE; Carol Antonelli, SOMERVILLE; Larry Barrett, STOUGHTON; Richard Stinson, WAKEFIELD; Walter Woods, WELLESLEY; Bob Angelo, WESTWOOD; Zig Peret, WILBRAHAM; Michael Woods, WILMINGTON; Fred Russell, WOBURN.

Also present: John Carroll, Andrew Pappastergion and Joseph Foti, MWRA BOARD OF DIRECTORS; Jon Norton, EVERETT; Ron Seaboyer, MELROSE; Ryan Ferrara, NEWTON; Mark Ryan, NORWOOD; Ana Singleton, STOUGHTON; William Shaughnessy and Blake Lukis, WELLESLEY; Robert Antico, WILMINGTON; Ed Bretschneider, WAC; Eileen Simonson, WSCAC; Scott Dale and Liz Keohane, AVALON BAY; David Kelly, KELLY ENGINEERING; David Polcari, CDM; Pam Heidell, Kathy Soni and Rachel Madden, MWRA STAFF; Joe Favaloro, Cornelia Potter, Matthew Romero, Christine Hevelone-Byler and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

A. WELCOME

Chairman Katherine Haynes Dunphy called the meeting to order at 11:54 a.m.

B. APPROVAL OF THE MINUTES FROM MARCH 15, 2007

A Motion was made **TO APPROVE THE MINUTES FROM THE MARCH 15, 2007 ADVISORY BOARD MEETING.** It was seconded and passed by unanimous vote.

C. REPORT OF THE EXECUTIVE DIRECTOR

MWRA Advisory Board Executive Director Joseph Favaloro reported that Patricia Filippone, MWRA's Chief Financial Officer, has given her notice and will take a position at Harvard University. Ms. Filippone has been with the Authority for the past 12 years in increasingly responsible positions. Mr. Favaloro wished to go on record thanking Ms. Filippone for her efforts on behalf of ratepayers.

D. COMMITTEE REPORTS

Finance Committee – Bernard Cooper

❖ ACTION ITEM: FY08 ADVISORY BOARD OPERATING BUDGET

Mr. Favaloro stated the Advisory Board fine tunes its budget every year in an effort to “practice what we preach”. From FY07 to FY08, the Advisory Board’s budget grew about 1.7% or \$8,000; however, taking advantage of the positive interest market and tapping into a small amount of unspent dollars for FY07, the Advisory Board’s actual request for FY08 is less than the FY07 request.

Jon Norton asked what caused equipment maintenance to go up 80%. Mr. Favaloro stated that a service agreement on the office photo copier had been supplied for the first two years for free, but now a monthly fee is required.

Mr. Norton also asked why the members’ reimbursement number increased as well. Mr. Favaloro stated that the members’ reimbursement is the one line item he hopes will increase. Members can be reimbursed for mileage that they are not otherwise reimbursed for according to IRS guidelines. If that line item increases, it means more members are attending the meetings.

A Motion was made **TO APPROVE THE FY08 ADVISORY BOARD OPERATING BUDGET**. It was seconded and passed by unanimous vote.

❖ ACTION ITEM: **ADVISORY BOARD COMMENTS AND RECOMMENDATIONS ON THE MWRA'S PROPOSED FY08 CURRENT EXPENSE BUDGET**

Cornelia Potter stated this presentation and vote is a culmination of a two month review of the Authority’s Proposed Current Expense Budget (CEB) for FY2008.

Mr. Favaloro stated the heart and soul of the Advisory Board’s approach to reviewing the budget and recommendations to the MWRA is to preserve rate stabilization funds for future use. We have a multi-year revenue challenge. The rate revenue requirement increases over \$10 million each year for the next five years.

Additionally, the Advisory Board suggested a restructuring plan to spread payments out to provide sustainable and predictable rate increases. Through the work of the Rates Management Committee, MWRA and Advisory Board staff, the MWRA did in fact go through a massive restructuring that has allowed the increase from year to year to be somewhat mitigated.

Hundreds of millions of dollars have been reduced from the MWRA’s budgets over the past two decades based on Advisory Board reviews.

The CIP spending cap puts a leash on MWRA spending on the capital side. The next five-year CIP cap is in the process of being set.

Another major issue is that CSO spending by the MWRA, based on EPA and DEP mandates, grew every year. Working with DEP, EPA and MWRA, the Advisory Board helped to put an agreement in place last year that stopped any additional spending on CSO projects, beyond what had already been agreed to. This will allow an opportunity to view the results to see what benefit has occurred on the investment the Authority has made and then begin to spend more money to get to fishable, swimmable waters.

The Advisory Board voted for the Authority to market and sell 36 million gallons of water per year to non-MWRA communities and other entities. Mr. Laskey has met with any group in central and western Massachusetts to iron out unresolved issues; however, one unresolved issue remains – the releases from the Quabbin and Wachusett Reservoirs into the Nashua and Swift Rivers. The Advisory Board recommends that the Authority work to resolve this issue by late fall this year. Selling more water makes environmental and economic sense.

Every year capital financing plays a bigger role in the operating budget of the MWRA. Restructuring was able to reduce the amount from year to year.

First and foremost, the Authority has a responsibility to the ratepayers; however, the MWRA should continue to position itself as a desirable investment. The investment community wants to know that the Authority is able to cover costs and maintain its credit rating at all times.

Ms. Potter stated the Advisory Board reiterates themes it reflects through the course of its reviews. One is to substitute the reductions that are identified for the use of rate stabilization and bond redemption funds. Staff has assumed a \$15 million statewide allocation for Debt Service Assistance (DSA), which translates into \$11.25 million for the Authority's share. This assumption is consistent with the building of the Authority's proposed CEB.

In all, staff has identified reductions of \$12.7 million for the FY08 budget, with \$4.6 million being used to substitute for the use of rate stabilization and bond redemption withdrawals that the Authority had proposed in its budget, leaving a net reduction of \$8.1 million as a result of the review process.

The Advisory Board has nine key monetary recommendations and four key policy recommendations throughout its *Comments and Recommendations*.

The topics discussed are fringe benefits for which staff recommends a reduction of \$500,000 based on updated information for the Group Insurance Commission Health Insurance Program. Uncertainties include other health care plans that the Authority participates in that have to be taken into account, as well as an update of the number of employee participants. The Authority will be revisiting this category of expense with these issues in mind.

On the chemicals side, a recommendation was made of just over \$1 million in reduced chemical expense. The most important component of this recommendation has to do with the timing of the issuance of the next National Pollutant Discharge Elimination System (NPDES) permit, something that has been lingering now for over a year. There has been no word from EPA on the status of this permit. It can be a long process. Staff assumes the permit will not be in place until at least the last quarter of the year ahead so over \$800,000 of this recommendation relates to timing and, therefore, the use of additional sodium hypochlorite and sodium bisulfite in the Deer Island treatment process. Staff has also done an update of over \$200,000 to reflect a reduction in the most recent contract for sodium bisulfite. Uncertainties are the timing and extent of the NPDES permit.

Electricity is one of the biggest components of the operating budget. The Advisory Board has recommended a reduction of \$1.2 million, particularly as the Authority is reviewing and re-issuing bids for electricity supply at all of its major facilities. The Authority will have to make judgments on how it interprets the price impact of newly bid contracts, but also will need to

revisit actual use and the ability to reduce demand at the big sites. Staff has addressed a related component, which is self-generation at Deer Island. The Authority's budget assumes a reduced amount of self-generation. MWRA used to produce nearly a quarter of all its electricity demand on site but has reduced that assumption to between 22 and 23%. Given the size of its consumption, a couple of percentage points can represent an important reduction in their assumptions. The Advisory Board has recommended a reduction in the budgeted amount of \$108,000, which corresponds to an increase of one million kWh of self-generation.

Grit and Screenings are another component of the Deer Island budget, although it is also a function of other treatment processes at a number of other facilities throughout the Authority's service area. A reduction of \$123,000 has been recommended to bring the numbers up to date.

Capital Financing accounts for 50 to 60% of the Authority's annual budget, an extremely high proportion for a public agency. The Authority continues to pay for the enormous borrowings that have taken place over the last decade and a half, as well as making room for new borrowings as they proceed with the next phase of the capital program.

The Advisory Board has made several recommendations, including rethinking the assumptions around timing for new borrowing in FY08; if the borrowing were done two months later in the spring, staff believes a reduction of nearly \$1 million is possible.

The Authority is conducting a bond redemption transaction, which will benefit repayments on debt service in 2011 to reduce a spike in that period, with benefits that accrue beginning next year. The Advisory Board has recommended a \$2 million reduction.

Variable rate debt has been a recurring theme in the *Comments and Recommendations*. The Authority has been very conservative in setting its interest rate assumptions. While the Advisory Board recognizes that it is important to leave some room for changes in the interest rate picture, a recommendation of nearly \$1.5 million has been made in the Authority's proposed budget for variable rate debt.

Similarly, the Local Water Pipeline Program reflects payments on the Commercial Paper Program that is used to fund the water pipeline program. Staff has reduced assumptions for debt service on that commercial paper by \$350,000.

On the indirect expense side, the new GASB 45 accounting rule having to do with post-employment benefits has added a new challenge. Staff has recommended the Authority cut its proposed budget in half for a reduction of \$2.25 million to give itself more time to assemble a program and structure a funding schedule for meeting its obligations.

The Authority, having a budget over \$100 million, is required by the terms of GASB 45 to address this subject during FY08. The Advisory Board's recommendation still leaves the Authority with \$2.25 million, which can be regarded as a deposit for the last quarter of the year while still giving themselves a number of months to assemble a strategy for meeting the liability. The Authority has noted that its liability could be considerably more than what was in its proposed budget. If the MWRA fully pre-funds the program, it may need to add more than \$5 million to this line item. Among the issues is the pace of funding of the program. The actuarial study, which has served as the initial guidance for what the liability may be next year, helps the Authority meet its obligation over a ten-year period. The Advisory Board believes there are

other alternatives for the timeframe for meeting the obligation, which would stretch the payments out.

Another aspect to the Advisory Board's recommendation is that the Authority assumes whatever number is budgeted for GASB 45 next year will be categorized as an operating expense, subject to meeting the operating reserve requirement, which is a sixth of all eligible expenses. If there is a GASB 45 payment in FY08 of \$9 million, that translates into an additional \$1.5 million to meet the operating reserve requirement. Over ten years that incremental increase each year could total over \$12 million.

Other operating expenses are captured in the Advisory Board's recommendations. The total amount of recommendations that are considered operating expenses, divided by six, would result in a reduction of the operating reserve deposit of over \$900,000.

The Authority has traditionally been conservative in making its assumptions for interest income on both the interest earnings side, as well as the size of the fund balances that are invested. The Advisory Board recommends that the Authority have a less conservative assumption resulting in an increase of investment income of \$1.5 million. The Authority will need to update its assumptions for those interest rates, as well as the fund balances.

For policy recommendations, the Advisory Board recommends a staffing study to be conducted with a focus on divisions associated with developing and managing capital projects. The Authority has not been spending at the pace it had budgeted in recent years and continues to be nearly 25% below budgeted amounts through April 2007. The Advisory Board is concerned about whether staffing levels for these engineering and related positions are adequate and has recommended the staffing study be conducted during the course of the year ahead.

The Advisory Board has also recommended the development of a release plan. Matt Romero added that the release plan relates to the recommendation made last year to market and sell 36 million gallons per day of water to non-MWRA communities. This is one of the last hoops that need to be jumped through to ensure that the MWRA moves forward on this recommendation. The recommendation suggests the Authority develop a plan for Quabbin and Wachusett releases by this fall.

Ms. Potter stated the Advisory Board has recommended a plan for assigning the use of surplus funds on a formulaic basis, with the largest proportion used to repay principal and then to reduce the next year's assessment followed by a deposit of funds into rate stabilization funds for longer term use, as well as the potential for pre-funding certain liabilities and one-time costs.

The Authority has a whole series of policies and procedures that were developed early in the agency's life. Some of the policies, particularly having to do with the admission of a community or entity into the water or sewer system as well as emergency water supply withdrawals, have been recently updated but a number of policies and procedures have not been reviewed or updated in over a dozen years. Staff recommends a concerted effort be made to take a fresh look at the policies and procedures.

The Advisory Board's recommendations totaled nearly \$13 million, with \$4.6 million to be reserved for utilization in future years, for a net reduction to the FY08 budget of \$8.1 million. Even with the major restructuring transaction that took place in January, both the percentage

and dollar increases tell the tale that rate increases are daunting and will need to be managed in a multi-year context.

The Authority's proposed budget called for a 6.4% rate increase; with the Advisory Board's reductions, if fully accepted, the rate increase would be brought down below 5%. Discussion, particularly around post-employment benefits and what that number should be, may change this picture. If the Authority does not accept the \$2.25 million reduction in post-employment benefits, the rate would start creeping up to over 5%. If the Authority were to add \$4.5 million or more to post-retirement benefits, the rate increase will be back where it started in the 6.4% range.

The Board will hold budget hearings on both the CIP and CEB on June 6 and a final vote is expected on June 27.

A Motion was made **TO APPROVE THE ADVISORY BOARD COMMENTS AND RECOMMENDATIONS ON THE MWRA'S PROPOSED FY08 CURRENT EXPENSE BUDGET.** It was seconded and passed by unanimous vote.

Executive Committee – Katherine Haynes Dunphy

❖ **ACTION ITEM: NOMINATION/ELECTION OF AN ADVISORY BOARD REPRESENTATIVE TO THE MWRA BOARD OF DIRECTORS**

Advisory Board Secretary Ed Sullivan asked if there were any other nominations from the floor; with no nominations from the floor, the Secretary declared nominations closed. For the record, a quorum of 32 voting members was in attendance. Secretary Sullivan stated, at its last meeting, the Executive Committee, acting as the Nominating Committee, voted to endorse Joseph C. Foti to serve on the MWRA Board of Directors for another three-year term.

A Motion was made **TO NOMINATE JOSEPH C. FOTI TO THE FULL ADVISORY BOARD TO SERVE AS AN ADVISORY BOARD REPRESENTATIVE ON THE MWRA BOARD OF DIRECTORS FROM JULY 1, 2007 TO JUNE 30, 2010.** It was seconded and passed by unanimous vote.

Mr. Foti expressed his thanks.

❖ **LEGISLATIVE UPDATE**

Mr. Favaloro stated DSA is the single most effective way to mitigate and manage rate increases for the MWRA and throughout the many cities and towns that get DSA from the Commonwealth.

Though the Advisory Board is pleased that Governor Patrick deemed DSA as a priority, having included \$15 million in the House One Budget, it still falls \$10 million short of being level funded with the FY07 allocation.

The House Budget included \$20 million; however, a technical amendment brought forward by House Chairman of Ways & Means Bob DeLeo and MWRA Caucus Chairman Ron Mariano and other members of the Caucus brought that number up to \$25 million. The Senate Budget was released yesterday at noon and included \$15 million for DSA.

Staff has been actively working with the Senate and an amendment will be filed by Senator Bob Havern. The Advisory Board hand delivered and emailed to every senator a listing of their individual communities and the benefits that they receive from DSA.

Last year the reason that DSA was doubled was the significant community support of a resolution, which was signed by nearly 98% of the communities. The resolution was a valuable tool in ensuring that the MWRA got DSA.

Operations Committee – Jay Fink

❖ **ACTION ITEM: REQUEST BY AVALON SHARON, LOCATED IN FOUR (4) PARCELS IN SHARON, TO TIE INTO THE MWRA WASTEWATER SYSTEM VIA A CONNECTION TO THE NORWOOD WASTEWATER SYSTEM**

Scott Dale of Avalon Bay Communities stated Avalon Sharon is seeking capacity of 16,120 gallons per day from the MWRA collection system via Norwood to service 156 units of affordable housing. This is a cooperative effort between the Town of Sharon and Town of Norwood. Two adjacent house lots are also proposed to be connected. Avalon Sharon will be paying a sizeable fee to the MWRA and a sizeable inflow reduction program will be implemented by the Town of Norwood.

To reduce demand, the developers have implemented a Water Conservation Program, including low flow fixtures, washing machines and toilets.

A favorable recommendation was received from both the Operations and Executive Committees.

A Motion was made **TO APPROVE THE REQUEST BY AVALON SHARON, LOCATED IN FOUR (4) PARCELS IN SHARON – 361-363 NORWOOD STREET AND 60 & 80 EDGE HILL ROAD, TO TIE INTO THE MWRA WASTEWATER SYSTEM VIA A CONNECTION TO THE NORWOOD SYSTEM THROUGH A 0.7 MILE, FOUR-INCH FORCE MAIN.**

THIS MOTION IS SUBJECT TO THE PARAMETERS SET FORTH IN MWRA POLICY #: OP.11, “REQUESTS FOR SEWER SERVICE TO LOCATIONS OUTSIDE MWRA SEWER SERVICE AREA.” THIS INCLUDES PROVISIONS THAT 1) THE APPLICANT WILL BE RESPONSIBLE FOR MAINTENANCE OF THE SEWER LINE AND STORAGE TANK CONNECTING THE PROPERTY TO THE NORWOOD SEWERAGE SYSTEM; 2) THE APPLICANT WILL BE RESPONSIBLE FOR ASSURING THAT NO ADDITIONAL CONNECTIONS WILL BE MADE TO THE PIPE FROM OUTSIDE OF NORWOOD WITHOUT PRIOR APPROVAL OF THE MWRA.

FOR THE PURPOSES OF CALCULATING THE ENTRANCE FEE AND INFLOW REMOVAL, THE APPLICANT’S FLOWS WILL BE SET TO A MAXIMUM DAILY FLOW OF 27,280 GALLONS PER DAY, INCLUSIVE OF THE TWO ADDITIONAL PARCELS ON SITE.

THE APPLICANT WILL PAY THE TOWN OF NORWOOD A FEE TO REMOVE AT LEAST 109,120 GALLONS PER DAY OF PEAK INFLOW FROM THE NORWOOD SYSTEM. AS PART OF THE INFLOW REMOVAL, THE APPLICANT WILL PROVIDE AN UPDATED PLAN, CONSTRUCTION PHOTOGRAPHS OF ANY MANHOLES TO BE REHABILITATED PRIOR TO THE START OF REHABILITATION WORK, DURING WORK AND UPON COMPLETION OF THE WORK AND WILL PROVIDE FLOW MEASUREMENTS FOR AT LEAST TWO SUMP PUMP LOCATIONS AND AT MANHOLE LOCATIONS TO BE REHABILITATED THAT HAVE THE LARGEST INFLOW. FLOW MEASUREMENTS WOULD BE REQUIRED PRIOR TO THE START OF REHABILITATION WORK AND AFTER REHABILITATION HAS BEEN

COMPLETED. INFLOW REMOVAL AND VERIFICATION MUST OCCUR PRIOR TO THE ACTIVATION OF THE CONNECTION TO THE NORWOOD SYSTEM. THE APPLICANT WILL PROVIDE THE MWRA ADVISORY BOARD AND THE MWRA WITH A FINAL FLOW REMOVAL COMPLETION REPORT VERIFYING THAT 109,120 GALLONS PER DAY OF INFLOW HAS BEEN REMOVED.

THE APPLICANT WILL PAY A CONNECTION FEE OF \$105,868 TO THE MASSACHUSETTS WATER RESOURCES AUTHORITY, CONSISTENT WITH THE GUIDELINES SET FORTH IN MWRA POLICY #: OP.11. It was seconded and passed by unanimous vote.

❖ ACTION ITEM: SIX-MONTH EMERGENCY WATER CONNECTION FOR THE TOWN OF WILMINGTON

Chairman Dunphy said this Action Item is a continuation of providing water supply as needed during the summer months. Wilmington is expected to join the MWRA by the end of the year.

Wilmington Water & Sewer Superintendent Michael Woods stated the Town of Wilmington is seeking an emergency water connection due to contamination of five of nine wells. The Town has finished with all of the regulatory requirements to become a member community except for the Water Resources Commission but a favorable decision is expected. At that time Wilmington will move forward with obtaining permanent status within the MWRA Waterworks System.

A Motion was made TO ALLOW THE TOWN OF WILMINGTON (WILMINGTON) TO ACTIVATE A CONNECTION TO THE MWRA WATERWORKS SYSTEM, VIA THE CITY OF WOBURN (WOBURN), FOR A SIX-MONTH PERIOD, WITH A START DATE IN MAY 2007. THE CONNECTION IS SUBJECT TO THE MUNICIPAL AID AGREEMENT BETWEEN WILMINGTON AND WOBURN THAT ADDRESSES ISSUES OF ASSESSMENT AND CHARGES PRIOR TO CONSIDERATION BY THE MWRA BOARD OF DIRECTORS. AVERAGE DAILY DEMAND SHALL NOT EXCEED ONE (1) MILLION GALLONS PER DAY. WILMINGTON WILL ABIDE BY THE RULES STIPULATED UNDER MWRA EMERGENCY WATER SUPPLY WITHDRAWALS (POLICY #OP.05), INCLUDING PAYMENT OF 130% SURCHARGE OF THE MWRA'S PREVAILING RATE PLUS 130% OF THE ANNUAL PAYMENT ASSOCIATED WITH THE ASSET VALUE CONTRIBUTION PAYMENT (ENTRANCE FEE EQUIVALENT) AMORTIZED WITH INTEREST OVER 15 YEARS. RULES GOVERNING PREMIUM CHARGES AND ASSET VALUE CONTRIBUTION ARE INVOKED WHEN WATER IS TRANSFERRED FROM THE MWRA TO WILMINGTON. It was seconded and passed by unanimous vote.

E. OTHER

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