

**MWRA ADVISORY BOARD MEETING
JANUARY 15, 2009
KNIGHTS OF COLUMBUS
177 BEDFORD STREET, LEXINGTON, MA 02420
MINUTES APPROVED AT THE MARCH 19, 2009 MEETING**

Forty-seven people were in attendance, including twenty-eight voting members: John Bean, ARLINGTON; E. A. Maguire, ASHLAND; Peter Castanino, BELMONT; John Sullivan, BOSTON; John Laven, BRAINTREE; John Sanchez, BURLINGTON; Andrew DeSantis, CHELSEA; J. R. Greene, GUBERNATORIAL APPOINTEE; Ed Demko, HINGHAM; Bill Hadley, LEXINGTON; Jay Fink, LYNN; Bruce Kenerson, LYNNFIELD; Dana Snow, MARBLEHEAD; Doran Crouse, MARLBOROUGH; Katherine Haynes Dunphy, MILTON; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; Peter Smyrnios, PEABODY; Ted McIntire, READING; Carol Antonelli, SOMERVILLE; Richard Stinson, WAKEFIELD; Patrick Fasanella, WALPOLE; Walter Woods, WELLESLEY; Earl Forman, WESTON; Bob Angelo, WESTWOOD; Zig Peret, WILBRAHAM; Michael Woods, WILMINGTON; Anthony Blazejowski, WOBURN.

Also present: John Carroll and Joe Foti, MWRA BOARD OF DIRECTORS; George Burnell, Dennis Meehan and Barbara Stevens, LEXINGTON; Bob O'Brien, WALPOLE; Rob Antico, WILMINGTON; Ed Bretschneider, WAC; Phil Jasset and Mike Galli, UCANE; Rachel Madden, Kathy Soni, Charles Button, Pam Heidell and Robert Belkin, 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 11:39 a.m. and introduced Lexington DPW Director Bill Hadley, who welcomed everyone to Lexington.

B. APPROVAL OF THE MINUTES FROM THE OCTOBER 16, 2008 AND NOVEMBER 20, 2008 ADVISORY BOARD MEETINGS

A Motion was made **TO APPROVE THE MINUTES FROM THE OCTOBER 16, 2008 AND NOVEMBER 20, 2008 ADVISORY BOARD MEETINGS.** It was seconded and passed by unanimous vote.

C. PRESENTATION: MWRA'S PROPOSED FY10 CAPITAL IMPROVEMENT PROGRAM –

Rachel Madden, Chief Financial Officer, and Kathy Soni, Budget Director

MWRA Chief Financial Officer Rachel Madden stated that staff continues to monitor the markets to identify refunding opportunities; up until this point, all of the tides have been against the Authority. As recently as Friday, the markets have shifted in the MWRA's direction and it looks like staff will be able to do a refunding for a savings of about \$21.4 million worth of present value savings. Staff hopes that opportunity will still be there when the Authority goes forward with its new money transaction in early February.

MWRA Budget Director Kathy Soni stated in January, the MWRA submitted its FY10 Proposed Capital Improvement Program (CIP) to the Advisory Board for its review and comments.

For the first five-year MWRA spending cap (FY04-08), average spending was about \$180 million per year. Going forward in the FY09-13 timeframe, average spending is expected to be in the \$250 million range per year. In FY08, MWRA spent about \$196 million.

In FY09, a new five-year cap (FY09-13) was established in the amount of \$1.1 billion. It is important to note that on the cap submitted, the Authority will comply both with a limitation to stay within a plus or minus 20% spending in the individual year and not to exceed the overall spending for the five-year period.

Based on the FY10 proposed budget, staff is increasing the budget by only \$2.7 million. The spending increase is the result of some new projects that were added to the program. Additionally, there is a \$17.9 million lower contingency.

The Authority has about \$2.1 billion in projects identified at this point; however, the Authority focuses on a ten-year horizon and most particularly on the five-year timeframe of FY09-13.

In the past, because of the CSO program, mandated projects were about 80% of all capital spending, which is now dwindling down. This will allow more funds to be spent on the needed infrastructure repairs in the MWRA system.

On the wastewater side, there was an increase of \$9.4 million to the Braintree-Weymouth project. The interceptor and pumping facility asset protection is related to the field operations area rather than Deer Island projects. The West Roxbury Tunnel also contributes to the decrease in this timeframe.

Deputy Chief Operating Officer Charles Button stated that the Braintree-Weymouth Relief Facility pump station went online about ten months ago to bring the system up to capacity in that area for about 27 million gallons per day and to provide the hydraulic capacity that the system needs in that area.

The West Roxbury Tunnel was built about 45 years ago and has experienced some corrosion because of hydrogen sulfide. It is a function of two things: 1) the temperature of the water and how long it has been in the system and 2) the reduction of industrial waste into the system. A contract has been awarded to a consulting firm for engineering services to look at what options are available for rehabilitating the tunnel in an economic fashion.

Ms. Soni said the treatment area is going to see significant spending going forward, mostly related to the Deer Island Asset Protection Program; a \$59 million project related to the primary clarifier and chain replacement was awarded yesterday. The Clinton Wastewater Treatment Plant is also scheduled to have projects added to this budget as well, mostly pertaining to digester cleaning and refurbishing of the facility.

The total program for Deer Island going forward is the largest single spending in the FY09-13 timeframe of \$225 million.

Mr. Button stated that the Deer Island project that was awarded yesterday is for flights and chains in the clarifiers that scrape the sludge off the bottom for both the primary and secondary clarifiers. Staff thought it had an advanced level of corrosion resistance built into those systems but with the change in the wastewater effluent as a result of industrial discharge control, it has more hydrogen sulfide/sulfuric acid in it and it is eating that material away. At the time Deer Island was built, a

stainless steel type of product was used; now a more corrosion resistant stainless steel will be used to replace the sixty miles of chain within the Deer Island plant.

MWRA will also be doing some electrical upgrades. Even though the equipment has not worn out over the last fifteen years, the electronic controls and the level of sophistication in the electrical systems have changed radically over that period of time. Parts and upgrades for the older systems are not available. There is also no technical support.

Staff deliberately made an effort at Deer Island and other facilities to keep the air in if there is any odor in the air; there is usually a negative pressure in the buildings to suck air in, rather than let it go out, so it can be treated. The idea is to keep the odors in, treat them, and treat the air before it gets released. As a consequence, keeping the air within the buildings can result in some corrosion.

The pump motors and the variable frequency control drives on the motors have not worn out; however, the technologies available today are much more energy efficient than the technologies that were available ten to fifteen years ago.

Ms. Soni said on the CSO Program one big project that is coming up is the Reserved Channel, which is the reason for the increase in the FY10 timeframe.

Mr. Button said a lot of the MWRA's CSO projects are in collaboration with the Boston Water and Sewer Commission (BWSC). The Reserved Channel project will reduce overflows by 90% as a consequence of the separation project that is underway. In East Boston, more sewers are being put in to catch more of the flow and hold it, a micro-tunneling technique. A contract has been awarded for about \$60 million.

Ms. Soni said on the water side, there is very little change in the FY09-13 timeframe. The low service storage near Spot Pond increased slightly and the Carroll Water Treatment Plant (CWTP) went down by about \$1 million. On the CWTP, the only big item on the horizon is the Ultra Violet (UV) disinfection construction and some minor ancillary construction improvements, mostly related to a closed loop cooling project. There is the potential for the system that is there now to have a leak between the cooling system and the drinking water; the closed loop will contain that with a double layer of protection for a relatively modest range of \$4.5 million.

UV light is another methodology for disinfection. The bad news is that UV is complicated to run and is not cheap; the good news is that UV is an effective and instantaneous disinfection. Staff is looking at alternatives for UV technology. A low energy system requires a lot of maintenance; a higher voltage system requires a lot more energy but a lot less maintenance.

On the water side, Mr. Button said there are some good technological and logistical questions about redundancy. How much is enough? MWRA had one major tunnel that was feeding all of the metropolitan area communities since the 1930s; now a brand new two-year old tunnel is in place, why do we need redundancy? Staff's response would be that the MWRA has effectively spent \$600 million on a major system between the water treatment plant and the tunnels; for another 10% cost increase of \$50 to \$60 million, there would be 100% redundancy. Staff could recommend that as being a good technological and effective alternative. For example, staff is looking at the lower Hultman restoration and is expecting bids before the end of February to know if this restoration will move forward.

Ms. Soni said under distribution and pumping, there are a lot of changes on the program level. Some of these projects were shifted out. The major projects in this category are the Northern

Intermediate High, the Southern Extra High, new connecting mains, the Wachusett Aqueduct supply and the southern spine distribution mains.

Mr. Button said in the middle of Milton Square we are looking at replacing some pipes that are between 90 and 100+ years old. The good news in this area is that the soil is not too “aggressive” so the pipes should last and the ratepayers will get their money’s worth. This project will include a water tank to hold water to provide a day or two worth of flow so that problems can be corrected if something occurs.

Ms. Soni said the Deer Island Wind Project will provide significant savings and has been awarded; the Nut Island Wind Project is in the process of being awarded. Additionally, the Loring Road hydro is in process and the Deer Island Solar Project is already in place. The Authority is taking the opportunity to maximize its grant funding and is applying for anything it is eligible for to minimize costs to ratepayers.

Outside of these energy projects, MWRA has a lot of energy programs that are efficiency related. A good example is the steam turbine generators at Deer Island, which will result in significant savings.

Zig Peret said are there any pipeline materials that unroll inside a pipe instead of having to replace them. Mr. Button said there is a plastic type of material that is much more resistant to sulfur. Sulfur attacks mortar on a brick pipe or the cement in the concrete of a concrete pipe; it will also attack the inside of an iron pipe (in sewer pipes, not water pipes). A cement lining is put in some old water pipes because the cement won’t rust like the bare iron will. Pipes since the 1950s probably have cement lining in them anyway for water.

On the sewer end, MWRA has done quite a bit of that and will continue to do more where the pipe is big enough to be appropriate hydraulically. Even if the liner takes a bit of the diameter out of the pipe it is smooth enough so that in fact it will pass as much water as the old pipe would because it is much smoother and the old pipe was rough and interfered a little. There is a limit on the size of the pipe that you can do that with.

Ms. Madden said clearly you can see the importance of the projects that are currently included in the Authority’s CIP. It is important to note that paying back the debt service on all of these infrastructure improvements, CSO programs and all of the other important works are the driving force of our budget.

It is important that staff continue to identify other sources of funding outside of just the rate revenue requirements that are placed on the communities. The MWRA has been active in identifying projects that might be eligible to receive funding from the federal economic stimulus bill. Staff submitted a list with about one-half billion dollars worth of projects that could be shovel ready within the next six months.

Staff heard this morning from the House that money will be available to us through the national SRF funding. There is \$6 billion in clean water and \$2 billion for drinking water. MWRA has taken full advantage of funding available through the SRF program and will continue to do so. In addition to the stimulus package, staff is looking to maximize the SRF funding and will continue to look for opportunities to restructure or to refinance our existing debt to mitigate potential rate increases in FY10.

We are aggressively pursuing the stimulus package and staff hopes to maximize that.

Chairman Dunphy said it appears that \$0.5 billion of the spending in the next few years is all court-mandated projects. Additionally, you have a number of non-mandated projects that are underway. Will there be enough funds available for programs that have been sitting in the capital plan for a number of years that effect individual communities? Ms. Soni said that is one of the challenges when staff is trying to balance what is priority, especially between the two major programs; 75% of the budget is being used for mandated projects, which leaves very little for all other infrastructure related programs.

Chairman Dunphy said problems with the economy may cause delays in some spending. There is concern that the mandated projects will go forward, resulting in community projects being delayed. Ms. Soni said staff works closely with the Advisory Board in developing the budget. The Advisory Board is in the process of evaluating and reviewing the budget and coming up with comments. Staff has said it will work even closer with the Advisory Board in this review period and look at those opportunities that may result in some reduction of the capital program.

D. COMMITTEE REPORTS

Finance Committee – Bernard Cooper

❖ ACTION ITEM: ADVISORY BOARD COMMENTS AND RECOMMENDATIONS ON THE MWRA'S PROPOSED FY09 CURRENT EXPENSE BUDGET AMENDMENT

Matthew Romero stated the Advisory Board worked closely with the Authority on its Proposed FY09 Current Expense Budget (CEB) Amendment so the Authority could complete it as quickly as possible to be ready for the borrowing transaction in February. The MWRA Board of Directors approved the Amendment, contingent upon the Advisory Board's vote.

The Advisory Board review makes monetary specific recommendations, discusses general concepts without suggesting any specific dollar value and methods to deal with the loss of Debt Service Assistance (DSA) through the Governor's use of his 9C powers.

Mr. Romero said Advisory Board staff suggested that the Authority suspend additional pension fund payments, specifically the payments originally going directly toward the Other Post-Employment Benefits (OPEB) liability that the Board decided to redirect to the pension fund liability last year; holding off on these payments would provide a \$3.3 million savings. The Authority has not taken that recommendation dollar-value wise, but it is holding off on the pension payments with the potential to revisit before the end of this fiscal year. It will provide them with some additional flexibility should the market shift dramatically again.

Advisory Board staff suggested the Authority reduce its harbor monitoring contracts by \$1.2 million; MWRA did reduce the monitoring contracts, but only by \$300,000 due largely to the NPDES permit that the Authority remains under. Additionally, the Advisory Board suggested that the watershed division budget be reduced by \$500,000; the Authority did come back with a \$400,000 reduction for the watershed division.

With no dollar values given, the Advisory Board had suggested that the Authority put a freeze on non-operational hires. The MWRA did institute a non-critical hire freeze and was able to reduce Wages and Salaries in general by \$1.7 million.

Staff suggested that the Authority look at its sludge operations; the MWRA has not taken a specific action on this at this time, but this is something that is probably going to be more of a long-term item that could potentially affect FY10 and beyond.

The Advisory Board suggested that the Authority increase its self-generation of electricity at Deer Island or decrease its electrical demand for a potential savings; the Authority did not specifically

reduce Deer Island's electricity but did decrease the utilities budget, largely due to pricing outlooks for the future.

Advisory Board staff also asked that the Authority revise its interest rate assumptions; however, Authority staff did not revise the assumptions at this time but recognized some of the year-to-date savings they have had based on favorable interest rates and trends.

The Advisory Board also requested that the Authority continue to look at options for refinancing debt, specifically for FY10 and the near years. As noted by Rachel Madden, staff is hopeful that the Authority will be able to take advantage of the shift in the market that has come in its direction.

Overall, the proposed budget amendment that will be presented to the Board has a \$1.7 million reduction for Wages & Salaries; Overtime is reduced by \$400,000; Fringe Benefits were reduced by \$100,000 related to the wages and salaries reduction; \$500,000 was added back in to the Chemicals line item due to pricing increases, rather than usage; Energy and Utilities show a decline in the short term; and, at Deer Island, the Authority was able to realize some savings on diesel fuel because of lower purchases for a \$2.8 million reduction; non-essential trainings and meetings were reduced by \$100,000; Professional Services were reduced by \$800,000; Other Materials reduced by \$400,000; Other Services reduced by \$600,000; for a total reduction for Direct Expenses of about \$6.3 million.

For Indirect Expenses, the Watershed Division budget was reduced by \$400,000; the Operating Reserve additions were reduced by \$1.1 million, due to the reductions in Direct Expenses for a total Indirect Expense reduction of \$1.5 million.

In the Variable Rate Debt category, the Authority was able to capture in its amendment its year-to-date savings and favorable interest rate trends. Also, it reflects a large amount of savings due to a later than planned borrowing. The Authority plans to go out next month for a borrowing, which was a bit later than had originally been planned, so they were able to reduce variable rate debt by \$3.5 million for debt service in general.

Then, because of the loss of DSA, \$11.25 million was added back in making debt service an overall increase of \$7.8 million, which is made up by the reductions to indirect expenses of \$1.5 million and direct expenses of \$6.3 million.

Because the Advisory Board and the Authority were able to have a two-way dialogue early in the process, the Advisory Board, for the most part, concurred with most of the Authority's recommendations or proposed cuts but added a few larger topics for them to think about.

Advisory Board staff is focusing on growing the FY09 surplus to build rate stabilization funds in recognition that the problem is not just in FY09 and will get worse in FY10 and beyond. It is important to grow that surplus this year and build those rate stabilization funds for the hit that the communities are going to be taking beginning next year. Further, the Advisory Board is in favor of making real cuts versus relying upon favorable trends. Staff suggested instituting an agency-wide hold back, something along the lines of "X" percentage or "X" dollars of each department's budget cannot be expended unless it goes through a central budgeting designee or authority to explain why the money needs to be spent.

The Authority has fully agreed with the Advisory Board's recommendation to make sure the Authority is fully prepared to jump at restructuring, refinancing or defeasance opportunities whenever the market should shift in its direction again.

The Advisory Board suggested that the Authority revisit its capital spending plan and capital financing expenses. Debt service is the largest single driver of the Authority's CEB; taking a look at the capital spending plan schedules and the make up of that plan will affect budgets moving forward.

Advisory Board staff believes that the Authority should reexamine the OPEB and the pension payment strategy; outdated actuarial studies are being used to determine these payments. These studies assume an 8% return on these investments, which is not happening. A new actuarial study is being undertaken; the Authority has agreed to hold off on these payments until June and will take a look at what the new strategy needs to be for meeting these all too real liabilities. This would allow the Authority to hold onto \$3.3 million as a tool.

As always, there are areas of potential uncertainty, the financial crisis isn't over and the economic landscape has shifted dramatically. Uncertainty in the variable market continues. Ms. Potter added that earlier this year, the Authority experienced the hit on the variable rate debt costs based on rising variable rates in the dislocated credit markets. Currently, the tide has turned and we hope it stays that way but the markets are still quite volatile. This area of the Authority's budget needs to be watched because that is where the biggest swings are going to be. If they continue in the current situation, the Authority will see contribution to the remaining year-end surplus greater than any other area of the budget; there is a lot of promise in this topic but we are not out of the woods yet.

Mr. Romero said it is hard to predict what utility and chemical costs will be. Chemical costs are projected to increase by \$500,000 for the remainder of this fiscal year and utility costs, while they are projected to go down now, could change moving forward.

We also want to stress the objectives that we were able to achieve from the Advisory Board's perspective. The Advisory Board concurred with the Authority's recommendations because of the ability to work so closely with the Authority on the front end. Staff would like to open a dialogue with the Authority staff on a few larger issues moving forward.

The MWRA Board of Directors made it clear when it first held discussions about a potential Budget Amendment that there would not be a mid-year rate increase. Working with the Authority, staff was able to achieve that goal.

Chairman Dunphy said the Advisory Board staff has spent a long time looking at MWRA's proposal and agrees that it is a good one; additionally, the Executive Committee reviewed it last Friday and recommends that the Advisory Board adopt the proposal.

A Motion was made **TO APPROVE THE ADVISORY BOARD COMMENTS AND RECOMMENDATIONS ON THE MWRA'S PROPOSED FY09 CURRENT EXPENSE BUDGET AMENDMENT.** It was seconded and passed by unanimous vote.

❖ **PROCESS AND TIMELINE FOR FY10 CAPITAL IMPROVEMENT PROGRAM REVIEW**

Ms. Potter stated staff has already begun to work with Authority staff to collect background materials and set up briefings to begin the 60-day Capital Improvement Program (CIP) review. Staff looks forward to receiving the written document, which helps focus the review. The review will run from mid-January to mid-March with a vote at the March 19 Advisory Board meeting.

Ms. Potter said as the Advisory Board turns its attention to the CIP, the Authority is also in the process of preparing its proposed FY10 CEB and will be mailing the preliminary numbers and summary to the Board on the first Friday in February.

Operations Committee – Jay Fink

❖ **REPORT FROM THREE-YEAR FLOW AVERAGING MEETING**

In December, a meeting was held in Wellesley on three-year averaging of sewer flows; it was well attended by a dozen or so communities and advocates. The Authority provided presentations on how the three-year averaging methodology was developed.

Walter Woods did an incredible job on an intense analysis as it relates to year-to-year flows and impacts on one-year versus three-year averaging. No specific action was taken; the Committee agreed to continue to monitor the occurrences of year-to-year flows and meet again in the course of the coming year to compare last year to this year. Staff will continue to evaluate ideas any members offer.

❖ **UPDATE: ODOR CONTROL FACILITY**

There have been numerous discussions between the Authority and an abutter, Joseph Corcoran of the Bayside Expo, on his desire to have an MWRA Odor Control Facility built underground at the expense of ratepayers; the Authority is moving forward with an above-ground facility. In December, Judge Stearns, in his court report, reinforced the Authority's track record in support of the above-ground odor control facility.

Executive Committee – Katherine Haynes Dunphy

❖ **STATUS: LEGISLATIVE PACKAGE**

MWRA and Advisory Board staff met and held a bill-signing day this past Tuesday; all of the pieces of legislation that the Advisory Board members endorsed in November now have sponsors and the legislative process will begin to get those bills enacted or at least debated and discussed over the next two years.

Staff has received positive feedback on two new initiatives: 1) The five-cent tax on units of bottled water has far more support at least as a concept than the old tried and true unclaimed nickel deposit on bottled water containers; 2) The expansion of the Septic Tax Credit to individual homeowners on the capital portion of their water and sewer bill.

The legislative process has many peaks, valleys and a lot of potholes and sometimes success. Staff will continue to work the Advisory Board's legislative package in the coming months and hope to come back with positive endorsements.

❖ **STATUS: ECONOMIC STIMULUS PACKAGE**

Both the Advisory Board and the Authority have worked closely with all of the national organizations to get the best information available on the Economic Stimulus Package. Staff still has no information on the size and scope or components of the package. As information is received, staff will continue to share it.

E. ADJOURNMENT

A MOTION WAS MADE TO ADJOURN THE MEETING AT 1:02 P.M. It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary