MWRA ADVISORY BOARD MEETING
FEBRUARY 19, 2009
STATE HOUSE ROOM A-1 BULFINCH
BOSTON, MA – 11:30 AM
MINUTES APPROVED AT THE MARCH 19, 2009 MEETING

Forty-four people were in attendance, including twenty-one voting members: John Bean, ARLINGTON; Peter Castanino, BELMONT; John Sullivan, BOSTON; Ed Sullivan, CANTON; Andrew DeSantis, CHELSEA; Jon Norton, EVERETT; J. R. Greene, GUBERNATORIAL APPOINTEE; Bill Hadley, LEXINGTON; Jay Fink, LYNN; Dana Snow, MARBLEHEAD; Doran Crouse, MARLBOROUGH; Cassandra Koutalidis, MEDFORD; Katherine Haynes Dunphy, MILTON; Lou Taverna, NEWTON; Peter Smyrnios, PEABODY; Richard Stinson, WAKEFIELD; Earl Forman, WESTON; Bob Angelo, WESTWOOD; Michael Chiasson, WEYMOUTH; Michael Woods, WILMINGTON; Anthony Blazejowski, WOBURN.

Also present: Andrew Pappastergion, MWRA BOARD OF DIRECTORS; Eileen Commane, DEDHAM-WESTWOOD WATER DISTRICT; James Turcotte, EVERETT; Rob Antico, WILMINGTON; Paul Donato, STATE REPRESENTATIVE; Stephanie Drahan, Aide to Representative Katherine Clark; Katie Ludka, Aide to Representative Ron Mariano; Paul Brennan III, Aide to Senator Michael Morrissey; Aaron Aolunek, Aide to Senator Marian Walsh; Ed Bretschneider, WAC; Mike Galli and Mark Molloy, UCANE; Graduate Students from Boston University; Fred Laskey, Michael Hornbrook, Steve Estes Smargiassi, Carl Leone, Kathy Soni, Michael Morris and Tracy Wadsworth, 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 11:47 a.m.

B. REPORT OF THE EXECUTIVE DIRECTOR
MWRA Advisory Board Executive Director Joseph Favaloro said over the years Advisory Board staff has worked with MWRA Caucus Chairman Ron Mariano and his staff. Katie Ludka, who has been the Advisory Board’s contact with Chairman Mariano’s office, is getting married and moving to Chicago to be with her husband. The Advisory Board owes Katie a lot. Mr. Favaloro presented flowers to Ms. Ludka, who expressed her thanks.

C. PRESENTATION: MWRA ADVISORY BOARD LEGISLATORS OF THE YEAR AWARDS
Chairman Dunphy stated that she was pleased to present the MWRA Advisory Board’s Legislator of the Year award to four deserving legislators who have been strong advocates for MWRA ratepayers over the last year.

The Honorable Paul J. Donato, State Representative
Representative Paul J. Donato, serving his fifth term in the Massachusetts House of Representatives, is the newly appointed Chairman of the Committee on Municipalities & Regional Government. He also serves as Co-Chairman of the Special Commission on Municipal Relief and

as the House Appointee on the Governor's Municipal Task Force for Federal Economic Stimulus Funds. Rep. Donato has been a long-term advocate for rate relief and other ratepayer issues.

Representative Donato said that he humbly accepts the award and he that he looks forward to working with the Advisory Board to get as much relief for the ratepayers in the MWRA district as possible.

Chairman Dunphy said the three remaining state legislators were unable to be in attendance.

<u>The Honorable Katherine Clark, State Representative</u>
Katherine Clark was elected State Representative of the 32nd Middlesex District in March 2008. Rep. Clark serves on the Joint Committees on Education, Judiciary and Municipalities and Regional Government. Before serving as a state representative, Rep. Clark was a six year member of the Melrose School Committee. She received her B.A. from St. Lawrence University, her J.D. from Cornell Law School and a M.P.A. from the Kennedy School of Government at Harvard University. Last year, along with Chairman Ron Mariano, Representative Clark was instrumental in increasing Debt Service Assistance from $15 million to $20 million in the final Budget.

Stephanie Drahan, Aide to Representative Clark, accepted the award on her behalf.

<u>The Honorable Michael W. Morrissey, State Senator</u>
Michael W. Morrissey is the State Senator of the Norfolk and Plymouth District, representing the Towns of Abington, Braintree, Holbrook and Rockland, as well as the City of Quincy. He is currently the Senate Chairman of the Joint Committee on Consumer Protection and Professional Licensure, as well as the Senate Chairman of the Joint Committee on Telecommunications, Utilities and Energy. In addition, he serves on the Senate Committee on Ways and Means, the Joint Committee on Economic Development and Emerging Technologies, the Senate Committee on Global Warming and Climate Change, and the Senate Committee on Post Audit and Oversight. Senator Morrissey has been an active member of the Massachusetts Legislature for 31 years and has been a staunch advocate for providing ratepayer relief, as well as providing leadership as co-sponsor on legislation that is important to ratepayers.

Paul Brennan, III, Aide to Senator Morrissey, accepted the award on the Senator's behalf.

<u>The Honorable Marian Walsh, State Senator</u>

Senator Marian Walsh serves the Suffolk and Norfolk Districts in her ninth term in the Massachusetts State Senate. This month she was appointed Majority Whip. She has previously served as the Assistant Majority Leader. Before being elected to the Senate, Marian Walsh represented the 10th Suffolk District in the House of Representatives for two terms.

Senator Walsh is a consistently strong advocate for providing ratepayer relief for escalating water and sewer bills and supporting other legislative initiatives that are important to ratepayers.

Aaron Aolunek, Aide to Senator Marian Walsh, accepted the award on the Senator's behalf.

D. PRESENTATION: 2008 YEAR END WATER USE AND TRENDS - Steve Estes Smargiassi, Director, Planning

MWRA Director of Planning Steve Estes Smargiassi said 2008 was an interesting year for water use. Total withdrawals from the MWRA system last year dropped again, down from 220 million gallons per day (MGD) in 2007 to 206 MGD in 2008. The trend has been continuing since the 1980s; in 1980, demand was 340 MGD. The 206 MGD demand is about what it was in 1952, with about half as many communities on the MWRA system.

Yield is defined by how much water is in the reservoir. Rainfall is the principal determinate on how the yield varies from year to year but not the only determinate. When staff looks at yield, it looks at when the rain falls; does it fall in the spring before the vegetation is out? Does it fall in early spring, while the ground is still frozen? Those give high yields per inch of rain. Or, does it fall in the summer when all the trees have leaves and evaporation takes place? There isn't as much yield so the pattern and relationship between rain fall and yield is not a perfect one but a good indicator.

How much does yield vary? Over eleven years, rainfall varied by a factor of about two; from a low of around 30 inches in 2007 to a high of 55 inches in 2008 or almost 60 inches in 2005. Watershed yields vary by a factor of almost three. When the rain falls is just as important as how much falls.

Last year (2008) there were high rains, along with high yields. Once the rain comes down and flows into the reservoir, it influences how much water is at Quabbin and to some extent at Wachusett, although Wachusett is kept relatively uniformly full artificially. On February 18, Quabbin was 99.9% full, equivalent to about 411.9 billion gallons and about 170 million gallons of water was spilled. About one month ago, 250 MGD were being spilled.

When the reservoir is full, it overflows and spills water over the top of the dam. The highest spill amount was in 2006, where 51 billion gallons were spilled over 236 days during the course of the year. Staff has been spilling at Quabbin since the day after Thanksgiving and thus far has spilled about 12 billion gallons over the top of the dam. The reservoir has only been full three times on January 1 since it was first filled in 1946 and the 2008/2009 divide was one of those three times.

In addition to spilling, water is sent down to the Swift and Nashua Rivers, Quabbin and Wachusett Dams and some water is allowed to flow down to the Ware River that could also be diverted to the Quabbin Reservoir.

High demand in 2005 was due partly to a dry summer but also due to the fact that staff was testing the new John J. Carroll Water Treatment Plant. A lot of water was sent through the plant and spilled down to the Sudbury Reservoir.

There have been two years in the last eleven years where the Authority has spilled and released more water than it used, last year and two years ago; more water went down the rivers than was sent into the Boston area.

Sales to communities in 2008 accounted for 196 million gallons, the lowest amount sold in since the 1950s. All but four communities saw lower demands in 2008 than they had in 2007; a couple of those were due to leaks, which were promptly found and repaired.

Last year, the City of Boston used as little water as it used 108 years ago in 1900. Boston used only 69 million gallons last year; their peak was 151 million gallons back in the 1980s.

What are the causes? Reduced leakage, both in the MWRA system and all of the community systems, and reduced demand contribute to the lower numbers. Changes in the toilet code and changes in industrial processes and the kind of industries also contribute. Additionally, people are more cognizant of water use because the price of water has gone up.

Seasonal use has been a hot topic. The base use, or non-seasonal use, has been defined as water used from November through March, which is subtracted from the rest of the year. Year in and year out, over a decade, staff has seen about a 3 MGD reduction in base use for indoor and industrial water use, without any remarkable changes in underlying factors. With the economy slowing down, there may be a steeper drop in the next couple of years. In terms of people changing out the efficiency with which they use water indoors, staff does not see much change so this drop will likely continue.

In the MWRA region, seasonal water use is not a large component of total demand. Averages over the past eleven years are about 8%, which is about 16 MGD, averaged over the course of the year; it varies, more or less, with seasonal precipitation. The range has been from a low of about 6% to a high in 2005 of about 11%. Even at the high number of 11%, the MWRA is still at about one-quarter of what most of the cities in the western part of the United States say; in some cases, one-fifth or less. Many places, elsewhere in the country, see one-half of their total water use in seasonal water demand (outdoor water use).

In conclusion, 2008 trend lines show that water use has been decreasing steadily. When you compare total water withdrawals to the amount of water that can safely be withdrawn from the reservoirs, there is a fair amount of water left over for other uses, whether that be sales to new communities, environmental releases or a reserve for the future. Based on last year's numbers, there is about 96 million gallons of spare capacity.

Mr. Estes Smargiassi also noted that letters were sent out to communities to begin the Annual Water Quality Report process (Consumer Confidence Report). Communities are requested to create their inserts to be placed in the back of the reports.

E. COMMITTEE REPORTS

Finance Committee – Bernard Cooper

❖ **CIP/CEB UPDATES**

MWRA Advisory Board Senior Finance and Policy Analyst Matthew Romero gave an update on the Proposed FY10 Current Expense Budget (CEB) and Capital Improvement Program (CIP) from the Advisory Board's perspective.

Beginning with a general overview, in the proposed FY10 CEB the Authority identifies total expenses of $603.5 million, a rate revenue requirement of $566.8 million, resulting in a 4.8% increase over the FY09 final budget. The MWRA is proposing Direct Expenses of $214.5 million. Comparing this budget to the FY09 Original Final Approved Budget from June of last year, it reflects that Direct Expenses went down by $1.4 million, or a reduction of 0.7%. From the Amended Budget, it is an increase of $4.8 million or 2.3%.

Indirect Expenses are at $41.6 million, which went down from the original budget by 9.3% or $4.3 million; from the Amended Budget, it went down by $2.7 million or a 6.3% decrease.

Debt service was at $354.4 million prior to offsets, compared to the original budget that is an increase of $25.6 million or a 7.8% increase; from the amended budget it is a $29.1 million or 9.0% increase.

Highlights of Direct Expenses include a reduction of 24 funded staff positions. The Authority currently has 1,235 filled positions, as compared to 1,246 budgeted positions in FY09. The Authority is targeting 1,222 positions by the end of FY10, which assumes there will be some attrition.

The Authority has instituted a pay freeze for all non-union managers for the FY10 budget. Overtime has been reduced by 10.2%.

The Governor's budget has included legislation to change the way that health insurance has been allocated. Rather than going basing it upon the date of hire regarding the employee's share versus the state's share, it would be determined by the amount of salary. The Authority took a look at its current salary levels and projected that they would be able to save about $1.4 million, which reduced the fringe line item by $1.4 million.

Price increases are expected for chemicals; however, the increases may be less than the Authority originally thought.

Energy price decreases have been built into the Authority's FY10 budget; however, the price of a barrel of oil has started to go back up again so there is a bit of risk with assuming a price decrease.

For Indirect Expense highlights, watershed operating expenses were level-funded; however, the Division of Water Supply Protection's debt service and PILOT payments have increased, resulting in a slight increase.

The required contribution is being made to the Pension Fund, plus a $2.8 million additional payment to try to offset some of the investment losses from FY08.

In previous years, the Authority insisted on funding Other Post-Employment Benefits (OPEB), against the Advisory Board's recommendations. Next year, the Authority is including a nominal amount of $1.4 million, which is tied to the Governor's legislation on health insurance. If that legislation does not go through, the $1.4 million for OPEB will be put back in to cover fringe costs so the Authority is not completely relying on that legislation to go through.

The Authority is also looking to move dental and vision insurance onto the GIC, which will provide some savings to the Authority.

In Capital Financing highlights, variable rate debt is budgeted at a 4% interest rate; the Authority is still maintaining that interest rate assumption. Staff assumes a capital borrowing in May 2010 of $100 million. On the coverage calculation, there is a lot of give and take and fine-tuning but that might be a source of additional cutting that the Advisory Board may be able to use in its comments. Ms. Potter added that the coverage calculation connects back to the Authority's assumptions, principally for variable rate debt but also for its new borrowing and other components of capital financing. This is an area that is really a math calculation done at the end of the day when all other elements of the budget are put together. We have focused on this as a key category of our recommendations in the past to ensure that every dollar that the Authority is requesting from the communities really works for the Authority and its operations as opposed to simply meeting a bond resolution requirement.

Mr. Romero said in Revenue highlights, for investment income, the Authority has assumed a short-term interest rate assumption of 0.75%; that is a reduction from the 2% assumed for FY09. This is usually one of the sources that the Advisory Board goes to seeking cuts because the Authority is normally too conservative; however, in this market, staff would likely not recommend changing it from 0.75%.

For Rate Stabilization Funds, the Authority is proposing the use of $10.3 million, which is a $5.2 million increase from the original FY09 Budget approved last June.

For DSA, the Governor's budget included Bottle Bill funds allocating $10 million to DSA through the Sewer Rate Relief Fund; of the $10 million, the Authority typically gets 70% leaving an assumption of $7 million for DSA.

Mr. Romero said at the end of every year, the Authority, if it runs a surplus, tries to take some of that surplus and defease debt for the next year. While the Authority plans on doing that this year, typically in years past they haven't built that into their proposed budget; this year they have already assumed that they are going to try to drive up a surplus of at least $10 million that can be used to defease debt from FY10.

Mr. Romero said Mr. Favaloro asked staff to include a slide called "A Home Run for the Advisory Board" to go through some of the points that the Advisory Board has been recommending for the last couple of years and that are reflected in this proposed budget.

Mr. Romero said as part of our Budget Amendment recommendations, the Authority held off on its $3.3 million payment on OPEB that originally was going to be redirected into the pension funds. They agreed to hold off on that until June 2009 in the Budget Amendment; however, they took the unusual step to actively reserve that $3.3 million. The Authority committed to reserve that for an FY09 surplus to help with the FY10 increase.

The Advisory Board advocated for a non-operational hiring freeze and the MWRA instituted a similar proposal, which is a non-critical hiring freeze.

The Advisory Board has typically gone to the MWRA's assumption of a full year of NPDES permitting and the requirements that they might need to build into that with regard to chemicals, in particular, to pare that number back. This year, the Authority took the unusual step of not including any assumption for a NPDES permit in all of FY10.

Advisory Board staff usually asks that the Watershed Division's budget costs be kept down; with their level-funding of operating expenses, they are sharing the same pain that the Authority is.

The Advisory Board has asked the Authority to be prepared to refinance debt; just this month the Authority was able to conduct a successful transaction that was of great benefit to them.

In taking a look at the uncertainties, the financial crisis and the economic landscape is still moving and no one knows where it is going to land, which particularly affects variable rate debt assumptions, interest income and a lot of big ticket items when it comes to the dollars in the budget. There are uncertainties in the variable market, utilities and chemicals costs.

Chemical costs have increased dramatically; the Authority believes it has a lid on it but the chemical companies have come to the Authority with "hat in hand" and said they cannot deliver at these prices. If that trend reverses, the Advisory Board wants to be sure that the Authority staff is being active enough in going back to these companies to say that they can now afford to deliver the chemicals closer to the original price.

With no assumption for the NPDES permit, if the NPDES permit does come through in FY10, the Authority will have to make up the $300,000 to $400,000, up to $1.2 million depending on how many months of the year the new permit requirements are in place, which may be even more given the current higher chemical prices.

If the health insurance legislation does not go through, the $1.4 million will be moved back from OPEB to the fringe category but at least staff has built that assumption into its budget.

The $7 million for DSA from the Bottle Bill is a soft number at this point. It is great that the Governor included it; however, the MWRA can't necessarily count on that and the Advisory Board needs to be sure that the Authority will be able to find the $7 million should that amount need to be made up.

The Authority and the Advisory Board don't know at this point if the MWRA will benefit from the Economic Stimulus Package. It may be a lot or it may be a little; how much does that really impact what kind of relief the Authority can expect in its budget?

This year staff was considering adopting a new approach to the CIP and CEB review process. In particular, staff is looking at combining the process into one comprehensive document that highlights and stresses the interrelations between the Capital Improvement Program and the Current Expense Budget. If that were the case, it would mean that the Advisory Board wouldn't have two separate votes on the CIP document and the CEB document, but rather one vote on May 21 for the full Advisory Board.

Mr. Favaloro said this approach would emphasize that these two documents are linked together. What happens in the CIP impacts what happens in the CEB; it is a recognition of creating those links and ideas together and putting it into one document.

Executive Committee – Katherine Haynes Dunphy

❖ **LEGISLATIVE UPDATE**

Mr. Favaloro said as staff mentioned, the Governor's House 1 Budget included as a component the Advisory Board's approach on the Bottle Bill. He has accepted as part of his budget the Bottle Bill Expansion and its expanded proceeds to partially go to DSA. That is where the $10 million that he has put in the Sewer Rate Relief Fund comes from, of which the Authority's share would be approximately $7 million. There are a lot of roads to go down before that successfully happens.

The Governor's Budget did not include $500,000 for the Clinton Wastewater Treatment Plant; staff is relatively comfortable that these funds can be restored through the House.

❖ **ECONOMIC STIMULUS UPDATE**

The Authority submitted a list of projects to the Commonwealth of Massachusetts to be included in the projects eligible for the Economic Stimulus Package. Also included were projects that would be eligible for energy stimulus money. Water/sewer projects may be funded through the State Revolving Fund.

Last May, the community of Worcester had asked the MWRA and the Advisory Board to join a coalition with many other communities. The Coalition has provided a sample letter that cities and towns may want to consider that implores the Governor to fund the water and sewer infrastructure projects. It is important to help influence that decision.

Operations Committee – Jay Fink

❖ **UPDATES: I/I GRANT/LOAN PROGRAM – LOCAL WATER PIPELINE ASSISTANCE PROGRAM** – Carl Leone, Senior Program Manager

MWRA Senior Program Manager Carl Leone said the Authority does three community assistance programs: 1) the Local Pipeline Assistance Program; 2) the Infiltration/Inflow Assistance Program; and 3) a Water Conservation Program.

On the sewer funding, the MWRA is currently at a $220 million budget, of which $176 million has been distributed to the communities for 362 local projects. An additional $40 million Phase 7 has been included in the Proposed FY10 CIP for 45% grant ($18 million) / 55% interest-free loans ($22 million) to be repaid over five years.

The Local Pipeline Assistance Program is a ten-year interest-free loan program, which has been funded with $256 million. FY10 is the last year of the ten-year distributions to the communities. The money is available and allocated through FY13.

The Water Conservation Program includes a task order leak detection contract. All of the communities that take water from the MWRA are required to do leak detection every two years and repair those leaks.

Additionally, the MWRA provides educational brochures and low-flow fixtures free of charge to the communities.

Chairman Dunphy said this new $40 million for the sewer work has come rather unexpectedly. This information needs to passed on to the communities so it can be included in their Town Meeting discussions so they can use those funds as quickly as possible. Mr. Leone said staff included the Phase 7 flyer with a letter to communities that he recently sent.

Fred Laskey said at the last Board meeting, Mr. Foti advocated that the MWRA should make a long-term commitment on the sewer side for continuity and long-term planning. The MWRA will look to the Advisory Board for some guidance on that.

- **UPDATE: MYSTIC RIVER STEERING COMMITTEE** – Andrew DeSantis, Chelsea Advisory Board Designee

Chelsea Advisory Board Designee Andrew DeSantis, representing the Mystic River Steering Committee, said there are 21 communities in the Mystic River Watershed (Arlington, Belmont, Boston, Burlington, Cambridge, Chelsea, Everett, Lexington, Malden, Medford, Melrose, Reading, Revere, Somerville, Stoneham, Wakefield, Watertown, Wilmington, Winchester, Winthrop and Woburn). They are all at least partial MWRA sewer communities, if not fully sewered.

Last April there was a Mystic River Summit. As an outgrowth of that, there have been working groups for almost the past year. On March 11, the first formal meeting of the Mystic River Steering Committee will be held at the JFK Building. EPA, DEP and advocacy groups have been pushing for these meetings.

The Steering Committee is going to be composed of representatives from 12 advocacy groups and 12 government entities (including the MWRA), of which two of the 21 community members will have seats on the actual steering committee.

There will likely be a sub-committee of the Steering Committee that will include all the Mystic River Watershed Communities. Mr. DeSantis said he has been asked, on an interim basis, to represent Mystic communities on the lower basin, while Beth Rudolph of Winchester has been asked to represent the communities on the upper basin. The fair way to do it is to have a Steering Committee meeting, call for a sub-committee meeting and then have an election to choose who is going to represent the communities.

Fred Laskey said this is the next wave of environmental enforcement so your community should be involved.

F. ADJOURNMENT

A MOTION WAS MADE TO ADJOURN THE MEETING AT 12:55 P.M. It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary