

**MWRA ADVISORY BOARD MEETING
MAY 21, 2009
KNIGHTS OF COLUMBUS
177 BEDFORD STREET, LEXINGTON, MA 02420 – 11:30 A.M.
MINUTES APPROVED AT THE SEPTEMBER 17, 2009 MEETING**

Fifty people were in attendance, including thirty-two voting members: John Bean, ARLINGTON; E. A. Maguire, ASHLAND; Peter Churchill, BEDFORD; Peter Castanino, BELMONT; John Sullivan, BOSTON; Charles Barry, BROOKLINE; John Sanchez, BURLINGTON; Timothy MacDonald, CAMBRIDGE; Ed Sullivan, CANTON; Andrew DeSantis, CHELSEA; Peter Sellers, FRAMINGHAM; J.R. Greene and Barbara Wyatt, GUBERNATORIAL APPOINTEES; Bill Hadley, LEXINGTON; Jay Fink, LYNN; Dana Snow, MARBLEHEAD; Doran Crouse, MARLBOROUGH; Cassandra Koutalidis, MEDFORD; Katherine Haynes Dunphy, MILTON; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; Peter Smyrnios, PEABODY; Brian Carlisle, QUINCY; Ted McIntire, READING; Carol Antonelli, SOMERVILLE; Lawrence J. Barrett, STOUGHTON; Richard Stinson, WAKEFIELD; Earl Forman, WESTON; Bob Angelo, WESTWOOD; Zig Peret, WILBRAHAM; Michael Woods, WILMINGTON; Anthony Blazejowski, WOBURN.

Also present: John Carroll, Andrew Pappastergion and Joseph, Foti, MWRA BOARD OF DIRECTORS; George Burnell and Dennis Meehan, LEXINGTON; Jeff Zager and Peter Tassi, READING; Ana Singleton, STOUGHTON; William Shaughnessy, WELLESLEY; Mike Galli, UCANE; Fred Laskey, Pam Heidell and David Whelan, MWRA STAFF; Joe Favaloro, Cornelia Potter, Matthew Romero, Christine Hevelone-Byler and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

A. WELCOME

Chairman Dunphy called the meeting to order at 11:43 a.m. Chairman Dunphy noted that two members of the Advisory Board will be retiring. Certificates of appreciation were presented to Ted McIntire of Reading and Larry Barrett of Stoughton in recognition of their service for the ratepayers of the MWRA and of their respective communities. Messrs. Barrett and McIntire also served as Executive Committee members.

B. APPROVAL OF THE MINUTES FROM THE MARCH 19, 2009 AND APRIL 16, 2009 ADVISORY BOARD MEETINGS

A Motion was made **TO APPROVE THE MINUTES FROM THE MARCH 19, 2009 AND APRIL 16, 2009 ADVISORY BOARD MEETINGS.** It was seconded and passed by unanimous vote

C. PRESENTATION/ACTION ITEM: MWRA ADVISORY BOARD INTEGRATED COMMENTS AND RECOMMENDATIONS ON THE MWRA'S PROPOSED FY10 CAPITAL IMPROVEMENT PROGRAM (CIP) AND CURRENT EXPENSE BUDGET (CEB) – Cornelia Potter, Manager, Finance & Policy Review and Matthew Romero, Senior Finance & Policy Analyst

MWRA Advisory Board Senior Finance and Policy Analyst Matthew Romero stated that Advisory Board staff took an integrated approach in analyzing the Proposed FY10 Current Expense Budget (CEB) and Capital Improvement Program (CIP) this year.

The Advisory Board's document states that the world has changed – recognizing the sub-prime mortgage crisis; the Dow plunged 40% within one year, from October to October; AIG, Fannie Mae and Freddie Mac received unprecedented aid from the federal government; and Lehman Brothers and Chrysler have filed for bankruptcy.

According to the Senate, FY09 state revenue numbers at the beginning of the year were projected to be \$21.2 billion; this number was revised downward to \$20.1 billion and revised again to \$19.45 billion. Presently the revenue number is at \$18.44 billion. For FY10, the current projection is \$17.9 billion for state revenues.

This is a multi-year problem. Even though staff has heard that there are signs that the recession is starting to end, job losses are still likely to continue through 2011. Many experts are saying the depressed economy could last until 2014. Nationally, the average decline in revenues has been 12.6%; Massachusetts has seen a 17% decline in revenue.

The Massachusetts stimulus and rainy day funds are going to be nearly gone by the end of 2010, which is a source of funding that the state is using now to plug holes for FY10. This means that FY11 and beyond are going to be even worse.

The Advisory Board is recommending that capital spending be lowered by no less than \$100 million over the course of the next four years, from FY10-FY13; further, to reduce new borrowing by the amount of stimulus grant funding received during that cap period. Staff also acknowledges that I/I Phase VII is going to be added back in.

For the Current Expense Budget staff recommended that the Authority reduce future rate revenue requirements by no less than \$100 million over that same four-year horizon. Staff does not want to see FY10 assessments increase for the communities; to emphasize this point, instead of going line by line with a dollar value for reducing each line item, staff instead highlighted within the document a series of tools and, wherever possible, tried to give a range of what their various assumptions could be.

Staff was able to identify several tools; all of these tools will not come to fruition or are usable at the present time but they are all areas that the Authority can look to when trying to approach the four-year challenge ahead.

One of the tools that Advisory Board staff has consistently talked about is Other Post-Employment Benefits (OPEB). The Advisory Board kept pushing to keep the Authority from putting the OPEB liability into an irrevocable trust; fortunately, the Authority did not do so. A significant amount of money was also saved because staff pushed for the operating reserve to

not apply to that source of funding. Instead the Authority deferred the OPEB funding to the pension liability.

In acknowledgement of the times we are in, the Authority has held a portion of the FY09 payment to the pension fund (the portion designed to go toward the OPEB liability) as part of the FY10 proposed defeasance to help out with the next year's problem. It is a different tack than the Authority had charted out originally and shows that the MWRA recognizes that this is going to be a problem in FY10. At present, only a nominal amount is proposed in the Authority's budget for the OPEB liability for FY10 and it is tied to the Governor's proposed legislation for fringe benefits. If that legislation doesn't come through, that nominal amount will be put back into the fringe benefit line item to cover those costs.

In FY10, although the Authority only allotted a nominal amount, for their projections moving forward for FY11 to FY13, they do include the GASB numbers as the actuarial study had reported for those years, which is in the range of \$9 to \$10.5 million per year. That is a tool that the Authority might want to consider on whether this is the right time to be putting money into this liability when the funds may be needed to help ratepayers.

Variable rate debt service is also a topic that Advisory Board staff usually addresses. The Authority currently has \$593.6 million in variable rate debt. The variable interest rate assumption that the Authority has now is at 4%; however, current rates are at historic lows. Some of the maturities are below 1%. The Advisory Board does recognize that the credit markets remain volatile; rightfully so, the Authority has budgeted conservatively. However, as a range, every 25 basis points reduced off of its assumption for variable rate debt would yield \$1.4 million per year. Again, this is just a tool. Staff is not suggesting that the Authority necessarily do it but MWRA staff needs to take a look to see if they can ratchet down its assumptions and take a bit more risk to help deal with the problem as it moves forward in the next four years.

Selling additional water to new communities is a tool that can be utilized over the next four years. Advisory Board staff has been pushing for system expansion and an easing of the process to join the MWRA for a number of years. Studies show that the MWRA has the additional capacity for customers and communities to join the water system. Moreover the new supplies can provide benefits to stressed basins. The MWRA water demand is 100 MGD less than in 1984 and is the lowest it has been since 1900. Every 1 MGD sold would yield about \$5 million toward an entrance fee.

Decisions that the MWRA makes should benefit the ratepayers. How many millions of dollars were recently committed for an odor control facility to be placed underground only to have the developer that fought for it to be placed underground go bankrupt. MWRA is still putting the facility underground at the expense of the ratepayers at a cost of approximately \$3.8 million.

Negotiations are ongoing to purchase an old hospital site for an MWRA facility. Article 97 lands had been identified as a location for this facility; however, MWRA is now looking at paying for land for this facility even though free land is nearby. Are these really the best choices to be making when the MWRA could just say "no" and save the ratepayers significant millions of dollars.

In conclusion, Advisory Board staff is asking that the Authority recognize the current economic climate and to consider the ratepayers; they are the ones paying the tax bills, water and sewer bills and dealing with unemployment on a personal level. Staff asked the Authority to revisit its

past assumptions on the identified tools and see if some additional risks or tweaks could be made to reduce the projected costs for 2.5 million ratepayers. They are the ones being hit the hardest on a personal level.

Chairman Dunphy said the job that the Advisory Board staff did in creating this new formatted document, combining both documents into one and showing the connections between the capital projects that affect the borrowing on the operating budget, has been a success.

A Motion was made **TO APPROVE THE MWRA ADVISORY BOARD'S INTEGRATED COMMENTS AND RECOMMENDATIONS ON THE MWRA'S PROPOSED FY10 CAPITAL IMPROVEMENT PROGRAM AND CURRENT EXPENSE BUDGET.** It was seconded and passed by unanimous vote.

D. COMMITTEE REPORTS

Executive Committee – Katherine Haynes Dunphy

❖ ACTION ITEM: NOMINATIONS/ELECTION FOR MWRA ADVISORY BOARD REPRESENTATIVE TO THE MWRA BOARD OF DIRECTORS

Chairman Dunphy stated that Andrew Pappastergion has submitted his name for nomination to the MWRA Board of Directors.

Mr. Pappastergion said the Advisory Board took a chance and elected him to the Board of Directors twelve years ago. It has been challenging, taking hundreds of votes and dealing with thousands of issues. Mr. Pappastergion said that he appreciated the member's votes twelve years ago and every three years since then and, should he be re-elected, will do his best for the next three years to represent the communities, along with his colleagues.

John Carroll added that he could not think of a better public servant or a better person to serve on the Board of Directors than Andy Pappastergion.

Chairman Dunphy said we are fortunate to have all three members and are very grateful for the work that you do for us.

Chairman Dunphy asked if there were any nominations from the floor; hearing none, nominations were declared closed.

A Motion was made **TO NOMINATE AND ELECT ANDREW PAPPASTERGION TO SERVE AS AN ADVISORY BOARD REPRESENTATIVE ON THE MWRA BOARD OF DIRECTORS FROM JULY 1, 2009 TO JUNE 30, 2012.** It was seconded and passed by unanimous vote.

Mr. Pappastergion expressed his thanks.

❖ ACTION ITEM: MWRA ADVISORY BOARD FY10 OPERATING BUDGET

Mr. Favaloro stated that the MWRA Advisory Board's proposed FY10 operating budget grows from last year's budget by 1.6% to \$474,212. The largest growing line item is for Public Meetings, which includes rental of rooms and providing lunch.

Staff works diligently to keep the budget tight. Substantial progress has been made over the last couple of years by reducing postage costs by going to electronic mailings. In FY09, as part of the amendment process and also to make a strong statement back to the Authority, the Advisory Board reduced and amended its budget for FY09 and returned funds to the MWRA.

A Motion was made **TO APPROVE THE MWRA ADVISORY BOARD FY10 OPERATING BUDGET IN THE AMOUNT OF \$474,212, WITH AN OVERALL REQUEST OF THE MASSACHUSETTS WATER RESOURCES AUTHORITY OF \$453,212.** It was seconded and passed by unanimous vote.

❖ **LEGISLATIVE UPDATE**

Mr. Favaloro stated that the Governor embraced the expansion of the Bottle Bill to include a deposit on bottled water; however, the bottle bill expansion did not make it into the House version of the budget, although the House provided \$5 million in direct Debt Service Assistance (DSA). The Senate is now coming to closure on its version of the budget. The original Senate budget did not include any DSA, nor an expansion to the bottle bill. Advisory Board staff filed amendments for both, which were unsuccessful. Staff was careful not to ask for dollars at a time when there are many other competing priorities, but simply tried to make sure the legislature heard its message. In reality, when the State Budget is completed, it is unlikely that it will include DSA.

The Advisory Board's *Comments and Recommendations* said regardless of DSA, the final assessments could not be higher than the preliminary assessments. In the event that there is no DSA for the FY10 budget, the Authority is already working to find the funds to cover the original \$7 million assumption of DSA that was included in its original proposed FY10 budget.

Operations Committee – Jay Fink

❖ **STATUS: POTENTIAL WATER METER MODERNIZATION GRANTS / STIMULUS MONIES**

Money from the stimulus fund is still up in the air. Legislation has been filed to make the Massachusetts language compatible with the federal language, which has still not gone through. Stimulus money is a goal, but in reality details are unclear about how much money will be available and when it will be available.

The Operations Committee met last month and put some perspective on how a metering program could work to maximize the benefit for communities. At this time, the program is still in a holding pattern.

John Bean of Arlington said his understanding was that in the last report DEP was negotiating with the MWRA to in effect run the grant program and make it available to member communities, which would be a great boost. Is that still not worked out and agreed to? Mr. Favaloro said if there is a Meter Modernization Grant Program, the mechanism on how that would work would be that the money would funnel to the MWRA who would funnel it into some program for the cities and towns.

Mr. Favaloro also noted that a couple of months ago a dual-track vote was taken, one to allow the Town of Wilmington into the waterworks system and the other for emergency water use for

six months in the event that Wilmington did not get its town meeting vote for admission into the water system. Wilmington Water and Sewer Superintendent Michael Woods said he was happy to report that the town of Wilmington is now a member of the MWRA waterworks system and will likely be taking water from the system beginning today.

F. ADJOURNMENT

A MOTION WAS MADE TO ADJOURN THE MEETING AT 12:21 P.M. It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary