MWRA ADVISORY BOARD MEETING
APRIL 15, 2010
CARY MEMORIAL HALL
1605 MASSACHUSETTS AVE., LEXINGTON, MA 02420 – 11:30 A.M.
MINUTES APPROVED AT THE OCTOBER 21, 2010 MEETING

Forty-one people were in attendance, including twenty-seven voting members: John Bean, ARLINGTON; Ed Maguire, ASHLAND; Richard Warrington, BEDFORD; Peter Castanino, BELMONT; John Sullivan, BOSTON; John Sanchez, BURLINGTON; Andrew DeSantis, CHELSEA; J. R. Greene and Barbara Wyatt, GUBERNATORIAL APPOINTEES; Bill Hadley, LEXINGTON; Jay Fink, LYNN; Bruce Kenerson, LYNNFIELD; Chuck McCollum, MARBLEHEAD; Wiff Peterson, NATICK; John Cosgrove, NEEDHAM; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; Peter Smyrnios, PEABODY; Carol Antonelli, SOMERVILLE; John DeAmicis, STONEHAM; Richard Stinson, WAKEFIELD; Pat Fasanello, WALPOLE; Walter Woods, WELLESLEY; Earl Forman, WESTON; Bob Angelo, WESTWOOD; Michael Woods, WILMINGTON; Guy Brandenstein, WINTHROP.

Also present: John Carroll and Joseph Foti, MWRA BOARD OF DIRECTORS; Michael Bishop, BELMONT; Robert O'Brien, WALPOLE; Ed Bretschneider, WAC; Lexi Dewey, WSCAC; Fred Laskey, Tom Durkin and Kathy Soni and Mike Morris, MWRA STAFF; Joe Favaloro, Cornelia Potter, Matthew Romero and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

A. WELCOME

In the absence of Chairman Katherine Haynes Dunphy, Bernie Cooper, Vice-Chairman of Finance, called the meeting to order at 11:40 a.m. and introduced Selectman Hank Manza from the Town of Lexington, who welcomed everyone to Lexington.

B. APPROVAL OF THE MINUTES FROM THE FEBRUARY 18, 2010 ADVISORY BOARD MEETING

A Motion was made **TO APPROVE THE MINUTES FROM THE FEBRUARY 18, 2010 ADVISORY BOARD MEETING.** It was seconded and passed by unanimous vote.

C. REPORT OF THE EXECUTIVE DIRECTOR

MWRA Advisory Board Executive Director Joseph Favaloro noted that next month's meeting will have a vote for an Advisory Board representative to the MWRA Board of Directors. All Advisory Board designees are eligible to send in a letter of intent if they so desire. The Executive Committee serves as the Nomination Committee and it is the only vote of the Advisory Board that is one community, one vote and not a weighted vote. A quorum of 32 members is needed for this vote. Joe Foti has expressed interest in running again for another three-year term but that does not exclude others from participating if interested.

EPA's new Regional Administrator H. Curtis Spalding will speak before the Advisory Board next month regarding his philosophy on where the region is going and EPA in general.

Two months ago at an Advisory Board meeting Mr. Webster from EPA spoke before members regarding changes in storm water regulations. Staff submitted a comment letter to EPA in response to the proposed changes.

The Advisory Board will be signing a new lease, leaving downtown Boston and moving its offices to 100 First Avenue, Building 39 – 4th Floor, in Charlestown (above the MWRA's headquarters). MWRA Executive Director Fred Laskey was helpful in facilitating that change.

D. PREVIEW: EMERGING ADVISORY BOARD COMMENTS AND RECOMMENDATIONS ON THE MWRA'S PROPOSED FY11 CIP AND CEB BUDGETS – Cornelia Potter, Manager of Finance and Policy Review, and Matthew Romero, Senior Finance and Policy Analyst

Senior Finance and Policy Analyst Matthew Romero noted that last year Advisory Board staff moved away from separate reviews of the Capital Improvement Program (CIP) and Current Expense Budget (CEB) in favor of an integrated approach. Staff is keeping that format for this year as well.

Normally the Advisory Board receives the proposed CEB and reviews it to make recommendations in the *Comments and Recommendations* document; the Authority discusses the Advisory Board's recommendations and, in June, determines what the final rate increase is going to be. This year the Advisory Board took a different approach given the struggles that cities and towns are facing. In October of 2009 the Advisory Board sent a letter to the MWRA Board of Directors requesting a $0 rate revenue requirement increase for FY11. In November, the first discussion at the Board level was held. In December, Advisory Board staff came before the Board outlining one particular path to get to a $0 increase and challenged the Authority to come up with its own scenarios as well.

By January, MWRA staff presented a few options to the Board of Directors. By February, the preliminary numbers were issued for a 1.49% increase (the lowest rate increase since 1996), which are expected to be the same as the final numbers for June when assessments go out to the cities and towns. This will help the cities and towns to set their budgets.

The original planning projections from the FY10 approved budget had 6.41% increases projected for FY11 and FY12. This change to the budget will also reduce the projections for FY11 and FY12 to under 4%.

The new approach the Advisory Board provided in FY10 introduced the concept of a "toolbox" instead of specific recommendations. Several of these tools were used in the FY11 Proposed CEB. The tools the Authority used to get to the low rate increase included no COLA increases for FY11; a pension fund expense reduction was utilized. In the FY10 CEB the MWRA funded its pension based on the actuarial report it had at that time, with an additional $2.8 million optional payment toward the joint Other Post-Employment Benefits (OPEB) and Pension liability as well. That $2.8 million is still in play this year. The Advisory Board is going to push for an active discussion and vote from the Board of Directors to confirm that these funds won't be deposited because it is $2.8 million that doesn't necessarily need to be spent and could be providing additional relief to offset expenses in FY11.

This year the Authority made no additional payments to the pension other than what was scheduled; the Authority used an interim actuarial study that recognized some of the gains it has made.

Typically at the end of the year the Authority has a surplus and uses defeasance as a tool to provide rate relief for the near years. It basically uses current year funds to pay for debt for the next year in advance. Last year, for the first time, the Authority embedded defeasance into its proposed budget as a sign of how tough times were. The Authority did also plan for the use of the FY10 projected surplus in its proposed numbers for FY11. The Board has authorized a defeasance transaction of up to $24 million to provide relief in FY11 and FY12.

The most important tool that the Authority was able to use was what the Advisory Board is calling “targeted rate relief restructuring” to benefit FY11 to FY13. Essentially, it is a strategic and limited restructuring that may cost more over the full term of the debt being restructured, but provides immediate relief in the target years. The Advisory Board applauds the Authority’s judicious and responsible use of this tool given the exceptionally difficult times cities and towns are facing.

On the capital side, total spending to date is $7.9 billion; of that, $5.8 billion (or 73%) is still outstanding debt. The Authority and the ratepayers face the challenge of paying this debt without Debt Service Assistance (DSA). The “mountain of debt” was structured with the assumption that there would be a certain amount of assistance from the Commonwealth through DSA; it does not appear that DSA will be coming back in the near future. Debt service climbs until 2022. By FY20, debt service, as projected, is 65% of total expenses; in FY11, it is 59% of the budget, which is already a significant portion of the expenses.

In the FY10 recommendations, the Advisory Board recommended that the MWRA reduce its capital spending through the remainder of this cap period by $100 million over the four remaining years. This year, Advisory Board staff is suggesting that the Authority make realistic projections. For example, in its current proposed CIP, MWRA has a level of capital spending that it is not allowed to meet under the provisions of the cap, which states that MWRA can only go plus or minus 20% of the original cap in any given year. The Authority is currently at about 30% in FY13, which means some of that will have to be pushed into the FY14-18 cap.

A major recommendation of the Integrated Comments this year is that no future capital spending cap can exceed $1 billion, beginning with the FY14-18 cap. The Authority needs to prioritize to help to control debt service. At the end of the current cap period, mandated CSO spending begins to measurably decline. CSOs have been a driver of the capital program. Moving forward, the majority of projects will be more directly controlled by the Authority and Advisory Board staff believes the Authority can do it under a total cap of $1 billion by updating and prioritizing its Master Plan.

Under the policy category, the Advisory Board feels strongly that the process for System Expansion must be streamlined to allow new members or entities that have a demonstrated and measurable need to join the MWRA water system.

The linked components of system expansion are withdrawals (selling the water), downstream releases (which is something that WSCAC and the river associations have been interested in) and holding some of the available consumption in reserve. A safe amount of 36 million gallons per day (MGD) has been identified to be split as 12 MGD for sale, 12 MGD for releases and 12 MGD for reserves.

The state's primary interest is in "smart growth" and that was the genesis of the facilitated discussion.

The hatchery pipeline project is in the FY11 CIP, which will provide oxygenated water to a trout hatchery downstream. It should also be pointed out that it is tied to the releases portion because that is the mechanism whereby the water would be released as well. Lastly, incentives to join the MWRA were discussed.

The Advisory Board believes the safe yield of 36 MGD should be revisited because this amount was based off of estimates of safe yields and conservative withdrawal amounts from 2006. Consumption continues to drop, even with the addition of new members.

The Advisory Board would like to underscore to all the players involved that the MWRA will not spend a dime on the hatchery, releases and smart growth until there is some forward motion on streamlining the process. The Advisory Board's suggestion is that MWRA does not fund or undertake the project for the releases (the hatchery) until it sees its first entrance fee under this facilitated system expansion and streamlining process.

Because of discussion at the Executive Committee meeting, the Advisory Board's three Board members submitted a request to the MWRA Board of Directors for a personnel study. The Board challenged staff to develop a scope of services for a new staffing study, similar to the Black & Veatch study that had been conducted in years past. The Advisory Board recommends setting and establishing updated levels of staff needed to execute MWRA's core mission.

The MWRA is approaching five years beyond the expiration date of its current NPDES permit. DEP is expecting a new draft permit from EPA sometime before the end of the federal fiscal year. The Advisory Board's principal recommendation is for the MWRA not to co-permittee with the communities because it will allow EPA to come after one big entity that represents all of the communities rather than to go after the individual communities.

By 2020, rate revenue, in the current planning projections, approaches $1 billion and increases 68% over FY10 to FY20. The Advisory Board will push the MWRA over the course of the coming years to find additional sources of funding. With 65% of the MWRA's expenses becoming debt service and a 68% increase in rate revenue, it is incumbent upon the Advisory Board and the Authority to push for DSA to make a return into the state budget and also to explore any potential avenues from state and federal funds that could also help.

With system expansion there are entrance fees, which provide a one-time benefit and also new members would help to spread the base; since we are seeing drops in consumption on the retail side, the only way to possibly keep up with some of those drops and keep the cost down on the community side is to spread the base more.

Mr. Favaloro noted that the House Budget included $500,000 for DSA, recognizing its importance. Where it will go in the Senate Budget and Governor's Budget remains unknown at this time.

E. COMMITTEE REPORTS

Finance Committee – Bernard Cooper

- **PRESENTATION: MWRA'S DEBT PORTFOLIO AND RESERVE LEVELS** – Thomas Durkin, MWRA Treasurer

MWRA Treasurer Tom Durkin's presentation talked about reserves and the Authority's portfolio of debt. The capital intense nature of the MWRA requires a lot of money and there is a great volume of debt associated with the Authority's capital infrastructure. The debt requires that the MWRA have investors or lenders to buy its bonds. Investors need to quantify the degree to which they will likely be paid back and the risk associated with it; Standard & Poors and Moody's make their living quantifying that risk. A "AAA" rating from these agencies is the best rating. MWRA has a "AA+" rating, which is one notch down from the best rating. MWRA is extraordinarily likely to pay its investors back.

A General Resolution document was developed very early on in the MWRA's history that establishes rules for managing the revenue. The investors can quantify how the money will move from the ratepayer to the community, from the community to the Authority and from the Authority to the debtor for payment. The General Resolution also establishes rules on what the Authority can and cannot invest in. The Authority cannot invest in stocks; it is too risky and impermissible.

The investors require that the Authority hire a third party, a consultant, to ensure that the rates the MWRA charges are adequate. There isn't a dollar in the treasury that isn't under the custody of a Trustee. The Trustee ensures that the MWRA is in compliance with the General Resolution because the investors are watching.

MWRA has senior debt and subordinate debt. Senior debt has a higher requirement than subordinate debt. The difference between senior and subordinate debt is that the MWRA does not pledge reserves against the subordinate debt. It costs more because it is more risky for the investors because MWRA is not pledging its reserves.

MWRA also has an Operating Reserve that is required to have one-sixth of the annual operating expenses.

The Rate Stabilization Fund can be used for the construction fund, the revenue fund or it can go to pay notes. This fund also is used to pay MWRA's debt ahead of time when it redeems bonds.

Staff is proposing to make some changes to the reserves. The proposals have already been submitted but there are investors who bought bonds back in 1992 to 2000. MWRA can only change its bond covenants if two-thirds of the bondholders are in agreement. Staff is seeking to change the two-thirds requirement to 51% and estimates that these changes will be implemented in 2014. Further, the Trustee is reviewed every five years and staff would like to be able to review this business partner every two years and would also like to expand the types of investments it can make for the escrow accounts.

The Debt Service Reserve currently has $231 million, based on four tests, of which the Authority can pick the lowest. This fund provides security to the investors that they will receive their money back. Staff would like to change the amount to be deposited to be 50% of the maximum annual adjusted debt service.

The Renewal and Replacement Reserve (RRR) is currently at $35 million. It is there because the consultant engineer said it should be there. Staff will reduce the RRR in 2014. MWRA will have the capacity in the debt markets through Commercial Paper to get $25 million or more in seven days so $10 million will be left in the RRR and $25 million will be available as a line of credit.

The Community Obligation and Revenue Enhancement (CORE) fund, which is a reserve that would cover community payments should the communities not pay, will be eliminated. MWRA has a perfect collection history from the cities and towns.

In summary, the Debt Service Reserve will be brought down from $231 million to $138 million, which releases $93 million; the RRR has $35 million and will be brought down to $10 million, which releases $25 million; and the CORE fund will be reduced from $20 million to zero; staff estimates that these funds will become available in 2014.

MWRA's total outstanding debt is nearly $5.8 billion. The Authority has senior bonds, all of which are fixed, which makes up most of the Authority's debt portfolio at nearly 54%. The Authority also has subordinate general revenue bonds, which are exclusively variable rate bonds, with interest rates that reset on a daily, weekly or monthly basis.

MWRA borrows money from the State Revolving Fund (SRF), also known as the Water Pollution Abatement Trust, and issues Commercial Paper in the short term. The Authority received authorization in 1994 for $250 million and in 1999 for $100 million from the Trust; this allows the Authority the use of $350 million in Commercial Paper authorized for a very short term (30 to 120 days) for projects required by DEP. The short term loan is kept for as long as the project is in development; once it becomes a fixed asset and begins to depreciate, it has to be permanently financed.

Operations Committee – Jay Fink

- **"MARCH MADNESS"** – Fred Laskey, MWRA Executive Director

MWRA Executive Director Fred Laskey stated that the Authority came through an unprecedented month of rain events. In an average year, the system would get 42 to 44 inches of rain. In one month's time, MWRA had a whole year's worth of rain beginning in February straight through March through a series of storms. The March 16 storm was somewhere between a 50 and 100-year storm, added to all the rain that preceded it. The March 29 storm had less rain, but because everything was already flooded, it wreaked havoc. In February and early March, the ground was still frozen and there was still snow melt in the early part of this situation. This was the most rain since 1955 when there were two hurricanes in a row.

A lot of resources were used to keep facilities from being flooded out. To put things into perspective, records were set in average daily flow at 1,255 and in the maximum hourly flow of 1.3 billion gallons. The Deer Island plant was driven far beyond its design capacity. High tides also impacted the amount of flow that came through the outfall. The weight of the extra ten or eleven feet of high tide restricted the flow.

MWRA was at maximum capacity for almost 73 hours and was at 1.1 billion gallons for 124 hours during that month; also, the plant was at more than 1 billion gallons for 167 hours. It was a massive drain of resources. MWRA had to bring in tanker truck after tanker truck of diesel fuel. Staff was on hand to maintain the facilities. The assets really performed admirably under great duress.

Mr. Laskey said all of the Authority's pump stations ran well, which is a credit to the maintenance and upgrades that have been performed. Recently there has been a massive shift toward maintenance in the budget and it paid great dividends here.

One major pump did burn out at the North Main Pump Station; a backup pump was ready to go. Staff plans to file a claim with the Massachusetts Emergency Management Agency (MEMA) to see if it can be reimbursed as storm damage.

The Authority had to make two releases in the south system to save the station and the neighborhoods. A key part of the MWRA's operational strategy was to prevent the overflow of sewerage into homes. The Authority notified EPA and DEP before the bypasses were made. MWRA's NPDES permit does not prohibit releases if it is to save the station. DEP said it expected wide-spread bypasses in sewer treatment facilities and pump stations and wide-spread SSOs throughout the service area because of the storm. DEP understood the magnitude of what was going on. The Governor declared a state of emergency.

The south system also exceeded its capacity and set hours of operation and flow records. Staff was also pushed to the limit, working very hard. A lot of overtime was processed.

One lesson learned is the need for communication with the cities and towns during big events. Staff has great relationships with DPW, Water and Sewer personnel; however, during big events there are also emergency management personnel in each of the communities that weren't in the communication link back and forth.

MWRA was in on all the conversations when MEMA activated and all of the local emergency management directors were part of that conversation as well. MWRA did email blasts to all of the email addresses it had for local contacts with storm updates as conditions changed. Additionally, the MWRA's website was updated every couple of hours about what was going on in the MWRA system. This is an area that staff will work harder on to ensure its contact information with the communities is up to date.

Running the Combustion Turbine Generators (CTGs) required a phenomenal use of energy resources (diesel fuel); however, it was necessary to provide a comfort factor that the facilities would remain functioning to handle the flow.

The estimated cost for dealing with the storms is $3.5 million; $1.7 million for the CTGs alone. Staff is working closely with MEMA to try to get reimbursement for as much as it can. There are longer term MEMA funds available if you can prove there is a longer term need for a systemic change.

- **LOCAL WATER SYSTEM ASSISTANCE PROGRAM**

Mr. Favaloro said last month when the Advisory Board approved the Local Water System Assistance Program a request came up from membership about booster pump stations being included. After some discussion at the Executive Committee meeting, it was decided that a friendly amendment could be offered.

Lou Taverna made a motion **TO OFFER A FRIENDLY AMENDMENT TO INCLUDE THE REPAIR AND REPLACEMENT OF WATER BOOSTER PUMP STATIONS TO BE ELIGIBLE IN THE NEXT ROUND OF THE LOCAL WATER SUPPLY ASSISTANCE PROGRAM**. It was seconded and passed by unanimous vote.

Executive Committee – Katherine Haynes Dunphy

- **LEGISLATIVE UPDATE**

Mr. Favaloro said in addition to the funds included in the House Budget for DSA, staff had more success in the House Budget getting earmarked funds for Clinton ($500,000). Staff does not know where this legislation stands in the Senate as the items go to Conference Committee.

F. ADJOURNMENT

A MOTION WAS MADE TO ADJOURN THE MEETING AT 1:23 P.M. It was seconded and passed by unanimous vote.

Respectfully submitted,

Lou Taverna, Interim Secretary