

**MWRA ADVISORY BOARD MEETING  
FEBRUARY 17, 2011  
BRADLEY ESTATE  
2468B WASHINGTON STREET, CANTON, MA – 11:30 A.M.  
MINUTES APPROVED AT THE APRIL 21, 2011 MEETING**

Forty-three people were in attendance, including twenty-eight voting members: Michael Rademacher, ARLINGTON; E. A. Maguire, ASHLAND; Michael Bishop, BELMONT; John Sullivan, BOSTON; Charles Barry, BROOKLINE; John Sanchez, BURLINGTON; Andrew DeSantis, CHELSEA; J. R. Greene and Barbara Wyatt, GUBERNATORIAL APPOINTEES; Ed Demko, HINGHAM; Bill Hadley, LEXINGTON; Charles McCollum, MARBLEHEAD; Cassandra Koutalidis, MEDFORD; Katherine Haynes Dunphy, MILTON; John Cosgrove, NEEDHAM; Lou Taverna, NEWTON; Bernard Cooper, NORWOOD; Peter Smyrnios, PEABODY; Mike Coffey, QUINCY; Peter Tassi, READING; John DeAmicis, STONEHAM; Frank Crimmins, STOUGHTON; Michael Collins, WAKEFIELD; Patrick Fasanello, WALPOLE; Walter Woods, WELLESLEY; Earl Forman, WESTON; Bob Angelo, WESTWOOD; Anthony Blazejowski, WOBURN.

Also present: John Carroll, MWRA BOARD OF DIRECTORS; Avril Elkort, CANTON; Joseph Lynch, MILTON; Joe Lobao, WILMINGTON; Michael Hornbrook, Rick Trubiano, Kathy Soni, Marcis Kempe, Leo Norton, and Joshua Das, MWRA STAFF; Joe Favaloro, Matthew Romero, Maggie Atanasov and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF; Cornelia Potter, MWRA ADVISORY BOARD CONSULTANT.

**A. APPROVAL OF THE OCTOBER 21, 2010 AND NOVEMBER 18, 2010 MINUTES OF THE ADVISORY BOARD**

Chairman Katherine Dunphy called the meeting to order at 11:35 a.m. and introduced Avril Elkort, Canton Selectman, who welcomed everyone to Canton. A Motion was made **TO APPROVE THE MINUTES FROM THE OCTOBER 21, 2010 AND NOVEMBER 18, 2010 ADVISORY BOARD MEETINGS**. It was seconded and passed by unanimous vote.

**❖ PRESENTATION: RATES PRIMER – UNDERSTANDING HOW WHOLESALE RATES ARE SET: CALENDAR YEAR 2010 WASTEWATER FLOWS; CALENDAR YEAR 2010 WATER USAGE; POPULATION/CENSUS DATA**

MWRA Budget Director Kathy Soni stated that yesterday staff submitted to the MWRA Board of Directors the transmittal of the FY12 Proposed MWRA Budget to the Advisory Board for its review and comment. The overall proposed rate increase is 3.9%. On the sewer side it is an increase of 5.1% and 1.3% on the water side.

The population number accounts for roughly 47% of the overall assessment, based on the fiscal year of that budget; the other 53% is driven by the flow component. Different components drive

the assessments – on the water side, it is based on one year of flow; on the sewer side, it is based on a calculation between population and flow.

Because there will be 2010 census information coming out from the Census Bureau sometime this spring, it was affirmed by the Executive Committee of the Advisory Board, to avoid any kind of variation, that the FY12 assessments, both in the proposed and final stage of the budget, will use the 2009 information for the census.

Marcis Kempe, Director of Operations Support, said MWRA has 185 community meters in the wastewater collection system that are widely distributed over the metropolitan area. There was a wish to go to flow-based rates on the wastewater side. In 2005, meters were replaced and have been running well.

On the water system, there are 192 meters linked to the communities. Boston alone has 29 meters; Nahant has one. Metering has always been used for the sale of water in the metropolitan system since its inception. Venturi meters were chosen and have been used since the early 1900s; a major upgrade was done in the late 1980s. Upcoming projects include modernization of transmitters to collect data and wireless data transmission.

The information comes into central computers and is available to the MWRA. It is alarmed and will inform staff of service conditions so it is useful in emergencies.

On the maintenance side, corrective maintenance is done when necessary; preventative maintenance is also done and there are independent checks. The equipment is calibrated on a regular basis. On the independent checks, for MWRA's own purposes, the meters are reviewed with independent tests. For wastewater sites, staff comes in with a completely independent set of equipment and goes to the next manhole up or down to try to catch the same flow to do a comparison. Staff does a select number each year and keeps them in a rotation.

MWRA can provide flow and pressure information to communities via the internet, should communities be interested in having that access.

Assistant Rates Manager Leo Norton stated to calculate the wholesale assessments, there are two separate methodologies that are applied to the 57 communities in the metropolitan system – one is for the water system and the other is for the sewer system.

Staff utilizes these methodologies, metering information and population information to allocate the MWRA's Current Expense Budget and the Rate Revenue Requirement.

The water utility assessment is based on taking the Rate Revenue Requirement and allocating it to the communities based on their share of the water system; it is strictly based on water use. For example, the community's total water use is divided by total system-wide water use to get the community's system share. That system share is applied to the Water Utility Rate Revenue Requirement resulting in the community's assessment. The bottom line is \$182.6 million for the metropolitan communities only. Boston is 36% and will pay 36% of the assessment.

The sewer rate methodology is much more complex. This methodology was developed by a thirteen-member community-based committee, MWRA staff, Advisory Board staff and an independent rate consultant in the early 1990s and was implemented in fiscal year 1996. It has been modified slightly since then. When the methodology was first implemented, the flow

component was based on one year of flow; in the late 1990s, it was determined that three-year averaging of flow would smooth out the fluctuations in wastewater flow from year to year. It gives more of a budget certainty with that approach.

It is allocated to communities based on wastewater flow and population; these are the two primary factors staff uses. Along with flow, it is the associated strength of flow as well.

There are two components in the population – it is the total population based on the census numbers and then sewered population based on the percentage of the community and the total population that is receiving municipal sewer service in each community. For FY12, on average, 53% of the assessment is allocated based on flow and 47% is based on population.

The water and sewer budgets are comprised of two cost categories, one would be operations and maintenance, the other is capital. For the sewer utility assessment, operating costs and capital costs are allocated using different components.

The operating and maintenance allocation is allocated strictly based on flow. The most recent three-calendar years of flow are averaged to determine what each community's share of the system is.

For capital expense allocations, 75% is allocated based on population (split evenly between the total population and sewer population); 25% is allocated based on maximum month flow and strength of flow parameters.

John Sanchez asked for a clarification on how the 75% for capital expense allocations is split evenly. Mr. Norton said 75% of the capital expenses are allocated based on population; that 75% is divided evenly among total population and sewered population; therefore, 37.5% is based on the total population of a community and then whatever percentage of that total population is receiving municipal sewer services is the other half of the equation.

Mr. Sanchez asked how strength of flow is calculated. Mr. Norton said strength of flow is measured coming into Deer Island. Staff assumes that strength of flow is uniform across the area. Additionally, MWRA issues permits to high strength users, which are entities that are contributing high-strength flows into the system. Thresholds to be identified as a high-strength user are flows in excess of 25,000 gallons per day and a bod or TSS parameters that are in excess of 400 milligrams per liter. If that is the case, staff measures the flows directly at the source and adds a charge for that flow.

**B. COMMITTEE REPORTS**

Operations Committee – Jay Fink

**❖ REPORT OF THE OPERATIONS COMMITTEE REGARDING A SEWER CONNECTION UNDER SYSTEM EXPANSION POLICY OP.#4**

Chairman Dunphy stated that a homeowner whose home straddles the boundary between Weston and Wellesley would like to connect to the Wellesley sewer system under System Expansion Policy OP.#4, Sewer Connections Serving Property Partially Located in a Non-MWRA Community. Weston does not have a sewer system.

The homeowner, Harvey Boshart, has gone through the process and received the appropriate permissions from Weston and Wellesley; he is also required to get Advisory Board approval before going before the MWRA Board of Directors for its approval.

Mr. Boshart will pay \$7,000 to the Town of Wellesley for work to reduce inflow in a four to one reduction and will pay \$18,033 to the MWRA as an entrance fee.

The Operations Committee and Executive Committee have approved the final vote listed as an Action Item below.

❖ **ANNUAL WATER QUALITY REPORT (CCR) UPDATE** – Joshua Das, MWRA Project Manager, Public Health

Joshua Das, MWRA Project Manager, Public Health, stated that the Annual Water Quality Report process is about to begin. The report will be six pages long, with one page for communities.

The Department of Environmental Protection (DEP) reviewed some of the current year's reports and has noted that they want an actual contact name listed for fully supplied communities; it can't just say water superintendent, it must list the name of the person. Additionally, they want information on meetings where a resident can attend meetings on their local water supply. A notice in the letter could say "for more information on possible meetings, contact us at...". If meetings are held on a regular basis, that information should be included in the letter. If a community has had a notice of non-compliance, it must be noted in the letter.

For partial communities, information on their source-water assessment program must be noted inside this letter.

DEP will be reviewing the reports even more closely this year.

It might be a good year to change the letter with new texts and reach out to customers and noting improvements that have been made.

Chief Operating Officer Michael Hornbrook said much of language in the Consumer Confidence Report is required by DEP. For the letter modifications that DEP is requesting, are those required by regulation? Mr. Das. replied in the affirmative; they are in the regulations.

Mr. Favaloro asked if any consideration had been given to the idea of reducing paperwork so DEP can practice what it preaches and perhaps posting this information online. Mr. Das said he had suggested perhaps sending a postcard out to each of the homes with a notice where this information could be accessed but DEP said it would not be acceptable.

**Executive Committee** – Katherine Haynes Dunphy

- ❖ **ACTION ITEM: TO APPROVE A SEWER CONNECTION FROM A RESIDENCE AT 24 DEAN STREET, WESTON, THROUGH A LOCAL CONNECTION IN THE TOWN OF WELLESLEY UNDER SYSTEM EXPANSION POLICY OP.#4, SEWER CONNECTIONS SERVING PROPERTY PARTIALLY LOCATED IN A NON-MWRA COMMUNITY (THE STRADDLE POLICY)**

A Motion was made **TO APPROVE THE CONNECTION FROM A RESIDENCE AT 24 DEAN ROAD, WESTON, LOCATED PARTIALLY IN THE TOWNS OF WESTON AND WELLESLEY, TO TIE INTO THE MWRA WASTEWATER SYSTEM VIA A CONNECTION TO THE WELLESLEY SYSTEM. THIS MOTION IS SUBJECT TO THE PARAMETERS SET FORTH IN MWRA POLICY # OP.4, SEWER SERVICE CONNECTIONS SERVING PROPERTY PARTIALLY LOCATED IN A NON-MWRA COMMUNITY (THE STRADDLE POLICY). BASED UPON THE PROVISIONS OF 310 CMR, SECTION 15.00 (TITLE 5), THE APPLICANT'S FLOWS WILL BE LIMITED TO 575 GALLONS PER DAY OF WASTEWATER. THE APPLICANT, HARVEY BOSHART, WILL PAY THE TOWN OF WELLESLEY A FEE OF \$7,000 TO REMOVE 3,800 GALLONS PER DAY OF INFLOW. THE APPLICANT WILL PAY A CONNECTION FEE OF \$18,033 TO THE MASSACHUSETTS WATER RESOURCES AUTHORITY, PURSUANT TO MWRA POLICY # OP.4. THE ENTRANCE FEE FOR A SINGLE-FAMILY RESIDENCE IS BASED UPON THE COST TO REPAIR OR REPLACE A FAILED SEPTIC SYSTEM.** It was seconded and passed by unanimous vote.

❖ **LEGISLATIVE UPDATE**

Mr. Favaloro said Advisory Board and MWRA staff are in the process of “meet and greets” with the new legislators and new leadership in both the House and the Senate at the State House.

It is not a good year to expect any assistance from the Commonwealth; however, staff is working to maintain the line item, no matter how small.

❖ **DISTRIBUTION OF FY12 PRELIMINARY WATER AND SEWER ASSESSMENTS**

Mr. Favaloro said preliminary assessments from the MWRA are available at this meeting; Advisory Board staff will cover this topic in its CIP/CEB review process presentation.

❖ **2010 WATER & SEWER RETAIL RATE SURVEY**

Mr. Romero stated because of the move and snow days, there had been a delay in getting the *2010 Annual Water & Sewer Retail Rate Survey* out this year; however, it is now at the printer and will be posted online soon.

The Authority last year had been trumpeting, and rightfully so, the fact that it had the lowest wholesale rate increase (1.49%) in the past fifteen years. Interestingly enough, staff saw a corresponding drop on retail rate increases as well. This is the lowest retail increase, system wide, for the MWRA in the last nine years.

**Finance Committee** – Bernard Cooper

❖ **FY12 MWRA ADVISORY BOARD CIP/CEB REVIEW PROCESS**

Mr. Romero stated that the Advisory Board's Comments will stress that there is a short-term challenge. The Rate Revenue Requirement will increase over \$190 million over the next five years. The challenge will be how to ensure sustainable rates, given the circumstances, while looking forward to the second challenge, which is the long-term challenge.

The mountain of debt does not peak until FY22; how to manage that debt is one of the greatest challenges for the Authority and the Advisory Board.

Debt Service is the driver of these increases and there are three components to that. There is the repayment of existing debt, which is the “mountain”; there is how to structure new debt so as the Authority goes out to borrow to fund the capital projects and programs that are ongoing, how can that debt be structured and layered on top of the existing debt and how is that going to

affect rates going forward. The third component is determining a sustainable amount of capital spending. Once this cap period is complete and the Authority moves away from mandated spending, which 80% of capital spending has been, and moves toward asset protection projects and other projects, perhaps it is the time to take a look and determine what the correct level of capital spending is; how much the Authority spends now is going to affect how much is borrowed and that will be layered onto future rates as well.

The fourth point is discussing tools to manage debt service. Defeasance is a typical strategy that the Authority employs. This year, as part of its Proposed FY12 CEB, the Authority is proposing a defeasance particularly targeting FY14, which is a problem year.

Rate Stabilization and Bond Redemption Funds are sometimes referred to as Reserves by the Authority; however, the Advisory Board refers to them as Rate Stabilization Funds because they are used specifically to help smooth the rates and manage the spikes in problem years. In the Proposed FY12 CEB, the Authority projects rate increases from 3.9% up to 7.2% and notes that it includes as a rate smoothing tool use of the Rate Stabilization Funds, which they actually do not consider a wise use of those funds. In FY14, they are using \$16 million of the Rate Stabilization Funds to achieve a 7.2% rate increase and nearly \$25 million in FY15. MWRA staff has said they expect those numbers to change because they do not feel it is a sustainable amount.

Moving forward, the Reserves that are being released as a result of a change to the bond covenants of about \$138 million, which previously were supposed to be available by FY14, are now more than likely to be released in the FY15 timeframe. Now the MWRA must weather FY14 without the use of those Reserves as a tool. Those Reserves have some limitations on how they can be used as well; they have to line up with certain bond series and can only be used in certain years as a result, which may not be the years that the MWRA wants the help.

MWRA staff is working with their bond counsel and financial advisors to put together a Long-Term Rates Management Task Force. Once they get some more information on when those funds are available, they will work on how it can be used as a tool for the further out years.

Additionally, if the \$138 million is used, it is no longer being used as Investment Income, which lowers the revenue that the MWRA receives. That income will have to be made up in some other capacity.

The last tool is restructuring or rescheduling of debt. The Authority continues and is aggressive in looking at any potential options for the opportunity to restructure or reschedule debt.

As we see this climb in debt service obligations, we also are facing very large liabilities in unfunded Pensions and Other Post-Employment Benefits (OPEB). On the OPEB side, the Mass. Taxpayers' Foundation has released a report that talks about the top 50 cities and towns in the Commonwealth and they identified \$20 billion in liability for OPEB for those communities, not even discussing what the Authority's liability is. The liability on the municipal side is 99.98% unfunded and it is 2½ times larger than the unfunded Pension liability of those same 50 communities. A significant liability exists out there, not only on the municipal side but it is also something the Authority has its eye on and will have to begin to try to figure out how to address as well.

On the Pension side, the Authority is 86.4% funded at this point. To get to full funding on Pensions, many entities and agencies in the Commonwealth are on a 2030 schedule. Recently, the Governor has advocated for extending the fully funded timeframe to 2040 because he recognizes how difficult the times are. The Authority is currently on a more aggressive schedule to get to full funding by 2024.

Those are going to be the big drivers of the Advisory Board's Comments and Recommendations.

On the CIP side, the Authority is \$24.6 million under budget or 23%. The Authority also estimates that there are many programs that are not directly under their control, such as the Local Water Pipeline Assistance Program and community managed CSO projects, and if those are taken out of the mix, it is a variance of \$10.3 million under spent or 9.7%. There target is about 10%.

Almost half of the under spending is due to CSOs at \$11.9 million. Timing of distributions of these funds differ but typically this category closes by the end of the year.

Under spending on the Local Water Pipeline Assistance Program accounts for \$8.4 million and that differs based on how and when the funds are going to be distributed.

The alternative energy line item is under spent by \$4.2 million and that is due largely to the timing of the Charlestown wind turbine construction.

There has been some over spending in some areas. The hyper-acceleration of the Hultman rehabilitation after the water main break and redundancy projects that have been pushed up offset some of the under spending on the capital side.

On the Current Expense Budget side, the Authority is \$15.4 million under budget, which is about 4.5%. The largest driver is \$11.2 million in the variable rate debt line item as they continue to see unprecedented low interest rates and as a result they have this under spending.

Currently the Authority is projecting a \$27.1 million surplus at their current spending levels if the trends continue to hold between now and the end of the year. A large part of that surplus will be used in the defeasance transaction to reduce rates moving forward, largely in FY14 which is a problem year for the Authority.

Mr. Favaloro asked if there is any other reason, other than timing, that the Local Financial Assistance Programs are falling so far behind, stating that he could not recall seeing a number that large, especially on the water side, at this time of the year. If there is anything staff can do to facilitate spending of those funds, please let staff know. The Advisory Board fights hard to get those funds in the budget and if they are not utilized, it makes it more difficult to request funding again.

Mr. Hornbrook added that MWRA staff is projecting that the sewer side will tighten up toward the end of the year, but the real under spending is on the water side.

Mr. Favaloro stated that he will call an Operations Committee meeting for next month to discuss the loan programs on the same day as the Advisory Board meeting.

**C. ADJOURNMENT**

**A MOTION WAS MADE TO ADJOURN THE MEETING AT 12:42 P.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Lou Taverna, Secretary