**MWRA ADVISORY BOARD MEETING**
**FEBRUARY 16, 2012**
**CARY HALL**
**1605 MASSACHUSETTS AVENUE, LEXINGTON, MA – 11:30 A.M.**
**MINUTES APPROVED AT THE APRIL 19, 2012 MEETING**

Forty-five people were in attendance, including twenty-four voting members: Mike Rademacher, ARLINGTON; Richard Warrington, BEDFORD; Michael Bishop, BELMONT; John Sullivan, BOSTON; Jay Hersey, BROOKLINE; John Sanchez, BURLINGTON; Andrew DeSantis, CHELSEA; J. R. Greene, GUBERNATORIAL APPOINTEE; Jay Fink, LYNN; Cassandra Koutalidis, MEDFORD; Katherine Haynes Dunphy, MILTON; John Cosgrove, NEEDHAM; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; Michael Coffey, QUINCY; Jeff Zager, READING; Nick Rystrom, REVERE; John DeAmicis, STONEHAM; Carol Antonelli, WAKEFIELD; Patrick Fasanello, WALPOLE; Walter Woods, WELLESLEY; Jeff Bina, WEYMOUTH; Zig Peret, WILBRAHAM; Joe Lobao, WILMINGTON.

Also present: Andrew Pappastergion and Joseph Foti, MWRA BOARD OF DIRECTORS; George Burnell, LEXINGTON; Jack Mitchell, STOUGHTON; Scott Gustafson, WALPOLE; Gabe Crocker and Don Rose, COLER-COLANTONIO; Ed Bretschneider, WAC; Lexi Dewey, WSCAC; Fred Laskey, Michael Hornbrook, Rachel Madden, Kathy Soni, Dave Whelan, Pam Heidell and Leo Norton, MWRA STAFF; Joe Favaloro, Matthew Romero, Magda Atanasov, Mary Ann McClellan and Cornelia Potter, MWRA ADVISORY BOARD STAFF.

## A. APPROVAL OF THE JANUARY 19, 2012 MINUTES OF THE ADVISORY BOARD

Chairman Katherine Haynes Dunphy called the meeting to order at 11:41 a.m. A Motion was made **TO APPROVE THE MINUTES FROM THE JANUARY 19, 2012 ADVISORY BOARD MEETING.** It was seconded and passed by unanimous vote.

## B. REPORT OF THE EXECUTIVE DIRECTOR

MWRA Advisory Board Executive Director Joseph Favaloro provided members with their preliminary assessments for FY13. The Advisory Board's review process on the MWRA's Proposed FY13 Budget has begun.

The Governor has appointed an additional two of his six appointments to the MWRA Advisory Board. J.R. Greene and Barbara Wyatt have long-served as gubernatorial appointees. The new appointees are Andrew Fisk and Richard Palmer, who will represent Environmental Protection and the Connecticut River, respectively.

An issue has been percolating regarding the Forestry Program related to the watershed areas. There has been close to a two-year moratorium on any forestry work as the Commonwealth of Massachusetts comes up with a report to see what revisions should be made to the forestry program moving forward.

Additionally, a group called Environment Massachusetts has begun an active campaign to contact the governing bodies of the communities seeking the elected officials' support to ban all logging operations in the Quabbin and Wachusett Reservoirs under the guise of protecting the drinking water. The Advisory Board forwarded a letter to its members from Jonathan Yeo, the Director of the Division of Water Supply

Protection, that talked about the importance of the forestry program in maintaining the water quality and watershed lands.

The issue was discussed at length at the MWRA Board of Directors meeting and members suggested that the state should admit that it had made some mistakes in the past on areas that had larger clear cuts than are allowed and try to move forward.

Until the report for the state is released, the MWRA and DWSP are in limbo, which could be detrimental to the watersheds. Secondly, revenues that occur from forestry activities are used to offset costs. Between last fiscal year and this fiscal year and potentially next fiscal year, it could be close to $1 million; if the $1 million doesn't come from forestry revenues, it will either come from cuts, which would be the first choice, or from ratepayer's pockets and it will not come from ratepayers.

Chairman Dunphy said for 50 years the forest management program has been the protection for our forest filter. The moratorium is a real concern. We have been expecting the report; however, it appears that the report is not going to come quickly. The revenue issue is there but for the long-term it is a water quality issue. There were some mistakes made by the Department of Conservation & Recreation's (DCR's) contractors and there are some concerns about the fact that there were two acre areas that were cut at the request of Fish and Wildlife to help the songbirds. Perhaps that should not be done in the future.

MWRA Executive Director Fred Laskey said there is a broader risk here. There is an organization out there going door to door and sending out mailings and raising money and mounting a public relations campaign and the hook they are using is that the drinking water is in jeopardy. We don't need an organization out there attacking the quality of our drinking water. I agree with the Chairman that we need to get this issue resolved quickly. For many years the forestry program has worked well. There was a problem with one contractor. We need DCR to issue new forestry management regulations and guidelines and settle this because it is not good for any of us.

**C. "DIRECTORS' CORNER"** – John Carroll, Andrew Pappastergion, Joseph Foti

MWRA Board Member Joseph Foti said during the FY11 budget, the Advisory Board made a recommendation to the MWRA that a new staffing study should be done; the previous study had been done ten years ago. The purpose of the study is to ensure that the divisions are sufficiently staffed. The Board agreed and established an 11-member committee. The break-down of the committee is three members of the MWRA Board of Directors (Joel Barrera, Joseph Foti and Vincent Mannering), two members from the Advisory Board (Chairman Katherine Dunphy and Joseph Favaloro), two members from the MWRA Labor Coalition and four members of MWRA management (Fred Laskey, Michael Hornbrook, Rachel Madden and Director of Human Resources Robert Donnelly).

At the first meeting, the committee selected five members for the Procurement Selection Committee. Four proposals were received. In March 2011 the committee selected Amawalk Consulting Group to conduct the study. The full committee had a meeting with Amawalk to go over key tasks for them to identify. The tasks included identifying comparable facilities to the MWRA (which is not an easy task); collection of key operational and financial information; collection of staffing data of comparable utilities; use and level of overtime and standby status; analysis of the Authority's personnel demographics and then they will present their findings and recommendations.

To date, Amawalk has completed most of the key tasks and data collection for its comparable survey of utilities. They had 19 utilities that were willing to participate and they had collected all of the information by year end.

Due to the variation in practices and the sizes of the facilities, they were not able to compare "apples to apples" so they went back and had follow-up conversations with the utilities that participated. They also conducted interviews with MWRA management staff and went back and did a second round of interviews after they interviewed the utilities. They have just about finished up the official interviews. It is expected that they will complete the analysis and present the data to the committee in March and will be presented to the MWRA Board of Directors in April. At that point, it will be presented to the Advisory Board.

**D. PRESENTATION: MWRA'S PROPOSED FY13 CIP AND CEB** – Rachel Madden, MWRA Director of Administration & Finance / Michael Hornbrook, Chief Operating Officer

MWRA Director of Administration & Finance Rachel Madden said FY13 will be the last year of the current five-year capital spending cap that was established by the MWRA Board of Directors. For next year, part of the budget process will be to establish a new five-year cap. The last cap was established in FY08 for the FY09 to FY13 timeframe at $1.1438 billion for the five-year period. In comparison, MWRA is currently projected to spend $899 million, so it is well below what was projected back in FY09.

The MWRA's current indebtedness is at $5.8 billion; the largest spending came with the construction of the Deer Island Wastewater Treatment Plant. On the future horizon, master planning is incorporating an average of $200 million in capital spending per year. Projected spending is at $191.4 million for FY13.

Chief Operating Officer Michael Hornbrook said CSO spending is winding down. MWRA has completed 29 of the 35 CSO projects and has passed peak-spending for CSOs. There will be CSO spending until 2015 but those annual expenditures will decrease every year.

There will be a more focused attention on the water side on areas where there are single points of vulnerability such as single water lines feeding multiple communities and on the wastewater side, asset management such as keeping Deer Island rehabilitated and functioning properly.

Mr. Hornbrook reviewed several capital projects including Southern Extra High Redundancy ($100 million), Northern Intermediate High and Remote Headworks ($160 million).

Mr. Hornbrook noted that there were two options for the Southern Extra High project, one of which would cost more but would provide a connection to the Tri-Town area.

With the larger water and wastewater facilities built, the focus now will be to look at single points of failure and what can be done to alleviate that.

On the wastewater side, besides the asset management of Deer Island, the remote headworks have become the focus. On the north side of the MWRA's sewer system, all wastewater flow goes through three remote headworks (Ward Street in Boston, Columbus Park in South Boston and the Chelsea Creek headworks). These facilities are old and are in a corrosive environment. They provide screening and grit removal prior to going over to Deer Island. These will be challenging projects because MWRA will have to do these rehabilitations without limiting flow from the communities and keeping the facilities operating throughout the rehabilitation.

Another large project is the Spot Pond Storage Tank. The design-build contract has been executed at $59 million. The storage tank will be underground and will provide desperately needed storage. Additionally, a pump station will be installed at this location.

The Ultraviolet (UV) contract, the second primary disinfection method for the John Carroll Water Treatment Plant (CWTP), has been awarded and is in construction. This is another challenging project because the treatment plant must remain in operation while it is being retrofitted.

Long-term redundancy has been the theme of this capital budget. A design contract has recently been issued for a pumping station on the Wachusett to be able to pump water to the CWTP in the event that there is a problem with the Cosgrove.

The Lynnfield-Saugus pipeline is a project that MWRA is partnering with the City of Saugus where MWRA is installing a large water main on the southbound side; Saugus is installing a local line that they are paying for under a separate line item. It is a good partnership in satisfying the MWRA's needs as well as the local needs.

Ms. Madden said the Authority has finally hit a point where 80% of its capital program is no longer associated with mandated projects. It is now in the 30% range and going forward the concentration really is on active protection and water redundancy and less on CSOs and other court-ordered projects.

The Proposed FY13 Current Expense Budget (CEB) is projected to have a 3.9% rate increase, which is a $22.9 million increase to the rate revenue requirement and that is keeping within the three-year plan that staff developed in FY11. The increase for FY11 was at 1.49% and FY12 was projected to be 3.9% but came in a bit lower based on recommendations from the Advisory Board. This year the Authority is keeping with the third and final year of that commitment with a 3.9% increase.

The MWRA was able to accomplish this lower increase because staffing has been reduced by ten positions. It assumes that the Authority will execute a defeasance that targets FY14 through FY16 but there is a residual effect so there is savings in FY13 of about $1.6 million. It does include some funding for the Other-Post Employment Benefits (OPEB) liability and that is a $4.7 million commitment to try to start addressing that outstanding liability, which now stands at $60 million. There are no rate stabilization or bond redemption funds projected to be used in this budget.

The variable rate debt is budgeted again like this fiscal year at 3.25% and the investment income is budgeted only at 0.3%.

Because debt service is the biggest driver of the MWRA's budget, staff exerts a lot of energy and focuses on managing the debt. Since 2006, staff has actually touched $3.5 billion worth of debt, whether it be through refunding, new money or defeasances.

In the Proposed FY13 Budget, direct expenses are at $217 million, indirect expenses are at $45 million and debt service is now at $377 million (59% of the budget). Rate revenue is the largest source of revenue coming in at 96% and all other revenue accounts for the remaining 4%. The largest driver of increases are wages & salaries, chemical costs and utilities, which have gone up based on usage and pricing.

Fringe benefits are increasing by $850,000 and that is associated with a projected 5% increase associated with health care costs. Other materials are climbing at nearly $900,000 and other services coming in at just a little under $700,000 increases.

Indirect expenses have gone up by $4.3 million, or 10%; the biggest drivers of this increase are the OPEB funding. In the past two fiscal years staff has budgeted any additional funds associated with the OPEB fund and ultimately transferred them to the pension fund to be able to get the biggest return on the investment; this fiscal year that was $1.9 million. The proposed year's budgeted OPEB line item could ultimately be transferred to the pension fund as well.

In addition to OPEB, other indirect expense increases include the watershed, both in operations as well as Payments in Lieu of Taxes (PILOT). The PILOT requirements actually went up by $300,000 this past year. Staff made additional deposits into the operating reserves to satisfy the one-sixth correlation to direct expense increases. Debt service has increased by $9.5 million from FY12 to the Proposed FY13 budget.

The Authority is currently planning, and has built into its budget projections, to complete a $35 million defeasance; that is accomplished in two different ways. One is any of the budgetary savings associated with debt service this year are being deposited into a defeasance account that is set aside so that at the end of the fiscal year staff can execute that defeasance for savings targeted at FY14 through FY16. In addition to what staff has projected as up to $20 million worth of defeasance, there are a series of bonds that staff is targeting that are at their final maturity and the final payments are due so staff can release the debt service reserves associated with those bonds, which are valued at $14 million, and can be used for defeasance.

The current budget projects a 4.6% increase for FY14 but it is important to note that this includes the defeasance. Had it not been for the projected defeasance, the increase for FY14 was projected at 6.2%.

For FY15, an 8% increase is projected and that includes the defeasance. Staff is projecting that $112 million of reserves can be released; $45 million of that is current revenue that is within the Authority's discretion to apply to any fiscal year. The rest includes debt service reserves that must be linked to the series that they were originally deposited. The Long-Term Rates Management Committee will be convening to determine the best use of these reserves.

The Authority faces numerous challenges. Variable rate debt has been unpredictable; the Authority has used a 20-year average and has set variable rate debt at 3.25%. The appropriation of Debt Service Assistance (DSA) cannot be counted on because it changes from year to year and some years the Authority hasn't received any DSA. Funding for the SRF program has been reduced in the federal budget, which has an impact on the MWRA because it can borrow at the 2% rate; if the SRF doesn't have the funding, it has an impact on the MWRA. The Authority has a mounting OPEB liability that is now at $60 million and within the next five years that will more than double, reflecting a $125 million liability if the MWRA doesn't start addressing it now. MWRA still has an unfunded pension liability of $42 million, which is expected to be funded by 2024. There are very limited restructuring opportunities.

## E. COMMITTEE REPORTS

***Operations Committee*** – Jay Fink

- **PRESENTATION: UNDER MWRA POLICY OP.11, REQUESTS FOR SEWER SERVICE TO LOCATIONS OUTSIDE THE MWRA SEWER SERVICE AREA, TO APPROVE THE REQUEST OF FOXROCK RESEARCH REALTY, LLC (FOXROCK) TO INCREASE THE SEWER FLOW FROM 2,025 GALLONS PER DAY (GPD) TO 5,336 GPD ON A PREVIOUSLY APPROVED CONNECTION FROM A 2" FORCE MAIN IN HINGHAM CONNECTING TO THE SEWER COLLECTION SYSTEM IN THE TOWN OF WEYMOUTH –** Gabriel Crocker, Project Manager, Coler & Colantonio, Inc.

Gabe Crocker of Coler & Colantonio, Inc., consultant for FoxRock Research Realty, LLC (FoxRock), stated that FoxRock has entered into an agreement to renovate an existing industrial building at 105 Research Road into a regional school for children and adults with special needs from 30 communities.

The facility has an existing MWRA connection that was approved in 2004. At the time of the connection, the mitigation was in the form of payment to the MWRA along with the entrance fee associated with it. The connection was approved for 2,025 GPD; this proposed change in use would increase the proposed flow by 3,311 GPD for a new daily flow total of 5,336 GPD. The project is proposed to be mitigated through direct inflow removal at a rate greater than four to one as required by the MWRA; this will be accomplished by the disconnection of twelve sump pumps in the Town of Weymouth that are currently tied into sewer.

In addition, this project had to go through the Water Resources Commission (WRC) for an inter-basin transfer so in addition to the offsets required by the MWRA, the applicant is also doing water conservation measures in the Town of Hingham through fixture replacement and also has an agreement with the Town of Weymouth for an additional two to one reduction through I/I.

This project has the support of both the Towns of Hingham and Weymouth. No changes are proposed for the actual connection, which already has the capacity for the increased flows.

Mr. Favaloro noted that an additional $12,750 entrance fee will also be paid to the MWRA.

Jay Fink, Chairman of the Operations Committee, said at this point, unless anyone has any issues or comments or concerns, please forward them to staff so that an Operations Committee meeting can be scheduled. Since this is an existing connection and additional flow will be abated prior to the additional flow coming online, Mr. Fink said he doesn't see a need for an Operations Committee meeting unless there are specific concerns.

***Finance Committee*** – Bernard Cooper

❖ **ADVISORY BOARD EMERGING APPROACH TO CIP/CEB REVIEW PROCESS**

Manager of Policy & Finance Review Matthew Romero said in the mid to late 1990s the CIP and CEB review documents featured 150+ recommendations and featured proposed reductions of tens of millions of dollars in the Current Expense Budget (CEB) and as much as $250 million in reductions to the Capital Improvement Program (CIP). At that time, double-digit rate increases were being projected and the Advisory Board's recommendations resulted in lessening these increases.

In contrast, the Advisory Board's FY12 document featured 15 recommendations and 14 comments to endorse actions or policies of the Authority. There was only a $2.5 million reduction recommended for the CEB last year and on the CIP staff recommended a $25 million per year reduction. The final rate increase was 3.49%.

The bulk of the Advisory Board's present day integrated documents still offers a very thorough analysis of the numbers; however, the document these days tends to focus on larger policy issues, such as Other Post-Employment Benefits.

To formalize the fact that the Advisory Board is focusing more on policy issues, staff plans to create a section after the detailed review in its *Comments and Recommendations* to flesh out policy recommendations in a more meaningful way.

Areas staff plans to focus on include residuals. The contract for the pelletizing plant is going to end in 2015. This is an opportunity for the Authority to take a look at the operations at this plant to determine if there is new technology available that can reduce the amount of pelletization, reduce costs or other technology that could provide another beneficial re-use aside from fertilizer pellets.

The Authority is now in the eleventh year of its five-year National Pollutant Discharge Elimination System (NPDES) permit. Staff is pushing for a recommendation that it hopes will engender some discussion on moving the NPDES permit forward.

For this fiscal year, staff would like the system expansion discussions to be framed with a regional approach in mind and looking at a way to find external funding.

Staff would like to look at ways that the MWRA can partner with the communities to attain some consistency and consensus with regard to issues that face every community.

With the FY13 CIP, the MWRA is now looking to shape its third five-year spending cap. Staff has some ideas on ways to rethink what the next cap means.

Now that the Long-Term Rates Management Committee will be moving forward, there will be a better understanding of where the released reserves can be used.

Mr. Romero said for specific policy recommendations, on residuals the recommendation will be to challenge the Authority to reduce its tons per day by an estimated number such as 20% by using new technology and process optimization. To put that into perspective, in the Proposed FY13 CEB the pelletizing costs are $15.6 million for the Authority, which includes both the pelletizing process and the maintenance costs added together. Staff currently budgets for 106 tons per day. With the way the contract is currently structured, there is a set amount that the Authority has to pay, up to 90 tons per day, and for anything over the 90 tons per day, it costs the Authority $100,000 per year for every ton over. Under the current terms of the contract, a 20% reduction could save the Authority about $2.1 million.

In regard to NPDES permits, on the wastewater side, in 92% of the country, the states have primacy on wastewater regulatory issues. Why doesn't Massachusetts? The other three states that don't have primacy are Idaho, New Mexico and New Hampshire, so it is not just a regional reason. The recommendation will be to ask the Authority to start pushing and seeking ways to get the Massachusetts Department of Environmental Protection (DEP) primacy with regard to wastewater issues.

Additionally, staff would recommend that the MWRA freeze its capital spending at the Clinton Wastewater Treatment Plant that has to do with phosphorus removal aimed at meeting the next NPDES permit that is still not ready. Based on the fact that DEP is supporting Worcester and the Upper Blackstone and that they recently scored a victory with the courts on this issue, it is really pushing for using measureable science versus arbitrary numbers. Our argument is that we don't really know that the next NPDES permit is going to include the phosphorous limits that MWRA is already gearing its capital program to; don't spend that money until it is known what the numbers are going to be.

For system expansion, staff would like to seek a regional approach in terms of economic development. Staff hopes to file legislation to secure $50 million to be able to have projects that would install larger pipes to various regions throughout Massachusetts to make the MWRA more attractive to communities that are thinking about joining the system. In addition, we would seek a 20 MGD exemption so that these communities can join without getting caught up in the regulatory process.

Staff would also recommend that the MWRA revisit standby fees. A community may have a need for MWRA water at some point in the future; what would they pay for the MWRA to be their insurance policy?

The Advisory Board endorses the inclusion of Phase 8 of the I/I Program. It is in the proposed FY14 budget.

Staff would like to create MWRA community task forces to look at areas that communities have in common to see if a consensus can be reached on issues that will affect all of them.

Mr. Romero said on the Capital Improvement Program, staff is looking at the capital spending cap to find ways to tighten up on capital spending over the next five years.

The Advisory Board wants to go on record to say that current projections are unsupportable and unacceptable.

Staff challenges the Authority to start using the released reserves in their budget projections so we can have a real picture of where the Authority stands.

Mr. Favaloro said the goal is to bring attention to the issues and force a discussion that gets us to a better point in all of these areas.

***Executive Committee*** **–** Katherine Haynes Dunphy

- **APPOINTMENTS TO THE LONG-TERM RATES MANAGEMENT COMMITTEE AND THE CONSTRUCTION IMPACT REVIEW BOARD**

Long-Term Rates Management Committee

A Motion was made **TO SELECT KATHERINE DUNPHY AND JOHN DEAMICIS TO SERVE AS MEMBERS ON THE LONG-TERM RATES MANAGEMENT COMMITTEE.** It was seconded and approved by unanimous vote.

Construction Impact Review Board

A Motion was made **TO SELECT JAY FINK, LOU TAVERNA, ZIG PERET AS MEMBERS OF THE CONSTRUCTION IMPACT REVIEW BOARD, WITH MICHAEL COFFEY SERVING AS THE ALTERNATE.** It was seconded and passed by unanimous vote.

- **LEGISLATIVE UPDATE**

Mr. Favaloro reported that the Governor's budget did not include funding for DSA, nor language to reimburse the Authority for the operation of the Clinton Wastewater Treatment Plant. Through the House and Senate, the Clinton language will likely be added.

**F. ADJOURNMENT**

**A MOTION WAS MADE TO ADJOURN THE MEETING AT 12:59 P.M. It was seconded and passed by unanimous vote.**

Respectfully submitted,

Lou Taverna, Secretary