**MWRA ADVISORY BOARD MEETING**
**FEBRUARY 21, 2008**
**NATIONAL HERITAGE MUSEUM**
**33 MARRETT RD. (ROUTE 2A), LEXINGTON, MA – 11:30 A.M.**
**MINUTES APPROVED AT THE MAY 15, 2008 MEETING.**

Forty-eight people were in attendance, including thirty voting members: E. A. Maguire, ASHLAND; Richard Warrington, BEDFORD; Peter Castanino, BELMONT; John Sullivan, BOSTON; Greg Riley, BRAINTREE; Charlie Barry, BROOKLINE; Jon Norton, EVERETT; J.R. Greene and Barbara Wyatt, GUBERNATORIAL APPOINTEES; Edmund Demko, HINGHAM; Bill Hadley, LEXINGTON; Jay Fink, LYNN; Bruce Kenerson, LYNNFIELD; Dana Snow, MARBLEHEAD; Cassandra Koutalidis, MEDFORD; Ron Seaboyer, MELROSE; Katherine Haynes Dunphy, MILTON; John Cosgrove, Jr., NEEDHAM; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; Peter Smyrnios, PEABODY; Ted McIntire, READING; Carol Antonelli, SOMERVILLE; Lawrence J. Barrett, STOUGHTON; Richard Stinson, WAKEFIELD; Walter Woods, WELLESLEY; Earl Forman, WESTON; Bob Angelo, WESTWOOD; Robert Antico, WILMINGTON; Anthony Blazejowski, WOBURN.

Also present: John Carroll, Andrew Pappastergion and Joseph Foti, MWRA BOARD OF DIRECTORS; Ralph Pecora, EVERETT; Ana Singleton, STOUGHTON; Paul Lauenstein, WSCAC; Fred Laskey, Michael Hornbrook, Rachel Madden, Kathy Soni, Carl Leone, Joshua Das and Elaine Donahue, 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 11:42 a.m.

## B. REPORT OF THE EXECUTIVE DIRECTOR

MWRA Advisory Board Executive Director Joseph Favaloro stated the Advisory Board sent a letter to the MWRA Board of Directors regarding the Supplemental Environmental Projects (SEP) related to the assessed fine MWRA received on blending. One-third of the SEP was going to be used for the purchase of cameras and the provision of technical training for communities to find I/I within their systems. EPA rejected that piece of the SEP because communities should be doing TV inspections of lines anyway. Instead, low-flow toilets will be made available to communities for municipal buildings.

This year John Carroll's three-year term on the MWRA Board of Directors expires; staff hopes to hold an election for this seat in May. Any who are interested in running can; Mr. Carroll has indicated that he plans to run again as well.

Next month's Advisory Board meeting will be at the State House; the Advisory Board will be acknowledging the efforts of two legislators with "Legislator of the Year" awards.

Representative Rachel Kaprielian will be acknowledged for her many years of advocacy, as well as MWRA Caucus Vice Chair, Senator Anthony Petruccelli, who has played an integral part in keeping a positive proactive relationship with the legislature.

The Town of Clinton is putting out request for proposals to sell a water source to those interested in bottling water in the Sterling/Clinton area to make some revenue from it. Mr. Favaloro noted that the MWRA provides Clinton with free water and wastewater services.

C. **PRESENTATION: OVERVIEW OF THE FY09 MWRA PROPOSED CURRENT EXPENSE BUDGET / EFFECTS OF THE SUB-PRIME CRISIS ON MWRA** – Rachel Madden, Chief Financial Officer and Kathy Soni, Budget Director

MWRA Budget Director Kathy Soni stated that the MWRA Board of Directors approved the transmittal of the Proposed FY09 CEB to the Advisory Board for its 60-day review and comment period on February 13. In summary, the rate revenue requirements for FY09 are $549 million, of which $366 million is for the sewer system and $183 million for the water system. The overall proposed rate increase is 5.9% (4.7% on the sewer side and 8.5% on the water side).

Market conditions are affecting the Authority. The biggest effect is on the investment income side; fund balances are about $700 million. A 250 basis point drop is expected to result in a $14 million decrease in the FY09 budget. Rachel Madden, Chief Financial Officer, noted that this proposed CEB was developed based on the best possible information currently available. Staff is optimistic that some of the assumptions may be able to be revised; it can change on a weekly basis depending on what economists are forecasting. Currently the 2% investment income prediction seems on the mark.

Ms. Soni stated this year, based on the Governor's Budget, which allocated $15 million for the statewide Debt Service Assistance (DSA) Program, MWRA is projecting that it will receive $11.25 million for DSA, which is $6 million lower than last year. The Authority is doing everything it can to compensate for the impacts. Other factors include increased pension liability, rising healthcare costs for current employees and ongoing contributions relating to GASB 45, funding of post-employment health insurance costs.

Further assumptions that could change in FY09 are driven by factors outside of the Authority's control, including interest rate and other market conditions; additional pension funding requirements under revised assessment methodology; energy pricing; regulatory changes affecting chemical usage; and health insurance costs. Health insurance costs are affecting the Authority in two ways, not only for MWRA employees, but also toward DCR's operating expenses.

In summary, Direct Expenses total $215.3 million; Indirect Expenses total $46.5 million and Capital Financing totals $336.2 million, which is about 56% of the Authority's operating budget, for a total of $598 million, less (assumed) DSA receipts of $11.25 million for a rate revenue requirement of $586.8 million, or a 5.9% increase. For FY09, the Authority plans to use $5.2 million in Rate Stabilization funds; current planning estimates assume these reserve funds will be exhausted by FY2014.

Ms. Madden noted that some critical assumptions were made in developing the final proposed CEB. The investment income assumption is set at 2% and the variable rate debt assumption is at 4.25%. When interest rates drop, variable interest rates drop as well. The divergence of those aspects of the proposed budget are a direct result of market conditions on variable rate debt, particularly for the municipal market.

The MWRA has bond insurance because the bond insurers are "AAA" rated and the Authority trades on their rating. While the MWRA's rating is "AA", it is not as good as a "AAA"; the "AAA" rating increases marketability. Unfortunately the bond insurers have become involved in the sub-prime meltdown. As a result, the three major rating agencies have taken action to downgrade these insurers. The MWRA has two insurers that have been downgraded and is taking immediate action to refund $575 million of variable rate debt to "scrub off" or remove the insurers. The association with the bond insurers has driven up the MWRA's interest rates and is causing the MWRA to pay more interest than it should. Staff plans to resolve this matter within 60 to 90 days.

Chairman Dunphy stated that she was pleased that the Authority had not made cuts to maintenance; the MWRA does not want to make the mistakes of the past. The post-employment benefits and the retirement fund are an area of concern. The Advisory Board wants to provide for employees when they leave the MWRA but the numbers proposed are high considering other circumstances. For the outyears the Authority was carrying a 5.8% rate increase, now it is at 6%; that is a trend the Advisory Board is concerned about. The MWRA is using rate stabilization that it had not planned in its projections last year, which can impact rates in future years.

Ms. Madden stated last year, for the current fiscal year, the MWRA had no utilization of rate stabilization. In planning estimates projected for FY09, to keep rate increases sustainable and predictable, staff included the use of $5.2 million in rate stabilization, which at the time yielded a 5.8% increase. Other increasing costs drove the increase to 5.9%.

Chairman Dunphy said approximately 25% of MWRA's debt is variable rate debt, equivalent to about $1.3 billion. What percentage of that is in the insured category? Ms. Madden stated that the MWRA currently has $1.5 billion in the variable rate market, with $1.3 billion being the affected portion; the other $200 million are trading phenomenally at lower interest rates and have yielded great results for the Authority.

Chairman Dunphy stated her understanding that MWRA is moving faster than other entities to take action. Ms. Madden said staff has been monitoring this ever-developing issue and discussing what actions to take. In comparison to other entities, the MWRA does have a solid plan and will move forward in a measured yet expeditious approach.

Chairman Dunphy asked if the Authority is looking to go forward with fixed rates. Ms. Madden said fixed rates are a consideration; however, the Authority would like to maintain a certain portion of its portfolio on the variable rate market because the bonds without insurance have been trading phenomenally.

Chairman Dunphy asked if there is a possibility that the federal government will do something to assist municipalities and non-profits to get through this situation; would MWRA qualify for these benefits? Ms. Madden said it would depend on how it is defined; the IRS already has made some changes to regulations that will allow people to get rid of the insurers off their option rates quicker than if they had to do a refunding. The MWRA may be able to tap into it, although there are people and entities in much worse debt than the MWRA. The Authority's structures are solid. Its agreements with the insurers and liquidity providers were negotiated well so the MWRA does not have the maximum rate of 20% being cited in the newspapers.

Cornelia Potter asked for an estimate of what these circumstances are beginning to cost the Authority. Ms. Madden said as of last week, if the Authority did not have the insurance and was trading where its other bonds without insurance are trading, since January 1 it is about $1.5 million.

Ms. Potter said staff has talked about plans to refund about $575 million and that additional refundings are also on the horizon. How much additional refunding could there be? Ms. Madden said with the way the market is going, there is the potential that the MWRA may refund the full $1.3 billion over time.

Matthew Romero asked what proportion of the debt would be maintained at the variable rate. Ms. Madden said the authorization that staff has to date for the $575 million is all based on subordinate debt so those funds would remain in the variable rate market. Once the insurers are removed, the MWRA will be able to take advantage of the phenomenal rates and trade on its own good credit liquidity. Industry standards say that 15 to 20% is a nice amount to hold in variable rate debt.

## D. **COMMITTEE REPORTS**

***Finance Committee*** – Bernard Cooper

### ❖ STATUS: CIP REVIEW PROCESS

Ms. Potter stated staff of the Advisory Board have conducted a series of meetings with Authority staff over January and February. Simultaneously with the briefings, the Authority completed the development of the budget document and forwarded it to members more than a week ago.

Staff is just beginning to develop its *Comments and Recommendations* and expects to mail a first draft to the Executive Committee on April 4th in anticipation of the Executive Committee meeting on April 11th. The second draft will be mailed to the full Advisory Board later that day for deliberation and a vote at the April 17th Advisory Board meeting.

The MWRA Board of Directors will be discussing both the Capital and Current Expense Budgets at its first June meeting and a final vote on both budgets will take place at the second June meeting.

The overall capital budget for FY08 is $228 million, not including any contingency fund or allowances, with wastewater at a level of $144 million for the year and water spending at barely half of that at $77 million per year. Spending through January has reached $94 million, still 23% below the budgeted amount. Spending will pick up this spring as the South Boston tunnel boring machine project picks up steam and distributions to the communities for their CSO Program work, most notably Boston, will take place in the coming quarter. The Authority, for the last several years, has underspent its capital budget by more than 20%.

The Authority has revised its projections for spending for FY08, in preparation of the FY09 budget, from $228 million down to $203 million. The Authority will have to spend $110 million in the next five months to meet this projection, more than it has spent in the last seven months.

On the current expense side, the budget for this year was $565 million. Spending through January has been $315 million, which is about 10% under the budget ($6.3 million). Revenue was over budget by more than $10 million, in large part because of receipt of the Reading entrance fee. Some of the projections that the Authority has developed for a surplus for the remainder of this year may change and the descriptions on the impacts on the Authority of the sub-prime crisis are worth watching to see the impact in terms of greater than budgeted revenues and less than budgeted expenses for the rest of this year.

The sub-prime issue is not going away any time soon and the Authority's variable rate debt will continue to be greater than anticipated even if it remains under budget; the projected surplus may start to close in a measurable way. There was $1.5 million in costs for the first six weeks of the year, which begins to give a sense of the pace of additional costs that the Authority may be experiencing as it goes forward.

***Operations Committee*** – Jay Fink

- **PRESENTATION: DEP PILOT WATER CONSERVATION GRANTS** – Carl Leone, Senior Program Manager, Planning Department

Senior Program Manager Carl Leone, who manages the MWRA's community assistance programs for water and sewer, stated that the MWRA has sent out a sample letter to the communities that references the indoor and outdoor water conservation "bill stuffer size brochures" that MWRA provides to the communities free of charge. The MWRA would like to get the brochures out to the ratepayers and is trying to make a push this year for communities that may not have done them recently to get them out.

Through the community assistance program, the MWRA provides efficient shower heads and low-flow fixtures. These items are distributed to the communities and also to ratepayers that request them through the MWRA website.

Mr. Leone stated that his staff also runs the leak detection technical assistance program. More than half of the communities have utilized the Authority's technical assistance contract for leak detection for the water system. All MWRA communities are able to utilize that contract; MWRA pays the consultant and bills the community back the following year. It is essentially a one-year, interest-free loan. The MWRA is currently procuring a new three-year contract to run from FY09-11. All of the communities are required to do leak detection every two years.

MWRA has a new low-flow toilet retrofit project in the works. MWRA received a $40,000 grant from the Department of Environmental Protection (DEP) to provide $100 rebates to communities for toilets that are retrofitted with a low-flow device in municipal buildings. Nine rebates are being allocated per community until May 16; after that time, the remaining rebates that aren't spoken for will be allocated on a first-come first-served basis. If there is further need, the MWRA can apply for a future grant from DEP.

Paul Lauenstein asked if there is any incentive to promote these high-efficiency toilets with 1.3 gallons or is 1.6 gallons replacing higher flow. Mr. Leone said the incentive is the $100 rebate for 1.6 gallons or lower. MWRA is targeting municipal buildings because homeowners have an incentive to reduce their water use because they are paying the bills. Rebate checks will be issued to communities in November 2008.

The MWRA received an additional $40,000 grant from DEP for a pilot water audit project to try to help the communities reduce their unaccounted for water. The Authority will add $10,000 as its required portion for the DEP grant. Staff expects to do two or three pilot community audits, which generally run between $10,000 to $20,000 depending on the size of the community and what is done. Communities can sign up for this pilot program until April 18; staff will then do a lottery among the communities that sign up to select the two communities and will work with the communities and the consultant to negotiate an appropriate price. If there are funds remaining, a third community will be selected. The audits will be done during the calendar year and a report will be issued to all the communities. Other communities can utilize that report to see if they might be interested in doing their own audit. Authority staff is considering coming to the Advisory Board Operations Committee to discuss whether a task order contract for water audits should be procured. Like the leak detection program, the Authority would pay for the work and the community would be billed back the following year.

The Authority has partnered with EPA on their Water Sense program. It is a national branding program, similar to the Energy Star program. The Water Sense brand would be placed on things like low-flow toilets, washing machines, etc.

Mr. Lauenstein asked what MWRA's obligations are for the Water Sense program. Mr. Leone said the Authority is going to add the Water Sense logo to its information. The idea is to have some national recognition to be helpful for water conservation.

- **UPDATE: WATER/SEWER FINANCIAL ASSISTANCE PROGRAM** – Carl Leone, Senior Program Manager, Planning Department

Mr. Leone said the Local Pipeline Assistance Program is an interest-free loan program that has $256 million authorized through FY13; $134 million has been distributed for 165 local projects. These pipeline projects eliminate unlined pipe by replacing or cleaning and lining pipe. Lead services are also eligible.

With the $134 million spent thus far, communities have either replaced or cleaned and lined 200 miles of unlined pipe. There is still a long way to go with about 2,000 miles of unlined pipe throughout the region.

The I/I Financial Assistance Program is a grant/loan program with $220 million approved for 45% grants and 55% interest-free loans. Funding is allocated through FY15, with $164 million already distributed to fund 340 local projects. Four communities currently have exhausted their funds. When more of this money has been utilized, the MWRA will have discussions with the Advisory Board on whether more funding should be made available.

Sunset provisions have been approved by the Advisory Board and the MWRA Board of Directors for the grant portion of these funds. The key date for Phase III funding, for which only three communities have funding left, is June. Staff is actively working with those three communities to try to get funds out to them in May, which is the last funding distribution. For everyone else, the next sunset date for the grant portion would be June of 2010 for Phase IV funding.

- **UPDATE: NEW LEAD TESTING RULES AND CONSUMER CONFIDENCE REPORT** – Joshua Das, Project Manager, Public Health

Public Health Project Manager Joshua Das stated the MWRA is going to do its next lead and copper testing on March 26. This year there are new rules with regard to lead and copper testing. The most important rule change is that all communities will have to certify that they have provided the results to their consumers within thirty days of getting the results from the MWRA. A certification must be sent to DEP that your community has provided these results to all the customers it samples. Presently all communities send the results to their customers but it never had to be certified before.

There are several new rules for communities that exceed the action levels. A new brochure will need to be mailed. Authority staff is working on this new brochure, which will have less bureaucratic language and be more user friendly. More outreach will be required, including outreach to local health departments, physicians, WIC programs and other programs or areas that may involve children. For communities that exceed, there will be a lot more legwork.

Staff is now beginning the new Consumer Confidence Report (CCR). All communities must provide a letter and their $90^{th}$ percentile lead level for an insert into the CCR. If a community exceeded the lead action level in 2007, their insert must include some additional language. Six communities (Belmont, Marblehead, Medford, Melrose, Milton and Somerville) were above the lead action level in 2007.

The theme for this year's CCR is tap versus bottled water. Staff plans to try to promote tap water. There has been a push in the media lately against bottled water.

Draft community letters are due by March 24.

**Executive Committee** – Katherine Haynes Dunphy

❖ **LEGISLATIVE UPDATE**

Mr. Favaloro said the Governor included $15 million in his budget for statewide Debt Service Assistance (DSA). Authority and Advisory Board staff are working with the House, which is predicted to have a minimum of $15 million included in its version of the budget.

The legislative strategy is to put pressure on the Senate to match the House DSA number in its budget. Members of the House have said they will increase the DSA number if there is an opportunity. If the Senate version matches the House version, it is less likely to be reduced or compromised in Conference Committee.

## E. QUESTIONS AND COMMENTS

## 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,

Edward Sullivan, Secretary