



ADVISORY BOARD SPECIAL REPORT

TO THE EXECUTIVE DIRECTOR OF THE MWRA

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The Advisory Board welcomes you to your new position as Executive Director of the Massachusetts Water Resources Authority. As the entity empowered to protect the interests of the service-area municipalities, we would like to take this opportunity to highlight some of the concerns that have been expressed relative to MWRA operations, procedures, and goals. The Advisory Board, and the 60 cities and towns which it represents, are greatly concerned that the Boston Harbor Project and other mandates imposed by Congress and outlined in the Clean Water Act and Safe Drinking Water Act, will be paid 96% by ratepayers. According to the Authority's recently released Proposed Current Expense Budget for FY93, an average annual water and sewer bill could climb up to \$585 for a family of four in the MWRA service area. The 36.3% projected rate increase for FY93, on top of FY92's increase of 31.1%, would result in a combined water and sewer rate increase of over 400%, since the inception of the MWRA. Average bills are projected to reach \$1,072 by 1995, and up to \$2,118 by 2005, absent a significant change in state and federal allocation policy.

The Advisory Board stands steadfast, ready to protect ratepayers' interests in any manner necessary, and looks forward to cultivating a positive and cooperative relationship between you, your management team and the Advisory Board. We are aware of the numerous challenges and expectations facing you in the days ahead. A major item on your agenda will be demonstrating to service-area municipalities and ratepayers that their dollars are being spent judiciously, and that each and every project is being undertaken only because it has been intensely scrutinized, and determined to be of the highest priority. Your arrival signals an opportunity for a fresh look at assumptions on which the MWRA has been operating, while also providing a new perspective and leadership.

The Advisory Board was created by the Legislature in 1984, as part of the Enabling Act that established the MWRA. The chief elected official and a designee from each city or town served by the MWRA, along with a member of the Metropolitan Area Planning Council, and six gubernatorial appointees representing various interests, constitute the Advisory Board. The Board was statutorily charged with monitoring operations of the MWRA and to serve as a "watchdog", ensuring proper management and budget control. After careful review of the MWRA's capital and current expense budgets, the Advisory Board makes recommendations to the MWRA Board of Directors on the budget, as well as on management practices and policy directions. The Advisory Board also performs the valuable function of serving as liaison between the communities and the MWRA. Most recently, the Advisory Board has initiated an aggressive legislative strategy, working for passage of legislation that seeks ratepayer relief.

MANDATES WITHOUT MONEY

Without a significant and immediate infusion of federal and state dollars into the Boston Harbor Project, ratepayers may drown in the cleanup of Boston Harbor. The Advisory Board has always endorsed the MWRA's goal of a cleaner harbor and improved infrastructure in order to deliver water and sewer service; yet, this support is eroding because MWRA ratepayers are being forced to fund the entire Boston Harbor Project alone. It is unconscionable that the federal and state governments have walked away from their responsibilities to their citizens to provide clean, safe, and affordable water and sewer service. **The Advisory Board believes that it is imperative that an aggressive campaign be undertaken to pursue funding at all levels of government and that coalitions be built in and out of the Commonwealth, in public and private sectors, to seek funding for water and sewer programs.**

The federal and state governments continue to impose mandates without money, by increasing regulations for both the Clean Water Act and Safe Drinking Water Act; while not providing the financial assistance necessary for implementation. The MWRA is soon expected to have the highest rates in the country. Thus, the need for a large federal funding package is urgent. Such a funding package could be achieved through a revitalization of the Clean Water Act and/or special grants.

The President recently requested \$100 million in his budget for Boston Harbor; however, most of these funds will not be available for expenditure until FY95 due to present reimbursement mechanisms. Currently, the money can only be used for secondary treatment projects and only for those projects which have not yet been awarded. In addition, on February 21, 1992 our Congressional delegation filed federal

legislation to authorize the appropriation of \$1 billion over the next five years for MWRA wastewater projects. Senator Kerry was quoted as saying, "While we appreciate the \$100 million requested in the President's budget, it just begins to scratch the surface."

The Advisory Board agrees with this assertion and recommends that the Executive Director work with the Congressional delegation to revamp the reimbursement regulations relative to how, and when, the MWRA receives both the \$100 million and any additional funding. The reimbursement regulations should be made flexible enough to allow the dollars to arrive during the peak years when ratepayers need it the most, rather than spreading out the funds over five years. FY93 and FY94 will be the MWRA's largest spending years; therefore, it is crucial that any monies be made available to the MWRA during this time. In addition, the Advisory Board encourages keeping the lines of communication open with the Congressional delegation. Through combined efforts there may be opportunities to obtain additional funding when the Clean Water Act is reauthorized, and to impact any proposed legislation which could effect MWRA ratepayers.

Only with changes to grant regulations which would permit immediate receipt of funds in the year in which they are appropriated, along with a substantial increase in federal and state funding, will there be any significant reduction in projected rates. The Advisory Board's initial estimates show that rates will still have to rise significantly; however, additional outside dollars and an easing of reimbursement regulations and requirements can help mitigate the dramatic rate increases anticipated.

BECOMING A PARTNER

The Advisory Board believes that the Commonwealth has the ability to become part of the solution; however, recent history has shown state government to be a major part of the problem. The Advisory Board invites you to work with us in enlisting the aid of the Governor and Legislature in solving the problem of escalating rates. Your increased presence and leadership on Beacon Hill is needed to work along with the Advisory Board in discouraging the state from balancing its budget on the backs of MWRA ratepayers, and to encourage the Legislature to become a proactive part of the solution by fully funding the State Revolving Loan Fund and enacting Advisory Board ratepayer relief legislation.

The MWRA must enlist the aid of the Governor in trying to obtain additional federal and state dollars. The Advisory Board recommends traveling with the Governor to Washington D.C. within the next few months to request additional federal funding.

It is also crucial that the state's fiscal commitment to the project be evident to the federal players or it may hinder the congressional delegation's ability to garner money. The state must show a willingness to "put its money where its mouth is," for if the state in which the project is located does not consider the harbor a high priority, then the federal players may question the legitimacy of a cost crisis.

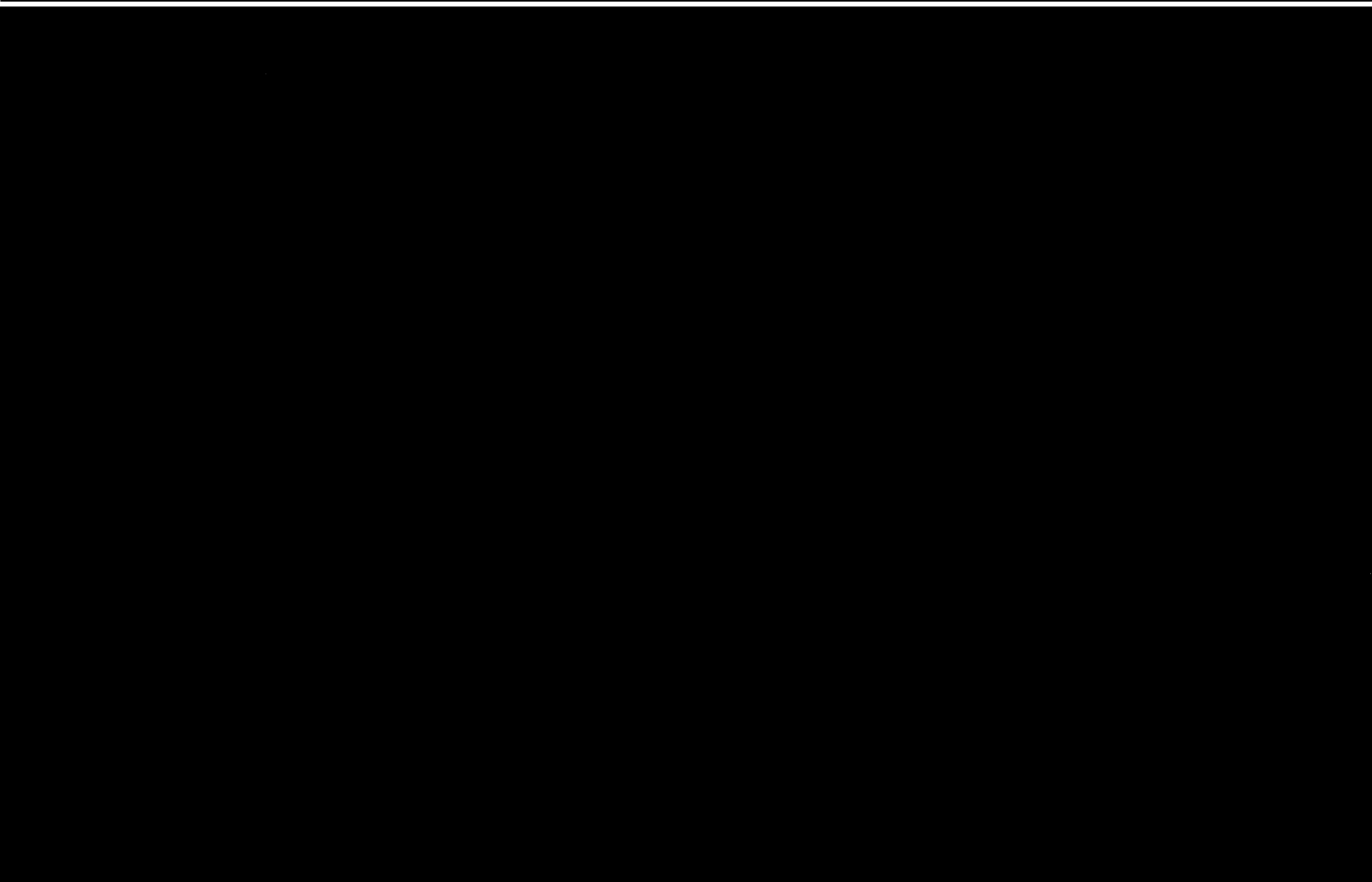
The Governor must be convinced to fund the State Revolving Loan Fund (SRF) to the maximum degree possible. The SRF was created in 1989 in order to lend funds at below market interest rates to support the construction of water pollution abatement facilities. The SRF was to fund its loan program through a combination of state and federal funds. In order not to jeopardize federal dollars, the state allowed the

MWRA to borrow \$74 million; however, the program has not been funded, and, at present, the viability of the SRF is negligible. A sharp increase in the funding of the SRF is crucial for successful achievement of the clean water goals for MWRA cities and towns, as well as for communities throughout the Commonwealth.

Instead of contributing, the Commonwealth has been detracting from the clean up of Boston Harbor by unnecessarily and unfairly increasing the ratepayers' inordinate burden. Historically, the state has long viewed the MWRA as "Deep Pockets." This attitude is aptly illustrated by the numerous examples outlined below:

RAIDS ON RATEPAYERS

- \$ FY87 - forcing the MWRA to build and operate the Clinton Wastewater Treatment Plant. An additional \$7 million in capital and \$2.8 million in operating costs to ratepayers.
- \$ FY89 - demanding the MWRA fund the Spectacle Island Study. An additional \$175,000 cost to ratepayers.
- \$ FY89 - demanding a prepayment of the operating debt in 2 years instead of 10 years. An additional \$15.6 million cost to ratepayers.
- \$ FY89 - raising the watershed reimbursement from 50% to 75%. For an additional \$1.4 million cost to ratepayers.
- \$ FY89 - raising the payment in lieu of taxes (PILOT payments) from 50% to 75% for an additional \$1.8 million cost to ratepayers.
- \$ FY92 - demanding an additional RFP for disposal of grit and screenings for an additional cost of \$98,000 to ratepayers.
- \$ FY92 - renegeing on an agreement regarding modular prison units on Deer Island for an additional \$4 million cost to ratepayers.
- \$ FY92 - demanding a study of Stellwagon Bank for an additional cost of \$500,000 to ratepayers.
- \$ FY92 - forcing the MWRA for the fiscal and legal responsibility for police officers' benefits (cost yet-to-be-determined).
- \$ FY92 - demanding a payment in lieu of a furlough program for an additional cost of \$1.3 million to ratepayers.
- \$ FY92 - imposing a water tax that could cost up to an additional \$14.4 million a year to ratepayers.
- \$ FY92 - demanding a prepayment of an inherited MDC debt while inflating the value from \$75 million up to \$120 million for a new cost of \$312 million to ratepayers.
- \$ FY92 - creating a watershed management fund to be paid by MWRA ratepayers.



State actions became even more aggressive and unfair in the budget passed in FY92, when the Commonwealth saw an opportunity for a "quick fix" to their own budgetary woes by extorting money from the MWRA. The Commonwealth demanded a payment in lieu of a "furlough program" for a total of \$1.3 million; demanded an inflated prepayment of the MDC debt for \$120 million, an action which will cost ratepayers \$312,000,000 over thirty years (although the House of Representatives did vote on March 11th to repeal this measure); and imposed a Water Tax which could cost up to \$14.4 million. These actions are presently being questioned in Supreme Judicial Court because the Advisory Board, as the entity empowered to protect ratepayers interests, immediately galvanized the cities and towns when the budget passed, and filed suit to stop payment. The MWRA joined the fight a few months later in voicing its concern over the "raids on ratepayers;" however, the MWRA failed to address the water tax.

PURSuing JUSTICE FOR RATEPAYERS

The Advisory Board invites you to join with us in challenging, in Supreme Judicial Court, the water tax and the watershed management fund. The \$.00015 per gallon tax on water could add up to an additional \$14.4 million cost per year to ratepayers. The Commissioner of the MDC is required to set, on an annual basis, a per-gallon charge for water drawn by the MWRA from the Quabbin Reservoir. The Commissioner is not required to set the per-gallon charge at an amount which pays for the cost of providing water to the MWRA and any monies collected from the MWRA are not available for use to cover the cost of providing water to the MWRA, except as they may be appropriated by the Legislature. The statute does not limit the fee paid by the MWRA to that which is needed to

cover the cost of providing water to the MWRA and revenue collected from the tax could be used by the MDC to fund maintenance of recreational areas which benefit all the citizens of the Commonwealth and not simply the MWRA ratepayers.

The Advisory Board is also pursuing litigation relative to the Watershed Management Fund. The Advisory Board is concerned that the fund may be vulnerable to raids by the Legislature as it is "subject to appropriation," the same language which led to decrepit water and sewer systems from an underfunded MDC. The fund may not be used for the purpose for which it was created, "The maintenance and operating costs of the MDC's watershed division,...including the costs of capital improvements necessary to ensure the safety and purity of the water supply and protection of watershed lands pursuant to state and federal standards." Under the guise of watershed protection, the fund and the per gallon funding mechanism, in effect, create an arbitrary "slush fund" paid for by 2.5 million ratepayers.

The Advisory Board encourages continued legal pursuit of justice for ratepayers relative to the Clinton Wastewater Treatment Plant. This plant costs MWRA water community ratepayers an unnecessary and unfair additional \$2.8 million a year. Ratepayers are paying 100% of the cost for tertiary treatment for the residents of Clinton while at the same time paying 96% for the construction of a treatment plant on Deer Island. The agreement relative to the Clinton plant was made between the Commonwealth and the Town of Clinton and it is unconscionable that MWRA ratepayers have been forced to both build and operate a plant outside of the MWRA service district. **The MWRA is presently addressing this issue in court and the Advisory Board is fully supportive of this action.**

ADVISORY BOARD LEGISLATIVE CAUCUS

One example of the Advisory Board's efforts in enlisting the aid of elected officials is the recently established Legislative Caucus. The Advisory Board initiated the caucus in the fall in order to unite all legislators whose districts receive service from the MWRA to draft, monitor, and shepherd pro-ratepayer legislation through the General Court. The legislative caucus is following the Advisory Board's legislative agenda, and although the caucus is relatively young (only four months old) it has already experienced enormous success as shown by the significant legislative victory handed down on March 11th. At that time, the House of Representatives voted (113-29) to repeal the inflated \$120 million prepayment of MDC debt. The Advisory Board is confident that this is the beginning of new era of legislative accountability and an increasing awareness on part of legislators that they have a responsibility to ratepayers. By standing together, the service-area legislators may have the ability to fend off similar fiscal attacks.

The following is a listing of legislation which the Advisory Board has endorsed and will work for passage during the 1992 legislative session. The Advisory Board requests that you support these bills and offer both oral and written testimony at the appropriate legislative hearings.

RATEPAYER RELIEF LEGISLATION

House 393

AN ACT RELATIVE TO CERTAIN FEES TO BE PAID BY THE MWRA (Rep. Cass)
Seeks to repeal the \$.00015 per gallon tax on water which could add up to \$16 million per year to ratepayers.

House 394

AN ACT RELATIVE TO THE WATERSHED MANAGEMENT FUND (Rep. Cass)
Seeks to repeal the Watershed Management Fund to be managed by the Commonwealth.

House 395

AN ACT RELATIVE TO CERTAIN PAYMENTS TO BE MADE
BY THE MWRA TO THE COMMONWEALTH (Rep. Cass)
Seeks to repeal the section which provides for the prepayment of the MDC debt purported by the Governor to be \$120 million.

House 1954

AN ACT RELATIVE TO THE COST OF THE
CLEAN-UP OF BOSTON HARBOR (Rep. Galvin)
This legislation seeks to find the fairest formula to spread the cost of the harbor cleanup over the entire Commonwealth.

House 3102

AN ACT TO REDUCE WATER AND SEWER FEES (Rep. Cohen)
The legislation would allow homeowners to deduct their water and sewer fees from their taxes.

Senate 921

AN ACT TO HAVE THE COMMONWEALTH PAY 50% OF THE COST FOR THE PLANNING, DESIGN AND CONSTRUCTION OF ANY PUBLICLY OWNED WATER TREATMENT FACILITIES REQUIRED TO MEET THE FEDERAL CLEAN AND SAFE DRINKING WATER ACTS (Senator Havem)
This legislation seeks to establish a 50% subsidy of the MWRA's debt service costs related to the Boston Harbor Project. If such a program were started in FY94 it would save \$1 billion in rate revenue or \$1,235 per household over a five year period. the MBTA enjoys a similar subsidy from the state.

Senate 978

AN ACT RELATIVE TO THE ESTABLISHMENT OF THE CLINTON-LANCASTER
WASTEWATER DISTRICT (Senator White)
Seeks to transfer the Clinton Wastewater Treatment Plant from the operating and capital budget of the MWRA to the Clinton/Lancaster Sewer District.
This treatment plant costs MWRA ratepayers an additional and unnecessary \$2.8 million a year.

Senate 1178

AN ACT RELATIVE TO THE COMPOSITION
OF THE MWRA BOARD OF DIRECTORS (Senator LoPresti)
This bill would allow Quincy and Winthrop to directly appoint their members to the Board of Directors.
In addition, the legislation would permit the Board to elect their own Chairperson.

Senate 1140

AN ACT FURTHER REGULATING UNIFORM PROCUREMENT (Senator Buell)
This bill seeks to provide preference to a responsive Massachusetts bidder if their bid is within ten thousand of the lowest bid.

PERCEPTIONS

The Advisory Board's budget and policy recommendations seek to guarantee that the MWRA's environmental program moves forward while also ensuring that the MWRA's customers' ability to pay is also taken into consideration. The Advisory Board is encouraged by statements issued recently uniting the issues of affordability, the environment and economic development. The Advisory Board has long advocated that the MWRA must ensure that their program is environmentally sound but also ratepayer equitable.

We encourage you to address the growing sense of disenfranchisement on the part of MWRA customers as it is imperative that ratepayers are confident that their dollars are being spent wisely and not arbitrarily. **Relook at various assumptions driving MWRA programs with specific attention to prioritizing all of your projects.** The Advisory Board recommends compiling a priority plan based on the assumption that there will be no federal and/or state money coming in.

This action may also lead to the conclusion that an agency-wide reorganization or management plan needs to be undertaken. Even with significant additional funding from the federal and state governments, cost containment will continue to be critical.

The MWRA in the past has held a "Cadillac" attitude and has not always questioned whether a program can be justified in today's economic climate. A few examples include the proposed plan to spend \$7.5 million for 63 employees at the Chestnut Hill Pumping Station and to build an additional personnel ferry facility at Revere Sugar site, even as Deer Island

prison-related traffic through Winthrop ends. The Advisory Board recognizes that external pressures exist and that the MWRA must try to be a "good neighbor" and adhere to mitigation agreements; however, consideration for its ratepaying customers must also be a priority.

The MWRA must be more forthright in asserting and promoting its own accomplishments to both regulators, the court, the legislature, and the public. The MWRA has done a tremendous job in meeting all of its court-ordered milestones on time and under budget. The greatest achievement to date occurred in December of 1991 when the MWRA stopped dumping raw sewage into Boston Harbor. Additionally, the MWRA has been meeting water quality standards more than 90% of the time in the outer harbor. **To the extent that the MWRA has shown a willingness and good faith effort consistently over the past seven years; EPA and DEP should also be encouraged to investigate opportunities to revisit regulations and requirements when applicable.**

The Advisory Board also recommends that you work closely with regulators and strive to educate them on the numerous significant environmental gains made by the MWRA. The guesstimates of the mid-1980's must not be allowed to override the environmental facts of the 1990's. The regulators' perception of the MWRA has been skewed by the MWRA's predecessor, the MDC. To some extent regulators are still taking a punitive stance towards the MWRA and treating the agency as if it performs in the same manner as the MDC.

BUDGET BUSTERS

Debt service for the capital spending plan of the MWRA to respond to the federal court order is the single largest item in the MWRA's budget. Debt service as a percentage of the current expense budget is crossing the 50% mark. The Advisory Board has long advocated that the MWRA borrow only what it absolutely needs to spend. To this end, the Advisory Board is pleased that you were receptive to our recommendation relative to the size of the MWRA's next bond offering scheduled for this spring. The MWRA in the past, had discussed borrowing in the \$800 million to \$1 billion range; however, by agreeing with our recommendation to borrow \$675 million rather than as much as \$1 billion, approximately 6% can be successfully cut from the 36.3% rate increase projected for 1993.

The current expense side of the MWRA's budget is always of concern to the Advisory Board. The recently proposed budget for FY93 represents an enormous increase over the FY92 budget. Every year the Advisory Board meets with its members and reviews every MWRA project and program. MWRA cities and towns are frustrated by what they view as a lack of acknowledgement from the MWRA relative to the fiscal constraints that localities are experiencing and must work under. Presently some communities are voting to override budgets and are devising ways to siphon dollars from their own enterprise funds. The MWRA should become aware of the numerous fiscal concerns in the service area.

This year's budget review process is already well under way, with a renewed sense of cooperation as a result of the work of an Ad Hoc Budget Review Committee. The Committee, made up of representatives of the MWRA's Board of Directors and of the Advisory Board's Executive Committee

arrived at the following recommendations for strengthening the budget review process:

Ad Hoc Committee Budget Recommendations

1. Adopt a tiered approach to budget review.
2. Create a working committee to sift through less significant issues.
3. Adopt a practice of formal consultation with the Advisory Board early in the budget preparation process.
4. Notify the Advisory Board of policies and expenses that arise out of the budget review process.
5. Encourage increased Board participation in budget review and attendance at budget hearings.
6. Hold periodic updates of key programs and activities for the Board of Directors.
7. Provide a place for direct Advisory Board participation during budget hearings.
8. Provide a schedule of latest estimates of commodity costs and usage for use by the working committee and Board at their deliberations.
9. Reallocate budgeted amounts during the year at the end of the sixth month.
10. Identify cost savings as they arise for transfer to the stabilization fund.
11. Expand tabular presentations in the budget document.
12. Update current year spending projections in the budget document.
13. Reconvene Ad Hoc Committee at close of budget cycle.

The above recommendations were adopted by the Board of Directors at the January 22, 1992 meeting and incorporated as part of the Board of Directors' Management Poli-

LOOKING AHEAD

In 1990, the MWRA ventured into the bond market on its own credit. Prior to this event, the local communities expressed their support to the MWRA by vowing to aid one another in the face of fiscal adversity. Each community signed the community obligation and revenue enhancement fund (CORE) agreement assuring that if one of the 60 cities and towns were to experience serious financial hardship the others would unite and pick up the cost. This action resulted in the agency's being viewed favorably by Wall Street and receiving outstanding credit ratings. **The MWRA cities and towns have consistently shown their commitment to the project and support for the MWRA. Cities and towns have assumed more than their fair share of the fiscal burden. Each and every year the communities pay their assessments in full and on a timely basis. The same level of interest for the project must also be cultivated on the state and federal levels or the project risks losing community support and being placed in jeopardy.**

Again, we highlight the importance of educating legislators and elected officials about the need for continued cooperation in seeking funds for the Boston Harbor Project. **An aggressive campaign to find significant outside dollars to fund the MWRA's mission beyond the 60 cities and towns must be undertaken.** The federal and state governments must be convinced that their commitment to the project should end only when the need ends. The \$6 billion water and sewer program is being paid almost entirely by 2.5 million ratepayers, and with peak construction almost upon us, it is crucial that significant dollars arrive as soon as possible.

Along with changing the perceptions of legislators and regulators, the public perception of the MWRA as an agency "out of control" must also be addressed. **In order to maintain ratepayers' support, the MWRA must convince ratepayers that it is innovatively pursuing additional funding, working for passage of ratepayer relief legislation, and striving to ensure that only projects of the highest priority are being undertaken.**

The goals of a cleaner harbor, safe drinking water, and sound infrastructure are expensive and cooperation between all parties involved is essential to achieve these goals in an affordable manner. The Advisory Board looks forward to working together with you, the MWRA, and all concerned parties to distribute the financial burden on ratepayers more fairly. We invite you to stand with the Advisory Board to protect the Harbor, the infrastructure, and the MWRA's customers. **The Advisory Board welcomes a formal response to the recommendations outlined in this report, and we extend an invitation to join with us in fighting for ratepayers on legislative, legal, and regulatory fronts.**

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