

EXECUTIVE COMMITTEE MEETING
JANUARY 12, 2001
MINUTES APPROVED AT THE FEBRUARY 16, 2001 MEETING

Present: Phil Farrington, ARLINGTON; John Sullivan, BOSTON; Dana Snow, MARBLEHEAD; Peter Hersey, MELROSE; Katherine Haynes Dunphy, MILTON; Stanley Stanzin, NEEDHAM; Jay Fink, NEWTON; Edward D. McIntire, READING; Joseph Foti, SOMERVILLE; Stephen Casazza, WAKEFIELD; Walter Woods, WELLESLEY.

Also in attendance: Norman Jacques and Andrew Pappastergion, MWRA BOARD OF DIRECTORS; Joseph Favaloro, Cornelia Potter, Ryan Ferrara, Nathalie Grady and Mary Ann McClellan, MWRA ADVISORY BOARD.

I. APPROVAL OF THE NOVEMBER 9, 2000 MINUTES OF THE EXECUTIVE COMMITTEE

The meeting, held at the Advisory Board office, was called to order by Chairman Joe Foti at 8:37 a.m. A Motion was made **TO APPROVE THE NOVEMBER 9, 2000 MINUTES OF THE EXECUTIVE COMMITTEE**. It was seconded and passed by unanimous vote.

II. UPDATE ON LEASE

Joe Favaloro reported that negotiations for a lease agreement with the Advisory Board's landlord, Nathan Miller, have been tabled until next year. Miller Properties increased the target number from the \$35 per square foot to the \$39 range. The market is beginning to soften so the impact when negotiations begin again next summer may be in the \$35 or \$36 range. Other than wages and salaries, lease expenses are the single largest line item in the Advisory Board budget.

III. ACTION ITEM: INFLOW/INFILTRATION GRANT/LOAN PROGRAM

Mr. Favaloro stated that staff surveyed communities on their requirements for an I/I program and held discussions at three Operations Committee meetings, with MWRA personnel making presentations. The Operations Committee (with three communities in attendance) endorsed the following Phase IV guidelines for the Infiltration/Inflow Financial Assistance Program:

- MWRA WILL MAKE \$40 MILLION AVAILABLE TO THE 43 MWRA SEWER MUNICIPALITIES.
- PHASE IV FUNDING WILL BE ALLOCATED TO MUNICIPALITIES PROPORTIONALLY, BASED UPON EACH COMMUNITY'S RESPECTIVE SHARE OF OVERALL MWRA WHOLESAL CHARGES (CONSISTENT WITH PHASE III).
- DISTRIBUTIONS WILL BE MADE BASED UPON A 45% GRANT, 55% INTEREST-FREE LOAN ALLOCATION (CONSISTENT WITH PHASE III).
- LOANS WILL BE PAID BACK OVER A FIVE-YEAR PERIOD (CONSISTENT WITH PHASE III.)

Walter Woods stated that the loan process for the water and sewer programs are totally different and the Advisory Board has never discussed one loan process versus the other. The Authority will pay off the water program debt in notes, which has a lot of benefits. The Authority borrows money for the sewer program and pays it back in thirty years, which inflates the cost two to three times.

Any community that has a decent bond rating can do better and save their town a lot more money.

Mr. Woods stated that paying 55% back to the MWRA is like a second sewer charge. With the water loan process, if a community chooses not to participate, there is no cost to that community. With the I/I loan process, the pay back is included in the assessments whether the community participates in the program or not. Additionally, Mr. Woods felt that the grant portion should be increased from 45% to 90%.

John Sullivan asked if the Authority has any data that shows that the I/I Program has been effective. Mr. Favaloro responded that the Authority has not analyzed program performance. In isolated areas, it would be easier to say that because of I/I programs there were fewer overflows in the one-year storm.

Ryan Ferrara interjected that trying to quantify the value or worth of I/I is a difficult science. About 42 of the 43 wastewater communities have taken advantage of the program to date and close to 85% of funds have already been committed. In the survey, a lot of communities stayed with the status quo aspects of the existing program.

Stanley Stanzin asked if the actual cost to communities for the I/I Loan Program was known. Mr. Favaloro stated that the number is somewhere in the vicinity of \$3 million a year.

Mr. Sullivan stated, "It is cheaper for communities to borrow their own money for I/I, but for towns that can't borrow it cheaper or can't access it because town meetings will not approve, this is the vehicle that allows them to do the right thing. As a group, we need to get this stuff fixed."

Dana Snow stated that the I/I Program is a good method to allow communities to move forward. It forces every community to participate because there is a component that appears to be free money to the communities, and every community will participate in paying for that free component. It helps to ensure that you live up to the NPDES permit.

Mr. Favaloro noted that the demands of EPA on the NPDES permit related to I/I needed to be addressed. The resolution of that challenge was settled with the creation of the I/I Task Force and the document that is going to be discussed at length over the next couple of months about the components that need to be part of the MWRA's and communities' I/I reduction. There is a cost associated with that plan and that is where the NPDES permit will tie in. There will be some mandates that will come out of the I/I Task Force.

Mr. Woods asked if the Authority proposed the 55% grant allocation. Mr. Favaloro replied that the Board of Directors chose 45%.

Katherine Haynes Dunphy stated that the program is useful and does sell at town meeting. The big point that sells it is if the town doesn't take advantage of this program, the town will pay for it anyway, resulting in a unanimous vote. Ms. Dunphy stated that it is a good program, but questioned whether 30 or 40-year debt is appropriate.

Cornelia Potter stated that the Authority is not proposing to issue 40-year debt for quite a long time because they are planning to borrow less than \$200 million at a time, which is a number that they

have determined below which they won't go for 40-year debt. Even at 30 years it is still important to remember that any bond issue is structured with some portions of the borrowing having early maturities to which it is fair to say I/I related borrowing could be applied. Ms. Dunphy responded that the numbers that MWRA supplied are not appropriate in terms of what the annual costs are.

Mr. Sullivan made a Motion **TO APPROVE THE OPERATIONS COMMITTEE'S RECOMMENDATION FOR PHASE IV OF THE INFILTRATION/INFLOW FINANCIAL ASSISTANCE PROGRAM.** It was seconded and passed by unanimous vote.

IV. ACTION ITEM: EMERGENCY WATER SUPPLY AGREEMENT BETWEEN MWRA AND THE DEDHAM-WESTWOOD WATER DISTRICT

Mr. Favaloro stated that the Dedham-Westwood Water District has requested an extension of an Emergency Water Supply Agreement with the MWRA for another six months. Construction of a new two million-gallon water tank was completed too late in the season to paint the tank, which will be done in the spring. Mr. Favaloro noted that no water has been expended and that the connection is only for emergency fire use or back up. The Board of Directors has conditionally approved the Agreement with the provision that the Advisory Board concurs.

Mr. Stanzin inquired whether the connection would remain for future emergencies to which Mr. Favaloro responded in the positive. Mr. Sullivan noted that Boston also has a metered connection to Dedham-Westwood that is available for emergencies.

Mr. Snow noted that a two million-gallon tank may take longer than six months to paint, depending on weather.

A Motion was made **TO APPROVE AN EMERGENCY WATER SUPPLY AGREEMENT BETWEEN MWRA AND THE DEDHAM-WESTWOOD WATER DISTRICT FOR A TERM OF SIX MONTHS.** It was seconded and passed by unanimous vote.

V. DISCUSSION: ADVISORY BOARD CIP REVIEW PROCESS AND GOVERNOR'S BUDGET H1

Mr. Favaloro stated that he met with Secretary of Environmental Affairs, Robert Durand, and was asked what the reaction of the communities would be if the Governor reduced debt service assistance. Mr. Favaloro responded that the communities would be concerned if debt service assistance were to be reduced.

The entire Sewer Rate Relief Fund in the Commonwealth of Massachusetts is \$53.9 million as appropriated in FY01. That number has been relatively stable over the last four or five years. Every year there has been less of a draw and funds were rolled over. All of that surplus amount has dried up. The Commonwealth's booklet on the Sewer Rate Relief Fund indicates that \$61.8 million was distributed to the MWRA, the South Essex Sewer District and other eligible communities. Just to get to FY01 expenditures, the Commonwealth would have to appropriate an additional \$12.3 million in House 1.

There is still a very strong belief on the part of the Administration that there ought to be a procurement for privatization. There is an unspoken component that if there is going to be an additional loss in debt service assistance, maybe there would be some further discussion about

privatization. House 1 will not have the \$1 million line item it had last year for the procurement of a privatization study. Secretary Durand may be going to the Board of Directors of the Authority to ask them to fund the procurement process for a privatization study. Mr. Favaloro noted that there isn't a desire to do privatization in the Legislature at this time, based on two privatization proposals made by the Advisory Board in its legislative package for the Clinton/Lancaster Sewerage Plant and the MDC. Additionally, he noted that the Board of Directors recently procured a \$400,000 competitiveness study and did not sense that there would be six votes from the Board.

The important issue is whether the Authority is doing the job with no more than the necessary funds. The competitiveness study will address the key component – staffing needs at the MWRA over the foreseeable future.

The end result is a potential cut in debt service assistance of at least \$12 million; rates projected to be increasing by 6.9% may now increase to 9.5%. With a \$20 or \$30 million cut in debt service assistance, the rate increase will be in the double digits. The MWRA more than likely would develop mechanisms to smooth that rate increase and would need to find upwards of \$9 to \$10 million a year just to get back to 6.9%. That becomes \$90 million that can't be used to get that number from 7% down to a lower number. The Authority would lose the opportunity to use surplus funds and the monies realized from savings from the competitiveness study to reduce rates further.

The Administration has also called in Doug MacDonald, Barbara Gottschalk and MWRA staff, who spent a good deal of time fighting the privatization as opposed to the debt service assistance reduction. The Authority gave different numbers to the Administration on what the impact would be if there were a cut in debt service assistance because they offered an immediate solution on how not to have it impact rates. The message that went to A&F and EOEA was the budget can be cut by \$10 million and only have an impact of .7% by rate smoothing.

Andrew Pappastergion stated that the state was going to pay for the privatization study and they reneged on that. The state was going to fund a water program and they pulled out of that. Mr. Pappastergion said they will never get my vote.

Ms. Dunphy reported that elderly women come up to her and say that their heat and electric bills have gone way up and that they can't afford it. They asked her if she could do something about water and sewer bills. Ms. Dunphy stated, "Those people aren't looking for a cut in income taxes; they're looking to survive. Somebody has got to tell the Authority that water and sewer rates are still an issue with people."

Advisory Board staff have begun to schedule meetings with community CEOs to begin the mobilization of the communities. Additionally, staff has been in contact with the Legislative Caucus to muster their support to coincide with publication of House 1.

Regarding the proposed FY02-04 CIP, Cornelia Potter reported that the MWRA's assumptions on spending from the point of the Authority's inception in FY86 through FY11 are \$7.2 billion. Over the next three years the Authority is assuming that spending is going to be just over \$1 billion, which is well over half the ten-year total. Over half of all capital spending will be for waterworks projects. Other than the MetroWest Tunnel, waterworks related projects are not eligible for debt service assistance. Half of all wastewater spending over the next ten years and a quarter of all capital

spending is attributed to the CSO program. The ten-year total is about \$1.9 billion.

In FY00 the Authority budget included \$550 million, while actual spending barely reached \$390 million. In FY01 \$502 million was budgeted and, including contingency, the MWRA now estimates spending of \$428 million. The top five projects over the next three years are the Walnut Hill Water Treatment Plant, the Braintree-Weymouth Relief Project, the MetroWest Tunnel, the initial distributions for the Local Water Treatment Program and Norumbega. Waterworks spending will be significant over the next several years. The five CSO projects combined are also in the top 20, with spending of \$100 million in the next three years.

The difference between last year's budget and this year's budget are cost increases of nearly \$170 million, offset by decreases of \$83 million, for a net increase of \$86 million. The increases include \$64 million for new projects, \$71 million for projects that are already in construction and \$34 million for revised projects that are still in design.

Some of the increases are cushioned by the rescheduling of the North Dorchester Bay project and rescheduling of portions of the Cambridge CSO projects. There have also been decreases including reduced inflation assumptions, the removal of \$30 million in completed projects from the budget, as well as the decision not to build a new chemical generation facility on Deer Island, but to take advantage of better pricing on the delivery of sodium hypochloride.

Acknowledgements in the budget of costs not included are the repair and rehabilitation of existing sewers, at an annual cost of \$10 to \$17 million; interceptor renewal, at an estimated cost of \$16.5 million a year; the Charles River variance; and additional costs associated with the North Dorchester Bay/Reserved Channel CSO Project and Cambridge sewer separation. The Authority also acknowledges that additional treatment requirements may have to be added to the Walnut Hill Water Treatment Plant and there may be new standards for I/I related work.

Last year the Board of Directors approved a ten-year cap and voted to keep spending within \$2.3 billion for the ten-year period FY01-FY10. In addition, the Board set the first three-year cap at \$500 million for FY01, \$402 million for FY02 and \$329 million for FY03. These numbers include estimates for inflation, as well as contingency allowances, and allowed for an estimate of \$75 million in unspent carryover from FY00. The Board also voted that the carryover calculation would be a function of each year's resetting of the cap and that the FY02 cap, therefore, would be changed, but the FY03 cap would remain at \$329 million firm. The Authority's revised spending cap for FY02-FY11 is \$2.004 billion.

Mr. Sullivan stated that the MWRA was able to stay within the cap the first year, but noted all of the projects that were not included in the budget that may be required in the future. Mr. Favaloro stated that under the rules of the cap, all of those projects come under the purview of the cap. That was the value of getting some level of control on overall spending. Now through planning and coordination meetings, the Authority brings the water and wastewater staff together to develop a cohesive plan on how they are going to spend a finite amount of money.

Mr. Favaloro noted that though the Advisory Board is still aggressively looking at the MWRA's projects, staff will not be recommending cuts to the cap. If the Authority is within the cap, the Advisory Board needs to live within those terms as well. Staff will still ask the Authority to tighten up

on spending, but will not ask to reduce the cap.

VI. APPROVAL OF THE ADVISORY BOARD AGENDA FOR JANUARY 18, 2001

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE JANUARY 18, 2001 MEETING, WITH THE ADDITION OF AN UPDATE ON THE ANNUAL CONSUMER CONFIDENCE REPORT.** It was seconded and passed by unanimous vote.

VII. QUESTIONS/COMMENTS

Mr. Favaloro noted: the I/I Task Force meeting is rescheduled for January 25th; Reading is planning on coming forth with a System Expansion Policy request for water; the Stoughton Board of Selectmen voted three to two to opt for the MWRA versus desalinization option and a final vote will be taken at Town Meeting on February 12th, where the Advisory Board will be present to answer any questions.

Mr. Favaloro reported that Andy DeSantis was diagnosed with blockages in his arteries and has undergone procedures to rectify that situation and will be resting for another four to six weeks.

VIII. ADJOURNMENT

A Motion was made **TO ADJOURN THE MEETING AT 9:52 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary