

**MWRA ADVISORY BOARD MEETING
JUNE 19, 2003
NEWTON FREE LIBRARY AUDITORIUM
330 HOMER STREET, NEWTON CENTRE, MA – 11:30 A.M.
MINUTES APPROVED AT THE SEPTEMBER 18, 2003 MEETING**

Thirty-two members were present: John Sanchez, ARLINGTON; E. A. Maguire, ASHLAND; Richard Warrington, BEDFORD; John Sullivan, BOSTON; Charles Barry, BROOKLINE; Timothy MacDonald, CAMBRIDGE; Ed Sullivan, CANTON; Andrew DeSantis, CHELSEA; Eugene Capuano, EVERETT; J. R. Greene, GUBERNATORIAL APPOINTEE; Ralph Pecora, LEXINGTON; Bruce Kenerson, LYNNFIELD; Jack Russell, MALDEN; Dana Snow, MARBLEHEAD; Lenny Riley, MEDFORD; John Scenna, MELROSE; Katherine Haynes Dunphy, MILTON; Gerry Rovner, NEEDHAM; Lou Taverna, NEWTON; Bernard Cooper, NORWOOD; Peter Smyrnios, PEABODY; Jay Fink, QUINCY; Joseph Delaney, READING; Benjamin DeChristoforo, REVERE; Carol Antonelli, SOMERVILLE; Michael Martello, WAKEFIELD; Don McCabe, Jr., WALTHAM; Walter Woods, WELLESLEY; Brad Hayes, WEYMOUTH; Albert Kirk, WILBRAHAM; Michael Woods, WILMINGTON; Ed Grant, WINCHESTER.

Also present: Andrew Pappastergion and Joseph Foti, MWRA BOARD OF DIRECTORS; Glenn Garbati and Jon E. Norton, EVERETT; David Savoy, WALTHAM; Matt Boger and Phil Jasset, UCANE; Fred Laskey, Michael Ralph, Jonathan Yeo, Carl Erickson, Pamela Heidell and Stephen Estes Smargiassi, MWRA STAFF; Joe Favaloro, Cornelia Potter, Ryan Ferrara and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

A. WELCOME

Chairman Katherine Haynes Dunphy called the meeting to order at 11:47 a.m.

B. APPROVAL OF THE MINUTES FROM APRIL 24, 2003 AND MAY 15, 2003

A Motion was made **TO APPROVE THE MINUTES FROM THE APRIL 24, 2003 AND MAY 15, 2003 ADVISORY BOARD MEETINGS**. It was seconded and passed by unanimous vote.

C. REPORT OF THE EXECUTIVE DIRECTOR

Joe Favaloro stated that based on positive feedback from Advisory Board members, we will continue with the daytime meeting format for all FY04 Advisory Board meetings.

The Advisory Board's Annual Field Trip is scheduled for August 21. An itinerary is still being worked on but the trip will include an effort to reach out to our friends, residents and organizations in central and western Massachusetts.

D. PRESENTATION: MWRA ISSUES/CHALLENGES FOR FY04 – Fred Laskey, Executive Director

Fred Laskey, MWRA Executive Director, stated that FY03 was a challenging, but successful year for the Authority. MWRA had a good year from a construction and operational point of view; however, the single biggest challenge was the 10% reduction in revenue with the two-phased loss of debt service assistance (DSA).

The first reduction in DSA occurred in August when Governor Swift vetoed \$14 million and, in her last days in office, seized the remaining \$32 million of DSA via her 9C powers.

Throughout the crisis, MWRA had two goals. One was to maintain its bond rating. Sixty percent of the Authority's annual expenditures are to pay for debt service for the bonds to support the capital projects. That percentage will grow over the next couple of years to two-thirds of the budget. Any downgrade in MWRA's bond rating would cost millions of dollars.

The second goal was to meet performance objectives. With the Board's guidance and help, staff recommended, and the Board approved, a balanced approach to deal with the reduction in revenue. One-third came from revenue, one-third from judicious use of reserves and one-third from spending reductions. If MWRA went too far down any one of these three roads, it could create a crisis. If the burden were placed entirely on the ratepayers, it could precipitate a rate revolt. If increased use of the reserves dramatically changed MWRA's long-term financial plans, there could be a serious downgrade of its bond rating and if MWRA cut too deep into spending, it would run headlong into the regulators.

Spending reductions were implemented by the Board of Directors, including a hiring freeze, management pay freeze, a 50 person layoff, closure of the South Maintenance Yard in Quincy, freezing all contract employee and intern hires. Staff went through every cost center with a fine-toothed comb, from computers, electric bills, car purchases, etc. Staff worked very hard on the details. While there was no silver bullet in any of these areas, it all added up.

Obviously the Board of Directors held the line and made some difficult votes to keep the ship on course. But it is important to say that these hard choices and plans would not have been possible without the help of the Advisory Board and its staff, who worked as partners with MWRA staff to create this balanced approach.

A major part of the Authority's ability to control costs has been a steady and dramatic reduction in staffing levels. MWRA has been disciplined in backfills and attrition and may be the only government entity that did not backfill any of the positions from the Early Retirement Incentive Program.

For FY04, the Authority will be bringing the Walnut Hill Water Treatment Plant (WHWTP) and the MetroWest Water system online that will require 20 new positions; however, MWRA plans to absorb these anticipated hires by driving down costs in other parts of the operation.

The Authority has been aggressive in refinancing hundreds of millions of dollars and has literally refinanced everything possible. The results will save \$220 million over the next ten years in debt service costs. The average interest rate on borrowings is now under 4%.

Fitch notified MWRA that it was going to put the MWRA on a credit watch. The Authority appealed and asked for a hearing with the principals of Fitch. After a lengthy conference call with the principals from all over the country in which staff provided them electronically with a power point presentation, the result was that Fitch issued a favorable report to MWRA's bondholders saying that they viewed MWRA's approach favorably. MWRA received similar verbal reports from Standard & Poors and Moody's, as well.

To continue to drive the cost savings, MWRA has continued downsizing and consolidation to the Chelsea facility and surplusing several facilities: Chestnut Hill Waterworks, Glenwood Yard in Medford, North Maintenance Yard in Winchester, East Boston Pump Station and Constitution CSO have all been turned over to DCAM. In the Navy Yard, MWRA consolidated from two buildings to one and is trying to sublease the vacated building. With the relocation of the South Maintenance Yard to Chelsea, some concern has been expressed from the southern communities; however, with the Ted Williams Tunnel, staff can get to most of the southern part of the district faster from Chelsea than from the southern part of Quincy.

MWRA has maintained a very disciplined approach, setting aggressive goals for 52 key performance indicators that are tracked on a monthly basis. In FY03, MWRA has been meeting 79% of its performance indicators, an increase from 2001 and 2002.

Mr. Laskey stated that he was appointed to the Executive Board of a Regional Terrorist Taskforce. The significance of that is that the people involved from the U.S. Justice Department and the State Department of Public Safety recognize that the water is critical in any part of a security plan.

Authority and Advisory Board staffs spent a significant amount of time trying to convince the powers that be on Beacon Hill that it is time to reunite the water system for watershed protection. It appears that the Division of Watershed Management (DWM) will be transferred to a new Department of Conservation and Recreation (Division of Water Supply Protection), but will remain with the current arrangement of forwarding the bill to MWRA and MWRA pays.

MWRA has implemented a new Facility Maintenance Program that is working well. Deer Island is running better than predicted by scientists.

The CSO Program is one of the great untold success stories in the cleanup of the Boston Harbor. In 1987 there were 3.3 billion gallons of untreated CSO discharges into Boston Harbor on a regular basis. There were 84 outfalls and literally thousands of overflows and dry weather overflows. MWRA has closed the majority of those and the 3.3 billion gallons has been reduced to 600 million gallons, of which 60% is now treated.

In the upcoming year, MWRA has major decisions pending on many of the projects. Staff is working closely with the regulators to try to get a reasonable position for Charles River, Alewife, Fort Point Channel, East Boston, North Dorchester and Reserved Channel CSO Projects, which are all pending some regulatory decisions.

The Integrated Water Supply Improvement Program is expected to be implemented over the next 18 months. Staff will be turning on a new state of the art upgrade to MWRA's water

delivery system that marks the single largest investment in the water supply system since the building of the Quabbin Reservoir. It includes covered storage tanks, an ozonation treatment plant and the MetroWest Water Supply Tunnel (MWWST).

Testing of the Wachusett Aqueduct was successful, with 252 million gallons of water running through. The storage tanks at the Walnut Hill Water Treatment Plant were substantially complete in FY03, as was the MWWST. The link up to the Loring Road tunnel is complete, as is the connection to the City Tunnel in Weston.

Walter Woods asked what MWRA's plans are for the Fore River Staging Area in Quincy. Mr. Laskey responded that MWRA would like to get out of the landlord business and would prefer to sell the property and get the money back from its investment. Unfortunately MWRA is mired in local politics. This is an important piece of land for the City of Quincy and it is concerned about its development. John Carroll will represent the Advisory Board at meetings with the City.

E. COMMITTEE REPORTS

Executive Committee – Katherine Haynes Dunphy

❖ ACTION ITEM: NOMINATION AND ELECTION TO THE MWRA BOARD OF DIRECTORS

Chairman Dunphy stated that a quorum was present and noted that the Executive Committee, acting as the Nomination Committee, has nominated Andrew Pappastergion to continue to serve as an Advisory Board representative to the MWRA Board of Directors.

Mr. Pappastergion stated that it has been his pleasure to serve as an Advisory Board representative on the Board of Directors over the last six years. He expressed his amazement at how much influence the three Advisory Board members have on the Board of Directors when they are sometimes able to swing votes to carry the majority. The three Advisory Board members work well together. Mr. Pappastergion stated that it would be his pleasure to serve for the next three should the members decide to reelect him.

Chairman Dunphy asked if there were any nominations from the floor. Seeing none, the election process continued.

Ed Sullivan made a Motion **TO NOMINATE ANDREW PAPPASTERGION TO SERVE AS THE ADVISORY BOARD'S REPRESENTATIVE TO THE MWRA BOARD OF DIRECTORS FROM JULY 1, 2003 TO JUNE 30, 2006.** It was seconded and passed by unanimous vote.

❖ LEGISLATIVE UPDATE

Mr. Favaloro stated that MWRA has taken a dogged approach as it relates to CSOs. Behind the scenes the Authority continues to work with the regulators, and specifically EPA, very diligently to ensure that what ultimately gets done is environmentally sound, but isn't off the wall regarding cost. That is going to be one of the principal areas that will impact capital budgets.

Advisory Board staff will work to try to get back to a partnership with the Commonwealth as it relates to debt service assistance and watershed protection. It is going to be a critical year.

The Senate budget did include the \$5 million for debt service assistance. It is non-conferencable. The real battle will occur when it gets to the Governor's desk. If it is vetoed, there may be an opportunity to override the Governor's veto. Staff will work for that; however, it

may ask communities to contact their Representative or Senator to override.

On the Division of Watershed Management (DWM), staff was unsuccessful in getting the transfer as part of the House and Senate budgets. The next opportunity will be an October 16 hearing before the House/Senate Natural Resources Commission to discuss the pros and cons as relates to transferring the division to MWRA.

The Advisory Board has reached out to central and western Massachusetts with its field trip on August 21 to the Quabbin Reservoir to show what is best for the environment and good for the ratepayers. Staff has reached out to recreational commissions in hopes to dispel some of the misnomers that are out there.

Finance Committee – Albert Renzi, Jr.

❖ **STATUS: FY04 CURRENT EXPENSE BUDGET AND FY04-06 CAPITAL IMPROVEMENT PROGRAM**

Cornelia Potter stated that on the CIP side, the Board approved a five-year spending cap of \$1.134 billion. Part of the agreement is that the Authority would have some flexibility with each of those five years, plus or minus 20% of the cap amount, with the understanding that over the five-year period the Authority would not spend more than the total of \$1.134 billion.

The Authority also amended some of its budget policies and the Advisory Board recommended that MWRA consider modification of the five-year cap in the event that projects were reduced then the cap would be reduced by that same amount. It is not an automatic cutback, but such changes will have to go to the Board for discussion. MWRA could have some success in getting regulators to reduce some of the requirements on CSO projects that could save significant dollars over the next three to five years.

The Authority accepted more than 90% of the Advisory Board's recommendations and overall strategy to apply the reductions in spending and increases in non-rate revenue to preserve the rate stabilization amount that the Authority had originally proposed to use for FY04. The Advisory Board completely substituted \$12.57 million in other reductions in order to preserve that amount of money for future rate increase smoothing.

The Authority did disagree with some Advisory Board recommendations, most notably under direct expenses where MWRA took issue with some utilities and professional services recommendations; but the Authority also added back in a number of additional expenses as it updated its expectations for next year's spending.

To substitute for the difference with the Advisory Board's recommendations, MWRA reduced debt service by an additional \$2.2 million so that the reduction in rate stabilization reserves of \$12.57 million remained the same as the Advisory Board's recommendation.

Operations Committee – Jay Fink

❖ **UPDATE: MWRA PLANS FOR SOUTH MAINTENANCE YARD**

Jay Fink stated that the Operations Committee discussed the MWRA's move from the Quincy South Maintenance Yard to Chelsea and the potential impacts to communities. A records room still remains in Quincy, which some substantial investment has gone into. No determination has been made regarding the records facility.

❖ **UPDATE: COMMUNITY WATER AND WASTEWATER LOCAL PIPELINE IMPROVEMENT PROGRAM**

Mr. Fink noted that the I/I and Local Pipeline Improvement Programs are coming up on five and ten-year marks respectively. There are some communities that have not taken advantage of these programs at all. If there are communities that are not going to take advantage of those monies as we reach these benchmark years, then we ought to check with those communities to find out whether they will take advantage of the Programs somewhere down the road. If not, perhaps they could release the funds so that other communities that do have a need could take advantage of it.

F. QUESTIONS AND COMMENTS

G. ADJOURNMENT

A MOTION WAS MADE TO ADJOURN THE MEETING AT 12:48 P.M. It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary