

**MWRA ADVISORY BOARD MEETING/PUBLIC HEARING
ON MWRA'S PROPOSED FY05 CURRENT EXPENSE BUDGET
MARCH 18, 2004
WILMINGTON TOWN HALL
121 GLEN ROAD, WILMINGTON, MA
MINUTES APPROVED AT THE MAY 20, 2004 MEETING**

Twenty members were present: John Sanchez, ARLINGTON; E. A. Maguire, ASHLAND; Peter Castanino, BELMONT; Andrew DeSantis, CHELSEA; Al Borgonzi, EVERETT; J. R. Greene, GUBERNATORIAL APPOINTEE; Dale Thompson, LEXINGTON; Bruce Kenerson, LYNNFIELD; Doran Crouse, MARLBOROUGH; Ed Bates, MAPC; Don Ouellette, MEDFORD; Katherine Haynes Dunphy, MILTON; Peter Smyrnios, PEABODY; Jay Fink, QUINCY; Ted McIntire, READING; Rick Stinson, WAKEFIELD; Don McCabe, WALTHAM; Earl Forman, WESTON; Bob Angelo, WESTWOOD; Michael Woods, WILMINGTON.

Also present: Joseph Foti, MWRA BOARD OF DIRECTORS; Jon Norton, EVERETT; Rob Antico, WILMINGTON; Ken Wissman, Carl Erickson and Patricia Filippone, MWRA STAFF; Joe Favaloro, Ryan Ferrara, Tracy Wadsworth and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

**ADVISORY BOARD PUBLIC HEARING ON MWRA'S PROPOSED
FY05 CURRENT EXPENSE BUDGET**

Chairman Katherine Haynes Dunphy called the public hearing to order at 11:30 a.m.

For the record, Joseph Favaloro, Executive Director of the MWRA Advisory Board read the official notice of the public hearing. The MWRA Advisory Board will hold a public meeting and hearing on **Thursday, March 18, 2004 at Wilmington Town Hall, 121 Glen Road, Wilmington, MA at 11:30 a.m.** After a presentation on the components of the Authority's proposed \$501.9 million FY05 Current Expense Budget, community officials and members of the public will have an opportunity to offer their comments on the budget. The Authority must adopt the proposed budget on or before June 30, 2004, as set forth in Chapter 372 of the Acts of 1984. The Advisory Board is empowered by statute to make comments and recommendations on the proposed budget. Copies can be examined at the offices of the Authority at 100 First Avenue in Charlestown. Written comments received at the office of the MWRA Advisory Board, 11 Beacon Street, Suite 1010, Boston, MA 02108-3002, no later than May 7, 2004 will also be considered.

Carl Erickson, MWRA Budget Manager, gave a presentation on the MWRA's proposed Current Expense Budget for FY05. In February, the MWRA Board of Directors approved a preliminary FY05 Budget with a combined water and sewer assessment increase of 4.7%. The formal review and comment period is currently underway. Advisory Board staff will be meeting for a series of briefings with Authority staff, scheduled over the next few weeks. The MWRA Board of Directors will hold a meeting on the CEB and CIP on June 2nd and will adopt the final budget in late June.

Total expenses, before debt service offsets, are \$524 million; direct and indirect expenses total \$214 million and capital costs for existing debt and new borrowings are \$310 million; and non-rate revenue is \$38 million, consisting of predominantly investment income on the debt service reserves.

In the proposed FY05 budget, MWRA suggests the use of \$21 million of reserves from prior years' surpluses to help keep the rate increase down. The Authority assumes that variable rate debt will be below 4% to give an expected savings of approximately \$8.8 million, leaving the rate revenue requirement at \$456 million for a 4.7% increase.

In FY90, the Authority had little debt outstanding and operating expenses were about 65% of the budget. Today, operating expenses are 40% and debt service is 60%. By FY10 debt service is projected to be 65% of the budget. Mr. Favaloro asked how the Authority could prevent debt service from becoming 65% of the budget. Mr. Erickson responded, to the extent that new borrowing is impacting that 65%, controlling the capital program could reduce the debt service portion. Mr. Favaloro noted that unless the Authority shows some restraint on pouring new projects into the capital budget, that 65% projection becomes a self-fulfilling prophecy.

Mr. Erickson noted the Authority continues to take advantage of the low interest rate market to refinance existing debt to help control capital financing costs. In the past two years, the Authority has refunded over \$800 million, saving \$200 million over the next ten years. MWRA's current weighted average cost of debt is slightly over 4% on \$5 billion of outstanding debt.

The loss of debt service assistance has had a dramatic affect on the Authority. Investment income and other sources of revenue account for only 10% of the Authority's rate revenue, with 90% of the revenue coming from ratepayers.

Seeing no further speakers, Chairman Dunphy adjourned the public hearing at 11:49 a.m.

A. WELCOME

Chairman Dunphy called the Advisory Board meeting to order at 11:49 a.m.

B. REPORT OF THE EXECUTIVE DIRECTOR

Mr. Favaloro reported the MetroWest Tunnel was put into service yesterday. All water coming into the greater Boston area is now covered. This achievement will allow a change in the process with gaseous chlorine and will lower disinfection byproducts. It also allows for rehabilitation of the Hultman Aqueduct. Next year, as the water treatment plant comes online, MWRA will have a state-of-the-art water distribution system and water treatment in place.

The MWRA's Current Expense Budget (CEB) Public Hearing is scheduled for Tuesday, April 6, 2004 at Boston City Hall at 6:30 p.m. The Advisory Board and the Authority will be discussing the Advisory Board's recommendations at the CIP/CEB meeting before the MWRA Board of Directors on June 2, 2004.

Ryan Ferrara noted there would be a notice in the newspaper, per a DEP and EPA requirement, reflecting a non-compliance ruling the Authority was issued regarding the lead and copper rule. Additionally, the Authority wanted to express its thanks to the communities for supplying 520 samples for the lead and copper retest.

C. COMMITTEE REPORTS

Finance Committee – Bernie Cooper

❖ ACTION ITEM: ADVISORY BOARD COMMENTS AND RECOMMENDATIONS TO THE AUTHORITY'S PROPOSED FY05-07 CAPITAL IMPROVEMENT PLAN

Mr. Ferrara summarized the Advisory Board's comments on the MWRA's proposed FY05-07 Capital Improvement Program (CIP). The Authority has an overall \$8 billion program; however, \$4 billion in

completed projects have been removed from the current CIP. Of the \$4 billion remaining there is \$2 billion for active projects and \$2 billion in future projects.

The Commonwealth is having trouble in keeping up with the national economic recovery. Most recently, the U. S. Department of Labor reported the state is lagging significantly behind many other states. In terms of the current economic picture, it is important to recognize the FY04 State Budget included \$1.5 billion in one-time revenues to balance the budget for that year. That means the Commonwealth must find a way to fill that gap for the FY05 State Budget. Local aid and local budgets are in significant turmoil. The Governor's (House 1) Budget indicates that state debt service assistance has not just been zeroed out, but the whole program has been discontinued. The Authority's projections do not include debt service assistance for this reason.

Last year the Authority eliminated the ten-year spending cap for its CIP. Historically, as each year lapsed, an additional year would be added to the CIP to continue with the ten-year cap process. During last year's budget review, the Board of Directors voted to switch to a five-year hard cap, essentially limiting the Authority's capital spending during the fiscal years 2004 to 2008. The second five-year period (FY09-13), as proposed, has an adjustment of nearly \$300 million in additional spending in this CIP. The "regulator" has been removed from the second five-year period and the Authority is shifting and adding projects into this timeframe. Without the regulator in place, the ratepayers are at a significant disadvantage.

The three main themes of the Advisory Board's recommendations are: 1) the role of the cap, 2) CSO spending and stormwater control, 3) the importance of master planning. Thus far, the Authority has stayed within its \$1.13 billion five-year (FY04-08) cap. MWRA staff has indicated there is the potential to spend \$200 to \$300 million per year in additional capital spending in the out years. Advisory Board staff understands much of the reasoning behind why the Authority is committed to supporting maintenance projects; however, there are a limited number of resources. Thus, the Advisory Board recommends the Authority establish a second five-year cap for FY09-13 this May, essentially reinstating a ten-year cap.

Seven of the top twenty projects over the next three years are CSO Control Projects. Advisory Board staff want to ensure the Authority does not establish a precedent in taking responsibility for stormwater. Mr. Favaloro noted the regulators are adamant about what they are looking for in a CSO plan and the bottom line keeps growing. The North Dorchester beaches project budget is now at \$257 million and growing. The Advisory Board's message is, 'don't raise the expectation or set the precedent that will force the Authority to finance stormwater solutions.' This has been a theme of the Advisory Board's comments since the mid-1990s. The mission of the Authority is water and sewer, not stormwater.

Mr. Ferrara stated with the Authority increasing spending in the second five-year period, a Comprehensive Master Planning process should be utilized to control those costs. The Authority has taken significant steps in regard to its maintenance projects. In the proposed FY05-07 CIP, the Authority has budgeted \$114 million for its wastewater interceptor renewal program. Putting it down on paper for a master plan has yet to occur.

A Master Plan would evaluate the Authority's needs and provide an analysis and determination on how projects fit into the scheme, including the financial implications of these changes. Is it sustainable? Is it predictable for ratepayers? The Advisory Board recommends the Authority commit to a firm deadline for the MWRA Master Plan and create a Master Planning Committee to develop a fast track Master Plan to serve as an interim guide to the proposed FY06-08 CIP.

The Authority has included conceptual projects in the CIP. For example, the Authority has budgeted \$40 million for the Sudbury Aqueduct repairs, but may want to pressurize or build a new line with an estimated cost of \$130 million – a significantly different project than what is currently in the CIP. ‘The camel’s nose is under the tent,’ but without knowledge of the true scope of the project. Advisory Board staff recommends the Authority remove the conceptual projects from the CIP and place them into a master planning process. These projects can be returned to the CIP when the scope of the project is determined. The value of these conceptual projects is \$152 million.

Further reductions to the CIP can be made for the Fort Point Channel in the amount of \$10 million and \$14 million for the interceptor pumping facility asset protection program based on downward design and construction estimates.

Currently, the North Dorchester Bay CSO Project includes a tunnel component subject to a 15% contingency and another segment (\$30 million) that is not a tunnel, which should only be subject to a 10% contingency. Therefore, a reduction of \$1.5 million can be made to adjust for the contingency calculation. Additionally, based upon a 10% reduction of total recommended reductions cited in the Recommendations, \$17 million can be reduced from the MWRA Contingency Fund.

In terms of actual dollars, there is a significant increase being imposed on ratepayers. Authority staff maintains until it hears feedback from ratepayers that what is included in the MWRA’s projections is no longer sustainable, they will continue on as they see fit. Are members comfortable going back to Town Managers or Boards and saying this can be sustained? The Advisory Board does not deny the Authority has numerous projects they have to take care of. But, just like your own home budget, there have to be limits.

Mr. McCabe noted only Advisory Board members were in attendance at this meeting. The public is not getting the information. What can be done to focus public attention on the rates? They will wait until they are faced with huge rate increases. Mr. Favaloro agreed ratepayers tend to be reactive, rather than proactive. Every year staff takes the community assessments and adds the proposed increases and loan payments for water and sewer to provide each community with an itemized bill for each of the next ten years. Mr. McCabe suggested something be provided to air on local cable stations. Mr. Ferrara acknowledged information could be provided. The first steps must be the establishment of the second five-year cap, the implementation of master planning and alternatives analysis on what projects the MWRA can afford and what projects can be delayed.

Mr. Favaloro requested that members take the information provided in a hand out back to their Chief Executive Officers (CEO) and ask them to provide a resolution or letter of support to the MWRA Board of Directors for adopting the Advisory Board’s recommendations and the institution of a five-year cap now. The Advisory Board is only as strong as the Army behind it. Mr. McCabe questioned if it would make more sense to have the Advisory Board take this initiative to the CEOs. Mr. Favaloro stated the Advisory Board communicates regularly with each CEO, but the personal touch has the greatest value. The 105th letter from the Advisory Board staff is less valuable than the community’s employee communicating with the selectmen’s office or the mayor’s office. Maybe they work in tandem. It is greatly fortified when members request it.

Chairman Dunphy urged members to ask to be on the public meeting agenda before their mayor or board of selectmen. The message must get out to the public that the bills communities are receiving now could go up by two-thirds by the end of the ten-year period.

Jon Norton of Everett agreed that ratepayers do not have enough information. Members should go before city government and do programs on cable.

A Motion was made **TO APPROVE THE ADVISORY BOARD COMMENTS AND RECOMMENDATIONS TO THE AUTHORITY’S PROPOSED FY05-07 CAPITAL IMPROVEMENT PLAN.** It was seconded and passed by unanimous vote.

❖ **STATUS: FY05 CURRENT EXPENSE REVIEW**

Advisory Board staff have scheduled a series of twelve meetings with Authority staff over the course of the next month. The review process will be ongoing for the next two months. Regular updates will occur at Operations, Executive Committee and Advisory Board meetings. Draft comments will be mailed to the Executive Committee on May 7th and to the full Advisory Board on May 14th, with a vote scheduled for the May 20th Advisory Board meeting in Newton.

Operations Committee – Jay Fink

❖ **ACTION ITEM: RECOMMENDED CHANGES TO THE INFILTRATION/INFLOW GRANT/LOAN PROGRAM**

Jay Fink stated discussions regarding changes to the Infiltration/Inflow (I/I) Grant/Loan Program culminated in the following motion.

A Motion was made **TO APPROVE THE FOLLOWING REFINEMENTS TO THE MWRA'S INFILTRATION/INFLOW (I/I) LOCAL FINANCIAL ASSISTANCE PROGRAM:**

1. That the MWRA support a Phase Five of the Infiltration/Inflow (I/I) Financial Assistance Program in the amount of \$40 million.
2. That Phase V funding be made available to communities based upon a 45% Grant/55% Interest Free Loan arrangement.
3. That communities be provided five-years to payback the interest-free loan portion of Phase V (I/I) Financial Assistance Program.
4. If an eligible community fails to take advantage of their total allocations under Phases One and Two of the I/I Financial Assistance Program by June 30, 2006, the community will relinquish the 25% grant portion associated with Phases One and Two. Eligible communities will be allowed to take advantage of their total allocations under Phases Three and Four by June 30, 2008 and June 30, 2010, respectively, or forfeit the 45% grant component. The Advisory Board recommends that eligible communities must utilize their entire allocation under Phase Five by June 30, 2012, or forfeit the 45% grant segment. The loan components for each of the Phases will remain available, absent any time constraints.
5. Any unused grant funds will be reduced from the total program amount upon the expiration dates for each respective phase.

It was seconded and passed by unanimous vote.

Mr. Favaloro stated there is desire by some communities to receive, on a case-by-case basis, allotted Water Loan program monies up front in the event of a large. A good example would be

Saugus, which had a brutal year with water main breaks on Route 1. If Saugus could take more money sooner, it would allow them to make repairs with fewer disruptions to Route 1 traffic.

Andrew DeSantis asked if drawing the money sooner would cost the communities more money. Mr. Favaloro stated other than the cost of the borrowing, 100% of the loan is repaid.

Mr. Fink stated more discussion is required in the Operations Committee before the idea is brought to the full Advisory Board for a vote.

Executive Committee – Katherine Haynes Dunphy

❖ **LEGISLATIVE UPDATE**

Mr. Favaloro noted there is now legislative support for the Trust initiative that would move the Division of Water Supply Protection out of the Commonwealth’s General Fund. Senator Brewer has become a champion of this initiative.

The Legislative Caucus plans to include the Debt Service Assistance line item in the House and Senate budgets, with amounts between \$5 million to \$10 million. It is fairly certain the Governor will veto this funding. Because this is an election year, the legislative session ends by the end of July, further compounded by the Democratic Convention, providing a great challenge to get the legislature to override the veto.

Further, the Authority is working on an initiative for Tort Liability to limit the Authority’s exposure to \$100,000.

❖ **PROCESS AND TIMELINE TO ELECT AN ADVISORY BOARD REPRESENTATIVE TO THE MWRA BOARD OF DIRECTORS**

Mr. Favaloro noted the term of Board Member Joseph Foti expires on June 30. The annual election process for this position is as follows: the deadline for submitting a letter of intent and a resume is April 8; the Executive Committee, acting as the Nominating Committee, will conduct interviews on April 16; and a vote will be held at the Advisory Board meeting in Boston on April 22 (if a quorum of 32 voting members is in attendance).

D. QUESTIONS AND COMMENTS

E. 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