

**MWRA ADVISORY BOARD MEETING
MAY 20, 2004
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330 HOMER STREET, NEWTON CENTRE, MA
MINUTES APPROVED AT THE JUNE 17, 2004 MEETING**

Twenty-four members were present: John Sanchez, ARLINGTON; Peter Castanino, BELMONT; John Sullivan, BOSTON; Ed Sullivan, CANTON; Al Borgonzi, EVERETT; Thomas Holder, FRAMINGHAM; J. R. Greene and Barbara Wyatt, GUBERNATORIAL APPOINTEES; Bruce Kenerson, LYNNFIELD; Doran Crouse, MARLBOROUGH; Don Ouellette, MEDFORD; Katherine Haynes Dunphy, MILTON; Gerald C. Rovner, NEEDHAM; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; Jay Fink, QUINCY; Ted McIntire, READING; Barbara Stevens, SOMERVILLE; Michael W. Martello, WAKEFIELD; Don McCabe, WALTHAM; Walter Woods, WELLESLEY; Earl Forman, WESTON; Bob Angelo, WESTWOOD; Rob Antico, WILMINGTON.

Also present: John Carroll, MWRA BOARD OF DIRECTORS; James Moran, CANTON; Jon Norton, EVERETT; Matt Boger and Phil Jasset, UCANE; Jae Kim, Stephen Estes Smargiassi and Joshua Das, MWRA STAFF; Joe Favaloro, Cornelia Potter, Ryan Ferrara, Tracy Wadsworth and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

A. WELCOME

Chairman Katherine Haynes Dunphy called the meeting to order at 11:45 a.m.

B. APPROVAL OF THE MINUTES FROM MARCH 18, 2004 AND APRIL 22, 2004

A Motion was made **TO APPROVE THE MINUTES FROM THE MARCH 18, 2004 AND APRIL 22, 2004 ADVISORY BOARD MEETINGS.** It was seconded and passed by unanimous vote.

C. REPORT OF THE EXECUTIVE DIRECTOR

Executive Director Joseph Favaloro provided members with a schedule of Advisory Board and Executive Committee meetings for FY05 and announced a change in Advisory Board meeting locations. Meetings formerly scheduled for Wilmington will now be held at the Natural Heritage Museum in Lexington. All Advisory Board meetings will be daytime meetings; the time change has worked effectively. The March 17 meeting was switched to March 24 because the State House will be closed that day. The Advisory Board's Annual Field Trip, scheduled for August 19th, is still in the planning stages.

Additionally, the Authority offered a new solution for the North Dorchester Bay project and thought there was a consensus by all parties. The Conservation Law Foundation is raising concerns as to where the stormwater is going (Pattens Cove), so more work will be required before there is resolution on the new North Dorchester Bay solution.

D. PRESENTATION: NEXT PIECE IN THE INTEGRATED WATER SUPPLY PROGRAM – WALNUT HILL WATER TREATMENT PLANT START UP – Jae Kim, Director – Capital Engineering

Jae Kim, Director of Capital Engineering, spoke of the major milestones achieved in the Integrated Water Supply Improvement Program (IWSIP) in the last six months, and the activities that will be occurring over the next ten months, culminating in placing the Walnut Hill Water Treatment Plant (WHWTP) online in March 2005.

On November 3, 2003, MWRA placed Wachusett Aqueduct and the MetroWest Tunnel online. Cosgrove Tunnel came offline, along with all but two miles of the Hultman Aqueduct, to allow work on shafts B & C of the tunnel and to connect the tunnel to the WHWTP. Wachusett Aqueduct was completed in November 2002.

To use the alternate transmission system, alternate treatment has to be provided at various locations. Temporary chlorination will be provided at the Wachusett Reservoir and Norumbega. Maximum system capacity with the temporary facilities is 250 million gallons per day, therefore Phase 2 had to be completed between November 2003 and April 2004 as water demand increases during the summer months.

The Walnut Hill Water Treatment Plant is scheduled for completion in February 2005. The Cosgrove Tunnel has been reactivated and work on Shaft B & C is complete. The entire Hultman Aqueduct and open Norumbega Reservoir have been taken offline. Currently water flows from the Wachusett Reservoir, through the Cosgrove Tunnel, into the inlet area of Walnut Hill, bypasses the plant, goes into the MetroWest Tunnel for delivery to the Boston area.

Testing of the Walnut Hill Water Treatment Plant is scheduled to begin in August 2004. Water will come down Cosgrove Tunnel into the plant and will be split. Water for the Boston area will flow around the plant and the amount of water needed for testing the equipment and different treatment schemes will enter the plant, be tested and then released into the Sudbury Reservoir. Staff expects to use 80 to 100 MGD from August to December for testing. From December to just before the plant goes online, staff expects to use up to 200 MGD of flow to test capacity at the 405 MGD facility. Half the plant will be tested at a time.

Ozonation will be the primary source of disinfection method at Walnut Hill, taking the place of chlorine. Soda ash will be used for corrosion control and the same process for chlorination and fluoridation will be used. MWRA is consolidating all the treatment facilities from Wachusett, Marlborough and Norumbega into the Walnut Hill site. In addition to ozonation, Ultra Violet treatment will be added as an additional primary disinfection method by June 2012 to satisfy EPA's requirement that unfiltered water systems utilize two primary disinfectants.

E. COMMITTEE REPORTS

Executive Committee – Katherine Haynes Dunphy

❖ **LEGISLATIVE UPDATE**

Mr. Favaloro stated the Senate is in the process of debating its version of the FY05 State Budget. To date, the Advisory Board has had success with the Senate Budget, including the inclusion of \$10 million for Debt Service Assistance and tort liability language that limits the Authority's potential obligation to \$100,000.

Most critically, language for the creation of a Water Supply Protection Trust Fund was also included. It now goes to the Conference Committee for debate. The Advisory Board has hired the firm of Durand & Anastas Environmental Strategies, Inc. as consultants to work to get the Trust included as part of the State Budget. The strategy now is to work the House side aggressively.

Mr. Favaloro stated he is not convinced the Administration will support the Trust based on actions taken over the last two weeks, even though John Carroll and Andrew Pappastergion, at the Board meeting, pressed the Secretary to state on the record that the Administration supports the Trust. After the Board of Directors approved the MOU, Kathy Abbott, Commissioner of the Department of Conservation & Recreation (DCR), sent a letter to the MWRA Caucus and central and western legislators regarding the importance of the MOU. She attached the MOU to the letter and never once mentioned that the Trust is needed to make the MOU work.

Senator Brewer has championed the Trust and is directly responsible for the Trust language being included in the Senate Budget. The Senator wanted to generate some press as the budget was released. For their press release, Senator Brewer's staff asked for quotes from the Authority, the Advisory Board, DCR and the Executive Office of Environmental Affairs. DCR did not want to include a quote regarding the Trust. Administration and Finance is adamantly opposed to the Trust.

In the House Budget, language was approved that turns over care, control, custody and title of water mains and pipes below Routes 1 and 99 in Saugus to the MWRA, which means MWRA ratepayers would have to pay for Saugus local water pipes. Staff was unsuccessful in having it withdrawn on the House side. Senator McGee from the Saugus District had to file the same amendment. Staff is working aggressively to ensure the Amendment does not make it into the Senate version, which would make it non-conferenceable.

A letter has been sent to the legislators, along with a ranking of water and sewer rates by community that indicates each community's commitment to their own systems. Representative Falzone cites the "unique" status of Saugus pipes being on a state road as a reason why MWRA should pay for Saugus' pipes. The Advisory Board has identified every community with a state road; there are 850 miles of "unique" pipes. Another approach, if staff is unsuccessful in getting the Saugus language removed, is to ask every Senator to add those pipes. It would make the initiative so absurd the legislators would have to reject it.

Staff has heard the cost for Saugus' pipes would be "only" \$6 million; however, every dollar counts. If the precedent is set, other communities will want the same. Taking it to the next level, if MWRA can do local pipes, it can do stormwater as well. Slowly other things could find their way into the State Budget because the first one got in.

Bernie Cooper noted the watershed budget is listed as \$1.1 million. Mr. Favaloro explained, with the creation of the Trust, watershed monies would be out of the State Budget. MWRA would make its contribution to the Trust. The Senate Budget includes \$1.1 million for the Department of Environmental Management and the Clinton Wastewater Treatment Plant.

❖ **ACTION ITEM: ADVISORY BOARD FY05 OPERATING BUDGET**

Mr. Favaloro stated health insurance is the single largest increase in the Advisory Board's FY05 Operating Budget. Employees of the Advisory Board already pay the highest percentage (25%) than any other state employee. Beyond that, overall growth of the budget is 3.5%. The request to MWRA is an increase of \$6,000 or 1.5%. This is the first increase in three fiscal years.

A Motion was made **TO APPROVE THE MWRA ADVISORY BOARD FY05 OPERATING BUDGET**. It was seconded and passed by unanimous vote.

Finance Committee – Bernie Cooper

❖ **ACTION ITEM: ADVISORY BOARD COMMENTS & RECOMMENDATIONS TO THE MWRA'S PROPOSED FY05 CURRENT EXPENSE BUDGET**

Cornelia Potter stated for the last two months, Advisory Board staff has been reviewing the Authority's proposed budget for fiscal year 2005 to try to provide alternatives to reduce what the Authority proposes to spend next year.

The Authority proposed a Current Expense Budget (CEB) of \$524 million for FY05, two and one-half times the proposed capital budget for next year. The capital financing expense of \$310 million, itself, is nearly half again as much of the entire capital budget for next year. This is the first time the net budget has gone over \$500 million.

The components of the budget are \$177 million for Direct Expenses, \$36 million for Indirect Expenses and \$310 million for Capital Financing. From these numbers the Authority subtracts debt service offsets, including \$13.2 million from the bond redemption fund and \$8.8 million in estimated variable rate debt offsets. The Authority budgeted 4% for variable rate debt, but staff believe the rate will be somewhat lower. The net budget is \$501.9 million. To meet those expenses, the Authority raises about 10% from non-rate revenue, including other revenue, investment income, swap revenue and rate stabilization funds, leaving a proposed amount of \$456 million from rate revenue for FY05, or a 4.7% increase from the FY04 budget.

Direct Expense reductions totaled nearly \$4.5 million. More than \$2 million of staff's recommendations come from personnel related expense, with reductions in regular pay, fringe benefits and workers compensation.

In the Indirect Expense category, staff has taken a different view from what the Authority has budgeted for the Insurance Program, now up for renewal. The Advisory Board supports the Authority staff's preference for self-insurance. With that recommendation, a higher deposit must be made into the Insurance Reserve. The Advisory Board would reduce the Insurance line item by \$3 million, with half of that reduction (\$1.5 million) to be deposited into the Insurance Reserve. The Operating Reserve is over-funded. Staff suggests the Authority move \$0.25 million from the Operating Reserve to the Insurance Reserve.

Modifications have been made to the debt service line reflecting changes of somewhat lower than budgeted numbers for two transactions taking place this month and next and also reductions relating to the Local Water Pipeline Assistance Program. The budget is conservative; staff believes it could be tightened and still provide the necessary support.

The Advisory Board has also taken issue with the amount of current revenue the Authority proposes to raise for the capital program, reducing this line item by nearly \$2 million. Staff has

found other sources of non-rate revenue, primarily from investment income, of \$2 million. Total reductions come to \$11.25 million, of which staff proposes \$3.5 million be utilized to bring this proposed budget below 4% and the balance be used to replace the rate stabilization funds proposed to be used and save those funds for future years' rate smoothing.

Direct Expense reductions include \$2 million for personnel related expense, nearly \$1 million from regular pay. Authority staff reports there will be more early retirement participants than had been assumed when this budget was first put together. Although the Authority plans to hire a considerable number of personnel, staff believes it would difficult to fill all of those positions as budgeted. A portion of the reduction should reflect a reality check in the hiring of 50% of the full time equivalents in dollars. The Fringe Benefit recommendation is associated with these lower spending levels and some other adjustments to actual health insurance costs provided to staff by the Human Resources Department. Workers' Compensation expense has been reduced by \$700,000, based on information provided by Human Resources.

Nearly \$2 million of reductions are recommended from the Operations Division reflecting updated information and other management points of view. Highlights are a two-month delay in the start up of the Walnut Hill Water Treatment Plant; \$682,000 is connected with this recommendation. Staff continue to urge the Authority to revisit its sludge backup capacity. The Authority continues to pay too much. There is room for refinement, by at least 10%, in the current available acreage amount specified in that Agreement.

Deer Island uses 50% of the annual electricity expense budget for the agency. The Authority has three means for self-generating electricity on the Island, a steam turbine generator, the back up combustion turbine generators and the hydropower turbines that have considerable variability in daily and monthly production based on a number of factors. Staff thinks the assumption of an additional half a megawatt of electricity produced on average over the course of the year would yield a reduction of electricity expense of \$275,000.

Relating to the Lead & Copper Rule and the amount of chemicals that have been budgeted, the Advisory Board recommends the Authority stay with a 40 mg/l alkalinity level instead of 45 mg/l for a reduction of \$375,000 associated with that assumption. Deer Island chemicals budget has a number of components. Staff has been following consumption and substituted chemicals and other related variables in the use of these chemicals over the course of the year and believes the Authority is in a position to reduce the chemicals line item by \$890,000.

Insurance is an enormous component of the Authority's increases in spending for next year. The contract for insurance coverage is up for renewal. The Program has benefited over the last six years from highly advantageous pricing, but in the post 9/11 era, the Authority faces considerably increased amounts to maintain the program in its current structure. Bids came in last Friday. The Authority is analyzing choices. The Advisory Board supports the Authority staff in its desire for self-insurance. Given the number and variety of reserves the Authority has, the Authority is well positioned to get through most any example of what you insure for. With the exception of \$400,000 for Workers Compensation Insurance and other types that must be purchased, staff recommends the proposed premium be reduced by \$3 million. Half of the \$3 million should go into the Insurance Reserve to support this strategy.

Reductions can be made to debt service by reflecting current estimates for the Local Water Pipeline Program anticipated disbursements and repayments over the next five periods to the

communities and can be reduced by \$700,000, leaving \$950,000 in that line item. Staff also recommends lowering current revenue for the capital program, which are funds the Authority proposes to contribute to the capital construction balance.

Staff recommends increasing assumptions regarding swap receipts, hydropower and investment income. Nothing has been taken out of variable rate debt this year, even though MWRA is budgeting at well above current rates, because staff recognizes rates may gradually rise.

The State Legislature is considering providing some amount for the Debt Service Assistance program. If approved, staff supports the use of those funds in fiscal year 2005.

There are a number of categories in the Authority's budget, in both expenses and treatment of revenue, which if classified in somewhat different ways could be used more effectively for the Authority, particularly in meeting some of the bond covenants having to do with coverage and debt service. Staff invites the Authority to pursue the creation of a working committee to think more carefully about how the Authority makes their judgments to see if there are other interpretations where the Authority could meet the requirements in a tighter fashion.

A Motion was made **TO APPROVE THE MWRA ADVISORY BOARD COMMENTS & RECOMMENDATIONS TO THE MWRA'S PROPOSED FY05 CURRENT EXPENSE BUDGET.** It was seconded and passed by unanimous vote.

❖ **CIP UPDATE**

These comments have been made in the context of the Advisory Board's capital budget review where staff had expressed its concern about the large increases that went into the proposed budget this year, but also the reflection that there are projects and programs that are not yet in the budget. Looking out over the multi-year view and planning projections guided staff's concern to try to contain rate stabilization monies to ease the pace of rate increases coming in the future. Additionally, last month's presentation on the Affordability Study relating to the CSO Program concluded there are already broad economic burdens in the entire service area. It is important, whether it is a CSO dollar, or any other capital dollar, to keep in mind.

Operations Committee – Jay Fink

❖ **UPDATE**

Mr. Favaloro stated with all the concern and discussion over the past few weeks about lead in the system, the Advisory Board has asked Steve Estes-Smargiassi, MWRA Director of Planning, to update members on the status of lead, as well as this year's Consumer Confidence Report.

Mr. Estes-Smargiassi stated, recently, in addition to the monitoring violation MWRA spoke of at the last Advisory Board meeting, the regulators issued a letter stating the MWRA system has exceeded the lead action level of 15 ppb for lead. When the action level is exceeded, it is not a violation of the rule, but certain steps must be taken to remain in compliance with the rule.

To be in compliance with the rule, DEP and EPA are requiring the ten communities, which individually had 15 samples above the action level, to institute a mandatory Lead Service Replacement Program. MWRA invited representatives from the Water and Health Departments and Chief Elected Officials from these ten communities to its Chelsea facility to go over what it

would take to do lead service replacement. The Authority has a variety of things it will do to assist with technical assistance.

Authority staff expects to come before the Advisory Board at the next meeting, and then before the Board of Directors, with a recommendation to change the eligibility requirements for the Local Pipeline Assistance Program to allow not just lead services associated with the pipeline project, but any lead service replacement, to be eligible for zero-interest loans.

In addition to lead service replacements, all 28 of the fully supplied communities who are affected by corrosion control and lead will need to participate in mandatory Lead Education Programs. As it has done in the past few years, MWRA will take the lead and will include the mandatory language in the Consumer Confidence Report (CCR).

MWRA will be providing brochures to individual communities to distribute to daycare facilities, pediatricians' offices, etc. as required by the regulators. The Authority would request communities keep records to indicate where these brochures were mailed because there is a reasonable likelihood EPA will ask for these records.

It is important to note the lead is not in the source water, nor in the pipes in your streets. This is a problem with home plumbing. Simply flushing the water by running the faucet will solve the problem. Water in the main has no lead. That is the message MWRA would like to provide to the citizens.

MWRA is reviewing corrosion control again. The Authority raised alkalinity to 40 mg/l. In February, MWRA requested that EPA allow the Authority to raise alkalinity to 45 mg/l. EPA said MWRA was so close to passing it would only allow an increase to 40 mg/l. The Authority is bringing in experts to review its data to see if any other tweaks to the system make sense.

Preliminary results for the March round of sampling were 14.6 ppb. These results are preliminary because they have not yet been submitted to DEP and EPA is requiring a few communities to collect more samples because they were not using tier one sites. That sampling may change those results. Staff does not regard 14.6 ppb as enough headroom to be comfortable. The Authority's goal is to be in compliance and stay in compliance.

John Sullivan asked if DEP gave a reason why they are reserved in allowing an increase to 45 mg/l. Mr. Estes Smargiassi replied, DEP said MWRA was so close to passing, a minor adjustment is a better idea than a big adjustment. DEP was looking at out-of-date research that, in some systems, raising the alkalinity might cause more lead. That research was based on MWRA's understanding of lead corrosion from a decade ago, when people were looking at lead as if it were pure lead as opposed to the oxidized lead seen in services and solder.

Thomas Holder asked, since the deadline for the CCR was March 19, is there still time to address the lead problem in the CCR. Mr. Estes Smargiassi stated the CCR is going to the printer this afternoon. The print date was moved back two weeks to try to deal with the unsuccessful negotiations with EPA.

Joshua Das noted there will be an insert page, back and front, with all of the required lead language from EPA and DEP. The first section is identical to the ad that went in the Boston Globe and other newspapers regarding the violation. Below that will be the language verbatim

from the EPA regulation. MWRA has added a few small sentences but, in essence, it is the lead education language verbatim. The letter from the Executive Director emphasizes the Authority exceeded the lead action levels. The CCR will go to the printer today, with delivery to homes scheduled between June 9-27. Advanced copies will be sent to every Water and Health Department in the first week of June.

Mr. Favaloro asked the rationale for the changes to the Local Pipeline Assistance Program and why. Mr. Estes Smargiassi explained the current Local Pipeline Assistance Program is designed to deal with unlined cast-iron pipe. The monies were targeted to communities with the largest proportion of unlined pipe and eligibility is fairly tight. Currently, no other project, even if it is related to water quality, is eligible for the zero-interest loan program. Staff believes some communities will have to spend hundreds of thousands of dollars or millions on lead service replacements. If these projects were eligible, it might help communities to meet the regulatory requirements.

Jay Fink stated there has been discussion in the Operations Committee relating to a five-year review of the guidelines within the Local Pipeline Assistance Program. The merit of these projects might take precedence over the formal review if members do not have any objection to making that change prior to the review. If discussion is needed, the Operations Committee could meet. If discussion is not needed, a poll of Advisory Board members could be taken.

John Sullivan asked if a community would need a lead violation to be eligible and could the zero-interest loan be used to install a lead-free water meter. Mr. Fink responded any community could apply because the eligibility requirement would be opened. Mr. Estes Smargiassi stated the lead-free meter issue could be raised. To date, discussion has focused on lead services.

Bernie Cooper said, representing one of those ten communities, Norwood has to issue a report within sixty days telling DEP and EPA how it intends to go forward. For most communities, the budget season has already gone by. "I have to identify a source of funding", said Mr. Cooper. The Local Water Pipeline Assistance Program is one source of money we could focus on.

Bernie Cooper made a Motion that **THE MASSACHUSETTS WATER RESOURCES AUTHORITY EXPAND THE ELIGIBILITY REQUIREMENTS OF THE LOCAL PIPELINE ASSISTANCE PROGRAM TO INCLUDE REPLACEMENT OF LEAD SERVICES.** It was seconded and passed by unanimous vote.

F. ADJOURNMENT

A MOTION WAS MADE TO ADJOURN THE MEETING AT 1:09 P.M. It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary