

**MWRA ADVISORY BOARD MEETING/PUBLIC HEARING
ON MWRA'S PROPOSED FY06 CURRENT EXPENSE BUDGET
APRIL 28, 2005
NEWTON FREE LIBRARY
330 HOMER STREET, NEWTON CENTRE, MA
MINUTES APPROVED AT THE JUNE 16, 2005 MEETING**

Fifty-five people were in attendance, including thirty-three voting members: John Sanchez, ARLINGTON; Richard Warrington, BEDFORD; Peter Castanino, BELMONT; John Sullivan, BOSTON; Tom Condon, BROOKLINE; Tim MacDonald, CAMBRIDGE; Ed Sullivan, CANTON; Andrew DeSantis, CHELSEA; Al Borgonzi, EVERETT; Peter Sellers, FRAMINGHAM; J. R. Greene and Barbara Wyatt, GUBERNATORIAL APPOINTEES; William Hadley, LEXINGTON; Jay Fink, LYNN; Bruce Kenerson, LYNNFIELD; Dana Snow, MARBLEHEAD; Doran Crouse, MARLBOROUGH; Donald Ouellette, MEDFORD; Katherine Haynes Dunphy, MILTON; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; Peter Smyrnios, PEABODY; Ted McIntire, READING; Sam MacDonald, REVERE; Barbara Stevens, SOMERVILLE; Lawrence J. Barrett, STOUGHTON; Richard Stinson, WAKEFIELD; Walter Woods, WELLESLEY; Bob Angelo, WESTWOOD; Michael Chiasson, WEYMOUTH; Michael Woods, WILMINGTON; Steve Swymer, WINCHESTER; Fred Russell, WOBURN.

Also present: John Carroll and Joe Foti, MWRA BOARD OF DIRECTORS; Patrick McCluskey, CHELSEA; Jon Norton, EVERETT; Tom Holder, FRAMINGHAM; Joseph Corricelli, SOMERVILLE; Ana Singleton, STOUGHTON; Hon. John C. Curran, MAYOR OF WOBURN; Eileen Simonson, WSCAC; Ed Bretschneider, WAC; Phil Jasset and Matt Boger, UCANE; Carl Erickson, Dan O'Brien, John Colbert, Laura Guadagno, Patricia Filippone, Stephen Estes Smargiassi and Pamela Heidell, MWRA STAFF; Joe Favaloro, Cornelia Potter, Ryan Ferrara and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

**ADVISORY BOARD PUBLIC HEARING ON MWRA'S PROPOSED
FY06 CURRENT EXPENSE BUDGET**

Chairman Katherine Haynes Dunphy called the public hearing to order at 11:41 a.m.

For the record, Edward Sullivan, Secretary of the MWRA Advisory Board, read the official notice of the public hearing. The MWRA Advisory Board will hold a public meeting and hearing at 11:30 a.m. on Thursday, April 28, 2005 at the Newton Free Library, 330 Homer Street, Newton Centre, MA. After a presentation on the components of the Authority's proposed \$549.8 million FY06 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, 2005, 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 02108-3020, no later than May 6, 2005 will also be considered.

MWRA Budget Director Carl Erickson stated that the MWRA Board of Directors, at its February meeting, approved transmittal of the Proposed FY06 Current Expense Budget (CEB), with a rate revenue requirement of \$480 million, to the Advisory Board for its review. Subsequent to submitting it to the Board, staff identified a \$500,000 adjustment that had to be made to the Chicopee Valley Aqueduct community rates and issued revised preliminary rates to the communities. There was no change to the sewer rate revenue, but the water rate revenue increased by 0.4%, resulting in a combined rate increase of 5.86%, as compared to the FY05 CEB.

Recognizing the significant debt burden MWRA has, the Authority made some significant cutbacks to try to reduce the total indebtedness of the Authority. Nearly 80% of the capital spending is mandated. The Authority is faced with significant rate increases in the next four to five years.

John Sanchez asked in the five-year projection on increases, how much is capital spending going to increase? Mr. Erickson said for FY06 it is \$329 million, \$350 million in FY07, \$380 million by FY08 and \$400 million in FY09; so it is a significant component of the Authority's budget.

Phil Jasset said in the projections, MWRA had 6% for new borrowings; what did the Authority end up paying when it re-did the bonds? Patricia Filippone responded the Authority paid 4.5%. Mr. Erickson said it is better to have conservative estimates for new long-term debt.

Seeing no further speakers, Chairman Dunphy adjourned the public hearing at 11:56 a.m.

A. WELCOME

Chairman Katherine Haynes Dunphy called the meeting of the Advisory Board to order at 11:56 a.m.

B. APPROVAL OF THE MINUTES FROM JANUARY 20, 2005 AND FEBRUARY 24, 2005

A Motion was made **TO APPROVE THE MINUTES FROM THE JANUARY 20, 2005 AND FEBRUARY 24, 2005 ADVISORY BOARD MEETINGS**. It was seconded and passed by unanimous vote.

C. REPORT OF THE EXECUTIVE DIRECTOR

MWRA Executive Director Joseph Favaloro stated two months ago the Advisory Board approved a five-member panel to assist in the preparation of the MWRA's five-year progress report. Since then, one of the members, Charles Button, has become an employee of the MWRA. He has been replaced on the final panel by John Gall of Camp Dresser & McKee, Inc.

The Executive Office of Environmental Affairs, Department of Environmental Protection and the Water Resources Commission are considering a change to the state's water conservation policies that may restrict the amount of water that can be withdrawn from surface and ground

waters to 65 residential gallons per capita per day. If the state puts this mandate in place, it would require consumers to install low flow appliances and water saving devices, as well as eliminate outdoor watering.

D. PRESENTATION: MAINTAINING THE DEER ISLAND WASTEWATER TREATMENT PLANT – Daniel O'Brien, Manager, Engineering Services, and John Colbert, Assets Manager

Dan O'Brien, Manager of Capital Programming, said the Deer Island Wastewater Treatment Plant (DIWTP) was a \$3.8 billion project that provided \$2.4 billion in physical assets. It is the second largest plant in the country with a peak treatment capacity of 1.27 billion gallons per day and solids generation of over 90 tons per day.

When the plant started in FY95, the budget for Deer Island was \$33 million; inflated to current dollars the amount would be \$43 million. In FY04, the budget was \$40 million, so there has not been a net growth in the budget, although there have been shifts in terms of where the funds are utilized. As the plant gets older, maintenance needs increase. *Wages and Salaries* have been reduced. Chemical usage has been reduced through process optimization offsetting some of the other increases, which are mainly in maintenance.

In 1999, Deer Island had 325 personnel; the largest share for maintenance. As staffing in the overall agency was reduced, Deer Island personnel were reduced to just below 250, which is the appropriate amount of personnel to run the plant effectively.

The Authority contracts the high-end, specialized maintenance needs that are not day-to-day and do not require the staff, tools, etc. that are required for these services everyday of the week. MWRA also contracts some of the lower-end elements of maintenance that are routine, such as janitorial services and trash removal. Authority staff deal with the core business of keeping the plant maintained and contract out the high-end and low-end elements of operation.

John Colbert said the Authority budgeted \$8.4 million in FY04 for materials and service contracts at Deer Island. These contracts include \$0.5 to \$1 million per year for the Painting Program to keep the Deer Island facility structures painted and in good condition to protect the investment. The Electrical Maintenance Service Contract costs \$500,000 per year to test equipment throughout the plant to check its condition and determine what needs to be replaced over time, allowing staff to set its capital budget for replacements.

The Authority spends \$3 million per year for three contractors with special skills to protect the thermal power plant at the Deer Island facility. These contracts service the Combustion Turbine Generator, the Steam Turbine Generator and the boilers.

MWRA has begun to implement a "best practices" strategy for maintenance at Deer Island. Reliability Centered Maintenance (RCM) is a methodology that maintenance and operations personnel facilitated through a process to determine the best maintenance for a piece of equipment. For critical equipment, RCM recommended more maintenance than the original equipment manufacturer had recommended. For wastewater pumps at Deer Island, staff does condition monitoring.

The Authority utilizes a computerized maintenance management system called MAXIMO, which has been integrated with the Authority's purchasing and procurement system (LAWSON) and the distribution and control system that controls the Deer Island Plant. The linking of these systems allows the Authority to capture costs for all of its equipment on an individual basis so staff can trend spending over time; it also allows staff to check inventory and electronically generate purchase requisitions through the MAXIMO system. Linking to the distribution and controls system allows personnel to do maintenance based on run time, instead of calendar based, providing some savings.

The DIWTP generates about 33,000 work orders per year, of which one-third are preventive maintenance work orders.

The grit removal system had mechanical and operational problems that have been resolved through maintenance and changes in operation. Grit removal has gone up significantly.

Ms. Potter asked if the improvements to the grit removal system had an impact on the quantity of sludge that is produced. Mr. Colbert said no. Because the grit is hauled off island, it does not end up in the sludge. The benefit is that the grit does not end up in the mechanical equipment, which over the life of the equipment is good.

The Authority is implementing a key practice called condition monitoring, a program that checks the "health" of a piece of equipment via vibration, ultrasonic and infrared testing and oil analysis. Three person teams were formed to do this work. Staff maintains that this proactive approach saves the Authority from having to do large repairs. Field staff technicians are also being trained in these techniques. All MWRA mechanics have been trained to do precision alignments and many have had vibration and infrared camera training.

Over several years, the Authority negotiated with the Unions to include light maintenance tasks for operations staff and to add cross functionality to the maintenance staff. All operations staff have been trained to do greasings, topping off oil, and to do inspections with mechanical equipment; maintenance staff have been trained to do cross functional tasks allowing a mechanic to help a plumber and an HVAC tech to help a mechanic. About 500 hours a month are preventive maintenance tasks completed by operations staff instead of maintenance staff, freeing the maintenance staff to do other work.

Mr. O'Brien said the Authority's pelletization operation is run by the New England Fertilizer Company (NEFCo) in Quincy. NEFCo has a 15-year contract with the Authority, which began in 2001, to operate and maintain the pelletization plant. MWRA sends the sludge and NEFCo produces the pellets on a budget of \$1 million per month. NEFCo has a mini version of the computerized maintenance management system similar to MAXIMO, but the scale is much smaller. NEFCo has a work order system and record of maintenance to show how the facility owned by the MWRA, but maintained by NEFCo, is preserved as an asset.

Some maintenance requirements at the DIWTP are so large that they pass the threshold of capitalization and end up in the capital program with a base budget of between \$10 and \$14 million. A large priority is the electrical system, which is the heart of the plant. Staff plans to focus on a reliable source of power as the plant is beginning to experience degradation in a lot of electronic components due to the plant's corrosive environment.

In March, the MWRA activated the sludge component of the Braintree-Weymouth Pump Station; now instead of barging, the Authority pumps the sludge to the facility at a savings of \$80,000 per month.

E. COMMITTEE REPORTS

Executive Committee – Katherine Haynes Dunphy

❖ LEGISLATIVE UPDATE

Mr. Favaloro said the Governor's House 1 Budget did not include funding for the Debt Service Assistance Program; however, the House of Representative's Proposed Budget includes \$12.5 million. Staff is working with the Senate to increase that number closer to \$20 million for Conference Committee.

In the House Budget, being debated this week, staff is focusing its attention on Amendment 995, filed by Representative Mariano and the Caucus, to permanently waive the Trust fee imposed by the Executive Office of Administration & Finance (A&F) to the Water Supply Protection Trust (Trust).

Currently, MWRA pays a fringe rate of 27% for health insurance and retirement for watershed employees and an indirect overhead rate to the Department of Conservation and Recreation (DCR) for non-watershed employees that contribute to watershed activities, which is approximately 22%. During the last week of March, MWRA and the Advisory Board learned that A&F is also going to assess another indirect rate of 23.96% for their efforts in administrating the Trust, which is a pass through because it is done directly through the DCR.

Staff has been working directly with the Secretary of Environmental Affairs to seek her support in trying to obtain a waiver of this overhead rate through A&F. Late last evening, the Deputy Comptroller and the State Budget Director informed the Advisory Board that A&F will not waive this fee, which is approximately \$1.6 million for FY05 and estimated at \$2.1 million for FY06. Staff believes it will be successful in getting Amendment 995 through the House & Senate; however, the Governor will likely veto it. The challenge will be to get the Amendment through Conference Committee and then to secure overrides of the Governor's vetoes of both the waiver and Debt Service Assistance, which is likely to be vetoed as well.

In the absence of the A&F waiver, funds must be found in the watershed budget, which means that programs deemed to be important will need to be revisited. Another option would be to raise assessments by an additional \$2 million, which would be unfair to ratepayers.

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

Chairman Dunphy stated John Carroll has expressed his willingness to serve another three-year term on the MWRA Board of Directors; the Chair asked if there were any other candidates for the Board of Directors. With no nominations from the floor, Secretary Ed Sullivan declared the nominations closed. For the record, there is a quorum in attendance.

Mr. Sullivan noted that the Executive Committee, serving as the Nominating Committee, voted to endorse John Carroll's candidacy at their last meeting.

Mr. Carroll stated that he has enjoyed serving on the Board of Directors since the Board began and noted that he will be 80 years old at the end of this term. If re-elected, Mr. Carroll said he would do his best to continue to seek progress and find solutions.

A Motion was made **TO NOMINATE JOHN CARROLL TO SERVE AS AN ADVISORY BOARD REPRESENTATIVE ON THE MWRA BOARD OF DIRECTORS FROM JULY 1, 2005 TO JUNE 30, 2008.** It was seconded and passed by unanimous vote.

Finance Committee – Bernard Cooper

❖ **ACTION ITEM: ADVISORY BOARD'S COMMENTS AND RECOMMENDATIONS TO THE AUTHORITY'S PROPOSED FY06 CAPITAL IMPROVEMENT PROGRAM**

Cornelia Potter said since its inception 20 years ago, the Authority has spent over \$6 billion on its Capital Program. MWRA now plans to spend an estimated \$200 million this fiscal year and \$1.2 billion from FY06 forward, for a total of \$1.4 billion.

The proposed budget for FY06 is significantly lower than budgets submitted for review in recent years. As of the final FY05 CIP, the budget for the next ten years was proposed to be \$1.8 billion. As of this budget, the Authority has reshaped and re-scoped its spending plan with a net reduction of over \$400 million for the period FY04 forward, a reduction of nearly 25%.

Nearly \$200 million in new projects and revised costs were more than offset by reductions of over \$600 million in projects and sub-phases which were deleted. Most of these reductions involved wastewater interceptor and pumping projects and water distribution and pumping projects and fall within the next five-year cap period of FY09-13. In addition, another \$165 million in proposed new and expanded projects were excluded from the CIP; therefore, \$770 million in capital needs that have been identified are not included in this proposed budget.

The master planning process has a renewed importance because it will be the vehicle through which the need, priority and schedule for those eliminated projects will be reassessed over time.

The Authority's proposed budget does comply with the provisions of the FY04-08 hard cap and is within \$4.6 million of the overall \$1.134 billion cap amount. Another provision of the cap allows spending to vary plus or minus 20% for each year as long as the five-year total is not exceeded. The Authority has met this provision, with the exception of FY08, which exceeds the 20% limit by \$28 million; the Authority has time to rework its proposed budget so this provision may be met. In that context, Advisory Board staff has found \$9 million in recommendations that can be used as a tool to stay within that cap.

Debt service is a big pressure point for the Authority's Current Expense Budget (CEB). Capital financing expense was 50% of the budget just five years ago; it is now 60% and is projected to increase to nearly two-thirds of the CEB in just a few more years.

To support the Capital Program, the Authority has borrowed nearly \$6 billion, but repaid less than \$1 billion, leaving \$5 billion in principal payments to be paid in future years. The total outstanding debt service is \$8.5 billion, including interest on that debt. In support of future borrowings, the Authority anticipates another \$2 billion of interest payments, as well as \$1.6 billion to support the future spending. Total future principal and interest payments are estimated at over \$12 billion.

The dominating feature continues to be Combined Sewer Overflows (CSO) Control at 34% of all spending in the budget. CSOs will account for 50% of spending from FY08 on. The

largest project is the North Dorchester Bay CSO Pump Project, which, with all its elements combined, is expected to be more than \$300 million in current dollars.

The CSO program has increased in cost by over \$100 million in just the last year, with the potential for additional cost increases to several remaining components of the CSO program that are undergoing reassessment and are currently under negotiation with the regulatory agencies on the final provisions of these remaining portions of the program. Because reassessment and agreement have not been fully reached, staff recommends that the Authority freeze spending on the North Dorchester Bay project, East Boston, and projects affecting CSO controls for the lower Charles River and the Alewife until consensus can be reached. As part of that consensus, staff also recommends that water quality standards for the Alewife and the lower Charles should be set at Bcso, consistent with the fact that Cottage Farm is a CSO discharge facility in operation and because of special stormwater related challenges to Alewife Brook.

Because the increased costs and accelerated schedule of the North Dorchester Bay project are the principal drivers of rate increases over the next several years, the Authority should revisit the design and construction schedule for the North Dorchester Bay contract and adopt schedules that do not exacerbate the rate increases over the next several years.

A Motion was made **TO APPROVE THE ADVISORY BOARD COMMENTS AND RECOMMENDATIONS TO THE AUTHORITY'S PROPOSED FY06 CAPITAL IMPROVEMENT PROGRAM.** It was seconded and passed by unanimous vote.

❖ **STATUS: FY06 CURRENT EXPENSE BUDGET PROCESS**

Ms. Potter said staff's initial observations of the Current Expense Budget (CEB) show that debt service is projected to continue to grow, both in dollars and as a percentage of the budget. [See page 2 of these minutes for highlights of the proposed CEB.]

The Authority's budget reflects an increasingly disciplined process, with reductions to a number of budget categories and tightening to a number of others, which demonstrates the Authority's commitment to fiscal restraint.

The CEB also reflects a number of areas of risk that could result in additional costs, including electricity, fuel prices, inflationary pressures, rising interest rates, additional regulatory requirements and additional costs for watershed-related expenses.

Staff anticipates that it will recommend that spending reductions and non-rate revenue increases should be used to reduce the use of rate stabilization funds in FY06 to reserve these funds to smooth the next several years of rate increases.

Any Debt Service Assistance that is received should be used to reduce rate assessments billed to communities.

Operations Committee – Jay Fink

❖ **ACTION ITEM: WILMINGTON'S REQUEST FOR A SIX-MONTH EMERGENCY WATER CONNECTION THROUGH WOBURN**

Mr. Favaloro stated Wilmington has requested a six-month emergency extension for a water connection through the City of Woburn due to contamination of five of their nine wells. The

Advisory Board has received a letter of approval from the City of Woburn and a declaration of emergency from the Department of Environmental Protection.

A Motion was made **TO ALLOW THE TOWN OF WILMINGTON (WILMINGTON) TO ACTIVATE A CONNECTION TO THE MWRA WATERWORKS SYSTEM, VIA THE CITY OF WOBURN (WOBURN), FOR A SIX-MONTH PERIOD, WITH A START DATE IN APRIL 2005. THE CONNECTION IS SUBJECT TO THE DEVELOPMENT OF AN INTER-MUNICIPAL AGREEMENT BETWEEN WILMINGTON AND WOBURN THAT ADDRESSES ISSUES OF ASSESSMENT AND CHARGES PRIOR TO CONSIDERATION BY THE MWRA BOARD OF DIRECTORS. ADVISORY BOARD APPROVAL IS CONTINGENT UPON RECEIPT OF A LETTER FROM WOBURN INDICATING THEIR SUPPORT OF THE INTER-MUNICIPAL AGREEMENT WITH WILMINGTON. AVERAGE DAILY DEMAND SHALL NOT EXCEED 1 MILLION GALLONS PER DAY. WILMINGTON WILL ABIDE BY THE RULES STIPULATED UNDER MWRA EMERGENCY WATER SUPPLY WITHDRAWALS (POLICY #OP.05), INCLUDING PAYMENT OF 110% SURCHARGE OF THE MWRA'S PREVAILING RATE PLUS 110% OF 2/3 OF THE ANNUAL PAYMENT ASSOCIATED WITH THE ASSET VALUE CONTRIBUTION PAYMENT (ENTRANCE FEE EQUIVALENT) AMORTIZED WITH INTEREST OVER 15 YEARS. RULES GOVERNING PREMIUM CHARGES AND ASSET VALUE CONTRIBUTION ARE INVOKED WHEN WATER IS TRANSFERRED FROM THE MWRA TO WILMINGTON.** It was seconded and passed by unanimous vote.

❖ **STATUS: WASTEWATER METER REPLACEMENT**

Jay Fink stated that the replacement wastewater meters went into service as of April 1 and flows measured by these meters will be used for billing purposes.

❖ **UPDATE: WATER SUB-METERING REGULATIONS**

A representative from the Department of Public Health will be at the May Advisory Board meeting to make a presentation on the new water sub-metering regulations.

❖ **UPDATE: LOCAL REQUIREMENTS UNDER LEAD & COPPER RULE**

Stephen Estes Smargiassi stated the good news is that the preliminary results for lead testing system-wide were 13, within the lead action level of 15. The bad news is that EPA has changed the rules mid stream. Individual communities whose numbers are over 15 will be required to do lead education and lead service line replacements.

F. QUESTIONS AND COMMENTS

G. ADJOURNMENT

A MOTION WAS MADE TO ADJOURN THE MEETING AT 1:04 P.M. It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary