

MWRA ADVISORY BOARD

Summary of

MWRA BOARD OF DIRECTORS' MEETING

February 8, 2006

A meeting of the Board of Directors of the MWRA was held on **February 8, 2006** at the Charlestown Navy Yard. **Present:** Chair Stephen R. Pritchard, Gubernatorial Appointee; John Carroll, Andrew Pappastergion and Joseph Foti, Advisory Board Representatives; Vincent Mannering, Kevin Cotter and James Hunt III, City of Boston Representatives; Joseph MacRitchie, City of Quincy Representative. **Absent:** Lucile Hicks and Rudolph Banks, Gubernatorial Appointees; Marie Turner, Town of Winthrop Representative.

AGENDA

Report of the Chair

MWRA Board of Directors Chairman Stephen Pritchard stated that he attended Governor Romney's Pandemic Flu Preparation Meeting and the discussion was sobering. It is important that the MWRA participate in these discussions.

Report of the Executive Director

MWRA Executive Director Fred Laskey stated that he attended the Governor's Summit on Pandemic Preparedness with the Secretary. MWRA is working on responses should an outbreak occur and what impacts it would have on MWRA operations.

Mr. Laskey reported that MWRA has gotten an extension on a Purchase and Sale Agreement to sell a parcel in Quincy with hopes that no other issues arise.

A presentation on the MWRA's Long Range Water Supply goals will be moved to April because several key people cannot attend.

MWRA received a letter from the Conservation Law Foundation (CLF) regarding a group of articles on MWRA's plan to sell more water. Staff plans a short response stating that MWRA will comply with the guidelines for expansion as outlined in the MWRA Enabling Act.

The Authority has received a "308" enforcement letter from EPA on the blending issue with a 15-page list of questions; MWRA will comply with the request for information, but the task is daunting and will tie staff up for months.

The John J. Carroll Water Treatment Plant is now back to full capacity after parts of the plant were taken down for improvements to be made.

MWRA's "rock collection" will be featured tomorrow on Chronicle. The rocks were inherited from the Metropolitan District Commission and culled from MWRA's own tunnels and are a geologic treasure. The rocks are currently stored at the shipyard. MWRA was going to dispose of some of them and met fierce resistance. Board Member James Hunt suggested donating the rocks to the University of Massachusetts. Mr. Laskey responded that everyone wants them, but no one wants to store them.

Mr. Laskey reported that MWRA employees raised over \$21,000 for Hurricane Katrina relief efforts. A committee of people worked very hard to raise the money. Board Member Kevin Cotter suggested that Mr. Laskey bring the Committee before the Board to be recognized.

APPROVALS

Transmittal of Proposed FY07 Current Expense Budget

The Board voted to approve transmittal of the Proposed FY07 Current Expense Budget (CEB) to the MWRA Advisory Board for review and comment.

The Proposed FY07 CEB recommends an increase in rates and charges of 9.8% and includes the use of a total of \$35.7 million in reserves. The single largest driver of the increase in the CEB continues to be the significant debt burden, which is compounded by extraordinary increases in energy, other utilities and health care. The Proposed FY07 CEB does not include an assumption for the receipt of Debt Service Assistance, which, if received, could significantly mitigate the proposed 9.8% increase in rates and charges for FY07.

The proposed budget includes \$600.8 million in total expenses and calls for rate revenue of \$518.5 million, an increase of \$46.3 million.

MWRA Advisory Board Executive Director Joseph Favaloro stated, in reality, if it were not for the infusion of \$35.7 million in one time (and nearly exhausted) reserves (Rate Stabilization and Bond Redemption Funds), the actual rate revenue requirement would be nearly 18%. Our communities cannot bear these levels of increase. Once again, the Governor, in House 1, has forsaken MWRA ratepayers. We will work closely with the Legislature to get critically needed Debt Service Assistance.

Amendment to Fiftieth Issuance Resolution

The Board voted to adopt an amendment to the fiftieth Issuance Resolution authorizing the issuance of up to \$750,000,000 of Massachusetts Water Resources Authority General Revenue (2006 Series A) and General Revenue Refunding Bonds (2006 Series B) and the termination of the 2000 Series D swap agreement.

On January 11, 2006, the Board approved the fiftieth Supplemental Resolution and supporting Issuance Resolution for the 2006 Series A and B new money and refunding bonds, respectively. The supplemental resolution approved by the Board at its January meeting authorized the issuance of up to \$400,000,000 in refunding bonds for the 1990 Series A, 1995 Series B, 1998 Series A, 2000 Series D and 2002 Series B. Over the past month, market conditions have improved and there is potential to refund some additional bonds that were not included for approval in January. The additional bonds that also may meet the savings target are included in the 2002 Series J, 2003 Series D and the 2004 Series A bonds. Due to the potential additional savings, which could be realized as a result of improvements in the market, the amended issuance resolution provides for an increase of \$150,000,000 in bonds authorized to be issued to ensure MWRA is able to take full advantage of potential savings.

Approval of the 2006 Affirmative Action Plan

The Board voted to approve the Massachusetts Water Resources Authority's Affirmative Action Plan effective for a one-year period from January 1, 2006 through December 31, 2006.

MWRA updates its Affirmative Action Plan annually and provides information on the development, implementation and monitoring of the various plan elements in accordance with guidelines of the U.S. Department of Labor, Office of Federal Contract Compliance Programs.

Special Assistant for Affirmative Action Patterson Riley reported that MWRA has met its goals for Equal Opportunity in the areas of Employment and Minority/Women Business Enterprise participation in MWRA procurements and contracted services.

February PCR Amendments – FY2006

The Board voted to approve amendments to the Position Control Register. The annualized budget impact of these PCR amendments will theoretically range from a cost of \$10,204 to \$32,564 and will likely be in the middle of the theoretical range. Staff will ensure that any cost increase associated with this PCR amendment will not result in spending over the approved FY06 Wages and Salaries budget.

Appointment of Managing Director

The Board voted to approve the Executive Director's recommendation to appoint Kevin Feeley to the position of Managing Director in the Support Services Division (non-union, Grade 17) at an annual salary of \$133,000.00 to be effective on the date designated by the Executive Director.

Mr. Feeley's qualifications for permanent appointment as Managing Director have been amply demonstrated over the course of his service to the MWRA, which began in 1985. Mr. Feeley possesses a wealth of institutional knowledge of the Authority's administrative functions through his involvement with numerous program areas and has successfully established effective working relationships across all MWRA functions.

Board Member Joseph Foti noted that MWRA plans to have Mr. Feeley continue with his responsibilities as Director of Procurement, in addition to his new functions as Managing Director. While Mr. Foti commended the Authority for its attempt to save money, he expressed concern that Mr. Feeley would be overburdened. Mr. Laskey responded Mr. Feeley has been Director of Procurement for years and has a strong staff; we thought we would give this a try. If it proves too much, staff will come back to the Board.

Appointment of Budget Director, Finance

The Board voted to approve the Executive Director's recommendation to appoint Rachel Madden to the position of Budget Director in the Finance Division (non-union, Grade 16) at an annual salary of \$102,550.00 to be effective on the date designated by the Executive Director.

Ms. Madden has over ten years of financial and operational experience with the Commonwealth of Massachusetts including, most recently, serving as Deputy Registrar for the Registry of Motor Vehicles. In addition to her work experience, Ms. Madden possesses a Bachelor of Arts Degree from the University of Rochester.

CONTRACT AWARDS

Technical Assistance Consultant Services, Hazardous Materials: Shaw Environmental & Infrastructure, Inc., Contract 584TA

The Board voted to approve the recommendation of the Consultant Selection Committee to select Shaw Environmental & Infrastructure, Inc. to provide Technical Assistance Consulting Services, Hazardous Materials, and to authorize the Executive Director, on behalf of the Authority, to execute Contract 548TA with Shaw Environmental & Infrastructure, Inc. in an amount not to exceed \$150,000.00. Further, to authorize the Executive Director to approve separate Notices to Proceed, if recommended by staff, to commence the second and third year terms of this contract, for the same yearly not-to-exceed amount. Further, to rescind approval granted August 18,

2005 authorizing the Executive Director to execute Contract 548TA with Loitherstein Environmental Engineering, Inc.

On August 18, 2005, the Board approved the award of two consulting contracts for as-needed hazardous materials technical assistance to EnviroSense, Inc. and Loitherstein Environmental Engineering, Inc. Since that time, the contract with EnviroSense, Inc. has been executed and the firm is providing the services. The second contract was not executed because information received subsequent to award indicated that Loitherstein would be impeded in successfully performing the work. After investigation, the Director of Procurement determined that the Loitherstein contract should not be finalized. The Selection Committee then voted to recommend selection of the third-ranked firm, Shaw Environmental & Infrastructure, Inc.

Sufficient funds are available to fund this contract.

Mr. MacRitchie asked if there are additional costs because of the firm that pulled out. Mr. Feeley stated this was a professional service contract and the firm is simply not getting the work.

Chairman Pritchard asked why the contract was rescinded. Mr. Feeley responded after the Board awarded the contract to the firm, staff discovered they had a number of complaints filed with the Licensing Board and had lost its license, which was later reinstated. These questions were asked in the proposal and the correct information was not provided. Staff felt it was best not to go forward. Loitherstein provided a letter that they had misinterpreted the question.

Wastewater Transport Supervisory Control and Data Acquisition (SCADA) Implementation Phase I of III: J.F. White Contracting Company, Contract 6533

The Board voted to approve the award of Contract No. 6533, Wastewater Transport SCADA Implementation, Phase I of III, to the lowest responsive bidder, J. F. White Contracting Company, and to authorize the Executive Director, on behalf of the Authority, to execute and deliver said contract in the bid amount of \$6,954,500.00 for a term of 548 calendar days from the Notice to Proceed.

This award is the first of three construction contracts resulting from planning and design efforts dating back to 1997. This contract will fully implement SCADA technologies in seven older wastewater pumping facilities, three CSO facilities and the Chelsea Screen House. Contract 6533 will also put in place the communications infrastructure to be used by all wastewater transport facilities.

The FY06 CIP includes a budget of \$5,710,791 for Contract 6533. The bid price of \$6,954,500 is \$1,243,709 over the CIP budget. Additional work items added late in the design process prevented completion of the Engineer's Estimate until after finalization of the FY06 CIP. This amount will be covered within the five-year CIP spending cap and will be accurately reflected in the Final FY07 CIP.

CONTRACT AMENDMENTS/CHANGE ORDERS

Transport SCADA Implementation: Camp Dresser & McKee, Inc., Contract 6532, Amendment 3

The Board voted to authorize the Executive Director, on behalf of the Authority, to approve Amendment 3 to increase the amount of Contract No. 6532 with Camp Dresser & McKee, Inc., Transport SCADA Implementation, in the amount of \$409,500.

Amendment 3 is required to increase the budget for additional MWRA requested scope related to integration services at the Braintree-Weymouth Replacement Pump Station and the BOS019 CSO Storage Conduit and SCADA design services at the Arthur Street Pump Station. Amending this contract is in MWRA's best interest given the overlapping project schedules and the need to closely coordinate and standardize SCADA implementation at these additional facilities.

The FY06 CIP contains a budget of \$5,735,307 for Contract 6532. Including this Amendment, the cumulative value of all change orders is \$425,220, added to the original contract amount of \$5,719,587, for an adjusted sub-phase total of \$6,144,807, or \$409,500 over budget. This amount will be covered within the five-year CIP spending cap.

Union Park Detention/Treatment Facility: Barletta Engineering Corp, Contract 6265, Change Order 49

The Board voted to authorize the Executive Director, on behalf of the Authority, to approve Change Order No. 49 to increase the amount of Contract No. 6265 with Barletta Engineering Corp., Union Park Detention/Treatment Facility, for a lump sum amount of \$90,301.75. Further, to authorize the Executive Director to approve additional change orders as may be needed to Contract No. 6265 in amounts not to exceed the aggregate of \$250,000.00 and 180 days.

As improvements to BWSC's pump station capacity and infrastructure, this change order will be 100% reimbursed by BWSC. This change order consists of the following four items: Revise Reinforced Concrete Pad for New Turbine Engine; Furnish and Install Remaining Pipe to Cooling/Sealed Water Systems; Furnish and Install Wiring to Unit Heaters; Changes to Oxidation Catalyst Pipe Support System/Final Engineering Study Cost.

The cumulative value of all change orders to this contract is \$5,105,591.40, or 13.71% of the original contract amount of \$37,224,444.00, for an adjusted sub-phase total of \$42,330,035.40. Approximately 19.92% of the cumulative value of all change orders, or \$1,017,475.10, represents BWSC's portion, which will be fully reimbursed to MWRA. Work on this contract is approximately 87% complete.

The FY06 CIP includes a budget of \$41,833,000 for Contract 6265. BWSC will pay 11.55% of the contract award amount plus any change orders that result from MWRA improvements. MWRA's cost is 88.45% of the contract award amount plus any remaining change orders.

INFORMATION

Delegated Authority Report – December

Staff gave a report on delegated authority actions over \$25,000 for the period December 1 through December 31, 2005.

Presentation Update of Proposed Amendments to MWRA's General Revenue Bond Resolution

Director of Finance Laura Guadagno stated in September the Board directed staff to work with a financial advisor to craft a package of amendments to the Authority's General Bond Resolution. Staff solicited feedback from the rating agencies to see if changes to reserves would impact the Authority's credit rating.

Changes to the Reserves would require two-thirds of the bondholders to consent to the changes and would take eight to ten years to implement.

In speaking with the rating agencies, staff talked about reducing the amount of funds required in the Debt Service Reserve and eliminating the CORE Fund to help the Authority with liquidity issues; further, not replacing/replenishing the Renewal and Replacement Reserve (RRR), now cash funded to \$35 million depending on the consultant engineer. The proposed amendment was to reduce the RRR to \$10 million for emergency requirements and meet the rest of the required cash level using the Commercial Paper Program.

Staff met with Standard & Poors and Moody's, which upgraded the Authority's rating last year. Standard & Poors said the package of amendments staff reviewed with them would result in a downgrade of the

Authority's credit, noting that the upgrade MWRA received last year was primarily based upon the organizations extensive reserves.

Moody's said the proposed changes would not impact MWRA's credit rating immediately, but any further change would result in a quicker downgrade.

Under the new resolution, those monies would be freed up in an eight to ten-year timeframe and could be used to ease debt.

Fred Laskey stated a 40 to 50% reduction of reserves was proposed to the rating houses. It would take time to refund to have two-thirds of current bondholders that approve. The important issue to bring to the Board today is the lukewarm, or cold, response from the bonding houses regarding the proposal to reduce reserves.

MWRA Advisory Board Executive Director Joseph Favaloro said the bond covenants have been a point of discussion back and forth between the Authority and the Advisory Board. Mr. Favaloro reemphasized that if the Authority did not change any covenants, there is still an opportunity to use funds from the RRR and Insurance Reserves. The Insurance Reserve can be adjusted based on a report from insurance consultants and the RRR is based on a report of a consulting engineer. The Advisory Board does not want to lose an opportunity on these Reserves if MWRA cannot alter its bond covenants.

Mr. Favaloro questioned how much Standard & Poors or Moody's would downgrade the Authority. A change of AAA+ to AAA would not mean much. Under any scenario, the Authority does have some opportunity right now with RRR and Insurance Reserves to help in FY07 or FY08, rather than waiting until 2014.

Mr. Carroll asked if the Board made the decision to use the RRR and Insurance Reserves, would that be available immediately to help in FY07. Ms. Guadagno said it would depend on a review of the resolution requirements.

FY06 Financial Update and Summary as of December 2005

Through December 2005, total revenue was \$266.6 million, \$3.4 million or 1.3% greater than budgeted. Total expenses were \$259.6 million, \$773.3 or 0.3% more than budgeted. Through December, revenues exceeded expenses by \$7.0 million, which is \$2.7 million more than budgeted.

Although results presented through December 2005 show revenues in excess of expenses, projections through fiscal year end forecast a projected deficit.

Rate Basis Data Adjustments Affecting FY07 Assessments

MWRA annually determines preliminary water and sewer assessments in February and final assessments in June, before the beginning of the fiscal year. Communities have 45 days from the release of preliminary assessments to formally challenge the rate basis data used to compute their preliminary assessments. MWRA staff also conducts supplementary quality assurance reviews of flow data during this time period. In 1996 the Board approved a revision to the Rate Basis Review and Comment Process that permits adjustments to rate basis data following adoption of the current fiscal year's assessments. This change allows water and sewer customers to challenge rate basis data through the fiscal year impacted by data change.

On October 7, 2005, the Town of Milton was notified that due to software problems, Southern Extra High Meter No. 55 was under-registering during times of high water flow resulting in an \$18,757 increase to Milton's FY07 water assessment. Correspondingly, FY2007 water assessments for other water communities will be reduced by \$18,757.

In FY2005 and FY2006, MWRA's wastewater assessment to the Town of Framingham included a surcharge for high strength wastewater discharges from the Genzyme Corporation in the amounts of \$14,840 and \$4,831 respectively. Recently, staff learned that while Genzyme's corporate offices are located in Framingham, the plant responsible for the high strength user (HSU) discharges is located in the Allston section of Boston; therefore, the HSU surcharges for wastewater discharges from the Genzyme Corporation should have been included with the FY2005 and FY2006 wastewater assessments for Boston (BWSC), rather than the Town of Framingham. As a result, Framingham's FY2007 wastewater assessment will be reduced, and BWSC's FY2007 wastewater assessment will be increased, by \$19,671.

Preliminary FY07 Water and Sewer Assessments

The Proposed FY07 Current Expense Budget includes a rate revenue requirement of \$518,497,238, an increase of 9.8% over the final FY06 requirement. Staff estimates that the average impact of the preliminary FY07 assessment for a household in a fully served MWRA community that uses close to the system average of about 61,000 gallons per year would see an increase of approximately \$41. This amount does not include any increase in local water and/or sewer charges.

Progress of BWSC Implemented CSO Projects and Projected Financial Assistance through June 2006

Staff summarized the status of projects in the long-term CSO control plan that are funded by MWRA and implemented by the Boston Water and Sewer Commission (BWSC). Staff plans to transfer \$8,687,887 into the BWSC CSO account, consistent with the approved FY06 CIP budget, to cover anticipated eligible costs in the period January through June 2006.

BWSC continues to make significant progress toward completing the CSO projects it is responsible for implementing on schedules that comply with milestones in Schedule Six of the Federal Court Order in the Boston Harbor Case. Through December 2005, BWSC incurred a total of approximately \$135 million in eligible expenses funded by MWRA.

BWSC work through December 2005 on the five separation projects – South Dorchester Bay, Stony Brook, Neponset River, Constitution Beach and Fort Point Channel – has resulted in the installation of over 205,000 linear feet (39 miles) of new storm drains, or 86% of the total length of new storm drains necessary to complete these projects.

Draft CSO Annual Report 2005

MWRA is required to submit the Combined Sewer Overflow Control Plan Annual Progress Report 2005 (Annual Report) to the Federal Court by March 15, 2006. The Annual Report identifies progress and accomplishments in CSO planning, design and construction during 2005. The report focuses attention in two areas that characterize most of the work conducted in 2005: 1) a high level of design and construction activity on the work for which final scopes and schedules are set in the Federal Court Order and 2) MWRA negotiations with EPA, DEP and the Department of Justice toward agreement on the full scope and revised schedule for completion of MWRA's obligations for CSO control under the Order. In addition to the progress in 2005, the report also includes quarterly progress for the period December 16, 2005 through March 15, 2006.

Staff reported 2005 was a watershed year for implementing CSO control projects for which final scope and schedule are already set in the Court Order. Progress on CSO design and construction in 2005 exceeded any previous year. MWRA spent \$52 million in 2005 alone, the highest annual spending for CSO control to date. Of this amount, \$45 million was spent on construction of six projects: Union Park Detention/Treatment Facility, BOS019 Storage Conduit, Pleasure Bay Drainage Improvements and the South Dorchester Bay, Stony Brook and Fort Point Channel sewer separation projects.

Mr. Carroll asked why substantial agreement has not been reached. Mr. Laskey said technical problems with Prison Point that require extremely detailed modeling caused a delay; the last page was sent yesterday.

Mr. Laskey stated that he spoke with EPA Regional Administrator Robert Varney who assured him that EPA was waiting for one last piece of information and it would be resolved before the March meeting. Mr. Carroll asked if it would be resolved to the Board's satisfaction. Mr. Laskey said he was not lead to believe otherwise.

Board Member Andrew Pappastergion asked what will happen next month if no agreement is reached. Mr. Hornbrook said the projects will not move forward.

Mr. Foti reminded Mr. Laskey that members of the Board, Advisory Board staff and MWRA staff met ten months ago with Mr. Varney and he said the issue would be resolved within six weeks. Mr. Hornbrook stated MWRA changed a number for discharge projections from Prison Point and EPA is asking staff to justify that.

Mr. MacRitchie suggested if an agreement is not reached, that fact should be noted in the annual report.

Norumbega Covered Storage Design/Build Project – Post Construction Assessment of Design/Build Project Delivery Method

Staff provided the Board with an overall assessment of the Norumbega design/build process, the first major MWRA project to be completed using a design/build delivery method. Staff consider the Norumbega Covered Storage Design/Build project a success in terms of schedule, budget and quality of the finished product. The final project cost was substantially lower than the initial projected costs for a conventional design/bid/build approach. Change orders were 7.5% of the contract award amount. The majority of the change orders were due to MWRA-requested design changes. The remaining change orders were due to unanticipated conditions, equivalent to 1.8% of the contract award amount. There were no change orders resulting from design errors or omissions. The high quality design and construction products reinforce the approach that MWRA used to develop and implement this design/build project.

MWRA staff are proposing to utilize the design/build method on the Blue Hills Covered Storage project using the Norumbega project as a model. The Blue Hills project will incorporate lessons learned from Norumbega, such as revised tank disinfection procedures, incorporation of security features, ensuring appropriate field oversight and providing detailed equipment and material specifications.

Mr. Mac Ritchie expressed concern that the cost increased because of errors, 3 to 5% of the four part sewer project would be \$120 million. What has MWRA recovered? Mr. Hornbrook ventured to guess that the industry standard for change orders is higher; 3 to 5% is what MWRA has been seeing. MWRA has been aggressively pursuing cost recovery and has secured more than the Central Artery Project.

This Summary does not include every item discussed by the Board, nor the full extent of the discussions. Please contact Mary Ann McClellan at the Advisory Board office with questions, comments or requests for additional information.