

**MWRA ADVISORY BOARD MEETING
MAY 18, 2006
MASSACHUSETTS STATE HOUSE
ROOM 350, BOSTON, MA – 11:30 A.M.
Minutes Approved at the June 15, 2006 Meeting**

Forty-six people were in attendance, including twenty-six voting members: John Sanchez, ARLINGTON; Peter Castanino, BELMONT; John Sullivan, BOSTON; Charles Barry, BROOKLINE; Tim MacDonald, CAMBRIDGE; Ed Sullivan, CANTON; Andrew DeSantis, CHELSEA; Jon Norton, EVERETT; J. R. Greene and Barbara Wyatt, GUBERNATORIAL APPOINTEES; Bill Hadley, LEXINGTON; Jay Fink, LYNN; Bruce Kenerson, LYNNFIELD; Dana Snow, MARBLEHEAD; Doran Crouse, MARLBOROUGH; Don Ouellette, MEDFORD; Katherine Haynes Dunphy, MILTON; John Cosgrove, NEEDHAM; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; Peter Smyrnios, PEABODY; Sam MacDonald, REVERE; Carol Antonelli, SOMERVILLE; Bob Angelo, WESTWOOD; Michael Woods, WILMINGTON; Fred Russell, WOBURN.

Also present: John Carroll, Andrew Pappastergion and Joseph Foti, MWRA BOARD OF DIRECTORS; Glenn Garbati and Mike Marchese, EVERETT; Paul Casey, WINCHESTER; Jennifer Kennedy, Aide to Representative Kaprielian; Yosstina Kaubil, Aide to Representative Blumer; Blair Brown, Aide to Representative Wolf; Fred Laskey, Michael Hornbrook, Patricia Filippone, Rachel Madden, Michael Ralph and Tracy Wadsworth, MWRA STAFF; Joe Favaloro, Cornelia Potter, Ryan Ferrara, Rachael Dane and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

A. WELCOME

Chairman Katherine Haynes Dunphy called the meeting to order at 11:39 a.m.

B. APPROVAL OF THE MINUTES FROM MARCH 16, 2006

A Motion was made **TO APPROVE THE MINUTES FROM THE MARCH 16, 2006 ADVISORY BOARD MEETING**. It was seconded and passed by unanimous vote.

C. REPORT OF THE EXECUTIVE DIRECTOR

MWRA Executive Director Joseph Favaloro stated based on discussion from last month's meeting, WLVI, NECN, the Boston Herald and MetroWest Daily News ran stories regarding Good Humor/Breyers non-compliance with biochemical oxygen demand level requirements. Additionally, MWRA has issued more than \$200,000 in fines to Good Humor/Breyers for 31 violations of their permit. Good Humor/Breyers is appealing.

Last month a questionnaire was sent to all the candidates who are running for Governor. The questionnaire, due back by May 8, focused on Debt Service Assistance (DSA), the State Revolving Loan Fund and infrastructure grants for water and wastewater meters. Despite

follow up telephone calls and emails, none of the candidates has responded to the questionnaire.

Jon Norton of Everett noted that NECN is hosting a debate tonight and another debate will be coming up. Mr. Norton suggested that the Advisory Board may be able to submit a question for the future debate.

D. PRESENTATION: WORKING WITH MWRA COMMUNITIES ON PANDEMIC PLANNING – Michael Hornbrook, MWRA Chief Operating Officer

MWRA Chief Operating Officer Michael Hornbrook said there have been frequent stories in the news media regarding birds infected with the avian flu in Asia and Europe. Although no birds on this continent have been found with the avian flu, it is only a matter of time before there will be birds in the United States and the MWRA service area that are infected, based on migration patterns.

To date, there have been no reported cases of human to human transmission of the avian flu. If that does occur, there could be wide spread infection of the flu resulting in a pandemic. Scientists and public health officials are saying it is only a matter of time before the virus mutates and spreads from human to human, which has occurred throughout history.

Public health officials have stated that the avian flu is not a direct threat to the water supply system; the treatment processes used now are an outstanding barrier to an infection like the avian flu spreading through a water system. However, the Authority does anticipate problems with staffing and supplies to operate necessary infrastructures like water and sewer services.

The Center for Disease Control (CDC) and public health officials have said that entities can expect to see up to 40% absenteeism if the avian flu does mutate to be able to transmit from human to human. Over the last several months, MWRA has developed a Pandemic Task Force consisting of personnel from water, wastewater, planning, public health and procurement to develop the MWRA's Emergency Response Plan to a pandemic if it were to occur.

Mr. Hornbrook extended an invitation to communities to attend a Pandemic Planning Meeting that will provide details on the progress the MWRA has made to date on how it plans to continue to operate and what provisions communities may want to adopt on a local basis. A written invitation will be sent out this week for the 10:00 a.m. to noon meetings to be held on June 8th in Chelsea and June 22nd in Marlborough.

The Authority has identified 161 critical tasks that are necessary to keep water and wastewater services running. If 40% of the staff were absent, MWRA could fill the gap by cross training personnel and bringing in engineering staff that hold valid licenses to ensure adequate staffing. Further, how can the Authority keep its workers healthy and ensure their safety whether they are dealing with dead birds or coming into the office making sure their hands are sanitized and ventilation systems are working.

Another area the Authority has been working on is suppliers; not only will MWRA's service be impacted, but people servicing the Authority will be impacted as well. Staff has developed thresholds of action items. For example, the first report of avian flu found in a bird in North

America would be one action item and would trigger a certain task; the first human to human transmission is another milestone that would trigger another action, such as when to procure additional chemicals or change work schedules.

John Sanchez of Arlington asked if the Authority plans to make recommendations for actions cities and towns should take as part of the Pandemic presentation. Mr. Hornbrook said staff will be presenting the steps MWRA is planning to take to continue its operations and to protect its workers' safety. It will be up to each individual community if they want to adopt those procedures. Additionally, communities will hear what resources will and will not be available.

John Carroll of Norwood asked what will happen if emergency personnel are afraid to report to work. Mr. Hornbrook said the Authority has stressed to its employees that they provide a vital public service. If people don't have water, particularly during a pandemic, it would provide a greater public health problem. MWRA staff are considered essential personnel and will be required to come to work. Should employees stop coming to work, staff will be cross trained. For example, ENQUAD scientists are being brought in to do necessary lab tests. Staff is considering doing 12-hour or 24-hour shifts, which would require less people. Also, the Authority is looking at decentralizing, keeping its personnel away from large groups to try to keep people healthy and is reviewing all licenses people have to see if they can be used elsewhere.

The Authority has told its employees that a traditional Governor's declaration of essential personnel during a snow storm is not going to apply during a pandemic. A buildings and grounds worker that ordinarily mows lawns may be raking screens at the headworks and would be considered essential personnel.

Mr. Laskey added this planning process emanates from the federal government, which invited us to a summit that Governor Romney hosted and directed the Authority to begin its emergency planning process. When the pandemic hits, it is going to erupt; it could be in a month or ten years from now. If you begin planning when it starts, it is too late. Additionally, it will be at least a six to eight week cycle and will likely come in three waves. Communities should think about how to manage needs/operations with 40% of people out for six to eight weeks. This presentation will have answers but also give you more questions about your own operation.

Mr. Hornbrook stated the federal director of public health safety said when the pandemic hits, "you are on your own". The federal government is not going to be there to help us to any large extent. Everyone has to plan to be on their own and to keep their operations going themselves. Outside supplies might be difficult to get.

Ms. Dunphy asked for a synopsis of the Authority's most recent emergency response at Deer Island during the rain storms. Mr. Laskey stated this was a colossal storm. Some communities received up to 12 inches of rain. The MWRA's facilities worked magnificently.

Deer Island pumped at full capacity for well over 48 hours and was up over one billion gallons for four or five days and still remains very high. All MWRA pump stations and CSOs worked well; staff performed admirably under tough circumstances.

MWRA did have calls for assistance and sent pumps to communities. Melrose and Winchester were hit hard. Sewers and stormdrains are filled, but MWRA was able to protect its stations and maintained pumping capacity.

Mr. Hornbrook added that there were some sanitary sewer overflows in the MWRA's system as well as in community systems. The Authority did not have large property damage as a result of this storm, as it has in the past, based on some improvements that were made. Nut Island has set records, as well, for transport of wastewater flows. The system is still high and another inch of rain is expected this evening so crews will remain on alert.

Mr. Favaloro stated on Sunday, Governor Romney was on television and announced that he had instructed MEMA that the MWRA should turn on its combustion turbine generators (CTG) as backup power, which is relatively costly. Is it safe to assume that the Authority will apply for federal disaster funds since the Governor instructed the MWRA to turn on its backup power? Mr. Laskey said the Authority plans to apply for federal reimbursement for much of the cost to manage the storm, including the CTGs, manpower and those operating costs; in addition, an inventory of the Authority's infrastructure is being done now to see if anything was damaged during the storm that may need to be replaced, modified or upgraded.

E. COMMITTEE REPORTS

Executive Committee – Katherine Haynes Dunphy

❖ LEGISLATIVE UPDATE

Mr. Favaloro said Debt Service Assistance, as part of the overall budget process, is like a marathon. At the starting line, we immediately fell down – that was the Governor's budget, which did not include DSA. We then sprinted to the head of the pack – that was the \$25 million in the House Budget. Then, the rest of the pack caught up – that is the Senate Budget (\$15 million) where we are now in the midst of the pack. The important message is that the process is not over. Mr. Favaloro expressed confidence that the final budget will include \$25 million for DSA.

There is good news on the waiver for the Administration & Finance (A&F) Indirect fee that is assessed to the Water Supply Protection Trust (Trust). Staff has been informed that the waiver will be addressed in a supplemental budget that will come forward a week from today in both the House and Senate and could potentially provide \$3 to \$3.5 million, which will likely be used to offset additional deposits into the Trust.

The final draft of the DEP's Water Conservation Standards have come forward and have not changed significantly since the presentation made before the Advisory Board many months ago. The Massachusetts Water Works Association (MWWA) has asked the Legislature to get involved. Senator Augustus will file an Amendment in the Senate Budget that asks for two things: 1) a time out – do not fund DEP to enforce these conservation measures because they are not well thought out; 2) convene all the stakeholders – the state, the communities, the watershed associations to come to an agreement on the standards.

MWWA has asked the Advisory Board support this Amendment. Unless members object, staff believes it makes good sense that the Advisory Board weigh in that it is not opposed to water conservation standards but is opposed to a one-size-fits-all approach.

Jay Fink made a Motion **THAT THE ADVISORY BOARD WEIGH IN IN SUPPORT OF THE MASSACHUSETTS WATERWORKS ASSOCIATION'S LEGISLATIVE AMENDMENT.** It was seconded and passed by unanimous vote.

❖ **ACTION ITEM: NOMINATION/ELECTION OF AN ADVISORY BOARD REPRESENTATIVE TO THE MWRA BOARD OF DIRECTORS**

Chairman Dunphy noted that a quorum was not in attendance; therefore, the Nomination/Election of an Advisory Board Representative to the MWRA Board of Directors will be scheduled for the June Advisory Board meeting in Wellesley.

Finance Committee – Bernard Cooper

❖ **ACTION ITEM: FY07 ADVISORY BOARD OPERATING BUDGET**

Mr. Favaloro stated the Advisory Board receives its operating budget on an annual basis from the MWRA. For FY07, the Advisory Board's operating budget calls for an additional \$8,000 or a 2% increase. Principal increases in the budget include staff salaries and other expenses, including audit and Advisory Board meeting costs.

A Motion was made **TO APPROVE THE ADVISORY BOARD'S FY07 OPERATING BUDGET.** It was seconded and passed by unanimous vote.

❖ **ACTION ITEM: ADVISORY BOARD COMMENTS AND RECOMMENDATIONS ON THE MWRA'S PROPOSED FY07 CURRENT EXPENSE BUDGET**

Cornelia Potter stated the Authority submitted a budget with total expenses just over \$600 million. Direct Expenses are just over \$200 million, Indirect Expenses are at \$40 million and capital financing related expense is just under \$360 million. These expenses are proposed to be covered by Non-Rate Revenue of \$12.7 million, Investment Income estimated at just under \$34 million and use of Rate Stabilization and Bond Redemption Funds of \$35.7 million, leaving a Rate Revenue Requirement of \$518.5 million or just under 10%, an increase of \$46 million from FY06.

According to the Authority's projections, FY07 marks the beginning of seven years of large rate increases. FY07 was cushioned by the use of rate stabilization monies totaling over \$35 million; in the absence of their use, rates would have been nearly \$82 million higher than the current year's budget or over 17%. Rate Stabilization and Bond Redemption Funds have been an important tool for the Authority to manage rates in the past but these funds are shrinking as the Authority a) generates fewer surpluses than in previous years and b) starts drawing down on those funds at a greater clip. In fact, the Authority projects that most of the funds will be utilized in the next two years and all the funds used in four years. The Authority projects the rate revenue requirement will cross the \$600 million mark in just two years and two years after that will pass \$700 million. Increases level off after 2011, but rates remain close to the \$760 million level. The size and rate of the rate increases going forward are considerable. The annual rate revenue is expected to increase by \$40 to \$50 to \$30 million in each of the next seven years.

DSA had been an important component of the MWRA's budget. It is unlikely that the Authority will see restoration of that program to the levels that it experienced from 1994 to 2002 when funding had reached over \$52 million.

In terms of the larger economic climate, it is important to keep in mind that even though state taxes are rising, spending on key programs is still well below what it was before the fiscal downturn in 2002 when adjusted for inflation. Local aid budgets are still more than one-quarter of a billion dollars below the spending in 2002 and the Massachusetts Taxpayers Foundation emphasizes that while the state has improved financial capacity to act on the initiatives before the legislature, it does not have the ability to act on all of them. Analysts have observed that growth in revenue is not expected to be as great next year as it is this year making it questionable that growth in spending in next year's budget round can be sustained.

The Authority has made considerable progress in controlling its own expenses over the last six or more years, including a reduction of more than 500 staff, a lower sludge processing contract, consolidated facilities, a reduced vehicle fleet, increased self generation of electricity and reduced chemicals at Deer Island, the establishment of a capital spending cap and refunding of over \$3 billion worth of outstanding debt. At the same time, the world is changing and there are new and increased external costs putting pressure on the budget, including health insurance, energy and rising short-term interest rates.

In this larger context, the Advisory Board believes it is important to review the Authority's rates management strategy. Staff recommends that the Authority convene a working committee, which could consist of the Authority's own staff, members of the Board of Directors, Advisory Board and financial advisor to develop predictable and sustainable rates over a multi-year timeframe making sure the use of debt structuring is a key component of the plan because 60% of the budget of the budget is dedicated to debt service. This percentage is projected to increase to 65% of the budget.

The amount of debt to be restructured to achieve this goal would be well under 5% of the Authority's eventual outstanding debt of over \$6 billion. These conclusions would be determined by the committee; the point is to convene this committee to set the parameters for alternative analyses.

Other recommendations are familiar items that are addressed every year. Staff looked at every component of Direct and Indirect Expenses, assumptions for Capital Finance, and assumptions for Non-Rate Revenue, including Investment Income. Operating Expenses have been reduced by over \$1.6 million with recommendations that include lowering the workers compensation expense, a decrease in the proposed budget for several chemicals based on lower usage this year, an emphasis on the increase of self generation of electricity at Deer Island and eventually at the John J. Carroll Water Treatment Plant, to update and lower budgets for operation of the Union Park CSO facility to reflect a later startup, reduce the frequency of beach nourishment studies at Deer Island, lower legal services spending in the Human Resources Department and lower audit services in the Finance Department and security services at Deer Island based on the current year's spending pattern. Staff has also recommended the Authority report on plans for wind energy at Deer Island and discuss opportunities at other Authority locations and report on long-term maintenance plans for the pelletization plant. These recommendations add up to \$1.6 million; because these expenses must be covered by a one-sixth deposit in the operating reserves, an additional reduction of \$280,000 was made for a total reduction of just under \$2 million in operating expenses.

Staff has updated some assumptions for watershed related expense, particularly for payments in lieu of taxes, and the schedule for repayment of previously issued debt service relating to the purchase of watershed land for \$1.5 million. Many of the Advisory Board's recommendations are in the area of capital financing, where staff made some different assumptions about the cost of variable rate debt for a savings of \$3 million. Assumptions for commercial paper costs that support the Local Water Pipeline Program have also been updated.

On the non-rate revenue side, staff found some additional sources of money, particularly as they relate to the Rutland/Holden sewer line and have also adjusted Investment Income and a whole series of assumptions about fund balances and short-term and long-term rates and have yielded a combined increase of \$2.5 million for a total of \$12 million in recommendations. Staff recommends the Authority hold these funds and substitute the use of a matching amount from the rate stabilization funds, to be reserved for future years.

Non-monetary recommendations include requesting that the Authority revisit the Insurance and Renewal and Replacement Reserves, which are in a different category in the Authority's Bond Covenants and can be set based on the advice of consultants. The consultants should take a sharper look at not only the balance in those two reserves, but potentially the need for the reserves now that the Authority's Commercial Paper Program has \$150 million of excess capacity. These two reserves total \$54 million or virtually one-third of the excess capacity of the Commercial Paper Program.

The Advisory Board emphasizes the importance of the continued expansion of the water distribution system and the potential for pursuing wind energy, at Deer Island particularly, but there may be some other facilities where wind energy might be viable. The Advisory Board further proposes the potential for bottling and distributing the Authority's own water, as has been suggested by members of the Board.

If the Final FY07 State Budget includes \$25 million for statewide DSA, the Authority estimates it would be eligible for 75%, or \$18.75 million, which would bring the rate revenue requirement of 9.8% down to 5.83%. If the number is \$15 million, the Authority would be eligible for just over \$11 million, which translates to a 7.4% rate increase.

Mr. Favaloro said over the next seven years in actual dollars, before the Authority looks at its next master planning process and more capital spending would need to occur, assessments would be growing by nearly \$300 million. What can we do to create sustainable and predictable rates? The Rates Management Committee will review the bond covenants and potentially restructure a piece of the Authority's debt – all of these concepts will allow communities to get through the difficult years ahead.

A Motion was made **TO APPROVE THE ADVISORY BOARD COMMENTS AND RECOMMENDATIONS ON THE MWRA'S PROPOSED FY07 CURRENT EXPENSE BUDGET.** It was seconded and passed by unanimous vote.

Operations Committee – Jay Fink

❖ ACTION ITEM: TOWN OF WILMINGTON'S REQUEST FOR A SIX-MONTH EMERGENCY WATER CONNECTION TO THE MWRA WATERWORKS SYSTEM THROUGH THE CITY OF WOBURN

Michael Woods, Water and Sewer Superintendent, stated the Town of Wilmington has lost 60% of its water supply due to chemical contamination and is requesting a six-month emergency water supply connection through the City of Woburn. Wilmington is currently moving through the regulatory process and plans to ask for entrance into the MWRA system as a partial user.

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 JUNE 2006. THE CONNECTION IS SUBJECT TO THE APRIL 21, 2006 MUNICIPAL AID AGREEMENT BETWEEN WILMINGTON AND WOBURN THAT ADDRESSES ISSUES OF ASSESSMENT AND CHARGES PRIOR TO CONSIDERATION BY THE MWRA BOARD OF DIRECTORS. AVERAGE DAILY DEMAND SHALL NOT EXCEED ONE 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 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.

F. QUESTIONS AND COMMENTS

Mr. Favalaro said there has been ongoing dialog at the MWRA Board of Directors regarding responsible growth of the MWRA water system based on a motion made by John Carroll. On the morning of June 28, a Public Forum will be held before the Board to provide an opportunity for all interested parties to speak on the system expansion topic. Watershed groups that have concerns will be in attendance. Mr. Favalaro suggested that communities may want to provide testimony so the Board can hear a balanced presentation that environmentally sound expansion policy is possible, while also providing a level of economic benefit for the existing cities and towns.

Mr. Laskey added that this whole discussion is a result of the tremendous water conservation measures undertaken by member communities. Last year the MWRA used 225 million gallons per day (MGD), down from a peak of 340 MGD in the 1980s.

G. ADJOURNMENT

A MOTION WAS MADE TO ADJOURN THE MEETING AT 12:49 P.M. It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary