

**MWRA ADVISORY BOARD MEETING
JUNE 15, 2006
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530 WASHINGTON STREET, WELLESLEY, MA – 11:30 A.M.
Minutes Approved at the September 21, 2006 Meeting**

Fifty-two people were in attendance, including thirty-four voting members: Matt Shuman, BEDFORD; Peter Castanino, BELMONT; John Sullivan, BOSTON; Charles Barry, BROOKLINE; Tim MacDonald, CAMBRIDGE; Ed Sullivan, CANTON; Joseph Foti, CHELSEA; Al Borgonzi, EVERETT; J. R. Greene and Barbara Wyatt, GUBERNATORIAL APPOINTEES; Ed Demko, HINGHAM; Bill Hadley, LEXINGTON; Jay Fink, LYNN; Bruce Kenerson, LYNNFIELD; Ed Bates, MAPC; Dana Snow, MARBLEHEAD; Doran Crouse, MARLBOROUGH; Katherine Haynes Dunphy, MILTON; John Craig, NATICK; John Cosgrove, NEEDHAM; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; Peter Smyrnios, PEABODY; Sam MacDonald, REVERE; Ted McIntire, READING; Carol Antonelli, SOMERVILLE; Richard Stinson, WAKEFIELD; Gerald Mee, WATERTOWN; Walter Woods, WELLESLEY; Earl Forman, WESTON; Bob Angelo, WESTWOOD; Zig Peret, WILBRAHAM; Michael Woods, WILMINGTON; Fred Russell, WOBURN.

Also present: Andrew Pappastergion, MWRA BOARD OF DIRECTORS; Jon Norton and Mike Marchese, EVERETT; Michael Martello, WAKEFIELD; Bill Shaughnessy, WELLESLEY; Rob Antico, WILMINGTON; Chris Doherty, WOBURN; Eileen Simonson, WSCAC; Ed Bretschneider, WAC; Fred Laskey, Patricia Filippone, Rachel Madden and Pam Heidell, 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 11:45 a.m.

B. APPROVAL OF THE MINUTES FROM APRIL 27, 2006 AND MAY 18, 2006

A Motion was made **TO APPROVE THE MINUTES FROM THE APRIL 27, 2006 AND MAY 18, 2006 ADVISORY BOARD MEETINGS**. It was seconded and passed by unanimous vote.

C. REPORT OF THE EXECUTIVE DIRECTOR

MWRA Advisory Board Executive Director Joseph Favaloro stated for Fiscal Year 2007, the February and April Advisory Board meetings will not be moved to the fourth Thursday of the month as has been the practice in the past. The first FY07 Advisory Board meeting will be held in Canton in September.

Mr. Favaloro noted the MWRA and the Advisory Board sponsored a Pandemic Planning meeting last week. It was well attended and Authority staff did a phenomenal job outlining its preparations. Another meeting will be held at the John J. Carroll Water Treatment Plant (CWTP) on June 22.

In response to bad press and a \$200,000+ fine issued by the MWRA, Unilever, Inc. (Good Humor/Breyers) has indicated that it is now willing to put in a pre-treatment plant.

D. PRESENTATION: LONG RANGE WATER SUPPLY PLANNING – Fred Laskey, MWRA Executive Director

Mr. Favaloro requested that communities participate in a Public Forum to be held by the Authority on June 28th regarding system expansion. All interested parties are invited to provide testimony before the MWRA Board of Directors.

MWRA Executive Director Fred Laskey stated the Authority is engaged in a statewide debate on water policy, sparked by a motion made by Board Member John Carroll, and supported by the Advisory Board and the rest of the Board of Directors. The MWRA believes it has excess water to sell because of the success of its conservation measures. The MWRA service area is surrounded by highly stressed watersheds and communities with water shortages and the MWRA needs new revenue as a result of declining usage and ongoing capital spending.

Mr. Laskey stated the MWRA's water system serves 2.5 million people. The engineers that came before us had the foresight to build massive reservoirs and robust transmission systems into the city; the result is a lot of great quality water. The Quabbin Reservoir has been overflowing since October.

In response to the Board's request, staff did an analysis to determine a reasonable amount of water that could be sold if given permission. MWRA has built its analysis on the capacity of the reservoirs, current use, future use and safe yield.

The first question is what will the reservoirs' yield be? Historically the peak use of the reservoirs was about 340 million gallons per day (MGD) in the mid 1980s; that was too much and was over the safe yield. MWRA developed internally a dynamic safe yield model and has taken a conservative number of 300 MGD, which has been validated by the University of Oregon, the University of Washington and the United States Geological Survey.

MWRA's current registration is 314 MGD and DEP's standard for surface reservoirs or watersheds provides up to 350 MGD. In reviewing the plans and records when the system was built, it is clear the people that built the system believed it could supply well over 300 MGD to the metropolitan area, net of the mandatory releases MWRA makes over the dams. (MWRA is required to release 20 MGD over the Quabbin at Winsor [a higher level in the warm weather] and 5 to 10 million gallons a week to the Nashua and Swift Rivers.) MWRA determined a conservative safe yield of 300 MGD. The Authority's five-year running average of usage has dropped from a peak of 340 MGD to 230 MGD and continues to drop.

Staff used MAPC's projected growth for the MWRA service area and the Chicopee Valley system where MWRA supplies three communities to determine future demand; those numbers (13 MGD) were applied as a cushion for future growth and added to the current average of 230 MGD. MWRA is projecting growth as a safety valve even though the population is dropping every year and Massachusetts continues to lose its manufacturing base. The City of Boston last year used the same amount of water as it did in 1911. Water use continues to come down because of conservation measures, the plumbing code and loss of manufacturing that relied heavily on water use and water costs.

Staff also looked at partial use communities and what would happen if some portion of partial communities came onto the system unexpectedly. Partial use communities include Canton, Bedford, Leominster, Lynn, Marlborough, Needham, Northborough, Peabody, Stoughton, Wakefield, Wellesley, Winchester, Woburn and Worcester. Staff built in a cushion of 20 to 25 MGD for that.

The next task was to look at communities or entities that might seek to join the MWRA system. Currently, Wilmington and the Weymouth Naval Air Station have indicated interest in joining the system. Also, there is debate in Reading about joining the MWRA or building a new treatment plant.

After adding a cushion in anticipation of these additional entities, staff determined there is conservatively 36 MGD in excess capacity that can safely be marketed.

What about a drought? The MWRA's drought of record was in the late 1960s, which has been determined by scientists to be a one in 300-year drought. At that time, the reservoirs went below 50%. With MWRA's current usage, even with a slight expansion, MWRA would barely, if ever, get to any action levels for restrictions. If it stopped raining now and didn't rain anywhere in the watershed or service area, it would take over two years before any of the drought actions would be implemented because of the MWRA's storage capacity in Quabbin (including Wachusett being at full capacity).

Another frequently asked question is "what about global warming?" Scientists are predicting heavy rainstorms and then periods without rain, which plays to the Authority's strength because it has storage capacity.

The Board directed staff to see which communities around the district may have water issues. Staff estimated which communities might have water issues or are in a stressed basin; the Ipswich River is one of the most stressed river basins in the country and includes Lynnfield Center, Salem, Beverly, Ipswich, Wenham, Topsfield, Danvers, Middleton and Reading for a grand total of 3.8 MGD of potential supplies MWRA could provide and would result in a great environmental benefit to that area.

Additionally, Ashland, Holliston, Hopkinton, Milford, Franklin and communities around the South Sudbury may need 3 MGD. Hingham, Hull and Sharon would require another 1.5 MGD. Lancaster, Sterling, Westford, W. Boylston, Boylston, South Hadley in central Massachusetts would add up to 2.2 MGD. The grand total for potential communities in need of water is about 10.6 MGD.

In summary, MWRA has a 36 MGD surplus, with 10.6 MGD needed for hypothetical future customers, most coming from areas of stressed basins such as the Charles River, South Sudbury and the Ipswich River. It becomes a win - win situation for the MWRA, these communities and the environment.

One argument the MWRA has heard is the MWRA simply wants to sell the water to rich suburbs to water their lawns and waste precious resources. Virtually all the communities mentioned are at, below or very near 65 gallons per capita per day (gpcpd) with low levels of unaccounted for water.

Advantages for communities that join the MWRA include the MWRA's leak detection program, the support of MWRA staff and the various grants and loans that MWRA provides. Joining the MWRA Waterworks System cannot happen over night. There are significant environmental reviews required to join. After getting through the regulatory process, the MWRA's standards are equally daunting. However, MWRA has the water and can provide great environmental benefit to certain areas with no impact to the reservoirs.

There is some discussion ongoing with advocacy groups regarding a comprehensive arrangement to increase the river flows in the Nashua and Swift Rivers as a trade off for allowing MWRA to sell more water in the metropolitan areas. MWRA is facing pressure on its rates; the potential of expanding the rate base is modest but it is another piece of the puzzle to solve the rate problem.

J. R. Greene asked about percentages of leaks in the system; it seems that leak repair is part of what brought the usage down. Mr. Laskey agreed; the unaccounted for water community average is 18%. The Authority has spent a considerable amount of money upgrading its system. The sophistication of the meters is a key part of the ongoing leak detection program.

Ed Bates of MAPC said water and sewer availability helps to encourage growth in some areas. This Administration campaigns for smart growth. Is MWRA looking at making water available according to where communities ought or ought not to be growing? Mr. Laskey said the environmental people are

saying the MWRA needs to incorporate smart growth into its decision making. The Authority embraces the concept of smart growth but housing and road planning should be dealt with by entities such as MEPA.

The Massachusetts Water Works Association (MWWA) is opposed to a 65 gpcpd rule being imposed statewide by DEP and the Water Resources Commission. MWWA offered that the solution is for suburban communities to build condo developments to get the per capita use down. Their point was you are encouraging growth where you might not want it by putting this artificial standard in; they are advocating for best practices not arbitrary numbers.

Eileen Simonson of WSCAC said she would not dispute the incredible success of this system to use less water. The Authority has been successful in promoting water conservation, protecting the adequacy of the water supply and reducing wastewater flow; however, more effort should be provided to improve the environmental quality of the watershed by increased releases to the rivers.

Ms. Simonson continued that the MWRA has chosen not to get involved in sustainable development or growth principles. If water and sewer services are provided, development takes place. WSCAC will not deny that 220 MGD is less water use than anyone predicted in 1985. Is there water that can be used without throwing communities into potential drought response? Absolutely; but where should it go? What are the criteria? What is the MWRA's real responsibility? MWRA was given care and control of the water but does not own it, it is a state resource.

The downstream release for the Wachusett Reservoir to the Nashua River is 12 million gallons a week. There are stream release requirements that are not being fully met. Is Quabbin now spilling? Yes. The question becomes what about the dry years? When the MWRA says the yield is 350 MGD from the watershed that is true; over the 60 years, it averages about 350 MGD coming into the reservoirs and through the Ware River to the watershed. But that is not every year; some years it is 100 MGD and other years 200 MGD. In dry years, the Swift River needs the benefit of better releases. The Connecticut River Watershed Council and legislators in western-central Massachusetts are trying to work to improve those releases in those years when the reservoir isn't spilling.

There are a lot of improvements being made to contracts. WSCAC is proposing to work with the MWRA to develop better contract requirements for contracted communities because most of them have local water sources that also need to be managed and protected to best advantage.

WSCAC would like the MWRA to develop a better set of criteria in its expansion policy that gives the Authority a reason to say no to an applicant. The Inter-Basin Transfer Act says there are real reasons for a community to join with any big system or another community. When water is taken from a basin and put somewhere else, there is an additional responsibility. MWRA needs to write criterion so it is legally protected to say no, even to a community that may be approved under the Inter-Basin Transfer Act. WSCAC will provide testimony at the June 28th Public Forum.

Mr. Favaloro stated the Executive Committee wanted to weigh in on the issue of system expansion and long range water supply planning by offering a recommendation that speaks to the MWRA's safe yield and usage; now 350 MGD down to 220 MGD. It acknowledges the tremendous impacts and benefits of conservation and talks about the need outside of the MWRA service area on stressed watersheds. The resolution comes to the conclusion that the Authority has 36 MGD of water to sell and should market it. Though it is not the one and only tool to manage rates, an economic benefit does occur if the MWRA sells additional water.

The communities that receive water from the MWRA and pay the rate revenue requirement should weigh in on the subject. Chairman Dunphy will provide testimony at the Public Forum; her position would be strengthened if communities today vote to support the Executive Committee's resolution as the basis of the Advisory Board's comments.

J. R. Greene stated a resolution was not on the agenda and was not mailed ahead of time. Chairman Dunphy said the resolution was discussed at the Executive Committee meeting and had not been written or reviewed by the members of the Executive Committee at the time the mailing went out. Mr. Favaloro noted it is here today for full discussion and debate and there is a quorum of the Advisory Board.

Mr. Bates said, for the record, that he hoped the Advisory Board would encourage the Authority to take into consideration the impact of availability of water on future growth of a community and the region. Mr. Bates expressed his opinion that it is important that the Authority consider smart growth in providing additional water and sewer to communities.

John Sullivan stated 36 MGD is very conservative; however, given that all the numbers are best engineering judgment safe yield numbers, would it be more prudent to set 18 MGD as a goal? It would take 15 to 20 years to get to that number but it shows conservatism. Chairman Dunphy stated there would be a review in five years during which time it is clear nothing near 36 MGD is going to happen. Mr. Favaloro added the only real number the Advisory Board has is based on the Authority's analysis of safe yield and system needs. It is a whole other discussion that you will sell 36 MGD, but up to that amount is available.

Eileen Simonson pointed out that improvements to the downstream releases are a subtraction from the 36 MGD; it reduces the safe yield or increases the demand.

John Cosgrove said indications are that Massachusetts is not a state that is growing; we are losing our manufacturing base. Needham alone will probably be returning about 1 MGD at some point in the near future after losing Coca Cola. These assumptions may be under where they should be.

Jay Fink said having heard the discussion, there is sufficient backup that 36 MGD is a real number. The Advisory Board should have a voice at the Public Forum to collectively send a message to the Board of Directors in support of the responsible allocation of water resources in an environmentally safe manner.

Bernie Cooper noted nothing in the Motion or the proposed policy requires the Authority to accept any and all comers that may wish to join and expressed support of 36 MGD, less some other disposition of that water as WSCAC spoke of. The rate base that was projected in the 1980s foresaw a much higher use and a much lower unit cost; anything the Advisory Board can do to help soften it will be helpful. Mr. Cooper expressed his strong support for the effort by the Advisory Board to encourage the Authority to proceed in that direction and opposed any attempt to incorporate smart growth decisions directly into the MWRA's decision making; those are community or statewide planning issues and should not be the responsibility of the Authority.

Mr. Bates said it is not the MWRA's responsibility to fully relate future water availability to growth but they just can't standby the sidelines and say whatever happens happens. Chairman Dunphy said I think the Authority has been responsible. We count on MAPC to do that work.

Mr. Fink made a Motion **FOR THE MWRA ADVISORY BOARD TO RECOMMEND THAT THE MWRA DEVELOP A PLAN TO MARKET AND MAKE AVAILABLE UP TO 36 MILLION GALLONS PER DAY TO NON-MWRA COMMUNITIES THAT MEET THE CRITERIA ESTABLISHED IN MWRA POLICY OP.10, ADMISSION OF A NEW COMMUNITY TO THE MWRA WATER SYSTEM. THE SCOPE OF THE SUPPLY BEING MADE AVAILABLE TO NON-MWRA COMMUNITIES SHALL BE REVISITED IN FIVE YEARS WHEN MWRA STAFF WILL PROVIDE AN UPDATE TO THE MWRA BOARD OF DIRECTORS ON CURRENT AND PROJECTED MEMBER AND NON-MEMBER WATER DEMANDS.** It was seconded and passed, with J. R. Greene opposed.

E. COMMITTEE REPORTS

Executive Committee – Katherine Haynes Dunphy

❖ **LEGISLATIVE UPDATE**

Mr. Favaloro stated when staff began to work with the communities on Debt Service Assistance (DSA), it was a key component of an overall multi-year rate strategy. There are significant difficulties in FY07 with regard to rates but the problem doesn't go away after FY07; it continues to grow and increases significantly between now and FY13. That was the paramount argument brought forward to the legislature to advocate for more DSA.

The House Budget included \$25 million for statewide DSA while the Senate Budget included \$15 million. As of June 15, there is no resolution on what the MWRA's final budget will be. The range is large, from 9.8% down to 5.8%. It is important that solutions are looked at in a larger context because this is a multi-year problem.

The Advisory Board committed that any monetary recommendations it made would not reduce the FY07 rate revenue requirement but rather reduce the use of rate stabilization funds to save those monies for FY08 and FY09. The argument is that the importance of DSA will determine the level of rate increases in FY07. It is important to point out to the legislature that there is a direct relationship of their support for DSA to the MWRA's budget. In the event there is zero DSA in FY07, there will be a 9.8% rate increase.

The waiver of the Indirect Administration and Finance charges the MWRA pays on the Water Supply Protection Trust was contained in the Conference Report for the Supplemental Budget being reported today.

A bill filed two years ago to change the composition of the Board of Directors appears to be moving forward. At this point, of the 11 members of the Board, three are elected by the Advisory Board, three are chosen by the Governor, three represent the City of Boston and the other two members, Quincy and Winthrop, work in conjunction with the Governor. Quincy and Winthrop submit a list of representatives to the Governor and the Governor selects one person from each list. The Advisory Board's bill changes it from the Governor's choice to direct representation from those communities.

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

Advisory Board Secretary Ed Sullivan stated, at its last meeting, the Executive Committee, acting as the Nominating Committee, voted to endorse Andrew Pappastergion to serve on the MWRA Board of Directors for another three-year term. Secretary Sullivan asked if there were any other candidates for the Board of Directors; with no nominations from the floor, the Secretary declared the nominations closed. For the record, a quorum of 34 voting members was in attendance.

A Motion was made **TO NOMINATE AND ELECT ANDREW PAPPASTERGION TO SERVE AS AN ADVISORY BOARD REPRESENTATIVE ON THE MWRA BOARD OF DIRECTORS FROM JULY 1, 2006 TO JUNE 30, 2009.** It was seconded and passed by unanimous vote.

Mr. Pappastergion expressed his appreciation.

Operations Committee – Jay Fink

❖ **ACTION ITEM: REVISIONS TO THE MWRA'S SYSTEM EXPANSION POLICY**

Ryan Ferrara stated the following recommendations are the product of four System Expansion Committee meetings. The first recommendation was based on John Carroll's suggestion that entrance fee payments from all entities coming on to both the water and sewer systems be provided upfront.

A Recommendation was made **THAT MWRA REQUIRE ALL SYSTEM EXPANSION ENTRANCE FEE PAYMENTS TO BE MADE UPFRONT, IN ONE LUMP SUM PAYMENT, UNLESS OTHERWISE APPROVED BY THE MWRA BOARD OF DIRECTORS. IF THE PROPONENT IS UNABLE TO PROVIDE PAYMENT ON AN UPFRONT BASIS, THE APPLICANT MAY REQUEST THAT AN ALTERNATIVE ENTRANCE FEE PAYMENT SCHEDULE BE MADE AT AN INTEREST RATE EQUIVALENT TO THE AVERAGE COST OF MWRA'S FIXED-RATE DEBT AT THE TIME OF APPLICATION PLUS AN ADDITIONAL 25 BASIS POINTS OVER A PERIOD AS DEFINED BY A VOTE OF THE MWRA ADVISORY BOARD AND MWRA BOARD OF DIRECTORS ON THE PROPONENT APPLICATION.**

Mr. Ferrara said the second recommendation related to the premium fee for emergency use. The resulting recommendation sends a price signal to communities that have a long-term water supply issue that they must identify a solution to their water supply issues, whether it is to join the MWRA system or to address the problems that brought them to the Authority in the first place.

A Recommendation was made **TO MAINTAIN THE STATUS QUO FOR EMERGENCY USE FEES FOR PERIODS ONE THROUGH FOUR BUT TO INCREASE THE CHARGES FOR PERIODS FIVE AND BEYOND AS FOLLOWS: PERIODS FIVE THROUGH SEVEN – 130% OF MWRA PREVAILING RATE PLUS 130% OF THE ANNUAL PAYMENT ASSOCIATED WITH THE ASSET VALUE CONTRIBUTION PAYMENT (ENTRANCE FEE EQUIVALENT) AMORTIZED WITH INTEREST OVER 15 YEARS. PREMIUM CHARGES SHALL INCREASE FOR EACH SUBSEQUENT THREE EMERGENCY SUPPLY AGREEMENT PERIOD BEGINNING WITH PERIOD EIGHT AS FOLLOWS: PREMIUM CHARGES FOR PERIODS EIGHT TO TEN ARE 140%; PREMIUM CHARGES FOR PERIODS 11 TO 13 ARE 150%; PREMIUM CHARGES FOR PERIODS 14 TO 16 ARE 160%. PREMIUM CHARGES SHALL INCREASE BY 10% FOR EACH SUBSEQUENT THREE EMERGENCY SUPPLY AGREEMENT PERIOD.**

Based upon the understanding that most communities come to the Authority for summertime water use within a six-month period, the Committee discussed having an entrance fee that reflects peak use.

The following Recommendation was made: **THE MWRA WILL CHARGE AN ENTRANCE FEE TO NEW COMMUNITIES JOINING ITS WATERWORKS SYSTEM SO A NEW COMMUNITY WILL PAY ITS FAIR SHARE OF THE COST OF THE WATERWORKS SYSTEM IN PLACE AT THE TIME THE USER JOINS. THE ENTRANCE FEE RECOVERS THE NEW USER'S PROPORTIONAL SHARE OF THE WATERWORKS SYSTEM'S ASSET BASE, WHICH HAS ALREADY BEEN PAID FOR BY THE EXISTING USERS OF THE SYSTEM. THE NET ASSET VALUE CHARGE WILL BE DETERMINED THROUGH ALLOCATING 25% OF THE NET ASSET VALUE TO PEAK USE AND THE REMAINING 75% TO AVERAGE USE. SYSTEM AVERAGE ANNUAL USE AND PEAK SIX-MONTH AVERAGE USE WILL BE BASED UPON THE PRIOR FIVE CALENDAR YEAR AVERAGE OF WATER CONSUMPTION. THE FORMULA IS AS FOLLOWS:**

AVERAGE USE

**NEW USER'S PROJECTED MWRA 'AVERAGE USE' WATER NEEDS X NET ASSET VALUE OF TOTAL
SYSTEM 'AVERAGE USE' ANNUAL AVERAGE WATERWORKS SYSTEM
75% OF NET ASSET VALUE ALLOCATED TO AVERAGE USE**

SYSTEM PEAK USE

**NEW USER'S PROJECTED MWRA 'PEAK USE' WATER NEEDS X NET ASSET VALUE OF TOTAL
SYSTEM 'PEAK USE' (MAY TO OCT) SIX-MONTH AVERAGE WATERWORKS SYSTEM
25% OF NET ASSET VALUE (NAV) ALLOCATED TO SYSTEM PEAK USE**

**AVERAGE ANNUAL USE (AT 75% OF NAV) + SYSTEM SIX-MONTH PEAK USE (AT 25% OF NAV) =
TOTAL ENTRANCE FEE**

Michael Woods expressed dismay that Wilmington has been working on a five-year plan and spent over \$1 million on studies to go through the regulatory process to try to become a partial MWRA community. It has been a tough sell to the regulators and to the community and now, with the new formula, it will cost an additional \$1 million.

Pam Heidell stated entities that are already in negotiations with the MWRA should be exempt, thus the recommendation should be amended as follows: **THE TOWN OF WILMINGTON AND THE TRI-TOWN NAVAL AIR BASE DEVELOPMENT ARE CURRENTLY IN THE PROCESS OF APPLYING FOR MWRA WATER AND ARE THUS EXCLUDED FROM THE REVISED ENTRANCE FEE FORMULA AND SHALL FOLLOW THE PRIOR ENTRANCE FEE FORMULA. THE REVISED ENTRANCE FEE FORMULA, WHICH ALLOCATES 25% OF THE NET ASSET VALUE TO PEAK USE AND THE REMAINING 75% TO AVERAGE USE, SHALL APPLY TO ALL FUTURE COMMUNITY APPLICATIONS OTHER THAN WILMINGTON AND THE TRI-TOWN NAVAL AIR BASE DEVELOPMENT.**

The Operations and Maintenance (O&M) fee was established in 1997 by the MWRA Board of Directors and specifically benefited the City of Cambridge, which was building a water treatment facility at the time. The O&M fee essentially excluded any capital costs for communities that were improving their water treatment facilities to comply with the requirements of the Safe Drinking Water Act.

Today 59% of the MWRA's expenses are capital related expenses. After much discussion, the Committee chose to eliminate the O&M charge.

A Recommendation was made **TO ELIMINATE THE OPERATIONS AND MAINTENANCE (O&M) RATE, APPROVED BY THE MWRA BOARD OF DIRECTORS AT ITS JULY 16, 1997 MEETING.**

Mr. Ferrara noted these recommendations were approved at the Executive Committee with one party opposed, specifically against the elimination of the O&M charge.

A Motion was made **TO APPROVE ALL FOUR RECOMMENDATIONS OF THE SYSTEM EXPANSION COMMITTEE AS LISTED ABOVE.** It was seconded and passed, with Messrs. McIntire and MacDonald opposed. Ed Sullivan abstained, stating he would vote for Recommendations 1, 2 and 3, but not Recommendation 4.

❖ **STATUS: DEP'S WATER MANAGEMENT ACT REGULATIONS/CONSERVATION STANDARDS** – William Shaughnessy, Asst. Superintendent of Wellesley Water & Sewer, on behalf of Philip D. Guerin, Legislative Advisory Co-Chair, Massachusetts Water Works Association

In the absence of Philip Guerin of the Massachusetts Water Works Association (MWWA), William Shaughnessy of Wellesley spoke about the MWWA's legislation that calls for a legislative "time out" in implementing the DEP's new Water Management Act Regulations and the creation of a Blue Ribbon Committee to review Water Conservation Standards. (Mr. Guerin was meeting with the Lt. Governor at this time.)

The legislative "time out" (Amendment 160) asks the Legislature to not fund the implementation of the new Water Management Act Regulations and Conservation Standards until they have been thoroughly reviewed by the Blue Ribbon Committee. It is in your community's interest to look at these new Regulations/Standards because they contain a few things that make it difficult to administer a water supply.

MWWA is seeking the support of the communities in contacting their legislators because it is in Conference at this time.

MWWA mainly has objections to: the 65 gallon per capita per day rule and the summer usage of no more than 20% above winter usage. This is a one size fits all plan and would be very difficult for communities, especially Cape Cod communities. The Town of Falmouth would have an immediate drop in revenue of about \$1 million if these rules are implemented. Wellesley would experience a substantial drop in revenue also.

DEP must listen to the water suppliers whom they manage.

Finance Committee – Bernard Cooper

❖ **STATUS: CIP/CEB REVIEW**

Cornelia Potter stated last week the Board of Directors held a hearing on the proposed Capital and Current Expense Budgets. On the capital side, the Advisory Board made recommendations totaling over \$8 million, all of which the Authority agreed to. The Authority also appears to be committed to the preparation of a Master Plan, a recommendation that the Advisory Board has advanced for over 20 years; however, there is still uncertainty about when the plan will be delivered. The Master Plan is key to the development of the next five-year cap, which needs to be based on an overall plan and prioritization process. The Authority will hold a staff-wide forum next Friday to push this process forward in hopes of producing a product that can be used as part of the preparation of next year's capital program.

Authority staff reported at the Rate Hearing that they added \$65 million to the overall Capital Program, including a new \$18 million phase to the I/I Program. While there was heated discussion about the value of a new phase, with Mr. Mannering objecting to the program and Mr. Carroll supporting it, there was also concern about funds being added after the completion of the review period. It is not clear whether this new phase will remain in the Capital Budget or be introduced as part of the FY08 process where it can be reviewed in context with the overall Capital Program. In the past, it has been a working policy of the Authority's budget staff not to introduce new projects or project phases in the final budget after the review has taken place.

The Authority also added \$8 million in new spending for watershed land acquisition. For the CSO program, staff proposed adding \$20 million in increased costs that had been previously identified for the Alewife CSO program in Cambridge, despite the fact that negotiations are still ongoing with Cambridge. The sense of the Board was that the amount should be no more than \$10 million, if at all, until the negotiations are complete with a footnote that clarifies that the issue is still under negotiation.

The Authority also identified another \$17 million in updated cost estimates for the North Dorchester Bay CSO Project, the largest single contract the Authority will be bidding over the next many years. It is out for bid now and the Authority anticipates bids will be in at the end of this month and a Board award next month.

On the Current Expense Budget side, the Authority agreed to the creation of an ad hoc committee to update the multi-year rates management strategy. With this proposed budget, rates are expected to go over \$500 million and in just two years will pass the \$600 million mark and just two years after that will pass the \$700 million mark. The Advisory Board believes this Committee, working with Advisory Board staff and members of the Board of Directors, is the way to bring new perspective to the challenge. Board members Vincent Mannering and Cile Hicks expressed interest in serving on the Committee. Debt restructuring will be part of the agenda.

The Authority accepted \$7.7 million of the Advisory Board's \$12 million of monetary recommendations. Due to additions to a number of other areas in the budget, the Authority agreed to reduce the use of rate stabilization by only \$1.25 million. The Advisory Board had recommended that all \$12 million be used to reduce the use of rate stabilization funds to reserve for managing future rate increases.

Another area of increased spending was the focus to use the Reading entrance fee of \$3.3 million to support current revenue for the Capital Program. The Advisory Board has raised concerns about this as an effective use of the monies for rates management and the precedent of using the funds in this manner for future entrance fee payments. The outcome is still under discussion. Authority staff also took a conservative stance on the subject of Variable Rate Debt Service and Investment Income and did not accept any of the Advisory Board's recommendations for lowering variable rate debt service payments on the assumption that short-term rates could continue to rise. While the Advisory Board staff expects the rates will rise, the Authority's recommendation is associated with federal funds rates rising to 7.5 to 8%, which is a very conservative assumption.

For Investment Income, the Authority also lowered the assumed short-term interest rate, even though short-term rates are rising, but has increased the assumptions for fund balances allowing the Advisory Board's recommendation to be accepted. Staff did agree to accrue these two categories to actual and amend to offset withdrawals from the rate stabilization funds.

Advisory Board staff recommended that the Authority revisit the balances in the Insurance and Renewal and Replacement Reserves (RRR) because they have different characteristics than other reserves required by the bond covenants and are set on the basis of consulting engineer's reviews. It appears the Authority will direct the insurance consultant to reconsider the size of the reserve; that reassessment gets underway this summer. It is unclear if staff will request the engineering feasibility report for the RRR be reopened, which the Advisory Board has recommended because the Authority has an increased amount of Commercial Paper that can provide ready assets should the Authority have emergency needs.

The Authority did not provide a preview to most of the Advisory Board's non-monetary and policy recommendations. Opportunities for wind energy and bottled water did get some discussion.

A full response to the Advisory Board's comments, as well as the revised final budget, will be on the Board's agenda on June 28th; it is still unclear what the recommended rate revenue requirement will be because it hinges on the resolution of the Debt Service Assistance Program funding in the State Budget.

At the Board hearing, the Authority identified three potential outcomes, rate increases of 9.8%, assuming no DSA or if the Governor vetoes the budget; 7.4% if the statewide program is funded at \$15 million and a potential 5.8% rate increase if the DSA program is funded at \$25 million statewide.

F. ADJOURNMENT

A MOTION WAS MADE TO ADJOURN THE MEETING AT 1:24 P.M. It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary