

EXECUTIVE COMMITTEE MEETING
SEPTEMBER 15, 2006
Minutes Approved at the October 13, 2006 Meeting

Present: John Sullivan, BOSTON; Tim MacDonald, CAMBRIDGE; Ed Sullivan, CANTON; Jay Fink, LYNN; Katherine Haynes Dunphy, MILTON; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; Walter Woods, WELLESLEY; Zig Peret, WILBRAHAM.

Also in attendance, John Carroll and Andrew Pappastergion, MWRA BOARD OF DIRECTORS; Joseph Favaloro, Cornelia Potter, Ryan Ferrara and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

I. Approval of the June 9, 2006 Minutes of the Executive Committee

Chairman Katherine Haynes Dunphy called the meeting to order at 8:32 a.m. A Motion was made **TO APPROVE THE JUNE 9, 2006 MINUTES OF THE EXECUTIVE COMMITTEE**. It was seconded and passed by unanimous vote.

II. Action Item: FY07 Executive Committee

MWRA Advisory Board Executive Director Joseph Favaloro introduced Wilbraham representative Zig Peret. Mr. Peret has, until recently, been the Water Commissioner with Wilbraham for about fifteen years and instead of running for re-election has decided to turn his energy to working with the Advisory Board.

Mr. Favaloro noted the other new name on the slate is Sam MacDonald who works in the Water and Sewer Department for the City of Revere.

The following slate was presented to the Executive Committee, acting as the Nomination Committee, for its consideration:

Chair:	Katherine Haynes Dunphy, Milton
Vice Chair of Finance:	Bernie Cooper, Norwood
Vice Chair of Operations:	Jay Fink, Lynn
Secretary:	Edward Sullivan, Canton
Treasurer:	John P. Sullivan, Boston
At-Large:	Lawrence Barrett, Stoughton
	Andrew DeSantis, Chelsea
	William P. Hadley, Lexington
	*Sam MacDonald, Revere
	Timothy MacDonald, Cambridge
	Edward D. McIntire, Jr., Reading
	*Zigmund Peret, Wilbraham
	John Sanchez, Arlington
	Dana Snow, Marblehead

Louis Taverna, Newton
Walter Woods, Wellesley

* New member for FY07.

Hearing no nominations from the floor, a Motion was made **TO SUBMIT THE LIST OF NOMINEES TO SERVE AS THE FY07 MWRA ADVISORY BOARD EXECUTIVE COMMITTEE TO THE FULL ADVISORY BOARD.** It was seconded and passed by unanimous vote.

III. Updates/Flagging Issues for FY07

Mr. Favaloro informed the Executive Committee that a few articles have appeared recently comparing the MWRA versus the Big Dig. A national publication, Governing Magazine, noted the major difference between the Big Dig and the MWRA is the Advisory Board. The Advisory Board members provide the check and balance that does not exist at the Big Dig.

The State House News and Boston Globe, quoted former MWRA Executive Director Doug MacDonald on MWRA's success in bringing projects to fruition in a timely and responsible manner. Mr. MacDonald cited the two entities responsible as the MWRA Board of Directors and citizen Advisory Board participation.

In the early 1990s, former Attorney General Scott Harshbarger recommended that the Big Dig incorporate an MWRA Advisory Board like-entity; unfortunately it is too late for the Big Dig.

Walter Woods noted the Authority has also hired good, experienced, educated leaders. Mr. Favaloro agreed the Authority has done a professional job in ensuring that projects go forward and has established checks and balances.

➤ Legislative

- **FY06 Update**

In June 2006, the Advisory Board was successful in its pursuit of a waiver of the Administration & Finance Indirect fee that had been assessed to the Water Supply Protection Trust. The Advisory Board pushed to have the \$3.5 million (\$2 million for FY06; \$1.5 million for FY05) deducted from the next bill; the Comptroller's office agreed yesterday.

Yesterday a bill, sponsored by Senator Tarr and others, was filed in the Senate requiring a level of independent engineering on all construction projects over \$50 million on State, Authority and Community contracts. This bill will likely pass.

- **Evolving Strategy for Increasing Debt Service Assistance**

Even though the Advisory Board was successful in its effort to increase the statewide allocation for Debt Service Assistance (DSA) to \$25 million for FY07, rates are not a one-year issue. This year, in addition to options for restructuring debt and changes to the bond covenants through the Rates Management Committee, Advisory Board staff plans to build upon last year's strategy of visiting every city and town by again visiting the communities to show them the value they have gotten for their money by outlining the projects that benefit each of those communities.

In July, the state missed its revenue benchmark by nearly \$11 million; this was the first time in seven quarters that the state had not exceeded the benchmark. Less than expected

revenues, higher costs for health insurance and tax cut discussions by some of the candidates for Governor may impact the levels of DSA. Staff will work to increase DSA.

- **Report to the Legislature**

The legislation that provided the \$25 million allocation for DSA requires the MWRA to provide a report outlining options for reducing costs and innovative ways to conduct business. The Authority and Advisory Board worked on the report together.

The report sends a message to the legislature on the importance of their support for DSA and other areas “outside of the box”, such as the regulatory clamp around system expansion, funding for the regulatory commitment to I/I, water supply pipeline money and the SRF. Last year only ten of 52 projects on the intended use list were completed through the SRF; with only one-quarter of the projects done, the state match should be increased.

All of the legislators in the MWRA District were overwhelmingly supportive of DSA for FY07; staff must continue to build those coalitions.

- **CIP/CEB**

- **FY06 Update**

Cornelia Potter stated the Authority ended FY06 with a net surplus of \$14.5 million. Revenues for FY06 were at \$545 million, while expenses were nearly \$520 million, or a gross surplus of nearly \$26 million. The Authority used \$11 million to defease debt, leaving the net surplus of \$14.5 million. Much of the surplus came from refunding some of the debt service that was coming due during the course of this past year.

For the CIP, capital spending came to just over \$150 million, \$56 million, or 27%, below the \$210 million budgeted. This was the lowest level of spending since 1989. About 60% of the less than budgeted spending was for water related projects.

- **FY07 Update**

For FY07, the CEB Budget is now set at \$557 million versus the just under \$520 million of actual spending in FY06. The rate revenue requirement was set at \$495 million, a \$23 million, or 4.9%, increase over the rate revenue requirement called for in FY06. The Authority is assuming DSA receipts of \$18.75 million, the MWRA’s portion of the statewide \$25 million allocation. For the first month of the fiscal year, spending came to \$41 million, which is 2% below the amount budgeted for the period. Of that \$41 million, the bulk of spending is for debt service.

For the FY07 CIP, the Authority has budgeted \$206 million, with contingency fund allowances of nearly \$20 million, for a total of \$224 million. The Authority accrued just \$8.5 million for the month of July; spending on the capital program is expected to pick up as the summer progresses.

- **FY08 Update**

The Authority initiated the process of preparing the FY08 CIP yesterday and is expected to begin the formal process of preparing the FY08 CEB as early as next week.

- **Rates Management Strategy Committee**

The Authority plans to schedule the first meeting of the Rates Management Strategy Committee in the coming weeks. Agenda items are expected to include: 1) restructuring

existing bonds (pressure on rates is coming primarily from payment of debt service; restructuring some debt service is an important part of managing rates over the coming years); 2) changes to the bond covenants (changes in the amount of reserves the Authority is required to have could ease the amount of funds the Authority has had to set aside for debt service). The bond covenants were established as the Authority was just beginning its major capital program. The Authority has accomplished its major capital program goals and has a good track record for repaying its debt.

Lou Taverna asked where the \$14.5 million surplus from the CEB will be utilized. Ms. Potter replied that the surplus will go into the Bond Redemption Fund, which will be used at periodic levels over the next couple of years to defease bonds or advance retirement of the Debt Service associated with those bonds as a means for easing the rate revenue requirement.

Jay Fink asked if the under-spending on the capital side was because the projects were delayed, completed or cost less than expected. Ms. Potter said there are a variety of reasons. Some projects had greater than budgeted spending, in part because some of the spending slipped in from previous years; in other cases there was a scheduling component; a few projects were awarded at lower than budgeted amounts; the principal issue is getting a contract out the door and spending at the pace assumed when the budget was put together. Additionally, MWRA budgeted \$8 million for watershed land purchases, none of which was spent because the issue was tied up with the A&F waiver discussion.

The Advisory Board hopes to see modifications to the Insurance and Renewal and Replacement Reserves (RRR), which are outside the bond covenant rules. The size of these reserves is determined by consultants. Advisory Board staff believes entrance fee payments should be used to benefit or impact the management of rates more directly than how the Authority utilized Reading's entrance fee, which was used as an offset to new borrowings of debt. Further, the Authority should be more strategic in setting the amount of current revenue budgeted each fiscal year to support the capital program to ensure it gets "the most bang for the buck".

Mr. Favaloro said how or if the Authority restructures debt, makes changes to its bond covenants, or uses current revenues and entrance fees will determine if communities will be facing double-digit rate increases for the next seven or eight years. A restructuring approach developed by the Advisory Board that initially had a net present value impact of \$8 million over the life of the bonds and would guarantee rate increases no greater than 5% for the next 12 years would actually not result in the \$8 million cost because in today's market, although interest rates have increased, they are still at historic lows.

Mr. Woods said there is a limitation on restructuring and extending the duration of bonds. Ms Potter said this restructuring would target bonds as they are coming due. There are certain limitations on when you begin restructuring but MWRA has so many bonds now coming due it can address the opportunities for restructuring to that specific debt by lengthening the term.

- **Setting CIP Cap**

The other key component of the upcoming budget review will be setting the next CIP cap for the period FY09-13. Staff has requested that the Authority propose a cap as part of the FY08 budget process to have a more complete time period to review the Authority's plans. Currently the initial project list for the next cap period as described in MWRA's preliminary Master Plan numbers totals just under \$900 million.

- **MWRA's Master Planning Process**

The Advisory Board has recommended, since 1988, that the Authority develop a Master Plan as the basis for proposing its capital spending each year. Authority staff reported to the Board of Directors this week that their initial findings have identified \$2.4 billion in capital spending projects from FY07-28; with inflation and contingency fund allowances, the total would be \$3 billion in spending over the 22 year timeframe. Advisory Board staff was surprised at how low the number is considering the amount of monies the Authority had identified just two years ago in its capital program.

If CSO spending over the next several years were stripped out, the Authority is spending at least \$125 million a year on other projects; even that number is relatively low compared to the Interceptor Repair Program, the West Roxbury Tunnel and other large projects that had been removed from the capital budget two years ago. These numbers clearly do not include the potential for projects that could be needed if there are additional regulatory requirements such as filtration.

Authority staff intends to return to the Board over the next three months to discuss wastewater system needs at the October meeting, water system needs at the November meeting; at the December meeting, which is the usual time the Authority authorizes the transmittal of the CIP to the Advisory Board for review, staff will provide a prioritized list of projects for this next budget document, which will encompass the first ten years of the 22 year time period.

- **Water Supply Protection Trust**

- **State Audit**

Mr. Favaloro stated the Advisory Board has sought to have accountability on every dollar spent for water protection from the Water Supply Protection Trust (Trust), as well as from the MDC before them. The Trust's budget is now over \$24 million. A lot of strides have been made with the level of accountability.

Advisory Board staff met with the State Auditor last year and convinced him, in a constructive way, to do a complete audit of DCR water supply operations; staff outlined areas the Auditor should be looking at. Beginning next week, the State Auditor will commence its full audit of DCR operations. The goal is to have an even more transparent operation so ratepayers can know that every dollar spent is being spent properly.

Mr. Woods asked if the Advisory Board will be able to see the Trust budget from here on in. Mr. Favaloro said yes; there has been a dramatic change in how things are being done over the last few years. There is a lot more accountability; however, it is not there yet. Timelines on when reports and bills need to be provided have been established. The state closes its books on August 30th. Trust employees showed up at the MWRA's doorstep at 5:30 p.m. on August 29th with a backdated (August 1) fourth quarter bill. They didn't get paid. Those types of things still occur, but they are becoming less frequent. The Trust now has work plans by target areas, which allows for a better picture of its accomplishments.

In the context of the MWRA, the Trust budget of \$24 million is the single largest line item on the water side. It is not insignificant.

- **FY06 Update**

The Trust operating budget for FY06 was \$12.1 million, but they ended up spending a little over \$10 million, which is about 16% under budget. In FY07, the Trust's operating budget increased dramatically to more than \$13 million. In reality, that is a 30% increase from \$10 to \$13 million. From now on, the Trust will get the same level of scrutiny that the MWRA gets.

In FY06, the Department of Conservation & Recreation (DCR) took nearly \$800,000 out of the *Wages & Salaries* line item and moved it into *Vehicles* and other topics. Katherine Dunphy, as a Trustee member for the Water Supply Protection Trust (Trust), along with the other Trustees, aggressively pursued DCR on this topic; as a result, at the next Trustee meeting (September 26th), DCR and the Trust will have agreed upon a policy for transferring between one line item to the next.

- **System Expansion**

- **Revisions to System Expansion Policy**

Ryan Ferrara noted that revisions made through the System Expansion Committee, and approved by the full Advisory Board in June, will be before the MWRA Board of Directors for a vote in October.

Revisions include payment of entrance fees to be made upfront; a peak use charge for entities utilizing MWRA water on an emergency basis during summer use (exemptions are in place for the Town of Wilmington and the Naval Air Force Base development, which is now called Southfield, as they were already in negotiations with MWRA prior to these revisions); and the elimination of the Operations & Maintenance discounted rate that had been provided to communities doing work on their water treatment plants.

- **Hurdles to Expanding the System**

Mr. Favaloro also noted that the full Advisory Board, at its June meeting, voted to recommend to the MWRA Board of Directors that the Authority be allowed to sell up to 36 million gallons per day (MGD) of water. The vote was in anticipation of the Public Forum the Authority held on June 28th. Of the 44 individuals or entities that spoke at the forum, Chairman Dunphy was the only one that spoke in favor of system expansion and brought forward the 36 MGD recommendation.

Mr. Favaloro said there was a significant level of anxiety around system expansion but, to put it into perspective, since October the MWRA has spilled enough water over the reservoir to refill the entire Wachusett Reservoir; or the amount of water spilled could provide every man, woman and child in the entire world with five gallons of water. Billions of gallons are being spilled over and yet the MWRA has to fight to sell 36 MGD over the next decade plus. It is a relatively insignificant amount of water.

Mr. Favaloro noted changes in staffing at the Department of Environmental Protection (DEP). DEP Commissioner Bob Golledge who, in his DEP role, exercised much common sense in his decisions on Blue Hills and CSOs and was someone who was approachable has now become the Secretary of the Executive Office of Environmental Affairs (EOEA) and is now a member of the MWRA Board of Directors.

The Interim Director of DEP is now Arleen O'Donnell, who is a staunch advocate for the water conservation standards and more stringent CSO requirements. The gain at EOEA may also make it more difficult on some of the DEP issues.

- **System Expansion Requests**

Mr. Favaloro reported that there are currently eleven small system expansion requests pending. The Town of Reading has now started the MEPA process to become a full member of the MWRA Waterworks System and is currently before the Water Resources Commission (WRC). In comments to MEPA, the WRC submitted a four and one-half page paper with 12 recommendations of what they are looking for from Reading.

Wilmington will likely be before the Advisory Board before the end of this fiscal year for a vote. The Salem YMCA and a 55 and older development in Avon are seeking small water connection through Marblehead and Stoughton, respectively. Herb Chambers and the Funway Café are also looming on the sidelines. Although these entities are small in nature, they will still require a lot of Advisory Board and MWRA staff time to walk them through the process. These connections will also provide a small financial benefit.

Southfield in Weymouth had been in negotiations with the MWRA to join the waterworks system; however, this entity is now considering desalinization as well.

Additionally, the Cambridge School in Weston came before the Advisory Board eight to ten years ago and requested a wastewater connection. When Cambridge School saw the amount of steps required, it retreated; however, MWRA has learned that they worked out a deal with the City of Waltham and did the connection anyway. They have now been caught and the school's new regime is trying to make the connection legitimate after all these years.

Mr. Favaloro flagged a potential issue for the Executive Committee in regard to an article from the State House News that reported yesterday that Boston's Inner Harbor took a step closer to being dredged as Massport gave the agency the go ahead for a project cooperation agreement with the Army Corps of Engineers. For the MWRA, it could potentially mean \$40 million to move the cable.

There will be a lot of debate on who is responsible, the power company or the MWRA. The Authority has indicated it would be the responsibility of the Harbor Electric Energy Company (HEECo), which is a spin off from the energy company. However, HEECo's only client is the MWRA; it is likely the MWRA will be paying for it even under that scenario. For a few years now there has been discussion on dredging; Massport's vote indicates the dredging may become a front burner issue in the next couple of years.

- **NPDES Permit**

Every five years the Authority must renew its National Pollutant Discharge Elimination System (NPDES) permit for all of its wastewater operations. During negotiations for the last NPDES permit, EPA and DEP were active in trying to make the MWRA an enforcing agency regarding stormwater. The Advisory Board planned to go to court on this topic and calmer heads prevailed and the NPDES permit came forward.

The NPDES permit contained an only in the nation contingency plan for the outfall pipe and the MWRA put its operating reserve up as collateral in case the outfall pipe had a critical problem. The permit also included a stringent monitoring plan. The Authority wants these items removed from the NPDES permit it is now negotiating to have a permit that more represents the Authority's track record of accomplishment over two decades of operation.

The Authority's NPDES permit has now been expired for one and one-half years and there doesn't seem to be a rush to get it done. If the Authority is going to get any real benefit from reassessing its bond covenants and the amount it needs in its reserves, as it stands now the Authority's Operating Reserve would not be eligible because it is already committed as part of the contingency plan for the NPDES permit.

Additionally, there is also a Clinton NPDES permit, for which the MWRA is responsible, with Clinton as a co-signee. Clinton is now significantly over the permitted flows of the plant. The Town is growing by leaps and bounds, building condominium developments, with the increased wastewater treatment costs on the MWRA's dime. Clinton is in direct violation of its NPDES permit. The question is if there is going to be enforcement, will it be against the MWRA or against Clinton.

➤ **Other**

With the discussion by State Auditor Joe DeNucci yesterday on the audit of the MWRA's CSO projects that had gone from \$300+ million to nearly \$900 million, that was the principle behind putting a line in the sand on CSO projects. MWRA and the Advisory Board were finally able to get some closure on CSOs last year, specifically on the Charles River.

Last Saturday the First Annual Charles River Swim was supposed to take place; however, it had to be cancelled. Not because of bacteria or fecal coliform, but because of algae coming from the new Ebersol Baseball Field that was built in opposition to the fact that DCR would only allow non-passive type uses closest to the water. Now they have a huge problem with fertilizer finding its way into the Charles causing a huge algae problem. MWRA must spend hundreds of millions of dollars to have the Charles become fishable and swimmable and it still cannot be used because of algae.

Mr. Favaloro suggested that members keep this on their radar screens because the same type of activity is proposed at Magazine Beach, which once again could cause water quality issues.

IV. Approval of the Advisory Board Agenda for September 21, 2006

There is one change from the preliminary to the final agenda. Gubernatorial candidate Christy Mihos is expected to be in attendance at the Canton meeting to make known his positions on DSA and other water and sewer funding mechanisms.

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE SEPTEMBER 21, 2006 MEETING, WITH THE ADDITION OF A PRESENTATION FROM GUBERNATORIAL CANDIDATE CHRISTY MIHOS.** It was seconded and passed by unanimous vote.

V. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 9:46 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary