

**EXECUTIVE COMMITTEE MEETING
OCTOBER 13, 2006**

Minutes Approved at the January 12, 2007 Meeting

Present: John Sanchez, ARLINGTON; Ed Sullivan, CANTON; William Hadley, LEXINGTON; Jay Fink, LYNN; Ron Seaboyer, MELROSE; Lou Taverna, NEWTON; Zig Peret, WILBRAHAM.

Also in attendance, John Carroll and Andrew Pappastergion, MWRA BOARD OF DIRECTORS; Paul Gorman, YMCA OF THE NORTH SHORE; Christopher Nowak, VANASSE HANGEN BRUSTLIN, INC.; Joseph Favaloro, Cornelia Potter, Ryan Ferrara and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

I. Approval of the September 15, 2006 Minutes of the Executive Committee

In the absence of Chairman Katherine Haynes Dunphy, Secretary Ed Sullivan called the meeting to order at 8:34 a.m. A Motion was made **TO APPROVE THE SEPTEMBER 15, 2006 MINUTES OF THE EXECUTIVE COMMITTEE**. It was seconded and passed by unanimous vote.

II. Legislative Update

MWRA Advisory Board Executive Director Joseph Favaloro stated that a stipulation for receiving Debt Service Assistance required the MWRA to provide the Secretary of Administration & Finance and the House and Senate Ways & Means Committees with a report outlining the Authority's accomplishments and identifying other ways to help the MWRA and its ratepayers in the future. The report also outlines staff's plans to pursue increased State Revolving Funds and re-establishment of meter modernization programs, as well as programs to remove lead and replace water and sewer lines. This report was submitted October 2.

Next month staff will outline the Legislative Agenda for next session, which will include: 1) Debt Service Assistance (DSA); 2) Full Funding of the Clinton Wastewater Treatment Plant; 3) Transfer of the Rutland-Holden Sewer Trunk Line; 4) Tort Liability; 5) Reduced PILOT (MWRA is paying hundreds of thousands of dollars in PILOT payments on lands in the Sudbury River that are not designated as watershed anymore). Legislation for the next two years must be filed by January 10.

Goal number one is growing DSA appreciably, which is contingent on a number of factors such as growth of revenues in the Commonwealth. At the end of September (1st quarter of the fiscal year), the state is below its revenue projections, which indicates that growth is going to be flat. If growth is flat, increasing DSA appreciably will be difficult.

Other factors that will impact the growth of DSA include a new Governor in office and the costs associated with providing health care to all.

III. Presentation/Action Item: Application to the MWRA for a Water Connection Serving Property Partially Located in a Non-MWRA Community (Salem into Marblehead) for the YMCA at Leggs Hill through MWRA Policy OP.09

Mr. Favaloro said ordinarily applicants go before the Operations Committee first, followed by the Executive Committee and then the full Advisory Board. This straddle connection, from Marblehead into Salem, will go before the Executive Committee first and then on to the Operations Committee, which meets on October 19 just prior to the full Advisory Board meeting. The applicants will be available at all three meetings.

Paul Gorman, Executive Director of the YMCA of the North Shore (YMCA), stated the existing YMCA, located in downtown Marblehead, is a 16,000 square foot building that is 100 years old; additionally, the YMCA leases a number of spaces around Swampscott and Marblehead. Five years ago the YMCA entered an agreement to buy a piece of property that straddles Marblehead and Salem; a small portion (10%) is in Marblehead but there are no plans to build on that portion. The location is surrounded by Marblehead, including 30 acres owned by the Marblehead Water & Sewer Department.

The YMCA plans to move its operations from downtown Marblehead to a new building on this straddle site. Additionally, ten house lots will be sold as revenue for the YMCA and act as a buffer for the neighborhood. It would be difficult to receive water for this site from Salem because the YMCA would have to transport the water over a salt-water estuary and a boxed culvert about 2,200 feet up the road.

Chris Nowak, Project Engineer with Vanasse Hangen and Brustlin Associates added that the site will have 246 parking spaces. The proposed YMCA building is roughly 88,000 square feet; 12,000 square feet will service Boston Ballet through a joint venture with the YMCA. There is also a 120 student capacity Early Learning Center that is part of the YMCA.

The Town of Marblehead owns a 16-inch water main located on Leggs Hill Road. Hydrogen flow tests conducted on that water main showed that the YMCA could receive 4,000 gallons of water per minute at 20 psi, which is sufficient to service this project.

The Town of Marblehead will provide a sewer connection as well. In return, the YMCA has agreed to give Marblehead \$66,000 to remove I/I out of their sewer system and will have additional conservation measures throughout the project as part of the integrated approach to water conservation. Conservation is important because the site is located within the Ipswich River Basin, which is currently a stressed basin.

Mr. Favaloro asked how much water is being requested and what other conservation measures will be taken on the water side. Mr. Nowak responded that the YMCA has agreed not to provide any type of irrigation system for the property. Further, there will be three pools associated with this building. All the pools will have depressed gutter systems that will be five inches below the deck elevation and the pools will have

efficient filters that allow the pools to be back-flushed less often to conserve water. All plumbing fixtures will be low-flow fixtures and waterless urinals will be installed within the YMCA building. The project will meet all of the MWRA and City of Salem's water conservation restrictions.

Water demand for the site was calculated two ways. First, the standard state sewer generation rates were increased by 10%, for an estimate of about 18,000 gallons per day (GPD) water demand; these estimates are typically high, on the order of 60 to 70%. At the request of MWRA staff member Pam Heidell, the consultant re-calculated the expected use at the site by using empirical data from another comparable facility (the Sterling Center in Beverly) in terms of programs, although their facility is about 20% larger in square footage. Based on the Sterling Center's data, they use about 12,000 gpd. With adjustments for square footage, the YMCA estimates it will need 10,000 gpd for its building. The expected use from the residential homes, based on the public data for Massachusetts average water usage from the Water Resources Commission, is 66 gpd, assuming four people per household, for an additional 3,000 gpd; the overall total for the site is 13,000 gpd.

Mr. Favaloro asked if it would be easier to go through South Essex Sewer District to get a connection on their straddle policy. Mr. Nowak said it would be easier because both communities are members of the South Essex system. Since this permit was submitted, the Town of Marblehead approved the sewer connection permit.

Ed Sullivan asked if an entrance fee has been discussed. Mr. Gorman stated the entrance fee is \$70,000.

Lou Taverna asked how I/I is going to be calculated. Mr. Nowak said I/I will be two to one, based on a sewer generation rate of 18,000 gpd. Mr. Taverna asked how the cost is generated. Mr. Nowak said the Town of Marblehead has a standard rate.

Jay Fink asked if Advisory Board/Executive Committee member Dana Snow has weighed in on this project. Mr. Favaloro said yes; approvals have been received from Salem and Marblehead as part of the overall submittal.

Jay Fink made a Motion **TO APPROVE, PENDING APPROVAL OF THE OPERATIONS COMMITTEE, A NEW WATER CONNECTION TO SERVE THE PROPOSED LEGGS HILL YMCA AND 10 FOUR BEDROOM RESIDENCES, LOCATED PRIMARILY WITHIN THE CITY OF SALEM. THIS MOTION IS SUBJECT TO THE GUIDELINES SET FORTH IN MWRA POLICY #OP.09, "WATER CONNECTIONS SERVING PROPERTY PARTIALLY LOCATED IN A NON-MWRA COMMUNITY", INCLUDING THE REVISIONS MADE BY THE MWRA BOARD OF DIRECTORS AT THEIR OCTOBER 11, 2006 MEETING. THIS INCLUDES THE FOLLOWING PROVISIONS TO:**

1) YMCA OF NORTH SHORE WILL BE RESPONSIBLE FOR ALL PIPE MAINTENANCE AND FOR ASSURING THAT NO ADDITIONAL CONNECTIONS WILL BE MADE TO THE PIPE WITHOUT PRIOR APPROVAL OF THE MWRA;

2) PARTICIPATE IN ALL WATER CONSERVATION AND DEMAND MANAGEMENT PROGRAMS IMPLEMENTED BY THE MWRA USER COMMUNITY AND THOSE REQUIRED BY MWRA REGULATIONS, AND IMPLEMENT ALL WATER EFFICIENCY MEASURES IDENTIFIED IN ITS APPLICATION TO MWRA. FOR THE RESIDENTIAL COMPONENT OF THE DEVELOPMENT, THIS ALSO INCLUDES ADHERENCE TO ANY WATER CONSERVATION RESTRICTIONS IMPOSED ON THE RESIDENTS OF THE CITY OF SALEM;

3) PAY AN ENTRANCE FEE TO ENSURE THAT THE SPONSORING PARTY, YMCA OF THE NORTH SHORE, WILL PAY A FAIR SHARE OF THE COST OF THE WATERWORKS SYSTEM IN PLACE AT THE TIME OF ENTRANCE;

4) PROVIDE AN ANNUAL REPORT TO THE MWRA DETAILING THE AMOUNT OF METERED WATER USE FOR THE PRECEDING CALENDAR YEAR FOR ALL FACILITIES AND RESIDENCES LOCATED WITHIN THE PROPOSED DEVELOPMENT;

5) TOTAL WATER USE FOR THE ENTIRE YMCA LEGGS HILL/RESIDENTIAL DEVELOPMENT IS PROJECTED TO BE ON AVERAGE 12,696 GALLONS PER DAY (GPD)/4,733,685 GALLONS PER YEAR (GPY) WITH A PEAK FLOW OF 18,106 GPD/6,608,690 GPY. ANY USE OVER THE 12,696 GPD OVER ANY ONE-YEAR PERIOD WILL TRIGGER A REVISION TO THE ENTRANCE FEE. THE ASSESSMENT OF AN ENTRANCE FEE ENSURES THAT THE PROPONENT PAYS ITS FAIR SHARE OF THE COST OF THE WATERWORKS SYSTEM IN PLACE AT THE TIME OF ENTRANCE.

THE MWRA ADVISORY BOARD RECOGNIZES THE JUSTIFICATION FOR THE CONNECTION TO THE MARBLEHEAD WATER SYSTEM IS BASED UPON THE PHYSICAL CONSTRAINTS ON SALEM MUNICIPAL WATER SYSTEM TO SUPPLY THE LEGGS HILL YMCA/RESIDENTIAL DEVELOPMENT SITE. THE PROPOSED CONNECTION HAS DOCUMENTED SUPPORT OF MARBLEHEAD (WATER AND SEWER COMMISSION AND BOARD OF SELECTMEN) AND SALEM (DIRECTOR OF PUBLIC SERVICES AND MAYOR KIMBERLY DRISCOLL). CONSISTENT WITH THE GUIDELINES SET FORTH IN THE MWRA'S SYSTEM EXPANSION POLICY #OP-09, YMCA OF THE NORTH SHORE AGREES TO PAY MWRA AN ENTRANCE FEE OF \$70,823 BASED UPON AN AVERAGE DAILY FLOW OF 12,696 GPD AND A PEAK DAILY FLOW OF 18,106 GPD. WATER USAGE FIGURES WILL BE VERIFIED THROUGH ANNUAL REPORTING TO THE MWRA. It was seconded and passed by unanimous vote.

IV. Preview: Rates Management Strategy Committee

Cornelia Potter stated the Authority's projections continue to evolve with each proposed and final budget. Over the next several years, staff is projecting that rates will rise by \$35 to \$50 million every year, depending on how much rate stabilization and bond redemption funds are applied and assumptions made for Debt Service Assistance (DSA). For next year, the Authority is assuming rates could be as much as 9% greater than this year's rates.

Mr. Favaloro noted that is 9% of the rate revenue requirement; in reality, without the use of one-time rate stabilization and bond redemption funds, the actual rate revenue requirement is closer to 15 to 20%.

Ms. Potter said it is that pressure that led us to recommend a more formal discussion through a Rates Management Strategy Committee. The Committee will include members of the Board of Directors, MWRA and Advisory Board staff and the financial advisor and is scheduled to meet on October 25. The Agenda is expected to address options for restructuring existing debt service; modifications to the bond covenants; modifications to the Insurance and Replacement and Renewal Reserves, which are sized according to the recommendations of consulting engineers; and the use of entrance fees.

Further, the Advisory Board has recommended the Committee address the use of current revenue to fund the capital program; this category of revenue is currently budgeted at \$3 to \$5 million, with the projected budgeted amount rising to \$10 million for next year and \$1 million in each subsequent year. Is that the right number?

The Committee will also address assumptions for DSA receipts. What should be assumed and are there other sources of funds that can keep rate revenue requirements for the future to more moderate levels.

The Committee is going to have to reach its conclusions in the next couple of months because Authority staff expects to go out for its next major long-term borrowing in the third quarter and could be as soon as January.

Mr. Favaloro said decisions made over the next couple of months are going to impact how the Authority proceeds over the next five to seven years. There are many answers depending on the road traveled. The most important question is “what do you want rate increases to be?” Once the answer is determined, there are tools to allow the Authority to get to it.

Jay Fink asked if MWRA has the expertise in-house to develop these strategies or should they bring in some assistance. Mr. Favaloro said the Authority has its own Chief Financial Officer and financial staff, a financial advisor (Bob Lamb from Lamont) and the Advisory Board, which has weighed in with its own proposal that was developed using outside help that took ideas that staff had and produced different scenarios. The Authority also receives proposals everyday from the different investment houses that do this work. In order to know how best to put the plan together, the first question that must be answered is “what is the MWRA trying to accomplish?” The expertise is there.

Ms. Potter added the investment houses will validate some of the ideas and confirm which maturities might be applied.

Zig Peret asked why the rate revenue requirement has increased by 15% (or 9% after deductions). Mr. Favaloro responded that over 60% of the Authority’s operating budget goes to paying back debt and the number is growing every year. The Authority has a staggering amount of debt, as compared to any other public entity, to pay the bond for

the Boston Harbor Project, the CSO projects, the John J. Carroll Water Treatment Plant, the MetroWest Tunnel, etc. That is why restructuring has to be looked at carefully.

One analyses Advisory Board staff did to get to a rate increase in the 5% range resulted in a net present value cost of under \$10 million, which is small in comparison to 10% and 12% rate increases.

Ms. Potter noted the Authority's capital financing expense this year is around \$330 million, next year it is expected to be \$375 million and the year after \$400 million. When staff did its analysis, the refinancing or restructuring was in the \$25 to \$35 million range each year. It is a small proportion, or targeted restructuring, not, according to our analysis, hundreds of millions of dollars.

V. CIP/CEB Update

Ms. Potter said spending for the first three-month period of the Current Expense Budget (CEB) has reached \$132 million, or nearly \$6 million below the \$138 million budgeted, a variance of 4%. Contributing to this variance are lower utilities spending of \$2 million, reflecting lower electricity pricing than what was assumed last spring for FY07 and a later delivery of diesel fuel of nearly \$1 million for Deer Island.

Additionally, lower personnel costs of nearly \$1 million reflect a higher vacancy rate. As of September, staffing fell to 1,239 positions compared to the 1,255 budgeted. A number of positions are posted and the Authority will be closing that gap.

The variance also reflects \$1 million in lower debt service payments, due largely to lower variable interest rates.

On the capital side, accruals through the first quarter continue to be well under budget. Spending totaled \$30 million, nearly \$22 million below the \$52 million budgeted, a variance of over 40%; \$16 million of the under-spending is a result of lower CSO spending due to later reimbursement to BWSC and slower spending on the new North Dorchester Bay Tunnel contract.

VI. Understanding the MWRA's Water Distribution System at Shaft 7 – Chestnut Hill

Mr. Favaloro stated last year MWRA's DSA was almost held up because the legislature wanted Boston College (BC) to have access to a parcel of land that the Authority has control over.

Ryan Ferrara stated Shaft 7 is at the end of the MWRA's City Tunnel and provides the connection to supply the City Tunnel Extension to the north and the Dorchester Tunnel to the south. The shaft includes an underground chamber housing shafts and valves. Shaft 7 was constructed in 1950 and the grounds of BC near Alumni Stadium have grown up around it.

From the perspective of Authority sites, Shaft 7 would be one of the top three critical sites in the water system. The valving area of Shaft 7 used to flood on a regular basis;

the Authority has subsequently installed sump pumps and pumps on a regular basis so the shaft is no longer flooding. Authority staff has not exercised the valves in a number of years because they are worried about those valves remaining permanently closed.

The site currently has a confined space entry where a person is lowered down thirty feet into a manhole to get to the site. The Authority's long-term plans include a structure over the site to protect the manhole cover and allow access with stairs, lighting and better ventilation. Project plans include the rehabilitation of the Shaft 7 "A" and "B" lines, rehabilitation of the Pressure Reducing Valve Vault and construction of a new 36-inch diameter branch off the "B" line.

The shaft was built using a blasting technique and its actual lining is cosmetic; it is not like the MetroWest Tunnel, which has a concrete lining that ensures the integrity of the structure. Significant blasting in this area, which is already prone to flooding in the valving chamber, may exacerbate that problem.

The Authority has included a metropolitan tunnel route on its long-term planning agenda to provide more redundancy for its north to south communities; Shaft 7 would be the site MWRA would use for its staging area. MWRA staff members with knowledge of this site have raised concerns about the importance of this site to the entire waterworks system.

Mr. Favaloro added that BC wants to move its soccer field to this site and contends it would have to blast down only about ten feet. Advisory Board staff does not know the risk blasting will have on the shaft or the nervous system of the MWRA waterworks system; however, risk versus reward should be measured. The risk is it could shut down the entire MWRA water system and the reward to the MWRA is non-existent. Further, when the Authority wants to do the north to south connection, this site is available to them. BC has been aggressive with the legislature and meeting with as many people as they can. They are looking out for their best interest. The Advisory Board needs to show that it is in the best interest of the MWRA and its ratepayers that when they turn on their tap, there is water there.

John Carroll stated that one year ago the MWRA Board of Directors voted 11 to nothing not to give BC access to the land. Recently, BC has had a Senator and others meeting with Board members to push for access to this site. Authority engineers are concerned.

Andrew Pappastergion said the Board will have to find a way to invoke the use of this land before it gets beyond its control. Mr. Favaloro stated the Authority could move forward with its plans to use the site and make the site unavailable.

VII. Approval of the Advisory Board Agenda for October 19, 2006

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE OCTOBER 19, 2006 MEETING**. It was seconded and passed by unanimous vote.

VIII. Questions and Comments

Ed Sullivan reported that the Friends of the Blue Hills (FOB) failed in its attempt to stop the Blue Hills Covered Storage Project. Mr. Favaloro noted that the Judge ruled that DEP and MWRA can recover their costs from the FOB.

IX. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 9:42 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary