EXECUTIVE COMMITTEE MEETING
MARCH 9, 2007
Minutes Approved at the April 13, 2007 Meeting

Present: John Sullivan, BOSTON; John Sanchez, BURLINGTON; William Hadley, LEXINGTON; Jay Fink, LYNN; Ron Seaboyer, MELROSE; Katherine Haynes Dunphy, MILTON; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; Ted McIntire, READING.

Also in attendance, John Carroll, MWRA BOARD OF DIRECTORS; David Polcari, Camp Dresser & McKee, Inc.; Joseph Favaloro, Cornelia Potter, Matthew Romero, Christine Hevelone-Byler and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

I. Approval of the February 9, 2007 Minutes of the Executive Committee

Chairman Katherine Haynes Dunphy called the meeting to order at 8:30 a.m. and made a correction to the draft minutes in regard to a vote on the Executive Director's evaluation. A Motion was made **TO APPROVE THE AMENDED FEBRUARY 9, 2007 MINUTES OF THE EXECUTIVE COMMITTEE**. It was seconded and passed by unanimous vote.

II. Action Item: Request for a Sewer Connection Outside the MWRA Sewer Service Area Under MWRA Policy # OP.11 to Allow the Proposed Connection of the Hingham Central Fire Station into the Hingham Sewer District

MWRA Advisory Board Executive Director Joseph Favaloro said discussions with the Town of Hingham have been going on for two years regarding a system expansion request to have the Hingham Central Fire Station, located at 339 Main Street in Hingham, connect to the MWRA wastewater system under MWRA Policy #OP.11 (Request for Sewer Service to a Location Outside the MWRA Sewer Service Area). To expedite this process, the representative for the Town is coming before the Executive Committee first and will then go before the Operations Committee, which will meet just prior to the next full Advisory Board meeting.

David Polcari of Camp Dresser & McKee, Inc., representing the Town of Hingham, stated the Town of Hingham is partially in the MWRA Sewer District; the fire station is just outside of the District. The project reconstructs and expands that facility and connects it to the MWRA sewer system. There is an existing force main sewer that runs adjacent to the building that will have to be relocated to allow the expansion in addition to the need to have better sewer service for the facility. All of the MWRA requirements for a connection of this type have been met. Average flow at the facility is around 400 gallons per day, using a factor of two, for a total of approximately 800 gallons per day. It is a small amount of flow for a relatively minor connection.

Jay Fink asked how the projected flow was calculated. Mr. Polcari said the flow was calculated based on water use over the past three years. The number of personnel and equipment at the existing facility will not change with the new facility, so the water usage was multiplied by two, in accordance with DEP sewer connection guidelines, resulting in 790 gallons per day.

Mr. Fink said Hingham has come before the Advisory Board for individual connections; have we looked at what those flows are compared to what were presented to the Advisory Board and the

MWRA to see if they are in line with what they projected. Mr. Favaloro said the Authority does a review annually on all connections and they are in line with what was proposed when the applications were made. There have been two single-family homes and two small businesses to date. Mr. Fink questioned if these are all individual connections. Mr. Favaloro replied in the affirmative. Both the Authority and the Advisory Board have stressed to Hingham the importance of developing a formal planning process to better understand system needs, which is now well under way. There may be discussion of expansion of the overall Hingham Sewer District.

Mr. Fink asked when the revised calculations for entrance fees became effective. Mr. Favaloro responded that the revisions for entrance fees were approved at the June 2006 Advisory Board meeting. Mr. Fink asked if this application was underway in June 2006; Mr. Favaloro said it was well underway.

Chairman Dunphy asked if Hingham's planning process will produce a Comprehensive Wastewater Management Plan. Mr. Polcari responded in the affirmative, stating that the Town's needs have been identified and alternatives are now being analyzed.

Chairman Dunphy asked if there is a sense of how much flow the Town may apply for. Mr. Polcari said it is tough to say; there are several developed areas in town that have poor onsite disposal systems that would be good candidates for connection to the sewer system; however, residents are "growth phobic" and sewer equals growth.

Chairman Dunphy asked if the Hingham System and the MWRA connective system are adequate for this flow. Mr. Polcari said yes.

Lou Taverna asked how the force main will be connected to the MWRA sewer; is it going to flow into a manhole. Mr. Polcari said yes; well up in the extremes of the Hingham System, this small force main serves Hingham High School and the Wompatuck State Park, both of which are out of the North Shore District. It passes through the fire station property and the fire station will be tied in with a grinder pump. When the flow hits the rest of the Hingham System, it goes through at least two other pump stations and is at the other end of the collection system.

Mr. Taverna asked how Hingham will accomplish its four to one I/I reduction. Mr. Polcari said the four to one reduction of inflow has already been done via a series of ground level drains at the Wompatuck State Park, which is directly tributary to this connection. A campground at the park had 40 to 50 water stations with ground level drains to prevent puddling underneath the water spickets that were connected to the sewer system. Last summer the Department of Conservation and Recreation (DCR), at the urging of the Town, removed and restructured them.

John Sullivan said DCR does some work at the behest of the Town. After the Advisory Board gives its approval, then the Town should identify the projects it will take care of to meet its four to one reduction obligation. There is no "I/I Bank". Mr. Polcari said this project was done specifically for I/I reduction in the Town; the Town has been paying for this inflow, DCR has not.

Mr. Sullivan said we are trying to push people to do better. Beginning today, the Executive Committee should say once we give approval, then the entity identifies its projects and proves they will be completed. The purpose is to improve the system. Every bit of water Hingham sends into the system can affect the downstream communities. Chairman Dunphy added that this is probably a good approach for everyone that comes to us.

Jay Fink asked if Hingham has an I/I problem. Mr. Polcari said Hingham has considerable I/I, but does not have overflows. Mr. Fink asked if Hingham has work to do. Mr. Polcari said Hingham has been proactive about removing I/I and is currently in the process of rehabilitating about 50 manholes; last year they did secured in place lining and replacement of defective pipes. Mr. Fink asked if it is fair to say there is more work on the books that could be done to offset a four to one application. Mr. Polcari said possibly. MWRA requires inflow only; Hingham has been doing a lot of infiltration work and is working to remove private sump pumps. There are not a lot of public inflow sources.

Mr. Fink asked Mr. Polcari to bring a report that identifies additional inflow when he comes before the Operations Committee. Mr. Polcari said the Town has been doing a lot of work but has never had a requirement to account for all the gallons of I/I it has taken out. The Town knew it had to meet this four to one requirement and had an opportunity to take this inflow out and reserved that quantity for this connection. It wasn't done after the fact, it was done concurrently.

Mr. Fink suggested that any documentation that showed when this activity took place it was clearly looking ahead at the requirements for the fire system expansion and showing that this work was done for this purpose should be brought to the Operations Committee meeting. Mr. Polcari noted that there are letters in the package regarding the trade of infiltration for inflow given to the developer.

A Motion was made **TO APPROVE, SUBJECT TO THE RECOMMENDATION OF THE OPERATIONS COMMITTEE, THE TOWN OF HINGHAM'S REQUEST TO TIE INTO THE MWRA SYSTEM FROM THEIR RESPECTIVE SITES IN HINGHAM VIA A 110 LINEAR FOOT, 2" FORCE MAIN, CONNECTING TO THE NORTH SEWER DISTRICT COLLECTION SYSTEM IN THE TOWN OF HINGHAM. THIS MOTION IS SUBJECT TO THE PARAMETERS SET FORTH IN MWRA POLICY #: OP.11, "REQUESTS FOR SEWER SERVICE TO LOCATIONS OUTSIDE MWRA SEWER SERVICE AREA." THIS INCLUDES PROVISIONS THAT 1) THE TOWN OF HINGHAM/NORTH SEWER DISTRICT OF THE TOWN OF HINGHAM WILL BE RESPONSIBLE FOR PIPE MAINTENANCE AND FOR ASSURING THAT NO CONNECTIONS WILL BE MADE TO THE PIPE WITHOUT PRIOR APPROVAL BY THE MWRA AND 2) ALL SEWER SYSTEM CONNECTIONS SHALL RECEIVE APPROVAL FROM: THE COMMUNITY OF ORIGIN, TRANSPORTING COMMUNITY, OTHER REGULATORY BODIES (WHERE REQUIRED), MWRA ADVISORY BOARD, MWRA BOARD OF DIRECTORS AND THE GOVERNOR AND GENERAL COURT (AS SPECIFIED IN SECTION 8C).**

THE APPLICANT(S) WILL SEEK TO LIMIT MAXIMUM DAILY FLOWS TO 782 GALLONS PER DAY.

CONSISTENT WITH THE REQUIREMENTS OF MWRA POLICY #: OP.11, THE TOWN OF HINGHAM IS RESPONSIBLE FOR A FOUR TO ONE REDUCTION IN INFLOW IN THE HINGHAM WASTEWATER SYSTEM, PROVIDING AN APPROXIMATE DAILY REDUCTION OF 3,128 GALLONS OF INFLOW (BASED UPON THE STIPULATED 782 GALLONS COLLECTIVE PER DAY AVERAGE) WITHIN THE HINGHAM SYSTEM.

THE APPLICANT(S) WILL PAY A CONNECTION FEE OF $8,429.00, CONSISTENT WITH THE GUIDELINES SET FORTH IN MWRA POLICY #: OP.11. It was seconded and passed by unanimous vote.

III. Legislative Update

Mr. Favaloro said the House 1 Budget came out last Wednesday and it included $15 million for state-wide Debt Service Assistance (DSA). Further, though it wasn't specifically mentioned, the House 1 Budget did include $500,000 for the Clinton Wastewater Treatment Plant. Those are the two pieces that clearly affect the MWRA.

A series of discussions with the new Administration centered on their desire to create a program that earmarked funding to low income and elderly homeowners that are having problems with their water and sewer bills. Staff provided the Administration with information related to retail programs for elderly and low income residents and hopefully convinced the Administration that this was a program that was impossible to manage. In the late 1990s, Senator Tolman had a bill for low income discounts and it was cumbersome and did not attract much participation.

When staff learned that DSA was cut by 40%, a press release was issued that thanked the Governor for making water and sewer rates a priority but noted that 2.5 million ratepayers would be taking a 40% cut, yet programs like the septic tax credits that benefit 15,000 people are not being touched. To deal with the cut, the Authority came up with an approach that ties the Advisory Board's hands and makes it almost impossible to make a case to get more DSA back. Though the goal is to minimize the level of rate increases for everyone, the strategy that evolved was one that reduced the assessments that went out to cities and towns by $4 or $5 million, minimizing the impact to the loss of DSA. It also minimized the Advisory Board's ability to motivate the legislators.

Advisory Board staff has drafted a resolution to get communities involved and will meet with community officials to drum up their support.

Messrs. Sanchez, Hadley and Cooper expressed a desire to clarify the language of the resolution and keep it in a more positive tone. Staff agreed.

Ron Seaboyer asked how many communities offer rate assistance. Mr. Favaloro said less than half offer rate assistance.

IV. Status: CIP Review

Cornelia Potter stated while staff has been working on the Capital Improvement Program (CIP) and Master Plan review, the Authority has been preparing its proposed FY08 Current Expense Budget (CEB), which is now anticipated to go to the printer next week.

The Authority sent out its Master Plan document during the month of January and the CIP document in February. Staff had a series of briefings and is reviewing backup materials as they become available, with a goal of developing a draft by the end of March. On the overall review schedule, the Executive Committee will deliberate on the Comments and Recommendations at the April 13 meeting and a final vote will take place at the April 19 Advisory Board meeting.

Since its inception, the MWRA has spent $6.8 billion from 1986 through FY07 on its Capital Program. For the future, the Authority is projecting it will spend $2 billion, of which $1.6 billion is proposed for the ten-year period ahead (FY08-17); leaving spending in the following period on out of over $350 million although staff anticipates with each annual CIP process the Authority will continue to flush out future capital budgets. For the Advisory Board, the important timeframe is the next five-year cap because by setting a limit on that timeframe the Authority is putting boundaries around capital spending for that period. MWRA staff can continue to rethink 2014 and beyond with each annual capital budget.

As the CSO Program begins to taper off and near completion, other wastewater spending still remains relatively low and grows slowly whereas waterworks spending begins to increase much more measurably as the Authority puts emphasis on redundancy programs.

Themes for this review focus on the cap calculation for the next five-year period, including what makes it up, what gets emphasis and what is still leanly budgeted; the relationship between proposed capital spending and what has been recommended in the Master Plan; priorities and the need for the Authority to move out from the corrective and emergency mode of operation to preventative maintenance.

Further, staff will discuss the evaluation of tools needed to complete the work. The Authority has identified some procurement issues in recent months and is also experiencing short staffing in the Engineering Department, which has made a huge difference in performance in terms of getting the work out the door. The Authority is 40% underspent through January of this year from its intended budgeted amount. Staff does not believe the Authority will get near its revised projected spending of $170 million this year.

Mr. Taverna asked if staff is implying that the Authority does not have the resources to crank out the designs fast enough. Ms. Potter said yes; part of that discussion includes if you don't have it in house, do you hire it? Our review will discuss the degree of which the Authority has leaned on task ordered or as needed engineering services contracts. Ms. Potter said a certain amount of it is traceable to the loss of DSA a couple of years ago when there was a concerted and specific effort to reduce capital spending; then there was the issue of bringing staffing down much more firmly and that included engineering staff. Even now with certain engineering positions vacant but authorized and funded, they have not been filled. The cumulative affect of all of these things can be seen in recent spending at lower levels

Mr. Fink asked if the Authority is doing anything with design/build? Ms. Potter said the Blue Hills Project is the one remaining good example of that approach; there are no other projects in the CIP for design/build. Mr. Favaloro noted covered storage lends itself to the design/build method.

Ms. Potter said another point we want to touch on as part of our review is acknowledging the cost to complete some of these big projects. The CSO Program and everything else in the CIP are inflated to December 2007 dollars according to the ENRE index. Clearly for these large multi-year projects, the cost to complete the project will be greater than what can be seen in the CIP. Staff will be identifying the Authority's estimates to complete some of these biggest projects, most noticeably the CSO Program.

V. Parameters for CEB Review

Ms. Potter said this week the MWRA Board of Directors authorized transmittal of the Authority's Proposed FY08 Current Expense Budget (CEB) to the Advisory Board for its review and comment period. Advisory Board staff has been working over the last several years to address a multi-year rates management challenge for the Authority, driven largely by debt service repayment requirements. Bills are coming due and that is why rates have been projected to rise significantly over the next eight to ten years.

The Rates Management Committee met several times this fall, picking up from previous efforts begun in 2004. At that time, Authority staff projected rates would rise as high as 9+% in the next several years and stay high, primarily due to the impact of large principal and interest payments that were scheduled. The Committee concluded there were opportunities to restructure certain specific maturities to bring projected rates down just below 6%. The outcome of the Committee's work was implemented through a borrowing in January, authorized by the Board, which, in addition to $200 million of new cash to be raised, restructured just under $700 million of existing debt. In the end, there were present value savings because of the extraordinary continuing favorable interest rate climate.

As a result of the restructuring, the Authority projected rates could be lowered to just under the 6% range, with a dramatic dollar reduction in the immediate year ahead (FY08) of $15 million and $35 million in FY09. By the time the Authority's Proposed FY08 CEB was developed, these numbers were somewhat refined but they went back up slightly because DSA changed. The restructuring committee assumed that DSA would continue at $25 million, with 75% allocated for the MWRA.

As the CEB was coming out, the Governor's House 1 Budget included $15 million for DSA so the rate revenue requirement increased slightly; however, the rate revenue requirement for FY08 did not reflect the full impact of the loss of the $7.5 million from $18.75 to $11.25 million because of the use of some reserves that had previously been assumed by the restructuring committee to be reserved for years three, four, five and six in the eight-year challenge. At the end of that period, the changes in bond covenants will free up the heavy duty debt service reserves to be available to modify rates past 2014 and 2015.

Ms. Potter noted for the FY08 budget, the Authority has proposed direct expenses just over $210 million, Indirect expenses of $42 million and capital financing, before offsets, of $333 million; the Authority has assumed some money from bond redemption and Debt Service Assistance of $11.25 million for total expenses of $575 million. The rate stabilization fund was also tapped, which is treated as revenue as opposed to an offset to capital. Together with non-rate revenue, including investment income of $46 million, it leaves a rate revenue requirement of $527 million, or a 6.4% increase, to balance expenses and revenue. The Authority chose to cushion the loss of DSA by half with the use of reserves. These reserves were part of the Rates Management Committee's multi-year strategy, which requires discipline. Using these funds is like taking a piece of the college fund when your child is 14 and you have an eight-year problem; that is exactly what the Authority has chosen to do. It makes it harder to sell a story this year and it creates a gap that will grow and make it tougher to have a sustainable and predictable rate revenue requirement over the next seven or eight years.

Over the multi-year context, staff has to assess the outlook for DSA; even restoring the program to $25 million is well below where the MWRA was in 2002. Another new wrinkle in the budget is post-retirement benefits for health insurance. The Authority included in its budget an assumed additional pension-related cost of $4.5 million; however, staff recently learned the number may be closer to $9 million, leaving the budget with a $5 million gap. The question is whether to continue to fill the hole created by bringing the immediate rate revenue requirement down so far that it cannot provide a smooth or sustainable rate increase over the future because the largest bullet, restructuring, has already been used. Bringing the rates down too far also creates a challenge for future years.

Ms. Potter said the goal of the review is to preserve rate stabilization funds for future years. Any reductions or updates staff can tap into will be subtracted from the proposed use of rate stabilization monies to preserve rate stabilization for future years.

If the FY08 budget is reduced to a 4.9% increase, staff would have to find the $7.5 million that is missing from the DSA Program. Advisory Board staff can foresee that there needs to be discipline to continue the goal of sustainable and predictable rates over the next seven to eight years. One of the points made by the financial adviser during the course of the Rates Management Committee deliberations was that the investment community continues to look for assurances that the Authority has the discipline and the courage to raise rates by at least a certain amount in order to ensure the investment community that the Authority is raising rates adequately to make its payments.

Mr. Sullivan asked if the Advisory Board will not push as hard to lower the projected rates and, in fact, would be in favor of sustaining a 4.9% to 5.8% rate increase. Mr. Favaloro said before staff heads down any road in the front end of budget review, staff is seeking input and direction from the Executive Committee and the communities.

Mr. Sullivan asked if any of the CIP work came out of current rates or is it all bonded. Ms. Potter said the MWRA has between $4 and $5 million for current revenue for the capital program in this budget. Mr. Favaloro said there has been an annual debate as to what that level should be. In some discussions last year, and even as part of the Rates Management strategy, the number was closer to $9 million that would be set aside as cash for capital. Ms. Potter said the projections do include going back to their previous payment schedule. In other words, FY09 has $9 million and FY10 has $10 million will be assumed in the planning projections.

Mr. Favaloro said staff's first goal is to find dollars in directs that could be used to reduce the use rate stabilization funds. Even before the health insurance liability, there was discussion by Authority staff that their goal is to be no higher than a 4.9% rate increase.

Mr. Sullivan asked what the MWRA's surplus has been at the end of the year. Ms. Potter stated the Authority's surplus has been more than $10 million. It has been a function in large part of conservative budgeting for variable rate debt, where short-term rates have been lower and stayed lower than the Authority had chosen to assume. MWRA has also low-balled investment income; these are traditionally the largest sources of surplus.

Mr. Carroll asked if Advisory Board staff is satisfied that the staffing levels at the MWRA are where they should be. Mr. Favaloro said Advisory Board staff plans to recommend another staffing review should be done, at least in the operational division. Staff believes the MWRA is under staffed in critical areas.

Ms. Potter noted that Advisory Board staff, for at least the last three years, has heard expressions of grave concern from seasoned MWRA staff about going too tight, particularly in operations. There may be pockets of overstaffing in areas of support or administration but that is minor compared to the kind of short staffing for ground personnel and engineering issues. Further, staff members are concerned about succession planning. A lot of the MWRA's knowledgeable staff are on the verge of retirement and even the most junior grade people cannot be hired to start bringing them up the line.

Mr. Taverna asked if the MWRA staffing levels are still below the Black & Veatch recommendations. Mr. Favaloro responded that the operations positions that staff is referring to are below. Ms. Potter said the lab was always one of those gray areas but that is very much a function of the work load. The Authority, in fact, has taken on measurably more of a work load, particularly with regard to the harbor and outfall monitoring contract to have greater control of elements of that multi-million dollar annual agenda. Mr. Favaloro said staff believes we need to create for the Authority some comfort that it needs to hire additional individuals.

The Authority must be provided with the tools they need to allow them to spend more of the CIP, or reduce the CIP because it is unrealistic that the projects will get done. Ms. Potter added that setting the target too low is also a concern, which sounds contradictory when the Advisory Board is trying to keep the lid on spending but the way the Authority has been performing has not allowed them to spend the budget that has been authorized. Because so much of the ability to spend significant dollars is in the construction phase, it is essential that conceptual and detailed design work be completed; however, MWRA keeps deferring design work.

Mr. Fink added if there are certain projects that are more construction-oriented as opposed to rehabilitation work, perhaps the design/build method should be reviewed.

Mr. Sullivan said the institutional knowledge of a staff that knows what is going on and can pass it on to the next group is critical. If the Authority does not spend the money to hire personnel, it will have to start farming the work out. Ms. Potter added that is what has been so dangerous about cutting the capital budget as significantly as it was cut in the last couple of years – it reverberates across the agency. Personnel begin to wonder if there will be a job for them in two or three years and begin to look for jobs now. Currently, the Authority has been specific as to managers to assure each member of the staff that they will be assigned certain projects because they are concerned about losing the people they do have. That is why the Master Plan has been important this year because it has given the Authority the basis for repopulating, to some degree, the CIP.

Mr. Favaloro noted that MWRA Treasurer Ralph Wallace tendered his resignation and is going to the Massachusetts School Building Authority. It is going to be a loss for the MWRA. Ralph Wallace embodied the words "institutional history", be it the Deer Island project and his role in PMD, his knowledge on energy or the restructuring deal that he led, Ralph always had the answer. Mr. Carroll added in close outs of contracts, which are brutal to do, Ralph could just go through them; he is just an incredible guy.

Ms. Potter said Ralph was the one that made sure the Advisory Board staff had every piece of information it needed. He covered so many different topics; it is an extraordinary loss for the agency and for this office because he was accessible to Advisory Board staff.

Mr. Favaloro said in its restructuring plan, the Authority opted to have a non-call provision, which would have increased significantly the savings in the first five years. A&F staff suggested the Authority change how it restructured its debt to get the savings in the future. If the Authority had known that DSA would be reduced, the non-call provision could have allowed Authority staff to use the $7 million per year to make up for that loss. Ms. Potter added that the Authority lost about $7 million per year by not having the non-call provision.

VI. Approval of the Advisory Board Agenda for March 15, 2007

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE MARCH 15, 2007 MEETING.** It was seconded and passed by unanimous vote.

VII. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 10:04 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary