**EXECUTIVE COMMITTEE MEETING**
**APRIL 13, 2007**
Minutes Approved at the May 11, 2007 Meeting

Present: Jay Fink, LYNN; Ron Seaboyer, MELROSE; Katherine Haynes Dunphy, MILTON; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; Zig Peret, WILBRAHAM.

Also in attendance, John Carroll, Andrew Pappastergion and Joseph Foti, MWRA BOARD OF DIRECTORS; Francis Yanuskiewicz and Hillary Lacirignola, WESTON & SAMPSON ENGINEERS, INC.; Philip Macchi, MACCHI & MACCHI, LLP; Daniel Merrikin, MERRIKIN ENGINEERING, LLP; Joseph Favaloro, Cornelia Potter, Matthew Romero, Christine Hevelone-Byler and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

## I. Approval of the March 9, 2007 Minutes of the Executive Committee

Chairman Katherine Haynes Dunphy called the meeting to order at 8:33 a.m. A Motion was made **TO APPROVE THE MARCH 9, 2007 MINUTES OF THE EXECUTIVE COMMITTEE**. It was seconded and passed by unanimous vote.

## II. Legislative Update

MWRA Advisory Board Executive Director Joseph Favaloro stated the recently released House Budget included $20 million for Debt Service Assistance (DSA), a $5 million increase from the Governor's proposal of $15 million.

In the past week, Advisory Board and MWRA staff met with House Ways & Means Chairman Bob DeLeo and Senator Steve Tolman, Assistant Chairman of Senate Ways and Means, as well as MWRA Caucus Chairman Ron Mariano to continue to muster support for DSA.

Staff will work to achieve as much Debt Service Assistance as possible through the House, the Senate, Conference Committee and the Governor's signing.

## III. Action Item: To approve the connection of the Herb Chambers Lexus Dealership facility, located primarily in Sharon, to tie into the MWRA wastewater system via connection to the Walpole system, subject to the parameters set forth in MWRA Policy #: OP.11

Mr. Favaloro reported that the Herb Chambers Lexus Dealership's application has not yet been approved by the Legislature; however, it is well in the process. Senator Timilty and Majority Leader Rogers are working diligently on this legislation and there is no doubt it will pass. The application will not go before the MWRA Board without legislative approval.

Francis Yanuskiewicz, Vice President of Weston & Sampson Engineers, Inc., stated that Weston & Sampson has been working closely with the Town of Walpole on this project to fulfill the requirements of MWRA Policy # OP.11.

Hillary Lacirignola of Weston & Sampson stated that Herb Chambers is constructing a Lexus dealership in the Town of Sharon on the Walpole line. A small portion of the property is in Walpole and Walpole is providing water service to the site. Herb Chambers is seeking a special sewer connection permit under Policy # OP.11 to discharge wastewater through the Walpole system to the MWRA's new Neponset Valley sewer.

The proposed wastewater discharge is 10,500 gallons per day. To be considered for a permit under OP.11, the applicant must demonstrate how they will achieve a four to one gallon per day reduction in peak inflow from the Walpole system. As a result, 75 manholes have been identified in the Walpole system with stormwater inflow through the manhole covers. Improvements to these manholes will reduce inflow by 42,000 gallons per day from the Walpole system. Walpole will make these improvements within one year of receiving the I/I and connection free from Chambers and when these improvements have been made, a final flow removal report will be submitted to MWRA, with certification by Walpole, that the improvements have been made and that the flow has been removed from the system.

Both Sharon and Walpole have approved and support the connection. Master planning documents for these communities have been reviewed and this connection is consistent with those documents. A hydraulic capacity analysis of the Walpole system has been performed and the system is adequate to handle this additional flow. Walpole has reviewed and accepted this analysis.

The applicant has been through the MEPA process with the filing of an ENF and it has been determined that an EIR is not required for this project. The applicant has worked closely with the Water Resources Commission and the Department of Conservation & Recreation regarding the Inter-Basin Transfer Act and the applicant will remove an additional one to one gallon per day ratio of flow so there is no net increase in inter-basin transfer; therefore, the Act does not apply.

Jay Fink asked how the amount of inflow to be removed from the sewers was determined. Ms. Lacirignola said the amounts are based on Title 5.

Mr. Fink asked how the volumes were identified in the manholes. Ms. Lacirignola said the manholes were identified through a study that was done about ten years ago. There is a tributary area and the consultants account for the type of surface and apply a rational method of flow equals area times rainfall intensity. The rainfall intensity is a one-year, six-hour storm for the Boston area. Mr. Fink asked if the flows were calculated or measured. Ms. Lacirignola said the flows were calculated.

Mr. Fink asked how the applicant will quantify that the amount of inflow is gone once the inflow kits have been installed. Ms. Lacirignola replied that a calculation will be used.

Mr. Fink said typically an area has been identified because a measurement has been taken in the pipe and it can be quantified by measuring it again. "Are these manholes all in low lying areas?" Ms. Lacirignola said all of the manholes were identified to have some sort of manhole cover defect, such as a hole or a crack in the cover or the pavement around the cover is defective, and there are ponding issues. When it rains, water collects there and goes into the sewer. The proposal is not just to put in an inflow dish; it is to evaluate the type of repair that is necessary to fix the problem. It may be that the surrounding pavement around the manhole needs to be repaired; it may be that a water tight frame and cover may need to be installed. The inflow cover dish is the least case scenario. Mr. Fink said at a minimum, the inflow cover dish will be installed and additional measures may be required. Ms. Lacirignola replied in the affirmative.

Mr. Fink said two manholes have inflow peaks in the 3,000 gallon range; those were estimated from smoke testing? Ms. Lacirignola said yes; the list Weston & Sampson worked from was collected by others during a previous investigation done many years ago. Weston & Sampson attempted to find other inflow sources for this project through smoke testing and didn't find any significant sources. Staff did look at some of the manholes and determined that they have deteriorated over time; the manholes that appear to be more significantly deteriorated were reevaluated recently.

Mr. Fink said six manholes have been identified as having potential inflow of 1,000 gallons or greater. The applicant must take some measurements on those six manholes prior to and after the installation to verify that significant inflow has been taken out of the system. Ms. Lacirignola agreed.

A Motion was made, **SUBJECT TO FINAL LEGISLATIVE/GUBERNATORIAL APPROVAL, TO CONDITIONALLY APPROVE THE REQUEST BY THE HERB CHAMBERS LEXUS DEALERSHIP FACILITY, LOCATED PRIMARILY IN THE TOWN OF SHARON, TO TIE INTO THE MWRA WASTEWATER SYSTEM FROM ITS SITE AT 25 PROVIDENCE HIGHWAY, SHARON, MA VIA A CONNECTION TO THE WALPOLE SYSTEM THROUGH AN 800 FOOT, THREE-INCH FORCE MAIN.**

**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 APPLICANT WILL BE RESPONSIBLE FOR MAINTENANCE OF ITS PUMP STATION AND PIPELINE CONNECTING THE PROPERTY TO THE WALPOLE SEWERAGE SYSTEM; 2) THE APPLICANT WILL BE RESPONSIBLE FOR ASSURING THAT NO ADDITIONAL CONNECTIONS WILL BE MADE TO THE PIPE FROM OUTSIDE OF WALPOLE WITHOUT PRIOR APPROVAL OF THE MWRA.**

**THE APPLICANT'S FLOWS WILL BE LIMITED TO AN ESTIMATED AVERAGE DAILY FLOW OF 6,400 GALLONS PER DAY AND A MAXIMUM DAILY FLOW OF 10,500 GALLONS PER DAY.**

**THE APPLICANT WILL PAY THE TOWN OF WALPOLE BOARD OF WATER AND SEWER COMMISSIONERS A FEE TO REMOVE AT LEAST 42,000 GALLONS PER DAY OF PEAK INFLOW FROM THE WALPOLE SYSTEM, PURSUANT TO THE FLOW REMOVAL REPORT SUBMITTED IN ITS APPLICATION AND THE REQUIREMENTS OF MWRA POLICY #: OP.11, WHICH STIPULATES A FOUR TO ONE REDUCTION OF INFLOW. THE APPLICANT WILL MEASURE FLOW AT SIX (6) MANHOLE LOCATIONS WITH ESTIMATED INFLOW IN EXCESS OF 1,000 GALLONS PER DAY AS PRESENTED IN ATTACHMENT B OF EXHIBIT E OF THEIR APPLICATION. AFTER REHABILITATION HAS BEEN COMPLETED, ADDITIONAL MEASUREMENTS MUST BE TAKEN TO VERIFY THE PREDICTED FLOW HAS BEEN REDUCED. THE APPLICANT WILL PROVIDE THE MWRA ADVISORY BOARD WITH A FINAL FLOW REMOVAL COMPLETION REPORT VERIFYING 42,000 GALLONS PER DAY OF INFLOW HAS BEEN REMOVED. IN ADDITION, THE APPLICANT WILL BE RESPONSIBLE FOR ENSURING AN ADDITIONAL I/I REDUCTION OF 10,000 GALLONS PER DAY, PURSUANT TO THE REQUIREMENTS OF THE WATER RESOURCES COMMISSION.**

**THE APPLICANT WILL PAY A CONNECTION FEE OF $40,750.00 TO THE MASSACHUSETTS WATER RESOURCES AUTHORITY, CONSISTENT WITH THE GUIDELINES SET FORTH IN MWRA POLICY # OP.11.** It was seconded and passed by unanimous vote.

## IV. Action Item: Advisory Board Comments and Recommendations on the MWRA's Proposed FY08 Capital Improvement Program

Mr. Favaloro said staff did a comparison between the MWRA, the MBTA, Massport and the Massachusetts Turnpike Authority to determine what portion of their operating budgets go toward paying debt. The MBTA pays 27% of its budget toward debt; however, their operating budget is supplemented by $700 million from the Commonwealth through 20% of the sales tax revenue. Massport pays 26% and the Turnpike pays 54% of their budgets toward debt for FY08. The MWRA is eligible for approximately 75% of the $15 million in DSA as proposed by the Governor to help with the 56% portion of its operating budget that goes toward debt.

Mr. Favaloro stated it has been a struggle to obtain funding for DSA. How can we ensure the MWRA gets what it needs on the capital side while keeping in mind that ratepayers have to pay the bill? It is incumbent upon the Advisory Board and the MWRA to learn lessons from the MDC and its past shortsightedness.

Cornelia Potter stated staff began the review process with three documents. The Authority submitted its Master Plan in two volumes and the Capital Improvement Program (CIP) document, which is the principal source of staff's review materials.

After many years of recommending to the Authority that they prepare a Master Plan, they have, in fact, done so. The Master Plan will be updated approximately every five years.

After considerable discussion, the Authority did move forward with major restructuring of its debt that was designed to put into place a multi-year rates management strategy.

With the proposed budget, the Authority has also proposed its next spending cap thereby firming up the commitment to operating under a five-year cap for its capital spending.

With the Master Plan, staff examined proposals for over 200 projects, about 100 existing projects and another 110 new projects for a total of $3 billion in proposed or potential future spending; $2 billion of the projects are new or reinstated after being cut out three years ago and $1 billion was in the existing CIP. These projects were prioritized according to a ranking of five categories and the Authority has selected some of the projects for the proposed budget. Wastewater projects account for $2 billion of the spending, including the CSO Program, and $1 billion is for water projects.

The Authority's prioritization process has five categories: Priority 1 is for critical or emergency work where the risk is at least moderate to high and the consequence of not pursuing the project is also very high; these include emergencies or critical threats to public health or imminent failure of the system. Priority 2 is essential projects where the risk is variable and the consequences of not pursuing the project are still high; these include critical facility assessment, existing reliability problems or maintaining emergency backup facilities. Priority 3 projects are necessary where the risk is moderate to high and the consequences of not doing the project right away are moderate to low. Postponed projects may move into a category 1 or 2 if they wait too long. Priority 4 projects are important, risk is moderate and consequences are low. An example is maintaining the integrity of the system's infrastructure, improving hydraulic performance and monitoring system needs. Priority 5 is desirable where the risk or consequence of not doing a project is low yet they yield worthwhile cost savings, revenue gains or efficiency improvements.

In this budget cycle, the Authority has chosen nearly all the priority 1s and 2s to get them done plus an occasional priority 3 or 5. For example, wind power, classified as a priority 5, was selected for inclusion in the capital budget.

The Advisory Board's review and resulting recommendations include several themes. Staff recommends that the Authority set, as an overall goal, movement to the priority 3s and 4s. These are basic system improvement or system maintenance projects that should be done before their condition declines to a critical or emergency condition.

The Master Plan does not include Business and Operations support, which includes equipment, a certain assessment of their own office-related facilities and MIS. There are projects in the CIP for those categories of spending that did not come from the Master Plan.

The Proposed CIP focuses on the ten-year period ahead, FY08-FY17. Over that course of time, just over half is for wastewater improvements and just under half is for waterworks improvements, with 2% for business and operations support, including the MIS program.

CSOs are a dominant feature, especially in the first half of the decade. In fact, CSOs are 25% of all spending for the ten-year period.

The ten-year period is dominated by 20 large projects, which account for $1.25 billion of the $1.5 billion to be spent over the ten-year period. Five of the 20 projects are CSO projects and the most expensive project, North Dorchester Bay, is also a CSO project. The second most expensive project is for continued work to maintain and upgrade or modify the Deer Island Wastewater Treatment Plant; this spending is spread across the decade. Together these two projects account for over 20% of all spending in the next ten years.

The CIP will continue to evolve; the latter half of the decade is not as fully flushed out. The Authority has made sure it has the proper range of projects for the next spending cap, which is being established with this budget. The cap for the next five-year period is just under $1 billion and represents raw capital spending of just under $890 million, with allowances for contingency and inflation on unawarded construction contracts less the CVA projects. The Authority has proposed spending on average of $200 million per year (according to one cap calculation).

Spending is higher in the beginning of the five-year period and drops almost $100 million by the fifth year from the first. This is a demonstration of the impact of the CSO Program, where the Authority is required to do some major work in the next couple of years. This characteristic of spending has an impact on the "plus or minus 20% rule". The Authority can spend plus or minus 20% of the cap amount in any given year. In the first year, plus or minus 20% is $50 million, by the fifth year it is $30 million. If some of the work slips from the first and second years out, the Authority may find itself in a bit of a squeeze, whereas in the current cap period spending was fairly flat across the five years.

Zig Peret asked why the CVA projects are subtracted from the total. Ms. Potter stated the CVA projects are not limited by this cap, but they are included in the capital budget.

For the current cap period, the Authority had originally set the cap at just over $1.1 billion; actual spending for FY04 to FY06 and projected spending for FY07 and FY08 is $935 million or $200 million lower than the cap.

For Wastewater spending, new project spending is flat, between $10 and $14 million each year for the entire five-year period; whereas Waterworks spending grows rapidly from $6 million in new Waterworks project spending to $45 million by the end of the five year period.

Key recommendations include a directive to evaluate steps to ensure that MWRA spending proceeds during this cap. During the FY04-08 timeframe, the Authority is $200 million or more below budget. The Advisory Board is concerned that the Authority does not have the resources it needs to meet its asset protection needs.

Conceptual and design projects should be exempt from the "plus or minus 20% rule" to ensure the MWRA can continue to proceed with conceptual and design projects because they tee up the construction contracts.

The Advisory Board recommends that the Authority negotiate with the Commonwealth to share in the PCB removal costs at the Wachusett Dam. This recommendation directs the Authority to ensure that the Commonwealth pays for an appropriate pro-rated portion of the multi-million dollar costs. The MWRA is just beginning to tally estimates on these costs.

Andrew Pappastergion asked what criteria should be used in determining what the pro-rated portion would be. Mr. Favaloro said this is a new concept and the details are not worked out. All the bonds were paid by ratepayers with the metropolitan system but the relationship between the MWRA and the Commonwealth started as a 50/50 split, then went to a 75 MWRA/25 Commonwealth split and in the last half a dozen years or so is now 100% funded by the MWRA. That could be one way of pro-rating those costs. Further, the MWRA did not take over responsibility and maintenance of the dams until two years ago through an MOU, which would be an advantageous way to pro-rate for the MWRA. There are many ways to pro-rate the costs.

The PCBs are on the walkways and joints and are finding their way into the soil and the outside of the dam. The Authority has done <u>extensive</u> testing on the water and there are none in the water. DEP and EPA mandate the removal of the PCBs. Advisory Board staff believes strongly that the Commonwealth should share in these costs.

Bernie Cooper asked when the caulking was done. Ms. Potter said the caulking was done in the 1950s and 1960s. There is a walkway at the top that was constructed at that point; the dam was built earlier. Matt Romero added it is important to note that the walkway was constructed for recreational purposes and had nothing to do with the dam itself, which begs the question of why should the MWRA be responsible for a cost that is incurred that has nothing to do with watershed protection.

Ms. Potter said staff has noticed the Authority's cash flows for the land acquisition project has been concentrated within the next two years. Staff has not seen the pace of spending that matches the budgeted amounts, so in a more specific recommendation, staff suggests that the Authority should spread those funds over a longer period of time, not change the total cost; they may need to do that to absorb PCB work. Mr. Favaloro added priorities in the water and wastewater system should not be impacted by the need to immediately remove PCBs. Spreading the land acquisition money can utilize that cap space to do the PCB work.

Ms. Potter said the CIP document will be completed and distributed in late April and the MWRA Board of Directors will have discussions on both the CIP and CEB budgets at their June $6^{th}$ meeting and the Board is due to vote at their June $27^{th}$ meeting.

Zig Peret said there is a difference between what you have gotten done based on how much money you have spent and what percent is done based on the mechanical completion of the project from an engineering standpoint. It might be good to look at percent complete with percent spent. Ms. Potter said to some extent this balances out; for example, the Union Park facility has had a number of change orders in part because it includes the rehabilitation of an existing facility, which tends to be more problematic. On the other hand, the North Dorchester Bay Tunnel came in at tens of millions of dollars lower than the engineer's estimate in large part because the winning contractor had been mobilized in Providence and was ready to roll here, which balanced the dollar amount.

Ms. Potter said staff is also in the midst of the CEB review, with an internal draft due just one week after the CIP vote. The proposed budget for FY08 includes overall spending of just under $590 million. Offsets assume some use of reserves and an assumption of $15 million for the statewide Debt Service Assistance Program, resulting in expenses of $575 million for FY08. The Authority also assumes use of rate stabilization money of $1.7 million and non-rate revenue receipts of $46 million, including investment income, for a rate revenue requirement of $527 million or a 6.4% increase over the $495 million for FY07. The combined use of reserves is just over $4.5 million, which is inconsistent with the overall rates management strategy of not using any reserves next year, keeping the funds for future rates management to get through the next eight-year period.

The Authority modified its bond covenants last fall, which will create sources of funds to be used to manage rates once bond covenant changes become effective about eight years from now. To deal with the next eight years, the Authority assembled a restructuring concept and selected specific maturities to match debt service coming due to get through that period.

The financial adviser cautioned the Authority to remember that while trying to manage rates and making future rate requirements acceptable to ratepayers, the Authority must not let rates fall too low. It is important that the Authority demonstrate a willingness to raise the rates to pay back their bonds and to assure the investment community of the reliability and commitment on the Authority's part to make these repayments.

Protecting rate stabilization fund use for future years is a key theme. In particular, Advisory Board staff plans to find reductions elsewhere to eliminate the $4.6 million of rate stabilization and bond redemption funds the Authority is proposing to use in the next fiscal year.

The Authority has funded post-retirement benefits liability for health insurance for retirees at $4.5 million but has received an actuarial report that says next year's amount would be closer to $9 million. The Advisory Board is questioning the timing of the initial funding of this item. Step 1 isn't just to commit monies to this item but to determine how to structure the account or investment tool. Mr. Favaloro said this is a huge impact for the MWRA that could be in the $170 million range. The GASB 45 rules say this needs to be funded over the next thirty years. Staff is urging that time be spent to fully develop a mechanism to fund this liability.

Another theme is looking for opportunities for managing debt service; this in reference to an opportunity to "refinance in place" other debt that still has higher interest rates. Interest rates are still low and there are still opportunities to refinance without changing the repayment schedule. With reduced Debt Service Assistance and continued low interest rates the Authority should not waste this opportunity.

The Authority's NPDES permit expired more than a year ago, with virtually no progress on the preparation of a new one. Further, staff does not know what the requirements will be for treatment at Deer Island, in particular, and the impacts on the capital budget. The Advisory Board is cognizant of this issue and addresses alternatives for levels of treatment.

Other key areas for review are fringe benefits, electricity use and pricing, diesel fuel, chemicals, insurance and the pellet plant.

The Authority is traditionally very conservative on investment income projections and variable debt interest rates. Staff always challenges the Authority on these items.

Staff is assuming DSA associated with the Governor's budget of $15 million, with $11.25 million as the Authority's share. Consistent with that, staff anticipates finding reductions that would bring the rate revenue requirement down from 6.4% to 5.6%. If we are successful in getting $20 million for DSA, the Authority would be eligible for another $3.75 million, which would allow the rates to come down to just under 5%. This approach is consistent with the guidance of the financial adviser that the Authority demonstrate a willingness to raise rates to assure the investment community that rates will cover debt service obligations.

Staff is addressing the Authority's ability to reach its capital program goals and asset protection needs. Do they have the resources available? In particular, the Advisory Board is recommending a staffing study that focuses on construction, operations and maintenance to assess whether the Authority has the personnel necessary to accomplish its asset protection goals. Mr. Taverna noted the Authority had Black and Veatch conduct a staffing study. Mr. Favaloro said this recommendation is for specific divisions. The Authority has under-spent the five-year cap and staff wants to ensure that the Authority has the resources to get the job done.

Joe Foti asked where the personnel numbers stand now against the Black and Veatch study. Mr. Favaloro said there seems to be a need for more resources in those divisions.

A Motion was made **TO APPROVE THE ADVISORY BOARD'S COMMENTS AND RECOMMENDATIONS ON THE MWRA'S PROPOSED FY08 CAPITAL IMPROVEMENT PROGRAM.** It was seconded and passed by unanimous vote.

**V. Preview: Advisory Board FY08 Budget**

Mr. Favaloro gave a preview of the Advisory Board's FY08 Budget, which takes into consideration the Executive Committee's prior request to gage audited amounts from one year to the next. Because of the use of the current year's surplus, which is principally caused by underspending in staffing because there were two significant staffing changes, with delays in bringing people on, as well as a significantly more aggressive interest market. The overall budget for FY08 is $462,000 but the actual request from the MWRA will go down by more than $1,000.

**VI. Process to Elect Advisory Board Member to the MWRA Board of Directors**

The three-year term of Joseph Foti as a member of the MWRA Board of Directors expires on June 30, 2007. Mr. Foti has expressed his desire to seek re-election to the Board.

**VII. Approval of the Advisory Board Agenda for April 19, 2007**

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE APRIL 19, 2007 MEETING.** It was seconded and passed by unanimous vote.

**VIII. Adjournment**

A Motion was made **TO ADJOURN THE MEETING AT 10:00 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary