

**MWRA ADVISORY BOARD MEETING
JUNE 19, 2008
NATIONAL HERITAGE MUSEUM
33 MARRETT RD. (ROUTE 2A), LEXINGTON, MA – 11:30 A.M.
MINUTES APPROVED AT THE SEPTEMBER 18, 2008 MEETING**

Thirty-five people were in attendance, including twenty voting members: John Bean, ARLINGTON; John Sullivan, BOSTON; Ed Sullivan, CANTON; Andrew DeSantis, CHELSEA; J. R. Greene and Barbara Wyatt, GUBERNATORIAL APPOINTEES; Barbara Stevens, LEXINGTON; Bruce Kenerson, LYNNFIELD; Doran Crouse, MARLBOROUGH; Cassandra Koutalidis, MEDFORD; Katherine Haynes Dunphy, MILTON; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; Peter Smyrnios, PEABODY; George Zambouras, READING; Michael Martello, WAKEFIELD; Walter Woods, WELLESLEY; Earl Forman, WESTON; Michael Woods, WILMINGTON; Anthony Blazejowski, WOBURN.

Also present: John Carroll, Andrew Pappastergion and Joseph Foti, MWRA BOARD OF DIRECTORS; George Burnell, LEXINGTON; Rob Antico, WILMINGTON; Ed Bretschneider, WAC; Eileen Simonson, WSCAC; Fred Laskey, Michael Hornbrook and Ria Convery, MWRA STAFF; Joe Favalaro, Cornelia Potter, Matthew Romero, Christine Hevelone-Byler and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

A. WELCOME

Chairman Katherine Haynes Dunphy called the meeting to order at 11:38 a.m. The Chairman stated that a long-term participant in our meetings is retiring from the Water Supply Citizens Advisory Committee (WSCAC). To honor this occasion, the Advisory Board presented Eileen Simonson, Co-Director of WSCAC, with a certificate of appreciation and an inscribed silver bowl. Ms. Simonson expressed thanks and urged the Advisory Board members and MWRA staff to continue to work with WSCAC and its new Director, Mary Stuart Booth. Ms. Simonson said the MWRA is one of the most impressive organizations she has ever seen function. "There is nothing better, do not let it slip!"

B. APPROVAL OF THE MINUTES FROM THE MARCH 20, 2008 AND APRIL 17, 2008 ADVISORY BOARD MEETINGS

A Motion was made **TO APPROVE THE MINUTES FROM THE MARCH 20, 2008 AND APRIL 17, 2008 ADVISORY BOARD MEETINGS.** It was seconded and passed by unanimous vote.

C. REPORT OF THE EXECUTIVE DIRECTOR

MWRA Advisory Board Executive Director Joseph Favalaro stated that there will not be an Advisory Board or Executive Committee meeting during the month of July or August. The Advisory Board's Annual Field Trip, to be held on August 21, will include a trip into the South Boston CSO Storage Tunnel at North Dorchester Bay and will continue on to the Blue Hills Covered Storage Tank in Quincy, which will be about 50% complete at that time.

There has been a lot of discussion over the years about the use of 90,000 gallons for the Water and Sewer Retail Rate Survey. Should the number be 90,000 gallons or 60,000 gallons, etc.? Is there a better way of doing it? Staff has always used the constant of 90,000 gallons and will continue to do so to be able to track the percentage changes in retail rates; however, staff is open to trying to figure out another method. Staff plans to invite members, Authority staff and possibly asking Ray Raposa from the Massachusetts Water Works Association to sit down and have a focused discussion. Is there another way to show these rates?

D. PRESENTATION: LOOKING BACK AT THE MWRA HIGHLIGHTS DURING FY08 – Fred Laskey, MWRA Executive Director

MWRA Executive Director Fred Laskey noted that he had attended the WSCAC meeting the previous day to wish Eileen Simonson well on her last meeting as the Executive Director. Mr. Laskey stated that he would miss Ms. Simonson's tenacity, intelligence and commitment to water causes. Ms. Simonson expressed her thanks.

Mr. Laskey stated that the Authority expects to spend between \$100 to \$150 million per year in capital costs out into infinity to maintain and upgrade the MWRA system.

The tunnel boring machine is moving forward on the South Boston CSO Tunnel and is about two-thirds of the way there. The project is going well.

The Upper Neponset Relief Sewer is finally complete and the Union Park facility is now online, dedicated earlier this week. Boston Mayor Thomas Menino was complimentary of the Authority's work. The Mayor stated that "you can always count on the MWRA to do it right."

Deer Island Plant Optimization will be the theme over the next few years. As the plant matures, substantial capital projects will be underway to maintain the facility and keep it in good working order.

The rehabilitation of the East and West Spot Pond Supply Mains that run from Chestnut Hill to Spot Pond has been completed. This project was so large and long in scope that it was easy to lose track of it because of the individual pieces. The \$63 million project took eleven years to complete; the mains have all been cleaned and lined and any parts of the water mains that needed to be replaced were replaced. This project gives the Authority the ability and flexibility to flow water north of the city in any number of configurations.

The Blue Hills Covered Storage Tanks are well under way and will have 20 million gallons of storage for the south part of the system. When the project is complete, it will not only provide storage for Quincy, Milton and parts of Boston, but also in an emergency on the south system, can push water back all the way up to Brookline and Chestnut Hill to give the Authority time to fix any serious problems.

The water pumping stations in multiple locations (Hyde Park, Spring Street, Brattle Court, Belmont) have had complete upgrades.

Five years ago the Advisory Board was frustrated with how the Capital Budget worked and staff was demanding a cap that would control spending and allow for more strategic planning and spending. The Carroll "Compromise" was to build a cap that would give the Advisory Board and the Board of Directors some long-term planning capabilities, yet give Authority

staff some flexibility. The Authority was able to finish the five-year period within the cap; it has worked well. This Wednesday, the second five-year cap will be before the Board for its consideration.

The Charles River Crossing and the Brookline connection are underway to activate a third barrel across the Charles River. The East Boston Branch Sewer Relief is a brand new and enlarged sewer along the shore of East Boston that will greatly reduce CSO discharges into the harbor. Odor control, pump stations and sewer separation in South Boston are other parts of the CSO cleanup. The West Roxbury Tunnel is going to be another challenge. It carries flow from Framingham to the high-level sewer. The current plan calls for rehabilitation of that tunnel; however, there is debate over whether it would be better to bore a new tunnel rather than rehabilitate the present one; costs are probably very close. To put it into perspective, \$80-90 million is on the books for this project and it will likely cost more.

The idea of the MetroWest Tunnel was redundancy to ensure that the MWRA had double-barrel service into the city. Currently, the MWRA does not have that double-barrel service because the Hultman Aqueduct needs to be renovated and interconnections need to be made between the two systems to create spokes coming into the city. The Authority plans to move forward with the Hultman interconnection and rehabilitation.

The Authority continues to have great success with Community Assistance Programs. It is a very popular program with our communities and staff will recommend to the Board that the program continue.

The Authority continues to see a drop in water demand despite adding communities. Communities are very responsive when the Authority picks leaks up in its metering.

Consumer Confidence Reports are in the mail this week to 800,000 households. The results are phenomenal once again. A major national story on pharmaceuticals coming through the waste streams into the drinking water made headlines; MWRA had none. Exhaustive tests and found no pharmaceuticals. A trace of one chemical was found; however, follow up tests found no trace in the source water. Staff believes it came from a spigot plumbing fixture.

All MWRA communities passed the lead levels testing for the first time. The levels again were extremely low. This is a good sign.

The State Auditor issued a report; he was critical of the Authority's efforts to distribute free pellets to member communities. The MWRA has the fertilizer and the communities are able to receive it for free. MWRA had provided free delivery but when DSA was lost in 2003/2004, free delivery was one of the things the MWRA cut back on; it saved around \$50,000. The Authority tried to develop interest in the pellets where perhaps the pellets could be located regionally, such as Southborough, Chelsea and Quincy, so it is not a big inconvenience for member communities to come get it.

The Authority has agreed to pay a \$610,000 fine with EPA and the Department of Justice over a retroactive enforcement action on how the MWRA ran Deer Island for five years, seven years ago. MWRA reported monthly, quarterly and annually to the EPA and had great results and always met water quality standards. After the fact, when EPA was looking at the Authority's new permit, they said they did not know the MWRA was running its plant in a certain blending manner. EPA threatened a fine up to \$80 million. It was a source of great

stress amongst Board members and staff on how to proceed. In the end, a business decision was made to cut our losses and staff negotiated from \$80 million to \$8 or \$9 million; from there, Mike Hornbrook was a key negotiator to bring it down to a \$610,000 fine. Of that, EPA agreed that half would go to Supplemental Environmental Projects (SEP).

The SEPs are cleanup of waterways. As we speak, there are boats in the Mystic River heading to the Neponset and down to the Town River and to Chelsea Creek and other spots to pick up debris. Additionally, a pump-out boat has been ordered to be used by the City of Boston in Boston Harbor so that Boston Harbor can be designated a no-discharge zone for commercial and other boats; this boat, expected to be delivered in July, will be used for commercial boats. The final SEP is a low-flow toilet program for member communities. While the details are still on the drawing board, there will be an incentive for about \$100,000 worth of low-flow toilets that will become available to member communities. Mike Hornbrook added that staff is still working on the details to differentiate it from other programs. MWRA is looking at both purchase and installation costs and trying to figure out how to do that with the least amount of paperwork.

Mr. Laskey said he would like to compliment Joe Favaloro and the Advisory Board staff for their efforts on the SEP. The Advisory Board was unsuccessful in an initiative that advocated for the purchase of some high-tech camera equipment that would allow member communities to inspect their sewers for inflow or illegal hookups and completely consistent with where EPA and DEP want us to go; it was rejected because it didn't meet some criteria of the federal government.

The latest news in the paper is that electric rates are going up 40%. The Authority uses a lot of energy. Renewable energy is a good investment for the Authority, which has a track record with 25% of its electricity at Deer Island already being produced using methane to make steam and with its hydro. MWRA is upgrading this process to increase the amount to get more electricity. Currently, MWRA uses 98% of the energy available in the methane produced at Deer Island. Energy audits are being conducted at many of the MWRA's facilities. The Authority also had the honor of having the Governor come out to Deer Island to dedicate its solar panels, which provide 100 kWh on the roof of a facility building.

The Authority is looking at 15 possible locations to site windmills. MWRA has been approved for two turbines at Deer Island, although they are not as tall as staff would have liked. A community meeting with Winthrop went very well, so that will be the first location. Staff met today with the Mayor of Quincy about the possibility of one windmill out at Nut Island. These installations are going to raise some policy questions on what benefits a community would receive for hosting the windmills. It is uncharted ground, but there is a state law that makes it very clear that if someone puts a cell tower on one of the MWRA's water tanks, the proceeds are split with the host community. The payback on these turbines, even with a subsidy, is about nine or ten years.

The wait for the turbines is approximately two years because there are so many people interested in them. The MWRA received a grant from a quasi-state organization, MTC. When people pay their electric bills now there is a surcharge that goes into a "green fund" and it is then distributed in an effort to encourage alternative energy.

Rates management remains the driving force in everything the Authority does. The MWRA's rates went from one of the lowest in the country to one of the highest in the country with no

relief in sight. The increases are due to all the improvements the MWRA has done for the system. Staff has been aggressive in trying to find ways to ease rate increases, including a multi-year program driven by Advisory Board recommendations to be able to reduce reserves that were created when the Authority didn't have a bond rating. Now that the Authority has a good bond rating and a long track record, staff believes the reserves can be used to cushion increases. Management of the rates and the debt portfolio is to smooth out the big spikes in future rate increases.

The collapse of the sub-prime mortgage situation that created a crisis that rippled across to the Authority because about 20% of its long-term bonds are variable rate. Two of the MWRA's bond insurers failed and their bond ratings were downgraded. MWRA had been trading on the insurers' bond ratings to get a better rate; it took a lot of time and effort, not only by the finance staff at the Authority, but by the Board of Directors, not only in regular meetings, but in sub-committee meetings as well. Kudos to the sub-committee; the work of the Advisory Board staff was invaluable in helping the Authority to sort this all out. Rachel Madden, Tom Durkin and Matt Horan spent countless hours working on this and did a great job. A massive refunding was done in May and resolved the problem. The Authority is now trading at or below the index.

State Debt Service Assistance has been an uphill fight. Local budgets are in crisis in many of the member communities and it is a difficult sell to go out and ask the legislature to give money to the MWRA instead of giving it to the mayors or the boards of selectmen for direct local aid. Add onto that the pressure that health care has put on the state budget and the MWRA finds itself in a very difficult situation where the best-case scenario will probably be at \$11.25 million this year. MWRA and Advisory Board staff have worked diligently to gain the support of the legislature for DSA.

The FY09 budget goes before the Board on Wednesday for approval. The recommendation from the MWRA staff and the Advisory Board staff is a 4.45% rate increase for next year. The Advisory Board had made some recommendations to reduce some of the Authority's short-term interest rates and MWRA staff has made some other reductions to get to the 4.45% increase. It is up to the Board on Wednesday to determine the final number.

The largest outstanding issue is the funding of GASB (Post-employment benefits). MWRA staff has recommended fully funding GASB; the Advisory Board has recommended cutting it in half and putting that other half indirectly into rate stabilization because there is so much uncertainty about GASB. A third option is to fund GASB to a certain level and put the rest into the MWRA's unfunded pension liability. There is no right or wrong answer; it is a policy call.

Kudos to the Advisory Board staff for pushing very hard that any funding of GASB should not be covered by the operating reserve. The Authority has an operating reserve for which it is required to put in a certain percentage of its funding. GASB had been assumed as part of that and it appears that our bond counsel has found an innovative way to get around putting GASB in the operating reserve, which could save \$1.6 million in FY08 and an incremental amount in FY09. The Advisory Board has emphasized this almost from the beginning of the GASB discussion and they deserve full credit for putting MWRA staff's feet to the fire.

Mr. Favaloro said it is fair to say that Mr. Laskey is open, upfront and accessible to Advisory Board staff and the communities; he deserves a lot of credit for it. Mr. Laskey's presentation

shows that though the Advisory Board and the MWRA may agree or disagree on topics, the process between the Advisory Board and the Authority works. The Legislators' creation of the Authority and the Advisory Board and the interaction with the communities and all of these distinct but integral parts of a whole work for the betterment of the environment, work to keep ratepayers in the midst of the discussion and the end product is a presentation today that shows the significant progress the Authority has made in meeting its court orders, its other environmental needs on the water and wastewater sides and its ability to listen to ratepayers.

E. COMMITTEE REPORTS

Finance Committee – Bernard Cooper

❖ STATUS: FY09 CIP/CEB PROCESSES

Cornelia Potter stated that Mr. Laskey's presentation covered a lot of ground on the direction of both the Current and Capital Expense Budgets. Approval of both those budgets is on the agenda at the next Board meeting.

On the capital side, the total Capital Budget is nearly \$5 billion. The Authority assumes that nearly \$3 billion of that amount will have been spent by the end of this fiscal year leaving \$2 billion in planned capital spending in this proposed budget for the next decade or more. Of that amount, the Authority proposes \$1.1 billion will be spent in the next five-year period, FY09-13; over 60% of that amount will be for wastewater projects, 36% for water projects and 3% for business and operations support projects. The most significant areas of spending over the next five years will be for the CSO program at more than \$350 million or fully one-third of all capital spending in the next five years. The next biggest area is the Deer Island plant with over \$200 million, or 20% of capital spending, over the next five years.

The final budget does reflect cost increases from the proposed budget of just over \$100 million, more than \$80 million of which is for the increased CSO Program costs and another \$25 million in increased planned spending for the Deer Island plant.

The Authority is also setting a cap for the next five years (FY09-13) and recommending a level of \$1.144 billion, virtually the same level as for the last five years, which was \$1.134 billion, or barely a \$10 million difference.

The Authority can be expected to spend a somewhat higher proportion of the cap amount than it did in the last five years, largely because of the CSO and Deer Island Programs where a lot of construction spending is planned.

On the Current Expense Budget side, Authority staff is proposing to the Board, for its consideration next week, a rate increase for next year of 4.45%, or \$541 million. The number is \$7.7 million less than the proposed budget. The total budget will be just under \$580 million, with Direct Expenses at \$216 million, Indirect Expenses at just over \$45 million and Debt Service Expenses (after the Debt Service Assistance offset of \$11.25 million) are expected to be \$317 million.

Most of the \$7.7 million reduction came from adjustments to the Debt Service line item, including a reduction of the interest rate assumptions for variable rate debt service from 4.25% to 4.0%. Advisory Board staff believes the Authority retains considerable flexibility in

that segment of its capital financing category of expense, even as the Federal Reserve Bank is expected to raise rates at least by mid-point of the fiscal year.

The Authority has obtained an opinion from its Bond Counsel on whether the GASB 45 expense should be subject to the Operating Reserve deposit requirement. The opinion is consistent with the change in the Bond Covenants, which acknowledges that some of the Authority's various reserves are high and can be revised down. This opinion is consistent with what the investment community has accepted for the Authority's covenants.

Executive Committee – Katherine Haynes Dunphy

❖ **ACTION ITEM: TO RECOMMEND THAT THE MWRA ADVISORY BOARD JOIN THE MASSACHUSETTS COALITION OF WATER RESOURCES STEWARDSHIP AND REQUEST THE MASSACHUSETTS WATER RESOURCES AUTHORITY TO LIKEWISE BECOME A MEMBER OF THE COALITION**

Chairman Dunphy stated at one of its meetings, the Advisory Board received a presentation by Robert Moylan, Worcester Commissioner of Public Works, about the Massachusetts Coalition of Water Resources Stewardship and the number of communities and entities that have already joined. The purpose of the organization is to restore the working relationship between communities and the EPA, which has deteriorated over the years. It is important that we try to work more cooperatively with EPA and work things out rather than just have mandates placed upon us.

Secretary Sullivan added that the Advisory Board's Executive Committee voted unanimously last week to join, as did the Operations Committee.

A Motion was made **THAT THE MWRA ADVISORY BOARD JOIN THE MASSACHUSETTS COALITION OF WATER RESOURCES STEWARDSHIP AND REQUEST THE MASSACHUSETTS WATER RESOURCES AUTHORITY TO LIKEWISE BECOME A MEMBER OF THE COALITION.** It was seconded and passed by unanimous vote.

Chairman Dunphy noted that EPA is working on the next National Pollutant Discharge Elimination System (NPDES) permit for Deer Island. To be prepared, in case there is anything in that permit that would be harmful to communities that communities would want to appeal, the Executive Committee authorized Joe Favaloro to find legal counsel and he has been successful in doing so. Further, the Executive Committee authorized an expenditure of a small amount of funds from the Advisory Board's Legal Fund, if necessary, before the September meeting.

Mr. Favaloro added that the firm selected is Donaghue Barrett & Singal. Attorney Richard Goldstein, who many years ago was MWRA Counsel, is familiar with the players and the topic; he was active seven years ago in the last NPDES appeal. As the Chairman indicated, this is a proactive measure in the event that it is needed.

❖ **LEGISLATIVE UPDATE**

Mr. Favaloro said State Budget discussions are now going on. With the House allocating \$20 million in DSA, and the Senate at \$10 million and the Governor at \$15 million, staff's best guess would be that the state-wide DSA number would be around \$15 million state-wide for FY09.

Operations Committee – Jay Fink

❖ **UPDATE**

Mr. Favaloro said this coming September, there will be a collaborative meeting between the Wastewater Advisory Committee, the Water Supply Citizens Advisory Committee and the Advisory Board Operations Committee to discuss issues that are common to all three groups.

Further, an issue flagged for a fall Operations Committee is an update on three-year wastewater flow averaging.

F. ADJOURNMENT

A MOTION WAS MADE TO ADJOURN THE MEETING AT 12:51 P.M. It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary