

**EXECUTIVE COMMITTEE MEETING
FRIDAY, OCTOBER 14, 2011
ADVISORY BOARD OFFICE**

MINUTES APPROVED AT THE NOVEMBER 10, 2011 MEETING

Present: John Sullivan, BOSTON; Katherine Dunphy, MILTON; Lou Taverna, NEWTON; John DeAmicis, STONEHAM; Zig Peret, WILBRAHAM.

Also in attendance, Andrew Pappastergion, MWRA BOARD OF DIRECTORS; Joseph Favaloro, Matthew Romero, Maggie Atanasov and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF; Cornelia Potter, MWRA ADVISORY BOARD CONSULTANT.

I. Approval of the September 9, 2011 Minutes of the Executive Committee

Chairman Katherine Haynes Dunphy called the meeting to order at 8:42 a.m. A Motion was made **TO APPROVE THE SEPTEMBER 9, 2011 MINUTES OF THE EXECUTIVE COMMITTEE**. It was seconded and passed by unanimous vote.

II. Opportunities for Refunding of MWRA Debt

MWRA Advisory Board Executive Director Joseph Favaloro stated that the Authority is putting together a refunding, restructuring, refinancing proposal, which was approved by the MWRA Board of Directors on Wednesday; \$300+ million of this transaction will be refunding for savings, taking advantage of historically low interest rates. This transaction will also take about \$70 million of variable rate debt that is due to be paid in 2020 and move this debt into 2018. The abnormality in MWRA rate revenue requirements goes from the 3% range to 7% to double digits; however, in 2018 a -3% adjustment was expected. Moving these funds to 2018 will lock in a good fixed-rate that will begin to whittle away at the long-term problem that is facing the Authority.

Andrew Pappastergion noted that the significant thing about this transaction is that for the first time instead of pushing debt out, it will be pulled back in.

Mr. Favaloro said staff plans to restructure and refinance \$300+ million; however, the Board has authorized up to \$500 million should any further opportunities arise. Over the short term, there will be nominal impacts on the rate revenue requirement.

The reserve releases expected to be released in FY16 will be used to bring down the increases for FY16 to FY18. Any surplus funds will be used for defeasance purposes for the FY13 to FY15 timeline.

Mr. Pappastergion said this transaction will take the potential rate revenue requirement for 2020 from 10.3% to 3.6%.

III. Action Item: Authorization to Take Any and All Necessary Steps to Oppose Ballot Initiative 11-10 (A Petition for a Law Limiting the Amount by Which Water or Sewer Rates May Be Raised to an Amount Not Greater Than Two and One-Half Percent Annually)

Mr. Favaloro said Petition 11-10 is essentially a “Proposition 2½” for retail water and sewer rates. The petition was certified by the Attorney General and was then forwarded to the Secretary of State. The proponents must now get 68,911 certified signatures of registered voters between now and December 7, 2011. If that occurs, it then goes to the legislature; if the legislature doesn’t take any action or it is rejected, the proponents must gather an additional 11,485 signatures by July 3, 2012 to get this petition on the ballot for November 2012. This would be the opportunity to be involved as much or as little as necessary. The Advisory Board does not want to bring too much attention to this petition; however, staff would like to be ready in the event it receives media attention.

If the Executive Committee and full Advisory Board believe that capping retail rates arbitrarily at any number is the best approach to take, then we wouldn’t take any action. If they believe that this could be potentially devastating for a community to meet its water and sewer infrastructure requirements, then staff would be ready to take action as part of a coalition or on its own to speak against the petition. Minimally, staff needs to be ready to educate our communities on this topic.

To date, there have been a few press releases. The Salem News spoke to Barbara Anderson, the Executive Director of Citizens for Limited Taxation and a proponent of Proposition 2½, and she said this petition sounded “fishy.” Ms. Anderson said since the water and sewer costs were removed from the property tax in most communities, and replaced by user fees, she hasn’t heard many complaints about water and sewer rates.

The petitions have been picked up from the Secretary of State’s office, although staff has not seen any real attempt to obtain signatures thus far.

Additionally, the Water Infrastructure Finance Commission (WIFC), at a time when there is an initiative petition to cap rates, announced that its approach to raise revenues for water and sewer infrastructure was to increase the consumers rates by a certain percentage and have those funds turned over to the state, which generated another wave of press stories.

The press spent little time talking about their infrastructure proposition but more on the impacts, saying that this would raise rates by \$50 as a surcharge on water and sewer bills. That also generated a further discussion on the 2½% cap. Once again, many more people began to weigh in, including the Waterworks Associations. Barbara Anderson’s quotes are even stronger saying that this is not a good idea.

While the petition discussion has been going on, a group from New England Water Works Association, Massachusetts Water Works Association, Engineering Associations, the Massachusetts Municipal Association (MMA) and others have gotten together to begin to look at an overall strategy. What should we be doing? What shouldn't we be doing? What are the next steps? Staff met with this coalition yesterday and it was agreed that a firm position is needed along with a determination of when it should be used. Mr. Favaloro said he would like to be in a position to say that the Advisory Board, representing the communities, is concerned about this and would oppose this petition. Mr. Favaloro said he wants to put some validation that this is an issue of some concern to the communities. This discussion is just so that staff will be in a position to take the necessary steps in the event that support for the petition picks up steam.

Zig Peret asked if a firm position has been formalized. Mr. Favaloro said on the agenda it says "to take any and all necessary steps"; any and all could mean very little or none. Staff just wants to be able to officially speak on behalf of the communities.

MMA is going to go back to the Mayors' Association. Given permission, Advisory Board staff would like to bring the issue to the attention of the MWRA district's mayors, city councils and town councils.

John Sullivan noted that the support must come from Chief Elected Officials; it can't just be water and sewer personnel. Mr. Pappastergion added that it makes sense not to have water and sewer personnel be the ones out front. The MWRA Board of Directors felt that if the Board came out and criticized this petition, it could mobilize people to join in on the petition. Mr. Favaloro said staff does not want to be put into a situation where, in representing the communities, it has no position. The proponents may be planning to utilize Election Day to gather signatures; if there is no one gathering signatures for this petition on that day and they still haven't been seen elsewhere, it would probably be fair to say that the petition isn't going anywhere. However, if in the next ten days this issue gains momentum, staff wants to ensure that it is representing the communities to the best of its ability.

Mr. Sullivan said he would like to see the mayors defending the water departments. The mayors need to say that the water departments have to adjust their rates properly so they can service the community properly as an outside view.

Mr. Favaloro said staff will put together a package of materials to go to our designees regarding an action item. The chief elected officials of the communities will get the highlights on one sheet and staff will request thoughts, ideas and feedback to be submitted to the Advisory Board.

Zig Peret asked if staff is suggesting that an aggressive approach be taken with the mayors, etc. Mr. Sullivan said it is to make sure that the mayors and CEOs understand that this petition is there and that if their support is needed, the CEOs have to rally and be the spokespeople, not the water departments.

Mr. Pappastergion said water departments rallying around this carries no credibility. MWRA is nothing more than a big water department, just like the Boston Water and Sewer Commission. The emphasis should be on the mayors and the politicians.

Chairman Dunphy said the communities we represent will be affected by this initiative if it passes; it is our job to do what is necessary.

A Motion was made to **Authorize Advisory Board Staff to Take Any and All Necessary Steps to Oppose Ballot Initiative 11-10 on behalf of the MWRA communities.** It was seconded and passed by unanimous vote.

IV. Issues on the Advisory Board’s Radar Screen:

A. System Expansion Requests

Mr. Favaloro said prior to the last Executive Committee meeting, the MWRA and Advisory Board staff held conversations with North Reading regarding them joining the MWRA waterworks system. Next week staff will meet with a whole group from the Town of Ashland, from community development to the councilors’ office.

At the end of the month Mr. Favaloro and MWRA Executive Director Fred Laskey will be attending a meeting in the “495 belt” area to talk to the “495” communities, who are all interested in having discussions with the MWRA about coming into the system.

Consistent with all of these communities is the actual “need” for additional water as opposed to just wanting additional water in order to make their communities or their region grow.

The one issue that continues to stay as a “discussion point” is entrance fees. Staff wants to reaffirm the Advisory Board’s position of requiring the entrance fee, with a flexible payment option. Of all the issues discussed, this is a big one.

Mr. Peret said we never seem to make any headway on the entrance fee. Can staff take a look at the money collected on an entrance fee in a year versus what it is worth over a period of years in the big picture? Should the entrance fee be phased out? Could we grandfather entities in or just to do something that is on a longer-term basis of where we should be on an entrance fee position? We need to look at a longer picture.

Mr. Favaloro said it isn’t going to become an issue until the first real discussion emerges, be it North Reading, Ashland or the 495 belt. The entrance fee re-emerged as an issue only because Braintree said the entrance fee was too high. Mr. Favaloro said in his opinion, this was a “smoke screen” by Braintree, because Braintree really has no desire to come into the system. Other entities have not complained about the entrance fee; they understand that if they are going to come into the system, there is an allocated cost. The system has been made to allow the MWRA to get to other

communities. Why shouldn't those communities pay a depreciated value for what those assets were for? If the entrance fee for Holbrook were waived for very little water, a precedent would be set that no one else will be paying entrance fees from that day forward. Then there would be long discussions with Reading, Wilmington, Stoughton and Bedford and all the other entities that paid an entrance fee when they came in and did so willingly.

Mr. DeAmicis said his concern is that the entrance fee keeps people from joining the MWRA. Communities either have to have the water, or they don't. If they have to have the water, they will pay the entrance fee. If they don't have to have the water, like Braintree, they will use it as an excuse not to pay the entrance fee.

Mr. Favaloro said the only reason he keeps bringing the topic forward is that at some point in time, with all of the interest in joining the waterworks system, the entrance fee topic is going to come up for some action. Staff just wants to confirm that the Advisory Board's position remains the same.

Mr. Sullivan said why bring this topic up. There is an entrance fee and that is our policy. They come to the MWRA because they need the water. If you are going around peddling water, then you may need to have that discussion.

Mr. Favaloro said there are differing opinions on the MWRA Board of Directors on entrance fees.

Chairman Dunphy said if you read the Board Summary, it is clear, although it wasn't expected, the issue of entrance fees did come up and MWRA has done some research on possible reductions or ways for people to get in at some level lower than the entrance fee. MWRA staff has been looking at this in the background and one of the Board members brought the topic of entrance fees up.

Chairman Dunphy said she cannot support eliminating the entrance fee because the Advisory Board represents the existing member communities. Our ratepayers have paid for that infrastructure; we are not asking anybody to pay full cost, it would be the depreciated value. When a community comes in, they get the value of the entire infrastructure from the Quabbin all the way into Boston and people have paid for that. It was built large enough so new members could come in, but they should pay their share.

Westwood came in and paid an entrance fee and they paid for the amount of 100,000 gallons per day, so they are entitled to 65 million gallons per year; but on any particular day, Westwood can get two million gallons, so for the whole month of July they can get two million gallons a day and yet they have only paid an entrance fee for a much smaller average. They have a real advantage; if they have a water emergency in their community, they are going to be covered. Additionally, if they need more than 65 million gallons, they will get it. They have an inexhaustible supply of water that they wouldn't have locally and MWRA should give them the access to the water but they

should pay their share. No community should come in for free. It would be totally unfair to the existing communities.

Mr. DeAmicis said that initially he was against an entrance fee; however, looking at the entrance fee conceptually as an “insurance policy” that allows a community access to the water, which allows that community to limit the size of what they do because MWRA is their backup. That is a real benefit that is provided to these communities that have two sources.

The sense of the Executive Committee is that no action is needed because there is a policy in place that has already been approved.

B. Award of Quabbin Hatchery Pipeline Design Contract

Mr. Favaloro said a few years ago discussions were held to find ways to expedite the regulatory process for system expansion. At the eleventh hour, when the state was negotiating, they requested a direct water connection for the fish hatchery in western Massachusetts and the Authority entertained that idea.

Three years have gone by and there has been no change in the regulatory process; it is still a tedious, time-consuming process for a community to get through to join the system. However, the pipeline project for a direct connection from the CVA into the fish hatchery has continued to move through the process. The project will be going to the Board of Directors in either November or December for a vote to begin the design of the pipeline and all of the related pieces of it and will cost \$3+ million.

The Advisory Board has suggested, as part of the new, expedited system expansion policy, that the first receipts of the entrance fees be put toward that pipeline. Staff has held firm in a “friendly feud” with Authority staff and the Advisory Board will not change its position. The MWRA says there will also be a hydro power plant there that will generate electricity.

Lou Taverna noted that two-thirds of the cost of this project would go toward building the hydro power plant. It doesn't make sense, why build it? Just put the pipeline in.

Mr. Favaloro said it will save the state \$100,000 annually but the MWRA is getting nothing for this. Mr. Sullivan said if the state is saving this money, the state should put those funds toward building the pipeline.

C. Emerging Position of Legislative Water Infrastructure Finance Commission

A state committee called the Water Infrastructure Finance Commission has been meeting to discuss ways to raise funding to be dedicated to water and sewer infrastructure projects. MWRA and the Advisory Board were not invited to be on this committee even though these organizations could provide staffing needs.

Mr. Favaloro said that he and Mr. Laskey at one point got so annoyed that they both appeared before this commission to make them aware that this was not an approach that would be acceptable to our communities. The Commission has now made a recommendation that the best solution to raise revenue for necessary water and sewer infrastructure repairs is to raise water and sewer rates, which would be collected and sent to the state SRF and then, as long as a community met certain criteria, the state will then determine how it will divide the money and give it back.

Mr. Favaloro said at least if they had made a case for getting a piece of the bottle bill or casino money, it would have been better; but just to simply raise rates is not the solution. This recommendation made the news with the caption that MWRA was going to raise rates by \$50. MWRA is absolutely innocent in doing anything but will be associated with it. This came at the worst possible time when there may be a battle about capping rate increases at 2½%.

V. Other

Mr. Pappastergion stated that Brigham Pond, located in the Ware watershed, has a dam on the outlet to the Ware River that is owned by the Department of Conservation and Recreation (DCR) and it is in imminent need of repair; DCR wants the MWRA to repair it because it is in the watershed.

Chairman Dunphy said the Memorandum of Understanding between MWRA and DCR says that the MWRA is responsible for dams that are connected to a water supply. Mr. Pappastergion said this dam has nothing to do with the water supply but just happens to be in the watershed. Additionally, there are another eleven or twelve dams in the watershed that have nothing to do with the water supply. If the repairs are made on this dam by MWRA, a precedent will be set.

Mr. Favaloro said the issue with this dam that Jonathan Yeo brought up is atmospheric mercury. Mr. Pappastergion said there are toxins behind the dam in the sediments and if it was decided to just destroy the dam and open it up, the toxins would have to be removed first.

Mr. Favaloro said the bottom line is that DCR is saying the costs are under \$800,000. John Carroll and others brought up the point that they just had to do a dam project similar in scope and scale and it cost millions. Mr. Pappastergion said dam projects are famous for having unknown conditions. The Chairman of the Board moved the discussion to next month.

Mr. Pappastergion added that the Division of Dam Safety comes under the Executive Office of Energy and Environmental Affairs (EOEEA) and, more importantly, it also comes under DCR. It is a division of DCR. So you have the Division of Dam Safety as part of DCR issuing an order to DCR to repair the dam, signed by the Secretary of EOEEA, who is also the Chairman of the MWRA Board of Directors.

Mr. Favaloro added that he worked hard to get the \$4.5 million from the fringe rate through a deal with Senator Brewer to be used first and foremost to upgrade the Clinton Wastewater Treatment Plant. The first thing the MWRA offered up was that pot of money to fund the dam project.

Mr. Sullivan asked what would happen if the Board votes not to repair the dam. Mr. Favaloro said the Board asked General Counsel if there was any liability or responsibility on the MWRA to make the repairs to the dam and the answer was clearly no. Mr. Pappastergion said as far he is concerned, the Board should not vote for it.

Mr. Favaloro noted that DCR has not done any forestry management for two years in the watershed area because of a negative press story. For many years, forestry revenues had provided a big boost to offset costs in the Division of Watershed Management, upwards of \$400,000 to \$600,000 every year, if not higher. If a final report could be issued on the forestry issues, they could begin the forestry program again and utilize those funds.

Mr. Sullivan suggested that the MWRA provide a grant for the dam and tell them to fix it. Chairman Dunphy said that would be \$8 million because there are other dams. Mr. Sullivan said if MWRA is going to lose the battle, it should minimize the loss by capping it at a grant of \$800,000.

Mr. Favaloro said DCR should either use forestry monies or reduce its own budget so that the MWRA is held harmless.

VI. Approval of the Advisory Board Agenda for October 20, 2011

One item was added to the agenda pertaining to a change in the primary method of routine analysis of drinking water bacteria samples. MWRA is changing their testing procedures to get better results faster at no additional cost.

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE OCTOBER 20, 2011 MEETING**. It was seconded and passed by unanimous vote.

VII. Adjournment

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

Respectfully submitted,

Lou Taverna, Secretary