

**EXECUTIVE COMMITTEE MEETING
THURSDAY, NOVEMBER 10, 2011
ADVISORY BOARD OFFICE**

MINUTES APPROVED AT THE JANUARY 13, 2012 MEETING

Present: Jay Fink, LYNN; Katherine Dunphy, MILTON; Wiff Peterson, NATICK; Lou Taverna, NEWTON; John DeAmicis, STONEHAM; Carol Antonelli, WAKEFIELD; Walter Woods, WELLESLEY; Zig Peret, WILBRAHAM.

Also in attendance, John Carroll, 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 October 14, 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 OCTOBER 14, 2011 MINUTES OF THE EXECUTIVE COMMITTEE**. It was seconded and passed by unanimous vote.

II. Presentation: 2011 Annual Water and Sewer Retail Rate Survey

Manager of Finance and Policy Review Matthew Romero reminded the Executive Committee that there had been a 1.49% wholesale assessment increase for FY11 and that the average MWRA community household ranged from \$839, based on the 60,000 gallon approximation favored by the MWRA, up to \$1,259, based on the 90,000 gallon American Water Works Association (AWWA) national standard that the Advisory Board uses for historical purposes. The average MWRA community retail rate increase was 4.6%, and had been the lowest increase in nine years. From 2000 to 2010, community retail rates increased 74%, using the 90,000 gallon standard.

For FY12, wholesale assessments increased by 3.49% and the average community household charge ranges from \$864 up to \$1,297, again using 60,000 gallons and 90,000 gallons respectively. The average MWRA community retail rate increase is 3.1%. Comparatively, two communities in this year show a decrease and 26 communities with no increases. Last year, two communities had a decrease and only 15 communities held at 0%. From 2001 to 2011, MWRA community retail rates increased 73%.

In comparison to other cities across the nation, the MWRA comes in just below Seattle and San Francisco but, based on the AWWA standard, the rates are still high compared to the other systems that the MWRA is measured against. Nationally, from the

communities that participate in the survey, the average is \$983 for combined water and sewer retail charges across the nation.

Mr. Favaloro added that a chart will be added for the first time that ranks communities, from highest to lowest, based on the consumption numbers provided by the communities to DEP.

III. FY11 Annual Audit Results

Mr. Favaloro stated that based on audit standards, the Advisory Board has had a clean record. Anyone who is interested in receiving the full audit can have an emailed copy or can be provided with a hard copy. The Advisory Board is in good standing related to the financial audit.

There is one item to flag. One position in the office had been reclassified that allows the Advisory Board to save money from the budget but also keeps a critical member on staff. The Advisory Board went through the vetting process and came up with the consultant concept, which has worked well; however, the auditor noted that there is a test that the Commonwealth uses to define what a consultant is and the auditor felt this situation did not meet the test from the state level. The position may need to be reclassified from consultant to contract employee.

Contract employees are required to pay state and federal taxes. This was put into place because the state and federal government are concerned that consultants would go on unemployment; however, in this case, that wouldn't apply. Because the auditor raised the concern, staff will address it.

IV. Status: Initiative Petition 11-10

Staff has not seen any activity relating to a signature campaign for Initiative Petition 11-10 and the likelihood of a ballot question capping water and sewer rates, at least in the 2012 timeframe, is slim. There has been no evidence of any signature gathering. The petitioners have until December 7th to certify signatures.

Carol Antonelli noted that she has seen very little press regarding the petition. Mr. Favaloro said thanks to the Blue Communities Act, unfortunately, it gave some press attention to Initiative Petition 11-10. Ms. Antonelli said nobody seemed to run with it.

Mr. Favaloro said it is important to note that just because this initiative did not move forward, that does not mean that the next one won't.

V. Update: Blue Communities Act

The creation of the Water Infrastructure Finance Commission (WIFC) raised great hope that the discussion had been elevated relating to water and sewer infrastructure needs. The proposal of the commission was to develop a fund by raising rates with the creation

of a surcharge of \$0.001 per gallon in every community and then giving the money to the Department of Environmental Protection (DEP) to determine how it would be distributed among the communities based on certain criteria.

This office objected to this proposal and has convinced others to join in that stance. The WIFC has backed off dramatically and this is no longer their primary recommendation but they say it needs to be looked at as part of an overall package for financing opportunities.

The WIFC's final report will be delivered to the legislature early in the New Year and should trigger reasonable and responsible discussion.

This commission was put together with an honorable goal to come up with a plan that we all believe is necessary, which is a way that isn't rate-based that would fund a dramatic amount of necessary water and wastewater work that needs to be done, not only in the MWRA system, but, as importantly, in the local systems that may not be getting addressed at the pace it should be.

Mr. Favaloro suggested a concept for finding a way to raise infrastructure funding; in January, based on state ballot or law, the state income tax rate reduces from 5.3% to 5.25%. Should the Advisory Board propose that the income tax rate not be reduced, but rather leave it at the current rate and use those funds for a dedicated infrastructure rehabilitation account?

There is an unmet challenge of \$15 to \$21 billion in infrastructure needs over the next 20 years. We all agree that a dedicated funding source is needed.

Mr. DeAmicis said he does not agree with this concept.

Jay Fink said he believes that since the Advisory Board squashed the Commission's initial recommendation, one of the things they have identified should be given some credit and supported whole-heartedly is what that need is. This is the need that is out there. This is the need that exists for every community within the Commonwealth of Massachusetts; this is a real need, it is not a fictitious one. It exists in the local communities now and it existed in the MWRA service community twenty years ago and now it is crippling the ratepayers because they have to pay for it. There has to be new financing; Debt Service Assistance (DSA), for the most part, doesn't exist anymore. DSA was the carrot that got the MWRA started and now that carrot is gone and our ratepayers are now crippled with paying this debt back and will be for another ten years. We ought to show the need and support that whole-heartedly.

Mr. DeAmicis said that people who are using the water and the sewer systems need to "pony up" the money to solve the needs. There are water and sewer systems on Cape Cod that need help but they need to raise the money and pay for the improvements. Mr. DeAmicis said "I don't want to pay for the improvements for the Cape." Mr. Fink said "You just indicated that you were concerned about the rate revolt." Mr. DeAmicis said

he is talking about the MWRA service area. The Blue Communities Act is an act by a lot of communities that have a lot of problems that want to try to grab money from somewhere else because they don't want to raise their rates.

Mr. Favaloro said that is why he wanted to offer the tax rollback concept for discussion. Is it a worthy discussion to send up to the legislature? If we have an unmet need of \$21 billion and there is no funding mechanism in place, less rates, is there another way of doing it? Rates are an issue. At some time is an initiative petition or some other mechanism going to cap what those rate increases are? If that were to happen, how would you ensure that the Shaft 5 mishap never happens again or that a water main break at Faneuil Hall doesn't shut down all of downtown Boston – or Stoneham Center, or Somerville's Davis Square – or whatever the entity is? Should the state be providing, state-wide, a pot of money outside of rates for communities to draw down on? Mr. DeAmicis said his answer is no; I would love to get state money but I pay for everything. Matthew Romero noted that people are already paying for it within payroll taxes. If you don't rollback the payroll taxes you are still paying the same amount that you are now, rather than raising the payroll taxes. That is all staff is trying to say.

Mr. DeAmicis said he does not want the principle of having another "little pot of money" at the state level to dribble around to all of these water and sewer communities that may or may not have legitimate needs. Mr. Romero added that every community has needs. Mr. DeAmicis said he looks at the status of the water and sewer system in his own community and where it comes from; unlike anyone in this room, I think that the infrastructure is in pretty good shape. Outside the area in the rural communities, they have issues. The infrastructure here is in good shape and my water and sewer bill reflects that. I don't want to now start paying for repairs to someone else's system; they have to pay for it themselves.

John Carroll asked if the income tax is going to be rolled back by statute. Mr. Favaloro said he was not sure on the specifics but when the clock hits January 1st, there is a rollback. Mr. Carroll asked if there is any will in the legislature for this proposal. Mr. Favaloro said this was his suggestion and it has not yet been proposed to the legislature. Mr. Carroll said he didn't think it would be feasible. Mr. Favaloro stated that since the Advisory Board had been involved in taking something away it was just a suggestion to put back on the table. That was the spirit in which this proposal was made.

Mr. Fink said when the WIFC report comes out, the Advisory Board should have further discussions on this topic. If they haven't come out with a funding mechanism, if nothing else, we ought to applaud them for identifying the need that is out there. Perhaps there could be something in future stimulus money. This is a commission that was formed by the legislature to look at a topic that is near and dear to everyone in this room so we ought to at least support that there is a need out there and there has to be a way to think about financing it.

Chairman Dunphy said there is a timing issue on this; if this is going to happen in January 2012 and their report doesn't come out until February 2012, then this option would not be available. The other issue is do you want to have a new dedicated water and sewer infrastructure account or keep that money and dedicate it to the state DSA but that is sewer only, could we add something that would be DSA for sewer and water.

Mr. Favaloro noted that the WIFC's number one recommendation was the \$0.001 for every gallon of water withdrawn. This office worked against that recommendation. WIFC has made its recommendations and has done a good job. They have outlined the gap analysis of \$21 billion in the needs of the communities over the next twenty years.

Mr. Fink noted that the report also says to advocate for more federal funding; the Advisory Board should join in that effort. Mr. Favaloro said staff would love for the federal government to fulfill its responsibility under the Clean Water Act and the Safe Drinking Water Act but there are no more grants. Everything is the SRF, which keeps shrinking. More than likely, in the foreseeable future, there won't be any federal funds.

On the local level, communities determine year by year what their rate increases are going to be just to meet their operational costs and whatever capital plans that they have. Many communities don't have much beyond a five-year master capital plan so a lot of that \$21 billion (perhaps it is less in Stoneham and more in Cape Cod communities) is going to have to be paid for within their rates to address whatever their capital needs are.

On the state level, the state has walked away as much as the federal government has. Even entities like the MWRA are receiving less SRF monies because DEP has skewed the funding approach so that a storm water project or other DEP favored projects go to the top of the list leaving a lot of the regular projects out in the cold. Wastewater projects are less likely to be funded than storm water projects. That leaves the MWRA in a precarious position. Before not only were they getting their share of SRF allotments but at the end of the year they would receive a pot of money that was not used by the communities because the year needed to be closed out and MWRA had the projects and ability to complete the projects.

Zig Peret said in support of what Mr. Fink said, the need should be followed up and stressed. Mr. Favaloro said everyone appreciates and knows what the need is, at some point in time, how is it going to get funded?

Mr. Carroll said he doesn't believe that everyone appreciates what the need is. Mr. Peterson agreed that people don't really understand the need. The people that understand the needs are the professionals who are working in the field; the average citizen doesn't have an understanding of the nature of the need.

Chairman Dunphy said there is a big problem on Cape Cod and the people down there are very aware because the Conservation Law Foundation has publicized it, but they think that somebody else is going to pay for it. They would probably get the lion's

share. Mr. Peterson said it comes down to ideology noting that Mr. DeAmicis makes the point that it should be paid for at the local level. Mr. DeAmicis said “I spend a fortune on my water and sewer and Cape Cod doesn’t want to pay. Why am I paying for theirs too?” Mr. Peterson said some folks think it should come from the federal government. “I personally believe that but I think there is such strong feelings, the tea party versus occupy Wall Street. People just aren’t educated about the need.”

Mr. DeAmicis said “Ultimately I believe that water and sewer is very much a local responsibility; we don’t get our water from California. It is local and I think the users need to pay for the expenses.”

Mr. Romero reminded that in the rate survey two of the questions ask about community’s needs over the next five to ten years and what community’s actually intend to spend in the next five to ten years. The needs are in the billions on the local level and communities are spending a fraction of that. Mr. DeAmicis said “You can always spend more money; you can always replace all of your pipes.”

Mr. Favaloro said this has been a healthy discussion. Perhaps in the first part of the new calendar year the Advisory Board will have the people who did the gap analysis come before the Advisory Board and talk about how they came up with the \$21 billion. Mr. DeAmicis said it would be helpful to see more detail by community.

Mr. DeAmicis said one issue with this gap analysis is that it is very self-serving by the industry, by that I mean water and sewer professionals, consultants and the engineering community. As far as they are concerned the bigger the better because it is better for them.

Mr. Favaloro said on the water and sewer survey last year, more people were willing to answer when staff provided a range for their water and sewer needs; for example, under \$1 million, between \$1 and \$5 million, etc. The Authority asked us to go back to asking the community for an actual number for their needs and there were barely any responses because communities don’t want to have a specific number as a matter of public record that they have to hold to.

Mr. Favaloro said it is self-serving because the higher the number is the more potential work there is for engineering firms and construction firms and such, which is one of the arguments as it related to the whole commission to begin with is that it was inundated with contractors associations and engineering firms but the MWRA and Advisory Board were excluded.

Lou Taverna said from his point of view, the Advisory Board has made its recommendations with the Bottle Bill, the Bottle Tax and the septic tax like-credit.

Mr. Favaloro said staff is still hopeful that there will be an increase to the amount of DSA for FY13.

VI. Update

Chairman Dunphy asked for an update on the planned debt restructuring. Cornelia Potter stated that the Authority this week went to market to restructure a lot of senior debt and a small amount of variable rate debt to achieve savings particularly targeted over the next several years. They priced \$327 million of restructuring and refunding and the all-in true interest cost was 3.95%, which is the lowest they have ever achieved in any of these transactions. The overall present value savings over several years is \$25 million, or 7.17%. Staff regards this transaction as successful.

Lou Taverna noted that some members of the Executive Committee might prefer to hold the meetings on a Thursday, rather than Friday. Could that be considered? Mr. Favaloro said he would take a poll of all the members of the Executive Committee to come up with a preference.

VII. Approval of the Advisory Board Agenda for November 17, 2011

Mr. Favaloro noted that an Operations Committee Meeting will be held prior to the full Advisory Board meeting with the Local Pipeline Program as the principal topic.

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE NOVEMBER 17, 2011 MEETING**. It was seconded and passed by unanimous vote.

VIII. 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