

EXECUTIVE COMMITTEE MEETING
MAY 14, 1999

MINUTES APPROVED AT THE SEPTEMBER 10, 1999 MEETING

Present: Guy Carbone, BELMONT; John Sullivan, BOSTON; Ed Sullivan, CANTON; William Hadley, LEXINGTON; Katherine Haynes Dunphy, MILTON; Stanley Stanzin, NEEDHAM; Joe Foti, SOMERVILLE.

Also in attendance: John Carroll and Norman Jacques, MWRA BOARD OF DIRECTORS; Barbara Gottschalk and Ken Wissman, MWRA; Joseph Favalaro, Ryan Ferrara, Cornelia Potter, Craig Sanderson and Mary Ann McClellan, MWRA ADVISORY BOARD.

I. APPROVAL OF THE MINUTES

The meeting, held at the Advisory Board office, was called to order by Chairman Joe Foti at 8:44 a.m. There were no minutes for approval.

**II. PRESENTATION: MWRA BUDGET RESERVES, Barbara Gottschalk,
Director of Finance**

Barbara Gottschalk, MWRA Director of Finance, explained the difference between General Obligation Bonds (which municipalities and the Commonwealth issue) and Revenue Bonds (which MWRA issues). General Obligation Bonds are secured by the unlimited full faith and credit of the political entity, and generally pay for facilities that the Commonwealth and municipalities borrow funds to build. Revenue Bonds are secured by a pledge of a particular revenue stream from the operation of the project that the money is borrowed to construct. That revenue stream is committed to pay the debt on the bond.

With Revenue Bonds there is a General Bond Resolution, which is a binding legal contract between the MWRA and the bondholder that certain financial provisions be maintained by the MWRA, and is the base document under which all future bonds sold by the MWRA needs to be constructed. Changes to the General Bond Resolution must be agreed to by all parties, requiring a two-thirds vote of all MWRA bondholders.

A normal requirement for senior debt is a deposit of the lesser of 10% of the amount of the bond or one year's debt service into the debt service reserve, essentially repaying year 30 of a 30-year debt. These requirements help to make the bondholder feel more secure and subsequently demand less interest when they lend the Authority money.

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The Community Obligation and Revenue Reserve (CORE) was created with the general principle that a member community's assessments could be paid from the CORE Reserve if the community failed to pay. The CORE Reserve presently has \$20 million.

The Operating Reserve is funded semiannually and is required to have enough funds to cover two months of operating expenses and currently has \$36 million.

The Insurance Reserve gives the bondholders comfort in the event of a catastrophic property or liability loss. The amount in this reserve is determined by the MWRA's insurance adviser, who determined that \$20 million was the appropriate amount. At the end of FY99, there will be \$18.6 million. The Advisory Board has recommended delaying payment of \$1.3 million for one year.

The Renewal and Replacement Reserve provides funds to continue with facility and maintenance and improvements in the event funds would not be available in the construction or operating funds. It was determined that \$50 million was appropriate for this reserve. The level is periodically reviewed by the consultant and it is now fully funded. All of the reserves are invested and provide the Authority with investment income.

Stanley Stanzin stated, "To have \$50 million in the Renewal and Replacement Reserve seems like a lot of money since you're already providing the money for your replacement on a yearly basis."

John Carroll asked, "Have the Operating and Insurance and Renewal & Replacement Reserves ever gone down?" Ms. Gottschalk replied, "No, and if they did, we would have to replenish them the next year."

Norman Jacques asked, "Doesn't the bond insurance protect the bondholder? How much of our bond issues are covered by insurance and how does that impact these reserves?" Ms. Gottschalk replied, "Without the reserves, the insurance premiums would be higher and it wouldn't be cost effective to have the insurance. The decision to do bond insurance is made within a week or days before each issue based on insurance bids and the market." Ken Wissman stated that 50% are covered by insurance.

Joe Favaloro stated that the Advisory Board recommendation last year was to minimally freeze the CORE fund, noting that the original idea for the fund was that certain communities and their ratings were a concern, but the principal reason for the fund was high insurance costs. Ms. Gottschalk stated that the CORE fund is included in the binding legal contract with all of the existing bondholders.

Mr. Carroll noted that the only thing the Board can look at with any anticipation to reduce rate increases is the rate stabilization funds. Given the fact that MWRA has a tremendous amount of insurance for the bondholders, there has to be a way to fund the rate stabilization fund from these reserves.

Cornelia Potter stated, "There are a number of bond issues that are at the ten year mark. What are other options for re-configuring debt service as presently being used to create

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the projections?” Ms. Gottschalk replied that the issue of restructuring existing debt will become more available now that the MWRA has the legal authority to go to thirty year SRF debt. Restructuring the 20-year SRF debt to 30-year debt will create savings over the remaining years, saving money up front.

III. ACTION ITEM: Advisory Board Comments and Recommendations on the MWRA's Proposed Amendment to the FY99-01 CIP

Ms. Gottschalk reported an expected increase of \$111 million in the Capital Improvement Program (CIP). MWRA staff has recommended a rate increase of 6% for direct expenses.

Ms. Potter noted that a third CIP budget amendment was requested, stemming primarily from a higher than budgeted bid for the Braintree-Weymouth Tunnel Project, which represents over 90% of the budget amendment amount. Increases to the Other Capital Projects Contingency Fund during the course of this year helped raise the overall funded amount with this amendment request from \$36 to \$67 million.

The anticipated draw down from the contingency fund forecast amount were revised downward for several CSO projects. The net new need is slightly over \$9.5 million.

The Advisory Board recommendations have taken a narrative tone, offering two specific recommendations. First is strengthen the process in forecasting contingency needs. Communication between the water and sewer divisions and the budget department needs to be enhanced. There is also a disconnect at the budget department for projects that are going to be awarded during the current fiscal year. For example, the Authority has had revised numbers since January 1998 for the Braintree-Weymouth Project which was closer to the 100% design number and not the inflated cost to complete figure, which is the basis for bids.

Mr. Favaloro noted that the Advisory Board informed the MWRA that we didn't believe the number they were requesting was adequate and that they should review their request. Ms. Potter stated that Advisory Board staff asked the Authority to hold approval of the second amendment until there was a clear read on Braintree-Weymouth, but they refused. Furthermore, staff thinks this isn't enough. In monitoring the changes since the forecast was prepared, staff believe another \$0.5 million in both Waterworks and Sewer will be required, assuming that the approvals happen before June 30.

More significantly is the planned transfer from the CEB to the CIP costs associated with the fire at the pellet plant. Maintenance and landfill related costs are \$1.7 million, and are not in the contingency forecast. Staff recommends that the Authority explain the rationale for the transfer and discuss the implications for the contingency fund budget.

An Executive Committee member asked, "Is the pellet plant insured, will we recover anything from the fire?" Ms. Potter stated that one component of the contingency fund request is additional legal fees in order to pursue recovery costs.

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Advisory Board staff asks the Authority to explain the impact of the contingency fund activity on the overall capital budget and the cash flows, and to explain in more detail to the Board of Directors all the unbudgeted activity in the contingency fund, which will have an impact on capital spending and eventually on debt service.

ich will have an impact on capital spending and eventually on debt service.

No dollar reductions were recommended, but staff is trying to utilize this process to a) inform, and b) get the Authority to strengthen the process for contingency fund forecasting and revisions.

A Motion was made **TO ACCEPT THE ADVISORY BOARD COMMENTS AND RECOMMENDATIONS ON THE MWRA'S PROPOSED AMENDMENT TO THE FY99-01 CIP**. It was seconded and approved by unanimous vote.

IV. ACTION ITEM: Advisory Board Comments and Recommendations on the MWRA's Proposed Amendment to the FY99 CEB

Ms. Potter reported that the Authority has proposed another amendment on the CEB. MWRA projects ending the year at approximately \$2.5 million over the budgeted amount. The driver of this greater than budgeted spending has been expenses at the pellet plant, which were deliberately underbudgeted last year. MWRA funded pellet costs based on the assumption of processing 77 tons per day, Deer Island and the residuals staff had projected 103 tons per day. The proposed amendment requests to draw the \$2.5 million from the greater than budgeted investment income. SWAP income is not budgeted because it is a hedge for unforeseen interest rate circumstances, but every year there is a surplus in non-rate revenue, anticipated to be at least \$7 million. Transfer \$2.5 million of the revenue to allow for the increase in allowable spending.

Staff recommends looking at the Deer Island Operating Reserve of \$4.226 million, which the Authority created using a portion of this surplus in FY94 and FY95. The Authority has never drawn on that amount, and is assuming that the base operating reserve needs to be increased as operating expenses rise. MWRA will move the portion of the Deer Island Reserve that hasn't been drawn and fund the base operating reserve requirements without requiring a rate increase for that portion.

Staff is recommending the transfer of \$3.2 million of the \$4.2 million from the Deer Island Operating Reserve to Other Revenue, and use it to cover the greater than budgeted residuals spending which is anticipated to be over \$4 million this year. This would leave \$1 million in the Deer Island Operating Reserve for FY00, which, according to the Sewerage Division budget staff, is about the amount of risk that remains.

Advisory Board staff recommends that the Boston Edison Company (BECo) payment be reclassified as a non-operating, indirect expense. The capacity charge alone is over \$5 million, and one-sixth of it comes close to \$1 million in operating reserve. The whole concept of this recommendation is to allow these funds to be freed up from the Operating Reserve.

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The second recommendation is to actively manage spending for the rest of this year. The Authority proposed an increase of approximately \$80,000 in the Division of Watershed Management's budget in their amended request. Staff believes that any increases can be absorbed.

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Staff also believes that MWRA should address discretionary spending. Not only does the MWRA propose an expansion of the Wastewater Education Program for next year, they have started expanding it this year with a number of additional expenses for educational materials. This program is already funded at over \$200,000 for staff, enviro-lab, travel and materials, as well as printing costs. In our view the program shouldn't be further expanded.

Mr. Favaloro noted that rate increases of 7+% are projected next year and beyond, and the MWRA is expanding these programs. Tough choices have to be made.

Ms. Potter stated, "Staff does not want to overly focus on this specific program, as much as point out that this is an example of discretionary spending. The recommendation can be changed to read 'limit discretionary spending'."

Ms. Potter noted that barging of filtrate to Deer Island from Fore River is an option for bringing the water left over from the initial sludging process. Currently the filtrate is deposited into the Quincy Sewer System, for which the City of Quincy charges retail rates to the Authority. The Authority has the option of barging filtrate back on those barges. As Deer island has been able to thicken the sludge which reduces costs at Fore River, they are sending over 6% solids, some of which settles on the trip. Cleaning the barges is becoming more of an issue. If filtrate is shipped back, it helps with that process. This is as much a technical recommendation as it is a financial one. The Sewerage Division Director has recommended not to barge more filtrate unless it's at the directive of the Board because of the political ramifications of reducing what is essentially a mitigation commitment to Quincy. Staff didn't recommend how much or how often, we are using this to identify the issue. There are four barge trips a week, the overall value of this is between \$350,000 and \$700,000 on an annualized basis of the actual savings that could be gained.

Katherine Haynes Dunphy asked, "At last week's Wastewater Advisory Committee meeting, it was stated that the MWRA should take more responsibility for storm water. Do you think that the MWRA is going to have to take responsibility for storm water in beach areas?" Mr. Carroll answered, "I think, as federal regulations become stricter, that the MWRA is going to be the agency designated to do storm water."

Mr. Favaloro stated, "It would be our principle responsibility to say no, it is not our responsibility unless the government pays for it. I agree that the attempt is going to occur, but I would say we have to put up a wall and try to block it to make sure it doesn't happen."

The Advisory Board recommends that the Authority actively pursue a credit of at least \$210,000 for reduced availability of the sodium hypochlorite barge. For ten weeks this

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year, one of the barges was reassigned by the company to a location in Canada. The contract allows one month a year of non-availability, but this is six weeks beyond that.

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A member asked, "How could the MWRA do without the sodium hypochlorite for all that time?" Ms. Potter stated, "It was trucked, which was paid for by the Authority."

In addition, the Authority should seek a credit from BECo for lack of service when cables go down on occasion.

The Retirement Fund has risen by \$80,000 in the revised projection for year end spending. Staff questions the need for the increase in a year in which Investment earnings should be very successful, and suggests that the retirement fund be kept at the budgeted amount.

These suggestions are meant to draw attention that there are active steps that the Authority can take to manage the spending between now and the end of June.

Staff recommends that any revenue surplus and any remaining less than budgeted spending be transferred into the Rates Management Reserve. Staff estimates that overall there will be \$9.365 million in greater than budgeted revenues or surplus by the end of the year if this set of recommendations are followed.

Ed Sullivan made a Motion **TO APPROVE THE ADVISORY BOARD COMMENTS AND RECOMMENDATIONS ON THE MWRA'S PROPOSED AMENDMENT TO THE FY99 CEB WITH THE CHANGE ON ITEM TWO TO STATE LIMITS ON DISCRETIONARY SPENDING.** It was seconded and passed by unanimous vote.

Guy Carbone complemented Cornelia on the meaningful information she provided. Mr. Carbone wanted to be placed on record that it is his humble opinion that the pelletizing plant, in its entirety, continues to be the worst decision perpetrated on the ratepayers, and the MWRA, since its inception and continues to be. The MWRA has to look at the whole thing and decide whether the political decision that was made in 1990 was the right decision. Who is profiting from it?

Mr. Stanzin stated that he asked question people from the pelletizing plant, and people who are liaisons with the pelletizing plant, the same question. Both answered that the analyses reveals that it is cheaper to pelletize. Ms. Potter noted that the issue of a better contract price will be addressed next year when the contract is re-bid.

V. LEGISLATIVE UPDATE

Joe Favaloro reported that the House Process of the Budget has ended with some level of success for the MWRA and Advisory Board. An amendment to include the Walnut Hill Treatment Plant as eligible for debt service assistance was part of the budget. This amendment will be included in the Conference Committee, even if we are unsuccessful on the Senate side. Staff has begun the process with the Senate to try to get mirrored language so it becomes non-conferenceable.

Other initiatives that are included in the House Budget are debt service beyond Walnut Hill; a successful MWRA amendment to recover approximately \$200,000 for costs of improvements made to Lake Cochituate, which was declared surplus by the MWRA and turned over to the Commonwealth of Massachusetts who sold the property for \$1.8 million.

An Advisory Board amendment to get the surplus property language into the budget requiring DCAM to take possession of surplus property, and reimbursement from the Commonwealth for Chelsea Creek were unsuccessful. Language for the Local Pipeline Project that is necessary for

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the first year's debt assistance from the Commonwealth was not in the House side. Staff has work to do on the Senate side.

VI. PERMIT STATUS - NPDES and Braintree-Weymouth

Mr. Favaloro noted that Ken Moraff of EPA will be in attendance at the Advisory Board meeting to provide an opportunity to hear about the conditions of the NPDES permit. There has been no acquiescence on the part of EPA in regard to the limiting of growth to 1.4 million gallons, water conservation, and monitoring. The Executive Committee will have to make a decision on whether to pursue a challenge to the permit.

Ms. Potter stated that the Water Resources Commission (WRC) met to consider conditions on the Authority's Interbasin Transfer Act Permit application for the Braintree-Weymouth Project. For a number of months, Authority staff has been working with WRC staff regarding potential conditions which have been modified significantly. MWRA staff is still working to have five WRC conditions eased.

The WRC issued strict conditions on the Authority in terms of monitoring their systems, helping communities inspect their own systems, and report regularly on the I/I Task Force meetings, even though WRC staff is a member and an attendee. Staff is concerned about WRC's tendency to overstep their bounds and utilize the permit process to incorporate things that are part of the consent order. This is an important issue as this is the first permit under the new guidelines and will affect a series of Authority projects. Staff has written a letter as part of the comment process on behalf of the Advisory Board noting that the conditions as proposed were either unacceptable or unnecessary.

Mr. Jacques asked, "Does the WRC have a mechanism to enforce these conditions?" Ms. Potter stated WRC is becoming more formal in their interpretation and implementation of these Interbasin Transfer Acts, asking more about time frames for completions and submissions.

Ed Sullivan asked, "Would it be a topic for discussion to invite someone from WRC to come in to clarify some of their parameters?" Joe Favaloro replied, "Members of the Commission are people we know well including Chairman Mark Smith from EOE, Bob Zimmerman from Charles River Watershed Association and Arlene O'Donnell from DEP. We will see what we can do for an upcoming meeting."

VII. APPROVAL OF THE ADVISORY BOARD AGENDA FOR MAY 20, 1999

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE MAY 20, 1999 MEETING**. It was seconded and approved by unanimous vote.

VII. ADJOURNMENT

A Motion was made **TO ADJOURN THE MEETING AT 10:43 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

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Edward Sullivan, Secretary