EXECUTIVE COMMITTEE MEETING
NOVEMBER 12, 1999

MINUTES APPROVED AT THE JANUARY 14, 2000 MEETING

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

Also in attendance: Norman Jacques and Andrew Pappastergion, MWRA BOARD OF DIRECTORS; Steve Casazza, WAKEFIELD; Barbara Gottschalk, MWRA; Joseph Favaloro, Ryan Ferrara, Cornelia Potter 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 8:32 a.m. A Motion was made **TO APPROVE THE OCTOBER 15, 1999 MINUTES OF THE EXECUTIVE COMMITTEE.** It was seconded and passed by unanimous vote.

II. **DISCUSSION/POTENTIAL VOTE:** REVISED TARGETING PROPOSAL FOR PIPELINE IMPROVEMENT PROGRAM

Barbara Gottschalk, MWRA Finance Director, reported that a critical part of the thinking surrounding the water treatment decision and litigation strategy is a Local Pipeline Improvement Program. A revised targeting program is proposed, with a simple administrative structure, providing communities a percentage each year of $25 million based on their share of all the unlined local pipe miles in the system. There is predictability in annual allotments per community. The MWRA would like the program to be in place for town meetings in March so that the funds could be available for next summer’s construction season.

Ms. Gottschalk noted that the alternative funding mechanism was developed in case the legislature does not act on the original pipeline proposal. The Commonwealth subsidized program could produce $25 million per year on an average basis. The MWRA can operate the program by borrowing the money through the Tax Exempt Commercial Paper Program (TECP) and the communities repay the loans over ten years. The MWRA will pay the interest. The proposed targeting program works under either model.

Partial communities are pro-rated based on the percentage of the total water taken from the MWRA. Bill Hadley asked if the same equation would be used for partially supplied communities if the state funds the program. Ms. Gottschalk stated that the allocations for each community would remain unchanged.

Under the state-supported program, Ms. Gottschalk stated that the cost would be shared between the MWRA and the Commonwealth. MWRA would pay the debt service on the $60 million, but the Commonwealth would pay 60% of the interest subsidy and MWRA would pay 40%. The alternative program is 100% MWRA, but the financing is cheaper because it is on a ten-year basis rather than a 40-year basis. In the first ten years, full MWRA funding is approximately $10 million more than with the Commonwealth's assistance.

Joe Favaloro observed that at year 11, the Commonwealth's interest subsidy would continue. Under the alternative scenario, the Authority's commitment to this program is significantly higher. Ms. Gottschalk agreed, but noted that the Authority would have debt service under the Commonwealth's program for 40 years on a $60 million borrowing. With the alternative plan, after year ten the annual cost to the MWRA stabilizes at approximately $5.5 million. From then on, the annual cost to the MWRA under the SRF program would be $4 million, about $1.5 million difference.

John Sullivan noted that Boston will spend $12 million next year on water pipe rehabilitation. This program would fund $6 million and Boston would pay $6 million. Unless the 21.4% is guaranteed to us for a certain period of time, we may refrain from aggressively fixing our pipes because the more we do, the less we get, and Boston will still have to pay their proportional share of $10 million. Those that want to be more active shouldn't lose their ability to reap this benefit.

Ms. Gottschalk suggested that if you have those rules and commit for five years, and a community doesn't use the money in the first year, the amount doesn't carry forward. That community will get the same percentage next year, but their first year's portion could be redistributed to the other communities, providing extra money to the aggressive communities.

John Sullivan stated, "I would rather have a ten-year block, after which we can see how well we did and then relook the entire program. The more miles we do in the whole system, the better the system is."

Mr. Favaloro predicted that if EPA loses the court case, the Local Pipeline Improvement Program will be part of an MOU and communities will be forced to participate every year.

Ms. Gottschalk stated that two things need to happen before the state/MWRA funding model works. Statutory changes in the trust language to allow this without invoking federal Safe Drinking Water Act (SDWA) rules, and get the first year's commitment of the contract assistance. Neither has happened yet.

She stated that because there is only one Board of Directors meeting before the December 6th hearing on the water treatment decision, a staff summary was prepared detailing the program for the Board and asks them to vote in the following way: If the legislature doesn't approve the proposal and funding, the Board would approve putting money for the alternative funding through in next year's CEB as a back up. Additionally, that the Board approve the targeting proposal, but if the Advisory Board did not approve that targeting on Thursday, the Board will further discuss targeting.

Mr. Favaloro expressed concern that the Board would vote on a program for communities, using community money, without the approval of the Advisory Board. Ms. Gottschalk noted that the staff summary needed to be filed as a preliminary document that afternoon.

Guy Carbone stated that if the MWRA offers an alternative with the MWRA funding the whole program, the legislature will not fund the program because the program already exists. He suggested that the Executive Committee should reject the alternative plan and put it squarely on the legislature. Ms. Gottschalk replied that the Authority has limited time and didn't want to mention a back up plan until the legislature had gone home.

Mr. Pappastergion noted that the Cellucci Administration initiated discussions about the pipeline program to persuade the Board to vote for a waiver of filtration. Mr. Favaloro agreed, but noted that the Cellucci Administration is not the Legislature. They are two separate entities. This is not a priority to the Legislature.

Mr. Jacques noted if our rates continue to go up, the Legislature will have to act to help us by increasing the debt service assistance.

Cornelia Potter noted that the CEB would rise to cover additional debt service and asked if the CIP would rise by $25 million per year as well. Ms. Gottschalk stated that the CIP will be reduced by $60 million because the MWRA won't be borrowing the principal, it would be borrowed from the TECP Program. The only change in a community's assessment will be the 4% interest costs on the commercial paper.

Mr. Carbone preferred doing filtration now because it will cost twice as much in a few years, favoring a design/build plan for the whole system to save money.

Mr. Favaloro stated that the Advisory Board created an opportunity for communities to participate in the treatment decision through a series of "Coffee and Conversations" and public meetings providing a forum for anyone who wanted to comment. The Advisory Board (specifically, the communities) didn't take a stand on the treatment decision. Based on that, the Board of Directors voted for the non-filtration option, which included system improvements within the local communities. The real discussion is do you want to spend $5.5 million per year for debt service for a local system improvement plan or revisit the decision and spend $12 to $13 million per year on a filtration plant.

John Sullivan expressed a preference for the focus to be on pipes. He stated, "In 2010 or 2015, we can argue about filtration, but we will have had all those years of pipe repairs. The technology of filtration today is not necessarily the one we should use in the system. There are different methods coming."

Mr. Carbone stated, "I move that the Executive Committee of the Advisory Board lay this matter on the table, not debate it." It was seconded. Ms. Gottschalk stated, "If you take a pass, then the Board will have to make the decision independent of the Advisory Board." Mr. Favaloro asked, "How could you not want to participate in a vote that affects your local systems, with money that is coming out of your pocket?"

Ms. Dunphy stated that there should be a presentation for the full Advisory Board. It is a significant expense. Mr. Favaloro said there is couching language from the Board of Directors that is going to be brought up at the Advisory Board meeting subject to changes the Advisory Board may or may not make.

Mr. Pappastergion stated that there are 11 members of the Board of Directors. The other eight will assume that the three representatives of the Advisory Board are speaking for the Advisory Board. The three of us need clear direction. Mr. Jacques stated that the other eight voted to support filtration, so they have to support the pipeline program.

John Sullivan made a **MOTION TO ACCEPT THE MWRA'S PROPOSED ALTERNATIVE FUNDING APPROACH AND TARGETED LOCAL PIPELINE IMPROVEMENT PROGRAM (BASED ON EACH COMMUNITY'S PERCENTAGE OF TOTAL WATER CONSUMPTION FROM THE MWRA), WHICH WOULD BE ADMINISTERED BY THE MWRA AND PROVIDE THE FUNDING THROUGH A NEW TAX EXEMPT COMMERCIAL PAPER PROGRAM (TECP). THE TECP WILL PROVIDE THE FUNDS FOR THE COMMUNITY LOANS; MWRA WILL MAKE THE INTEREST PAYMENTS; AND THE COMMUNITIES' TEN YEARS OF REPAYMENTS WOULD REPAY THE PRINCIPAL. ADDITIONALLY, THAT THE PERCENTAGES WOULD BE SET FOR TEN YEARS, AND ANY UNUSED AMOUNT EACH YEAR WOULD BE REALLOCATED THE FOLLOWING YEAR.** It was seconded.

Mr. Carbone questioned whether a quorum was in attendance. Mr. Favaloro stated for the record that a quorum was not present. In order to continue the discussion to provide the Advisory Board's Board members a sense of the meeting, a consensus vote was taken. The vote was four to two in favor of the Motion, with one abstention.

Ed Sullivan stated that it is the right of the Advisory Board to be involved. To force the issue prior to the vote of the full Advisory Board is not conscionable. Ms. Gottschalk stated that the Advisory Board is being given an opportunity to be provide guidance, but at some point the Board has to make the decision that they think is in the best interest of the system and provides an adequate defense within the pending court proceedings.

Mr. Pappastergion suggested that the alternate plan remain on the Advisory Board agenda as an Action Item. Mr. Favaloro agreed, stating that the Advisory Board needs to validate the program.

III. DISCUSSION: ADVISORY BOARD PLAN OF ACTION TO MANAGE RATES

Joe Favaloro reported that many members of the Executive Committee were able to attend the MWRA Board of Directors' Budget Retreat on November 3rd and noted that the only way to get fundamental change from the MWRA is to "turn the heat up". Andrew Pappastergion stated that the budget retreat was a waste of time. The only thing you can be sure of is that it is going to cost more money every year without fundamental differences and changes on how the Authority operates.

Mr. Favaloro stated that the upcoming CIP contains $100 million more than the Authority thought it was going to be just a few months ago. The other expectation is that by FY2007 the Current Expense Budget will be $200 million more than it is today; that's without any curveballs or problems. There was some discussion from the Board members led by John Carroll that talked about the MWRA staff sitting down with its "Action Plan", and reviewing the Advisory Board's "Action Plan" to come up with an overall plan. That was the consensus of what was going to happen, but didn't occur.

Mr. Jacques noted that the initiatives that are already voted, established and underway require a 4% increase, anything else is supplemental to that.

Ms. Potter stated, "That means that 3% of the rate increase is what we could control." Mr. Jacques responded that some of the projects are desirable to our members so 1% to 2% is controllable. He stated that the answer is debt service assistance so that rates can be controlled; we aren't going to stop the projects.

Mr. Jacques stated, "We have already agreed unanimously to refinance bonds when appropriate, and the MWRA will relook the insurance reserve. We are talking nickels and dimes from now on. The money is spent." Mr. Favaloro replied, "The Authority has already taken advantage of most of the call provisions on the existing payments. I care about the nickels and dimes; it is up to us to figure out how to go after them."

Mr. Jacques stated that everyone is fighting for the waterfront in Boston. Why aren't we putting a 2 - 3% leverage fee on them so that it comes back to the MWRA to pay some of the bills? The location is desirable because the water is clean and MWRA members cleaned it. Who is enjoying all the taxes? An independent study is needed. Ms. Dunphy agreed that the state will be getting some benefits from the waterfront and therefore they should send some on to the MWRA.

Mr. Favaloro stated that staff will begin to put together a strategy, but it doesn't do any good if staff does it. It needs to come from the heart and soul of the communities.

Ms. Dunphy suggested that members of the Advisory Board and Executive Committee go to their individual communities, Mayors or Board of Selectmen and meet in a public forum to discuss the issue of what a 7% increase for seven years means to a community. That's the only way to drive it home to people as to what the effect will be and get some action.
Stanley Stanzin noted that there are seven or eight criteria to determine whether a project will be in the capital program, which any project will fit at least one criteria. Not one criteria considers the effect on the ratepayer. He suggested, "Instead of 7%, set a 6% goal. If you have a goal, even if you don't succeed, you have changed your mind set." Mr. Favaloro agreed that there is a case for every project, but the collective entity must be looked at.

Ms. Potter stated that there is still nearly $500 million of contracts left to be awarded in the next 9 to 12 months. That's what staff is trying to focus people's attention on immediately. If we wait until the Board sees our CIP comments those contracts will have been awarded.

IV. APPROVAL OF THE ADVISORY BOARD AGENDA FOR NOVEMBER 18, 1999

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE NOVEMBER 18, 1999 MEETING**. It was seconded and passed by unanimous vote.

V. QUESTIONS AND COMMENTS

Mr. Favaloro asked if Executive Committee members would like a letter sent to frequently absent members of the Executive Committee, in light of a non-quorum, clarifying the consequence of their absence.

Mr. Carbone suggested that the Executive Committee empower staff to send a letter to Committee members that do not attend meetings stating that they are injuring the ability of the Executive Committee to do its job. He said the letter should state that this situation came up, which was important. Without a quorum, the Committee couldn't give direction. The letter should ask the members to please renew their commitment to come to every Advisory Board and Executive Committee meeting, or respectfully request a resignation. The Executive Committee agreed.

VI. ADJOURNMENT

A MOTION WAS MADE TO ADJOURN THE MEETING AT 10:20 A.M. It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary