

EXECUTIVE COMMITTEE MEETING
FEBRUARY 16, 2001

MINUTES APPROVED AT THE MARCH 9, 2001 MEETING

Present: Phil Farrington, ARLINGTON; John Sullivan, BOSTON; Ed Sullivan, CANTON; Peter Hersey, MELROSE; Stanley Stanzin, NEEDHAM; Bernard Cooper, NORWOOD; Edward D. McIntire, READING; Joseph Foti, SOMERVILLE; Stephen Casazza, WAKEFIELD; Walter Woods, WELLESLEY.

Also in attendance: John Carroll and Andrew Pappastergion, MWRA BOARD OF DIRECTORS; Joseph Favaloro, Cornelia Potter, Ryan Ferrara, Nathalie Grady and Mary Ann McClellan, MWRA ADVISORY BOARD.

I. Approval of the January 12, 2001 Minutes of the Executive Committee

The meeting, held at the Advisory Board office, was called to order by Chairman Joe Foti at 8:36 a.m. A Motion was made **TO APPROVE THE JANUARY 12, 2001 MINUTES OF THE EXECUTIVE COMMITTEE**. It was seconded and passed by unanimous vote.

II. Status: Water System Expansion – Stoughton

Joe Favaloro stated that discussions between Canton and Stoughton are ongoing relating to the construction impacts of extending the MWRA line from Canton into Stoughton. While no vote was taken at town meeting to enter the MWRA system, there was a vote to continue the permitting process. Bluestone, the desalinization operator, has continued with an aggressive campaign, although there still seems to be a predominance of sentiment that the MWRA is a better option. The next town meeting is scheduled for May 12th.

III. Action Item: Advisory Board Comments and Recommendations to the Authority's Proposed FY02-04 Capital Improvement Program

Cornelia Potter stated that the Advisory Board's message is succinct this year, focusing on highlights of the budget and confirming the importance of the cap. The Authority's capital program is now set at about \$1.9 billion over the next ten years, more than half of it to be spent in the next three years. Over half of all capital spending is now for Waterworks projects. Only five years ago, Waterworks spending was barely 20% of the entire capital program.

Another substantial initiative over the next ten years will be the CSO Control Program, as the Authority moves more toward the construction phase of the multi faceted CSO program. Over half the projects are in design and a number of projects are in construction. CSO Program spending is projected to be nearly \$100 million over the next several years.

Over the next three years, the top five projects are the Walnut Hill Water Treatment Plant, Braintree-Weymouth Relief Facility, the MetroWest Tunnel, distributions of \$25 million per year for the Local Pipeline Loan Improvement Program and the Norumbega Covered Storage Project.

Executive Committee Minutes – February 16, 2001

As happens every year, costs are continuing to rise. Nearly \$170 million of increases have been identified in the new budget; many have to do with revised cost estimates as projects move through the design phase. In a number of cases, projects have been awarded at levels higher than the engineer's estimate and there have been a number of change orders and amendments, particularly for some of the more difficult projects.

The Authority has also identified about \$86 million in decreases, although half of that is for projects that have been completed so these numbers are representative over the total cost of the multi-year capital program. Still to come are new projects that haven't been awarded yet. The twenty largest projects total over half a billion dollars with the dominant project being North Dorchester Bay.

This is the first year the Authority has prepared a capital program and budget in the context of a spending cap. For the first time the Authority has clear limits in how it sets its program and how it prepared its expected pattern of spending. Obviously, for the Advisory Board, which has been pushing the Authority for a long time, these are major achievements.

The spending cap is a little over \$2 billion. The MWRA has rearranged its proposed spending in order to remain within the cap. By asking a series of hard questions, the Authority has pushed some of the projects beyond the 2011 time frame to stay within the cap. The Authority has proposed a ten-year budget that is just over \$10 million below the multi-year spending cap. Advisory Board staff urges the Authority to keep up the good work.

The Advisory Board has reviewed every project and contract to come up with a series of recommended reductions totaling \$43.4 million, which will help the MWRA stay within the cap. The Advisory Board's message confirms that the cap is sustainable and supportable. To support this objective, the Advisory Board recommends a series of reductions to specific project budgets, which should further reinforce the Authority's ability to stay within that multi-year cap, not only for the first three years of the ten year period, but also the overall ten-year period for which the cap is also set.

Stanley Stanzin stated that it sounds like the Authority has built in a lot of cushion, and he wondered how much the ratepayer would benefit from the cap. Ms. Potter noted that because the cap is set at a certain level, this doesn't invite the MWRA to spend to that level. She noted that the pressure is going to come toward the mid and later part of the decade where the MWRA's projected levels of spending are higher than the calculations originally used to set the ten-year cap. In the end, the cap will serve to be a more limiting feature than it first appears.

Walter Woods asked how the proposal by the Governor to reduce debt service assistance would impact the cap. Mr. Favaloro stated that on first look, a reduction in debt service assistance isn't going to have a direct impact on increasing or decreasing the cap. It has an impact on the current expense side because there are fewer offsets to rate revenue requirements. Ms. Potter stated that the absence of about \$12 million in debt service assistance translates into a ten-year \$170 million reduction to debt service assistance.

Mr. Favaloro noted that with all the uncertainties yet to be identified in last year's MWRA budget (North Dorchester Bay, Cambridge CSO projects, etc), the attempt was to put our hands around overall capital spending in order to put a ceiling on future expenditures. The value of the cap can't

be looked upon just in a one-year cycle, but rather at the cumulative value.

Ed Sullivan asked if the MWRA is in a position to take advantage of lower interest rates to bond if rates fall. Ms. Potter responded that the Authority is always in a refunding/rescheduling mode. This past Wednesday the Board authorized a new form of restructuring to refund a portion of the Authority's debt to take advantage of the January interest rate drops.

Ms. Potter stated that the draft comments, once approved by the Executive Committee, would be distributed this afternoon to the full Advisory Board for consideration at next Thursday's meeting.

A Motion was made **TO APPROVE THE ADVISORY BOARD'S COMMENTS AND RECOMMENDATIONS TO THE AUTHORITY'S PROPOSED FY02-04 CAPITAL IMPROVEMENT PROGRAM.** It was seconded and passed by unanimous vote.

IV. FY02 Preliminary Community Assessments

There has been much discussion and debate between the Board of Directors, the Authority and Advisory Board staffs on how best to portray the impact on community assessments due to reductions in debt service assistance as recommended in the Governor's budget (House 1). The Authority postponed mailing the community assessments by one week because Authority staff didn't feel that they had a consensus of the Board on how to best portray what community assessments will be for FY02.

This past Wednesday there were seven members at the Board meeting, of which two were gubernatorial appointees. The predominance of opinion was five to two to say that based on House 1, assessments would increase 9.7% on average. Authority staff and some Board members felt that through the use of rate stabilization, other alternatives could be represented. The Board ultimately compromised by sending two assessments to communities depicting the best and worst case scenarios. The critical piece is the cover letter that will accompany the assessments.

V. Legislative Update

Mr. Favaloro reported that the Legislative Caucus met yesterday and overwhelmingly supported an approach that aggressively pursues \$65 million to provide the MWRA and the other 100 communities with 20% debt service assistance. That is an important first step.

John Carroll stated that communities would be told that the MWRA rate revenue requirement this year would range from 5.9% to 9.7%, depending on how debt service assistance in the Legislature and rate stabilization was applied. He stated that the letter that the Advisory Board sends to the communities should be explicit to say if the Governor's cut stays, there will be double-digit rate increases. The Advisory Board should clearly state that the Governor's proposed cut is unacceptable.

Andrew Pappastergion stated, "I fear that by minimizing the impact of what is in House 1, you make it inevitable that that is what you will end up with. If you do not create outrage with the cities and towns over a 9.7% rate increase, it will not get back to the Legislature and they will not change it. The Administration would like us to use rate stabilization to mask this whole \$12 million cut so that they are not on the firing range, which is why I want to back away from using rate stabilization."

Mr. Favaloro stated that staff is setting up individual meetings with all of the representatives and senators inside and outside of the MWRA district. Staff has reached out to the other 100 communities that received some level of debt service assistance from the Sewer Rate Relief Fund and made them aware of the potential impact on their community. In fact, some of the communities may take a double hit, not only losing the MWRA piece, but also a local share.

VI. Update: Proposals/MWRA Award of a 15-Year Contract for the Operation of the Pellet Plant at Fore River

Ms. Potter reported that the MWRA Board of Directors approved the award of a 15-year contract for the operation of the pellet plant at Fore River to the New England Fertilizer Company (NEFCo). This is the next contract phase for processing the sludge from the Deer Island Wastewater Treatment Plant (DITP).

The Authority, with the help of a consultant, restructured the terms of the contract to create a tighter bidding atmosphere for this rebid process. The results of the contract restructuring allowed for substantial savings for the Authority. NEFCo, which currently has the contract, was the low bidder, but only by about \$6 million over a fifteen-year period, which shows how tight the bidding process was. The Authority was very pleased by the results. For FY02, as compared to the FY01 budget, the number is cut in half from just over \$21 million to \$11 million (and also reflects savings from efficiencies gained from the installation of new processing equipment at the Fore River plant). The new contract terms take effect March 1st so the benefits of the new contract pricing should be seen right away.

Stanley Stanzin asked when do they expect not to have to barge sludge? Cornelia Potter said the barging will terminate when the Braintree-Weymouth tunnel project is done, estimated at 2005.

Walter Woods asked if the company that received the award had an aggressive marketing procedure to sell the pellets. Ms. Potter noted that the top two successful bidders had similar marketing approaches and will remain similar to what NEFCo has been doing so far, which is to ship most of the product to the middle part of the country.

VII. FY02 Current Expense Budget Review Process

For FY01, the Authority budgeted \$191 million for direct expenses, which are now projected to be lower than budgeted at \$183 million for a savings of \$7.5 million. The total FY02 budget is barely \$2 million over what the Authority thinks it will spend this year for direct expenses. That is an extraordinary improvement. The projection does reflect the additional benefits from the NEFCo contract and assumptions about a continuing decline in staffing levels.

This fiscal year the Authority budgeted for 1,650 filled positions, and are currently at 1,575 filled positions. For FY02, the MWRA will budget 1,540 filled positions, anticipating continued reductions in filled staff positions to continue at a pace of at least five fewer people every month, for a dramatic change in the wages and salaries picture.

Additionally, there have been increased efficiencies in the utilization of chemicals and utilities. The Authority is making major strides and progress in its operating expenses and should be credited for that. The real growth in the budget for this year and next is in debt service and MDC related costs.

VIII. Approval of the Advisory Board Agenda for February 22, 2001

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE FEBRUARY 22, 2001 MEETING**. It was seconded and passed by unanimous vote.

IX. Questions/Comments

Mr. Favaloro reported that Doug MacDonald, the Executive Director of the MWRA, has accepted the position of Secretary of Transportation for Washington State. The Advisory Board has three votes for choosing the new Executive Director and will try to find a way for the Executive Committee and the Advisory Board to be involved in the selection process.

X. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 9:38 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary