EXECUTIVE COMMITTEE MEETING
MARCH 9, 2001

MINUTES APPROVED AT THE APRIL 20, 2001 MEETING

Present: John Sullivan, BOSTON; William Hadley, LEXINGTON; Peter Hersey, MELROSE; Katherine Haynes Dunphy, MILTON; Jay Fink, NEWTON; Bernard Cooper, NORWOOD; Edward D. McIntire, READING; Joseph Foti, SOMERVILLE; Stephen Casazza, WAKEFIELD.

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

I. Approval of the February 16, 2001 Minutes of the Executive Committee

The meeting, held at the Advisory Board office, was called to order by Chairman Joe Foti at 8:41 a.m. A Motion was made **TO APPROVE THE FEBRUARY 16, 2001 MINUTES OF THE EXECUTIVE COMMITTEE.** It was seconded and passed by unanimous vote.

II. Preview: Advisory Board Budget

Joe Favaloro stated that the Advisory Board's FY01 budget has a $23,000 to $26,000 variance for the year, based on the expectation that the second finance position is not going to be filled. Variances in printing and postage will be close to zero by the end of the year as major printing and mailing jobs, such as the CEB, CIP and Special Report, have yet to be completed. The line item for personnel is the largest variance because of the unfilled position.

Mr. Favaloro noted that he planned to suggest at the May Executive Committee meeting that the FY01 unspent funds be utilized as reserve for outstanding liabilities. Last year $48,000 was set aside to cover those costs identified by auditors from Daniel Dennis and Company. To keep pace, Mr. Favaloro plans to recommend adding more funds to this account. The remainder would go into the Advisory Board stabilization fund, which, including the aforementioned addition, would contain approximately $120,000. This is a three and one-half month reserve.

For the FY02 draft budget proposal, the first significant change comes from the elimination of the second finance position. There is a large increase for health insurance. The Authority, in its proposed budget, assumed a 5% increase. The number from the Group Commission is closer to 11%. The increase would cover five employees and a change in the mix between individual and family plans. The Wages and Salaries line item assumes a step for employees and a 1.5% cost of living increase.

The other clear increase is for the Lease line item. The proposed budget assumes that when the lease expires this coming December, there will be a significant increase on the cost per square foot, which is currently $23.75. The proposed budget assumes $40.75 per square foot. The increase for FY02 will also increase FY03. Rent is the single largest increase in the Advisory Board's budget.

The overall budget increase will be 3.4%, however, with the use of interest income, the net adjustment is 3%.

Katherine Haynes Dunphy asked if there was a plan for interns. Mr. Favaloro stated that the Advisory Board has tried for a couple of seasons to do a cost analysis on the value of the economic driver that the Boston Harbor Project has been, for which an intern would be utilized. Additionally, with the reduction in one position, the opportunity to utilize an intern is there, if needed, even on a consultant basis.

John Sullivan stated that the Intern line item should be increased from $5,000 to $10,000, noting that Boston Water and Sewer Commission has trouble getting interns at $14 per hour. Mr. Favaloro noted that there are graduate level and undergraduate level programs at MIT with a 50/50 match. The $5,000 would be the ball park expenditure going through the MIT program. However, there is no guarantee. This past year one individual from MIT was interviewed, but the project did not materialize. Mr. Favaloro agreed to re-look the Intern line item and add more funds.

Mr. Sullivan asked where the extra interest income is from. Mr. Favaloro replied that the Advisory Board has aggressively, within short-term guidelines, pumped funds into as many different vehicles as possible. Thus far, for FY01, interest income is at $13,000, with the hope that the final number for the year will be between $18,000 to $19,000; however, interest rates have been declining. The Advisory Board has been helped by the fact that there will be a $120,000 line of unspent funds that can immediately go into longer term vehicles. Additionally, the quicker the Authority supplies the funding in July allows for the use of longer-term vehicles to maximize interest income.

Mr. Favaloro stated that hearing the Executive Committee's input, the budget may increase from $440,000 to $450,000, but the overall increase is still in the 4% range.

III. Legislative Update/Debt Service Assistance

Mr. Favaloro stated that it is likely that when the Board of Directors is putting the Authority's FY02 budget to bed, there will not be a number from the Commonwealth of Massachusetts for debt service assistance, which proposes an interesting dilemma. Only once before has the Authority had to approve two sets of assessments for communities, which is now a possibility. The House is expected to begin debate on its budget the week of April 30th, while the Senate begins debates on its budget around Memorial Day.

After a series of caucus meetings and other communications, the Legislature issued a press release citing the need to get the entire $65 million back into the debt service assistance budget, and have bought into making debt service assistance replenishment one of their highest priorities. Staff has met with the Senate President and, without commitment, he was upbeat and positive that everything within the Senate's power would go into getting debt service assistance back. Additionally, staff has begun one on one meetings with the Legislators in and outside of the MWRA district, including House Ways and Means Chairman Rogers and his staff.

The remaining items on the Advisory Board's proposed Legislative Agenda have been moved to the back burner as all efforts focus on restoration of debt service to its previous level.

Letters have been sent to every municipality regarding the impacts of the 5.9% and 9.7% increases in hopes of rallying communities to get involved. Within the next week, working with the Massachusetts Municipal Association (MMA), every Selectman and Alderman will receive a revised letter making them aware of these impacts and what they could do to help. From that, the next series of discussions will occur and we will begin scheduling meetings with the CEOs.

Staff is still holding some level of hope for one item on the Legislative Agenda: To get more control and oversight and the ability to manage the MDC Watershed Division. David Balfour has said that he would be willing to release the MDC Watershed Division to the MWRA. From the day that staff got language in the budget providing the opportunity to review the MDC Watershed Division, zero information has been provided.

IV. CEB Budget Review Process

Cornelia Potter stated that at the end of the second full week of the Current Expense Budget (CEB) review, staff is well into briefings with the Authority staff. Memos will be sent weekly to designees focusing on some part of the budget. The next topic will be debt service. The full Advisory Board meeting will be held next week, beginning with a public hearing on the CEB at 7 p.m. Authority staff will make a presentation on the overall budget. The first draft of comments will be sent out in five weeks.

The Authority is reducing the budgeted amount of direct expenses from $191 million budgeted for FY01 to $185 million for FY02. Indirect expenses are budgeted at $132.35 million, and reflect price increases to the watershed/PILOT payments and decreases in mitigation payments.

Capital finance continues to be the biggest element of the Authority's overall budget, at nearly $300 million. Capital financing is now 58% of the total CEB. The Advisory Board review will not only look at the Authority's plans for new borrowings next year, but also the potential for restructuring existing borrowings. The review will also focus on sources of revenue other than rate revenue, including taking a closer look at investment income projections. This year the Authority anticipates a surplus of $18.9 million.

John Carroll asked, given the fact that the salary requests for FY01 and FY02 are the same basically, what does that indicate in terms of the number of reduced personnel. Ms. Potter reported that the Authority has said that the funded positions between FY01 and FY02 dropped by 90, from 1,630 positions in FY01 to 1,540 positions for FY02. The Wages and Salaries line item also includes temps, interns, standby pay and a number of other components.

Mr. Favaloro further noted that Black and Veatch is doing a competitiveness study for the Authority. MWRA staff is working with Black and Veatch to try to compare apples to apples so that when they actually begin the comparisons, they are making comparable assessments. That process has gone somewhat slower than the Authority had envisioned; the draft reports for the staffing level plan for five years out and beyond for the Authority may not be available until May or June.

V. CIP Update

Cornelia Potter reported that the Advisory Board's CIP Comments and recommendations were received back from the printer and will be mailed in the coming few days. The Authority will be reviewing those comments over the next couple of months, but a response is not expected until the May Board hearing.

VI. Approval of the Advisory Board Agenda for March 15, 2001

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE MARCH 15, 2001 MEETING.** It was seconded and passed by unanimous vote.

VII. Questions/Comments

John Carroll stated that the prime candidate for the Executive Director position is Fred Laskey, who is the current Commissioner of Revenue. Mr. Laskey actively pursued the job when he heard that Doug MacDonald was leaving. He quickly got the Governor and Lt. Governor's endorsement and has met in person or talked via the telephone with Board members. He refrained from talking to the three Boston representatives until he had talked to Mayor Menino, whom he spoke with yesterday. It looks strongly at this point that Mr. Laskey may get the job. Mr. Carroll stated that a subcommittee will have to be formed to negotiate a contract.

John Sullivan questioned whether the Board feels that the proper process is to go with the first guy. Mr. Carroll noted that it is up to the Board, noting that if the Mayor and the Governor do decide to pick Mr. Laskey, then they would have six votes. Mr. Carroll stated that he did not want to go through a sham process. He stated, "If I didn't like him, I would vote against him, but my impression is that he can be a top notch Executive Director."

Joe Favaloro stated that he would agree that there should not be a sham process, however, there should have been a process. Mr. Carroll noted that there are a lot of disadvantages to having a lingering period of trying to find someone.

Jay Fink asked if there would be any discussions of a one-year contract, a trial period, or a review process. Mr. Carroll assured that those issues would be resolved by a subcommittee before the vote, stating that all of those issues would be paramount if he gets nominated.

Joe Favaloro stated that he wasn't speaking disparagingly of Mr. Laskey, but rather of the process.

VIII. Presentation to Douglas B. MacDonald, MWRA Executive Director

In appreciation of his nine years of service to the MWRA and its ratepayers, Joe Foti, on behalf of the Advisory Board, presented Doug MacDonald with a map of the MWRA communities and a plaque, which expressed the gratitude of the Advisory Board members.

Doug MacDonald thanked the Executive Committee and stated that there was no better time for him to leave since the Authority is in great shape. He stated that he is proud of the regard in which the Authority is held.

Mr. MacDonald expressed support for Fred Laskey, stating that he is an enormously decent guy and is highly regarded. Fred was instrumental in persuading the Weld Administration that the debt service assistance program was something they should quietly support; the numbers proved that rate relief could happen. Additionally, Mr. MacDonald stated that Mr. Laskey would not fall for privatization; he will press for looking at privatization issues and different outsourcing opportunities. His approach is going to be from the standpoint of rate savings and efficiencies.

IX. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 10:13 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary