

EXECUTIVE COMMITTEE MEETING  
APRIL 20, 2001

MINUTES APPROVED AT THE MAY 11, 2001 MEETING

Present: Guy Carbone, BELMONT; John Sullivan, BOSTON; Ed Sullivan, CANTON; William Hadley, LEXINGTON; Peter Hersey, MELROSE; Katherine Haynes Dunphy, MILTON; Stanley Stanzin, NEEDHAM; Bernard Cooper, NORWOOD; Edward D. McIntire, READING; Joseph Foti, SOMERVILLE; Walter Woods, WELLESLEY.

Also in attendance: John Carroll, Norman Jacques 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 March 9, 2001 Minutes of the Executive Committee**

The meeting, held at the Advisory Board office, was called to order by Chairman Joe Foti at 8:31 a.m. A Motion was made **TO APPROVE THE MARCH 9, 2001 MINUTES OF THE EXECUTIVE COMMITTEE**. It was seconded and passed by unanimous vote.

**II. Action Item: Approval of the Advisory Board's FY02 Operating Budget**

Joe Favaloro noted that an additional \$5,000 was added to the Intern line item, increasing the overall budget to \$447,758, a 4% increase, for FY02.

A Motion was made **TO APPROVE THE ADVISORY BOARD'S FY02 OPERATING BUDGET**. It was seconded and past by unanimous vote.

**III. Legislative Update**

Mr. Favaloro reported that due to the efforts of the Legislative Caucus, communities who sent letters and the Authority and Advisory Board staffs, debt service assistance has been reinstated in the House Budget at \$66.5 million. Rates will be closer to the 5.9% increase, rather than 10%. The Authority is entitled to \$53 to \$54 million of the debt service assistance.

Mr. Favaloro also stated that the sewerage plan for central Massachusetts is \$5 million over budget and that he would not be surprised if EOE or MDC Watershed Division came to the MWRA seeking the \$5 million, with the argument that it would avoid a \$400 million filtration plant.

The MDC Watershed Division reimbursement that the Authority gives to the Commonwealth has the following three components: 1) Operating costs; 2) Payment in Lieu of Taxes (PILOT); 3) The actual debt associated with the purchase of the land that goes to the Commonwealth for all the parcels the Division buys. The Authority is liable for the debt that is associated with it (currently between \$5 and \$6 million annually).

The Commonwealth is good in getting its annual operating costs through the MDC and the PILOT

payment has been going to the watershed communities. But in the past fourteen years, the debt payments going to the Commonwealth have only been collected twice.

Since that time the Authority has been accruing the debt service for the land acquisition. There is currently \$11 million in the Authority's account, which is approved for the Commonwealth but as of yet the money remains unclaimed. Advisory Board staff has begun to work the concept that if the Commonwealth forgives the accrued debt, MWRA will then send the \$5 million to do the sewerage plan for central Massachusetts, resulting in an avoided cost (between \$5 and \$7 million a year on the water side).

In the event that the Commonwealth asks the Authority for funds to complete the sewerage plan, which is outside of the MWRA service area, Mr. Favaloro sought permission from the Executive Committee to authorize Advisory Board staff to pursue legal action.

A Motion was made **TO AUTHORIZE ADVISORY BOARD STAFF TO INVESTIGATE THE PARAMETERS OF LEGAL ACTION ON THE SEWERING OF CENTRAL MASSACHUSETTS PROJECT THROUGH THE MWRA BUDGET.** It was seconded and passed by unanimous vote.

Mr. Favaloro also noted that staff is working with the Committee on Post Audit and Oversight, which will be contacting the MDC Watershed Division in the near future for a total review of the Watershed Division budget. Post Audit and Oversight has subpoena power.

**IV. Action Item: Approval of the Advisory Board's Comments and Recommendations to the MWRA's Proposed FY02 Current Expense Budget**

Cornelia Potter stated that the Authority submitted a budget that was \$517 million in proposed expenses, with nearly 60% of that amount for capital finance. Direct expenses account for \$185 million and indirect expenses account for \$32 million. The proposed budget represents an increase of \$20 million over the budgeted amount for FY01. This is primarily due to increases of \$27 million for capital finances, offset by a decrease in budgeted amounts for directs, as the Authority reduces anticipated spending for wages and salaries, pelletizing, and some chemical and utilities costs, as well as a reduction of around \$2 million in proposed indirect spending.

The Authority proposed that 80% of funding would come from rate revenue, as well as other user charges; 10% is to come from debt service assistance; and 10% from investment income and rate stabilization funds. Over the past seven years annual rate revenue increased by \$72 million, or an average rate of 3.4%. Over the next seven years the Authority is projecting rate increases of 5.9% per year and annual rate revenue is projected to be over \$200 million higher than this fiscal year. The Advisory Board's recommendations total just over \$9 million and would mean a revised wholesale rate increase of no more than 3.5%, the same percentage increase for FY01. Nearly half of the recommendations are for lower operating expenses, most of which are directs. Another 30% of the recommendations are for reduced capital financing and a correction for PILOT payments represents about 3%. Additional revenue from non-rate sources accounts for just under 20% of the Advisory Board's recommendations.

Staff recommended the use of an additional \$1.5 million in rate stabilization funds, which would bring the rate revenue requirement down to a 3.5% increase. The Authority has \$140 million in rate stabilization and will have a surplus this year of \$17+ million.

John Sullivan asked if the entire surplus automatically goes into the rate stabilization fund. Ms. Potter replied that staff has recommended a discussion of whether the rate funds should go into rate stabilization funds, which have limitations about how and when the money can be used; otherwise, funds can be put into the Bond Redemption Fund, which has benefits because it offsets coverage requirements in the way it is calculated through the capital financing line. The decision of whether to put the money in rate stabilization or debt escrow is important and should be made by the Board.

Ms. Potter stated that staff has also continued to challenge the Authority to be proactive in a number of areas to continue to try to find ways to seek efficiencies and other ways of reducing costs by providing objectives and action plans.

Ryan Ferrara noted that some of the strategic objectives provided are as follows: 1) Evaluate use of the stabilization fund and opportunities to refund existing debt to reduce projected rate revenue requirements; 2) Continue to build upon the benefits of the consolidation of the water and sewer divisions, transfer to the Chelsea facility and the Competitiveness Study to reduce expenses and enhance efficiency; 3) Seek rebidding opportunities; 4) Rescope and focus outfall research objectives and seek external funding assistance; 5) Revisit sludge back up landfill requirements and costs; 6) Work with the Advisory Board to gain oversight of the Division of Watershed Management; 7) Utilize the findings from the Security System Needs Assessment to develop an overall MWRA security plan (the Advisory Board feels strongly that the Authority cannot commit funds to particular security issues until a security plan is in place); 8) Seek opportunities for responsible expansion; 9) Seek external sources of funding for the Education Program and develop strategic alliances with other organizations to provide educational resources in a more cost-effective manner.

Ms. Potter noted that when the recommendations are sent to the Authority, staff wants to highlight half a dozen of the large areas in the recommendations, which are the subject of ongoing discussion. Among them are staffing levels, the Competitiveness Study, capital financing, restructuring and refunding. Also in the proposed budget, the Authority gave numbers for the Retirement Fund Contribution that were \$700,000 apart. Staff has found conflicting back up information, whether it is in the budget, the financial statements, or in the back up to the budget. Staff wants the Authority to keep the door open on this recommendation as the reduction could be more. The MDC Watershed Division budget is a topic that needs to stay on the table through the course of deliberations over the next two months.

A Motion was made **TO APPROVE THE ADVISORY BOARD'S COMMENTS AND RECOMMENDATIONS TO THE MWRA'S PROPOSED FY02 CURRENT EXPENSE BUDGET.** It was seconded and passed by unanimous vote.

**V. Process to Elect Advisory Board Representative to the MWRA Board of Directors**

Mr. Favaloro stated that since the three-year term of Norman Jacques expires this year, members should again be made aware of the process.

John Sullivan asked if there is a reason that the election could not be held at a meeting that more people attend prior to the June meeting. Mr. Favaloro stated that the election could be held in May; however, there is a short turn-around time between the April and May meetings and Mr. Favaloro

wouldn't want the Executive Committee to be perceived as rushing through the process. Day meetings tend to have better attendance. Mr. Pappastergion suggested a daytime meeting in April because the April meeting is usually well attended for budget approval.

Norman Jacques, whose term expires June 30, 2001, stated that 16 years ago he served as the Chairman of the Advisory Board, and five years later, was given the opportunity to serve on the Board of Directors. The time has come for someone else to have a chance. Mr. Jacques stated that he will not seek reelection and thanked the Executive Committee for the opportunity to serve.

Mr. Foti expressed thanks to Mr. Jacques on behalf of the Advisory Board. Mr. Carroll added, "Norman has done a good job for the Advisory Board and the people we represent. I will miss him as a Board member, but also as a friend." Mr. Pappastergion concurred with Mr. Carroll, stating, "[T]he three of us have had a good bond. I will miss Norman and I hope he remains active with the MWRA."

Walter Woods expressed his admiration for all three representatives from the Board of Directors for working as a unit and supporting the Advisory Board. It shows in the Advisory Board's effectiveness at the Board level.

**VI. Approval of the Advisory Board Agenda for April 26, 2001**

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE APRIL 26, 2001 MEETING**. It was seconded and passed by unanimous vote.

**VII. Questions/Comments**

Mr. Carroll noted that Mr. Pappastergion will be having an operation on May 1<sup>st</sup>, stating that it is important for us to remember Andy and his family in our prayers as he goes forward at this difficult time. Mr. Pappastergion expressed his appreciation.

**VIII. Adjournment**

A Motion was made **TO ADJOURN THE MEETING AT 9:58 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary