EXECUTIVE COMMITTEE MEETING
MARCH 15, 2002

MINUTES APPROVED AT THE APRIL 19, 2002 MEETING

Present: Phil Farrington, ARLINGTON; Guy Carbone, BELMONT; John Sullivan, BOSTON; William Hadley, LEXINGTON; Peter Hersey, MELROSE; Katherine Haynes Dunphy, MILTON; Stanley Stanzin, NEEDHAM; Edward D. McIntire, READING.

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

I. Approval of the February 22, 2002 Minutes of the Executive Committee

The meeting, held at the Advisory Board office, was called to order by Chairman Katherine Haynes Dunphy at 8:39 a.m. A Motion was made **TO APPROVE THE FEBRUARY 22, 2002 MINUTES OF THE EXECUTIVE COMMITTEE.** It was seconded and passed by unanimous vote.

II. Preview: Advisory Board Budget

Joe Favaloro, MWRA Executive Director, previewed the Advisory Board's proposed FY03 budget of $464,766, which is essentially level funded to the FY02 budget of $463,700. The overall FY03 request is a 1.3% increase from FY02.

The *Wages and Salaries* line item assumes a step increase for employees and 0% for the Executive Director.

The *Rent* line item assumes a 2.9% increase. The Advisory Board lease extends through November 2002 at a rate of $38.75 per square foot. The rate should be significantly lower after that; therefore, the FY03 budget assumes a rate of $34.75 for December and beyond.

The largest variance for FY02 is in Intern spending. The Intern line item will be eliminated for FY03. The two largest line items, *Wages and Salaries* and *Rent*, will be spent pretty much to the dollar.

There is a lot of uncertainty on what the level of increase will be in the Health Insurance premium. The state is not going to attempt to raise the percentage of employee contributions, deciding instead to double and triple co-payments. Other than that, most line items are relatively close to projected spending.

John Sullivan asked if the Authority's senior management (i.e. Fred Laskey, Mike Hornbrook, Kate Murray) would be getting a cost of living increase. Mr. Favaloro stated that on those level positions, increases are not automatic. Mr. Laskey is under contract. A proposal will be put together for the other members of senior staff. As part of the Advisory Board's CEB recommendations, for Union employees there are contractual obligations, but for merit increases for which the MWRA has control, staff is leaning toward a series of recommendations that say: not this year.

III. Legislative Update

Mr. Favaloro noted that debt service assistance funding for FY02 has yet to be received from the Commonwealth. The Governor has decided not to reduce FY02 funding because of the lateness of the year. For FY03, the Authority's funding is included in a pot of money that the Governor is looking at as discretionary to her for cuts.

During the past two weeks, Advisory Board staff has begun meeting with mayors of MWRA communities to inquire as to where communities would prefer to take a reduction from the Commonwealth for FY03. Thus far, meetings have been held with the Mayors of Revere, Somerville, Chelsea, Medford, Newton and Malden. Mayors and city managers to date have indicated, given the perspective of a local aid hit or a debt service hit, they would prefer the cut to debt service because it would be the MWRA raising the rates and not the communities. With local aid reductions, the communities would have to increase taxes or reduce services. However, Mayors Cohen and McGlynn also stated that the Advisory Board should continue to aggressively pursue debt service assistance.

The Authority is now direct funding MDC Watershed Division line items. Once again, through Senators Morrissey and Shannon, staff is going to vigorously pursue take over of the MDC Watershed Division. Turning over an additional $500,000 to the MDC establishes a poor precedent. [Under delegated authority Fred Laskey committed MWRA to directly fund three MDC Watershed Division projects worth $520,000 (gages in watershed rivers and streams - $60,000; containment booms at Wachusett Reservoir - $220,000; and a program to address milfoil infestation at Quabbin Reservoir - $240,000) because the DWM said they would otherwise not be done.]

Ms. Dunphy asked if there were some way that MWRA could be required to report to the Board of Directors before transferring funds to the MDC Watershed Division. Mr. Pappastergion stated that the Board, without an opportunity to dispute it, had approved the funding. Mr. Pappastergion stated that he did voice opposition and made some pointed comments to the Chairman of the Board of Directors.

Mr. Favaloro noted that with 100% debt service PILOT payments and operating budgets, MWRA is providing $20+ million and now MWRA is going to directly fund part of the operation. Ratepayers get to pay it twice. Ms. Dunphy stated that as a point of budgetary control, the Advisory Board should recommend that any MDC funding must come to the Board for a vote, even if it is a small amount of money.

Clinton is in the process of building a water treatment plant, for which it is getting SRF funding, and is under a consent order to be operating by June 30. In all of Clinton's communications with DEP and the SRF, Clinton has indicated that it has access and a permit into the MWRA Clinton Wastewater Treatment Plant for its water residuals. That is not the case.

The MWRA has responded to Clinton's assertions and DEP has called the Authority in to ask why it is not allowing Clinton into the system. The answer to that question is that a three million-gallon wastewater treatment plant adding a significant level of residuals will have a dramatic impact in the quality of the effluent going out. Landfilling the residuals will deplete the landfill area significantly. There is a NPDES permit, as well, that would be difficult to meet with water residuals coming in. Lastly, Clinton pays nothing for the use of the wastewater treatment plant. Ratepayers provide Clinton with a free service.

Andrew Pappastergion stated that part of the problem is Clinton was extremely vague on its applications to the Authority on residuals. The Authority, on several occasions, asked Clinton for information that it failed to provide.

IV. Discussion/Strategy Session: FY03 Advisory Board Current Expense Budget Review Process

Cornelia Potter stated that staff is now well into the third week of budget review. Staff has had several meetings this week with MWRA staff and a number of meetings are scheduled for the next couple of weeks. The Authority's Current Expense Budget (CEB) is now over $500 million; $400 million comes from rates, $300+ million is for capital expenses, $200+ million is for direct and indirect expenses and roughly $100 million comes from non-rate revenue.

Direct expenses are budgeted for FY03 at the same level as FY02, just under $183 million. The Authority anticipates FY02 spending at nearly $7 million under that number, which points clearly to the topic of whether the Authority needs to spend at greater levels than it spent this year, especially as staffing levels are measurably declining and as the Authority has gained some benefits from the Deer Island electricity supply contract that went into effect five months into the fiscal year.

The Authority projects debt service at just over $300 million. Because of the difference of $18.8 million between the two scenarios for debt service assistance, it will also result in a hit under current revenue for the capital program, which is where the Authority must meet an additional coverage requirement to meet the bond covenants requirements. Capital financing with the coverage impacts of debt service assistance shortfalls is $308 million for the higher rate increase alternative. Debt service assistance under that scenario is in the range of $32 million, for a revenue requirement of $479 million, or an increase from FY02 of over $25 million.

The second alternative is one at which the Authority would assume full funding of debt service assistance according to its estimates of capital spending. The key capital financing and coverage requirements are $306 million, with debt service assistance at $51 million, for a revenue requirement of $458 million, which is an increase of just under $5 million from this year's revenue requirement. Put another way, the $18.8 million shortfall in debt service assistance translates into a nearly $21 million higher rate revenue requirement because of that coverage. Every dollar of debt service assistance that the Authority does not receive costs $1.10 in the budget because of the coverage requirement in the bond covenants.

Staff will be examining the debt service associated with the Authority's previous borrowings, as well as the assumptions around future borrowings, which include the timing, the interest rate, the balance in the construction fund and most importantly, the potential for restructuring and refunding existing debt.

Uncertainties include the Authority's proposed addition to the Retirement Fund. The Authority will revisit that item because of its participation in the Early Retirement Program, which implies that the contribution may be lower. On the other hand, the performance of the fund may also be a challenge and may require a higher contribution. Additionally, the state was advised by Phil Shapiro, from Standard and Poor's, that it didn't have to make a deposit into the retirement fund for FY03 and it wouldn't affect the bond rating. Other uncertainties include early retirement, not only for the rest of this year, but for the assumptions about wages and salaries for next year. Staff anticipates a measurable difference between what the Authority proposes.

Health insurance premiums have not been set yet for next year. There have been indications that the state, or at least the GIC Health Program, is passing at least some of the increased costs onto program participants.

One of the most disappointing developments of recent interest rate movements is that Investment Income dropped from $48 million in actual receipts in FY01 to a proposed amount of $30 million.

The Advisory Board has a responsibility to try to hold rates to a reasonable level so that the Authority can provide the level of service expectations. Staff is considering a test for programs, such as Envirolab (an education program for children), that delineates when a program should be maintained in this type of financial stress. Staff plans to recommend, for FY03, that MWRA not retain programs of that nature. It will represent an aggressive review of the MWRA's budget so that if debt service assistance isn't funded at the full level there will be something other than rate stabilization funds to reduce the overall impact. John Sullivan stated that cutting programs like Envirolab might not add up to $1 million, so devastating those programs might be more symbolic than having an affect on the budget.

As of June 30, there is the potential that there may be 129 employees retiring from the MWRA that may not be on the payroll for FY03, as well as the uncertainties for retirement contributions. There are a lot of areas in the budget that, with a legitimate argument, could create some significant levels of reduction to help reduce the bottom line.

Ms. Potter acknowledged that there are many small items in the Authority budget that would require a lot of reductions or adjustments to add up to something meaningful, but staff review has always looked at both large and cumulative effect categories.

Mr. Sullivan offered that he would not have a problem with telling the Authority that it can't buy new trucks this year, but cutting a program that touches kids or the communities bothers him. Mr. Sullivan suggested restructuring departments such as the Transport Department, Public Affairs and the MIS Department. Rather than backfill a retired spot, money can be saved by shifting people to other departments and that is a way to make an impact.

Guy Carbone suggested inviting the MWRA Public Affairs Director to an Executive Committee meeting to inform the Committee on what positions are held by the 21 people in Public Affairs. Mr. Favaloro stated that there are community coordinators, a media person, and a long-established water and wastewater education program for which personnel travel into the schools in the district. This is one of the programs that is nice to have in good times, but in tough times, does MWRA need to have a water and wastewater education program? Mr. Favaloro stated that staff will provide a better lay out of exactly what Public Affairs staffing and responsibilities are prior to inviting a representative in.

Stanley Stanzin noted that previously the Advisory Board set goals for rate increases of no more than 3.5% and inquired whether that goal would change. Mr. Favaloro stated that staff does not want to get to a rate by the use of more than $13 million in rate stabilization funds. Other methods, be it out of the operating budget or through restructuring of debt, can be used to get as close to the 3.5% increase as possible; however, staff suggests that additional rate stabilization funds not be used to bring the number to 3.5%. Staff will provide the Executive Committee with those scenarios and the Executive Committee will make that decision in April.

Ms. Potter stated that the Authority has more money than it needs in the Operating Reserve and some of the Authority's multi-year planning projections include assumptions about when the Authority will work its way up to the amount that is currently in there. Perhaps the Authority might want to draw on some of that money earlier, but it does impact the multi-year planning projections. Similarly, the CORE fund still has levels greater than the bond covenants require because MWRA has increased the variable rate funding. There are several places where there are some additional monies, although the Authority has for the most part reflected the gradual utilization of that fund over the multi-year period.

Mr. Sullivan offered a reminder that the Advisory Board also laid out a multi-year plan on how the funds should be used and suggested sticking to the multi-year plan.

V. CIP Update

Ms. Potter stated that staff is in the process of distributing the CIP document to Advisory Board members. The Authority has not provided much feedback yet. The basic message from the recommendations is that the Authority is going to have to get much more out of the Capital Program between the years FY03 and FY10 in order to stay within the specific intent of the cap. Typically the budget hearings are held during the middle of May.

John Sullivan asked what the next step would be if the Authority does not listen to the Advisory Board's message. Mr. Favaloro stated that the next battleground will be at the Board of Directors.

Andrew Pappastergion stated that the language of the cap could be revised and a new vote of the Board of Directors taken.

Phil Farrington stated that communities are looking at eliminating teachers, police officers and firefighters, yet nobody is talking about eliminating the Patriot's Day Parade or eliminating flowers in the town. There are things that are incredibly visible, important to a lot of people, that don't cost a lot of money that will be terribly noticed if they are gone and will have no effect on the big organization.

Mr. Carbone agreed with Mr. Farrington and asked what the total budget is for Affirmative Action and Public Affairs. "If it came out on the front page of the newspaper that there are fourteen people for Affirmative Action at the MWRA when they are not hiring anybody and they are cutting back, how do you think it would look?"

Mr. Sullivan asked if cities and towns are taking advantage of the borrowings for I/I and water main replacement; and could borrowing programs like these be put on hold for a year or two? Mr. Favaloro stated that communities borrow as needed.

VI. System Expansion Update

Mr. Ferrara stated that the System Expansion Committee developed a Mission Statement: "To provide the Massachusetts Water Resources Authority Board of Directors with recommendations for any necessary requirements to the existing System Expansion Policies of the MWRA." The Committee liked the existing set of Expansion Policies, but set out to make some refinements.

On the wastewater side the Committee plans to move toward lifting the moratorium for allowing communities into the system. The Authority has expressed numerous concerns about this. While lifting the moratorium, the language will reflect the Authority staff's primary issue as it relates to overflows in the system.

Also to be included is language that says that any new connection must be consistent with National Pollutant Discharge Elimination System (NPDES) permits. On both the water and wastewater sides, the Committee plans to include language that Legislative approvals should make reference to the other approvals that are required within the process.

The Committee is establishing a four to one verifiable reduction in I/I for any new connection is mandatory. With the exception of a single-family home, the applicant must put an additional payment into escrow to be held by the Authority for one year. If during the course of the year the work was not done, the Authority can release the escrow funds to complete the work. If the work is complete, the escrow funds are returned to the applicant. Additionally, connections must be consistent with the municipality's Comprehensive Plan; and the Board of Directors must be kept up to date regarding the status of payments for new connections, as well as the status of the I/I four to one removal work.

Mr. Sullivan stated that the four to one reduction should be to remove inflow from proven locations where there are down spouts or catch basins into the system, not infiltration. Removing infiltration never really works and it always comes back.

Mr. Ferrara noted that the language now states that the four to one reduction in wastewater can be of any combination of sanitary, inflow and/or infiltration flow, but agreed that this point should be brought before the Committee to have a better sense regarding inflow removal. Mr. Sullivan noted that communities spend millions on infiltration removal and it is still there. It is a peak problem.

On the water side the Committee is at a standstill as relates to the issue of charging communities that are interconnected to the MWRA water system a standby fee. Both WSCAC and the Authority are taking a stance against standby fees. The Committee is also considering the potential for assessing a surcharge for which discussions have just begun.

WSCAC has made recommendations to strengthen user contracts to require extensive and continued demand management programs, local source protection, implementation of leak detection and repair regulations and the consideration of adding a safety margin or an additional safety factor to the MWRA model.

Additionally, WSCAC has recommended that for every gallon a new community takes from the MWRA system, it must find savings of an additional four gallons. Mr. Sullivan asked how that savings would be achieved. On the water side, there is 18% unaccounted for, and some of that might be accounted for because municipal water isn't necessarily in that calculation. There may only be 10% leakage out there. Mr. Ferrara noted that Committee members have reflected similar concerns and agreed that the 4:1 terms would be a challenge to meet and verify. Mr. Sullivan suggested asking WSCAC to define how to achieve it and also noted that when a community comes on to the system it is because of a water supply problem and this would be an extra burden to find out how to reduce someone else's water.

Ms. Dunphy noted that one suggestion was that any community allowed to join has to be more efficient than the most efficient community in the MWRA, raising the bar every time. Ms. Dunphy felt that this has an element of unfairness. WSCAC has a long list of conditions it would like to include. These applications will go past the Water Resources Commission (WRC), which will add strong conditions on a case by case basis. Ms. Dunphy suggested including WSCAC's suggestions as a package to consider, but not as requirements.

Mr. Favaloro noted that the WRC guidelines on the water side are almost redundant. Most of WSCAC's items are already in place under the WRC before it comes to the Advisory Board.

VII. Approval of the Advisory Board Agenda for March 21, 2002

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE MARCH 21, 2002 MEETING.** It was seconded and passed by unanimous vote.

Mr. Favaloro noted that a public hearing will be held prior to the meeting at 7:00 p.m. where the Authority will be doing a presentation on the Current Expense Budget.

VIII. Questions/Comments

IX. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 9:25 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary