

**EXECUTIVE COMMITTEE MEETING
APRIL 19, 2002**

MINUTES APPROVED AT THE JUNE 14, 2002 MEETING

Present: Phil Farrington, ARLINGTON; Guy Carbone, BELMONT; Katherine Haynes Dunphy, MILTON; Stanley Stanzin, NEEDHAM; Bernie Cooper, NORWOOD; Jay Fink, QUINCY; David Savoy, WALTHAM.

Also in attendance: John Carroll 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 March 15, 2002 Minutes of the Executive Committee

The meeting, held at the Advisory Board office, was called to order by Chairman Katherine Haynes Dunphy at 8:49 a.m. A Motion was made **TO APPROVE THE MARCH 15, 2002 MINUTES OF THE EXECUTIVE COMMITTEE**. It was seconded and passed by unanimous vote.

II. Action Item: Advisory Board FY03 Operating Budget

Joseph Favaloro, MWRA Advisory Board Executive Director, stated that no changes have been made to the Advisory Board's Operating Budget that was presented at last month's meeting. There is an overall increase of 1.3%, mainly due to the loss of interest income.

A Motion was made **TO APPROVE THE ADVISORY BOARD'S FY03 OPERATING BUDGET**. It was seconded and passed by unanimous vote.

III. Discussion: Advisory Board FY03 Current Expense Budget Review Process

Mr. Favaloro stated that after discussions with staff a decision was made to push approval of the *Advisory Board's Comments and Recommendations to the MWRA's Proposed Current Expense Budget* until May. It made more sense because of the uncertainties of the state budget, which has a significant impact. House debates are at the end of April and proceed into the first week of May and then staff will introduce its recommendations.

As an overview for the Executive Committee, however, Mr. Favaloro reported that the *Comments and Recommendations* depict concepts on how to live with the cut.

Cornelia Potter stated that the rate revenue for the current fiscal year is \$389 million, so every percent increase represents \$3.895 million. The Authority gave scenarios for FY03 with rate increases of 3.5%, or a \$13.5 million increase, and 8.8% – nearly a \$20 million shortfall in state debt service assistance. Advisory Board staff came up with a range of potential reductions that can be considered.

Much of the potential \$7 million reduction in Direct Expenses would come from *Wages and Salaries*. The Authority may have 70 additional positions vacant than assumed when putting the budget together. The number is approximate because people have the option to pull their retirement application until June 30th. With the allowance of a 20% backfill, staff's calculation for the 20% is \$3.75 million, which could go up or down.

Related to *Wages and Salaries* is *Fringe Benefits*. The Authority made assumptions of 4% cost increases. With 70 fewer participants, *Fringe Benefits* may be able to be reduced.

The MWRA will revisit the *Retirement Fund* addition to determine what it has to deposit due to fluctuations in the stock market and uncertainties about fund performance.

There is a whole range of direct expenses that staff continues to review, from overtime, travel, memberships and chemicals with a suggested reduction totaling \$3.25 million. An important component is electricity at Deer Island where MWRA negotiated a more favorable supply agreement; however, Boston Edison is eligible for stranded cost payments from the MWRA, a number which is still under negotiation.

For non-rate revenue, staff found that MWRA had underestimated fees for water treatment plant residuals because this is the first year that Cambridge (\$137,000) would be added in.

The other major category of budget review is Capital Financing, which makes up 60% of the Authority's entire budget. To make a measurable reduction in the Authority's proposed budget, capital financing has to be part of it. Staff has identified \$10.5 million of potential reductions. This item can swing wide based on assumptions for variable rate debt and debt refinancing.

The Authority for the past three years has assumed 4% on variable rate debt for purposes of budgeting. In the last three years, it was more than needed and the overage was assigned to a subsequent year and used as a credit. In the FY02 budget, MWRA carried over \$800,000 from FY00. In the proposed budget, MWRA has carried over \$9.7 million from FY02 accruals and left out FY01. Staff's recommendation includes \$1.3 million that MWRA has not applied from FY01. The number also assumes a more favorable credit from two components of this year's budget related to past borrowings. MWRA is going to have nearly \$12 million in credits this year and is budgeting conservatively when variable rates are considerably lower.

The second major assumption is that the Authority is at the beginning of a whole series of call provisions. In 2003, associated with 1993 issues, the Authority will have over \$800 million in previous borrowings coming due. Staff thinks this is a substantial opportunity to restructure and reposition some of the items that are due in the coming year and into future years. Much of the debt is for the Deer Island Program. Staff is considering a conservative reduction of \$5.5 million, but the potential is much higher.

Guy Carbone asked if the *Residuals Income* came from Cambridge. Ms. Potter stated that the funds are from water treatment plant residuals from Cambridge. The Authority charges a fee to communities that deposit residuals into the Authority's sewer. Mr. Favaloro noted that

Reading, Cambridge and Dedham are treated as industrial users for the purpose of wastewater residuals.

John Carroll asked why staff picked 4.25% for its example, rather than 3.5%. Ms. Potter stated that the 3.5% increase was based on a fully funded state debt service program. The program is unlikely to be fully funded and may be short as much as \$18 to \$20 million.

Mr. Carroll asked what communities' reaction has been. Mr. Favaloro stated that the message received from the communities was if there is a choice between less debt service assistance or local aid, a cut in debt service assistance would be the lesser of two evils; however, communities still expressed the desire for the rate increase to be as low as reasonably possible.

Joe Foti asked how much it would cost in rate stabilization funds to get from 4.25% to 3.5%? Mr. Favaloro replied that \$3 million would bring the rate increase to 3.5%; however, using rate stabilization funds would send a message to the Commonwealth that the Authority can get to any number it wants.

Mr. Foti inquired whether staff could find \$3 million in additional cuts within the budget. Ms. Potter stated that \$3 million could not be found on the direct side, but the variable interest rate assumptions could be applied. Ms. Potter noted that over \$100 million in rate stabilization funds have already been fully absorbed in the multi-year planning projections.

Bernie Cooper noted that a \$20 million state cut in local aid would be absorbed by 351 communities, rather than a debt service assistance cut, which is only absorbed by the MWRA district.

Ms. Potter stated that the Authority has the ability to backfill up to 20% of the salary value of people who retired. However, the Authority has a goal to meet the Black and Veatch study staffing reductions over a multi-year period. Because of participation in the Early Retirement Program, MWRA will easily meet its target for FY03. If the Authority backfills every position that it is allowed to, MWRA will not make its goal for FY04. If the Authority doesn't backfill the 20% of the value in the next immediate fiscal year, for the entire year, then there could be an additional several hundred thousand dollar reduction to the *Wages and Salaries* line item.

Mr. Favaloro recapped that staff will provide the budget comments to the Executive Committee for its May meeting. Staff will also provide different scenarios of rate increases outlining how staff reached the numbers.

Jay Fink asked that spreadsheets include the proposed amounts, not just the reductions. Staff agreed.

Mr. Cooper requested an update on the rate stabilization fund detailing how much is in the fund. Mr. Favaloro offered to get the latest figures from the MWRA and how the MWRA plans to spend those funds between now and FY07.

IV. Legislative Update

Mr. Favaloro stated that in speaking with Senate and House Ways and Means Committees, the discussion has never gone below \$32 million. There is a lot of uncertainty on the legislative front.

Staff has now begun to reintroduce a list of enhancements that the Legislature may want to consider that don't cost the Commonwealth money, but will have a benefit to the MWRA. Included in that list are things like incorporating the MDC Watershed Division into the Authority. Consolidation can lead to savings.

Additionally, if there is going to be a reduction in dollars from the Commonwealth, perhaps there could be some relaxation on timelines for the Clean State Initiatives.

V. Discussion: System Expansion Requests/Timeline

Stoughton is nearing the "finish line" in its efforts to join the MWRA water system. A vote of the Water Resources Commission (WRC) is scheduled for early May. At the April Advisory Board meeting, the consultant for Stoughton will talk about the technical aspects of connection in the project. MWRA will talk about the impacts on the overall MWRA water system, along with the financial benefits of the Advisory Board and the Board of Directors voting in the affirmative.

There is the potential that Stoughton will be back at the May Advisory Board meeting for a vote of the communities for its entrance into the MWRA system.

Additionally, there has been an ongoing discussion relating to two industrial parcels in Hingham, which are trying to tie into the system through Weymouth, and have now brought forward their applications. Discussions on these applications may begin at the Operations Committee meeting in May.

VI. Action Item: Interviews/Nomination to the MWRA Board of Directors

Mr. Favaloro reported that John Carroll has submitted a letter of intent and resume for consideration of another term on the MWRA Board of Directors.

Mr. Carroll stated that it has been an honor to serve on the Board of Directors for the past 17 years and if elected again will serve the best that he can.

Guy Carbone made a Motion **THAT THE EXECUTIVE COMMITTEE NOMINATE JOHN CARROLL TO SERVE ANOTHER THREE YEAR TERM ON THE MWRA BOARD OF DIRECTORS, FROM JULY 1, 2002 TO JUNE 30, 2005 AND RECOMMEND THAT NOMINATIONS BE CLOSED.** It was seconded and passed by unanimous vote.

VII. Approval of the Advisory Board Agenda for April 25, 2002

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE APRIL 25, 2002 MEETING.** It was seconded and passed by unanimous vote.

VIII. Questions/Comments

Mr. Carbone noted that the proposed FY03 budget for the Deer Island Wastewater Treatment Plant (DITP) is \$39.3 million and that residuals are budgeted at \$14.8 million. MWRA is

generating 100 tons of residuals per day. The average solids content for digested sludge is 5.5%. Is the 100 tons per day total solids or liquids and solids? Ms. Potter replied that the 100 tons is the amount of processed pellets.

Mr. Carbone stated that reducing the sludge to pellets is costing approximately 38% of the total cost of operating the DITP. Ms. Potter stated that \$14.8 million is the cost of operating the Fore River Pellet Plant, which includes barging the waste to Fore River, throwing it into the bins, baking it into pellets and shipping it out. It also covers the cost of the backup landfill in Utah.

Mr. Favaloro stated that the Utah landfill is an absolute waste of money. The Advisory Board's representatives on the Board and the Executive Committee have been trying to eliminate the backup landfill for years. MWRA pays to have the landfill available and pays when it is used as well.

IX. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 10:14 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary