EXECUTIVE COMMITTEE MEETING
OCTOBER 11, 2002

MINUTES APPROVED AT THE NOVEMBER 15, 2002 MEETING

Present: Phil Farrington, ARLINGTON; John Sullivan, BOSTON; Ed Sullivan, CANTON; Katherine Haynes Dunphy, MILTON; Bernie Cooper, NORWOOD; Jay Fink, QUINCY; Ted McIntire, READING; Walter Woods, WELLESLEY; Al Renzi, WESTWOOD.

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

I. Approval of the September 13, 2002 Minutes of the Executive Committee

The meeting, held at the Advisory Board office, was called to order by Chairman Katherine Haynes Dunphy at 8:46 a.m. A Motion was made **TO APPROVE THE SEPTEMBER 13, 2002 MINUTES OF THE EXECUTIVE COMMITTEE.** It was seconded and passed by unanimous vote.

II. Update: Potential of Advisory Board Staff Joining the MWRA Retirement System

Joseph Favaloro, Advisory Board Executive Director, stated that the Enabling Act created three separate entities: the MWRA, MWRA Advisory Board and the Retirement Board. In the past two years, with the stock market decline, the Advisory Board's Tax Deferred Annuity (TDA) has taken a substantial hit. Staff has begun conversations with Brian Leahy, Director of the Retirement Board, and Ken Wissman, MWRA Treasurer, to explore the potential of the Advisory Board joining the MWRA's Retirement System. There is a chance that the Board's three members, Ken Wissman, Jay MacRitchie (MWRA Board of Directors) and Jim Fleming (retired MWRA employee) will consider an application to allow Advisory Board staff into the system, which would benefit existing staff and be a potential enticement for future staff as well. Currently there is a 12.5% component as part of salary sent to Northwest Mutual Life for the TDA.

Walter Woods stated his approval of the idea and suggested that the Advisory Board pursue a "buy in" for previous years of employment. Mr. Favaloro stated that a "buy in" would be allowed over a five-year period.

Bernie Cooper asked if there would be a financial implication. Mr. Favaloro responded that a change from the 12.5% was not anticipated.

Mr. Woods asked if the Authority contributes to the plan. Mr. Favaloro stated that the Authority contributes a relatively small percentage, which would be miniscule for the Advisory Board.

Jay Fink asked if the MWRA contributed to the retirement system in the last five years and how much do employees contribute? Mr. Favaloro stated that MWRA contributes $1 to $2 million on a yearly basis. New employees must contribute 11%. Mr. Fink questioned whether the current 12.5% rate would be broken down as 11% into the retirement system and 1.5% staying with the employee. Mr. Favaloro responded in the affirmative.

III. Results: CIP Cap Committee Meeting

Three years ago the Advisory Board convinced the MWRA to put a capital spending cap in place. The Authority was allowed to determine its needs and dollars not spent during the fiscal year would be allowed to roll into the next fiscal year. To protect future capital needs for years beyond 2010, an additional $100 million plus inflation would be allocated, amounting to $126 million per fiscal year beginning with FY11.

The problem with the current implementation of the cap is that the Authority is taking full advantage of rolling the dollars backward, taking monies allocated for FY11 and FY12 and spending it before FY10. The Advisory Board does not believe that this is the spirit or intent of the cap.

The CIP Cap Committee (Advisory Board and MWRA staff, Katherine Haynes Dunphy and Board members, John Carroll and Vincent Mannering) met and determined that Authority staff will come back to the Committee and outline what the implications are of meeting the spirit of the cap. Mr. Favaloro stated that MWRA has huge rate increases that are only going to get worse. The Authority must get into the mindset that it has to budget, pick and choose. It is critical that the Authority place stronger controls on how it spends its capital dollars.

Andrew Pappastergion asked if MWRA staff agreed with the definition of the cap. Mr. Favaloro stated that, legally, the Authority is right. As written, with a rolling cap, it can spend out year dollars in pre-FY10 years; but, Mr. Pappastergion noted, that is not in agreement with the spirit of the cap.

Mr. Carroll stated that MWRA staff agreed to have another meeting and will bring back a projection showing the budget without borrowing from the out years. Staff seemed concerned about presenting the Board with tough decisions.

Ms. Dunphy complimented Mr. Carroll's efforts at the CIP Cap Committee meeting to come up with language that reflects the original intent of the cap.

Ms. Potter noted that another angle on how the Authority stays within the cap could be any one of a combination of project rescheduling and rethinking. Authority staff has indicated that it will come back with one alternative. MWRA staff assumes that projects that are court, consent or administrative ordered will not be in the mix.

IV. Discussion: Potential of Additional Debt Service Reductions In FY03 and FY04

The Governor's $200 million emergency budget cut was implemented yesterday, but did not further impact debt service assistance or the MDC Division of Watershed Management. The Governor has asked the Legislature to come back and look at additional areas for reductions if necessary. September is a critical collection month and the state met its September benchmark; however, the FY03 shortfall is $350 million and the state is only $200 million of the way there. For FY04, the reality is that the Commonwealth is anywhere between $1 to $2 billion in the hole, if it meets all of its benchmarks.

The State Budget will commence in FY04 needing to make up upwards of $2 billion. If the Commonwealth begins to reduce costs, debt service assistance will probably be on the list of things considered for significant cuts. These are critical pieces as we begin to look at how we structure our CEB Amendment Comments.

V. Discussion: Legislative Priorities for Upcoming Legislative Session

All legislation for the new cycle must be filed by December 4, 2002. Under the current budget constraints, the Executive Committee and staff agreed that emphasis should be placed on initiatives that the Commonwealth could do without a financial impact to its budget, with the exception of restoration of debt service assistance.

These initiatives include the exemption of the MWRA from the Comptroller's annual charge to MWRA for 30% of DWM employees' line item. MWRA is also charged for all DWM seasonal and temporary employees that are ineligible for insurance. MWRA would pay actual costs of health insurance and retirement, less employee contributions.

MWRA cannot get beyond the $500,000 payment for the Clinton Wastewater Treatment Plant, but all new connections should be paying a sewer rate. Developers are paying major fees to Clinton for mitigation while the town is receiving free sewer service from MWRA. Initiatives for advertising on MWRA properties and limiting MWRA's liability will also be filed.

Staff proposed an initiative that would allow the Mayors of Quincy and Winthrop to appoint a member to the MWRA Board of Directors, rather than have the Governor select the representative. Additionally, staff proposed that the Board be allowed to elect its own Chairperson. Staff considers the appointment of the Secretary of the Executive Office of Environmental Affairs (EOEA) as Chair a conflict of interest.

Executive Committee members agreed with the proposal that the Mayors of Quincy and Winthrop appoint members to the Board; but, disagreed with the election of the Chair. Mr. Pappastergion and Mr. Carroll stated that the Secretary of EOEA should be Chairman.

John Sullivan made a motion **TO FILE THE LEGISLATIVE INITIATIVES PROPOSED THAT DO NOT HAVE A FINANCIAL IMPACT TO THE COMMONWEALTH, WITH THE EXCEPTION OF THE PROPOSAL TO HAVE THE BOARD OF DIRECTORS ELECT THE CHAIR, AND INCLUDE AN INITIATIVE FOR THE RESTORATION OF DEBT SERVICE ASSISTANCE.** It was seconded and passed by unanimous vote.

VI. Discussion: MWRA's Proposed Amendment to the FY03 Current Expense Budget

Cornelia Potter stated that the Authority has identified $3.6 million in capital financing reductions which will contribute to total expense reductions of over $8 million in FY03. The Authority has proposed using the FY02 Clinton Wastewater Treatment Plant payment of $500,000 and Stoughton's entrance fee as income for FY03. MWRA is facing a $14.3 million shortfall in FY03 due to a reduction in state debt service assistance.

As staff reviews the Amendment, the biggest concern is that the FY03 shortfall could be just the beginning of reductions to state debt service assistance. Therefore, the outline for the Advisory Board's amendment comments covers a number of themes and options. The overall theme is to recognize that the future is not bright. Similarly, the regulatory requirements have been characterized by an uncertain attitude and uneven treatment by some of the regulatory players with regard to some of the major programs in which the Authority is engaged. The Deer Island Wastewater Treatment Plant needs to be maintained and the Authority has placed $100 million in the CIP over the ten-year capital program to ensure the extended life of the treatment facility.

Rate stabilization funds have been assumed in multi-year planning projections. If the Authority needs to use these funds to cover reductions in debt service assistance, funds will not be available to smooth rates over the multi-year period.

Mr. Carroll suggested that the Executive Committee adopt the following recommendations made by staff, so that the Advisory Board's three Board members could begin to work to have these changes implemented:

A. Develop a debt restructuring/refinancing plan. Craft three scenarios (aggressive, moderate and conservative) outlining the pros and cons of each approach.
B. Reassess capital spending. Recommit to the master planning process. At a minimum, adopt the Advisory Board's recommendation on the CIP cap to reserve the $126 million for each year after FY2010 for that specific year and reschedule FY03-10 spending. And, consider a moratorium on CSO spending.
C. Reopen the discussion on reserve levels. If reserves are maintained to safeguard the MWRA and ratepayers, consideration could be given to reconsidering the scope and need for all MWRA reserve funds.
D. Undertake plans to move all MWRA related activities out of Building 34 in the Charlestown Navy Yard and consolidate staff within existing facilities. Seek to sublease all vacant space in Building 34.
E. Revisit Advisory Board FY2002 and FY2003 recommendations. Specifically:
   - Commit to an MWRA-wide regulatory management strategy.
   - Expedite all planned energy efficiency projects to take advantage of avoided energy costs and commit to a comprehensive Authority-wide energy management strategy.
   - The MWRA Board of Directors should direct staff to work toward transferring the MDC Watershed Division to the MWRA.
   - Seek opportunities for responsible expansion.
   - Reconsider the level of current revenue utilized to support the capital program.
   - Reduce the CCR outreach budget.

John Sullivan noted that a moratorium on CSO spending gets into court-ordered mandates. "Perhaps some of the major water projects should be reconsidered. The West Roxbury Tunnel has deterioration; it has probably had issues since 1950 when they put it in. Should we consider that? In quickly reading this recommendation, there may be two or three lines that we don't want to adopt as a group."

Mr. Favaloro stated that staff planned to continue working on its recommendations during the month of October to bring forward to the Executive Committee and Advisory Board in November and the Board of Directors in December.

Ms. Potter also offered, for example, that Item D, which proposes to have the MWRA move out of Building 34, might also be extended to Building 39. The Authority could move out of the Navy Yard completely and consider moving everyone to Chelsea or an empty facility on Deer Island.

Mr. Favaloro suggested that staff will continue to work on its recommendations for further discussion next month.

VII. Preview: Operations Committee Topics

A) Wastewater Metering Committee

The Operations Committee will meet in Chelsea on October 22 and will form a Wastewater Metering Committee. Mr. Favaloro expressed his dismay at the lack of community response for volunteers for this Committee.

Jay Fink added that the metering system is a critical function in dealing with community flows. Communities should “buy in” at the beginning of this program while there is an opportunity to weigh in opinions, rather than deal with the results.

B) Request Sager Electronics & J. M. Perrone Co., Inc. – Proposed Connection to the MWRA Sewer System

Mr. Favaloro noted that two small industrial companies (Sager Electronics and J.M. Perrone Co., Inc.) have put applications forward to join the MWRA system. Presentations will be made to the Operations Committee and Advisory Board in the near future.

VIII. Approval of the Advisory Board Agenda for October 17, 2002

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE OCTOBER 17, 2002 MEETING.** It was seconded and passed by unanimous vote.

IX. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 9:52 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary