EXECUTIVE COMMITTEE MEETING
NOVEMBER 15, 2002

MINUTES APPROVED AT THE JANUARY 24, 2003 MEETING

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

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

I. Approval of the October 11, 2002 Minutes of the Executive Committee

The meeting, held at the Advisory Board office, was called to order by Chairman Katherine Haynes Dunphy at 8:36 a.m. A Motion was made **TO APPROVE THE OCTOBER 11, 2002 MINUTES OF THE EXECUTIVE COMMITTEE.** It was seconded and passed by unanimous vote.

II. Update CIP Cap Committee Discussions

Joseph Favaloro, Advisory Board Executive Director, stated that the Capital Improvement Program (CIP) Cap Committee met for the second time last Wednesday. The goal is to clarify the interpretation of the cap and how MWRA staff would get under the cap in the event the Board accepts the Advisory Board's interpretation of a sustainable and predictable ten-year cap versus the rolling cap, which is the Authority's current position.

As it stands now, the Authority is scheduled to move nearly $300 million into the capital budget prior to FY10, leaving less than $20 million for each Fiscal Year 2011 to 2013. Just in the past six months, the situation has worsened by close to $120 million.

Board members that serve on the Committee, John Carroll and Vincent Mannering, requested that the Advisory Board come up with suggestions on what the Authority should cut from the FY10 and before timeline. The implementation of the spending cap was meant to address these dueling exercises, to avoid pitting the Advisory Board versus the MWRA. Mr. Pappastergion asked how staff managed to spend $300 million more than it should have. Mr. Favaloro stated that the Advisory Board's CIP comments noted "project creep" with the expansion of phases and projects that found their way into the budget.

John Sullivan stated that any time BWSC has a budget crisis, staff is told the amount of funds that will be available and is required to prioritize projects. Court ordered projects are a priority and the rest are let go if funds are not available. Why isn't the Committee telling staff to put the projects in order, based on their importance and rating the risk in not doing the project? Mr. Favaloro stated that staff did come up with a list. The biggest unknown is how does the world change in FY04 if there is even less debt service assistance? Shouldn't the capital budget reflect the fact that the offset to capital spending is going to be even further diminished? There are significant unknowns that are potentially going to impact capital spending, the current expense budget and the levels of rate revenue requirements and rate increases to communities in FY04, which are already in the 7% to 8% ranges. Double-digit increases are probably right around the corner.

Jay Fink stated that, assuming some of the court ordered projects are of a rehabilitation nature, it would seem that every rehab project has some level of "why are we doing it?" Is there a high risk of failure, service life is "this" and is expected to fail in ten years or is it a sequential project, which is scheduled to be done? In the presentation of these projects, has staff come up with descriptions of risk? Mr. Favaloro stated that the Board members on the Committee asked that every project in the capital budget have a synopsis of impacts to the system if delayed.

Mr. Pappastergion stated that capital projects should be rated in terms of priority: court ordered, urgent, necessary, desired. Mr. Fink also noted that if a project would have a financial pay back, it could be a priority. Mr. Carroll stated that there is roughly $400 million of CSO court ordered projects. There is probably less actual need for some of the court ordered projects than some of the other projects.

Mr. Favaloro noted that the choices are endless for rearranging projects. MWRA staff suggested eliminating the I/I Program and the Local Pipeline Improvement Program (LPIP) and reallocating those funds. John Sullivan noted that the LPIP is part of filtration avoidance. Mr. Favaloro agreed, stating that if the LPIP were eliminated, EPA would head back to court to push for filtration, which would have to be added to the budget. Currently, EPA can do nothing because the Authority is in compliance.

Mr. Fink suggested that MWRA do an evaluation of its projects. If a pipe is 100 years old and needs to be replaced, does it matter if it is 100 or 105 years old? Mr. Carroll stated that the problem is there are 150 projects and the Authority can justify each of the projects; however, Mr. Carroll wants to ensure that the projects that are left are the most appropriate.

Cornelia Potter stated that the concept of the cap came about because the Authority's priority setting process was not effective. For a number of years, staff tried to have the MWRA assess each project on a technical and service basis, rather than other categories. Because the Authority never fully grappled with that challenge effectively, the Advisory Board came up with the cap idea to create a lid. Even so, the projects within that lid haven't been ranked appropriately.

III. Update Legislative Agenda/State House News

Mr. Favaloro stated that the Advisory Board's Legislative Agenda will be an Action Item at the next full Advisory Board meeting and was presented to the MWRA Board of Directors this past Wednesday. The Board is supportive of the Advisory Board's initiatives on the actual costs for additional connections for the Clinton Wastewater Treatment Plant; limiting MWRA's liability to $100,000 and the fringe rate piece associated with health insurance and retirement costs for MDC Division of Watershed Management (DWM) employees.

The Board was also supportive of the initiative to transfer the MDC Division of Watershed Management (DWM) to MWRA. This was an important step. The Board voted 8 to 1 in favor of this initiative. The Secretary of Environmental Affairs and Don Mitchell were not present. Toni Pollak was the only one who voted against it and was the voice of delay.

The Board deferred action on advertisements on MWRA properties; it also deferred action on the Quincy and Winthrop initiative.

The only other piece the Board will file is to increase the bond cap by $400 to $500 million. The Advisory Board does not take action on that legislation until it finds its way to the Legislature.

Bernie Cooper asked what the Sewer Rate Relief fund means to the new Senate President's constituency. Mr. Favaloro stated that Senator Travaglini's entire district is in the MWRA service area. He has always been supportive of debt service assistance and has had a good relationship with this office and the MWRA, but the reality is money. Every decision that the Legislature and Governor Elect Romney make will be tempered by the reality of the budget.

John Sullivan asked if the mitigation that MWRA pays to Quincy and Winthrop will ever end. Mr. Carroll responded that the mitigation payments are not expected to end, at least not for a long time. The question is what MWRA is going to pay Quincy; it currently pays Winthrop $680,000 per year.

John Sullivan stated that there are people in Boston neighborhoods that say, "What about the two headworks that are in Boston?" People are asking where is their mitigation.

John Carroll stated that there has been a lot of pressure to continue paying Quincy the amount it was paid during construction. Articles in the *Patriot Ledger* mentioned that the schools would be helped because of MWRA money. Ms. Dunphy noted that it was a smart move on Quincy's part, attaching MWRA payments to children's issues. John Sullivan stated that a lot of communities host ongoing operations.

Mr. Favaloro stated that there is a legal battle brewing. The Mayor of Quincy is adamant that the sludge plant is still interim and that Quincy is entitled to $3+ million, which is miles away from the $680,000 that Winthrop receives. The Mayor has a right to go to court. The Board of Directors' attempt to placate Quincy with $680,000 has been the source of two *Patriot Ledger* articles. One states that "it is good that the Authority has recognized the minimum amount of money Quincy is entitled to" and the second follow up story ties the money to education and other issues.

John Sullivan stated that paying Quincy and Winthrop is a cost of doing business for the Authority. Mr. Carroll said the key is to maintain the balance between Quincy and Winthrop. With the exception of Jay MacRitchie and Marie Turner, the Board feels strongly that it should stay that way.

IV. Action Item: Advisory Board Comments and Recommendations on the MWRA's Proposed FY03 CEB Amendment

Ms. Potter stated that the Authority had already seen a reduction of debt service in the budget in June when it became apparent that $4.5 million would not be available from the Commonwealth Sewer Rate Relief Fund (debt service assistance). Together with the $14.3 million that this Amendment covers, the Authority is facing a collective shortfall of $18.8 million.

Because sewer spending on the capital program has so far outweighed water spending, the 20% that the debt service assistance program allowed the Authority to receive was almost matched by the 19% contribution to debt service for the last eight years. Numbers dropped as non-covered water projects became a more dominant feature in the Authority's capital program. Staff's calculation shows that if the Authority doesn't continue to re-spread its reserve accounts, even if debt service assistance were held even at $32 million, rate increases next year could be in the double-digit range. It is all a function of how the Authority chooses to use its reserves in the multi-year period. The Proposed Amendment represented a series of spending reductions and revenue enhancements to match the $14.3 million shortfall from the Debt Service Assistance Program.

Staff commends the Authority for containing spending, most notably reduced staffing and reductions from other direct expenses coming from the renegotiations of chemical contracts, sludge processing and electric. However, staff also points out that the Authority's debt service is the dominant feature of the ongoing Current Expense Budget and the pace of the debt service is expected to grow through the decade and be nearly $500 million ten years from now.

Ms. Potter stated that the Advisory Board staff concurs with the MWRA's package of spending reductions. Staff is aware that the Authority has a very tight budget. The rest of the comments stress the need to contain spending for this fiscal year and brace itself for FY04's proposed budget. The Authority should focus on bringing staffing levels to functional area goals in accordance with Black and Veatch's recommendation. Additionally, Advisory Board staff recommends that MWRA contain intern and temporary contract employee budgets, which have already been depleted by 40% so far this year.

Staff also recommends that the Authority grasp opportunities for tightening office space and to address workers' compensation because that item is over budget this year. Further, higher priority should be given to projects that are designed to automate facilities as that will allow the Authority to continue to reduce staffing levels and also operate facilities more efficiently.

Chemicals spending is over budget this year and further increased spending is seen, not only through September, but also in the October budget. The Authority needs to give special attention to several components of the chemicals budget or it will continue to have a real challenge to get through the rest of this year.

On energy efficiency, the Authority is going out for bid for a contract at Deer Island. The Advisory Board is urging that the Authority accelerate demand management projects wherever possible, at Deer Island and throughout the agency.

Staff urges the Authority to make modifications to outfall monitoring in terms of sampling and reporting; the Consumer Confidence Report needs refining to see whether the professional services line item can be reduced even further.

The Authority must look at alternatives to current plans for capital spending if it is going to change the projections of debt service payments in the future. In particular, staff draws attention again to the cap effort and the importance of master planning as a way of looking at the overall number and timing of projects in the capital budget. Staff stresses the importance of managing existing debt and restructuring/refinancing.

It may be possible to further reduce the Renewal and Replacement Reserve that is now at $35 million. If funds do not need to be placed in the Reserve to meet coverage requirements, staff urges the Authority to rethink what the accrual should be for this line item this year. Additionally, a review of regulatory requirements and transfer of the DWM to the Authority have also been recommended.

A motion was made **TO APPROVE THE ADVISORY BOARD COMMENTS AND RECOMMENDATIONS ON THE MWRA'S PROPOSED FY03 CEB AMENDMENT.** It was seconded and passed by unanimous vote.

V. Update Wastewater Meter Replacement Project

Mr. Favaloro stated that the Wastewater Meter Replacement meeting was held two weeks ago in Chelsea and expressed his dismay about the lack of participation from communities. Al Renzi suggested that there might be better participation if meetings were held in the Route 128 area.

Mr. Fink expressed his surprise at the lack of answers from MWRA staff on some key issues. There is a lot of work yet to be done.

Ms. Dunphy asked when the project would be going out for bid. Mr. Fink responded that MWRA did not provide a schedule or a copy of the RFP. There was some discussion of selection criteria, but it hasn't been provided.

Mr. Fink stated that communities are looking at a capital expenditure and there are different technologies. The onus will be placed on MWRA to maintain and replace this equipment. Should we be purchasing these things or looking at a service to provide and maintain the equipment with MWRA oversight? What is the service life of this equipment? Again those answers weren't readily available. Are we going to be bonding for 20 years on a ten-year life of the meter? Before we get to the operational question of "what if somebody's flow goes up by 20%?" This is something that could affect every community.

Mr. Favaloro noted that Jay's points are valid. "What is the role of the communities as it relates to the actual equipment and how do the communities develop the process to mitigate the uncertainties that may come forward?"

VI. Process/Scheduling for Executive Director Evaluation

The Executive Committee determined that the Executive Director's evaluation will be held during the month of January. Ms. Dunphy invited Committee members to send their comments to her.

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

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

VIII. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 9:36 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary