EXECUTIVE COMMITTEE MEETING
JANUARY 24, 2003

MINUTES APPROVED AT THE FEBRUARY 21, 2003 MEETING

Present: Guy Carbone, BELMONT; John Sullivan, BOSTON; William Hadley, LEXINGTON; Katherine Haynes Dunphy, MILTON; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; Jay Fink, QUINCY; Walter Woods, WELLESLEY; 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 November 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 8:37 a.m. A Motion was made **TO APPROVE THE NOVEMBER 15, 2002 MINUTES OF THE EXECUTIVE COMMITTEE.** It was seconded and passed by unanimous vote.

II. Discussion

Joseph Favaloro, Advisory Board Executive Director, noted that discussions were held at a previous Executive Committee meeting regarding the Advisory Board staff joining the MWRA Retirement System. At this week's Retirement Board Meeting, the Board asked if this move was approved by the Executive Committee.

Jay Fink made a **MOTION TO ENDORSE THE ADVISORY BOARD STAFF'S REQUEST TO JOIN THE MWRA RETIREMENT SYSTEM.** It was seconded and passed by unanimous vote.

III. Update: Capital Improvement Program Cap

Mr. Favaloro stated that the MWRA Board of Directors, at its last meeting, voted to revise the proposed cap for the FY04 and FY05 capital budgets. The Board also agreed that in the event the Authority goes out to bid, for example, on a $1 million construction project that comes in at $.5 million, normally the Authority would keep the $500,000 balance within the cap to potentially be allocated to other project increases such as change orders. The revised approach, approved by the Board, requires the $500,000 difference to be removed from the cap and reduces it down to that new number. That was a significant change for the Authority staff to accept.

The Board also requested that MWRA staff go back to the court parties to look at revisions to the CSO plan. John Sullivan asked if MWRA discussed what the financial implications would be if the ongoing CSO projects were curtailed. Mr. Favaloro stated that the revisions would clearly focus on projects like the North Dorchester Bay/Reserved Channel CSO Project that haven't commenced, but would also look at the pacing of community managed projects.

Mr. Sullivan noted that once projects are advertised and residents of affected communities know about the projects and the disruptions they will cause, it is difficult to tell people that instead of their neighborhood being disrupted until 2007, the project won't be complete until 2010. Is the dollar amount saved worth it? What is the value to the Authority? What financial benefit is there in delaying? Ms. Potter estimated a savings of $6 million in debt service for every $100 million of borrowing that is postponed, deferring 1.5% of rate increases.

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

Cornelia Potter stated that the first round of draft comments on the CEB Amendment were mailed last week. The Authority took the first $14.3 million and wrapped it into a total reduction of $47 million to counter the loss of debt service assistance. In summary, the Board of Directors voted to cover the state debt service assistance losses through an equal proportion of expense reductions, further utilization of reserves and a rate revenue increase.

The Authority will use rate stabilization and bond redemption funds to offset debt service, but has yet to determine how much will be used from each fund to make up the $15+ million.

The rate revenue from communities has been identified, although there may be some modifications because other user charges were not adjusted. Mr. Favaloro stated that the Authority has said that it will not be looking back to "other user" communities, but simply will have a new rate going forward. The follow up question is why would they be treated differently?

Ms. Potter stated that the Authority has identified $3.5 million to come from direct expenses, but it is going to have to lower spending by $8 million because there are $4.5 million worth of expenses that were not budgeted. Some of it accrued from FY02 and rolled into FY03, others were unanticipated costs, such as the Nyacol upset and unanticipated increased use of chemicals at Deer Island.

Nearly $4.5 million of lower than budgeted spending is to come from reduced personnel. Staff has emphasized the importance to the Authority of meeting functional area goals. Under indirect expenses the Authority expects to benefit from reduced spending of $700,000, including a revision to the MDC amount, as well as anticipated savings from renegotiating the cross harbor cable borrowing. In capital financing the Authority expects to benefit from savings from two transactions in August and later in the fall gain the benefit of another $7.5 million from debt service offsets, including utilization of variable rate debt.

The Advisory Board concurs with the Authority's proposed changes; however, it continues to push MWRA to accelerate efforts to contain and reduce spending and enhance non-rate revenue so as to preserve the reserves for future rate revenue smoothing.

The Authority has been in the habit of budgeting at 4% for variable rate debt and actual costs are now well under 2% and that yields a considerable savings.

Mr. Favaloro stated that discussions were held with MWRA Treasurer, Ken Wissman, about adjustments to the payment schedule for FY04. Ten payments are scheduled over the course of the fiscal year, all evenly sized. The discussion focused on back-end loading the size of the payments so that the first five would be smaller than the last five, giving communities more time to come up with the FY04 assessment, as well as the FY03 adjusted assessment, which is due on July 1. The Advisory Board is advocating that MWRA work cooperatively with the communities. When Ron Joseph was asked what happens if community can't pay by July 1, his response was that MWRA would begin to assess interest.

Mr. Pappastergion questioned why the due date can't be after July 1. Why can't the date be pushed up by thirty days? Mr. Favaloro stated that the rationale for back-end loading was so communities could absorb the impact of the supplemental increase. Communities that can't pay by July 1 should not have the added insult of paying interest. Fred Laskey will be at the Advisory Board meeting next Thursday and perhaps could respond to the difference between due dates. Communities will receive two bills: one for the FY03 supplemental assessment, the other for FY04's first payment.

Ms. Potter stated that the Governor has until late February to file a proposed state budget for FY04; therefore, staff has suggested that the Authority postpone its usual schedule for transmitting its proposed CEB for Advisory Board review for up to 30 days.

Ms. Potter noted that the Advisory Board has not received a capital budget document to review and anticipates a revised start to the CIP review process, which will likely be during February and March, rather than the typical review period of January and February.

It is important to meet functional area goals. MWRA has not said anything about reducing temporary staff (interns and contract employees). The Advisory Board believes that MWRA can further consolidate staff and move out of Building 34 and with future reductions, move out of the Navy Yard completely. Mr. Foti noted that contract employees were included in the layoffs.

The Authority has accrued almost $1 million more than the FY03 budget for Workers' Compensation. Chemical expenses this year are almost $750,000 greater than budgeted. Staff again directs the Authority to review the management of its dosing rates and how it can be better managed. The whole category of chemical expense should continue to be highlighted.

Energy efficiency is a broad theme in the Advisory Board's recommendations. The Board has authorized staff to approve the Deer Island electricity contract. The Authority gets a bid that is good for only a few hours so it must make a snap decision at the time the bids come in. Electricity is a huge expense for the Authority at nearly $13 million and could rise depending on how the contract is bid. There are currently projections of a 14% increase in retail energy rates.

The MWRA's Outfall Monitoring Program is the largest in the country at $4 million. It has been the Advisory Board's sense over time that regulatory agencies continue to add requirements to that program because it is a great way to get research done. Some of the parameters, the frequency of sampling and the range of analysis for those samples can be reassessed and hopefully tightened so that some meaningful reduction can be achieved. The Authority has estimated a $57,000 savings this year, however, much more can be done.

Debt service continues to be a topic that staff has expanded its remarks about. Now that restructuring has been achieved, the Authority is well into the second decade of borrowing that opens the door for rescheduling opportunities and it should be more proactive in developing a restructuring plan with three scenarios: aggressive, moderate and conservative.

Guy Carbone suggested it might be worthwhile to have a moratorium on the prevailing wage for 1½ years and reduce the prevailing wage to 80%. Ms. Dunphy suggested waiting to see what the Governor's budget proposes.

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 Committee

Mr. Fink stated that progress has been made during meetings of the Wastewater Meter Replacement Committee. MWRA will suspend all meter readings for a one-year period from the point when the first meter is installed. The meter readings will be substituted with that month's three-year average to smooth the transition, thus eliminating discussions on who will go first. The remainder of the rate formula (population, strength of wastewater, etc.) will stay the same.

If there should be substantial change in meter readings, an appeal process will be in place. The Committee has asked for a written or formal policy to review before the program begins.

Mr. Woods asked when these meters are removed or failed, does MWRA check these meters to see what was wrong. Mr. Fink stated that meters would be checked for accuracy before they are installed. Mr. Pappastergion stated that MWRA measures depth and velocity. If any one of those sensors fails, it throws the whole equation out of whack.

Mr. Woods asked if the Authority has a method to determine whether a reading is incorrect in the course of calculating the bills. Mr. Pappastergion responded that MWRA could trend the billings to see if they are "out of whack" by a certain margin.

Ms. Dunphy asked if the meter replacements would be completed in one year. What will happen if the installation process takes longer? Mr. Fink responded that the installation is scheduled to take nine months. Mr. Ferrara noted that this topic would be covered at the next Operations Committee meeting on February 4. Incentives will be included in the contract; if it goes into a 13th month, the contractor will suffer consequences.

Mr. Woods asked if the meters selected are proven to be accurate. Mr. Ferrara stated that, as part of the RFP process, accuracy was an important component for any assessment; in fact, the Committee considered accuracy one of the highest factors. When proposals are submitted, cost and accuracy will be assessed on an equal level.

John Sullivan noted that if there are changes because of meter errors and one community's average changes, it affects all the communities' percentages. With the mathematical play around on how much this can be off, everyone should buy into the premise that we all win or we all lose and start anew. Mr. Fink said in the event of a major issue, there would be a formal policy in place.

Mr. Favaloro reported that the Committee hopes to wrap up its piece of this at the February 4th meeting in Newton. The Authority is planning the RFP process for March and hopes to have Advisory Board endorsement before the RFP hits the streets. A final vote could be scheduled for the February meetings of the Executive Committee and Advisory Board.

VI. Update: Legislative Strategy

Staff will continue to work with the caucus to try to resume Debt Service Assistance for the FY04 budget, but it is doubtful.

One area that has some potential is the transfer of the MDC Division of Watershed Management (DWM) to MWRA. Several articles have run in newspapers over the past few weeks noting that DWM should be transferred to MWRA. Mr. Favaloro met with Ellen Roy Herzfelder, the new Secretary of Environmental Affairs, and suggested that the transfer should be included in House 1, the Governor's version of the FY04 state budget. Ms. Roy Herzfelder noted that everything was on the table and would be considered.

Doug Foy, Chief of Commonwealth Development overseeing the State's Transportation, Housing and Environmental Departments, will be at the Advisory Board meeting on Thursday to speak. Staff would like to float the idea of moving DWM to MWRA to him as well.

VII. Approval of the Advisory Board Agenda for January 30, 2003

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE JANUARY 30, 2003 MEETING.** It was seconded and passed by unanimous vote.

VIII. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 10:15 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary