

**EXECUTIVE COMMITTEE MEETING
APRIL 18, 2003**

MINUTES APPROVED AT THE MAY 9, 2003 MEETING

Present: Guy Carbone, BELMONT; Bill Hadley, LEXINGTON; Katherine Haynes Dunphy, MILTON; Bernie Cooper, NORWOOD; Ted McIntire, READING; Al Renzi, WESTWOOD.

Also in attendance: Andrew Pappastergion, MWRA BOARD OF DIRECTORS; Michael Woods and Rob Antico, WILMINGTON; Michael Nicoloro, SEA CONSULTANTS, INC.; Joseph Favaloro, Cornelia Potter, Ryan Ferrara, Nathalie Dailida and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

I. Approval of the March 14, 2003 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 MARCH 14, 2003 MINUTES OF THE EXECUTIVE COMMITTEE**. It was seconded and passed by unanimous vote.

II. Action Item: Wilmington's Request for a Six-Month Emergency Water Connection through Woburn

Joseph Favaloro, MWRA Advisory Board Executive Director, stated that the normal process for an Emergency Water Connection is to go through the Operations Committee first. However, because of the immediacy regarding Wilmington's request and the need to go before the MWRA Board of Directors for approval, waiting until June does not make sense.

Michael Nicoloro of SEA Consultants, Inc. stated that on August 15, 2001, the Board of Directors approved Wilmington's construction of an emergency water supply connection under MWRA Policy No. OP.05.

In October 2002, there was a Nitrite issue associated with Olin, a chemical company. DEP declared an emergency and the Town requested an MWRA withdrawal and went on the MWRA system for one week. Everything returned to normal after that.

In March 2003, there was a N-nitrosodimethylamine (NDMA) health advisory issued because of elevated NDMA levels, forcing the Town to shut down five of its nine wells. Four of Wilmington's wells can continue to operate through winter, but will not get the Town through the summer. On March 27th the town requested an extension of the DEP emergency declaration because the first one was due to expire.

On April 14, 2003, the Town of Wilmington conveyed a formal request for an emergency water supply from MWRA. The Town is scheduled to meet with the MWRA Advisory Board on April

24th and the MWRA Board of Directors on May 14th to seek support and approval for this request. The Operations Committee did not meet in April; however, Wilmington will go before the Committee in May to talk about its Comprehensive Water Management Plan.

The Town of Wilmington has inter-municipal agreements with the Towns of North Reading, Burlington and the City of Woburn. During high volumes, North Reading and Burlington may have less water available for Wilmington's use. The primary solution would be a withdrawal of 1 million gallons per day from the MWRA system to feed Wilmington through Woburn, which are currently working out some details.

During the shortfall, Wilmington is involved in a Comprehensive Water Resource Management Plan and is spending significant dollars studying its water resources, storm water, drainage and drinking water. A Citizens Advisory Committee (CAC), consisting of Wilmington residents and town officials, has met every other month for the past year. In September, the CAC will provide its long-term and short-term recommendations for Wilmington's water resources. The Town is continuing its ongoing leak detection/repair program, completing efforts to modernize its meter system and has a ban in effect to conserve the amount of water used and minimize withdrawal requirements.

A Motion was made **TO ALLOW THE TOWN OF WILMINGTON (WILMINGTON) TO ACTIVATE A CONNECTION TO THE MWRA WATERWORKS SYSTEM, VIA THE CITY OF WOBURN, FOR A SIX-MONTH PERIOD. AVERAGE DAILY DEMAND SHALL NOT EXCEED 1 MILLION GALLONS PER DAY. WILMINGTON WILL ABIDE BY THE RULES STIPULATED UNDER MWRA EMERGENCY WATER SUPPLY WITHDRAWALS (POLICY #OP.05), INCLUDING PAYMENT OF A 10% SURCHARGE OF THE MWRA'S PREVAILING RATE. IF THE PROPONENT WERE TO SEEK WATER FOR A SECOND WATER WITHDRAWAL PERIOD, MWRA SHALL ALSO ASSESS AN ASSET VALUE CONTRIBUTION CHARGE. RULES GOVERNING PREMIUM CHARGES AND ASSET VALUE CONTRIBUTION ARE INVOKED WHEN WATER IS TRANSFERRED FROM THE MWRA TO THE APPLICANT COMMUNITY.** It was seconded and passed by unanimous vote.

III. Discussion/Strategy Session: FY04 Advisory Board Current Expense Budget Review Process

Mr. Favaloro stated that the Authority's projections over the long haul indicate 5 and 6% rate increases. The Authority proposes a rate increase for FY04 under 4%. The Advisory Board through its review will be diligent at looking at every line item. There will be areas that can be reduced, which begs the question, where do we need to be at the end of the FY04 process, keeping the bigger picture in place?

Cornelia Potter stated that the Authority is proposing a budget totaling \$513 million, which after debt service offsets of \$20 million for bond redemption savings and nearly \$6 million for variable rate savings, leaves a total budget of \$486 million proposed for FY04.

The budget increase is a total of \$6.5 million, about half for direct expense spending, another \$1.4 million for indirect expenses and under \$2 million for an increase for debt service. Debt service is still 60% of the overall budget; however, the Authority has conducted several refinancings and restructurings in the past twelve months and has been able to decrease its

debt service estimates measurably. For FY04, the Authority has lowered the estimates of debt service payments from \$354 million, projected two years ago, to \$308 million.

The Authority has done much to contain direct expense spending; the proposed budget for next year is the lowest in five years (except for FY03, which was lowered to adjust for the amendment).

During the course of the last several years the Authority has budgeted variable rate debt at 4%. This has been a reasonable approach until about two years ago when interest rates dropped dramatically. As recently as FY01, interest rates hovered around the 4% mark. In FY02, the Authority experienced variable rate debt at 2% or less. This year it is even lower. The Authority reports now that variable rate debt is costing 1.59%, with the budget for next year still listing 4%.

The Authority has begun to correct for the difference between budgeted and actual by using some of the variable rate savings in FY03 as a way to get through the amendment process this year. It has used \$16 million of over-accrued variable rate debt. That number comes from carryover from FY02, as well as anticipated savings in FY03. The rest of the anticipated savings for FY03 has been applied for FY04 and FY05.

If FY04 remains budgeted at 4% and interest rates remain where they are now, or close to it, that could result in a surplus of \$16 million. Staff's question is how do you treat this? If the Authority has a \$16 million surplus at the end of the year, it won't do much for the argument that the Authority needs debt service assistance back. How do we address the way the Authority has conservatively budgeted for variable rate interest? MWRA staff points out that interest rates could rise faster than they came down.

Al Renzi asked what the realistic chances are of getting debt service assistance next year. Mr. Favaloro stated that for FY04, chances are slim. The main strategy is to salvage the line item.

Mr. Renzi noted that after dipping into the rate stabilization funds heavily this year, it may be a way to build those funds back up to the proper level. Also, Mr. Renzi noted that the increase for FY04 is artificially low because of the mid-year increase in FY03.

Bernie Cooper stated that he did not want to see a rate increase of 1.1% and then get hit with a 4% increase next year, preferring a steady increase.

In order to mitigate the loss of debt service and the mid-year assessment increase, MWRA has drawn significant dollars from rate stabilization; in FY04 MWRA is drawing significant dollars from rate stabilization and debt escrow. On the multi-year horizon for rate increases, double-digit increases appear in FY08.

Mr. Favaloro noted that the Authority, in its discussions with the Legislature, painted an incomplete picture of how the MWRA could operate with \$5 to \$50 million in debt service assistance being restored. It negated the impacts that ratepayers are facing. The Advisory Board is trying to give a more realistic picture of impacts for every community by creating a report using as the starting point the break out of the mid-year increase for FY03 and moving forward. The report includes other payments that communities pay to MWRA, showing only those that have actually occurred. In the past, staff has included amounts that could potentially

be borrowed, but this year the report only shows monies that are actually due. Moving beyond FY04, the picture becomes gloomy. Staff believes that the FY05 battle must begin now to try to restore debt service assistance. If the MWRA sends a message back to the Legislature that it will have only a small increase in FY04, it will have done real damage to itself.

Advisory Board staff suggested that the FY04 increase be in the 3.9% range, utilizing any savings staff finds to reduce the amount of rate stabilization being used and reserve it for future use. The caveat is, in the event that the Legislature puts funds back into debt service assistance in FY04, those funds would be used to reduce the rate increase in FY04.

Andrew Pappastergion stated that, given the climate, it would be foolish to go any lower than the 3.9% increase this year. Earnings or any potential savings this year should be used to offset the 6% increases in the next few years and the 10% increase in FY08. If this year's increase is too low, the chances of getting debt service assistance back are going to be that much harder.

Ms. Potter noted that the fact that the Authority has raised assessments mid year and then could possibly be building a budget that could have \$10 million or more in surplus for FY04 could be enormously awkward.

The sense of the meeting of the Executive Committee was to keep the increase in the 3.9% range and apply any reductions toward mitigating future increases.

IV. Status: CIP Cap/Master Planning

Mr. Favalaro said the CIP Cap Committee, consisting of John Carroll and Vinnie Mannering (MWRA Board of Directors), Katherine Haynes Dunphy (Advisory Board Chair) and MWRA and Advisory Board staffs, met again this past Wednesday to hash out the ongoing, but diminishing, difference of opinion on the concept of the cap.

The rolling cap adds the tenth year and the Authority feels it is free to distribute those funds in any way it sees fit, taking funds from FY11 to FY13 and moving them forward to FY04 to FY10. Advisory Board staff's definition allows for sustainable, predictable levels of spending. Currently, the end result of the cap has done the opposite, moving out year spending forward.

After several Cap Committee discussions, the sense is that John Carroll and Vincent Mannering understand and agree with the Advisory Board's definition. Ron Joseph and staff are coming up with a consensus definition of the cap that will go to the Board of Directors for approval. Then the process would have to begin to reduce the \$285 million MWRA added from the out years.

A related component is how to prioritize and strategize on what projects are in the CIP, what is the risk or benefit and how all these pieces are put together to come up with a Master Planning Process. For whatever reason, staff has drawn another wall from the Authority on what Master Planning is and how to use it. The debate will continue.

V. Legislative Update

The House of Representatives has embraced the dismantling of the MDC in its budget, due to be released next week; however, it merges the Division of Watershed Management (DWM) with the Department of Environmental Management (DEM), under a new Department of Conservation and Agriculture.

The MWRA Caucus has sent a letter in support of moving DWM to the MWRA. Staff continues its one on one meetings with the representatives, emphasizing the importance of this transfer and stressing the need for an amendment to be filed to the House budget. Nathalie Dailida has drafted a letter to be sent to every representative next week.

Mr. Cooper asked if the DEM would be a better scenario than the old MDC. Mr. Favaloro stated that there are the same limitations in place if it stays within state government. The bottom line number of the budget keeps going down. Positions can't be filled. Responsibilities are not being carried out because they don't have the flexibility or funds to do it. DWM is down 20% of its workforce. Two years ago the Authority had to directly fund milfoil protection. Once milfoil begins to take hold, it can totally and quickly take over the entire Reservoir. When it was found, the Authority went to the DWM and asked what it would do about it. DWM responded that it couldn't do anything about it because it didn't have the money.

One of the principal ways the EPA can eventually get the Authority to build a filtration plant is through elevated coliform levels. If the Authority violates coliform thresholds, the filtration issue must be revisited. Coliform is caused primarily by birds gathering on the Reservoir. A simple solution is to harass the birds (shooting an air gun, driving a boat or sounding a whistle), which has been extremely effective. The Authority tests the water daily and a few months ago coliform levels began to spike. When MWRA asked why, DWM stated that the harassment can only be done between 9:00 a.m. to 5:00 p.m. because employees can't work overtime or weekends.

Mr. Carbone asked if it is in legislation that MWRA has to pay 100% of DWM's cost. Mr. Favaloro stated that it is, but the original version was a 50/50 split between MWRA and the state. Mr. Carbone questioned why an approach to the Caucus shouldn't be, "if you want to take the DWM and put it in DEM, the MWRA is not going to fund it anymore or will cut down what it funds. Ms. Dailida stated that it is by law, don't we have to follow it? Mr. Carbone responded yes, if the Legislature voted it; however, if Speaker Finneran were worried about where to get the money to fund DWM, give it to MWRA so the House won't have to deal with it.

Mr. Cooper questioned if the DWM were shifted to the Authority, would the Authority be seeking more than \$18 million to run it? Mr. Favaloro replied that if it moves to MWRA, it would have the same level of review as the rest of MWRA's budget and would then have the flexibility to prioritize what expenditures need to be spent and when. Would it immediately entail raising the budget? There is a potential because there are some critical positions that aren't filled. DWM's debt is set, along with PILOT payments, which are set by formula.

Ms. Potter pointed out that short staffing has caused revenue earnings capability for logging to decline. Mr. Favaloro noted that four MDC staff would check certain parts of the land for necessary logging activity to check the health and the diversity of the watershed. In the past two years, three of the four (two died and one retired) are no longer there. Those activities have been significantly curtailed. Clearly the revenue side could be significant because it is the single largest producer of revenue for the DWM at nearly \$1 million. More importantly, logging in a watershed is not done just for the sake of doing it. It is required to aid the water supply. If the House proposes that DWM move to DEM, an amendment will be filed.

Staff continues to work to keep the debt service assistance line item alive and has received assurances that it will be kept open; however, it is unclear if the amount would be \$1 or \$1 million. The amount is unknown.

VI. Process to Elect Advisory Board Representative to MWRA Board of Directors

Mr. Favalaro stated that Andrew Pappastergion's term on the MWRA Board of Directors expires on June 30. The process for election has started with the potential for a May vote at the State House Advisory Board meeting.

Packages with the notices of intent and resumes will be sent for the May Executive Committee meeting. The Executive Committee will serve as the Nomination Committee.

Mr. Pappastergion expressed his interest in serving another three-year term and requested an opportunity to address the Advisory Board at its April meeting because he cannot attend the May meeting.

VII. Approval of the Advisory Board Agenda for April 24, 2003

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE APRIL 24, 2003 MEETING**. It was seconded and passed by unanimous vote.

VIII. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 10:36 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary