EXECUTIVE COMMITTEE MEETING
MAY 9, 2003

MINUTES APPROVED AT THE JUNE 13, 2003 MEETING

Present: John Sullivan, BOSTON; Ed Sullivan, CANTON; Bill Hadley, LEXINGTON; Katherine Haynes Dunphy, MILTON; Lou Taverna, NEWTON; Jay Fink, QUINCY; Ted McIntire, READING; Walter Woods, WELLESLEY.

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 April 18, 2003 Minutes of the Executive Committee

The meeting, held at the Advisory Board office, was called to order by Chairman Katherine Haynes Dunphy at 8:35 a.m. A Motion was made **TO APPROVE THE APRIL 18, 2003 MINUTES OF THE EXECUTIVE COMMITTEE.** It was seconded and passed by unanimous vote.

II. Action Item: Advisory Board FY04 Operating Budget

Joseph Favaloro, MWRA Advisory Board Executive Director, stated that the Advisory Board's budget request this year is down 2.6% for operating costs, with a total reduction of 3.1%, principally because of a renegotiated lease. The budget includes a step increase for employees.

Interest income has dropped markedly. Accounts opened in the beginning of the fiscal year were earning 3+% interest and are now under 1% in income. Interest income is down 35%, no where near the $11,000 budgeted.

A portion ($5,500) of this year's projected $10,000 to $12,000 surplus will be carried forward to the FY04 operating budget. The remainder will be added to the 3½ month operating surplus as agreed to by the Executive Committee in the past. The Auditor will apply the surplus against the Advisory Board's liability accounts.

A Motion was made **TO APPROVE THE MWRA ADVISORY BOARD FY04 OPERATING BUDGET.** It was seconded and passed by unanimous vote.

III. Action Item: Advisory Board Comments and Recommendations on MWRA's Proposed FY04 Current Expense Budget (CEB)

Cornelia Potter stated that staff has done a thorough review through a series of meetings with Authority staff, particularly the Operations Division, but also the Support, Law and Finance

Divisions as well. Capital financing and investment income are significant components of the budget review process this year.

What is different this year is how staff has translated its recommendations to the bottom line. In keeping the multi-year picture in mind, assuming debt service assistance will not come back in the foreseeable future in a meaningful way, staff has substituted the dollar value in its *Comments and Recommendations* for the rate stabilization monies that the Authority had proposed to use.

Included are recommended reductions to direct expenses of $3.25 million, reductions to indirect expenses of $75,000, identified additional non-rate revenue at $1.5 million and reductions to some capital financing ($440,000; some planned senior borrowing for the fall was also reduced).

The Authority has budgeted variable rate debt at 4% in recent years. During the last two years interest rates have been below 2%, creating a significant variance. Staff has made the judgment that variable rate debt will continue to remain low (currently at 1.5%). For every 1% below 4% variable rate debt, there could be a variance of about $7 million. Should current rates hold for the next fourteen months, the Authority could easily realize a $15 million surplus in variable rate debt. The Advisory Board believes that this kind of budgeting is too conservative and is not supportable. Staff recommends a reduction to variable rate debt of $7.25 million, equivalent to assuming just under 3% variable rate debt. Additionally, reduce $75,000 for current revenue raised for the capital program, linked to capital financing assumptions. Ms. Potter noted that the Authority plans to accrue variable rate debt to reflect the actual interest rate, so it will be visible all year long.

In sum, staff recommends leaving the rate revenue increase for next year at the same level proposed by the Authority and ensuring that rate stabilization monies will be available to ease the bite from future fiscal years.

Mr. Favaloro noted that the only thing that would alter the 3.9% increase would be any debt service assistance received. The House Budget includes $5 million for debt service assistance. Ms. Potter stated that with $5 million in debt service assistance, the Authority's share would be around $4 million, which translates to just under a full percent, down to just under 3%.

John Sullivan noted that the reductions for the maintenance recommendation are more than what was noted in the book sent to the Executive Committee. Mr. Ferrara stated that the increased reduction is primarily related to a series of projects that the Authority thought it would undertake this year, ranging in costs from $50,000 to $120,000, for improvements to capital assets. Because of staff constraints, a series of projects, collectively valued at roughly $500,000 were bumped into FY05.

Mr. Sullivan also expressed his hope that projects will not be deferred in a quest to reduce costs. Ms. Potter stated that the Advisory Board staff recognizes the importance of maintenance, which is a reason why staff has increased its attention on non-rate revenue, investment strategies and capital finance. The Authority has increased its maintenance budget and has expanded its Facilities Asset Management Program (FAMP) throughout the agency for both the water and sewer sides. Together with the Reliability Centered Maintenance Approach, there is a structure and schedule to planned and preventative maintenance that can be tracked in the MWRA's yellow and orange notebooks. Staff has every confidence that the Authority is maintaining the facilities at the appropriate levels. Maintenance spending isn't necessarily a sign all by itself that the right maintenance is being done because through FAMP and the Reliability Centered Maintenance Approach, spending may actually go down.

The Advisory Board is increasing the pressure on the Finance Division to be much more precise to ensure that the budgeted numbers are supportable.

The Authority is assuming a *Regular Pay* budget to support 1,325 filled positions; the latest PCR lists 1,317 filled positions. The Authority is planning to use attrition to absorb the hiring of 16 new positions to staff Walnut Hill and the SCADA Program and to achieve some of the backfills that it wanted to pursue (counsel, labor relations, Deer Island electricians), but has not carried out this year because of the hiring freeze. The proposed budget is 4% higher than what it takes to support the 1,325 positions.

Cost of living adjustments are represented in the proposed budget should the Authority complete negotiations on all of the union contracts coming due in the coming months. Mr. Favaloro stated that staff did not make a dollar recommendation, but there is a policy recommendation that there be no cost of living increases in FY04.

With the adoption of the House budget last evening, a 20% premium was assessed for state employees' health insurance; employees hired after January 1, 2004 will be responsible for 25%. The Authority should pursue the adoption of the program for its employees.

Ms. Potter stated that a staff summary will be coming to the Board next Wednesday regarding the pursuit of a rebid for electricity supply at Deer Island. Advisory Board staff has expanded its language on the Comprehensive Energy Management Strategy because the Authority consumes as much electricity as a small city. While MWRA staff has strengthened its understanding of the changing energy markets and have better comprehension on whether to go out for a short or mid-term contract, staff still needs to look at MWRA's energy supply needs and strategies in the context of more than just Deer Island. Should the Authority be planning in the context of the Walnut Hill start up or intermediate pump station coming on line?

Ms. Dunphy expressed her desire to include the $5 million state debt service assistance within the Advisory Board's *Comments and Recommendations* now. Mr. Favaloro stated that it would be best to indicate that the House budget now contains $5 million for debt service assistance; in the event that the $5 million goes through, MWRA's portion would be used to offset the FY04 budget. If the expectations were a 3% increase and the debt service assistance payment did not materialize, pressure to use rate stabilization funds to keep the 3% increase may result. Ms. Potter suggested that the following could be added to the *Comments*: that the proposed rate increase is at 3.9% and will be further reduced by the amount of debt service assistance funded in the FY04 state budget.

A Motion was made **TO APPROVE THE ADVISORY BOARD COMMENTS AND RECOMMENDATIONS ON MWRA'S PROPOSED FY04 CURRENT EXPENSE BUDGET, ADDING A REFERENCE TO THE $5 MILLION BUDGETED FOR DEBT SERVICE ASSISTANCE IN THE HOUSE OF REPRESENTATIVES' BUDGET.** It was seconded and passed by unanimous vote.

IV. Update: CIP Cap/Master Planning

Mr. Favaloro noted that MWRA and Advisory Board staffs have a difference of opinion on what the Cap Committee's instructions from the last meeting were. The Advisory Board believes its charge was work with the MWRA to come up with a consensus definition for the hard cap. MWRA staff believes it was to provide a definition of the hard cap and a rolling cap. Mr. Carroll replied that it was supposed to be a hard cap, no question about that.

The Authority staff stated that the Board would defer to the hard cap anyway. Further, the Board members on the Cap Committee stated that there would be an agreement to the cap and, over a period of time, a way would be devised to get to the number.

Mr. Pappastergion asked if a motion should be made to the Board of Directors to remove $286 million from the budget. Ms. Dunphy replied that the Cap Committee deemed it to be too late in the process and that the staffs could work through the year to switch to the hard cap.

Mr. Carroll asked if the definition provided for a hard cap was the Advisory Board's definition. Mr. Ferrara stated that the spirit is essentially the same, but figures were adjusted. Staff would have preferred that MWRA use the definition it was provided.

The master planning process provides the structure on what projects should be in the capital program, structure and timing. Staff will meet Wednesday with Mike Hornbrook, MWRA Chief Operating Officer, to work on a definition of Master Planning.

V. Legislative Update

The House Budget contained $5 million for debt service assistance and it looks as thought the Senate debt service assistance will mirror the House, becoming non-conferenceable. The next step would occur when the Governor goes through the veto process.

There was a significant amount of effort to move the Division of Watershed Management (DWM) to the MWRA. Advisory Board staff member, Nathalie Dailida, and MWRA staffers, Mike Ralph and Charlene Rideout put in significant effort. The Chairman of the Caucus, legislators and many others signed on. As of a few days ago, both Authority and Advisory Board staffs thought it could happen.

Late Wednesday Chairman Rogers of Ways and Means let Rep. DeLeo, Chairman of the MWRA Legislative Caucus, know that there would be no discussion on the transfer. The Speaker felt he had more control if it stays within the state budget and does not want to "grow" an Authority. Senator Brewer wants to protect recreational activities. Although staff inserted language into the transfer amendment to allay his fears, he remains unconvinced the transfer is the best approach. The Senate President has made it very clear that unless Steve Brewer signs off on it, there will be no transfer of DWM to MWRA. It looks as though DWM will be transferred to the Department of Parks and Recreation.

Mr. Pappastergion stated that by doing that, the Legislature is voting to spend one-quarter of a billion dollars on a filtration plant.

Mr. Carroll asked how not transferring the DWM to MWRA would lead to a filtration requirement. Mr. Favaloro responded that what was once a $10.7 million budget with 190 employees is now an $8 million budget with 133 employees. The cumulative affect of not having staff in forestry, having no planners and not being able to pay overtime to harass the gulls, over time will result in inadequate watershed protection and failure to meet the criteria for non-filtration. DWM was unable to amend its budget to deal with a milfoil issue, forcing MWRA to step in and pay for it.

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

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

The Executive Committee, acting as the Nominating Committee, made a Motion **TO NOMINATE ANDREW PAPPASTERGION TO SERVE ANOTHER THREE-YEAR TERM ON THE MWRA BOARD OF DIRECTORS, FROM JULY 1, 2003 TO JUNE 30, 2006, AND RECOMMEND THAT NOMINATIONS BE CLOSED.** It was seconded and passed by unanimous vote.

VII. Approval of the Advisory Board Agenda for May 15, 2003

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE MAY 15, 2003 MEETING.** It was seconded and passed by unanimous vote.

VIII. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 9:46 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary