EXECUTIVE COMMITTEE MEETING
MARCH 12, 2004
Minutes Approved at the April 16, 2004 Meeting

Present: John Sanchez, ARLINGTON; John Sullivan, BOSTON; William Hadley, LEXINGTON; Katherine Haynes Dunphy, MILTON; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; Jay Fink, QUINCY; Ted McIntire, READING.

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

I. Approval of the February 20, 2004 Minutes of the Executive Committee

Chairman Katherine Haynes Dunphy called the meeting, held at the Advisory Board office, to order at 8:36 a.m. A Motion was made **TO APPROVE THE FEBRUARY 20, 2004 MINUTES OF THE EXECUTIVE COMMITTEE.** It was seconded and passed by unanimous vote.

II. Status: MOU and Statutory Trust – Moving the Former MDC Watershed Division Out of the General Fund

Joe Favaloro stated there have been further refinements to the MOU and Statutory Trust; however, the issue of the best approach to take remains unresolved. Bob Durand has begun meetings with members of the Board of Directors. From a legislative perspective, because there are still uncertainties and revisions to be made in the language, it makes sense to keep the MOU and Trust packaged together.

Staff has begun meetings with central and western Massachusetts Representatives and Senators. On the House side, the Trust has received favorable, but cautious support from Representatives Golbi, Leary, Kulik and Hillman.

On the Senate side, the key person is Senator Brewer, who has offered positive feedback on the Trust. The Senator wants to carry the Trust language in the Senate and does not want to include the language in the House Budget. This could be problematic because the language could be held "hostage" to one version that could be changed without any control in Conference Committee. Staff continues to work with the Senator.

It is a given the Secretary of EOEA supports the Trust; she was instrumental in drafting the document. At a legislative strategy meeting last week Mr. Favaloro asked where the rest of the Administration stood on the Trust and asked for a letter of support from Doug Foy or verbal acknowledgement the Administration supports the Trust. The Administration will not provide anything in writing. Mr. Favaloro stated if the Secretary, at the Board meeting, says the Administration supports it that would be fine. Mr. Favaloro stated his belief that the Secretary supports debt service assistance, but because the Executive Department did not, the program was discontinued. The Advisory Board's three Board members should press for a commitment from the Administration. Stakeholders are providing letters of support.

Additionally, staff has received conflicting information. In numerous meetings with Senator Brewer he said clearly he wants representation from central and western Massachusetts on the Board of Trustees. Jonathan Kaledin says Senator Brewer does not want a representative on the Board of Trustees. Advisory Board staff again met with the Senator who explicitly said he would not support the Trust if a representative from the western or central Massachusetts area is not a Trustee. Maybe that is what the Administration wants.

III. Legislative Update

The MWRA Legislative Caucus met last week. Staff has provided the legislators with numbers for varying levels of debt service assistance. As it stands now, the House budget should include no less than $5 million and no more than $10 million for debt service assistance.

The Authority and Advisory Board are working on tort liability legislation to limit the Authority's exposure to $100,000. Additionally, the Authority is working to get its bond cap raised. The House Budget is expected to be published the third or last week in April and will then be followed by the Senate Budget process.

IV. Action Item: Advisory Board Comments and Recommendations to the Authority's Proposed FY05-07 Capital Improvement Plan

Cornelia Potter stated the Authority's proposed FY05-07 budget reflects a total of $8.1 billion, $4 billion of which has been removed from the budget presentation. Just under $4 billion remains in active projects, $2 billion of which has been spent and just under $2 billion remains.

In essence, the focus of the Advisory Board's review is the remaining $2 billion the Authority is proposing to spend for the period of FY04-14. Advisory Board staff continues to reflect in its budget reviews on the current economic picture, which is still bleak, especially in Massachusetts. A number of signs, including job losses, continue to be negative for the area. Furthermore, household income inequality has widened, which makes shelter costs, especially the component having to do with water and sewer rates, burdensome for lower income communities in the service area. Preparation of the FY05 state budget faces a number of challenges, especially because the FY04 budget was built on $1.5 billion in one-time revenues, which means the FY05 budget has to fill in that gap.

By any measure, the CIP has experienced enormous growth over the last several cycles. Between $200 and $400 million in future spending, depending on which ten-year budget period you choose to measure by, has been added to the budget. Looking back over the 15-year experience of the Authority, total project costs have increased by as much as $600 million in the last two budget cycles.

The Authority, as part of its preparation of the budget, rescheduled and maintained spending within the FY04-08 period limit of $1.1 billion, but has made room for $300 million more in increased costs in the next five-year period, FY09-13.

Authority staff is developing a series of initial planning condition assessments and asset management projects that are beginning to point to significant additional, but not yet included, expenses for the Authority. Staff has indicated spending over the next five-year period should be between $250 to $350 million per year. Thus, spending in the FY09-13 period could grow to double the $750 million the Authority currently proposes for that period. Advisory Board staff is concerned about the dramatic increase in spending.

MWRA needs to focus carefully on what is included in this ten-year budget. As a result, the Advisory Board recommends the Authority move forward with setting the next five-year cap now. The Authority has until the spring of 2008, just before the start of FY09, to set its next cap. It is an important step to take now, as part of the spring revisit process and the May Board hearing. This should be a deliberate and careful process and alternative levels of spending should be developed and discussed to arrive at that cap. The Authority should be cognizant of limits on the rest of the world, whether they are federal, state, local or family budgets. The Authority should not be immune from a spending limit.

The second major message continues to regard the CSO Control Program. It is the largest program in the Authority's budget for the next ten years and faces some of the most demanding cost increases. One issue staff has been addressing since 1996 is the responsibility for stormwater control. The Authority has proposed including stormwater control for the South Boston project. In general, the Advisory Board believes solutions brought forward for the CSO Control Program should not create precedents or expectations for future projects. Parties responsible for stormwater control must commit to financing both the capital and operating costs of those components.

The third principal message has to do with master planning. Since 1986, the Advisory Board has recommended the Authority establish a Comprehensive Master Planning Program. To reinforce that point, staff has asked the Authority to commit to a deadline and establish a formal committee to develop a fast track master plan. It is hoped this plan will serve as a guide as the Authority begins to think ahead for the FY06 process, which Authority staff will begin in only three to four months.

Conceptual projects valued at $152 million [later revised to $142.7 million] are included in the Authority's proposed CIP budget. Inclusion in the budget gives these projects a certain validity that has not yet been justified. Because these projects are still conceptual, Advisory Board staff believes they should be removed from the CIP now, but a narrative description of the projects that remain on the horizon should be included.

In sum, Advisory Board staff recommends $152 million [$142.7 million] in conceptual projects be removed and addressed in narrative form in the CIP. A series of smaller dollar reductions can be made, primarily from updates received since this proposed budget was put together six months ago. Under the contingency calculation, staff has reworked the Authority's assumptions and made a flat 10% reduction from the $179 million for a $17.9 million reduction [later revised to $169.7 million and $16.97 million, respectively].

The Authority is facing a number of challenges between now and June when they finalize the CIP, including cost increases to the CSO Program. The Authority has been reviewing a number of projects (East Boston, Cottage Farm, Alewife and South Boston) for solutions that reflect a broad consensus. The challenge will be for the Authority to find a way to absorb costs until FY08 and stay within the cap. Currently, the Authority is just $300,000 under its FY04 cap. Some hard choices, careful updates and/or reconsiderations of the pace of spending may have to be made to stay within the cap in the next three months.

Ms. Potter noted last fall the Authority, through various reviews, talked about the expectation to work with regulatory agencies to develop a holistic view regarding the CSO Program reassessments. Every indication is that projects are being taken separately. The Advisory Board has not been privy to any holistic discussions. As these CSO project discussions move forward in the next couple of months, it will provide another challenge to stay within the cap.

Lou Taverna asked how the Master Planning Process could be moved forward. Mr. Favaloro stated moving all the conceptual projects out of the CIP might force the master planning debate with the Board of Directors. The Authority has said it is committed to a master planning process during the last three or four budgets and would report its accomplishments to the Board by a certain date, which has not been done because staff is not focused on developing a master plan.

Ms. Potter stated the Advisory Board continues to recommend staff report back to the Board because the process of creating a staff summary forces them to get together and put their words on paper, which requires them to think more carefully about what they are doing and, hopefully in the process, put something substantive down. The next steps must be the formation of a formal Committee and committing to a schedule of demonstrable results. Without it, Advisory Board staff feels the CIP is more a collection of projects, without adequate consideration of priorities. For example, why has MWRA not begun work on the West Roxbury Tunnel, which was about to collapse a year ago? The preparation of design documents to go out to bid for a design contractor will not even begin until next January.

Mr. Favaloro reiterated the Advisory Board staff is concerned the Authority is loading projects into the second five years, well above what they would have spent on the ten-year cap, and have already said their intention is to spend upward of $300 million per year. The capital budget is growing significantly before anyone has an opportunity to put the brakes on it. If the Authority is allowed to wait until 2008 to determine what the next five-year cap is, one can only imagine what the number will be. The Board will hear arguments that these projects have already been identified and have been included in the budget for two and a half years. Once a project shows up in the CIP, it is considered real. Without additional restraints, the budget will keep growing.

Mr. Carroll said it would be unprofessional if staff did not have projects beyond the five-year cap on the books. Mr. Favaloro agreed, but there is no restraint and no process to get to a decision point on what those projects should be. Projects are just being loaded in. For example, the Sudbury Aqueduct project has a budget of $40 million, though the Authority has no idea what may need to be done or how they may need to do it.

The ten-year cap provided a number for how much could be spent each year. The master planning process is intended to help stay within the cap. There should be a process for identification of what those needs and costs are. Mr. Carroll said that is the Master Plan.

Mr. Carroll stated the Authority has a hard five-year cap and it cannot spend more than $1.1 billion in that time period and they are not going to. Mr. Favaloro stated by June, the Authority will be in front of the Board with a proposal saying it is over the five-year cap level. The Authority is within $300,000 of its FY04 spending limit with more projects and changes coming. Mr. Carroll stated the Board will not let the Authority do that.

Mr. Favaloro noted it is hypocritical when the Authority makes a presentation before the Caucus or others and says, "it is not our fault that rates increase, operating costs are not growing." Most of the reason the rates are going up by 9 to 10% by FY10 is because of debt service. It will be almost 65% of the budget by then. It is a self-fulfilling prophecy because MWRA just keeps growing the CIP without any restraint. Mr. Carroll said that statement is untrue. The Authority has a five-year hard cap. Mr. Favaloro said the number for FY10 is not based on a five-year cap. Mr. Carroll responded that it does not mean it is going to happen. Mr. Favaloro asked how aggressive the Board has been in cutting projects from the budget. Authority staff, at its presentations, displays projects for individual board members and say, "we will have to cut the West Roxbury or the Upper Neponset project and here is the result." The Authority shows the Board projects in isolation from a coordinated capital program.

John Sullivan said the Authority's CIP process is its master-planning tool. Mr. Favaloro said MWRA believes it does not need a master-planning tool because the CIP includes everything it wants.

Ms. Dunphy asked if the Board members have a sense of the schedule for the CSO compromise that is coming out. What will happen if increases to the budget occur within this cap? John Sullivan stated the CSO schedule presented last Monday extended through this year getting all the approvals, costing $272 million, with completion in 2011. Mr. Favaloro said costs for acquisition of lands will be high. Ms. Potter said the update of the construction schedule is stretching these projects out. Currently this budget is prepared with at least half before FY09.

A Motion was made **TO APPROVE THE ADVISORY BOARD COMMENTS AND RECOMMENDATIONS TO THE AUTHORITY'S PROPOSED FY05-07 CAPITAL IMPROVEMENT PLAN.** It was seconded and passed by unanimous vote.

V. Update: FY05 Proposed Current Expense Budget

Ms. Potter stated for the FY05 Current Expense Budget, the Authority anticipates increases to Direct Expenses of about $4 million. A large amount of the increase is for start up of the Walnut Hill Water Treatment Plant and the Braintree-Weymouth Intermediate Pump Station.

Increased Indirect Expenses of $5 million are primarily for the Insurance Program, not only for anticipated additional costs now that MWRA has to renew at post 9/11 prices, but also an additional $1 million for the Insurance Reserve.

Debt Service Expense goes up by $25 million. Revenue and other offsets are not as high as last year. Variable rate debt offsets are $4.45 million less than the Authority budgeted in FY04. Other user charges are expected to drop by $500,000, although other revenue, which is anticipated to increase by over $400,000, would offset much of that. Investment income, in this continuing low interest rate environment, is expected to be $2.25 million less than budgeted in FY04. The total expense increases and revenue decreases that must be addressed in terms of a potential increase for rate revenue in FY05 is $41 million.

To offset the $41 million increase, the Authority has taken $21 million from reserves ($13 million in the bond redemption group category of spending and $7.7 million from rate stabilization reserves), leaving an anticipated rate revenue requirement of $20.7 million, which translates into the 4.7% increase.

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

Mr. Favaloro noted the term of Board member Joe Foti expires on June 30. The annual election process for this position is as follows: the deadline for submitting a letter of intent and a resume is April 8; the Executive Committee, acting as the Nominating Committee, will conduct interviews on April 16; and a vote will be held at the Advisory Board meeting in Boston on April 22 (if a quorum of 33 voting members is in attendance).

VII. Approval of the Advisory Board Agenda for March 18, 2004

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE MARCH 18, 2004 MEETING.** It was seconded and passed by unanimous vote.

VIII. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 9:49 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary