EXECUTIVE COMMITTEE MEETING
MAY 14, 2004
Minutes Approved at the June 11, 2004 Meeting

Present: John Sanchez, ARLINGTON; Ed Sullivan, CANTON; Bill Hadley, LEXINGTON; Katherine Haynes Dunphy, MILTON; Ted McIntire, READING.

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

I. Approval of the April 16, 2004 Minutes of the Executive Committee

Chairman Katherine Haynes Dunphy called the meeting, held at the Advisory Board office, to order at 8:34 a.m. A Motion was made **TO APPROVE THE APRIL 16, 2004 MINUTES OF THE EXECUTIVE COMMITTEE.** It was seconded and passed by unanimous vote.

II. Legislative Update

Joe Favaloro, MWRA Advisory Board Executive Director, stated the Senate Budget included $10 million for debt service assistance. Most of the other items remain the same as the House Budget, except the Senate also included an outside section creating a Water Supply Protection Trust Fund that will take watershed operations out of the General Fund of the Commonwealth of Massachusetts and put it under the auspices of a four-member Board of Trustees. The Board of Directors, the Advisory Board and "supposedly" the Administration are in support of the Trust. The Advisory Board's consultants, Durand & Anastas Environmental Strategies, Inc., will begin working with members of the Conference Committee next week.

In the final Senate version, the watershed monies are now off budget, leaving $1.1 million in the former watershed line item for operation of the Department of Environmental Management and the Clinton Wastewater Treatment Plant for FY05.

The Senate Budget also includes tort liability language to limit the Authority's liability to $100,000 per claim, the same level as municipalities and many others. The Authority was also successful in getting its debt cap increased on the Senate side.

The language that exists after Conference Committee will still have to get through the Governor. Staff believes the Governor will veto debt service assistance and it will have to be overridden. Mr. Favaloro stated he is not convinced the Administration supports the Trust. Two days after the MOU was approved by the MWRA Board of Directors, the Administration wrote the Legislature announcing the MOU; however, it did not mention even the concept of a Trust. As of yesterday, staff heard that Administration & Finance has serious problems with the Trust. Staff will make every effort to push the Trust through Conference Committee. Bob Durand could be very helpful to the Advisory Board in working with the Conference Committee through his legislative contacts.

Representative Falzone filed an amendment as part of the House Budget to give care, custody, control and title of all water pipes and mains under Routes 1 and 99 in Saugus to the MWRA. Staff of Ways & Means said the Amendment was going nowhere. Two minutes before dinner break, it was pushed through.

Advisory Board staff immediately met with Rep. Falzone to discuss our issues with the Amendment and why the Advisory Board would fight against the proposal. The Advisory Board had offered a compromise

relating to the loan program. Further, staff spoke to Chairman Rogers, who said it is in the House Budget and a reconsideration request would not be made, but the Advisory Board would have opportunities with the Senate and Conference Committee to eliminate the Saugus language. The Advisory Board rallied the MWRA Caucus.

If the Amendment is approved by the Legislature, the Advisory Board will request, as part of its CEB comments, that the Authority conduct a rate study to determine the costs, both direct and indirect, for care and custody of the pipe. Then an MWRA Retail Rate District would be created for customers on Routes 1 and 99, with rates probably six to eight times higher than they currently are. Because of press coverage, Senator McGee will have no option but to file the same Amendment. Staff has worked on substitute language another Senator can offer in case the Amendment makes it onto the Senate floor. Chairman Rogers wants all parties to meet for a discussion.

Mr. Favaloro stated he does not want to set this precedent. With all the discussion on North Dorchester Bay and stormwater, it is not much of a leap to legitimize stormwater issues through similar types of actions. The Saugus initiative is dangerous on many levels and will need to be fought. Chairman Dunphy noted it sets a terrible precedent.

Mr. Favaloro stated the substitute language staff is working on has a two-track approach. First, over the next ten years, Saugus is entitled to $7+ million in Local Water Pipeline Improvement Program loans. Saugus would be allowed to take, in advance, as much of the $7 million it needed to take care of its water projects. In the event the Authority has projects that can be worked on in conjunction with Saugus, the MWRA could collaborate, but not at the Authority's expense.

The second approach would provide Saugus with an additional $6 million in pipeline loans. Saugus DPW Director, Joe Attubato, pointed out if all Local Water Pipeline funds were utilized for Routes 1 and 99, there would not be any money left for other projects. If the Executive Committee does not oppose the additional funds, staff would have the latitude to create language to modify the Amendment on the floor.

Mr. Pappastergion asked if Rep. Falzone thought Saugus would retain the retail customers if MWRA took over ownership of the pipe. Mr. Favaloro stated he was not sure, however, a very small base of customers would be required to pay direct and indirect costs that would lead to an extremely high bill.

Bill Hadley asked if the Advisory Board is requesting the MWRA do this analysis now. Mr. Favaloro responded in the affirmative, stating the Advisory Board's strategy in the Senate is to kill the Falzone Amendment and provide substitute language everyone is comfortable with to keep the Authority and the other 46 communities out of harms way. Chairman Dunphy noted the Representative might be thinking these customers would pay just the wholesale rate for water and would be paying less than they are currently paying.

Ryan Ferrara stated, the way it is written, MWRA would take care and control of these lines, but the language does not speak to the Authority repairing those lines. The Authority could place the Saugus project next to many other capital initiatives and not deem it a priority.

Dedham-Westwood has begun the process for entrance to the MWRA for water by seeking legislative approval. Yesterday, language was enacted in the Senate to allow Dedham-Westwood to proceed with the application process. Provisions of Section 71, which encapsulate the circumstances under which any entity can request water from the MWRA, were waived. It is a narrow definition under the Enabling Act that requires an entity to show it has looked at all sources and the Authority would be a last resort.

III. Action Item: Advisory Board FY05 Operating Budget

Mr. Favaloro stated the Advisory Board budget this year in actual dollars increases by 3.5%, with the request to the Authority increasing by 1.5%. The largest dollar and percent increase in the Advisory Board budget this year is health insurance.

Advisory Board staff already pays the highest percent (25%) than anyone in the Commonwealth of Massachusetts plan. Two years ago Commonwealth employees paid 15% of their insurance costs, which was just increased to 20%. The plans have significantly changed this year, as have the premium costs associated with them. Insurance costs this year will be almost $9,000 more than FY04.

Beyond that, the Advisory Board has gone through and ratcheted down in areas where it was possible. In the past year, the Advisory Board has changed telephone services and maintenance agreement providers on the phone system and purchased a new postage system to significantly decrease lease costs. However, these reductions are a pittance compared to the health insurance line item.

The approach staff has taken this year is to roll $15,000 of surplus funds, along with interest income from FY04, into FY05 to keep the Advisory Board request to a 1.5% increase ($6,600). The FY05 Advisory Board budget is lower than the budget requested three years ago. Staff has tried to practice what it preaches. This is the first increase in three years.

Because the rental market is still soft, there may be one more opportunity next year to reduce costs. After October, Mr. Favaloro will work with Nathan Miller to try to reduce rental costs. Three years ago, the Advisory Board was paying $75,000 per year and is now back in the $50,000 range. It is staff's goal to keep the current rate or reduce it. One year plus remains on the current lease.

A Motion was made **TO APPROVE THE ADVISORY BOARD FY05 OPERATING BUDGET.** It was seconded and passed by unanimous vote.

With the remainder of the FY04 surplus, staff has begun discussions with the Authority on upgrading all computer hardware. MWRA is in the process of purchasing new computers. For $4,000, the Advisory Board can upgrade to new computers. The plan is to purchase the hardware for the end of June to be safe for next few years.

IV. Action Item: Advisory Board Comments and Recommendations to the MWRA's Proposed FY05 Current Expense Budget

Cornelia Potter stated the Advisory Board's review process for the MWRA's proposed Current Expense Budget (CEB) covers a number of categories, including policy issues, management challenges of the Authority, changing assumptions for building the budget, and reviewing differences in budget management. Staff's comments also address specific details and corrections to the budget put forward by the Authority.

The Authority's proposed budget for FY05 is nearly $525 million, of which $177 million is for direct expenses, $36 million for indirect expenses and well over $300 million in capital financing related expense. The Authority displays its budget by subtracting debt service offsets, including an assumption to use over $13 million from the bond redemption fund and some offsets having to do with variable rate debt service; those items total $22 million.

Other sources of non-rate revenue are also reflected, including a broad category of Other Revenue of $10 million and nearly $27 million in investment and swap income. MWRA has assumed the use of $7.7 million from the rate stabilization fund. Subtracting these sources of non-rate revenue ($45 million) leaves the Authority with recommended rate revenue of $456 million or a 4.7% increase over FY04's budget.

Direct Expense reductions total $4.5 million, which is about 40% of the dollar value of the Advisory Board's recommendations. Under Indirect Expenses, staff made several recommendations totaling $4.75 million and found other Non-Rate Revenue of just over $2 million, for a total of $11.25 million in recommended reductions. The Advisory Board suggests using its recommendations to completely back out the use of Rate Stabilization, as well as using other portions of its recommendations to reduce rate revenue by $3.5 million. Rate Stabilization monies should be saved for future years to smooth the pace of rate increases.

Under Personnel related expense, staff recommends reductions of just over $2 million based on the assumption another 25 people will participate in the Authority's Early Retirement Program. When the

Authority put this budget together, staff assumed 55 people would participate; more recent information indicates 80 people will participate. Under the Early Retirement Program, the Authority is authorized to rehire 50% of the salary value of people who participated in the program. Staff has taken half the value of 25 people out of the FY05 budget with the assumption the remaining half would be rehired by September 30. The associated fringe benefits with that participation in the Early Retirement Program has also been removed from the budget. The third component of personnel related expense has to do with a $700,000 reduction in Workers Compensation based on dollars identified in staff's meetings with the Authority's Human Resources staff.

Staff has recommended reductions of nearly $2.2 million from the Operations Division. Nearly $700,000 of those reductions are based on an update on when the Walnut Hill Water Treatment Plant will come on line.

The Advisory Board continues to urge the Authority to revisit the landfill agreement for sludge backup in Utah. MWRA pays over $800,000 a year for that reserved capacity, yet has not used the facility since the new pelletizing plant contract went into effect three years ago. Staff believes the Authority could, at least, reduce the amount of capacity, which is much more than the amount of sludge the Authority has actually produced. The Agreement was put into place over ten years ago, before the pellet plant was complete. Staff also recommends the Authority reduce the security contingency by $100,000 due to an updated perspective of funds needed for police details.

Electricity is a major expense and Deer Island consumes 60% of the electricity budget for the Authority. The Authority will be going out for a new supply contract in the coming months. Crucial to the assumption for scoping that contract is the amount of electricity the Authority generates on the Island. The Advisory Board is using its comments to continue to push the Authority to assume higher levels of self-generation.

The Advisory Board is also recommending the Authority hold with a certain level of chemical use associated with the Lead and Copper Rule for a reduction of $375,000. Mr. Favaloro noted, during the last round of testing, ten communities exceeded 15 ppb for lead. The Authority was using 35 mg/l for its alkalinity target and is advocating to increase the target level to 45 mg/l. DEP believes 45 mg/l is too high and agreed to an increase of 40 mg/l. The Advisory Board does embrace the need for more alkalinity, but agrees with the DEP approach. The Authority is very close to the threshold of 15 ppb.

Mr. Pappastergion stated replacing lead services would not make the problem go away. The problem is lead solder with copper tubing, which spikes the lead levels. DEP requirements call for Tier 1 sampling sites, which are known lead services or a pool of houses constructed between 1982 and 1986 that have copper tubing with lead solder. As the number of lead services are reduced, what will be used for sampling sites?

Ted McIntire asked if MWRA was going to 45 mg/l as a safety factor or because they believe it is needed. Mr. Favaloro responded there is no analysis that 45 mg/l will do more than 40 mg/l will do. The testing results are just below this rung because of a lack of samples. Mr. Pappastergion added, samples collected inappropriately were what threw the testing over in this round. MWRA moved to have samples taken from boiler drains disqualified; DEP refused, which drove up the concentration. The Authority then retested these properties and some had somewhat higher levels. DEP would not let MWRA remove the initial bad sample, and made them add the second sample – essentially a double count. Mr. Pappastergion added going from 35 mg/l to 40 mg/l would be appropriate.

Ryan Ferrara stated if the Authority has 15.1 ppb, it is a failure. If it has 14.9 ppb, it passed. It is not a matter of public health, but a matter of meeting a threshold. Mr. Favaloro noted the Authority was just at 15.1 ppb. Increasing from 35 mg/l to 40 mg/l is all that is necessary. Upping to 45 mg/l is like throwing good money after bad.

A series of adjustments to the Authority's proposed budget for chemical use on Deer Island yielded $390,000 of recommended reductions. There is also a series of smaller items, ranging from grit and screenings to training and meetings, to MIS related expenditures, which total nearly $275,000.

Bill Hadley asked for more information on the $800,000 spent for sludge back up. Ms. Potter stated the Authority pays a reservation fee to a site in Utah. It is a 25-year contract. The site was used during the expansion of the pelletizing plant in late 2000 and early 2001. This recommendation seeks to get the Authority to shrink back on the acreage or capacity of the facility it reserves. It is a complex issue because it also reserves railcars, which are at the ready and must be specifically configured to dump the pellets.

The Authority is re-scoping/re-bidding its insurance coverage. In a series of briefings to the Board over the last several months, staff pointed out that the Authority has enjoyed a particularly advantageous contract over the last several years and was able to extend that contract until this year. In the post 9/11 era, insurance is hugely expensive. Staff has reported in order to acquire insurance in the same configuration, with the same set of assumptions and coverage MWRA has now, it would likely be in the $3 to $4 million range. Currently, MWRA pays less than $1 million for that coverage.

The Authority proposed premiums in the FY05 budget of $3.4 million; however, MWRA is entertaining bids that would allow the Authority to increase its self-retention and considerably reduce these estimates. After several meetings with MWRA's insurance staff and Chief Financial Officer, Ken Wissman, the Advisory Board has devised a significant recommendation in terms of the proposed budget by recommending the Authority back out $3 million, leaving $400,000 in the premiums line for certain kinds of insurance that must be purchased, most notably Workers Compensation related insurance, which is about $235,000.

Self-retention would require another increase to the Insurance Reserve. The Authority already proposes to increase the Insurance Reserve by $1 million per year, over three years. The Advisory Board recommends the Authority add another $1.5 million, or half of the $3 million reduction from the premium line, which would represent the first of three $1.5 million deposits into the Insurance Reserve over and above the three $1 million Insurance Reserve deposits already planned. This is entirely consistent with what the MWRA's insurance consultant advised for higher levels of self-retention. According to MWRA staff, over the life of the Authority, MWRA has paid $12 million in premiums and only received payments of $400,000. Authority staff believes this is a more appropriate way to provide insurance coverage.

Part of the deposit into the Insurance Reserve should come from the Operating Reserve, which is already $300,000 over recovered. If the Authority accepts all of the Advisory Board's recommendations, it would be $1.5 million over recovered in the Operating Reserve. Staff suggests the Authority transfer $0.25 million from the Operating Reserve.

Staff has made some small recommendations to debt service of $435,000, which are modest updates based on the Authority's plans to refinance and restructure specific debt issues over the next month. The Advisory Board has also looked at the Local Water Pipeline Commercial Paper Program. MWRA is assuming that program will cost 4% in interest; the same as the variable rate debt issue. Staff believes the rate will be lower, even though rates have been rising. Rates have been at 1%, so staff has taken a small amount out of the Commercial Paper Program reflecting somewhat lower interest rate assumptions.

Four years ago, the Authority made a commitment to put gradually increasing amounts of current revenue into the capital construction fund to support maintenance related expenses handled through the capital program. This item is a "use of coverage" that helps to meet certain bond requirements. The Advisory Board has challenged the Authority over the last several years to rethink the pace of this contribution. The Authority has proposed nearly $6 million; Advisory Board staff recommends a reduction of nearly $2 million on the basis that putting current revenue in the multi-hundred million dollar capital fund does not buy a lot with rate revenue.

If State Debt Service Assistance comes through, it should be used to reduce this year's rates. Staff also looked at other sources of non-rate revenue. MWRA categorizes SWAP, which is one of the variable rate issues, as non-rate revenue. Again, based on interest rate assumptions, staff has taken fifteen basis points on that item for a little over $230,000. Additionally, staff upped hydropower and other fees assumptions on the order of $227,000. Instead of reducing variable rate debt, investment income has increased, primarily

on the short-term side. MWRA has been budgeting at 1%; staff believes rates will go to 1.25%, which yielded a little over $1.5 million in non-rate revenue.

A broader theme of the Advisory Board's *Comments and Recommendations* is the current economic climate and affordability of the Authority's rates. A study to determine the economic and social impact of the CSO Program was conducted. The results put in perspective long-term costs and affordability for ratepayers.

Mr. Pappastergion asked if debt service assistance doesn't come through, is there a way to use a small portion of the rate stabilization funds to get the increase down to 3.5%. Mr. Favaloro responded the Advisory Board's comments provide flexibility for Board members. Staff has identified $11.25 million that could reduce FY05, FY06 and beyond costs. In the event debt service assistance is not going to be a reality, there is an opportunity for the Board to make mid-year corrections.

A Motion was made **TO APPROVE THE ADVISORY BOARD'S COMMENTS AND RECOMMENDATIONS TO THE MWRA'S PROPOSED FY05 CURRENT EXPENSE BUDGET.** It was seconded and passed by unanimous vote.

V. FY05 Meeting Locations and Schedule

Mr. Favaloro provided a schedule of Advisory Board meeting dates proposed for FY05. Bill Hadley has offered the National Heritage Museum in Lexington as a site for meetings this year. Staff has reviewed attendance for Advisory Board meetings over the last three years and found that Canton, Boston and Newton meetings averaged 26 members per meeting. On average in Wilmington there were 20 or 21 members, a 20% drop in attendance. Daytime meetings have raised attendance by 20+%.

VI. Questions or Comments

Mr. Favaloro stated the Conservation Law Foundation's (CLF) response to the Authority's plan for North Dorchester Bay was negative. CLF does not believe putting the stormwater where the Authority wants is a good idea. CLF wants the Authority to look at other more costly alternatives.

Communities need to communicate to Fred Laskey and the MWRA Board of Directors the importance of the fifth round of the I/I Grant/Loan Program. Board Member Vincent Mannering has questioned the program.

Save the Harbor/Save the Bay is pushing for a Boston Globe article on flounder with lesions that have been found in Boston Harbor. The Authority does monitoring in the outfall area, within ten kilometers, and found higher levels of impacted flounder. One site was elevated by 42% and another site by 36%. Save the Harbor/Save the Bay asked what the Authority is going to do. However, there is nothing definitive that indicates it has anything to do with the MWRA or the outfall pipe. The State and Federal Government are doing their own testing as well. There could be hundreds of reasons why this is happening; it is premature to assign blame.

VII. Approval of the Advisory Board Agenda for May 20, 2004

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE MAY 20, 2004 MEETING.** It was seconded and passed by unanimous vote.

VIII. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 10:00 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary