EXECUTIVE COMMITTEE MEETING
11 Beacon Street, Suite 1010, Boston, MA 02108
May 13, 2005
Minutes Approved at the June 10, 2005 Meeting

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

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

I. Approval of the April 22, 2005 Minutes of the Executive Committee

Chairman Katherine Haynes Dunphy called the meeting to order at 8:41 a.m. A Motion was made **TO APPROVE THE APRIL 22, 2005 MINUTES OF THE EXECUTIVE COMMITTEE.** It was seconded and passed by unanimous vote.

II. FY06 Advisory Board Meeting Schedule

MWRA Advisory Board Executive Director Joseph Favaloro provided members with the FY06 Advisory Board and Executive Committee Meeting schedule. Of note, the Advisory Board's annual field trip will be held on the fourth Thursday of August (August 25), instead of the usual third Thursday, at the Walnut Hill Water Treatment Plant, which will be fully online.

The final FY05 Advisory Board meeting in June, originally scheduled for Lexington, will now be held at the State House.

III. Legislative Update

Mr. Favaloro said the Advisory Board was successful in getting $12.5 million for the state-wide Debt Service Assistance Program included in the House Budget; however, staff was not successful in getting the Administration and Finance (A&F) overhead rate waiver language included. The Advisory Board has received a commitment from House Ways and Means that they will find a vehicle between now and the end of the fiscal year to attach the waiver language to.

The Senate Budget is scheduled for release next Tuesday, with debate the following week. Staff met with the Senate President last week and expects the Senate Budget to include $15 million in Debt Service Assistance (state-wide) and the A&F waiver language.

After debate, staff expects that $15 million will be included for Debt Service Assistance for FY06, which the Governor can be expected to veto and the Legislature will likely override. The Authority's share should be around 80%.

IV. Concerns Regarding Water Supply Protection Trust

State Administration & Finance (A&F) has added an additional layer of costs onto the Water Supply Protection Trust (Trust). The Authority pays overhead rates to the Department of Conservation and Recreation (DCR) for the shared costs of employees that are working on watershed issues and the fringe rate for health insurance and retirement costs for employees that are part of DCR. It has now come to light that an additional charge, which A&F charges to all Trusts, adds another layer of overhead charges amounting to 23.96%. When the three overhead rates are added together, before one thing is done in the watershed, ratepayers are required to lay out nearly $5 million.

MWRA and the Advisory Board requested a waiver from A&F, which was denied. Staff will now work to include legislation for a waiver as part of the Senate budget.

The Trust meeting is scheduled for Wednesday of next week at the Quabbin. It is now Friday and the Trustees have yet to see the FY06 work plan or budget.

Chairman Dunphy, a Trustee, stated that she has requested two DCR budgets, one for DCR's operating costs and the second budget reducing their operating costs to cover the A&F overhead rate.

Mr. Carroll said there was a Memorandum of Agreement, which the MWRA Board of Directors had already agreed to, but never signed, that would put $4.5 million into a separate Land Acquisition Trust to acquire land around the reservoir. The lands are not critical, but would be good to have. At the May 11 Committee meeting in the morning, the Board voted eight to nothing not to sign it to protest the overhead rate. The Secretary came at noontime and tried to persuade the Board members to change their minds. In the afternoon, the final vote was one abstention (Rudolph Banks), one opposed (Chair Roy Herzfelder) and nine affirmative. The Board said it is willing to support the $4.5 million for land acquisition, but not until there is a solution on the A&F overhead charge. Mr. Favaloro commended Mr. Carroll on his strategy in not supporting the land acquisition MOA as it got the Administration's attention.

Mr. Pappastergion said the Board vote was significant in two ways. Number one it put the Commonwealth on notice that this Board of Directors is not just going to roll over. It was also significant that the Advisory Board's three Board members were able to convince just about the entire board to vote with it.

Mr. Woods asked if the Trust is a good idea. Mr. Favaloro stated our first choice was a transfer, the Trust was a compromise. If staff had known about the A&F administrative fee, it would have been addressed as part of the legislation; but, there are still significant problems with the ability of the Boston DCR staff to get things done. As it stands now, the problems discussed for years about DCR's (formerly the Division of Watershed Management) inability to hire and inability to get contracts out are still a major concern. Mr. Pappastergion said the lack of cooperation troubles him.

Chairman Dunphy said she asked questions at the Trust meeting in February about some budget details, particularly the DCR overhead, and has still not received answers. The Minutes of the Trustee meeting note this request. Additionally, the Chairman has asked that information be provided to all the Trustees and she still has not received anything. DCR notified the Trustees about a month ago that the budget would be received by May 11; it did not show up. Chairman Dunphy was informed that she may get a summary budget on Monday yet the meeting is Wednesday.

V. Action Item: Advisory Board Comments and Recommendations to the MWRA's Proposed FY06 Current Expense Budget

Cornelia Potter stated that Advisory Board staff received a proposed budget for FY06 of nearly $550 million. The key elements include $182 million for Direct Expenses, including the first full year costs of the Walnut Hill Water Treatment Plant and the Braintree-Weymouth Intermediate Pump Station; Indirect Expenses of nearly $38 million, much of which is for the Division of Water Supply Protection and related watershed expenses, as well as Insurance and Reserves additions; and Capital Financing Expense of almost $330 million, which is 60% of the entire Current Expense Budget (CEB).

To cover these expenses, the Authority is projecting revenue of over $40 million from Investment Income and Other Charges; $27 million of draw-downs from the Rate Stabilization Fund, which is one of the heaviest draws ever from the Authority's Rate Stabilization monies; $3 million in variable rate debt savings are assumed, for a total of $70 million; the balance would come from rate revenue of nearly $480 million, an increase of just under 6%.

It is important to emphasize that the Authority had already made significant cuts in its proposed budget as a result of an internal review; this resulted in overall reductions of more than $5 million from Direct Expenses. As a result, the Advisory Board's own reductions to the proposed budget are much less in the Direct Expense line item.

The Authority has funded fewer positions than expected, reduced its maintenance request and absorbed greater risks in chemical spending. Further, MWRA deferred between 25 and 35 vehicles even though it prepared an extensive vehicle plan to provide proper justification for its vehicles requests. Also, MWRA has absorbed more risk in sludge pelletization costs.

On Wednesday, MWRA staff brought the Board up-to-date on some changes they anticipate will have an impact on the FY06 proposed budget. In particular, staff is pointing to changes in interest rates, utility costs, inflation rates and continued increases in health insurance costs, which in turn could add $1 to $3 million to Direct Expenses. The short-term interest rate assumptions could make the variable rate savings of $3 million disappear. In fact, if MWRA increases its short term rate assumptions from the current 3.5% to 4%, it could still be tight because already interest rates are projected to go to 4% by Thanksgiving.

Increases in SRF borrowings could add another $2.8 million to the debt service line. It is good to get more low cost debt, but it does have to be supported in the budget; staff did not assume borrowings from the SRF at this revised level, which is another potential increase to the budget. The imposition of Indirect cost charges for DCR watershed management could add another $2 million to the budget. In sum, these increases could total $10 million or more in additions to the proposed budget.

Mr. Favaloro said if all of these increases materialize, the 5.86% increase is actually closer to 8.5%. Ms. Potter added these are genuine increases. The question is whether there are other offsetting steps MWRA staff can take. That is what will emerge in the next few weeks as the Authority staff prepares for the June 8th Board hearing on the budgets.

The Advisory Board Staff has found a number of reductions it believes are possible, including Direct Expense reductions of over $1.3 million and Operating expense reductions of $1.5

million. Staff has also reduced the Operating Reserve addition by one-sixth of the $1.5 million to reflect the reductions to Operating Expense.

The Advisory Board has taken sharp issue with the Authority's Insurance Reserve; staff not only believes the MWRA does not need to increase the Insurance Reserve, but is also recommending the Insurance Reserve should be phased out with the funds transferred gradually to rate stabilization funds for easing future rates.

In a recent meeting, the Authority submitted to the Board a survey of many like agencies across the country and many of them do not have an Insurance Reserve. MWRA currently has $18 million in its Insurance Reserve, with plans to add $1 million for FY05, FY06 and FY07 to bring the Reserve up to $21 million. The Authority's insurance adviser issued a report in September 2003 saying the Authority's Reserve was adequate but at the low end of the averages and that the Authority should increase it slightly. However, the insurance adviser also noted that the Authority can borrow easily in the markets should they need funding. The Advisory Board believes there are too many reserves, with $35 million in the Renewal and Replacement Reserve and over $32 million in the Operating Reserve. Further, the Authority has the ability to enter the markets instantaneously through the Commercial Paper Program to raise funding. The kinds of things the Insurance Reserve would need to fund do not happen overnight.

Mr. Favaloro said there was a healthy debate at the Board on levels of reserves. Additionally, when the Authority did interviews to hire a financial adviser, a question was raised to all of the potential candidates related to reserves. For the most part, they all agreed that the Authority needed Reserves, but if there was one that could be eliminated, it was the Insurance Reserve. This is a solid recommendation and speaks to the need to find revenue streams for the future to offset the horrendous rate increases that are coming.

In the capital financing category, staff has made a reduction of $1.7 million for the FY06 share of the savings from a refinancing the Authority conducted in recent weeks. Further, staff made adjustments to assumptions for interest rates and fund balances for the Local Water Pipeline Assistance Program and also for the capitalization of other elements of the Commercial Paper Program.

In 2000, the Authority issued an informational memo to the Board saying it planned to gradually increase the amount of current revenue it uses for the capital program every year. Since that time, it has not been discussed, nor has it been revisited. The Advisory Board has suggested the Authority revisit the amount of current revenue monies it puts into the capital program in its *Comments and Recommendations* over the past couple of years, particularly given the tightness of projected budgets.

MWRA has argued over the years that by putting current revenue into the capital program, it can save long-term borrowing costs. Furthermore, MWRA has made the case that certain pieces of equipment and facilities have a short useful life and, therefore, there should be some portion of the capital budget that is from the current dollars. Those are fair points, but the Advisory Board would argue that because these funds can be used to meet the bond coverage requirements, which have already been met adequately, these monies are not working hard enough. MWRA has budgeted $7 million in current revenues for the capital program this year. The Advisory Board has taken out nearly $4 million of the $7 million.

Advisory Board staff has also made adjustments to Revenue, updating assumptions for some of the Other User charges and recalculating interest income based on revised fund balances. As interest rates are going up for debt, interest for investment income has got to be going up as well. Staff took a modest increase of .5%, to 3.4%, over what the Authority is assuming.

The total of Advisory Board staff's expense reductions and those two changes in non-rate revenue allow for a recommendation that the Authority should use up to that $10.4 million amount to reduce the use of rate stabilization money to ease the pace of rate increases in the next several years.

Direct expense reductions include a reduction of $100,000 from Workers Compensation and updated estimates for electricity use at Walnut Hill for a savings of over $100,000. The grit and screenings contract was renewed this spring after the proposed budget was finalized; staff believes MWRA can now update its numbers with more than a $100,000 reduction.

There are several recommendations which reflect the plans to move out of the Fore River Staging Area half way through the year. The Authority had budgeted full year costs for Fore River operations.

Staff continues to push for increased self-generation of electricity at Deer Island, recommending a small increase that could result in $4 million of savings if they manage the generation of electricity more tightly, particularly the steam turbine generator, which is their principal source of backup generation.

The Authority ended last year's sludge pelletization production under its base number, capturing less than 90 tons per day. For FY06, staff is budgeting 93 tons per day. The Advisory Board has reduced this number by one ton per day, allowing 92 tons per day, which is still four tons per day more than they are generating now. Even if they capture more, it is unlikely that it would be more than four tons per day.

The Utah landfill continues to be a concern. The regulatory agencies required a major backup plan and landfill capacity, but the Authority has been operating successfully now for years with its pelletizing capability. There are other landfills available. Staff continues to urge the Authority to renegotiate the terms of the landfill annual fee in order to ease up on the fees and there may be the potential for sub-leasing some of the dumping capacity. This recommendation represents 20% of the annual fee.

In just two years (FY07), rate revenue will cross the $500 million mark; two years later (FY09) it will cross the $600 million mark; and three years after that (FY12) the Authority's rate projections will cross the $700 million mark. The Authority's projections in the past have been conservative and have been designed so that the future rate revenue requirements are unlikely to exceed these numbers; they have gotten tighter in their assumptions, assuming that Direct Expenses will increase by no more than 2.5% every year, which does not include new facilities. The Authority's new senior debt is budgeted at 6%; variable rate debt is budgeted for ten years at 4%. Short term rates are projected to go to 4% by Thanksgiving and long-term rates are rising as well. The volume of money that is going to be required to run the Authority and to pay back the enormous borrowings that are outstanding, and that will also be issued in order to support the next ten years of the capital program, are real.

The goal is to use the Advisory Board's recommendations to back out of the use of the rate stabilization monies for next year in order to reserve as much funding to get through the next several years as possible. Because of potential increases for the proposed budget that were just reported this week, and because of the increases in the immediate years ahead, the Advisory Board's recommendation has been modified to say use as much of the $10.4 million reduction in rate stabilization funds as possible to lower next year's use of the rate stabilization fund.

Since the Authority has received Debt Service Assistance during the past three years, it may be able to reflect some receipt of Debt Service Assistance in the budget itself.

Bernie Cooper said he would like to see a rate projection from the Authority using at least the current year's amount and perhaps a second set with the assumptions because towns need to set rates on July 1 and the information could be helpful. Mr. Favaloro said that one percentage point is approximately $4 million. Mr. Pappastergion added that the Board cannot vote a budget if it has not been approved by the state. Mr. Sullivan noted that communities have an obligation to be conservative too.

If Debt Service Assistance is received, it will be used to lower assessments for FY06.

A Motion was made **TO APPROVE THE ADVISORY BOARD COMMENTS AND RECOMMENDATIONS TO THE MWRA'S PROPOSED FY06 CURRENT EXPENSE BUDGET.** It was seconded and passed by unanimous vote.

VI. Status: CSO Holistic Approach

Mr. Favaloro noted that there will be an update at the next Advisory Board meeting on the Authority's CSO holistic approach. The Authority has continued to move forward with the North Dorchester Bay project even though there has been no agreement on the other basins. Yesterday the MWRA's Chief Operating Officer Mike Hornbrook met with DEP to work out the schedule for the North Dorchester Bay (NDB) project.

Next month the Authority will present a schedule to the Board of Directors to give to the court parties for the NDB project. The reason the Authority received approval for costly additions to the NDB project was the potential for resolution on other basins, which it termed the "holistic approach". The project, as currently designed, goes beyond the bounds of the Clean Water Act. If the NDB project is allowed to move forward, any leverage the Authority has will dissolve.

Mr. Favaloro stated the Advisory Board's members on the Board have been phenomenal in not allowing any votes on NDB awards, particularly Section 61. Mr. Pappastergion noted that the Section 61 project was pulled off the agenda at the Board meeting. Mr. Favaloro said there were not enough votes to have it pass, noting that he had told Mr. Laskey that the Advisory Board's Board members were asked not to vote for it.

Mr. Favaloro said the Advisory Board has the option of investigating legal action to stop the NDB project so that other CSO Projects, such as the Charles and Alewife, will still be in play.

Mr. Pappastergion said if the court schedule comes before the Board in June, some members will be forced to vote against approving it because the strategy was built upon tying all the basins together.

Mr. Favaloro said the holistic discussion has not come to fruition. Comments from Justice still refer to the Charles River meeting the standard to protect windsurfers. If that is still the intention of the regulators and courts, there is a real problem coming down the road. The leverage of the Authority, the Board of Directors and the Advisory Board hinges on keeping the NDB project attached to the other basins.

Mr. Sullivan said the problem is if the Board were to reject it, then the court may lay out the order and make the decision for them.

Mr. Carroll asked if there is a way the vote taken by the Board could tie in the other basins in some fashion. Chairman Dunphy said language could be added to the vote. Mr. Favaloro said any attempt to keep the basins attached would be good, although he does not know what legal standing it would have.

Mr. Pappastergion asked how the other basins could be tied into a court schedule for NDB? Mr. Sullivan said it could be put in writing, saying "contingent upon…", and submitted to the court; EPA has to object to the issues and then it brings it to the court's attention. Mr. Pappastergion said the Board of Directors can't approve a court schedule that is contingent upon water quality standards in another basin. Mr. Carroll said the Board can do anything it wants, whether it is found to be legal or not is a different question; but it might raise the issue.

Mr. Favaloro said if within the vote on the schedule for NDB, the Board included what it believes to be the intended actions for the other basins, either extended variances or different standards, it does then go before the Judge to take whatever action he so desires.

Mr. Carroll suggested that Advisory Board staff provide some language and seek legal advice.

VII. Update: Deer Island Secondary Treatment Practices

EPA has notified the Authority of potential problems relating to the Authority's practice of "blending" more than it should have on dry days at Deer Island, even though the Authority never once violated the secondary treatment discharge.

Mr. Pappastergion said there are two terms: 1) blending and 2) bypassing. Bypassing is not allowed, but blending is allowed. The problem stems from how the term blending is defined.

Mr. Sullivan noted that blending is a common practice. EPA is looking to clarify the terms.

Mr. Carroll noted that the Authority said it would be blending until its flows reached 750 million gallons, but it has actually been blending down to 540 million gallons.

Mr. Favaloro stated that EPA has honed in on the word bypassing.

VIII. Approval of the Advisory Board Agenda for May 19, 2005

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE MAY 19, 2005 MEETING.** It was seconded and passed by unanimous vote.

IX. Executive Session to Discuss Personnel Matters

(Brendan King, President of King & Bishop, was present.)

A MOTION WAS MADE TO GO INTO EXECUTIVE SESSION AT 9:49 A.M. TO DISCUSS PERSONNEL MATTERS. It was seconded. A roll call vote was taken:

Yes	No	Abstain
Cooper		
Dunphy		
Hadley		
McIntire		
Sanchez		
Sullivan, John		
Taverna		
Woods		

[Mr. Taverna left the meeting at 9:58 A.M.]

After discussion regarding personnel matters where one vote was taken, **A MOTION WAS MADE TO RETURN TO OPEN SESSION AT 10:28 A.M.** It was seconded. A roll call vote was taken:

Yes	No	Abstain
Cooper		
Dunphy		
Hadley		
McIntire		
Sanchez		
Sullivan, John		
Woods		

X. Action Item: Advisory Board FY06 Operating Budget

Mr. Favaloro noted that the Advisory Board's FY06 Operating Budget had been revised to reflect the lease of a Toshiba copier and less use of the current year's revenue. The overall request to the Authority will be $425,262, a 4.6% decrease from FY05.

A Motion was made **TO APPROVE THE ADVISORY BOARD'S FY06 OPERATING BUDGET.** It was seconded and passed by unanimous vote.

XI. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 10:34 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary