EXECUTIVE COMMITTEE MEETING
11 Beacon Street, Suite 1010, Boston, MA 02108
June 10, 2005
Minutes Approved at the September 9, 2005 Meeting

Present: John Sanchez, ARLINGTON; Ed Sullivan, CANTON; William Hadley, LEXINGTON; Jay Fink, LYNN; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; Ted McIntire, READING; Walter Woods, WELLESLEY.

Also in attendance: John Carroll and Joe Foti, MWRA BOARD OF DIRECTORS; Mark Ryan, NORWOOD (Town Engineer); Joseph Favaloro, Cornelia Potter, Ryan Ferrara, Andrea Briggs and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

I. Approval of the May 13, 2005 Minutes of the Executive Committee

In the absence of Chairman Katherine Haynes Dunphy, Secretary Ed Sullivan called the meeting to order at 8:33 a.m. A Motion was made **TO APPROVE THE MAY 13, 2005 MINUTES OF THE EXECUTIVE COMMITTEE.** It was seconded and passed by unanimous vote.

II. Legislative Conference Committee Update

MWRA Executive Director Joseph Favaloro stated the Legislative Conference Committee will be discussing two issues of importance to the MWRA and the Advisory Board – Debt Service Assistance and the waiver of the Administration & Finance (A&F) indirect rate.

The FY06 House Budget included $12.5 million for Debt Service Assistance, while the Senate version included $15 million. The Conference Committee is expected to finalize its report by June 16.

The waiver of the A&F indirect overhead rate was not included in the House Budget. The Speaker of the House does not believe the budget is for policy issues; but rather policy issues should be done through Committees, Public Hearings and the legislative cycle. The Senate, being a much smaller body, included the waiver as part of the Senate Budget.

House Ways and Means Chairman Robert DeLeo has stated that a vehicle will be found between now and the end of the fiscal year to attach the A&F indirect overhead waiver.

III. Update: Advisory Board Review of "Fringe Rate Assessment"

The MWRA pays the operating costs of the Department of Conservation & Recreation (DCR). Currently, a fringe rate assessment is determined by multiplying DCR employees' wages and salaries by 27%.

Last month the Executive Committee authorized staff to hire Daniel Dennis & Company LLP to determine if there is a better way to calculate this assessment through an audit of personnel records at the State Comptrollers Office, DCR and the Public Employee Retirement Administration Commission (PERAC) since the 27% assessment for fringe rate is an arbitrary number. Staff believes the Authority should pay a lower percentage or actual costs.

The best example is retirement. MWRA was created in 1985 and should have no exposure for retirement costs prior to 1985. From 1985 through 1994, MWRA has a 50/50 shared cost with the Commonwealth and from 1994, 100% responsibility. The Commonwealth did an actuarial study of all retirees from 1902 to the current year to determine what the Commonwealth's exposure is. Staff believes the DCR and MWRA piece should be extracted to determine accountable costs.

Randall Davis, a Partner at the firm of Daniel Dennis & Company LLP, is comfortable that the information does exist. Staff will stay involved to keep the costs down.

IV. Status: CIP/CEB Budget Review

Cornelia Potter said this week the MWRA Board of Directors held hearings on the FY06 Capital Improvement Program (CIP) and Current Expense Budget (CEB). Key outcomes include that the CIP will remain within the five-year cap of $1.134 billion. FY06 is the third year of the five-year cap period. Spending, as calculated by the cap, is now $80 million under the five-year period; much of this lower than budgeted spending will shift to the next five-year period. Spending has been held close to the previously budgeted amount of $1.66 billion for the ten-year period FY2004-2013.

For FY08, the fifth year of the cap period, the Authority has anticipated spending well over the 20% allowed by the rules of the cap; Authority staff proposed that this overage be approved but the Board voted unanimously to hold to the 20% maximum limit. This would require spending to be $14 million less than proposed for the FY08 budget.

The Advisory Board commented to MWRA staff that the most significant tool available for staying within that cap period are the milestones for the CSO Program. CSO spending is between 35 to 40% of all spending going forward and nearly 50% of spending in FY08. Adjustments to those milestone dates of a delay of even a few months would yield the reductions to stay within the cap.

The Advisory Board has emphasized the importance of accelerating the master planning program to ensure that the schedule to complete the plan by next summer is met. Further, staff has also emphasized the importance of involving Authority staff from all major departments of the agency and that the priority characterization process should reflect the Authority's assumption of greater risk to the rest of the water and wastewater projects that have been delayed or deleted in order to stay within the cap and yet absorb all the increases to the CSO Program.

For the CEB, originally the Authority proposed a budget of $550 million, which was a rate increase of 5.9%. Staff had estimated non-rate revenue of $70 million, which would result in a rate revenue requirement of just under $480 million. The proposed FY06 CEB increase would be the largest increase in ten years except for the FY03 mid-year rate increase when

Debt Service Assistance was deleted. During the course of the spring review, the Authority identified another $10 million in additional costs, nearly all the result of external forces such as health insurance increases, electricity and fuel costs, chemicals and short-term interest rates. These increases brought the expected rate increase to 8%. The Authority made modifications to its budget in recent weeks using some of the surplus from FY05 to bring the rate increase down to an estimated 7.3%. Staff presented the Board this week with the choice of assuming the receipt of the $10 or the $12 million of DSA. At $10 million, the rate increase would be 5.1% and at $12 million, it would be 4.7%.

Board member Vincent Mannering recommended bringing the rate revenue requirement down to 3.9% by using the remaining surplus from FY05 and an estimated $1.6 million from other expense reductions or non-rate revenue increases to lower the rate revenue to $470 million or 3.9%. Although there was no discussion or vote by the Board, 3.9% is the assumed goal.

Ms. Potter said staff expects the Authority will cross the $500 million mark for rates in FY07, the $600 million mark in FY09 and the $700 million mark in FY12.

The Authority's projections, which used to be very conservative and were designed to be a statement of what rates could be no higher than, have now been cut back. The budget does not reflect the costs of new facilities in those projections, nor the increases to maintenance and staff assumes current or close to current interest rates for debt. Interest rates are gradually increasing and are projected to be at 4% before Thanksgiving. Bringing rates down too low this year will only exacerbate the pace of rate increases.

John Carroll said there is no doubt about the fact that there is a mountain of debt; there is not a lot the Board can do about that. On the other hand, the MWRA cannot go back to cities and towns with a 5.7% increase and expect not to get slaughtered. The rate increase has to be held down to something people view as being respectable. Mr. Carroll said that he asked Authority staff to say how much Debt Service Assistance (DSA) would be needed from the Legislature in the ensuing years in order to maintain a constant rate increase of 3.9%. MWRA used to receive $50 million in DSA; therefore, $54 million is not out of the question. Mr. Carroll said a strategy must be developed to overcome that. The MWRA has a huge amount of money in Reserves, with $19 million in the Insurance Reserve alone. Ms. Potter noted that the Advisory Board has included the use of the Insurance Reserve as one of its recommendations.

Mr. Favaloro said between now and 2012, the rate revenue requirement goes up to over $700 million. The simple math says that cities and towns are going to be looking at $35 to $40 million increases each year.

Mr. Favaloro asked staff to put together a list of the 21 core communities using the Authority's projections from FY06 through FY12 using the rate revenue requirements so communities can see what their share of the $260 million of increases is going to be over the next six years. The MWRA and the Advisory Board have to find ways to make the Legislature more of a partner and bring them back on board. Over the last three years, there is no other entity that has gone from zero to $5 million, to $10 million to possibly $15 million of DSA. There has been, percentage wise, a huge increase in DSA every year to the credit of the

Legislature. It is reasonable to say, as long as the Massachusetts economic picture continues to get better, MWRA will be in a better position to get more DSA.

Ed Sullivan asked if staff, in talking with the Legislative Caucus, has a plan now. Has a logical progression been discussed with the Legislature? Mr. Favaloro said no; members of the Board of Directors have made that suggestion. The Advisory Board and the MWRA must now engage the Legislature on where they see DSA going. The Board is now going to put a placeholder in the planning projections for DSA. That may be a good kick-off point to have that dialog with the Caucus members and leadership to see where the appreciation may be.

Mr. Carroll noted another thing the MWRA can do is increase its base. Vinnie Mannering has been pushing to bring in more cities and towns. To keep it in simple terms, Mr. Mannering said MWRA began using 325 million gallons per day and safe yield is 300 million gallons per day; now the Authority is down to 235 million gallons per day. The difference of 70 million gallons between safe yield and actual use represents the entire City of Boston. The entire City of Boston could again be added to the system and still meet the safe yield. The problem with increasing the base is it takes a long time; however, it is a great idea for a long range plan.

Mr. Favaloro said the Advisory Board has long advocated, as part of an overall ten-point plan, that system expansion, most specifically on the water side, should be supported. The best and the brightest at the MWRA should actively determine how much water, within safe yield, could be sold and develop a marketing plan to sell it.

V. CSO Holistic Approach

Mr. Favaloro stated that last Tuesday Chairman Dunphy, Board Members, Fred Laskey, Michael Hornbrook, Cornelia Potter and he met with EPA Regional Administrator Robert Varney to discuss the “holistic solution”. Mr. Varney, accompanied by staff of the Department of Justice and his staff, said EPA is committed to a holistic solution for all of the basins and that he expects, working with the Authority, to have the holistic solution finalized within three weeks. MWRA has received letters from both EPA and the Department of Environmental Protection (DEP) stating that stormwater is not the Authority’s responsibility and the North Dorchester Bay project does not set a precedent.

Mr. Favaloro said last month the Executive Committee talked about inserting language regarding the holistic approach in the court report around the milestones to be set for North Dorchester Bay. Language was developed to be triggered if the solution on the other basins had not occurred. The staff from the Justice Department suggested that the Judge, being new, could possibly perceive this as a negative commentary as part of setting the milestones.

In three weeks, if there is no global or holistic approach for all the basins and the Authority has submitted the milestones, the only entity that can stop North Dorchester Bay from moving forward is the Advisory Board through legal action. Staff has held discussions with the firm of Anderson & Krieger and received proposals from them in the event the Advisory Board chooses to fight the North Dorchester Bay Project.

Ms. Potter observed that all during this discussion, EPA has continued to push the Authority to do additional studies, particularly for the Charles. The sum total of those projects as they have taken shape is now over $20 million. The increments of additional cost continue to

characterize discussions of the CSO program. It is important to come to closure and stop the incremental increases.

Ed Sullivan asked if CSOs are included in the Enabling Act. Mr. Favaloro said CSOs are not part of the Enabling Act; however, water and wastewater are. CSOs fall under the umbrella of wastewater and the Authority assumed responsibility for it.

VI. Update: Wastewater Metering

Mr. Favaloro informed the Committee that the MWRA's installation of replacement wastewater meters is now complete. The Authority still has a punch list of issues with some of the meters, but the meters are now providing regular information on flow.

VII. Approval of the Advisory Board Agenda for June 16, 2005

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE JUNE 16, 2005 MEETING.** It was seconded and passed by unanimous vote.

VIII. Comments

Ted McIntire reported, after five years into the process, Reading has received approval from the Water Resources Commission for a connection to the MWRA Waterworks System. Reading expects to come before the Advisory Board in September.

IX. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 9:48 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary