MWRA ADVISORY BOARD — REPRESENTING 60 CITIES & TOWNS

EXECUTIVE COMMITTEE MEETING
JANUARY 13, 2006
Minutes Approved at the February 17, 2006 Meeting

Present: John Sanchez, ARLINGTON; John Sullivan, BOSTON; Jay Fink, LYNN; Katherine Haynes Dunphy, MILTON; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; Ted McIntire, READING; Larry Barrett, STOUGHTON.

Also in attendance, John Carroll, Andrew Pappastergion and Joseph Foti, MWRA Board of Directors, Joseph Favaloro, Cornelia Potter, Ryan Ferrara and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

I. Approval of the November 10, 2005 Minutes of the Executive Committee

Chairman Katherine Haynes Dunphy called the meeting to order at 8:30 a.m. A Motion was made **TO APPROVE THE NOVEMBER 10, 2005 MINUTES OF THE EXECUTIVE COMMITTEE.** It was seconded and passed by unanimous vote.

II. Legislative Update

MWRA Advisory Board Executive Director Joseph Favaloro reported that both the House and Senate versions of the Supplemental State Budget include a waiver of the Administration & Finance Indirect fee assessed to the Water Supply Protection Trust. The waiver would benefit the FY05 and FY06 budgets.

Mr. Favaloro stated that Katherine Dunphy, in her capacity as a member of the Board of Trustees of the Water Supply Protection Trust, has been able to push the Department of Conservation and Recreation (DCR) to finally produce a report that outlined bi-weekly salaries and health insurance contributed by employees through the end of June. A “back of the envelope” calculation for FY05 revealed a $150,000 overcharge for health insurance for current employees. The Authority has been paying this for nearly two decades and it is relatively significant. For FY06, the fringe rate for health care went from 16% to over 18%; the overcharge for this fiscal year could be in excess of $200,000. Additionally, DCR has credited $10,000 for seasonal employees (lifeguards).

House 1 (H1), the Governor’s Budget, comes out January 25. Mr. Favaloro said he does not expect Debt Service Assistance (DSA) in H1. Governor Romney has never included DSA in the budget; however, in FY06, he did not veto the $12.5 million provided by the House and Senate.

Mr. Favaloro noted that he met with Lt. Governor Kerry Healey, MWRA Executive Director Fred Laskey, Mass. Highway, Saugus officials and their state representatives to discuss the issue of water pipelines for Saugus on Route 1. Points brought to the table centered on the Authority having 232 miles of mains that are its responsibility; communities have 6,700 miles of water mains, of which about 40% are in the same condition as the pipes under Route 1 and many of them are under state roads as well. Mr. Favaloro believes the Lt. Governor understood that it would be a "Pandora's Box" situation to allow Saugus pipes to become MWRA's responsibility.

III. Status: Resolutions/Advocacy Day

Advisory Board staff has had discussions with both House and Senate Ways and Means regarding our quest for $25 million in DSA; further, staff has met with 50 communities and visited Mayors, Boards of Selectmen and administrators on the same issue. Staff believes it accomplished the goal of putting rates back on the radar screen, including articles written in the <u>Boston Globe</u>, <u>Herald</u>, <u>Patriot Ledger</u> and the local press.

John Carroll asked if it is reasonable to believe that we can get $25 million and get it through without the Governor vetoing it. Mr. Favaloro said it is reasonable to believe we can get $25 million; but there are many variables. The Governor will make a major speech at the Massachusetts Municipal Association (MMA) Conference this morning, unveiling his revisions to local aid with a projected increase in support to municipalities.

This is the critical year to get debt service rate relief back on the radar screen and at more appropriate levels of state participation. The state surplus is now estimated at $700 million through December. There are more dollars to spread around, but there are a lot of competing priorities and interests that have all suffered through the bad times. Mr. Favaloro stated, from his perspective, it is important the Advisory Board was able to keep MMA on board as an ally through the whole process. When MMA met with Administration & Finance before Christmas, it placed an increase to the Debt Service Assistance line item on its priority list.

The next phase of the strategy is an Advocacy Day at the State House, combined with the Advisory Board meeting, to send a message to the legislature. Additionally, the Advisory Board's Legislator of the Year Awards will be presented to House Speaker Salvatore DiMasi and Senator Robert Havern.

Staff is also creating a presentation on the Case for Debt Service Assistance and Chairman Dunphy and a Mayor will also make the plea as to why the MWRA needs DSA.

Mr. Favaloro noted that he was before the Watertown Board of Selectmen last week with Senator Tolman and Representative Kaprielian. Senator Tolman, who is Vice Chair of Ways and Means, said he would ask for more than $25 million.

Mr. Favaloro reported, to date, 30 communities endorsed resolutions in support of increased funding for DSA.

IV. CSO Update

Mr. Favaloro stated that MWRA staff continues to report that a final agreement on the "holistic approach" looks good; however, the Advisory Board has been hearing that for six months now. Projects have begun to move forward, either in design or construction, without the benefit of an agreement with EPA/DEP. The issue now for the regulators is higher than usual flows at Prison Point; they don't understand why.

Arlington has taken legal action against Cambridge and Somerville regarding violations of their NPDES permit. Mr. Favaloro expressed concern that the MWRA may be drawn into this suit as a defendant. This further puts into question the whole solution for Mystic/Alewife, which is part of the holistic approach.

A resident of Cambridge has appealed the permit as relates to the Mystic. He is an avid kayaker, no matter what type of weather; he believes enough isn't being done on the Mystic.

All of these things potentially have significant impacts on what the CIP looks like for next year and the CIP cap for the next five-year period.

V. Proposed FY06 MWRA Current Expense Budget Amendment

Cornelia Potter stated MWRA staff submitted an amendment to the FY06 budget for greater than budgeted spending. Health care and utilities have pushed the Direct Expense category over budget by more than $6 million. The most significant area of concern is utilities, particularly electricity and diesel fuel in both price and use.

Authority staff is proposing that this greater than budgeted spending will be offset by lower spending for debt service, lower spending for watershed payments in lieu of taxes and higher revenues for Deer Island; for the balance of $3.3 million, staff proposes to close the gap by using rate stabilization funds.

Advisory Board staff has just begun its thirty-day review period of the amendment and has scheduled meetings with Authority staff to find out more about what is behind the numbers and their assumptions for spending over the next five or six months. Comments and Recommendations will be presented at the February Executive Committee meeting and a final vote is expected at the full Advisory Board meeting on February 23.

Jay Fink asked how much money the Authority has in its rate stabilization fund now. Ms. Potter said about $80 million ($43 million in rate stabilization, $38 million in bond redemption). The Authority plans to use $25 to $26 million of these funds in FY06, plus the $3.3 million proposed in the amendment. Further, Authority staff is anticipating the use of over $35 million for FY07 and the rest would be applied to FY08.

Staff is discussing financing over $600 million this spring, including new borrowing and refunding of some existing debt, a component of which may generate some additional contribution to the rate stabilization fund.

Because NSTAR has not provided reliable energy, the Authority has begun to run its combustion turbine generators (CTGs) at Deer Island in tandem with NSTAR electricity to ensure continued operation of the plant in case the electricity fails. Because of this change in protocol, the Authority is using more energy and diesel fuel than ever.

Chairman Dunphy asked how much of the increase is due to the increased costs and how much is due to the fact they are running these generators. Ms. Potter said the Authority projects that Deer Island electricity will be $2.2 million more than budgeted and reflects a 40% increase in what they assumed, valued at nearly $5 million, but it is offset by lower usage in secondary facilities and lower purchases. Further, it is estimated the increase for fuel and running the CTGs (as well as some increased costs for field operations) is $2.3 million.

VI. Potential Increases to FY07 MWRA Current Expense Budget

The Authority has begun to provide projections for the FY07 Current Expense Budget (CEB) but hasn't yet changed its projections for FY08 to FY10, so the multi-year projections still don't reflect these changes.

Mr. Favaloro said FY07 projections are predicated on MWRA using more rate stabilization funds than in any year in its existence, over $35 million. Rate stabilization funds are almost gone. In reality, the increase for FY07 is closer to a 21 or 22% increase if rate stabilization funds were not available.

VII. Preview & Schedule for the FY07 Capital Improvement Program and Current Expense Budget Review

The Authority has identified another $17.5 million in increases over the 8.7% it projected last June bringing the total rate revenue potentially to $531 million for next year, or 12.5%. MWRA may choose to make different assumptions for DSA or investment income to try to bring that 12.5 % down. One contributor to this greater than expected amount has to do with assumptions on interest rates on variable rate debt, which has been the source of the rate stabilization funds for the last several years. Projections have not been updated for FY08 and beyond.

The Authority's multi-year projections have rates rising over $200 million for the next five-year period, more than doubling the dollar increase in the previous five years. These budgets can be expected to rise even further because they do not reflect Direct Expense and interest rate pressures.

Ms. Potter stated MWRA is in the process of putting together its Proposed FY07 Capital Improvement Program document, which is behind schedule. Staff expects to mail the document on January 20. The Advisory Board's review process begins with receipt of that document, although staff has received back up data to work from. The review process will begin in about ten days and is expected to culminate with a vote of the full Advisory Board on March 16.

The proposed budget calls for nearly $230 million in spending next year, including community repayments on the I/I and Local Water Pipeline Programs and contingency allowances. Net of contingency allowances, spending is about $210 million. Spending remains within the FY04-08 cap, meeting the terms of the cap.

As for the CEB, the process of preparing the budget continues. Several expense categories that were the subject of the amendment may have additional spending. MWRA Executive Director Fred Laskey will be elaborating on budget pressures at the next Advisory Board meeting. Staff expects to begin the formal review process of the CEB in early March with a vote on the final comments at the May 19 meeting.

Jay Fink said MWRA staff is proposing to deplete rate stabilization funds over the next two years to offset budget increases. If the Authority receives DSA, will they still use the rate stabilization funds and use the debt service on additional items? Mr. Favaloro stated the key of the Advisory Board's budget review, and in working with the legislature, is how to ensure that levels of rate increases for communities are stabilized over a longer term. If the Authority says it will use $36 million of rate stabilization funds and then receives DSA, if staff backed out on using the rate stabilization, the legislature will cry foul.

Mr. Favaloro suggested, unsuccessfully, that the Authority should not be showing an 8.7% or 12.5% rate increase, but rather the 20+% increase it would have if not for the rate stabilization funds. This would demonstrate to the legislature the means that the MWRA used to get to 12.5% or 8.7% – the use of $35 million of rate stabilization funds, which will be depleted by FY08. If legislators are going to tumble with other non-MWRA legislators to get as much DSA funding as they can, they want to see an immediate benefit from it.

Mr. Favaloro said thanks to our Board members prodding, the Authority has begun to take a serious look at how to redo its bond covenants, although it will take years to see a benefit.

VIII. Approval of the Advisory Board Agenda for January 19, 2006

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE JANUARY 19, 2006 MEETING.** It was seconded and passed by unanimous vote.

Mssrs. Barrett, Carroll, Pappastergion, Foti, Ferrara and Ms. Potter left the room.

IX. Report of the Evaluation Sub-Committee

Mr. Favaloro noted that Government/Media Coordinator Andrea Briggs has left the Advisory Board's employ for a position at DEP in Worcester. In her exit interview, reasons cited were a shorter commute and a salary increase.

Chairman Dunphy reported that the Evaluation Sub-Committee agreed that Joe Favaloro's performance was more than satisfactory, anything from exceeded expectations to excellent. The Sub-Committee recommended that the Executive Committee make a finding of a favorable review and that the employment agreement be extended an additional year. Mr. Favaloro agreed to accept an additional year.

A **MOTION WAS MADE FOR A FAVORABLE REVIEW AND A ONE-YEAR EXTENSION OF THE EMPLOYMENT CONTRACT OF EXECUTIVE DIRECTOR JOSEPH FAVALORO TO JUNE 30, 2008.** It was seconded and passed by unanimous vote.

XII. Executive Session

A MOTION WAS MADE TO GO INTO EXECUTIVE SESSION AT 9:33 A.M. FOR THE PURPOSE OF A COMPENSATION RECOMMENDATION FOR THE EXECUTIVE DIRECTOR FROM THE EVALUATION SUB-COMMITTEE. It was seconded. A roll call vote was taken:

Yes	**No**	**Abstain**
Cooper		
Dunphy		
Fink		
McIntire		
Sanchez		
Sullivan		
Taverna		

After discussion regarding a compensation recommendation for the Executive Director, **A MOTION WAS MADE TO RETURN TO OPEN SESSION AT 9:41 A.M.** It was seconded. A roll call vote was taken:

Yes	No	Abstain
Cooper		
Dunphy		
Fink		
McIntire		
Sanchez		
Sullivan		
Taverna		

Upon returning to open session, A MOTION WAS MADE TO **INCREASE EXECUTIVE DIRECTOR JOSEPH FAVALORO'S SALARY TO STEP 3, EFFECTIVE JULY 1, 2005.** It was seconded and passed by unanimous vote.

Mr. Favaloro thanked the Executive Committee.

X. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 9:43 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary