EXECUTIVE COMMITTEE MEETING
FEBRUARY 17, 2006
Minutes Approved at the April 21, 2006 Meeting

Present: John Sanchez, ARLINGTON; Ed Sullivan, CANTON; Jay Fink, LYNN; Katherine Haynes Dunphy, MILTON; Lou Taverna, NEWTON; Walter Woods, WELLESLEY.

Also in attendance, 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 January 13, 2006 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 JANUARY 13, 2006 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 the waiver for the A&F indirect cost is tied up in the Legislature in the midst of the health care discussion. Nothing else is going to move until the legislators get beyond the health care debate. Staff will continue to monitor for any movement on the supplemental budget.

III. Case for Debt Service Assistance

The January Advisory Board meeting served as a good “kick off” for the Case for Debt Service Assistance (DSA). On February 1, staff began the next phase by sending the DSA Resolution to every MWRA legislator; the Resolution was endorsed by 49 communities, nearly 98% of the MWRA service area. Additionally, a Legislators’ Resolution was also sent and can be endorsed in MWRA Caucus Chairman Ron Mariano’s office.

MWRA and the Advisory Board have also met with House and Senate leadership and will now be knocking on legislator’s doors to muster support for the Resolution. The Senate President has said he will match whatever the House puts in. Of the two budgets, the House Budget is the critical budget. Speaker DiMasi has said that the Representatives must include increased DSA on their list when they come to his office for their budget priority meetings.

The next phase of the approach is to send the individual Community Resolutions to the Representatives for the districts they represent. Staff also sent out a press release to the local newspapers stating that the Governor refuses to help the ratepayers in his refusal to support DSA.

IV. Action Item: Advisory Board Comments and Recommendations on the Authority’s Proposed FY06 Current Expense Budget Amendment

Cornelia Potter stated the Authority has identified a number of areas where spending is greater than budgeted: most notably, utilities and energy have driven the greater than budgeted spending forecast for FY06. Almost all of the increased costs are at Deer Island and involve higher prices for electricity and greater use of diesel fuel, which runs the combustion turbine generators (CTGs) that provide backup power for the Authority when it goes off the grid during a black out. NStar cannot at all times guarantee electric power at Deer Island.

In addition to electricity and fuel, there are a couple of other areas that may have a shortfall worth noting because it provides a prelude for FY07 and beyond, where increased expenses can be expected to have a multi-year impact on the Authority's budget. Those areas include health insurance, unemployment insurance, greater than expected sludge production, some increases in maintenance and chemicals costs, not only in terms of the component parts of chemical production but also the transportation of chemicals. Those components of the budget are putting pressure on the bottom line.

Advisory Board staff has reviewed each of these components and the backup reasons for the shortfall this year and is updating these forecasts, some of which have grown from the time the Authority put their estimates together. The bottom line is that the shortfall is still about $5.4 million greater than budgeted, with expenses offset by some greater than budgeted non-rate revenue, and the Authority proposed to fill in the rest of the gap with $3.3 million from the rate stabilization fund.

Advisory Board staff approached the shortfall differently, noting that MWRA can avoid using rate stabilization money by using some funding from the insurance line item as the premiums are lower than budget by 10% all the way through this year and some funds have also been approved for anticipated price payments at rates higher than actually resolved. Additionally, funding to close the budget gap can come from the watershed and indirect categories.

The Authority receives revenue when it goes off the grid and runs the CTGs through a program run by the Independent System Operators (ISO) of New England, which has established a series of incentive programs to get large users who have backup capability to go off the grid at times the ISO needs it to. The Authority also gets payments under a newly created winter program to be off the system whether or not they are actually asked to go off the grid. When the Authority updates its numbers, Advisory Board staff anticipates the Authority will have an additional several hundred thousand dollars to draw on to close the budget gap.

The Advisory Board has also asked for updates on investment income; staff believes there will be enough funding from greater than budgeted investment income to cover the shortfall for this year. Staff is recommending the Authority not draw any funds from rate stabilization funds and reserve those funds for future use.

Depending on the resolution of the A&F overhead charge waiver, some greater than budgeted funds can be used as a credit back to the Authority, in which case that will also be a tool for closing the budget gap.

John Sanchez said the biggest item is energy; if it wasn't for that, would any of the other line items meet the three criteria for having to do an amendment to the budget? Ms. Potter said one of the triggers is simply a dollar more on total expenses. This amendment was triggered by two of the three budget amendment criteria. One was whether the greater than budgeted spending was more than an increase of any expense line item of 15% if that line item is at least 2.5% of total current expenses. Utilities and energy by itself did trigger the need for an amendment because it is such a big portion of the overall budget.

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

V. CIP and CEB Review Updates

Ms. Potter stated the FY06 budget was a challenge and the Authority used more rate stabilization funds than it had in a number of years. For FY07, the Authority not only has projections of an 8.7% rate increase, but it has also identified some additional expenses, like the pressures from FY06, on FY07. In fact, the Authority could have had a rate increase for next year of 12.5% (nearly $82 million) or higher if it had not used more rate stabilization and bond redemption funds ($36 million) in FY07; the Authority has pushed the proposed rate increase to 9.8%.

The Advisory Board believes MWRA's rate projection assumptions beyond next year are somewhat short at 2.5%, so the rate projections for the future may not be as high as they may become.

Mr. Favaloro said almost $36 million in one-time bond redemption and rate stabilization funds are proposed to be utilized for FY07, the most used in a given year. It is projected that by FY08 these funds will be nearly exhausted. In meetings with 50 communities over the second half of the year, the rate increases for the next five years were outlined conservatively at 44%, or $209 million; those numbers have already been exceeded to nearly 48% and $240 million. The one caveat is there is an assumption of no DSA. If $20 to $25 million of DSA is provided, the rate increase would be in the 5 to 6% range.

Walter Woods stated for many years the final rate ended up being lower than projected. How will I advise Public Works this time? Mr. Favaloro said the reality is because of the massive amounts of bond redemption and rate stabilization funds used to reduce an 18% increase down to a 9.8% increase, it is critical that any dollars found through the Advisory Board's review be used to offset the amount of rate stabilization funds being used to balance this budget. However, any funds received from DSA will be used to offset the 9.8% rate increase.

Ms. Potter added another sobering element is if the Authority updated its numbers for the FY07 budget, reflecting some of the pressures on the budget like the ones from FY06, they have identified another $13 to $15 million to the projected budget. MWRA staff has already cut its initially requested budget internally by $15 million using such categories as current revenue for the capital program. That is a whole new characteristic of the FY07 budget review.

Mr. Favaloro said the pressure on the Authority is causing even more pressures on the communities and the solutions are not as obvious in the Authority's budget; that is why the push is on for outside help. The Resolution for DSA said a minimum of $25 million, but the more important phrase was fund the line item based on the formula; that is the key phrase and will eventually get that number up to the $50 and $60 million needed.

Ms. Potter said spending for the capital program this year is now about 16% below budget through January. The Authority has spent $96 million; the budget is $209 million for the year. Advisory Board staff anticipates the Authority will come in about $20 million under budget, or $190 million for this year.

On the current expense side, MWRA has spent $300 million through the first seven months of the year, which is close to budget. Direct expense spending was below budget for the month of January, but it is still more than budget for the year-to-date at $2.5 million greater than budgeted.

Greater than budgeted spending on utilities is the primary reason for this overage, but it has been offset by lower and later debt service costs.

On the revenue side, other revenue and user charges are more than budgeted because of participation in the load response program; investment income will also serve to offset, at least in part, some of the greater than budgeted expense.

Staff is well into the CIP review; there is not much difference between this budget and last year's budget. There has been an increase of $47 million but the total value of the projects in the proposed budget is still around $3.6 billion. The changes are principally due to inflation adjustment of about $25 million and increases in new work and new projects of a little over $25 million. Almost all of that is the CSO program where inflation, as well as new projects, has added $28 million to the proposed Capital Budget.

The Authority has also made the point of noting in its budget overview that there is another $20 million in additional costs for the Cambridge/Alewife CSO project that are not yet in the CIP; staff is going back and forth with Cambridge about who is going to pay it. At one point it was understood that any additional costs beyond which the Authority had already committed would be the responsibility of Cambridge, but Cambridge is recognizing how much Boston is receiving from the Authority and is seeking the Authority to pay additional costs.

Of the $3.6 billion in budget value, the Authority assumes more than two-thirds of it will have already been expended through this year, leaving spending over the ten-year period of a little over $1 billion. The Authority remains within the provisions of the cap. The original cap was $1.134 billion. Staff now calculates spending for the five-year period will come to $1.03 billion or $103 million below the cap, reflecting the pace of spending.

The proposed budget also aims to be consistent with previously proposed spending for the next five-year period, assuming that $103 million will be carried over into the next five-year period; but it is also $21 million over that ten-year total. This difference is for the three new CSO projects that the Authority is proposing to exempt from the cap even though the next five-year cap has not been set. MWRA staff is using the ten-year spending plan as a guideline; the ten year spending plan was in the FY04 CIP two years ago.

Spending over the ten-year period is slightly over $1 billion; with contingency allowances and adjustments it totals $1.150 billion. The Authority is projecting spending of $230 to $250 million over the next three years, primarily due to expenditures on the CSO program; it then drops down to $162 million in year four. In year five spending will drop again, by half, and then slope to $70 and $60 million for the next two years, then drop sharply again by 2014 to $30 million to less than $1 million the following year. This indicates that the ten-year budget still has issue areas that will likely appear over the future.

The Authority removed $550 million from its proposed budget two years ago and a number of projects were never included in the budget. Advisory Board staff estimates that over $770 million of projects, identified by the MWRA, are not in this budget.

If spending for the next two years (the last two years of the current cap period) were subtracted, spending would be about $650 million. Of the $650 million, 40% is for CSOs, 25% is for sewer and water quality treatment and related storage facilities, 33% is for water projects; just 2% is for wastewater projects. The wastewater amount of $12 million for wastewater interceptors and facilities represents 3% of all future wastewater spending after the end of the current cap period. All other wastewater spending is for CSOs.

The Master Planning process is the place where projects need to be documented, valued and prioritized, including what the consequences are on moving forward with some and not others; that plan is due in July. It is of critical importance because it will serve as the basis for building next year's budget and the next cap.

To summarize, three of the issues that are of particular importance for this review and for the Authority this year are: 1) that three new CSO projects be exempted from the cap. The Authority has proposed that the Charles River CSO Controls, Brookline Sewer Separation and Bulfinch Triangle Sewer Separation Projects that were introduced during the CSO project negotiations be exempted from the cap. 2) What's going to happen to Cambridge funding? The Authority said that resolution of this not yet included $20 million will be part of the spring discussion. 3) The Master Plan must be completed by July.

Lou Taverna asked if the Advisory Board has input in the master planning process. Ms. Potter said no; however, it could be done differently, involving all interested and responsible parties. The Authority has assembled a working group internally and has assigned primary responsibility for water projects to one group of players and primary responsibility for wastewater projects to another group of players and they are essentially building working groups and discussion groups internally to develop different components of the Master Plan. There are other sources of information and perspectives beyond the agency that they could benefit from.

Mr. Taverna asked will the Advisory Board review the Master Plan as it does the budget. Ryan Ferrara said master planning, for this period, is intended to help MWRA staff develop the FY08 CIP process. Once the Master Plan has been completed, it is really not complete; it is there as a representation of where staff sees their priorities at that time. A lot of studies are going to be taking place over time that will inevitably change things. Currently, staff is working with plans that were done in the early 1990s on both the water and sewer sides, but now they are looking to update that information to use as a central focus to alter their capital plan moving forward. If the Advisory Board does have any kind of review of the Master Plan, it is going to be part of the FY08 CIP review.

On the CEB side, the Authority intends to mail the FY07 proposed budget document in the middle of March with a receipt date no later than Monday, March 20. The Advisory Board's 60-day review period will then run through the May 18 meeting date.

In the last week, materials provided with the Board's vote to authorize transmittal of the CEB to the Advisory Board include revised planning projections for the next ten years. Already staff is seeing rate revenue requirements rising another $20 million for the next five years, meaning the 44% increase is closer to 48% and approaching 50% in 2011 as compared to the FY06 rate revenue increase. Over the five-year period, total rates will be $55 million higher.

Most of the pressure, according to the projections, comes from staff's efforts to build in more realistic and updated numbers. The Advisory Board's review is going to spend a lot more time on projections because staff has more questions than ever about what the MWRA staff is assuming in their projections. How conservative are they? Are they still not allowing enough change in the projections?

VI. Status: CSO Variance

Mr. Favaloro said discussion on the CSO variance took place one year ago and there is still no variance on the CSOs. The Authority, in the spring, plans to award the tunnel project for overflows in North Dorchester Bay and the variance on the other basins still has not been accomplished. Once the bid documents and the award of the North Dorchester Bay Tunnel project are done, that is off the table. The EPA Regional office is now going to send a communication to Washington to say that it supports the variance. Advisory Board staff is concerned that this Washington process may take a year as well. The reality is, the construction pieces are moving forward and the variance is still not in play and costs continue to escalate on all aspects of combined sewer overflow.

The three projects that MWRA wants exempted from the CIP budget were all components of the variance and the variance may not be completed by the time the Advisory Board is asked to have discussion on exemption of those projects. Going to Washington is a positive step but it still doesn't provide closure.

VII. Discussion: Letter from the Conservation Law Foundation Regarding System Expansion

The Conservation Law Foundation (CLF) has sent a letter to the Authority expressing its concern about the Authority selling water as a commodity and citing violations of the Enabling Act. The Authority has responded to CLF's letter stating that MWRA's actions will remain within the Enabling Act, which allows the selling of more water. There is no attempt by the Authority or the System Expansion Committee to alter the existing system expansion guidelines within the Enabling Act.

VIII. System Expansion Committee Update

Mr. Ferrara stated the first meeting of the System Expansion Committee focused on the existing fee structures for system expansion, with members learning about the issue and expressing their concerns. The Committee assigned Advisory Board and MWRA staffs to provide additional information for the next meeting, which is scheduled for March 2.

One question was whether communities should be charged more for the right to receive water in an emergency situation. For example, Reading wants water for six months, essentially during peak month demands. If Reading wants 1.2 MGD for six months, the fee is calculated as 1.2 MGD divided by 12 months to determine the rate. However, the water is being drawn during peak demand time. Should there be a premium or seasonal rate?

Mr. Sanchez said I do agree that it has to be revisited. Costs are much higher to provide water in the summer than in the winter.

The buy-in for communities coming into the system was criticized too. Should communities be allowed to spread out the payments? Before new communities join, the Committee must have this discussion first.

Chairman Dunphy noted that environmentalists are concerned that MWRA is selling water in the summer that is going to be wasted on lawns. If it were more expensive to new users, at least they know they will have to spend more money to waste it on their lawns.

Chairman Dunphy said MWRA took a good step in identifying the fact that it is willing to sell more water and identifying communities that they think will need the MWRA in time. The water is available now; it might not be available later. It may put some pressure on communities that need pressure to do planning.

Mr. Ferrara noted a brief Operations Committee meeting will follow the System Expansion Committee meeting. The Authority has an opportunity to provide members with an update on the Local Pipeline Assistance and I/I Loan Programs and determine whether or not they should renew the Technical Assistance Program contract. Mr. Favaloro said the Authority believes the Technical Assistance Program has run its course and that the demand for the program is no longer there. Nine communities have fully utilized all I/I funding and some communities have used none.

IX. Approval of the Advisory Board Agenda for February 23, 2006

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE FEBRUARY 23, 2006 MEETING.** It was seconded and passed by unanimous vote.

X. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 9:58 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary