MWRA ADVISORY BOARD MEETING AND PUBLIC HEARING
APRIL 27, 2006
CARY MEMORIAL LIBRARY
1874 MASSACHUSETTS AVENUE, LEXINGTON, MA – 11:30 A.M.
Minutes Approved at the June 15, 2006 Meeting

Forty-one people were in attendance, including twenty-two voting members: John Sanchez, ARLINGTON; Peter Castanino, BELMONT; John Sullivan, BOSTON; Ed Dowling, CAMBRIDGE; Ed Sullivan, CANTON; Andrew DeSantis, CHELSEA; Al Borgonzi, EVERETT; Peter Sellers, FRAMINGHAM; J. R. Greene and Barbara Wyatt, GUBERNATORIAL APPOINTEES; Ed Demko, HINGHAM; Bill Hadley, LEXINGTON; Dana Snow, MARBLEHEAD; Don Ouellette, MEDFORD; Katherine Haynes Dunphy, MILTON; Bernie Cooper, NORWOOD; Sam MacDonald, REVERE; Richard Stinson, WAKEFIELD; Walter Woods, WELLESLEY; Earl Forman, WESTON; Bob Angelo, WESTWOOD; Zig Peret, WILBRAHAM.

Also present: John Carroll and Joseph Foti, MWRA BOARD OF DIRECTORS; Jon Norton and Mike Marchese, EVERETT; Tom Holder and John DeLuca, FRAMINGHAM; Barbara Stevens and Jim Shaw, LEXINGTON; Matt Boger and Phil Jasset, UCANE; Robert Lamb, LAMONT FINANCIAL SERVICES CORP.; Patricia Filippone, Rachel Madden and Carolyn Fiore, MWRA STAFF; Joe Favaloro, Cornelia Potter, Ryan Ferrara, Rachael Dane and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

ADVISORY BOARD PUBLIC HEARING ON MWRA'S PROPOSED FY07 CURRENT EXPENSE BUDGET

Chairman Katherine Haynes Dunphy called the public hearing to order at 11:30 a.m.

For the record, Edward Sullivan, Secretary of the MWRA Advisory Board, read the official notice of the public hearing. The MWRA Advisory Board will hold a public meeting and hearing on Thursday, April 27, 2006 at the Cary Memorial Library, 1874 Massachusetts Avenue, Lexington, MA at 11:30 a.m. After a presentation on the components of the Authority's proposed $600.7 million FY07 Current Expense Budget, community officials and members of the public will have an opportunity to offer their comments on the budget. The Authority must adopt the proposed budget on or before June 30, 2006, as set forth in Chapter 372 of the Acts of 1984. The Advisory Board is empowered by statute to make comments and recommendations on the proposed budget. Copies can be examined at the offices of the Authority at 100 First Avenue in Charlestown. Written comments received at the office of the MWRA Advisory Board, 11 Beacon Street, Suite 1010, Boston, MA 02108-3020, no later than May 10, 2006 will also be considered. For further information call 617-742-7561.

A Motion was made **TO RECESS THE PUBLIC HEARING AT 11:31 A.M.** It was seconded and passed by unanimous vote.

Chairman Dunphy called the public hearing to order again at 11:45 a.m.

MWRA Budget Director Rachel Madden stated on February 8, 2006 the MWRA Board of Directors approved the transmittal of the MWRA's Proposed FY07 Current Expense Budget (CEB) to the Advisory Board for its review and comments. The document was developed with the best information available at that time; however, staff anticipates changes to the final document.

The Proposed FY07 CEB contains $600.7 million in total expenses, less offsets for a rate revenue requirement of $518.5 million, an increase of 9.8% from the FY06 requirement. Of the $518.5 million, 68% is designated for the sewer system and 32% for the water system. The proposed budget makes no assumption for Debt Service Assistance (DSA).

Direct Expense represents $202.8 million, bond redemption this year is $19.1 million and total expenses are $581.7 million. Total revenue to cover these expenses may be subject to change should the Town of Reading pay its entrance fee of $3 million on May 1, as it has indicated.

Since approval of the FY06 CEB, total expenses increased by $56.8 million, of which $36.1 million, or 54%, covers capital financing for existing and new debt. The total operating expense portion of this increase represents $20.7 million, with Direct Expenses being the lion's share at 83%. Energy and Utilities costs have escalated significantly. Staff originally anticipated an increase of 23.4% higher than the approved FY06 CEB but has since filed an amended budget that would narrow that variance to a .2% increase. Indirect expenses of $40.6 million represent about 7% of total expenses, less offsets.

Capital Financing of $357.4 million represents 61% of the Authority's budget. Existing debt, at $335.9 million, represents 58% of total expenses. Nearly 80% of the MWRA's capital spending is mandated.

Investment Income, estimated at $33.9 million, may be subject to change in the final budget as the Authority is experiencing higher than anticipated income.

Phil Jasset said, even though DSA is not guaranteed, if $25 million were received for FY07 and $25 million for FY08, what would it do to the numbers? Acting Chief Financial Officer Patricia Filippone said receipt of DSA has a one-year benefit in lowering the rates. It would lower the base. For example, if the statewide DSA allocation for FY07 is $25 million, MWRA's share would be approximately 75%, or $18.75 million, and would bring the rate increase of 9.8% down to 6%.

Ms. Madden said the proposed FY07 CEB anticipates the use of $35.7 million in rate stabilization and bond redemption funds to help smooth the rates.

Phil Jasset asked where the original rate stabilization funds came from. Ms. Filippone said the majority of the original rate stabilization funds came from prior year's surpluses comprised of Investment Income and Swap related income as well as other sources. If MWRA continues to use reserves at the levels projected, the funds will be depleted by 2010. Staff is reviewing a multi-year plan to try to rebuild the rate stabilization funds and not exhaust them as quickly. The Authority has never used, in one year, as high a level of reserves as it plans in FY07 ($35 million). If DSA allocations had not been cut in FY03, MWRA anticipated receiving $61 million for FY07 and rate increases would not be where they are today.

Walter Woods asked what the Authority's total Reserves amount to. Ms. Filippone stated the Authority has Reserves that total more than $400 million.

Chairman Dunphy asked how MWRA's projections for FY07 utilities (electricity and fuel) costs were made and what are the chances of them being on target? Ms. Filippone responded, based on the last three weeks of pricing for crude oil and natural gas, staff is taking a serious look at the energy projections for electricity and natural gas. It is safe to say, at this point, that the proposed FY07 budget is probably not realistic. Staff hopes to bring more accurate numbers to the Board in May as to what the potential risks are.

Hearing no further speakers, Chairman Dunphy adjourned the public hearing at 12:09 p.m.

MWRA ADVISORY BOARD MEETING

A. **WELCOME**
Chairman Katherine Haynes Dunphy called the meeting to order at 12:09 p.m.

B. **APPROVAL OF THE MINUTES FROM FEBRUARY 23, 2006**
A Motion was made **TO APPROVE THE MINUTES FROM THE FEBRUARY 23, 2006 ADVISORY BOARD MEETING.** It was seconded and passed by unanimous vote.

C. **REPORT OF THE EXECUTIVE DIRECTOR**
MWRA Executive Director Joseph Favaloro stated the House of Representatives are currently reviewing their budget, which includes $25 million for statewide Debt Service Assistance (DSA) within the main body of the document. The House is expected to approve the Budget tomorrow. Mr. Favaloro acknowledged the efforts of the communities in support of the Advisory Board's Resolution in accomplishing this increase.

Staff has now begun the same approach with the Senate, having already met with the Senate President and the Chairman of Senate Ways and Means. Senate leadership was non-committal but said they will do everything in their power to be at $25 million.

Lt. Governor Kerry Healey sent a letter to the House of Representatives that was critical of the "subsidy" for MWRA ratepayers.

Two mailings outlining the process for election to the MWRA Board of Directors have been sent to all Advisory Board members. Andrew Pappastergion's term on the Board expires on June 30, 2006 and he has expressed his intent to run for reelection. The process is open to everyone. Anyone interested in running must have a resume and letter of intent in to the Advisory Board office by May 8. A quorum of 33 voting members is required for election at the May 18 meeting.

Mr. Favaloro reported today in Federal Court, working in harmony, MWRA, EPA, the Justice Department and BWSC will be before Judge Stearns to present an Amendment to Schedule Six with respect to the Charles River, Alewife Brook and East Boston. The Amendment will create some predictability through 15 years of variances that will limit growth of the CSO projects.

Mr. Favaloro stated staff developed a questionnaire for the announced candidates for Governor regarding their positions on funding mechanisms such as DSA, the Sewer Rate Relief Fund and the State Revolving Loan Fund. Additionally, invitations were extended to Lt. Governor Healey and Attorney General Tom Reilly to attend the May Advisory Board meeting at the State House and to Chris Gabrieli, Christy Mihos and Deval Patrick to attend the June meeting in Wellesley. To date, the only candidate that has accepted the invitation is Mr. Mihos.

D. **PRESENTATION: UNDERSTANDING THE COMPONENTS OF MWRA DEBT –** Robert Lamb, Financial Advisor and Patricia Filippone, Acting Chief Financial Officer

MWRA Financial Advisor Robert Lamb, Lamont Financial Services Corp., stated most of the debt MWRA issues is fixed-rate debt. MWRA sells bonds, receives proceeds at the closing and then pays a fixed rate of interest plus the principal amortization as scheduled as part of the bond sale. Fixed-rate debt typically is not callable for ten years. The purchasers of fixed-rate debt take the tax risk related to any changes or risks related to inflation because the value of their return at a later point in time is diminished if there is a lot of inflation. Importantly, tax regulations from the IRS limit MWRA's ability to refund its debt.

MWRA also issues variable rate debt. Again, proceeds are received at closing but the interest rate changes every week. The variable rate benefit to the Authority is that it gets the maximum benefit related to the value of tax exemption plus it is the lowest possible rate for any particular point in time. It also has the benefit of having low underwriting costs but it does have higher maintenance fees every year because the Authority has to pay for banks for liquidity facilities. Another benefit is that bonds are callable at any time.

MWRA also has a Tax Exempt Commercial Paper Program ($350 million) to fund construction projects. Commercial Paper is typically sold between 30 and 270 days to maturity and then gets rolled over again at maturity at a new rate until a project is completed, incorporating the interest of funding that project into the permanent issue when it is complete. Over the last five years, Commercial Paper rates have averaged less than 3% so it has been an efficient way to do financing as well. The major benefit of Commercial Paper is it allows the Authority to defer putting the project into rates and charges until the project is ready to come online.

The Authority's debt mix is: $4+ billion of fixed rate, $544 million of variable rate, $164 million of Commercial Paper and $838 million from the State Revolving Fund (that is the Abatement Trust), which is well below 2%. Ms. Filippone noted MWRA pays slightly over .5% interest rate on the SRF debt.

MWRA's major Capital Projects that began in 1985 include: $3.7 billion for the Boston Harbor Project; $309 million for Community-Managed CSO Projects; $226 million for North Dorchester Bay CSO; $215 million for the Braintree-Weymouth Relief Facilities; $698 million for the MetroWest Water Supply Tunnel; $429 million for the John J. Carroll Water Treatment Plant; and $107 million for Norumbega Covered Storage. The Integrated Water Supply Improvement Program is now complete and MWRA has now issued that debt.

Mr. Lamb stated even though MWRA has taken steps to pay off debt more rapidly than it is accumulating new debt, the Authority still has upward costs through 2023 for interest and principal payments. MWRA has issued a total of $9.7 billion of debt and has refunded $3.7 billion. MWRA has paid nearly $662 million in principal payments and has nearly $5.4 billion outstanding at this point. Debt service in 1990 was 36% of the budget; in 2000 it grew to 54% and by 2010, it is anticipated that 65% of the budget is going to be related to debt service.

An Advisory Board member asked if there is a cost for issuing the bonds from the financial firm. Does the MWRA get competitive bids from financial institutions? Ms. Filippone said the underwriting costs are typically $6 per $1,000 of bonds. When a bond deal is negotiated, the MWRA selects one lead underwriter whom the fees go to. The lead underwriter then divides the compensation appropriately to a pool of underwriters. Mr. Lamb noted the MWRA has done both competitive and negotiated deals.

Mr. Lamb stated approximately 80% of the MWRA's capital spending is mandated; therefore, MWRA has rate relief debt strategies as opposed to operating strategies. The Authority has taken advantage of refunding and has saved more than $188.7 million over the years in present value terms. Further, the Commercial Paper Program has been used to defer ratepayer charges by delaying placement of the cost of a project into rates and charges for a two-year period on average.

The 2006 restructuring of the 1990 Capital Appreciation Bonds saved $25.8 million to replenish the Bond Redemption account. The MWRA is looking at ways to reduce capital financing costs in the future without increasing significant risk to the Authority and its credit rating. Staff have begun negotiations with the rating agencies to determine if Reserves can be reduced in the future to help pay off existing debt. Staff estimates the release of Reserves could be as much as $149 million over an eight to ten-year period.

The Authority continues to benefit from borrowing from the Massachusetts Water Pollution Abatement Trust, which has the lowest cost, fixed-rate debt at rates of 2 to 2.5% over 30 years.

Chairman Dunphy asked if the Authority sees further opportunities for refunding to provide relief to ratepayers sooner than the eight to ten years it would take to release Reserves. Ms. Filippone said staff continues to look for those opportunities. A Capital Appreciation Bond was due this year and it was taken out over a 15-year life; staff is trying to better match the useful life of the assets that the funds were used to pay for with the actual debt outstanding because anytime debt is pushed out, more interest costs are incurred.

Earl Forman asked what, if any, influence will the ongoing increase in interest rates have on these projections? Ms. Filippone said MWRA's rate projections anticipate that fixed-rate debt would be issued at 6%. Currently, interest rates on fixed-rate debt are well below 5%; staff believes there is adequate cushion in those out year numbers. MWRA's variable-rate projections are at 4%; currently, MWRA's rates are at 3% for short-term cost of debt. Rates typically go up high for relatively short periods of time and then come back down again within a year or two.

Ms. Filippone stated the Authority has Rate Stabilization and Bond Redemption Funds, as well as other funded Reserves, that total more than $443 million. At the end of FY06, there will be $32.7 million remaining in the Rate Stabilization Fund to mitigate future rate increases. There is $50.4 million in the Bond Redemption Fund, which was replenished with $25.8 million from the refinancing of the 1990 debt in March. In sum, there will be $83 million at the end of June 2006 to mitigate future rate increases, which includes the $35.5 million proposed for use in FY07.

When the Authority issues senior fixed-rate debt it is required, through the Bond Resolutions, to fund a Debt Service Reserve as security to its bondholders. This Reserve is formula driven based on the amount of debt issued. The Debt Service Reserve currently has $254 million. If the rating agencies are comfortable with the Authority amending its Bond Resolutions, by 2015 the Debt Service Reserve could potentially provide $150 million to reduce debt.

When the Authority was established, many member communities were below investment grade. The underwriters determined that MWRA needed to establish a CORE Reserve to be able to sell bonds. Most communities are now at investment grade; therefore, the $20 million in the CORE Reserve should be able to be released by 2015.

The Operating, Insurance and Renewal and Replacement Reserves (RRR) are all required in the MWRA's Bond Resolutions. These three Reserves total $86 million that is set aside for specific purposes. The Operating Reserve is essentially a savings account in the event the Authority doesn't have the cash to pay its bills or if there is a deficit in the budget in any particular year, the Authority can dip into those funds and then replenish it in the following year's budget.

The Insurance Reserve and the RRR are kept in case the Authority has a catastrophic event, such as a fire or a major break in a pipeline or infrastructure, and there are no funds in the CIP or CEB to repair those particular items. Staff believes the two reserves that could be tapped, provided there is an amendment from the bondholders, are the Debt Service Reserve and the CORE Fund.

Mr. Woods asked how these reserves are invested. Ms. Filippone said the Debt Service Reserve is tax restricted. The Authority can only invest the Reserves up to the point of what the coupon is on the actual bond. If the Authority is paying 5% on the bonds, it can only earn up to 5% on the bonds. The CORE Fund is also restricted. There are no restrictions on any of the other funds, which are optimized with long term investments.

Cornelia Potter stated the Commercial Paper Program has a ceiling of $350 million and as the CIP goes down the actual utilization of it may drop to $100 or $150 million. Does the remaining capacity of the Commercial Paper Program serve as a form of a Reserve for the Authority in the event of an unanticipated capital project? Ms. Filippone said yes; staff will point this out to insurance and engineering consultants as they do their next tri-annual reviews of both the Insurance Portfolio and the Facilities Review. Mr. Lamb stated this point will be made to the rating agencies as well.

Mr. Favaloro stated at a previous Board meeting a discussion on reserves was held. Standard & Poors (S&P) warned that the Authority would be downgraded if Reserves were touched. What is the risk and what is the reward? Would the downgrade be 25 basis points or more? Mr. Lamb stated a lot of this answer is going to be judgment. Fundamentally, we believe the Debt Service Reserve and the CORE Fund can successfully be reduced without affecting the Authority's credit rating from all three rating agencies. Ms. Filippone noted the Authority has only spoken to two of the rating agencies (Standard & Poors and Moodys) thus far; when the Authority spoke to the agencies, the list of amendments was much greater and might have had a more severe impact on MWRA's rating. If the list were scaled back, it should not have a negative impact.

Mr. Favaloro expressed his hope that the Authority was not planning to keep the RRR and Insurance Reserve at their current levels. Ms. Filippone said the Reserves could be swapped out with Commercial Paper and that would solve that issue. Mr. Favaloro said the MWRA can get immediate results with the RRR and Insurance Reserves now. Ms. Filippone agreed, stating at the next tri-annual review, the fact that capacity in the Commercial Program isn't maxed out can be taken into consideration by the consultants when they do their reviews. The insurance consultant will do their review this summer. RRR was done last fall and won't be done again for two years. Mr. Favaloro asked if the RRR review could be done again. Ms. Filippone said the Authority could spend the money to redo that review.

Mr. Favaloro said the answer to "what is the risk", at this point, is to just go after the two Reserves the Authority feels won't result in a basis points differential. However, the Advisory Board would like to know how many basis points it may cost to adjust all of the Reserves. If S&P said the impact would be that the Authority goes to junk bond status, the answer would be easy. If they said 25 basis points, that is an entirely different discussion.

Mr. Lamb said it is difficult to do; 25 basis points is the difference between AA and A but there would be various incremental costs to what the Authority pays now and it is not just on interest rate. For example, as a AA entity the Authority is able to enter the variable-rate market with only a liquidity facility rather than a full letter of credit substitution facility, which costs ten basis points less to be able to do that. MWRA would have to incur that additional cost on some of its outstanding contracts as well because MWRA's variable-rate paper would not be accepted in the marketplace as a single A with a liquidity facility. The Authority would have to buy insurance and a letter of credit, which would be part of the incremental costs. It is all a trade off.

Mr. Favaloro stated currently 59% of the Authority's budget goes to debt, with projections going to 65% by 2010. The Authority has to use every tool available to it to help the ratepayers. Even with Debt Service Assistance, rate increases were only reduced to 6%. Is that good enough? What are we willing to risk and what is the ultimate reward? How do we get to responsible, sustainable and predictable? Advisory Board staff will offer their *Comments and Recommendations on the Authority's Proposed FY07 CEB* in the next couple of weeks.

E. **COMMITTEE REPORTS**

Operations Committee – Jay Fink

- **UPDATE: SYSTEM EXPANSION COMMITTEE PROGRESS**

Ryan Ferrara stated the System Expansion Committee (SEC) has held three meetings to discuss topics related to the financial basis for the current System Expansion Policy. The Committee is scheduled to meet again on May 2nd in Newton.

The MWRA Board of Directors asked the SEC to reconvene to discuss concerns, raised by John Carroll, on MWRA system expansion fee structures. Specifically, Mr. Carroll's concern is the schedule for entrance fee payments. Currently, entrance fee payments made to join the MWRA water system can take place over a twenty year term. Mr. Carroll's point was these payments should be made upfront. After much discussion, the SEC recommended that all entrance fee payments be made upfront in one lump sum payment; if the applicant cannot meet those terms, MWRA and the applicant must agree to a schedule that reflects the cost of MWRA fixed-rate debt plus an additional 25 basis points for an administrative fee. The SEC felt this additional fee would be a sufficient financial incentive for the applicants to pay upfront.

There was discussion among the Committee on whether the MWRA should be charging a standby fee to non-MWRA communities that essentially have an insurance policy by having an interconnection to the MWRA system. Ultimately it looks as though the Committee is shying away from standby fees but a final vote has yet to be taken.

The SEC discussed whether to increase the surcharges assessed to communities that come onto the MWRA water system on an emergency basis. The Committee did not want to be overly punitive to communities with genuine emergencies; however, in recognition of the fact that there are costs to the Authority, the Committee does want the emergency community to pay a slight premium. The SEC recommended that the status quo be maintained for periods one through four, but to charge incremental increases for periods five and beyond. This sends a clear price signal that communities must get their water supply issues in hand.

The next item the SEC discussed is the formulated basis for the entrance fee for new communities seeking admission. If a community requests 2 MGD from the MWRA only for the six months of summer, the current basis to establish their proportional share of the system takes the 2 MGD of use and averages it out over 12 months, when in fact it is being used over a six-month period. How equitable is this? The SEC asked the Authority to develop the entrance fee through a breakdown of 75% of the value of the system, determined on an annual basis, and an additional 25% targeted to peak use.

The SEC voted to eliminate the Operations and Maintenance (O&M) fee; this was a fee approved by the Board of Directors in 1997 related to the City of Cambridge. The O&M fee provided a one-year discounted rate for partially supplied communities that are seeking to upgrade their water system based on issues within the Safe Drinking Water Act. The Committee felt communities with such issues should pay the full freight. A request for reconsideration has been made.

❖ **UPDATE: FRAMINGHAM EXTENSION SEWER CORROSION AND ODOR CONTROL PROGRAM** – Carolyn Fiore, Manager of the Toxic Reduction and Control (TRAC) Program

MWRA TRAC Manager Carolyn Fiore stated the Framingham Extension Sewer (FES) Odor and Corrosion Control Program has been underway for a number of years. Studies began on this particular problem in 1998, with consultants identifying collapses and corrosion issues in this particular area of the MWRA's sewer system going back to 1977. The problems were attributed to extremely high levels of biochemical oxygen demand (BOD) and high levels of sulfate. The combination of these two byproducts provides an environment for the creation of hydrogen sulfide gas, which is converted in the sewer system to sulfuric acid that corrodes the crown of the pipe and the infrastructure.

MWRA began a multifaceted program to address these problems in 1999, taking a three-pronged approach: 1) source reduction; 2) treatment; and 3) asset protection.

The MWRA began asset protection, through its capital program, by lining or replacing those areas of the sewer that were particularly corroded. The treatment aspect of the program was addressed by a chemical addition at the beginning of MWRA's pipe in Framingham.

For source reduction, MWRA conducted an aggressive program to determine where the BOD and sulfates were coming from through sampling; the Authority concluded that the system configuration in the surrounding communities, as well as the industry mix in the area, contributed to this problem. MWRA established threshold limits for the communities and the industries and negotiated compliance schedules so the problem would not continue.

The five municipalities (Ashland, Framingham, Natick, Needham and Wellesley) have stepped up to the plate over the last several years and done an excellent job. The communities have undertaken their own wastewater characterization and comprehensive wastewater studies and have conducted chemical addition on their own to bring the levels down. In addition, several sewer replacement and repair projects have been done and a reduction in the number of pump stations has been made because the more the sewers are churned up, the more the hydrogen sulfide gets produced throughout the sewer. Many of the communities have taken on enhanced sewer maintenance, cleaning pipes on a more regular basis. Communities are well on their way to coming into compliance. MWRA appreciates the effort that all of the communities have made in this regard. These efforts must continue to keep the problem under control.

At the beginning of the program, MWRA identified six industrial facilities that contributed to the problem. Five of the facilities were contributing high levels of BOD and one was contributing extremely high levels of sulfate. MWRA established limits and negotiated compliance schedules with each of them and included those limits in their Industrial Sewer Use Systems Permits.

Since this program began, two industries have closed down, solving their problem. MWRA does not believe these problems were the reason they closed as there were other economic factors at play.

Genzyme has a number of facilities in Framingham. One facility had high levels of BOD being put down the drain. Genzyme installed recycling and waste segregation systems at that facility and is now in compliance.

Coca Cola, which is in Needham, had high levels of BOD but is now meeting its limits for BOD with a treatment system it built.

Nyacol Nanotechnologies was the company with the high levels of sulfate. As of April 1, 2005, Nyacol's level of sulfate discharges to the sewer meets the limits. Nyacol achieved compliance by hauling its high levels of sulfate outside the district to a treatment plant that can handle those levels of sulfate.

The last industry, Good Humor/Breyers, which has been purchased by Unilever, is scheduled to be in compliance by October 1, 2006. Staff has some concerns about whether Good Humor/Breyers will meet that schedule because it has had two interim violations of its permit, which was issued in December 2005. MWRA staff is now looking at enforcement actions for Good Humor/Breyers.

The Authority continues with its ongoing Odor and Corrosion Control Program and now has 12 hydrogen sulfide meters in this area of the MWRA sewer system. To date, levels of hydrogen sulfide are going down. However, the level of BOD from the Good Humor/Breyers facility continues to maintain higher levels than they should be at this point. Again, this facility has until October 1, 2006 to be in compliance.

To date, MWRA has spent $55 million on capital projects for this rehabilitation program and has identified, through the Master Planning process, an additional $70 million of projects in this area.

Mr. Favaloro stated communities that hardly have enough money during these times to correct all of their other issues have managed to come into compliance. Nyacol is in compliance. Yet, almost five years later, Good Humor/Breyers is even further out of compliance than when the program started. All of their other plants throughout the country are in compliance. Mr. Favaloro said it may be time for the cities and towns that have already paid $55 million on this problem to take control of this issue, perhaps requesting their constituents to boycott Good Humor/Breyers products. One negative press story may be all it takes to encourage the company to be compliant.

Finance Committee – Bernard Cooper

❖ **UPDATE: CIP AND CEB**

Cornelia Potter stated the Authority has submitted to the Advisory Board a proposed amendment to the FY06 Current Expense Budget (CEB). The Authority had proposed increased revenues of $5.4 million, including the potential use of an additional $3.34 million from the rate stabilization reserves to close a budget a gap of a projected $5.4 million in increased expenses.

More recently, the Authority has updated its projections for year-end spending and now anticipates expenses will be $3 million greater than budget as compared to the $5.4 million. Investment Income projections have also been updated and increased to about $4.8 million greater than the previously stated budget. In all, income and revenues are now expected to be

$7.3 million greater than originally budgeted and expenses are expected to be $3 million more, leaving a potential surplus of $4.3 million. This frees up the potential for using rate stabilization reserves greater than already budgeted. MWRA staff is expected to bring the revised proposed amendment to the Board of Directors for its consideration at an upcoming meeting.

The Advisory Board's Comments and Recommendations on the MWRA's Proposed FY07 Capital Improvement Program (CIP) were approved at the March 16, 2006 Advisory Board meeting and have been transmitted to the Authority. Staff expects the Authority will be reviewing the comments in the coming weeks and responses should be available at the first June Board meeting when both the updated CIP and CEB for FY07 will be discussed.

The Proposed FY07 Current Expense Budget (CEB) 60-day review began on March 20. To stay under a 10% increase, the Authority had already reduced its preliminary proposed budget by $13 million before submitting it to the Advisory Board. The proposed budget is just over $600 million in total expenses, before offsets, and calls for rate revenue of $518.5 million, which is a 9.8% increase from the FY06 budget.

A number of risk areas remain for the Final FY07 CEB, most notably electricity and diesel fuel expense, where costs have risen measurably in recent weeks.

Staff continues to address other areas, including interest rate impacts for Variable Rate Debt and Investment Income, as well as spending and non-rate revenue categories.

Any reductions the Advisory Board's recommends will be used to reduce the proposed use of Rate Stabilization Funds in FY07. Any approved DSA receipts will be used fully in FY07 to ease the impact of the rate increase.

F. **ADJOURNMENT**

A MOTION WAS MADE TO ADJOURN THE MEETING AT 1:29 P.M. It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary