EXECUTIVE COMMITTEE MEETING
APRIL 21, 2006
Minutes Approved at the May 12, 2006 Meeting

Present: John Sullivan, BOSTON; Timothy MacDonald, CAMBRIDGE; Ed Sullivan, CANTON; Jay Fink, LYNN; Katherine Haynes Dunphy, MILTON; Bernie Cooper, NORWOOD.

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

I. Approval of the February 17, 2006 and March 10, 2006 Minutes of the Executive Committee

Chairman Katherine Haynes Dunphy called the meeting to order at 8:36 a.m. A Motion was made **TO APPROVE THE FEBRUARY 17, 2006 AND MARCH 10, 2006 MINUTES OF THE EXECUTIVE COMMITTEE.** It was seconded and passed by unanimous vote.

II. Status: Debt Service Assistance

MWRA Advisory Board Executive Director Joseph Favaloro reported that the recently released FY07 House Budget included $25 million for the statewide Debt Service Assistance (DSA) Program. Only two items in the House Budget increased by 100%, DSA and a $1 million line item for Autism. This success is clearly due to the grass roots efforts of the MWRA member communities and an intense push by the legislature to put DSA back on the Speaker's radar screen. The House will debate the budget next week; from there it goes to the Senate. The Senate President has indicated that the number on the House side will be the number on the Senate side.

Nearly 1,600 amendments were filed. Of note are two amendments, one filed by Representative Stanley to increase DSA to $35 million and the other filed by Representative Smizik in support of a waiver of the Administration and Finance Indirect fee that is assessed to the Water Supply Protection Trust. The Advisory Board is not actively supporting the DSA Amendment because DSA was already doubled in this budget and it is best not to "rock the boat". House Ways & Means Chairman DeLeo has assured Advisory Board staff that the waiver amendment will be approved.

III. Emerging Themes for FY07 Current Expense Budget Review

Mr. Favaloro stated last month Advisory Board staff introduced the concept of restructuring, not refinancing, pieces of the MWRA's debt. Restructuring means reviewing the Authority's entire portfolio and selecting pieces whose repayments could be pushed out in order to provide sustainable and predictable levels of increases. The number staff had suggested during discussion was an increase of rates no greater than 4.95% from now until FY2014.

The rate revenue requirements between now and 2013 exceed $250+ million and are growing, representing increases every year of 9 and 10%. If the DSA effort is successful, it would bring the FY07 increase down from nearly 10% closer to 6%. If DSA remains consistent every year, that would be the starting point; however, is 6% acceptable? What would it take to bring the increase down a notch? Advisory Board staff went into the analysis process not knowing if it would take $2 billion or hundreds of millions of dollars of restructuring of the MWRA's debt to provide sustainable and predictable increases.

Cornelia Potter stated staff first had to determine how much funding would need to be provided to support this restructuring, other than rate revenue, in order to keep rates at just under 5%. Staff's analysis determined that MWRA would need to find between $230 and $400 million of reduced rate revenue, either through a combination of DSA receipts that can be counted on and avoided or postponed debt service payments.

If MWRA had DSA on the order of $20 million, growing at a modest rate, the Authority would need to refund or restructure bonds on the order of $230 million or slightly more over the next five to seven years. The net present value would be around $7 million.

The dimension of the modifications is relatively modest. Debt service would be moved out of the next difficult period of FY08 to FY13, where debt service payments are growing at the greatest rate. Just between $200 and $300 million of restructuring over the next five to seven years, at a cost of under $10 million in net present value terms, would be the dimension of managing the rate revenue growth over the next several years in order to provide stability.

Bernie Cooper asked if this plan would basically push the payments out, adding 13 to 14 years to the schedule. Ms. Potter said it is a revised schedule of payment. The reschedule period could be any combination; the point is to get some of the repayments out of this particularly steep or fast-growing period to a point where the repayment schedule either plateaus in the latter part of the teens or twenties or even declines after 2023.

Mr. Favaloro said he broached the future DSA topic with Bob DeLeo, Chairman of Ways and Means, to get an idea of where DSA is going. Being one of the two entities that got a 100% increase, is it feasible, with all the other legislative priorities, that the DSA allocations will get back to being based on a formula in the near term? In that environment, the restructuring proposal was also broached. Mr. Favaloro was clear that the discussion was in its infancy and Chairman DeLeo understood and agreed it would have no impact on DSA this year or in the coming years. Staff also expressed to Chairman DeLeo that the restructuring projections were based on a minimum of a 10% increase in DSA each year, which would bring the DSA allocation over the life of the debt from the $25 million today to approximately $35 or $36 million by 2014.

John Carroll asked what the difference between refunding and restructuring is. Mr. Favaloro said refunding seeks a better interest rate on a series; restructuring is lopping off principal payments and pushing them out. Ms. Potter noted restructuring is more timing oriented. The Authority, when it is redeeming bonds, is looking for savings in future debt service, without particularly watching when the savings may hit. It is more a function of what particular maturities are available for redemption or refunding. Restructuring is actively trying to get debt service payments out of a specific time period, which is the next five to seven years when the steepness or growth in debt service repayments is the most exaggerated.

Mr. Cooper asked if it is pushing off repayment of principal and only paying interest for an additional amount of years. Ms. Potter said there are a lot of specific decisions associated with when the repayments would hit, but the point is to get a certain amount of principal repayments out of the next several years when the pressure on the rates is the greatest.

John Sullivan stated this burdens our grandchildren instead of us. Ms. Potter noted of the $5.6 billion of principal outstanding, just 4 or 5% of the debt would be involved in a scenario that would try to bring rates down to just under 5%, assuming the continuation of DSA in the $20 million range and growing slowly.

Ms. Potter said most of the monies to be restructured would come from senior debt; the net present value costs of refunding these amounts of senior debt are just over $10 million. The current proposal also calls for $36 million of variable rate debt to be refunded at a cost of $850,000. The taxable senior lien debt would be a small piece of the overall package that would get the MWRA to restructuring about $400 million or a net present value of $12.2 million assuming no DSA.

Ed Sullivan asked how costs are incurred. Ms. Potter said it is a function of additional interest and the cost incurred in the revised issuance of the old debt.

Mr. Favaloro said the bottom line is: is an addition of net present value dollars of $7 to $12 million worth rate increases being sustainable and predictable at under 5%?

Ed Sullivan asked if the MWRA has been involved in this process. Mr. Favaloro said he has had discussions with Fred Laskey over the last few weeks. Mr. Laskey was disturbed about the timing of it and concerned that Mr. Favaloro had shared this information with the Chairman of Ways and Means while the MWRA is seeking DSA. Mr. Laskey's concern wasn't as much with the concept of restructuring but more the timing of it. Mr. Favaloro noted if the Advisory Board and Board of Directors think it is a good idea to pursue, it just begins the process and will take time to implement.

Mr. Favaloro continued that no one wants to extend bonds or let another generation pay the bill. Mr. Laskey has said he wants to get to the point where in any given year MWRA is paying off more in bonds than it is borrowing. That is the right place to be without question. This proposal extends that date by a matter of months.

Ms. Potter said by pushing off some of the repayment of principal, the year in which MWRA is finally paying off more principal than it is borrowing will be off by less than a year. That is what this analysis is beginning to demonstrate. To try to get some stability in rates management in the next five to seven years, it involves a relatively small amount of restructuring and allows the Authority to achieve its stated goals within a year of its earlier expectations. The reason the Authority is in such a steep period of debt service repayment is because it has postponed debt repayments since 1990 to this point believing that by FY07, the difficulties would be over; however, that goal was set in 1999, prior to the reductions in DSA.

Mr. Favaloro said this is an example of risk and reward: the parameters around risk are established at $7 to $12 million, a relatively small amount versus the reward of sustainable and predictable levels of rates. Unless staff hears differently from the Executive Committee, this strategy will be included as a principal argument in the Advisory Board's CEB Comments and Recommendations.

Mr. Cooper asked if these projections are based on the Authority's projection of cost increases. Ms. Potter said the challenge is to stay closer to a 5% increase; it is easier in the immediate years ahead. These are the projections in the proposed budget that reflect the increases to FY07 and some assumptions that increase FY08 direct expenses, then inflated by 2.5% for the rest of the ten-year projection period, even though energy, health insurance costs and variable rate debt in these projections can be expected to be a pressure point. Those significant weaknesses in the planning projections make the importance of this overall assignment that much more critical. The assumption that there will be surpluses in the future is in question.

Mr. Cooper asked how many dollars in the first year would we be postponed. Ms. Potter replied for FY08 it would be just under $20 million, for FY09 it would be $35 million, for FY10 it would rise to $55 million, depending on DSA receipt assumptions; it then levels off because debt service levels off. By FY11 it is $57 million, in FY12 it is $52 million and by FY15 it is $44 million.

Mr. Favaloro said the Authority has begun its rate projections for FY08 and FY09, with increases in the 9+% range for the next two years; this assumes every drop of rate stabilization and defeasance just to get to the 9+% range.

Andrew Pappastergion asked if the $7 million is a one-time cost or an annual cost. Mr. Favaloro responded that the $7 million is the present value cost over the life of those bonds; it is spread out over the whole re-issuance.

Ed Sullivan said another way that was discussed to get more revenue was to sell more water. What is happening in that effort? Mr. Favaloro said there will be discussion at the May Board of Directors meeting. Mr. Laskey has begun to eliminate some of the concerns expressed by others by meeting with the Conservation Law Foundation and watershed associations. However, even if the Board approves some level of expansion, it doesn't happen overnight. It took Reading nearly five years to join the system. Reading and Wilmington are the only two communities on the expansion horizon at this time.

Chairman Dunphy asked for a sense of the meeting. Jay Fink agreed that the concept should continue to be explored. With MWRA forecasting nearly 10% increases and the forecasts coming in on oil prices, we need to explore something along these lines to look at the bigger picture to try to maintain a level of reasonable rate increases over the long haul. Ed Sullivan concurred.

IV. Update: CIP and CEB

Cornelia Potter stated the Authority submitted the Proposed FY07 CEB to the Advisory Board on March 20 for its 60-day review. The proposed budget is just over $600 million in total expenses, before offsets, and called for a rate revenue requirement of $518.5 million, which is a 9.8% increase from the FY06 budget.

Advisory Board staff has been conducting a series of briefings and conversations with various members of the Authority staff and are in the process of beginning to draft the *Comments and Recommendations*, which will be mailed to the Executive Committee two weeks from today.

To stay under a 10% increase, the Authority had already reduced its preliminary proposed budget by $13 million before it was submitted to the Advisory Board.

A number of risk areas remain for the Final FY07 CEB, most notably electricity and diesel fuel expense. The Authority staff is going out for bid for electricity providers for the new John J. Carroll Water Treatment Plant and for Deer Island. This will be an extremely challenging issue for the Authority. The results of the bid process will dictate if MWRA goes for all variable rate pricing or whether they take out a fixed-rate block for a portion of their supply, for which they will pay a premium to get a component of price certainty.

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

Any reductions will be used to reduce the proposed withdrawal of rate stabilization funds in FY07 and reserved for future use, as part of a multi-year rates management strategy designed to provide future rate stability. Any approved DSA receipts will be used to reduce the FY07 assessments.

The Advisory Board completed its review of the proposed FY07 CIP and expects the Authority will be reviewing the *Comments and Recommendations* in the coming weeks. Responses should be available at the first June meeting of the Board of Directors when the updated CIP and CEB will be discussed.

The Advisory Board completed its 30-day review of the Authority's proposed Amendment to the FY06 CEB. MWRA had proposed increased revenues of $5.39 million, including use of an additional $3.34 million from the rate stabilization reserves to close the budget gap. The Advisory Board's comments identified other areas of non-rate revenue and spending reductions that could close the gap without using rate stabilization funds.

More recently, the Authority has updated its projections for year-end spending and now expects that expenses will likely be $3 million greater than budget, reflecting lower variable rate debt expense of $2 million. Investment Income projections have also been updated with revenue expected to be at least $4.8 million higher than previously stated. In all, income and revenues are now expected to be $7.28 million greater than originally budgeted and expenses are expected to be $3 million more than originally budgeted for a current surplus of $4,279,479.

Authority staff is expected to bring the revised proposed amendment to the Board of Directors for its consideration and approval at an upcoming meeting.

V. Preliminary Discussion: FY07 Advisory Board Budget

Mr. Favaloro provided a preview to the Executive Committee on the Advisory Board's Proposed FY07 Budget of $435,000 or just under 2.5%.

For FY06, the Advisory Board is currently at 95% of its budget. *Advertising* costs were higher due to an unexpected vacancy in staff. Based on that vacancy, *Payroll* costs are down nearly $5,000. *Rent* costs increased because of maintenance costs; however, a new lower rate goes into effect in FY07.

Utility costs, percentage wise, accounts for one of the larger increases. Electricity is a growing concern. Recently, the Advisory Board hired a contractor to change the ballasts and lights at a cost of approximately $550; in return, energy costs should be reduced by at least 25 to 35% in less than a year. Because of efforts to distribute materials electronically, the *Postage* and *Printing* line items will go down for the third year in a row; however, the Advisory Board still has to mail its most expensive documents, including the Water & Sewer Retail Rate Survey and the draft and final versions of the CIP and CEB.

Maintenance costs will increase for FY07 because the 18-month grace period for maintenance costs on the copier will expire this year. *Interest Income* has increased.

For next year, the *Payroll* line item reflects the compensation package put in place last year. There will be an increase in *Utilities* until the benefit of the new lighting system can be evaluated. The *Public Meetings* line item will increase because lunches for members are more expensive.

VI. Update: Framingham Extension Sewer Corrosion and Odor Control Program

Mr. Favaloro stated through Mr. Carroll's urging many years ago, a numerical evaluation (1 to 5) was assigned to communities and industries to follow their progress in resolving BOD and sulfite issues that are causing odor and corrosion problems in the Framingham Extension Sewer. Communities continue to make substantial progress in bettering the conditions.

In the industry rating, most of the entities, especially Nyacol, have made significant improvements in resolving the problem; however, one entity, Unilever, Inc. (Good Humor/Breyer's), continues to be a bad neighbor on many levels. Six months ago Unilever attempted to not pay Framingham for the cost of their water and sewer bill. Further, despite MWRA staff's attempts to bring Unilever into compliance, Unilever's level of effort and cooperation has decreased from a rating of three to four. Unilever is now further away from being in compliance and putting more BOD into the system than they were nearly four years ago.

Mr. Favaloro suggested one way to get Unilever into compliance is bad press. Staff is contemplating asking member communities to request that its citizens boycott Unilever products. One press release declaring that Unilever's ice cream is destroying the environment and the MWRA collection system and costing ratepayers money might be the trigger needed for Unilever to become a good neighbor. Unilever is the only entity moving backward.

Mr. Cooper asked if MWRA has stricter discharge limits than most other sewer districts; Unilever must have ice cream plants all over the country. Mr. Ferrara stated that MWRA

TRAC Manager Carolyn Fiore and her staff have looked at what Unilever does throughout the country and Unilever does meet standards at other plants. Staff believes it is Unilever's desire not to make any additional changes on this plant. One argument Unilever has made is they have expanded so much they don't have space to build pretreatment on site.

VII. Update: System Expansion Committee

Mr. Ferrara stated the fourth meeting of the System Expansion Committee will be held on Tuesday, May 2nd. The schedule for the entrance fee payment is an issue that Mr. Carroll brought forth about when entrance fees should be paid. After much discussion, the Committee decided it would strongly encourage entities to pay the entrance fee upfront; however, if the entity is unable to pay upfront, it must reach an agreement with the Authority on the terms of the loan, including an interest rate, terms of years and an additional administrative fee of 25 basis points on the percentage rate.

Mr. Carroll said because the MWRA is going to charge the entity interest, it would probably be cheaper to borrow the money themselves; MWRA should be getting this money as a lump sum payment to help in these immediate years. Mr. Favaloro noted that the additional basis points were added to the interest rate to make borrowing from the MWRA less attractive.

Chairman Dunphy said the intent of the Committee was that the upfront payment would be the standard and that the entity couldn't just go to the MWRA and say we are going to get our money from you. They have to make a case to the Board that there is a hardship or special circumstances that would entitle them to borrow from MWRA. Mr. Ferrara said the policy would allow for some mitigating circumstances but the expectation is an upfront payment. A vote is expected on this topic at the May 2nd meeting.

Mr. Ferrara stated thus far the sense of the Committee is to not support any additional fees for interconnections to the system, or a standby fee. There was talk about distinctions between minor connections into the system, such as an eight-inch line, versus a more substantive connection like the Authority currently has with Reading or Tri-Town where the pipeline serves as an insurance policy; however, Mr. Ferrara believes the Committee has reflected an unwillingness to assess a standby or readiness-to-serve fee.

Currently the Authority charges a prevailing rate, plus an increasing charge for the annual payment associated with the asset value contribution, to communities for emergency use. The Committee chose to keep the structure for periods one through four the same, essentially saying if there is a community with a genuine emergency, MWRA should be able to make accommodations for them and not be overly punitive. Beyond that, the Committee agreed to look at escalating the percentages to send a price signal to those communities to make them understand they need to deal with their emergency issue. After the fifth emergency activation, it is no longer an emergency; it is a chronic issue. The recommendation was to increase the percentages for periods five and beyond, which the Committee voted unanimously to support.

The Committee tried to find a more equitable approach for the formula used to calculate the entrance fee. Currently a community may be taking water primarily during the six months of summer, MWRA's heavy use period; yet the entrance fee is averaged out over an entire year. To recognize that these communities are taking water during the high demand period, the Committee has proposed an arrangement where 75% of the buy-in fee would be based on annual average use but there would be a separate 25% based on peak use. This formula recognizes that there are some additional costs associated with bringing a community on during the summer.

The Committee voted, with one opposed and three abstentions, to eliminate the Operations & Maintenance (O&M) charge moving forward. The O&M charge was approved by the Advisory Board in 1997, specifically tied into Cambridge's construction of their water treatment plant. Put simply, it allowed for a discounted rate that excluded the debt component of the wholesale water charge for partially supplied MWRA water communities that were seeking to renovate their plants to meet the terms of the Safe Drinking Water Act. Mr. Favaloro stated the O&M topic will more than likely be back on the table for discussion at the next meeting because one member, who voted in favor of it, requested reconsideration.

The Operations Committee will meet directly after the System Expansion Committee meeting to discuss the Town of Wilmington's request for its fourth emergency activation. Five of Wilmington's nine wells are contaminated causing significant issues in the summer. Wilmington's long-term strategy is to take a portion of water demand from the MWRA system.

VIII. Process to Elect Advisory Board Member to the MWRA Board of Directors

Mr. Favaloro reported that Andrew Pappastergion's term on the MWRA Board of Directors is due to expire on June 30, 2006. The Executive Committee will serve as the Nominating Committee, as it has in the past.

The deadline for candidates to submit a letter of intent is May 8, 2006. The Nominating Committee will interview and recommend a candidate at the May 12, 2006 Executive Committee Meeting. An election will be held at the May 18, 2006 Advisory Board meeting. All candidates will be allowed an opportunity to address the full Advisory Board.

IX. Approval of the Advisory Board Agenda for April 27, 2006

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE APRIL 27, 2006 MEETING.** It was seconded and passed by unanimous vote.

X. Adjournment

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

Respectfully submitted,

Edward Sullivan, Secretary