EXECUTIVE COMMITTEE MEETING
MAY 12, 2006
Minutes Approved at the June 9, 2006 Meeting

Present: John Sanchez, ARLINGTON; John Sullivan, BOSTON; Timothy MacDonald, CAMBRIDGE; Ed Sullivan, CANTON; Bill Hadley, LEXINGTON; Jay Fink, LYNN; Katherine Haynes Dunphy, MILTON; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; Ted McIntire, READING.

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

I. Approval of the April 21, 2006 Minutes of the Executive Committee

Chairman Katherine Haynes Dunphy called the meeting to order at 8:34 a.m. A Motion was made **TO APPROVE THE APRIL 21, 2006 MINUTES OF THE EXECUTIVE COMMITTEE.** It was seconded and passed by unanimous vote.

II. Legislative Update

MWRA Executive Director Joseph Favaloro reported the Advisory Board was successful in its efforts to get a $25 million appropriation for statewide Debt Service Assistance (DSA) in the FY07 approved House Budget; MWRA would be eligible for approximately $18.75 million. Also included in the House Budget was the waiver of the Administration & Finance (A&F) indirect fee that is assessed to the Water Supply Protection Trust.

Staff has met with Senate President Robert Travaglini and Senator Therese Murray (Chair of the Senate Ways and Means Committee) to seek $25 million in the Senate Budget as well; however, staff has learned that the Senate appropriation is less than $25 million. Staff is now in the process of seeking support from all of the MWRA District Senators, as well as support from Senators outside the MWRA District whose communities also benefit from the DSA program. Assistant Vice Chair of Senate Ways and Means Steven Tolman will file the amendment.

Senator Stephen Brewer will file the Amendment to the Senate Budget for the A&F waiver, putting predicted resolution of this item at the end of June or the middle of July.

In regard to the 65 gallon per capita per day rule that the Department of Environmental Protection (DEP) has developed for the revised Water Management Act (WMA), the Massachusetts Water Works Association (MWWA) has put forward an initiative in the Senate Budget to essentially place a “time out” on enforcement of the new WMA standards by de-funding this portion of the DEP budget. During the time out, MWWA would establish a blue ribbon panel of “stakeholders”. MWWA has asked the Advisory Board to help. The Advisory Board office has already written a letter to DEP raising concerns based on a presentation that DEP had made at an Advisory Board meeting regarding these new standards. Minimally, staff will send a letter to the legislature in support of MWWA’s initiative.

III. Action Item: MWRA Advisory Board's FY07 Operating Budget

Mr. Favaloro stated, since discussion on the Advisory Board's Operating Budget last month, staff was able to reduce the request for funding by an additional $2,000 to get to an overall increase of 2% from FY06, which matches the percentage the MWRA had placed in its budget for the Advisory Board. The overall FY07 Operating Budget will be $455,274, which translates to a request of $433,767 from the MWRA.

Lou Taverna asked if the Advisory Board is on budget this year. Mr. Favaloro replied in the affirmative, stating as of March, the budget was in the 95 to 96% range.

A Motion was made **TO APPROVE THE MWRA ADVISORY BOARD'S FY07 OPERATING BUDGET.** It was seconded and passed by unanimous vote.

IV. Action Item: Advisory Board Comments and Recommendations on the MWRA's Proposed FY07 Current Expense Budget

Cornelia Potter stated the MWRA's Proposed FY07 Current Expense Budget includes $600 million in total expenses, non-rate revenue of $82 million, including $36 million of rate stabilization fund draw-downs, leaving a rate revenue requirement of just under $520 million, marking the first time the rate revenue requirement passes the $500 million point.

Despite three years of growing budgets and economic growth, the Commonwealth's spending on key programs is still well below 2001 levels (when adjusted for inflation). The State is spending $2.5 billion less, in adjusted dollars, than it was prior to the fiscal downturn in 2002. The State now has the financial capacity to act on some, but not all, of the initiatives before the legislature. In this context, the probability of bringing DSA back to the full formulaic calculation by FY11 is doubtful.

Thus, the major theme of the Advisory Board's review not only looks at this year's budget, but out over a number of years as well. The Authority's proposed planning projections show rates will be higher in each of the next seven years than they have been in any of the previous dozen years. Advisory Board staff is concerned about the pace of projected rate increases. The percentage of rate increases does not tell the story as dramatically as the dollar amount of rate increases that the Authority has projected, which translates into the expectation that the Authority will cross the $600 million mark in two years and the $700 million mark two years after that.

Advisory Board staff devised a strategy to provide for sustainable and predictable annual rate revenue requirements in the future. For this analysis, Advisory Board staff set a guideline that assumed keeping rates at just under 5% and provided the Authority with an additional $200 million per year in capital spending dollars because their proposed capital spending is well under $100 million, and then less than $50 million, well before the decade of the planning horizon ahead ends. This analysis also assumed a modest 10% increase in state DSA. This analysis was able to demonstrate that the Authority could achieve this modified sustainable rate increase with restructuring in the neighborhood of $165 million; the cost of restructuring this debt would have a net present value of less than $4 million.

Mr. Favaloro stated, in real dollars, between now and FY2013, MWRA is proposing an additional $287 million in increased rate revenue requirements for communities as opposed to the $165 million for the 12 years prior. These projections do not make any assumptions for additional capital investment after FY11 so, realistically, that $287 million is lower than the communities can anticipate for future years. These realities are the reason the Advisory Board developed scenarios to get to sustainable and predictable increases. Staff chose the $200 million per year to get to some of the water and wastewater projects the MWRA has not been able to do because of mandated projects.

Projections of future state priorities in spending do not indicate that DSA allocations will double every year; that is why staff assumed a 10% growth in these analyses. Restructuring allows for a review every year because it is not one series of borrowings, it is many series of many borrowings. The Authority is not locked in; it is an ongoing review that would allow small pieces to be lopped off and restructured.

Ms. Potter said the amount of debt being restructured under this concept is less than 5% of the Authority's total outstanding debt. Annual restructuring of small amounts of existing debt would allow for a flat or sustainable rate of rate increases moving forward. The debt service would be restructured from FY2007-2015 and represents $163 million; repayment of that debt would begin in a relatively modest eight to nine year timeframe.

Staff has also made a number of other recommendations to lower costs including a decrease to the proposed budget for several chemicals, based on lower usage; increasing self generation of electricity at Deer Island and eventually at the John J. Carroll Water Treatment Plant; updating and lowering budgets for the operation of the Union Park CSO facility to reflect a later startup; a reduction in the frequency of beach nourishment studies at Deer Island; lower legal services in Human Resources and audit services in Finance.

Further, the Advisory Board has recommended that the Authority provide thorough reports to the Board of Directors on: 1) plans for wind energy at Deer Island; 2) opportunities for wind energy at other Authority locations and 3) long-term maintenance plans for the pelletization plant.

Corrections in lease expense and income assumptions for space at the Charlestown Navy Yard and a reduction in printing expenses have also been recommended. Additionally, the tally of all these recommendations was added to allow a reduction in the one-sixth operating reserve requirement. Together, this group of recommendations totals $1.95 million. Staff has also made adjustments to assumptions for capital financing for a reduction of just under $6 million, including revised assumptions about where variable rates are going and how that impacts the Authority's assumptions for debt service associated with subordinate debt.

Staff has reviewed the various components of Investment Income and updated assumptions regarding interest rates and fund balances to come up with a recommendation just under $2.5 million. The Advisory Board's overall recommendations total just over $12 million and should be used to reduce the use of rate stabilization funds to be reserved for future years.

Non-monetary recommendations include the development of a Request for Proposals to pursue the idea of packaging, marketing and distribution of bottled MWRA water. Members of the Board have raised this as a concept in the past.

Further, the Insurance and Renewal and Replacement Reserves (RRR) are in a different category in the Bond Covenants than other Reserves. The size of these Reserves is determined by a consultant engineer and insurance adviser every three years. The Authority should re-open those reports and look more closely at the size of those Reserves or whether they are needed, particularly because the Authority's Tax Exempt Commercial Paper Program has $150 million in excess capacity, which allows the Authority to quickly enter the market for funds if insurance, technical or facility issues arise. Together the RRR and Insurance Reserves total $54 million; the Commercial Paper Program has nearly triple that capacity.

Mr. Favaloro stated staff chose to restructure $163 million to get to a 4.95% increase, but the MWRA can choose any level. The Advisory Board's recommendation is not a specific restructuring plan, but the approach of restructuring as a tool to provide sustainable and predictable rates. Simply put, the Advisory Board's two-fold recommendation to the Authority is: 1) revisit the rates management strategy. Incorporated in that rates management strategy, MWRA should convene a committee made up of MWRA staff, the Advisory Board, members of the Board of Directors and the financial advisors to discuss what should be part of that rates management strategy; 2) restructure debt to get to a sustainable and predictable pace of rate increases.

Ms. Potter stated this is a test of the idea; the Committee may set different parameters to test to see what the outcome is. Whatever the assumptions are, if they are within this range, the amount of debt that is within the rates management plan is a small proportion of the Authority's outstanding debt.

John Sullivan asked how much variable rate debt the Authority has and are they more concerned right now that short-term rates are rising. Ms. Potter said the Authority has $544 million in pure variable rate debt but the Authority gets tax-exempt interest; even though the federal funds rate went up to 5%, the Authority pays two-thirds of that amount plus 25 basis points for liquidity purposes. The Authority is still paying less than long-term debt but if they see short term rates rising faster than they believe is appropriate for the Authority's level of risk, they can turn it over to fixed-rate borrowing. The Authority has assumed 4.75% for short-term rates, which corresponds to federal fund rates going over 6%.

Ms. Potter stated 4.95% in FY2013 is a lower dollar number than the Authority has projected; however, it is misleading. If you make a judgment call strictly on the rate of increase, it would skew the outcome.

A Motion was made **TO APPROVE THE ADVISORY BOARD COMMENTS AND RECOMMENDATIONS ON THE MWRA'S PROPOSED FY07 CURRENT EXPENSE BUDGET.** It was seconded and passed by unanimous vote.

Mr. Favaloro thanked Ryan and Cornelia who put long hours in to prepare this document.

V. Update: Adjustments to Assessments Based On Update of New Wastewater Metering Data

Mr. Favaloro stated the Authority brought to the attention of the Board of Directors some flaws found in the new wastewater metering system and the changes made based on additional analysis. Some of the velocity sensors were not working correctly. Staff is in the process of working with the consultants to alleviate that problem. When the problem was discovered, the assessments were recalculated; the principal beneficiaries would be Newton, Quincy and Woburn, with the additional costs being split among all the wastewater communities.

MWRA staff has also indicated that additional changes may be necessary. To make adjustments to assessments in the middle of May might cause problems. Mr. Favaloro suggested that the MWRA and the Advisory Board may want develop a methodology to address any concerns with assessments within 40 days of receipt. Because these numbers are relatively small and DSA has yet to be accounted for, the change for FY07 most likely will not cause a problem for communities; however, what would happen if this occurred on June 18? At some point community budgets must be established. A methodology should be discussed.

John Sullivan asked if the Authority found this problem. Mr. Favaloro said the City of Newton brought it to the Authority's attention.

Andrew Pappastergion said inconsistencies with the velocity readings could have disturbing ramifications. Mr. Pappastergion asked MWRA staff specifically if it was a sensor problem or an electronic problem. Staff said it was not the sensors; it was a computer algorithm that the manufacturer used to tie all the data in that had the wrong factors or variables in it.

VI. Action Item: Six-Month Emergency Water Connection for Wilmington

Mr. Favaloro stated this is the Town of Wilmington's fourth request for a six-month emergency connection, beginning in June, to the MWRA Waterworks System through Woburn due to contamination of five of Wilmington's nine wells. Wilmington officials were before the Operations Committee last week to discuss this request; the Operations Committee approved the request and sent it on to the Executive Committee for its consideration.

A Motion was made **TO ALLOW THE TOWN OF WILMINGTON (WILMINGTON) TO ACTIVATE A CONNECTION TO THE MWRA WATERWORKS SYSTEM, VIA THE CITY OF WOBURN (WOBURN), FOR A SIX-MONTH PERIOD, WITH A START DATE IN JUNE 2006. THE CONNECTION IS SUBJECT TO THE APRIL 21, 2006 MUNICIPAL AID AGREEMENT BETWEEN WILMINGTON AND WOBURN THAT ADDRESSES ISSUES OF ASSESSMENT AND CHARGES PRIOR TO CONSIDERATION BY THE MWRA BOARD OF DIRECTORS. AVERAGE DAILY DEMAND SHALL NOT EXCEED ONE MILLION GALLONS PER DAY. WILMINGTON WILL ABIDE BY THE RULES STIPULATED UNDER MWRA EMERGENCY WATER SUPPLY WITHDRAWALS (POLICY #OP.05), INCLUDING PAYMENT OF 110% SURCHARGE OF THE MWRA'S PREVAILING RATE PLUS 110% OF THE ANNUAL PAYMENT ASSOCIATED WITH THE ASSET VALUE CONTRIBUTION PAYMENT (ENTRANCE FEE EQUIVALENT) AMORTIZED WITH INTEREST OVER 15 YEARS. RULES GOVERNING PREMIUM CHARGES AND ASSET VALUE CONTRIBUTION ARE INVOKED WHEN WATER IS TRANSFERRED FROM THE MWRA TO WILMINGTON.** It was seconded and passed by unanimous vote.

VII. Update: System Expansion Committee

Ryan Ferrara stated the System Expansion Committee concluded its review of the System Expansion Policy on May 2. The areas the Committee reached consensus on include the schedule of entrance fee payments and premium fees for emergency use – premium charges for periods 1 to 4 will remain the same and periods 5 and beyond will increase.

The Committee has recommended a change in the entrance fee formula that incorporates a component for peak use within the entrance fee charges for communities joining the water system. Further, the Committee recommended the elimination of the Operations and Maintenance (O&M) charge that was voted on by the Board of Directors in 1997. The O&M charge essentially provided a discount to communities making improvements to their water treatment facilities to accommodate the Safe Drinking Water Act by taking off the capital component.

Mr. Taverna noted that Walter Woods had requested a reconsideration of a vote at the System Expansion Committee and did not have the opportunity to address that item. Mr. Favaloro stated that Mr. Woods would have an opportunity to address his concerns at the June Executive Committee meeting.

Mr. Favaloro stated at the June 28 Board meeting, interested parties will be allowed to speak on the system expansion topic. Representatives from the various watershed associations will likely be in attendance. Mr. Favaloro suggested that communities participate to allow the Board to hear a balanced argument that constructive, responsible growth is possible.

Additionally, Mr. Favaloro expressed concern that there is a desire on the part of the Department of Environmental Protection and the Executive Office of Environmental Affairs to slow down the expansion process to allow the state to catch up with its planning process. If community representatives were in attendance expressing their desire to allow for responsible expansion of the water system, it may move the process along.

At last month's meeting, Good Humor/Breyers' non-compliance with Biochemical Oxygen Demand limits that contribute to the odor and corrosion control problem in the Framingham Extension Sewer was discussed. The Board, on Wednesday, was notified that the Authority has issued fines in excess of $220,000 to Good Humor/Breyers for 31 violations. In addition, the story was covered by the MetroWest and Boston Herald newspapers and Channel 56 and NECN television stations. The next step should be a boycott of Good Humor/Breyers products by the communities most affected by the facilities, Ashland, Framingham, Natick and Wellesley. If bad publicity does not persuade Good Humor/Breyers to work toward compliance, the remaining MWRA communities can join in the boycott.

VIII. Action Item: Interview/Nomination for Advisory Board Representative to the MWRA Board of Directors

Mr. Favaloro noted the incumbent Advisory Board representative to the MWRA Board of Directors Andrew Pappastergion has provided a letter of intent and resume for the Nominating Committee's consideration; Mr. Pappastergion is the only candidate to do so.

Mr. Pappastergion expressed his desire to continue serving the Advisory Board communities as one of their representatives to the MWRA Board of Directors, which he has done for nine years. He stated there are a lot of challenges facing the MWRA and the Advisory Board, including the overwhelming debt service load, the continued pursuit of DSA and the CSO program – all of which affect rates. Together, the Advisory Board's three representatives to the Board have influence and try to present a united front to gather the support of the other Board members.

A Motion was made **TO NOMINATE ANDREW PAPPASTERGION TO THE FULL ADVISORY BOARD TO SERVE AS AN ADVISORY BOARD REPRESENTATIVE ON THE MWRA BOARD OF DIRECTORS FROM JULY 1, 2006 TO JUNE 30, 2009.** It was seconded and passed by unanimous vote.

Mr. Pappastergion thanked the Committee, stating that he looked forward to serving the Advisory Board and the communities for another three years.

IX. Approval of the Advisory Board Agenda for May 18, 2006

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE MAY 18, 2006 MEETING.** It was seconded and passed by unanimous vote.

X. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 9:31 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary