EXECUTIVE COMMITTEE MEETING
NOVEMBER 9, 2006
Minutes Approved at the January 12, 2007 Meeting

Present: John Sullivan, BOSTON; Ed Sullivan, CANTON; Ron Seaboyer, MELROSE; Katherine Haynes Dunphy, MILTON; Lou Taverna, NEWTON; Zig Peret, WILBRAHAM.

Also in attendance, Joseph Foti, MWRA BOARD OF DIRECTORS; Joseph Favaloro, Cornelia Potter, Ryan Ferrara and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

I. Welcome

Chairman Katherine Haynes Dunphy called the meeting to order at 8:36 a.m.

II. Office/Staffing Update

MWRA Advisory Board Executive Director Joseph Favaloro stated Christine Hevelone-Byler will be joining the Advisory Board staff as its new Government/Media Coordinator on December 4.

After 11 years with the Advisory Board, Senior Finance and Policy Analyst, Ryan Ferrara has accepted a position with the City of Newton; his last official day will be Wednesday, November 22. Ads to fill this position have been placed in the Boston Globe and on Monster.com, as well as on the Massachusetts Municipal Association's website. Staff hopes to fill this position by the middle or end of December.

In January, one agenda item will be a discussion on some of the office policies and how they relate to now "hot button" items at the State House, such as vacation, sick time and buy backs. Further, the FY06 evaluation for the Executive Director will be another topic.

III. Action Item: Discussion of the 2007/2008 Legislative Priorities

The Advisory Board does not meet in December and legislation for the two-year legislative cycle needs to be filed by January 10. If other priorities are identified over the next two years, staff can late file at any time.

Governor-Elect Deval Patrick has until February 22 to file the House 1 Budget, a month later than the usual process because it is a new administration. The Rates Management Strategy Committee was posed with the question of whether the MWRA wants to push back its budget process until staff has an idea of what is included in the Governor's Budget. The response was twofold. The Advisory Board can begin its 60-day review period upon receipt; it does not need a specific timeline. The real concern would be for cities and towns, which need to know what their assessment will be by February 1 in order to set their own budgets.

Debt Service Assistance (DSA) was in the $50+ million range but is now down to $18.75 million. What is a logical and reasonable assumption for increasing or maintaining DSA for FY08? Last year the Advisory Board was able to muster the support of most of the MWRA communities through a resolution that emphasized having DSA fully funded by FY11. Under that scenario, the ultimate goal for growing DSA would be the $60 to $75 million range by FY11. There is not a lot of growth in the state's revenue number; further, Governor-Elect Patrick plans to find just under $800 million in unnecessary state funding and spending to help pay for his priorities. Message number 1 was that local aid was going to be significantly expanded under his administration. MWRA Board Member Vincent Mannering noted at a Board meeting that the state has under-assumed healthcare costs. That is the environment in which the Advisory Board will try to increase DSA.

As soon as a transition team is identified, staff will try to make some contacts as soon as possible to make the case for DSA, which will continue to be the highest priority for the MWRA and the Advisory Board, but not the only priority.

In FY05/06, staff was not only successful in increasing DSA, but was also able to eliminate the indirect costs paid to the Commonwealth for running the Division of Water Supply Protection.

Priorities for the next session include a re-file of language to pay actual costs for the fringe rate for the Department of Conservation and Recreation (DCR) Water Supply Protection Trust employees. Currently, the MWRA pays an additional 31% on top of the costs for the fringe rate. If an employee makes $100,000 at DCR, and MWRA is paying the employee's salary, the MWRA pays $22,000 for health insurance. Similar to the Advisory Board, MWRA should only have to pay actual costs.

The second bill relates to the Clinton Wastewater Treatment Plant. For the last three bill filings, the Advisory Board has chosen language that says all new connections to the Clinton Wastewater Treatment Plant should at least pay an entrance fee and a charge for the service. With this bill, the Advisory Board is asking that the Commonwealth pay all of the costs of operating the Clinton Wastewater Treatment Plant. The Commonwealth has an obligation to pay costs for the plant and, for legislative purposes chose $500,000 back in 1989. In reality, the costs for running the plant are closer to $1.2 million.

The third initiative is a re-file on an act to limit tort liability at the MWRA to $100,000. Most other state agencies, cities, towns and authorities are limited in liability in case of an accident to $100,000. MWRA is unlimited.

Lead advocacy has become a major issue for cities and towns. The fourth and fifth bills work to provide funding mechanisms for the towns and the homeowners for their ends of the project. From pipe to basement lead services would have an approach to remedy the problem.

Inflow and infiltration (I/I) and keeping water in the basins should be a priority for the Commonwealth. The sixth bill would reimburse the MWRA for doing the I/I Programs.

Item seven is a new initiative. If the Department of Environmental Protection (DEP) wants to push a 65 gallon per capita per day (gpcpd) cap for water use and water conservation, then DEP should reinstitute a meter modernization program, as it had in the 1980s. Further, in a sense of fairness, why should Newton, Brookline and Boston, who have already done programs, not have an opportunity for reimbursement language up to a certain amount for communities who have done their programs in the last three to five years? It sends a message that the Commonwealth has to put its money where its mouth is.

Zig Peret asked where the Advisory Board lies in support of the 65 gpcpd. Mr. Favaloro said good faith efforts to conserve water are helpful but on a scale of one to ten, support is a negative two. The Advisory Board does not believe arbitrary standards set by the state are the best way to move forward. Many MWRA communities meet the standard. DEP mandating no outdoor use, regardless of whether there is a drought situation or basin problem, is unfair.

Lou Taverna stated Brookline spent $6 to $8 million to upgrade its meters and reading system. Newton may consider bonding nearly $12 million for an upgrade. If there were a reimbursement program, that would be excellent.

Ed Sullivan noted it is fair to say that a consensus of the Advisory Board meeting, after DEP made its presentation on its 65 gpcpd proposal, was in essence that without any help from the state the MWRA reduced consumption on its own. It is another instance of the state coming in telling us we can't water the lawn.

Mr. Favaloro said if nothing else, price drives use habits. Ed Sullivan said DEP doesn't understand that communities have a zero sum game. Communities have to pay operations and maintenance people, for which it needs a certain amount of money. If consumption keeps being reduced, there is less revenue and the price must be raised.

Mr. Favaloro stated items 8, 9 and 10 try to correct problems relating to Memorandums of Understanding (MOU) DCR (formerly MDC) has in watershed areas. These are issues of fairness once again. MWRA now pays nearly $6 million a year for Payments in Lieu of Taxes (PILOT) for lands that were taken for watershed protection. In fact, the MWRA pays 100% of assessed valuation while the Commonwealth pays significantly less. When the land is no longer used for watershed protection, MWRA should not be paying PILOT on those lands. In the South Sudbury, there is more than $100,000 being paid on lands that are being used as parks or recreation. Item 8 says there should be a mechanism to turn the PILOT payments over to the proper entity.

Item 9 is a new initiative. Some of the Quabbin communities are being paid double. These communities get paid for annexed land and PILOT. No one can determine any difference between annexed land and protected land so MWRA double pays more than $400,000.

MDC determined many years ago that it would manage and own the Rutland-Holden sewer. It is a trunk line that feeds through the Rutland-Holden and parts of West Boylston and takes it to Worcester to Blackstone. It is MWRA's responsibility to maintain the sewer, bringing crews in from Chelsea; DCR manages the facility and the communities pay pennies on the dollar for nominal maintenance of the line. There are MOUs now in play between DCR and MWRA that say this sewer should not be the responsibility of either entity. Item 10 would turn over responsibility for the sewer to the communities that use the trunk line. The total amount of money Rutland-Holden paid last year was $70,000+ for the cost of maintenance. Costs are significantly greater. Both Rutland and Holden are growing. That growth is now the responsibility of the MWRA. The central theme is fairness.

Staff has identified two state-wide initiatives. The State Revolving Fund (SRF) is shrinking, but the mandates aren't. There is a need to re-advocate on the federal level for more funds. In the interim, the Commonwealth could increase its match, as well as consider what interest rate it wants to charge. The SRF used to be a zero-interest program, but is now still a great deal at 2%. Frankly, it is the only game in town. The Advisory Board will not be taking the lead on this initiative but would support other entities like the Massachusetts Municipal Association or the Contractors Association.

California has recently adopted a new mandate that reduces the amount of lead in faucets from .25 to .4 over a three-year period. The availability of faucets and appurtenances with less lead content may result in a reduction of Massachusetts' acceptable lead level which is now .8.

A Motion was made **TO APPROVE THE LEGISLATION TO BE FILED BY THE DEADLINE OF JANUARY 10.** It was seconded and passed by unanimous vote.

IV. Update: Rates Management Strategy Committee

Chairman Dunphy stated after a long period of effort by the Advisory Board to have the Authority take a fresh look at managing rates, a Rates Management Strategy Committee was established and includes members of the MWRA Board of Directors, the Advisory Board Chairman and Authority and Advisory Board staffs. The Advisory Board has suggested that the MWRA look at its bond covenants for debt that MWRA has already issued to see if, over a period of time, MWRA can reduce the reserves it is required to hold. The issue discussed by the Committee yesterday was restructuring debt so that the MWRA won't have the enormous increases that would be driven by the repayment of principal over the next five or so years.

Mr. Favaloro stated the $239 million in growth in MWRA operating expenses is principally due to debt. What can be done? The Rates Management Committee agreed that restructuring, used judiciously, reasonably and responsibly could be an active tool. As a way of managing the rate revenue requirement over the horizon, the Authority is now actively putting scenarios together to bring to the Board at its November meeting to take some action in December and be incorporated as part of the MWRA's next offering in January/February if all goes smoothly. The advantages of this action could benefit the Authority as early as FY08.

Discussion should also include a review of the reserves, the impacts of which are longer in duration to accomplish because of the bond covenants. Better utilization of entrance fees to get the maximum benefit and the use of rate stabilization and bond redemption funds should also be reviewed. The goal of using these tools should be rates in the 5% range rather than the 8% or 9% range currently expected over the next five to seven years.

There is a cost of doing business. The real discussion is risk versus reward because it costs more to restructure. A lot of the impact is mitigated because there are currently low interest rates. The reward would be to provide communities with some breathing room.

One of Ryan Ferrara's last tasks before leaving the Advisory Board is the 20th annual Water and Sewer Retail Rate Survey. For 2006, the percentage increase was 6.4% above the 2005 retail rates in communities. The average bill in the MWRA service area is over $1,000.

Mr. Favaloro stated over time, the Advisory Board's role has changed. The goal no longer is to simply cut the MWRA's budget, but rather to identify what the Authority's needs are and then responsibly helping them manage to that number. The Advisory Board does not want the Authority to become the MDC.

Lou Taverna asked if the Committee has had a chance to talk about using cash reserves for rate stabilization. Mr. Favaloro responded in the affirmative. The Authority will always have significant reserves; however, one of the first steps staff took was to identify what would sell with the rating agencies (Standard & Poor's and Moody's) on what the appropriate levels of reserves are. Which reserves can be reduced, consolidated or eliminated. With changes to the bond covenants, it will take about eight years to put into place. The other reserves the Authority currently works with, which essentially are the rate stabilization fund and the bond redemption fund, almost by formula, are assigned to the next several years. The Advisory Board believes these funds will run out. With restructuring, the Authority has the opportunity to rethink the best time to utilize those reserves.

V. CIP/CEB Update

Cornelia Potter stated for the Current Expense Budget (CEB) spending through October reached nearly $174 million, or $7 million below the nearly $181 million budgeted for that four-month period (a variance of just under 4%). Contributing to the variance was lower utility spending, particularly at Deer Island because prices are lower than assumed in the budget; also contributing to the variance were lower personnel costs of over $1 million because there are more vacancies than the Authority budgeted for. In fact, as of the end of October, staffing levels were at 1,238, as compared to the 1,255 that were funded in the budget. Further, the Authority has used significantly lower amounts of overtime.

There has also been lower and later professional services spending of $0.5 million and later maintenance spending of nearly $1 million, which is a gap that is expected to close as the year continues. Also, there was lower variable rate debt service of over $123 million, though staff now acknowledges, given the slow pace of federal rate setting, that their surplus in this one line item could be on the order of $5 million.

For the Capital Budget, spending through October increased from previous monthly spending levels bringing the total year-to-date spending to $45 million or $24 million below the $69 million budgeted. It is still 34% below the budget but narrower than the 40% variance through the month of September. Some spending, particularly for CSO projects, is picking up as payments to CSO communities, especially Boston, are catching up with the budget assumptions and the pace of spending for the North Dorchester Bay group of contracts catches up with cash flow assumptions that were developed nearly six months ago.

VI. System Expansion Update

Mr. Favaloro stated that the Water Supply Citizens Advisory Committee (WSCAC) has shared their thoughts on System Expansion with the Advisory Board. The goal is to identify common areas and to work on a plan that allows the Authority to go forward with System Expansion.

Over the last few weeks, there has been discussion with potential entities that are interested in joining the MWRA system. Last week the Authority met with Holbrook and will meet with Ashland next week. Tri-Town, the former South Weymouth Naval Air Base, considered going with Bluestone, but said its first choice is the MWRA in its Environmental Notification.

Next week a joint Wastewater Advisory Committee and WSCAC meeting will be held. Topics include I/I removal; there is a proposal on the table to go to 43/1. On the water side, the discussion is system expansion.

VII. Approval of the Advisory Board Agenda for November 16, 2006

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE NOVEMBER 16, 2006 MEETING.** It was seconded and passed by unanimous vote.

VIII. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 9:47 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary