EXECUTIVE COMMITTEE MEETING
FRIDAY, APRIL 11, 2008
ADVISORY BOARD OFFICE
8:30 A.M.
MINUTES APPROVED AT THE MAY 9, 2008 MEETING.

Present: John Sullivan, BOSTON; Ron Seaboyer, MELROSE; Bernie Cooper, NORWOOD; Ted McIntire, READING; Carol Antonelli, SOMERVILLE; Walter Woods, WELLESLEY; Zig Peret, WILBRAHAM.

Also in attendance, John Carroll and Andrew Pappastergion, MWRA BOARD OF DIRECTORS; Joseph Favaloro, Cornelia Potter, Matthew Romero and Christine Hevelone-Byler, MWRA ADVISORY BOARD STAFF.

I. Approval of the February 15, 2008 and March 13, 2008 Minutes of the Executive Committee

In the absence of Chairman Katherine Haynes Dunphy, Bernie Cooper, Vice-Chairman of Finance, called the meeting to order at 8:41 a.m. A Motion was made **TO APPROVE THE FEBRUARY 15, 2008 AND MARCH 13, 2008 MINUTES OF THE EXECUTIVE COMMITTEE**. It was seconded and passed by unanimous vote.

II. Highlights of the NPDES Meeting in Washington DC

MWRA Advisory Board Executive Director Joseph Favaloro stated that Worcester DPW Commissioner Bob Moylan will speak before the Advisory Board next week, principally to talk about concerns that Worcester and many other communities have had regarding working with EPA as relates to the NPDES permit and other issues.

Mr. Favaloro commended Mr. Moylan and the Massachusetts Coalition who engaged Representative McGovern, who in turn engaged the rest of the Massachusetts delegation, to suggest that Bob Varney, Regional Administrator of the Environmental Protection Agency (EPA), meet in Washington DC on Wednesday.

The Authority and the Advisory Board attended the meeting because if the communities are affected, the MWRA will also be affected, especially the 43 wastewater communities.

The Advisory Board had an opportunity to speak at the meeting and Mr. Varney and his staff were engaged. EPA's suggestions centered on a working group consisting of EPA staff and a contingent from the group that went to Washington DC for a continuing dialogue.

The Advisory Board's principal comments centered on the reality that EPA is broken and needs to be fixed and that communities should not be treated as the enemy but rather as a partner. It is frustrating to listen to EPA say we need more money for the Clean Water Act

(CWA). If we are going to go to a meeting and talk about when the CWA gets more money – it's not coming back in and becoming a funding source.

Mssrs. Favaloro, Laskey and Hornbrook had an opportunity to engage Mr. Varney and his staff after the meeting. The MWRA is now seven years into its five year NPDES permit, but a draft for a new permit will be circulating by early summer; EPA's expectation is to have the permit finalized by the close of its fiscal year (September 30).

EPA's goal in this permit is to have all the wastewater communities be co-permittees, which would give EPA easy access to communities' local systems. If EPA does try to make the communities co-permittees, there will potentially be 44 appeals to the NPDES permit.

III. Action Item: Request for a Six-Month Emergency Water Connection for the Town of Wilmington

Mr. Favaloro stated this is the sixth emergency activation for the Town of Wilmington. The one significant difference for this activation is that for the first time, Wilmington will be using a direct connection. The line that Wilmington built is now ready to be utilized, which is significant. It is a good indicator of the reality of Wilmington becoming a water community.

Wilmington Water & Sewer Superintendent Michael Woods and SEA Consultant Jon Beekman will be at the Advisory Board and Operations Committee meetings next week to give a preview of where they stand as relates to Wilmington's full application.

The sixth emergency activation will still be charged at 130%, so there is no change in the actual cost. DEP must provide a declaration of state water emergency; however, once a declaration is provided the clock starts ticking. Since Wilmington wants to use the water beginning in May, it is best to wait for the declaration until then. Today's vote would be contingent upon receiving the DEP declaration and approval from the MWRA Board of Directors.

Walter Woods noted that the flume is affecting some of Wilmington's wells; is there any indication that it could affect all of their wells? Is the line they built adequate for what they need? Mr. Favaloro said the potential is there for all of Wilmington's wells to be affected by the flume; however, Wilmington has said they can provide all the water needed through this connection. They are asking for one million gallons per day (MGD); however, under peak flow they can do 3 MGD. Perhaps Wilmington's consultant Jon Beekman can answer this question better at next week's meeting.

A Motion was made **SUBJECT TO A DEP DECLARATION OF STATE WATER SUPPLY EMERGENCY AND MWRA BOARD OF DIRECTORS APPROVAL, TO ALLOW THE TOWN OF WILMINGTON (WILMINGTON) TO ACTIVATE A DIRECT CONNECTION* TO THE MWRA WATERWORKS SYSTEM FOR A SIX-MONTH PERIOD, WITH A START DATE IN MAY 2008. AVERAGE DAILY DEMAND SHALL NOT EXCEED ONE (1) MILLION GALLONS PER DAY. WILMINGTON WILL ABIDE BY THE RULES STIPULATED UNDER MWRA EMERGENCY WATER SUPPLY WITHDRAWALS (POLICY #OP.05), INCLUDING PAYMENT OF A 130% SURCHARGE OF THE MWRA'S PREVAILING RATE PLUS 130% OF THE ANNUAL PAYMENT ASSOCIATED WITH THE ASSET VALUE CONTRIBUTION PAYMENT (ENTRANCE FEE EQUIVALENT) AMORTIZED WITH INTEREST OVER 15 YEARS. PREMIUM CHARGES AND ASSET**

VALUE CONTRIBUTION ARE TRIGGERED WHEN WATER IS TRANSFERRED FROM THE MWRA TO WILMINGTON. It was seconded and passed by unanimous vote.

IV. Action Item: Advisory Board Comments and Recommendations to the Authority's Proposed FY09 Capital Improvement Program

Cornelia Potter highlighted the Advisory Board's approach for its review and some of the key findings and recommendations. Over time, the Advisory Board's review has been guided by a familiar principle, which has been the pursuit of sustainable and predictable rate increases over the multi-year term.

Earlier reviews focused on reshaping the capital program and providing recommendations that totaled over $1 billion in cuts to the CIP over time. The sources of these reductions were reducing the size of treatment facilities at Deer Island, most notably Battery D of secondary treatment and the accompanying module 4 of the digesters. Each module has four digesters in it so that module 4 would have brought the total number of egg shaped digesters to sixteen on the island. They stopped at 12.

Staff also called for reassessment of the CSO Control Program, which originally was shaped in the form of a deep rock tunnel to capture virtually everything at an estimated cost of $1+ billion. The Authority did conduct a reassessment of the program and a revised CSO Control Program appeared in 1994 with several subsequent modifications and updates but as the EPA continued to add additional requirements the Advisory Board pushed for the re-issuance and update of the affordability study, which showed that cost benefit for additional changes were just not there and we benefited with an agreement to have five three-year variances for the Charles and the Alewife carrying us through the next decade and putting a lid on the number of additional CSO projects for those receiving waters.

The Advisory Board also recommended a revised approach to setting a capital spending cap. In 2003, the MWRA Board of Directors agreed to the first five year cap for the period FY04-08. With this proposed budget the Authority is recommending a cap for the next five-year period.

Since 1988, the Advisory Board has recommended that the Authority prepare a Master Plan. The Authority did finally pull together a comprehensive Master Plan for wastewater and water facilities and that first draft appeared in the fall of 2006 and was therefore available for the first time for the preparation of this proposed CIP.

Staff also continued in its recommendations for long term rates management focusing most recently on an important opportunity to restructure existing debt. The pressure on rates coming ahead continues to come from that service particularly in a steep rise in debt service repayments. It is anticipated over the next eight years. The Authority did agree to restructure $650 million in existing debt last January a year ago. It provided $425 million in future rate relief over the next ten years and still were able to achieve that with just under $5 million in actual savings even though the principal was postponed.

The Authority is still looking at significant rate increases over the next eight or so years despite all of these efforts to control spending and to restructure debt. In fact, over the next seven or so years we are seeing rate increases of $30 to $40 million each and every year, making the capital spending cap an important tool for controlling expenses over the coming years. The Authority is completing the first five-year cap. That cap, set in June 2003, identified spending of just over $1 billion and the formula allowed contingency fund allowances and inflation on unawarded construction projects but also subtracted out the CVA projects in the budget for a cap of $1.34 billion for the last five years.

Looking ahead, the Authority is proposing spending for the next five years of just over $1 billion and a slightly higher contingency allowance because a significant amount of the spending in the coming years is tunnel projects which get higher contingency allowances than other projects, at 15% instead of 10%.

Inflation on unawarded projects is offset by the subtraction from the calculation of the Chicopee Valley Aqueduct projects. The new cap that they are proposing is $1.161 billion, just about $25 million over the cap of the last five-year period; in terms of constant dollars, it would actually be lower than what they proposed five years ago.

In reviewing the Authority's proposed cap, staff looked at actual spending for the last five years and the Authority has spent virtually 25% less than their cap allowance. It is a reminder that the cap isn't necessarily a goal but a ceiling. On the other hand, it is a significantly lower spending level given that the Authority does have program and maintenance responsibilities as well as completion of major regulatory program requirements and so we asked a number of questions about why the Authority didn't meet that spending level. They talked about some project delays, in some cases a suit delayed the progress such as for the Blue Hills Covered Storage Project. In other cases there were changes in scope or deferrals following significant reductions to the budget. As the Authority approached the preparation of the FY06 budget they took out hundreds of millions of dollars in planned spending, much of it beyond this five-year cap; the preliminary design work, which slowed significantly, is an important component of why the Authority did not spend as much as they expected to spend.

There was a CIP Committee formed at the recommendation of the Advisory Board; however, its report has still not been formally issued so we had to conduct our review in its absence.

In the meantime, spending has increased significantly for the CSO Control Program as major remaining projects proceeded through conceptual design. Since the start of our review, the Authority has identified $80 million or more of additional spending or costs associated with several projects. One is for sewer separation in Brookline and a second one is for the Bulfinch Triangle at the North Station area in Boston and the biggest area of cost increases is for the Reserved Channel Sewer Separation Project along First Street in South Boston and there are also additional costs being identified for portions of the Cambridge project. We view these costs with significant concern given the other cost increases that have occurred in recent years and are recommending the Authority consider a "cap within the cap" for the CSO Program. Spending in the next five years will be over $300 million before these cost increases were identified and that is nearly $100 million more than distribution and pumping in the Waterworks system projects, which is nearly $210 million. CSOs continue to dominate and are expected to have bigger cost pressures in the next five years.

In the course of the last week, staff has developed more recommendations that the Authority finish its Master Plan; they had not developed a section on business and operations support, which also includes energy and the alternative energy program as well as facilities planning, environmental remediation and some equipment needs that meet the capitalization criterion. To continue to do what the annual CSO report states in the last month that the Authority intends to reassess the cost-effectiveness of those four CSO projects where cost increases are developing to ensure that the projects, either in their current or perhaps modified form, can meet certain cost benefit criteria.

Zig Peret asked if CSO projects have to meet a cost benefit criteria. Ms. Potter said there is something called the affordability analysis which is sort of an ethereal thing. Even trying to follow the special rules of analysis to conduct an affordability analysis there were results in the last couple of years that suggested that already water and sewer rates as relate to housing costs are unaffordable for this sewer service area.

The Authority has also identified some other possibilities for looking at meeting the Reserved Channel Control regulations. They haven't spoken of it publicly; perhaps John Sullivan is familiar with some of this discussion.

John Sullivan said we are encouraging them to look at everything. The original tunnel option was too expensive, which forced them to go to the separation option. It is now being reassessed to see which one costs more because of the cost of separation. We need to compare apples to apples. The last thing we want to do is dump the separation and go back to the tunnel and then say tunnels are expensive and find the tunnel option once we go there goes way up; additionally, we have to go back to the court and say we were going to start in May 2009 but now we are changing that. We have to make sure we have accurate numbers. We have a public officials meeting April 30 and we are going to announce to the state Senators and state Representatives that we are going to dig up all of Southie so we need to make a decision quickly.

Ms. Potter added that at least the tunnel option is all underground. Mr. Sullivan said there is one difficult component. There is going to be an odor control facility sited in South Boston and that can be problematic from a public relations point of view.

Ms. Potter said this has developed because the tunnel boring machine is onsite and progress has been ahead of schedule affording the opportunity to even entertain an alternative.

Mr. Sullivan said that the design of the other tunnel was thirteen feet. The machine is there, but now that means we are going to build a seventeen foot tunnel.

Ms. Potter said a couple of interesting observations about this development is that if it were to go forward it would go forward at a pace faster than the cash flows assumed for the Reserved Channel sewer separation project and likely cause spending in this five year period to rise. On the other hand, the Authority has just in the last week commented initially that they are reconsidering the pace and approach to some of the water redundancy projects both involving the Northern tunnel loop and the southern extra high area and could push out as much as $50 million from planned water spending in the next five year cap period. They have also spent longer than had been earlier projected in getting ready for bid the design contract for the West Roxbury Tunnel project, which is an $80 million project. Approximately $16 million is provided in this budget for design related costs and $64 million is allocated for construction related costs, much of which would be in this cap period. So if it takes an extra six to nine months to get that contract out the door, it may mean that the last construction year in the five year period may also push out correspondingly. They are still very early in the design thinking about that project.

The Advisory Board has supported what they have proposed for the cap level across the board, but as we go forward in the next few weeks we all may be seeing a very different capital budget before the end of June. In the meantime it is important that the Authority continue to have their eye on some sense of a limit on spending in their capital program, although this spending currently looks high in the early years and lower in the later years of the five year period and the configuration of that spending could change measurably in the coming weeks.

A Motion was made **TO APPROVE THE ADVISORY BOARD'S COMMENTS AND RECOMMENDATIONS ON THE MWRA'S PROPOSED FY09 CAPITAL IMPROVEMENT PROGRAM.** It was seconded and passed by unanimous vote.

V. FY09 Advisory Board Budget Preview

Mr. Favaloro provided a snapshot of the Advisory Board's budget, projecting to spend about 98% of the Advisory Board's budget by the end of this fiscal year. The proposed budget for FY09, in actual dollars to the budget, contains less than a 2% increase on the overall bottom line.

Line items that grow the most are *Salaries*, which is by the step system that is in place, and the next line item with the largest growth is *Audit and Accounting*; as I shared with the Executive Committee a few months ago, the audit standard for non-profits has changed and has forced Daniel Dennis & Company LLP to increase the cost to us. Originally the amount mentioned was $8,000 to $9,000 range so we worked it a little bit harder, but it is still a significant increase in the overall line item.

Mr. Favaloro noted that the *Postage* line item has decreased because of a commitment to do more electronic mailings. Now Board Summaries, Green Sheets and News & Notes are all done electronically. Also have additional commitment from me that we will begin to attempt to start sending first notices to CEOs that we send out monthly electronically as well. We are slowly trying to convert as much of it as possible.

The MWRA took a significant hit in preparing its FY09 assumptions for *Interest Income* because of the continued reductions in the Fed rate and other factors. The Advisory Board has used its *Interest Income* on an annual basis to reduce the bottom line number drawn from MWRA funds. In FY07, the Advisory Board did very well with interest and, therefore, increased its assumptions for FY08; however, the market has gone south. In July the interest rate was 5.5%; when staff last looked, the rate was nearly half as much.

The lower interest rate assumption of $11,500 is factored into the Advisory Board budget for FY09 and means an increase in the request from the Authority of a little over 4%.

Additionally, the *Rent* line item should be called to the Executive Committee's attention. For the current lease, staff did very well in locking in an incredible rate of $23/ft for a 5-year lease, for which the Advisory Board is in the third year. The current rate being charged is about $33/ft. In two years, there is the potential that the *Rent* line item could increase significantly and could be in the mid-30s.

Mr. Cooper asked if the refunding scenario will affect the FY09 assessments. Mr. Favaloro said during our review we will have our series of recommendations. The value of the refunding has a benefit of 0.4% for FY09 (down from 5.9% to 5.5%). On face value, there will be a benefit; but then there is the issue is we are already well aware that the Authority revisits its budget and there are potentially some significant increases to certain line items, including utilities and interest assumptions so that some of the benefit may be lost in the revisit. Chances are that the proposed assessment will be lower when June 30 arrives.

VI. MWRA Variable Rate Refunding Option

Ms. Potter stated that three key scenarios were considered for the refinancing transaction to deal with the whole sub-prime crisis issue on the subordinate debt of the Authority. This is also an opportunity for the Authority to refund certain principal repayments. These three scenarios reflect the use of $34 million in reserves that are freed up by this refinancing of the subordinate debt. Even though the subordinate debt is not supposed to require reserve deposits, but because they were swapped to fixed the Authority was forced to make deposits to its debt service reserve for three of these issues, allowing $34 million to be freed up.

Scenario one takes the $34 million and reduces principal payments in the next seven years and does not refinance any other principal.

Scenario two restructures or refinances $20 million in addition to the $34 million in reserves and provides an additional benefit for a five-year period. During the next five years rates are going up $30 to $40 million.

Scenario three takes out a greater amount of principal and provides benefits over a seven year period, particularly years 2010 – 2015.

The Rates Management Committee agreed that scenario three would provide important additional benefits with only a modest use of principal in the next several years. The Authority could have restructured $450 million in this refinancing deal and this reflects a small fraction of that amount. We still will have a significant rates management challenge in the coming years but the Authority is taking advantage of some of the tools that it has available to it.

Mr. Favaloro stated that Chairman Dunphy and Zig Peret sat in on the rates management meeting and asked for their perspective. Mr. Peret said he was impressed with Board members Joel Barrera, Joseph Foti and Vincent Mannering and the financial adviser; all were ahead of the curve.

Mr. Favaloro said there was a healthy discussion on what the best approach was and it took a while for the Committee to get to scenario three.

VII. Update: Current Expense Budget Review

Ms. Potter stated that staff has been working on two budgets at once, and will be mailing CEB comments in three weeks. The Advisory Board is scheduled for vote and consideration at the May meeting.

The Board of Directors conducts its deliberations on both budgets at its first June meeting and votes on the final budgets at the second June meeting.

The Authority had proposed rate revenue of nearly $550 million or a 5.9% increase. Advisory Board staff has been working off of that budget; however, the Authority has told us that to get to the 5.9%, they have already gone through two rounds of reductions in Direct Expenses so we are seeing a very tight budget coming to us. Some of the areas where we have traditionally been able to reduce are already tight.

Furthermore, the Authority has informally indicated where some of those pressure points are since they have produced the proposed budget. That is primarily a function of the interest rate climate, which affects investment income and it affects the budget for variable rate debt.

Similarly, electricity pricing and diesel fuel are going up by nearly $2.5 million. In all, the Authority has identified possible increases of over $8 million; there are some offsets but there is still a potential $7 million increase.

VIII. Legislative Update

Mr. Favaloro said the House Budget comes out next week and will be debated and deliberated on April 28. House Ways & Means has told that $15 million will be allocated in the House Budget for Debt Service Assistance (DSA); the caveat is that staff was also informed that House Ways & Means Chairman Bob DeLeo will be taking an amendment from the floor to increase the $15 million. Staff believes the number will likely be in the $20 million range.

Staff has focused on the Senate side to match the House number. The argument we are using is that the Authority needs to set its budget for its communities – the longer it is delayed, the harder it is to send out accurate assessments to cities and towns.

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

Mr. Favaloro stated the standard process for an election to the MWRA Board of Directors will be followed with a vote scheduled for the May meeting in Canton. Mr. Carroll is up for reelection.

X. Approval of the Advisory Board Agenda for April 17, 2008

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE APRIL 17, 2008 MEETING.** It was seconded and passed by unanimous vote.

XI. Adjournment

Mr. Favaloro noted that the summer field trip, in August, will be a tour of the South Boston Tunnel followed by a tour of the Blue Hills Covered Storage facility.

A Motion was made **TO ADJOURN THE MEETING AT 9:50 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary