

**EXECUTIVE COMMITTEE MEETING
FRIDAY, MAY 9, 2008
ADVISORY BOARD OFFICE
8:30 A.M.
MINUTES APPROVED AT THE JUNE 13, 2008 MEETING.**

Present: John Sullivan, BOSTON; Bill Hadley, LEXINGTON; Jay Fink, LYNN; Ron Seaboyer, MELROSE; Katherine Haynes Dunphy, MILTON; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; Ted McIntire, READING; Carol Antonelli, SOMERVILLE; Zig Peret, WILBRAHAM.

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

I. Approval of the April 11, 2008 Minutes of the Executive Committee

Chairman Katherine Hayne Dunphy called the meeting to order at 8:33 a.m. A Motion was made **TO APPROVE THE APRIL 11, 2008 MINUTES OF THE EXECUTIVE COMMITTEE**. It was seconded and passed by unanimous vote.

II. Legislative Update

MWRA Advisory Board Executive Director Joseph Favaloro stated the House included \$20 million for Debt Service Assistance (DSA) in its version of the budget.

Further, staff was successful in eliminating an amendment that was filed to stop all forestry activities in the reservoirs, which would have had financial implications for MWRA.

Mr. Favaloro speculated that the Senate Budget would soon be released and would include either \$15 million or \$10 million. Over the past week, staff has met with many of the senators from within the MWRA District to gain support for DSA and to urge them to match the Senate number to the House number to avoid Conference Committee conflicts.

Staff is downplaying the financial aspect and is playing up the need to have a number early enough in the process so communities can formulate their budgets. The Advisory Board's goal is to get as many Senators as possible to sign onto an amendment, which will likely be sponsored by either Senator Tolman or Senator Petruccelli, to raise the Senate number to \$20 million. Senate debate begins on May 19.

III. Action Item: MWRA Advisory Board Draft FY09 Operating Budget

Mr. Favaloro noted some revisions to a draft Operating Budget that had been distributed at the previous Executive Committee meeting. In addition to rent, the Advisory Board must pay a portion of operating expenses and tax charges as part of its rental agreement; the operating/tax charges came in slightly higher than anticipated for FY08, therefore, the Rent line item has been increased by \$850. Wages and Salaries were also increased slightly.

The increases were somewhat offset by further reductions to the Postage and Printing line items. It is staff's goal to send more information electronically, which will require less postage. Overall, the Advisory Board budget increases by \$2,447, or 2.3%.

On the revenue side, Interest Income has been increased to \$13,500 and a small amount of the current year's surplus has been added, resulting in a \$947 increase over what was anticipated in last month's draft Operating Budget. The total increase is 4.4%.

A Motion was made **TO APPROVE THE MWRA ADVISORY BOARD FY09 OPERATING BUDGET IN THE AMOUNT OF \$473,727, WITH AN OVERALL REQUEST OF THE MASSACHUSETTS WATER RESOURCES AUTHORITY OF \$452,227.** It was seconded and passed by unanimous vote.

IV. Action Item: Advisory Board Comments and Recommendations on the MWRA's Proposed FY09 Current Expense Budget

Mr. Favaloro stated that looking back over the last couple of years, the Authority's rate revenue requirement has increased by over \$73 million and will increase by another \$345 million over the next nine fiscal years.

Without Advisory Board recommendations and efforts of the Authority staff, the overall rate revenue requirement for FY09 could have increased by more than 11%. When the Authority does its spring revisits, an exercise they do every year to true up the real costs, those costs are significant for FY09. Fuel, energy, uncertainties of variable rate debt, chemical pricing and transport are all contributors that add to the number.

Should surplus funds be kept for rate stabilization or find a way to use them almost immediately? Should the MWRA pay forward on some of the bonds? One of the tools that the Advisory Board has advocated for is defeasance. If it weren't for those types of activities, it could have led to the MWRA having an 11% increase.

If the MWRA did not get its share of the \$15 million in DSA, which helps reduce rate increases, it would have helped build up that 11%. Additionally, every year there is a discussion on what level of rate stabilization funds should be used. A dollar saved by not using it in FY09 is a dollar that is available in a future year.

Last year the Authority did a huge restructuring and refunding of its debt, which had a significant impact on rate increases for FY08 and beyond. Further, restructuring as part of the Authority's \$1.3 billion package to get out of the sub-prime crisis was very important.

The significant recommendations from the Advisory Board, if adopted, can bring the original 11% rate revenue requirement increase for FY09 to 4.45%.

Ms. Potter noted that in previous years the Authority was able to tighten a number of their assumptions for the final budget but this year it is going the other way for a variety of external factors.

For the first time, Direct Expenses are probably one of the smallest areas of the Advisory Board's monetary recommendations at just under \$800,000. While doing the review, the briefings pointed out that a lot of prices were rising, most notably utilities and chemicals are big pressure points on the direct side. Instead, staff turned to other areas to form the largest areas of emphasis and dollar value of for its recommendations.

GASB 45 is on the agenda again. The Advisory Board has taken issue with the amount of funding the Authority has proposed to budget for meeting the GASB liability requirement. This recommendation reflects a reduction to the Authority's planned budget of 50%.

Mr. Romero noted that the watershed component ties back into the GASB recommendation. A large amount of the watershed budget is being reduced because the State Comptroller's Office has reduced its fringe rate benefit amount from 38% to 24.5%, a very significant reduction. When staff asked what the reason was for such a dramatic reduction the response was that neither the Governor nor the Legislature at this time are envisioning fully funding GASB or funding GASB at all beyond the first year in FY08. Therefore, this reduction really represents the state's decision to not fund GASB at all; further, staff has heard that the state is probably not going to fund GASB until its pension requirements are more settled, which currently looks like it is going to be a 15-year horizon.

The other components of watershed that staff included were a modest increase to the revenues. Reviewing the last three years of revenues, staff believes that the Authority's assumptions, while an increase, are a little bit understated and they can increase that line item a little. Further, staff believes that Direct Expenses, at 7%, could also be reduced.

Ms. Potter stated that capital financing, at nearly 60% of the Authority's budget, is always a target for the Advisory Board's review. Upcoming is the refunding transaction to get the Authority out of the sub-prime crisis situation and included is the refunding of some outstanding principal. The benefit of that transaction in FY09 is \$3 million, which had not yet been included in the proposed budget; staff included this as a recommendation in its comments.

Staff also reviewed the Authority's plans for new borrowings, not only for next year but also this year. The MWRA had planned a borrowing of new senior debt this spring but now expects to push that date out; the Advisory Board reviewed both the timing and the amounts for new money borrowings and found that the MWRA has budgeted over \$10 million for the first full year of the planned borrowings. Staff believes this amount can be reduced by \$1.8 million.

Variable rate debt, once this refunding transaction takes place, should settle back to more traditional and lower levels for the interest rate assumptions. The Authority, in its proposed budget, assumed they would be paying 4.25%; Advisory Board staff believes that number will be considerably lower. For purposes of the Advisory Board's recommendations, and making sure this item remains on the discussion agenda for the final budget, staff has recommended a reduction of \$2 million.

The Local Water Pipeline Assistance Program (LWPAP) is another component of the capital financing group of budgeted items. The Authority always budgets this at a very conservative number, assuming a higher interest rate than it ever has to pay on the commercial paper that it borrowed to support the LWPAP loans; staff has proposed a recommendation reducing the budgeted amount by \$150,000.

Total capital financing recommendations are just under \$7 million.

Staff has also reduced the Operating Reserve in connection with its recommendation last year to consider the GASB liability not as an operating expense subject to the operating reserve deposit requirements. The operating reserve deposit is one-sixth of all expenditures. Even allowing for the increases the Authority will be facing, staff still believes the Operating Reserve Deposit Requirement can be reduced by nearly \$1 million if the Authority can remove the GASB item from operating costs that are subject to the reserve. Mr. Romero noted that GASB is, in and of itself, a reserve. Why should the Authority be putting reserves on a reserve? The Authority's original bond counsel was very conservative; however, the new bond counsel will review the language to see if there is a possibility to have that removed.

Ms. Potter stated that Investment Income was also addressed. The Authority had reduced its assumed interest rate earnings; the Advisory Board thinks they went too far and that for both short- and long-term rates a somewhat higher interest rate, as well as reflecting the changes in fund balances, would yield an increase to the non-rate revenue of \$1.3 million.

Staff also recommends that the Authority back out of the use of all rate stabilization funds that it has proposed to apply to the FY09 budget and reserve those funds for future years.

Mr. Romero said staff calculated the actual rate revenue requirement at about \$575 million, which is really an 11% increase. This amount reflects the addition of the items that the Authority does not necessarily show or has not taken into account with its rate revenue calculation. It includes the spring revisit items that have yet to be added back in, the benefit from the defeasance transaction from last year, DSA and rate stabilization; all of these items added back in would have generated an 11% increase. The Authority's proposed rate revenue increase is 5.9%, masking all of the other items that the Advisory Board added back.

With its comments and recommendations, staff was able to get the 11% increase down to a 4.45% rate increase (\$541 million), making the Advisory Board's total reductions \$15.5 million.

Ms. Potter noted that staff allocated the \$15.5 million by allowing the addition of \$2.6 million for the spring revisit; \$5.2 million was backed out of rate stabilization funds; and \$7.7 million was applied to reducing the actual rate increase. Ultimately, half of the reductions were applied to offset other cost increases or use of non-rate revenue and half to reduce the rate, all in a spirit of sustainable and predictable multi-year rate increases.

As the Authority moves forward in the next couple of weeks, it is going to face a number of uncertainties and risks. MWRA staff must revisit its assumptions about variable rate debt interest rates and for investment income interest rates (both short- and long-term). Further, the MWRA has a problematic project on the horizon where the cable that supplies electricity

from South Boston to Deer Island may need to be relocated or have some kind of protective concrete applied if the Army Corps of Engineers goes ahead with a planned dredging project. There is a testing period that would require taking the cable offline and running the Combustion Turbine Generators (CTGs), which would result in a cost increase because of the fuel it takes to run the CTGs.

The timing of the National Pollutant Discharge Elimination System (NPDES) permit for both Deer Island and Clinton is uncertain. Utility and chemical prices are uncertain; the Authority is going to have to look hard at its future assumptions for these prices. Weather also is a factor. Dry weather reduces some of the pumping costs and some of the sludge-related costs but results in increased odor control costs. Wet weather results in higher overtime use, as well as more solids that get into the system that have to be processed at Deer Island and Fore River. The Authority will have to review its assumptions about multi-year averages for weather.

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

V. 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, John Carroll, has provided a letter of intent and résumé for the Nominating Committee's consideration; Mr. Carroll is the only candidate to do so.

Chairman Dunphy stated that the Advisory Board is fortunate to have three very committed and able people to represent it on the MWRA Board of Directors. Mr. Carroll, in particular, has a lot of influence on the Authority at all levels; staff has a great respect for what Mr. Carroll says and he can pick out the important points in a long presentation. The Advisory Board is fortunate that Mr. Carroll is willing to serve for another three years.

Mr. Pappastergion noted that one of Mr. Carroll's strengths is that he is a great compromiser; he will always find a way to get things done.

Jay Fink expressed appreciation for Mr. Carroll's service and made the following motion: **TO NOMINATE JOHN CARROLL TO THE FULL ADVISORY BOARD TO SERVE AS AN ADVISORY BOARD REPRESENTATIVE ON THE MWRA BOARD OF DIRECTORS FROM JULY 1, 2008 TO JUNE 30, 2011**. It was seconded and passed by unanimous vote.

VI. Approval of the Advisory Board Agenda for May 15, 2008

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE MAY 15, 2008 MEETING**. It was seconded and passed by unanimous vote.

VII. Questions/Comments

Mr. Favaloro stated that the Advisory Board staff has reached out to the Water Supply Citizens Advisory Committee (WSCAC) and the Wastewater Advisory Committee (WAC) to look at ways that all three committees could become more efficient in mutual areas of

interest. For instance, earlier this month, the Authority’s budget staff gave a presentation at a WAC meeting held at the Advisory Board office. The budget staff has also given presentations at the Advisory Board meetings; they should not have to do things three times. Those are the types of things that Advisory Board staff would like to combine into some level of an umbrella arrangement that things get done once as opposed to three times.

For next year, staff is planning to add a “Talk Back” session to the Advisory Board agenda. It is important for staff to hear the types of issues or ideas/topics for presentations that the Executive Committee and the Advisory Board should be considering.

VIII. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 9:18 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary