

**EXECUTIVE COMMITTEE MEETING  
FRIDAY, SEPTEMBER 12, 2008  
ADVISORY BOARD OFFICE  
8:30 A.M.**

**Minutes Approved at the October 10, 2008 Meeting**

Present: John Sullivan, BOSTON; John Sanchez, BURLINGTON; Ed Sullivan, CANTON; Jay Fink, LYNN; Katherine Haynes Dunphy, MILTON; Lou Taverna, NEWTON; Brian Carlisle, QUINCY; Ted McIntire, READING; 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 June 13, 2008 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 JUNE 13, 2008 MINUTES OF THE EXECUTIVE COMMITTEE**. It was seconded and passed by unanimous vote.

**II. Action Item: Nomination of FY09 Executive Committee**

The following slate was presented to the Executive Committee, acting as the Nomination Committee, for its consideration:

Chair:	Katherine Haynes Dunphy, Milton
Vice Chair of Finance:	Bernie Cooper, Norwood
Vice Chair of Operations:	Jay Fink, Lynn
Secretary:	Edward Sullivan, Canton
Treasurer:	John P. Sullivan, Boston
At-Large:	Carol Antonelli, Somerville
	Lawrence Barrett, Stoughton
	Brian Carlisle, Quincy
	Andrew DeSantis, Chelsea
	William P. Hadley, Lexington
	Timothy MacDonald, Cambridge
	Edward D. McIntire, Jr., Reading
	Zigmund Peret, Wilbraham
	John Sanchez, Burlington
	Louis Taverna, Newton
	Walter Woods, Wellesley
	(1) Vacant

Hearing no nominations from the floor, a Motion was made **TO SUBMIT THE LIST OF NOMINEES TO SERVE AS THE FY09 MWRA ADVISORY BOARD EXECUTIVE COMMITTEE TO THE FULL ADVISORY BOARD**. It was seconded and passed by unanimous vote.

### **III. PowerPoint Presentation: The Year that Was; The Challenges Ahead**

As he started to review the past year, MWRA Advisory Board Executive Director Joseph Favaloro stated that a new sustainable and predictable five-year spending cap for FY09-13 has been set close to the levels of the previous five-year cap. The Authority came in under the number that had been set for FY04-08, which led the Authority, at the Advisory Board's strong urging, to convene a group of its managers to determine the factors for the underspending of its cap level. Out of the discussions, some tweaks were made that allowed the Authority to change its contingency amounts, which leaves staff confident that they will come in closer to what they project their spending to be for the new cap. Spending comes in around \$200 million per year for the capital needs of the Authority.

On the Current Expense Budget (CEB) side, through the Advisory Board's comments and working closely with the Authority, the FY09 rate increase came in under 5% (4.45%) (assuming a statewide program of \$15 million and MWRA receipts of \$11.25 million). The Advisory Board's recommendations included comments on reducing the operating reserve, funding of the GASB obligation and suggestions on variable rate debt assumptions and overall spending needs. With additional Debt Service Assistance (DSA) (bringing the statewide program to \$20 million and MWRA receipts to \$15 million), the rate increase has been further reduced to 3.75%.

The GASB discussion dominated discussions between the Authority and the Advisory Board for much of the budget cycle. At this point, Advisory Board staff has been able to keep GASB funds out of an irrevocable trust. The GASB discussion is still on the table through the exploration of all of the different options. As it stands now, the Board of Directors determined that until options have been explored and the Commonwealth of Massachusetts determines what it is going to do, the Authority will put the funds it set aside for GASB in FY08 and FY09 toward meeting its long-term pension liability. Currently, the Authority has put into the pension liability three-quarters of the amount of money that had been set aside to meet that obligation for FY08 and FY09 so there is a little under \$4 million that has not yet been contributed.

Debt Service Assistance has seen ups and downs this year. In FY08, DSA was funded at \$23 million statewide. For FY09, the Governor allocated \$15 million for statewide DSA; the House allocated \$15 million and then amended it to \$20 million; the Senate allocated \$10 million; the Conference Committee came up with \$20 million, which the Governor vetoed and brought back down to \$15 million; the legislature then overrode the Governor and brought DSA back to \$20 million statewide. The state is now facing some significant fiscal problems. The Governor may be making 9c cuts and the legislature may be coming back in November, December or beyond to look at cuts they might make as well so the \$15 million allocated as the MWRA's piece of the \$20 million may in fact still be in play.

The sub-prime market crisis has taken a toll on the MWRA. When market conditions fell on the insurance rates and variable rate debt went from the 1.5% to 2% range to 5% to 7%, what was going to be a surplus for the MWRA of nearly \$700,000 to \$800,000 per month turned out to cost the Authority \$10-plus million to get out of the sub-prime market. The Authority, to its credit, is in better shape than most of the other Authorities and entities trying to get out of the sub-prime process. Because the Authority can borrow on its own good bond rating, it was able to get itself out of the insurance market and, as it stands right now, the variable rate debt is still trending at well below where it was before; in fact, it is where it was supposed to be prior to the problem. Now it is in the 1.45% range and is generating a surplus at the Authority of \$800,000 to \$900,000 per month.

Additionally, the Authority was able to restructure some of its debt as part of the sub-prime problem that provides some real relief over the next three to five years.

The Authority has accomplished putting its Business Plan on the table for review and comment; it can be used as a guide as they are developing budgets over the coming years.

There is real progress being made on CSO projects. The five-year variance for the Charles and the Mystic has been approved by both EPA and DEP, which means the Authority is five years out of any further growth on components for the Charles or the Mystic.

The Authority could be facing the threat of mid-year rate increases. September is a critical month for the Commonwealth of Massachusetts; capital gains are well below state benchmarks. If that continues in the month of September, Secretary Kirwan of Administration and Finance (A&F) is statutorily obligated to go back and revisit her revenue projections for FY09; that could begin the spiraling down of the economic picture causing the Commonwealth to look back and make some additional cuts.

Beyond *Debt* and *Wages and Salaries*, there is no other line item at the Authority that is larger than *Energy* costs. The Authority will be at the Advisory Board meeting next week to begin to outline its overall energy policies. MWRA is in the process of hiring a consultant to talk about renewable energy. There is no other line item that has more volatility than energy.

Market uncertainty has caused repercussions throughout the system. Though the Federal Reserve hasn't raised rates, the fear of inflation and recession is causing anxiety on where long-term rates are going. Are they going to be trending upward or are they going to stay stable? With debt being 57 to 60% of the Authority's overall budget, any hiccup in the market is going to cause an upset at the Authority and potentially put more costs on the ratepayers.

Staff has begun to see a desire by state government to be more active in dealing with the Mass. Turnpike Authority, the MBTA and the MWRA. Unfortunately, not all authorities act in the same way. The MWRA is already beginning to feel some of the impacts of the desire by the Legislature and the governor to have more control over the authorities; so far they have been miniscule. As part of the state budget, language was adopted that all authorities have to present their borrowing plans to A&F and to a Finance Commission prior to going out for borrowing; this is an initial step by state government to have more control.

Senator Montigny has been a major proponent of taking more control over the authorities. Staff has been in touch with him to request that the MWRA be looked at separately, rather than lumping the MWRA with other authorities.

The five-year National Pollutant Discharge Elimination System (NPDES) permit that the MWRA is operating under expired August 9, 2005. The MWRA is now 1,128 days over the permit that is in place, which stays in play until there is another permit. The conditions under the current permit are potentially costing the Authority nearly \$2.77 million for monitoring; under the new permit, monitoring should not be at that level. Additionally, the new standard for future treatment expected under the new permit will likely add \$1.33 million in additional chemical costs to meet that new standard. The Advisory Board has brought on an attorney just in case; staff does not know what some of the other conditions may or may not be as relates to stormwater and having more controls.

The Blackstone District did receive its NPDES permit from EPA and for the first time ever, DEP refused to sign the permit. Their issues are nitrification and other issues, which are not similar to the Authority's issues but it is something that has never happened before. The Authority's draft NPDES permit is expected at the earliest in January 2009.

Over the next ten years, the rate revenue requirement with the current levels of DSA is a staggering \$6.9 billion; without DSA the number is \$7.1 billion.

Advisory Board staff plans to bring its Legislative Agenda to the table in October for discussion. Staff is trying to expand the bottle bill to include bottled water to provide a dedicated funding mechanism for water and sewer infrastructure repairs. The Clean Water Action Committee has issued a report that states that there is nearly \$8 billion needed in Massachusetts just to deal with water projects.

#### **IV. Discussion: State Financial Uncertainties and their Potential Impact on Community Assessments**

The state's financial uncertainties to try to climb out of a \$1 billion hole may put the Governor in the position of having to make 9c cuts. The Authority set its budget on the best information that it had at the time and set the levels of DSA at the Authority's share of \$15 million, which is \$11.25 million. The assessments that went out to communities in June assumed \$11.25 million in DSA. With the Legislature's override of the Governor's veto, the Authority's share of DSA increased by \$3.75 million to \$15 million.

The Advisory Board suggested that the Authority hold off on further reducing the communities' assessments until after September to see where the state stands. It would be difficult for communities to be given a share of \$3.75 million on Monday and then on Thursday take back not only the \$3.75 million share, but also the \$11.25 million share because there is a chance that the MWRA could lose DSA some time in November, December or January. The Authority and the Advisory Board would have a budget amendment and come up with a way of sharing those pains by looking at other alternatives for funding. For example, the \$3.5 million GASB money still remains and should be saved in case it is needed.

#### **V. Preview: Joint WAC, WSCAC, Advisory Board Operations Committee Meeting**

Mr. Favaloro stated that a joint WAC, WSCAC Advisory Board Operations Committee meeting is scheduled for September 24 in Southborough. The focus of the meeting is how the three entities can work more collaboratively together to view the system as a whole. The objective is to find issues that are important to all the entities and save the Authority's staff time and effort by attending one meeting rather than three.

#### **VI. Approval of the Advisory Board Agenda for September 18, 2008**

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE SEPTEMBER 18, 2008 MEETING**. It was seconded and passed by unanimous vote.

#### **VII. Adjournment**

A Motion was made **TO ADJOURN THE MEETING AT 9:35 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary