

**EXECUTIVE COMMITTEE MEETING  
FRIDAY, JANUARY 9, 2009  
ADVISORY BOARD OFFICE**

**Minutes Approved at the February 13, 2009 Meeting**

Present: John Sullivan, BOSTON; Bill Hadley, LEXINGTON; Jay Fink, LYNN; Katherine Haynes Dunphy, MILTON; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; Brian Carlisle, QUINCY; Ted McIntire, READING; Zig Peret, WILBRAHAM.

Also in attendance, John Carroll and Andrew Pappastergion, 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 November 14, 2008 Minutes of the Executive Committee**

Chairman Katherine Haynes Dunphy called the meeting to order at 8:37 a.m. A Motion was made **TO APPROVE THE NOVEMBER 14, 2008 MINUTES OF THE EXECUTIVE COMMITTEE**. It was seconded and passed by unanimous vote.

**II. Legislative Update**

MWRA Advisory Board Executive Director Joseph Favaloro reported that the MWRA Board of Directors approved the Advisory Board's entire legislative package at its December meeting; therefore, for the coming two-year legislative session, both the Advisory Board and Authority staffs will be working to achieve the same legislative goals and priorities.

All bills have to be filed by January 14. Thus far, staff has been successful in finding strong support for both the revisions to the Septic Tax Credit and the five-cent tax on bottled water units, but has been less successful in getting another version of the unclaimed bottle deposits because there are so many versions already in play.

Staff is now in the process of developing a new method of transmitting its communications to legislators in regard to bills that will give them the picture of what staff is trying to accomplish with each bill, whether it be a "thumb drive" or another type of document that can be provided to Caucus members, leadership and the staffs of the committees. The method will be an "easy to digest" format so that committee staffs will get the "big picture", which is the first hurdle; if you don't get past the committee, you never get to Ways and Means or third reading, etc.

Any bill that associates new money or taxes is not going to have an easy sail through the legislative process. Staff is hopeful that its bills will, at a minimum, get the discussion going over the next two years.

Recently, the press has been good to the MWRA and the Advisory Board, including articles in the Boston Globe and a MetroWest newspaper. Staff has been successful in turning the “loss of debt service” story to further illustrate the need to find innovative and new approaches to fund the infrastructure needs.

**III. Action Item: Advisory Board’s Comments and Recommendations on the MWRA’s Proposed FY09 Current Expense Budget Amendment**

Zig Peret said staff came up with an idea about sludge reduction; however, sludge production was increased. What happened with that? Cornelia Potter stated that staff was trying to encourage the Authority to investigate changing its operations to achieve real reductions. This was an idea to have them address the sludge treatment process at Deer Island where the amount of sludge is reduced in the digesters before it is shipped to Fore River for processing. The Authority said they didn’t know if they could do that right now. Their sludge numbers are higher than what they had budgeted. This is an idea that, if it has merit, would take longer to show the benefit. It is something that staff is encouraging them to take a look at for next year. The same idea is true of the Advisory Board’s suggestion that the MWRA enhance its ability to self-generate electricity on Deer Island to reduce the amount of purchased electricity.

Matthew Romero said the Advisory Board pledged to and did work with the Authority to provide flexibility to get this amendment moving quickly to have an accelerated schedule. The Board will be voting on this Amendment next week, contingent upon the Advisory Board’s vote. Normally the Advisory Board would vote first but in an effort to move this amendment quickly, staff was able to accommodate that schedule and the Authority will be doing a vote, conditional on the Advisory Board’s approval the next day.

At the beginning of this process, the Authority was provided with a series of recommendations with specific dollar values and some that were general ideas, much like the sludge production reduction, without specific dollar values. The Amendment was needed to make up the loss of the \$20 million in statewide Debt Service Assistance (DSA) without a mid-year rate increase.

Ms. Potter added that the reason why it was important for the Authority to move ahead with the amendment and get cooperation from the Advisory Board around a schedule was that they were anticipating two bond issues, one via the SRF and the second was new money, which is now expected to be issued by mid-February for \$175 million. Bond counsel had recommended that the budget be formally amended before those bond issues occurred.

Mr. Romero said Advisory Board staff suggested that the Authority suspend additional pension fund payments, specifically the payments originally going to be going directly toward the Other Post-Employment Benefits (OPEB) liability, but the Board decided to redirect this to the pension fund liability; holding off on these payments would provide a \$3.5 million savings. At this point, the Authority has not taken that recommendation dollar-value wise, but it is on hold with the potential to revisit before the end of this fiscal year.

Advisory Board staff suggested that the Authority reduce its harbor monitoring contracts by \$1.2 million; MWRA did reduce the monitoring contracts, but only by \$300,000. Additionally, the Advisory Board suggested that the watershed division budget be reduced by \$500,000; the Authority did come back with a \$400,000 reduction for the watershed division.

In the second category with no dollar values given, the Advisory Board had suggested that the Authority put a freeze on non-operational hires. The MWRA did institute a non-critical hire freeze and was able to reduce Wages and Salaries in general by \$1.7 million.

Staff suggested that the Authority look at its sludge operations; they have not taken a specific action on this at this time, but this is something that is probably going to be more of a longer term item that could potentially affect FY10 and beyond.

The Advisory Board suggested that the Authority increase its self-generation of electricity at Deer Island or decrease their demand for a potential savings; the Authority did not specifically reduce Deer Island's electricity but they did decrease the utilities budget, largely due to pricing.

Advisory Board staff also asked that the Authority revise its interest rate assumptions; however, it did not revise the assumptions at this time but they were able to recognize some of the year-to-date savings they have had based on favorable interest rates and trends.

The Advisory Board also requested that the Authority continue to look at options for refinancing debt; there have not been any opportunities at this time so they have not taken any action at this point.

Overall, the proposed budget amendment that will be presented to the Board has a \$1.7 million reduction for Wages & Salaries; Overtime is reduced by \$400,000; Fringe Benefits were reduced by \$100,000 related to the wages and salaries reduction; \$500,000 was added back in to the Chemicals line item due to pricing increases, rather than usage; Energy and Utilities show a decline in the short term; and, at Deer Island, the Authority was able to realize some savings on diesel fuel because of lower purchases for a \$2.8 million reduction; non-essential trainings and meetings were reduced by \$100,000; Professional Services were reduced by \$800,000; Other Materials reduced by \$400,000; Other Services reduced by \$600,000; for a grand total reduction for Direct Expenses of about \$6.3 million.

For Indirect Expenses, the Watershed Division budget was reduced by \$400,000; the Operating Reserve additions were reduced by \$1.1 million, due to the reductions in Direct Expenses for a total Indirect Expense reduction of \$1.5 million.

Because the Advisory Board and the Authority were able to have a two-way dialogue early in the process, the Advisory Board, for the most part, concurred with most of the Authority's recommendations or proposed cuts.

Advisory Board staff is focusing on growing the FY09 surplus to build rate stabilization funds in recognition that the problem is not just in FY09 and will get worse in FY10 and beyond. It is important to grow that surplus this year and build those rate stabilization funds for the hit that the communities are going to be taking beginning next year. Further, the Advisory Board is in favor of making real cuts versus relying upon favorable trends. Staff suggested instituting an agency-wide hold back, something along the lines of "X" percentage or "X" dollars of each department's budget cannot be expended unless it goes through a central budgeting designee or authority to explain why the money needs to be spent.

The Advisory Board wants the Authority to prepare for restructuring, refinancing or defeasance opportunities. There have not been good opportunities at this point for any

restructuring or defeasances but the Authority should be prepared should the conditions arise where it becomes favorable for them to undertake any of these options.

The Advisory Board suggested that the Authority revisit its capital spending plan and capital financing expenses. Debt service is the largest driver of the Authority's budget; perhaps projects can be re-arranged or schedules stretched out. How would that affect how capital dollars are spent and, therefore, how debt service is going to impact the budget in future years?

Advisory Board staff believes that the Authority should reexamine the OPEB and the pension payment strategy; outdated actuarial studies are being used to determine these payments. These studies assume an 8% return on these investments, which is not happening. A new actuarial study is being undertaken at this point; perhaps the MWRA should hold off until June and take a look at what the new strategy needs to be for meeting these all too real liabilities. This would allow the Authority to hold onto \$3.3 million as a tool in case things get bad in the next six months.

As always, there are areas of potential uncertainty, including in the variable market. Ms. Potter said the Authority has benefited by lower variable rate interest rates in recent months but for some of the variable rate debt, the back up liquidity providers have charged the Authority very different rates; Advisory Board staff has been pushing the Authority to renegotiate where possible with specific liquidity or standby bond purchase agreement providers to ease up on the impacts of those rates.

Mr. Romero said for the short term, utility costs have been going down; however, chemical costs have increased. At this point, it is hard to predict what costs will be. In the last week alone, gas prices have already started to increase. These are large areas of potential uncertainty and a large part of operations rely upon these categories.

The Advisory Board and the MWRA Board of Directors felt strongly from the beginning that there should not be a mid-year rate increase to the communities to make up the loss of DSA. The Advisory Board and the Authority were able to achieve that goal by reducing direct and indirect expenses, as well as some capital financing costs.

Ms. Potter said the Board of Directors is scheduled to vote on the Amendment next Wednesday, contingent upon the MWRA Advisory Board's vote the next day. The Authority will be positioned to move forward on its next borrowing of \$175 million in February. In the meantime, they are expecting SRF funding but as the months go by the receipt of those funds has been delayed as the state has not gone out and done its larger borrowing to support this new pool of funds. The Authority's new borrowing is important to keep the process going.

Jay Fink said I am curious on what the Authority's reaction was to the agency-wide hold back suggestion and a centralized budgetary designee. Mr. Favaloro said the overall goal is to spend as little money as possible in FY09 to allow for a surplus, which then can be used for FY10 and FY11. It is a concept that is not new to the Authority. It will allow discussion at the Board and puts cities and towns in the best light possible for future years.

Mr. Fink said a lot of cities and towns go through something similar but it is not a percentage of their budget it is more the dollar amount of the purchase that would have to be justified.

Mr. Favalaro said percentages may not be the best approach; staff is throwing out the concept; if it takes hold, they can determine how best to do it within the organization. Mr. Fink said it is a great concept. Ms. Potter noted that it should also be designees, plural, for more than one player to hold this role.

Chairman Dunphy said in some communities that concept has been out there since the fall; if it's a bad year, don't spend any money unless you have to because it will be needed next year.

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

Staff will provide the Authority with an approved draft from the Executive Committee so the Board will see it before they approve the amendment, contingent upon the Advisory Board's approval.

#### **IV. Process and Timeline for FY10-14 Capital Improvement Program Review**

Mr. Favalaro stated that the MWRA will be getting its FY10-14 Capital Improvement Program (CIP) document out to the communities by the end of the month. It is staff's intention that its *Comments and Recommendations* would be before the Executive Committee at its March meeting. Staff is still in the process of finding a balance on how to couch its words as part of the CIP deliberation. Staff does not know where the economic stimulus bill is going to be; it is a huge wild card. If some, or many, of the Authority's projects could be covered under the stimulus package, it could significantly alter, at least in the short term, the FY10 portion of the CIP. Staff is waiting to see what the economic stimulus bill will bring.

Chairman Dunphy asked if the Board will be able to hold back on any votes for upcoming project awards in order to see what is happening in Congress to keep those projects in play for the stimulus package. Mr. Favalaro said he had a discussion this week with Fred Laskey regarding one of its major capital projects (the clarifiers at Deer Island). The Authority wants to move forward with the process of going out to bid to replace the clarifiers with new stainless steel; the project is now between \$56 and \$59 million. This project is on the preliminary list of projects under the stimulus bill that was put together by the Governor. In discussions with Mr. Laskey, staff has asked what the repercussions will be of awarding the contract for the clarifiers next Wednesday in regard to jeopardizing the ability to get economic stimulus funding.

Staff may have to ask its members on the Board of Directors to pull the project. It makes no sense to award a contract and jeopardize \$56 million. It is an important project that has had eleven addenda. If it has taken six months, another three weeks isn't going to make a major difference. This is not about supporting the project or not supporting the project, it is the timing of the award.

Ms. Potter added that Authority staff will make a presentation next week at the Advisory Board meeting on the shape of the CIP. The Authority is proposing a budget for FY2010 of \$251 million, as compared to this year's revised projected spending of \$205 million. The next two years, FY2010 and FY2011, are \$250 million years so capital spending is peaking again in these coming years and it gives us all a chance to think carefully about the level of

spending that can be sustained and then what the impact of the stimulus bill might have in supporting that level of spending.

Chairman Dunphy asked staff to get some information from MWRA on how they think their construction prices will be and if it would make sense in the long run to actually spend at a high level the next two years or if it would be better for rates to keep pushing it out. Ms. Potter said for example, steel prices have come down so one could make the case that projects that are heavy in steel may be well spent now.

Bernie Cooper asked what the timeframe was on the clarifiers. Ms. Potter said the project is on the agenda for next week but it is a three-year project. It has been on the books for a while. It is an immediate problem; the Authority is concerned that they will have trouble meeting permit if they don't move forward on this large project. On the other hand, the Current Expense Budget does support ongoing maintenance to keep the chains and flights in both the primary and secondary clarifiers going until this particular capital contract is done.

Andrew Pappastergion asked how we know what the time table is going to be on the economic stimulus package. If the project is delayed one month, are we going to know anything more in February? Mr. Favaloro said everything we have heard out of Washington is that it has to be sooner as opposed to later. There has been discussion that they would have an approved stimulus bill and have everything wrapped up over the next couple of weeks going into the beginning part of February.

Mr. Pappastergion asked if it is a fact that the MWRA's project list is going to go into the queue with the rest of the Commonwealth of Massachusetts. The Commonwealth is going to develop the list for all of Massachusetts, including the MWRA. The state is going to develop a priority list and transmit it to the federal government. What makes you think that they are going to include any water and sewer projects on that list? If water and sewer projects are on the list, they will likely be low priority because the state is not going to sacrifice its own projects knowing that the MWRA is going to fund its own projects anyway.

Mr. Favaloro said it will depend on what form the economic stimulus package takes. There has been talk that the package will be broken up into different components, such as an energy component, a water and sewer infrastructure component, a transportation component, a computer technology component, etc.

Mr. Pappastergion said from the information he has seen from the state, it is clear that they are looking for green projects and energy efficiency projects. Mr. Favaloro said part of the message that we have tried to cull with the Authority is that it is all wordsmithing on what project is more energy efficient.

Mr. Pappastergion said he does not mind asking the Board to hold the vote in January, but what happens if we get to February and we are in the same position? I am not inclined to ask them to hold it again. Mr. Favaloro said if three weeks or five weeks make a difference on a three-year project that is a decision you are going to have to make. If everyone agrees that there has to be a stimulus package sooner as opposed to later, and there is a remote chance that the MWRA could get some kind of funding that is non-ratepayer, staff believes it is worth the delay. It is the bigger picture. Hopefully, the Governor will not overlook the MWRA's projects because they provide a benefit to a large number of people.

Chairman Dunphy said certainly if there is a chance that a large and necessary project could be eligible for funds, the Board should try to give it the best chance it can to get non-ratepayer funds.

Mr. Fink asked if we know when this project was bid. Ms. Potter said late October. Mr. Fink said usually in the bid process it indicates how long that bid price is valid for. John Sullivan said how long the contractor has to hold it and guarantee it. He can agree to waive that but he can also walk away.

Mr. Carroll said the idea of the stimulus package is to stimulate projects into the ground. I don't know what signing the contract has to do necessarily with the whole issue. Mr. Favaloro said he didn't either; however, we should not be doing anything over the next five weeks that could jeopardize the ability to get stimulus monies. All staff has suggested to Mr. Laskey is that he get answers to what actions could jeopardize, or conversely, could put a project in a better light to get stimulus monies. It is a fair question to ask.

Jay Fink said with the decrease in steel and fuel prices since October, usually in the contract there are some escalation clauses. Are there any clauses to the reverse of that in the award that perhaps the MWRA could get some credit for? Mr. Favaloro said that he did not know how it is being bid. Mr. Fink said perhaps we should ask those questions.

Zig Peret said I am sure there are contracts that are all in different stages. There may be one that was just signed, one that is critical and a couple more on the back burner. Whatever the criteria is, the MWRA should have projects that can fit into that criteria. Mr. Favaloro said that is really it; whatever the criteria is going to be, the MWRA needs to put itself in the best light to fit in. There will always be much more need than there is going to be dollars; the MWRA needs to be able to compete for it.

Mr. Fink said the only criteria that he is aware of thus far are that the project needs to start within 180 days and be completed within two years.

John Sullivan said he believes that anything that looks like it has already been funded would not likely be eligible for stimulus funds.

#### **V. Update: Odor Control Facility**

Mr. Favaloro stated that the judge has weighed in on the Corcoran/Odor Control Facility above ground/underground controversy. All the pieces have continued to fall into place for the Authority. There was a meeting in December with the Columbia Point Association. At that meeting, Mr. Corcoran did not get the support that he assumed, rallying all of the troops in the Columbia Point area. Basically they suggested to him that if he wanted to do anything, his best course of action was probably through the courts. The Authority sent a letter to Mr. Corcoran informing him that it was proceeding with the above ground approach.

Additionally, the judge, in his part of the monthly compliance report, weighed in and said that the above ground odor control facilities work. At this point, there is no reason for Mr. Laskey or the Board to revisit this issue. The Authority will build an above ground facility. Mr. Favaloro said the Advisory Board's Board members led the charge to keep this project in focus and should be commended.

**VI. Update: Economic Stimulus Package**

This topic was discussed in Item III: Process and Timeline for FY10-14 Capital Improvement Program Review.

**VII. Other Comments**

Mr. Favalaro provided members with the Minutes from the Operations Committee meeting on three-year averaging, which was well attended. The action that the Committee took at the end of the meeting was to continue to monitor the flows and three-year averaging and potentially meet again sometime within a year to see if things are trending the same way. It was a healthy exchange of ideas and concerns and concepts but there was no desire to start anew.

**VIII. Approval of the Advisory Board Agenda for January 15, 2009**

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE JANUARY 15, 2009 MEETING**. It was seconded and passed by unanimous vote.

**IX. Adjournment**

A Motion was made **TO ADJOURN THE MEETING AT 9:37 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary