EXECUTIVE COMMITTEE MEETING
FRIDAY, FEBRUARY 13, 2009
ADVISORY BOARD OFFICE

Minutes Approved at the March 12, 2009 Meeting

Present: John Sullivan, BOSTON; Jay Fink, LYNN; 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; Cornelia Potter, Matthew Romero, Christine Hevelone-Byler and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

I. Approval of the January 9, 2009 Minutes of the Executive Committee

In the absence of Chairman Katherine Haynes Dunphy, Jay Fink, Operations Committee Chair, called the meeting to order at 8:31 a.m. A Motion was made **TO APPROVE THE JANUARY 9, 2009 MINUTES OF THE EXECUTIVE COMMITTEE**. It was seconded and passed by unanimous vote.

II. Legislative Update/Advisory Board Legislators of the Year

MWRA Advisory Board Government & Media Coordinator Christine Hevelone-Byler stated that the Governor's Proposed FY10 Budget was released in mid-January and featured a "Bottle Bill" approach that was similar to the Advisory Board's recently filed legislation. The Governor said it would generate about $20 million in revenue, with $10 million going to local recycling programs and $10 million going to the Sewer Rate Relief Fund. This is round one of a multi-stage budget discussion. To have any money dedicated to Debt Service Assistance in the Governor's budget, especially the Advisory Board's Bottle Bill language, was a positive surprise to the Advisory Board.

House 1 did not include $500,000 for operating the Clinton Wastewater Treatment Plant as it usually does, although staff believes it will likely be corrected at a different point in the budget process. Several Department of Conservation and Recreation line items were consolidated, which could have led to the oversight of the Clinton line item.

The Advisory Board is developing a new legislative strategy. With the new session, staff will be presenting the Advisory Board to the new caucus members and the legislature in a new way. Staff has been working on a multimedia presentation that would explain the Advisory Board's legislative package and make staff the "go to" people for the new session that just kicked off.

Next week, at the Advisory Board meeting, four "Legislators of the Year" will be featured, Senators Michael W. Morrissey from Quincy and Marian Walsh of Boston/West Roxbury and Representatives Paul J. Donato from Medford and Katherine Clark from Melrose.

Andrew Pappastergion asked what these people have done to earn this award. Ms. Hevelone-Byler said on the Senate side, Senators Morrissey and Walsh have been long-time advocates for ratepayers and strong members of the caucus. On the House side, Representative Donato has been an advocate for ratepayer issues, understanding DSA and pushing for it in the amendment process. Representative Clark co-sponsored our amendment with Caucus Chair Ron Mariano last year.

Since the Executive Committee last met, Sal DiMasi stepped down and resigned as Speaker of the House. The new Speaker, Bob DeLeo of Winthrop, has been a good friend of the MWRA and the Advisory Board and is the former MWRA Caucus Chair; he is also one of the original authors of the Debt Service Assistance Program so he is a solid advocate.

Speaker DeLeo has released his Committee assignments and the good news is that the Chairman of House Ways and Means is Charlie Murphy of Burlington, who is in the MWRA district. MWRA Caucus Chair Ron Mariano was promoted into leadership as Assistant Majority Leader as well.

John Carroll asked who the Majority Leader is. Ms. Hevelone-Byler said the Majority Leader is Representative James Vallee from Franklin.

John Sullivan asked if there is a website that lists all of the stimulus projects that people have submitted. Ms. Hevelone-Byler said there have been press releases that have included summaries; however, I have not seen a line item list. MWRA Advisory Board Manager of Finance and Policy Review Cornelia Potter said there was a preliminary list at least a month ago and staff hasn’t seen anything since. Ms. Hevelone-Byler said she would check into it.

III. Developing the Advisory Board’s CIP/CEB Review Strategy

MWRA Advisory Board Senior Policy and Finance Analyst Matthew Romero provided an overview of the Current Expense Budget (CEB) that was recently voted at the MWRA Board of Directors meeting to be transmitted to the Advisory Board. Total expenses for the Authority are $603.5 million after offsets, with a rate revenue requirement of $566.8 million, making a 4.8% increase to assessments overall.

The MWRA is proposing Direct Expenses of $214.5 million. Comparing this budget to the FY09 original final approved budget from June of last year, it reflects that Direct Expenses went down by $1.4 million, or a reduction of about 0.7%. From the Amended Budget, it is a $4.8 million increase or 2.3%.

Indirect Expenses are at $41.6 million, which went down from the original budget by $4.3 million (a 9.3% decrease); from the Amended Budget, it went down by $2.7 million or a 6.3% decrease.

Debt service was at $354.4 million prior to offsets, compared to the original budget that is an increase of $25.6 million or a 7.8% increase; from the amended budget it is a $29.1 million or 9.0% increase.

Highlights of Direct Expenses include a reduction of 24 funded staff positions. The Authority currently has 1,237 filled positions, as compared to 1,255 authorized positions, but is only funding 1,222 positions for FY10, assuming there will be some attrition. Ms. Potter added that it will be the lowest funding level ever.

The Authority has instituted a pay freeze for all non-union managers for the FY10 budget. Overtime has been reduced by 10.2%; again, another risk factor, taking a risk on wet weather events and deferring some maintenance projects that require overtime or restructuring how those projects are done so as to not use overtime.

The Governor's budget had included legislation to change the way that health insurance has been allocated. Rather than going based on the date of hire as far as the employee's share versus the state's share, it would be determined by the amount of salary. The Authority took a look at its current salary levels and projected that they would be able to save about $1.4 million, which reduced the fringe line item by $1.4 million.

Price increases are expected for chemicals; however, the increases may be less than the Authority originally thought.

Energy price decreases have been built into the Authority's FY10 budget; however, the price of a barrel of oil has started to go back up again so there is a bit of risk with assuming some sort of a price decrease.

For Indirect Expense highlights, watershed operating expenses were level-funded; however, their debt service and PILOT payments have increased, resulting in a slight increase.

The required contribution is being made to the Pension Fund, plus a $2.8 million additional payment to try to offset some of the losses from FY08.

In previous years, the Authority insisted on funding Other Post-Employment Benefits (OPEB), against the Advisory Board's recommendations. This year, the Authority is including a nominal amount of $1.4 million, which is tied to the Governor's legislation on health insurance. If that legislation does not go through, that $1.4 million for OPEB will be put back in to cover fringe costs so they are not completely relying on that legislation to go through.

The Authority is also looking to move dental and vision insurance onto the GIC, which will provide some savings to the Authority.

In Capital Financing highlights, variable rate debt is budgeted at a 4% interest rate; the Authority is still maintaining that interest rate assumption. Staff assumes a capital borrowing in May 2010 of $100 million. On the coverage calculation, there is a lot of give and take and fine-tuning but that might be a source of additional cutting that the Advisory Board may be able to use in its comments. Ms. Potter added that depending on the Advisory Board's recommendations on other aspects of debt service assumptions, together with their accruals for other categories, that helps meet the coverage requirement. Staff may find a way to reduce what they are putting in as current revenue for the capital program.

In Revenue highlights, for investment income, the Authority has assumed a short-term interest rate assumption of 0.75%; that is a reduction from the 2% assumed for FY09. This is usually one of the sources that the Advisory Board goes to seeking cuts because the Authority is normally too conservative; however, in this market, staff would likely not recommend changing it from 0.75%.

For Rate Stabilization Funds, the Authority is proposing the use of $10.3 million, which is a $5.2 million increase from the original FY09 Budget approved last June.

For DSA, the Governor's budget included Bottle Bill funds allocating $10 million to DSA through the Sewer Rate Relief Fund; of the $10 million, the Authority typically gets 70% leaving an assumption of $7 million for DSA.

Jay Fink asked what the balance is in the stabilization funds. Ms. Potter said the two funds have $74 million between the bond redemption fund ($30-31 million) and the rate stabilization fund ($44 million), before the drawdown of the proposed $10 million for FY10. The Authority assumes a gradual drawdown of all of these funds over the next four or so years.

Bernie Cooper asked how realistic the Bottle Bill is. Ms. Hevelone-Byler said at this point, it is not a foregone conclusion. It is stage one of a multi-month, multi-group conversation. It opens doors for conversation but the Governor's budget, as it was proposed, will likely undergo a lot of editing before anything is passed.

Mr. Romero said $10 million in an FY09 defeasance was included; this has not typically been done in previous proposed budgets. The Authority typically reserves a portion of its surplus to perform a defeasance transaction at the end of the year; however, they never in their proposed budget assumed that that was going to happen and build that into their budget.

Ms. Potter also pointed out an overview that the Authority prepared to provide more perspective and language about what is behind this proposed budget; otherwise debt service would have gone up between $35 and $40 million in FY10. Operating expenses, Directs and a portion of Indirects in total have gone down in FY10. The Authority worked to keep a lid on this budget right from the start rather than introducing a budget that staff knows has to come down for the final budget. The real pressure point is in debt service and it explains again why the Authority is taking this unusual step of building bond defeasance into its proposed budget right from the start.

Mr. Romero added that the Authority took a lot of steps that staff was surprised at but many that the Advisory Board had been advocating for sometime now.

Mr. Favaloro asked staff to include a slide called "A Home Run for the Advisory Board" to go through some of the points that the Advisory Board has been recommending for the last couple of years, last year and certainly in the amendment.

On OPEB, the Advisory Board from the very beginning had advocated that the Authority not establish an Irrevocable Trust; staff is certainly glad now. Ms. Potter said in the first two years it would have been between $16 and $17 million in order to have met their liability as defined in the actuarial study. Also, Authority staff points out that within another year that number would approach $40 million. It sounds scary but the Authority has the ability to regularly raise its rates so we always challenge them to treat their OPEB story somewhat more flexibly.

John Carroll said as I understand it, the state hasn't put any money toward OPEB, correct? Ms. Potter said if they have put anything in, it is minimal.

Mr. Romero said as part of our Budget Amendment recommendations, the Authority held off on its $3.3 million payment on OPEB that originally was going to be redirected into the pension funds. They agreed to hold off on that until June 2009 in the Budget Amendment; however, they took the unusual step to actively reserve that $3.3 million. The Authority committed to reserve that for an FY09 surplus to help with the FY10 bump.

The Advisory Board advocated for a non-operational hiring freeze and the MWRA instituted a similar proposal, which is a non-critical hiring freeze.

The Advisory Board has typically gone to the MWRA's assumption of a full year of NPDES permitting and the requirements that they might need to build into that with regard to chemicals, in particular, to pare that number back. This year, the Authority took the unusual step of not including any assumption for a NPDES permit in all of FY10. Mr. Fink asked what that means in a dollar amount. Ms. Potter said it is between $300,000 and $400,000.

Advisory Board staff usually asks that the Watershed Division's budget costs be kept down; with their level-funding of operating expenses, they are sharing the same pain that the Authority is.

The Advisory Board has asked the Authority to be prepared to refinance debt; just this month the Authority was able to have a successful transaction that was of great benefit to them.

In taking a look at the uncertainties, the financial crisis and the economic landscape is still moving and no one knows where it is going to land, which particularly affects variable rate debt assumptions, interest income and a lot of big ticket items when it comes to the dollars in the budget. There are uncertainties in the variable market, utilities and chemicals costs.

Chemical costs have increased dramatically; the Authority believes it has a lid on it but the chemical companies have come to the Authority with hat in hand and said they cannot deliver at these prices. If that reverses around, the Advisory Board wants to be sure that the Authority staff is being active enough in going back to these companies to say that they can now afford to deliver the chemicals closer to the original price.

With no assumption for the NPDES permit, if the NPDES permit does come through in FY10, the Authority will have to make up the $300,000 to $400,000 (depending on how many months of the year the new permit requirements are in place), which may be even more at the current higher chemical prices.

If the health insurance legislation does not go through, the $1.4 million will have to be moved back from OPEB to the fringe category but at least staff has built that assumption into its budget.

The $7 million for DSA from the Bottle Bill is a soft number at this point. It is great that the Governor included it; however, the MWRA can't necessarily count on that and the Advisory Board needs to be sure that the Authority will be able to find the $7 million should that amount need to be made up.

The Authority and the Advisory Board don't know at this point if the MWRA will benefit from the Economic Stimulus Package. It may be a lot or it may be a little; how much does that really impact what kind of relief the Authority can expect in its budget?

This year staff was considering a new approach to the CIP and CEB review process and would appreciate feedback from the Executive Committee. The Advisory Board would like to prepare one comprehensive document that reviews both the CIP and the CEB all at the same time and highlights and draws upon those connections. If that were the case, it would mean that the Advisory Board wouldn't have two separate votes on the CIP document and the CEB document, but rather one vote on May 21 for the full Advisory Board. Ms. Potter added that this takes into account the basic realities of the Authority's making available its documentation for budget review. The Advisory Board never starts the clock ticking until it has materials in hand that also goes to the Advisory Board members.

Mr. Pappastergion asked if it is legal to vote in May on both documents. Ms. Potter said the sixty-day review says "at least". Mr. Pappastergion said as far as the Board is concerned, it doesn't matter as long as the Advisory Board vote is done before the Board of Directors takes it up the first week in June.

Ms. Potter said this also reflects the evolution of the Advisory Board's review; staff used to have a hundred plus recommendations and take apart each change order and amendment and talk about every single line item in the CEB. These reviews have evolved into a thematic discussion on larger issues, whether it is the pension fund, or OPEB, or the shaping of the capital financing group of related expense. Staff does comment on some very specific items but it is not hundreds the way it used to be; we will have dozens at most.

Mr. Fink asked if this approach would short-change staff's ability to review what comes down and comes to the Executive Committee. Ms. Potter said she believes it would actually help people see the impact of the CIP on the CEB more clearly. Staff will go through its same review in terms of the kinds of extensive briefings with each division and department at the Authority, reviewing every single capital project, as well as looking in considerable detail on the CEB side, what is behind all of their numbers. Staff will be doing that traditional review as it always does, but it will be packaged differently.

Mr. Romero said when staff got its first briefing on the proposed budget we were surprised at the leanness of the CEB. The Authority went to places that the Advisory Board has been recommending and they cut a lot of things and took a lot more risk than staff has seen in previous years; therefore, there may not be as many "nitpicky" things but rather really large assumptions that we have called out and highlighted here. Staff will be communicating with the Authority and giving them previews and updates and they are aware of the pressure points that the Advisory Board feels and the types of things they will hear from the Advisory Board. Staff floated the possibility that this may happen if the Executive Committee and Advisory Board adopt this approach and have encountered a good response thus far.

Mr. Fink asked if anyone had any objections or concerns about going to this approach. Mr. Cooper said he was a bit uncertain about what it means in reality. Mr. Romero said in essence what it means is instead of having two different documents, there would be one comprehensive document that includes the recommendations for the both the CIP and the CEB, but also really highlight the relationship between the two.

Mr. Fink said unless anyone has an objection, I don't see anything wrong with moving it to the full Advisory Board. Mr. Pappastergion stated that he thinks it is a better idea. Mr. Fink said the idea has merit, especially now that we are no longer in a capital intensive program.

Mr. Cooper said he doesn't have a problem trying it but, conceptually, he doesn't see that it will make a big difference because mostly in the CIP you are talking about future projects, most of which will be impacting the CEB beyond the next budget year. Mr. Fink noted that there is still a debt component in the short term. Mr. Cooper said he understands and doesn't have any great objection. Ms. Potter added there really are two characteristics to the CIP review, the largest and most important is the shaping of the multi-year capital program, which is setting the stage for what the eventual spending will be over a number of years. The impact on the next immediate year ahead is the second focus and is much smaller. You are only getting an increment of new borrowing in the next immediate year. So there are some special characteristics of the CIP that are different but we thought given the tenor of these particular times that we thought we would give this a try, but we don't know exactly how it is going to work either.

Mr. Fink said the timing this year would be such that this makes a lot of sense, for this year anyway, to combine those comments because of the tardiness of receiving the materials.

Mr. Carroll said on the approach to the CIP are we going to review the five-year capital spending plan. Mr. Romero said as part of the combined approach, absolutely. Again, this isn't to short change either process, in effect, it would actually be creating more work for the Advisory Board because we would then have to create those inter-relations. Typically when staff reviews the CIP, it is just about the dollar values proposed in the projects of the current year and the next few following in the multi-year capital program. Ms. Potter added it is helpful to note that at least this year is not a year where we are setting a new cap or reviewing a major update to the Master Plan; each of those steps happens about every four to five years.

Mr. Romero said the circumstances have provided an opportunity to try it out if the Advisory Board and the Executive Committee are willing.

Mr. Fink said you will get no objections here.

IV. Executive Committee Meeting for March

Mr. Fink said the next Executive Committee meeting will be on Thursday, March 12, instead of Friday, March 13.

V. Approval of the Advisory Board Agenda for February 19, 2009

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE FEBRUARY 19, 2009 MEETING.** It was seconded and passed by unanimous vote.

VI. 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