

**EXECUTIVE COMMITTEE MEETING
THURSDAY, APRIL 9, 2009
ADVISORY BOARD OFFICE**

Minutes Approved at the May 15, 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; Walter Woods, WELLESLEY.

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 March 12, 2009 Minutes of the Executive Committee

Chairman Katherine Haynes Dunphy called the meeting to order at 8:39 a.m. A Motion was made **TO APPROVE THE MARCH 12, 2009 MINUTES OF THE EXECUTIVE COMMITTEE**. It was seconded and passed by unanimous vote.

II. Legislative Update/Community Meetings

MWRA Advisory Board Executive Director Joseph Favaloro stated that he and staff member Christine Hevelone-Byler have just about completed the first round of community meetings with all of the mayors in the greater Boston area, with the exception of Mayor Menino. Staff will be meeting with Jay Ash, City Manager of Chelsea next week and the Mayor of Everett as well.

The meetings have been productive and included discussion on the rate revenue requirement, the I/I Program and the potential for a Meter Modernization Program; it also provided community officials with an opportunity to talk about the community's needs, problems and desires.

It is fair to say that there is general approval from the communities on what the MWRA and Advisory Board are doing. What's impacting the communities most is the uncertainty; how bad is the budget process going to be? The other frustration that has come through is that there isn't going to be a windfall of stimulus money as originally expected. Only energy programs seem to be moving now since there is a lot of emphasis on this from the Patrick Administration.

On the legislative side, staff has met with both House and Senate leadership; there will be a significant up-hill battle to get Debt Service Assistance (DSA) as part of the FY10 budget.

Mayor Howard of Malden suggested that Advisory Board staff go before the Metro Mayors Association; staff will be making a presentation on the Advisory Board's expanded version of the "Bottle Bill", which will include funding for water and sewer projects, for the next Metro Mayors meeting with the intention of seeking a letter of support from the mayors to provide to the legislature.

III. Draft FY10 Advisory Board Operating Budget

Mr. Favaloro stated that staff had amended the FY09 budget by nearly \$7,000 in late fall. The FY10 request is still under the original FY09 budget. The only line items that are growing are “Public Meetings” (lunch at Advisory Board meetings) and “Members Reimbursement”, which is a good thing because it means there is better attendance.

Wages and Salaries increases slightly; the assumption is that step increases for employees will be staggered within the first six months of the fiscal year. Further, for FY10, it makes an assumption, obviously at the discretion of the Executive Committee, for a salary increase for the Executive Director; it would not come into play until the final quarter and would not be retroactive. The number goes up by a relatively small amount (1.3%); however, that will potentially result in a significant increase for FY11.

Three years ago, the Postage line item was close to \$7,000; the number has been dropped in both the amended FY09 budget and again in the proposed FY10 budget. The decrease stems from moving to nearly 65% electronic mailings; that is a positive result of a strategy that was implemented by the office.

Mr. Woods suggested that the 1.3% change in Wages and Salaries is on the low side compared with some towns and suggested the number be raised to 2%. Mr. Favaloro said the number assumes that all employees get a step increase; it’s when that step gets phased in during the fiscal year that reduces that number. That is why the number will look more like 5-6% in FY11.

IV. Evolving Advisory Board Integrated CIP/CEB Review

Mr. Favaloro said this is a transition year for the office. Matt Romero and Cornelia Potter deserve a lot of credit for the evolving document and integrated review approach that is emerging.

Matt Romero stated that staff has completed its CIP review sessions with various departments, as well as all of the division and department level CEB reviews, with the exception of a wrap-up session that staff does with MWRA Chief Operating Officer Michael Hornbrook, which will occur later this month.

Staff previously mentioned two recommendations that said to reduce the rate revenue requirement by “x” dollars and reduce CIP spending by “y”%. Having had the review, staff can now put some numbers to those recommendations through two two-part recommendations:

1a) Upon accounting for the addition of I/I Program Phase VII costs, lower further capital spending by no less than \$100 million over the next four years.

John Carroll asked what the relationship between the I/I Phase VII cost is. Mr. Favaloro said based on the Board discussion and the support of the Advisory Board, there will be a recommendation to add \$40 million back into the cap to cover the next round of the I/I Program. Advisory Board staff is saying take \$100 million out of the cap; however, it is really \$140 million because they have to account for the I/I Program. Ms. Potter added that not all of it will be within the cap period. It will be over a ten-year period so the exact number that will be added to the cap period for the next four years would be less than \$40 million. Mr. Favaloro said that is the message, but it may need to be tweaked a bit more.

Mr. Romero continued with the next part of the first recommendation: 1b) Further reduce new borrowing by amount of stimulus funding received during the cap period. This is a simple swap, which is for every dollar of stimulus money the MWRA receives, it should reduce the cap by that amount. Borrowing can be reduced by that amount and ratepayers are not impacted any more than they need to be.

2a) Reduce the rate revenue requirement by no less than \$100 million over the next four years (FY10-13). The turn-around is not going to happen any time soon so Advisory Board staff felt that taking a longer-term view would be helpful for the Authority, especially since there are going to be some difficult years coming up.

2b) Regardless of levels of Debt Service Assistance in FY10, MWRA final assessments can be no higher than the preliminary assessments. That accounts for the \$7 million of DSA that the Authority had planned into its proposed budget that at this point is unlikely to come through.

On the CIP side, reviewing bid prices as they come in could alter the amount of spending and thereby new borrowing that will need to occur.

Staff should review the scope of projects and scheduling revisions that might affect spending levels and reduce it. As stimulus funding comes in, reducing the amount of borrowing by the amount of stimulus funds received will also help to meet that \$100 million and beyond.

On the CEB side, the refunding and the new borrowing that just occurred at the Board meeting was not accounted for in the proposed budget; it will need to be updated in the final budget.

Staff reviewed variable rate debt service interest assumptions. In looking for potential refunding opportunities through FY11, there is nothing that is callable. Ms. Potter said each year there will be a new maturity available for refunding but they are not callable two or three years in advance, which the Authority has taken advantage of before. There are some large maturities coming due and the Advisory Board is saying they may be able to ease rate revenue requirements by refunding just within the three months before they are due. Mr. Romero stated staff does not see the likelihood for that until the later part of the FY10-13 period.

If the Authority has lower borrowings because it has reduced the capital spending and it receives stimulus funding, there will be a lower corresponding debt service need and expense.

Various efficiencies in Direct Expenses have also been recommended to continue shaving away at costs and keeping them under control.

John Sullivan asked what level of stimulus funds are predicted and truly expected. Mr. Favaloro said the latest message from SRF staff is that the MWRA should not assume any larger number than it has gotten in the past. Normally they look at the Authority as a certain percentage; don't be shocked if the Authority doesn't get anything more than that percentage.

Mr. Sullivan asked if it will be straight SRF with a low percentage or is it going to be negative interest? Mr. Favaloro said the plan seems to be to get to zero, if not less than zero. Ms. Potter added that it is not clear whether you have to borrow with a low-interest rate and then have a loan forgiveness or whether you get all the money upfront. Those are still the kinds of details that seem straightforward but haven't yet been resolved.

Mr. Favaloro said part of the message is that not everything will be done in FY10; it could go through FY13. The \$100 million isn't coming out of FY10, it is coming out of the cumulative rate revenue requirement between these next four fiscal years. Ms. Potter said the dollars are likely to be somewhat greater in the third and fourth year than the first and second because you will get the full year impact of not having to borrow "x" number of dollars. Mr. Favaloro said these recommendations lead to when the benefits of the reserves begin to start trickling in. This begins to get us through the end of the next decade.

Lou Taverna asked if the Authority is proposing further personnel cuts. Ms. Potter stated that the MWRA is funding 24 fewer positions in FY10, which they are assuming will be through attrition. There are a number of personnel who are reaching retirement age in the intermediate years. The Advisory Board's thoughts for various efficiencies included things like refinancing the lease for the Chelsea building; they are paying 8%. It is a thirty-year lease and they have had it for close to ten years; it could save hundreds of thousands of dollars every year. Further, changes in some process operations, which take longer to implement.

The Authority is talking about some modifications at Deer Island and has also achieved a number of efficiencies in the last year by getting some concessions from the unions where they have done some reorganization in the field operations group. They have changed the union assignment from two to one so they can reassign people during wet weather in a way that reduces overtime.

Ms. Potter said the biggest area of savings that staff is seeing on the horizon is that the assumptions for variable rate debt service continue to be extremely conservative in this recent period of volatile restraints and tightening of credit markets to ensure that they have enough money in that budget but they budgeted at 4% right now and they are paying close to 1%. That is where the surplus will come from in large part for this fiscal year. All the evidence that staff is seeing in the larger atmosphere is to keep the rates down, there are no inflationary pressures. A lot of observers feel that with the several years it is going to take to unravel this difficult economic situation that the Federal Reserve Bank is expected to continue to keep the rates down. For every 100 basis points it is \$5.6 million. If the Authority is paying less than 2%, they have a significant surplus every year.

Mr. Woods said the part that concerns me is that the efforts have to be ultra-strong to overpower as I read that the Board of Directors has approved \$4 million to put the odor control facility underground; so now \$4 million has to be balanced out somehow. Mr. Favaloro said we always have to make sure that our message is well constructed and argued admirably before the Board, but when all is said and done, the reality is that it is eleven individuals that make the final decision and unfortunately the Advisory Board has only three of the eleven votes. Chairman Dunphy said if we can't save that \$4 million, we can ask for savings of \$100 million and make a good case for it.

Mr. Favaloro said our message is to the point and it is going to resonate. Over the last few years staff has not pushed our recommendations to the media; we have kept the discussion within the Board and Advisory Board. The message this year could resonate well beyond the Board and make its way through the media.

Chairman Dunphy said the press and state leadership are looking at all authorities. The MWRA is an independent authority; we want them to stay an independent authority and want to make the case that the MWRA is different from these other troubled agencies.

V. Advisory Board Video Project

Christine Hevelone-Byler said staff has been moving ahead with the development of an Advisory Board video production project, hiring a company based out of Watertown called BuzzFlix Media. The video will focus on who the Advisory Board is and what the Advisory Board does. It will highlight legislative strategies and approaches and will feature Chairman Dunphy and all three of the Advisory Board's Board of Director appointees, as well as Caucus leaders Representative Ron Mariano and Senator Anthony Petrucci. Each will have a role to introduce who they are and what they do in terms of the Advisory Board.

The idea is to distribute the video on thumb drives with the Advisory Board logo to give to Legislative Committee staffers at the State House and communities. They can pop it in their computer and see the information needed on a bill and information on the Advisory Board.

Bernie Cooper asked what the budget for this is. Mr. Favaloro said it is \$1,500 for the video shot at two locations (State House and Canton) fully integrated and put together and edited and the thumb drives are about \$1,000. The total will be in the \$2,500 range.

Ms. Hevelone-Byler said BuzzFlix Media will do one-on-one interviews after the Advisory Board meeting in Canton and will be shooting stock footage of the meeting.

Mr. Favaloro said it will be on the Advisory Board website as well.

Ms. Hevelone-Byler noted that Mayor Curtatone from Somerville will be featured in it as well along with our legislative leaders. In a meeting with him, the mayor suggested that the Advisory Board do some more promotional materials; staff told him about this project and invited him to be in it.

Ms. Hevelone-Byler said the goal of the video is to focus on the role of the Advisory Board and the role of the Authority and the differences and the relationship in between.

VI. Meter Modernization/Scoping Out A Water Meter Modernization Program

Mr. Favaloro said at the last MWRA Board of Directors meeting it came to light that there has been some discussion with DEP on a potential \$10 million grant program for MWRA communities as part of the "green" money from the economic stimulus funds. The Board suggested prorating the funds by the size of the community's assessment.

Mr. Favaloro said communities seem interested in this type of program. The goal is how to construct a program that benefits as many communities as possible should the program come to fruition. Many communities have experience in this area and this is one of those discussions where communities can provide some good input on how best to develop this potential program.

If the program materializes, the funds will be sought quickly. If Advisory Board members want to influence how the funds are distributed, our members need to be ready with ideas on what the program should look like. If members don't take this opportunity, they may lose the chance to weigh in on it.

The Operations Committee will meet prior to the April 16 Advisory Board meeting to discuss the potential for a Water Meter Modernization Program. Staff has put together five bulleted points of

areas to look at and will explore more as part of the meeting. Staff does not want to influence the discussion but is simply trying to get the gamut of things that the money could be used for.

Mr. Fink asked if MWRA staff is going to be there. Mr. Favaloro responded in the affirmative.

Mr. Sullivan asked who would administer this program. Mr. Favaloro said the MWRA would administer the program.

Mr. Woods suggested that if communities are unable to attend the Operations Committee meeting, they should provide a letter to staff to get their position and what their status is.

VII. Status: Economic Stimulus Package

Mr. Favaloro said Advisory Board staff is in the process of putting brief comments together on the importance of the stimulus bill to urge legislators to vote on it quickly. The entire bill is 31 pages long, broken up into different topics; there isn't anything definitive except for the energy piece.

SRF staff is now saying that these funds may be slowed down and may roll into regular cycles of the SRF because there is no other way for them to administer this program at this point. There are going to be conditions as part of the SRF that will impact costs negatively. For instance, there is going to be a requirement for a 20% apprentice program for construction projects over \$1 million. Further, there is a "buy American" provision; however, certain parts for projects may not be available in this country. How do you interweave needing this gadget that isn't available in the United States and moving forward on a project?

The Association of Engineers lays out where Massachusetts stands in relation to all the other states in need in different areas. For water, Massachusetts needs a little under \$9 billion over the next twenty years and slightly more than \$3 billion on the wastewater side.

MWRA staff will be coming to the Advisory Board meeting to talk about what they've been doing to get ready, what they're hearing and how it will impact cities and towns. MWRA staff has had ongoing staff meetings and interactions with state and federal personnel; they are poised to go.

The Lt. Governor has agreed to come to the June Advisory Board meeting to talk about the stimulus program and how it has been put together by the state and its impacts on cities and towns. Staff is hoping by June there will be a blueprint on how the state is going to disburse stimulus funds.

VIII. Other Business

Chairman Dunphy stated that there will be a packet coming from the Executive Office of Energy and Environmental Affairs (EOEEA) to the MWRA Board of Directors for next week's meeting regarding the smart growth package that would allow system expansion for the MWRA. John Carroll has proposed that there be a public forum around June 1, similar to the one in 2006 on system expansion. This issue is heating up and EOEEA would like it to move rapidly.

There was one suggestion that new communities entering the system would have the normal entrance fee but EOEEA suggested that part of the money not be paid to MWRA but rather be set aside for environmental benefits; that suggestion has been shot down. The Advisory Board needs to closely watch this discussion; it would be unfair to communities that have paid the full rate.

Mr. Favalaro said smart growth is one of EOEEA's principal arguments that they want to bring forward. There will be further discussion, be it through a facilitator or a stakeholder meeting between all parties. Unfortunately, there will be some smart growth language in the Authority's System Expansion Policy. The Advisory Board's goal will be to mitigate as much of this language so that it doesn't impact communities. In this case, the Authority has shown some reluctance because they recognize that the MWRA should not be the proponent of smart growth on the back end of a water system expansion policy. There is a lot of push being led by Mr. Cash, an undersecretary at EOEEA.

Chairman Dunphy said EOEEA wanted to have this all decided by June 30; however, Mike Hornbrook has said that is not going to happen.

Mr. Fink asked if there is any draft language out. Chairman Dunphy said the MWRA Board of Directors received something at the last meeting and now some flesh is being added to the bones. The devil is going to be in the details. There is some discussion that the only way a community can enter MWRA is if they have high-density zoning as a matter of right, not under a special permit. Communities would be reluctant to adopt that kind of language.

Mr. Fink said some language that pertains to the MWRA on the water side in regard to conservation or worrying about gallons per capita per day might be acceptable. For new communities coming in we want to make sure they are conserving and doing leak detection programs, etc. Incorporating density and 40B projects has nothing to do with water and sewer.

Chairman Dunphy said they are backing off on making high density zoning in advance of the community coming in. These are communities that can only come in because they are desperate for water. Now discussions are focusing on a set of seven criteria, for example, and the community would have to meet five. The communities should be making these decisions as to what is appropriate and which parts of town and parcels are in play and which older areas have factory buildings that could be used for this type of housing and really be of benefit to the community. A community that is desperate for water should not have to buy a package that they can't deal with.

John Carroll said we all wanted a streamlined process for allowing communities to come in. Over time, the MWRA, EOEEA and DEP said it does make sense to streamline the process, and then they tagged on smart growth at the end. Anyone with any practical sense realizes that it doesn't make any sense. A facilitator would study the issues ahead of time and work the issues at a table of all the stakeholders (a representative group of the Advisory Board, members of the Board of Directors, WSCAC, EOEEA, DEP – there could be 50 people). The facilitator works through the issues and sorts them out until a consensus is reached. At least it will give everybody a voice at the table. Further, potential cities or towns that may come in should also be at the table to hear how they feel about having to do a smart growth element. Mr. Favalaro said it is a great idea; however, the fear is that the administration wants to do a smart growth piece. Coming up with a process and having all the stakeholders there is a great way to get to where the answer should be; however, the administration could still say no.

Mr. Favalaro said there are two things on the table now; one is the facilitated discussion that John Carroll suggested and the second is a public meeting suggested by Mary Booth of WSCAC that would allow everyone to speak.

IX. Approval of the Advisory Board Agenda for April 16, 2009

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE APRIL 16, 2009 MEETING**. It was seconded and passed by unanimous vote.

X. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 9:44 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary