

**EXECUTIVE COMMITTEE MEETING
FRIDAY, MAY 15, 2009
ADVISORY BOARD OFFICE**

Minutes Approved at the September 11, 2009 Meeting

Present: John Sullivan, BOSTON; John Sanchez, BURLINGTON; Ed Sullivan, CANTON; Bill Hadley, LEXINGTON; Jay Fink, LYNN; Katherine Haynes Dunphy, MILTON; Lou Taverna, NEWTON; Ted McIntire, READING; Carol Antonelli, SOMERVILLE; Zig Peret, WILBRAHAM.

Also in attendance, 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 9, 2009 Minutes of the Executive Committee

Chairman Katherine Haynes Dunphy called the meeting to order at 8:33 a.m. A Motion was made **TO APPROVE THE APRIL 9, 2009 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 Governor's budget included \$10 million for Sewer Rate Relief (also known as Debt Service Assistance [DSA]) from revenues derived from an expanded Bottle Bill, which includes bottled water; the House version of the budget included \$5 million for DSA but nothing from the Bottle Bill; the Senate will debate its budget, which doesn't include funding for DSA, next week. Two amendments will be filed on the Senate side, the first by Senator Galluccio for Sewer Rate Relief and the other by Senator Petrucci, which would include Bottle Bill language, similar to the Governor's.

The Governor's version of the State Budget did not include an earmark for operation of the Clinton treatment plant; however, his staff said the money was included in a consolidated line item. Representative Naughton worked to have the \$500,000 included in the final House Budget and Senator Chandler made sure it was inserted on the Senate side.

The Senate begins its debate on Tuesday; the only debate appears to be whether there will be a sales tax or a gas tax. Another significant change between the House and Senate versions is that the House assumed a revenue number of more than \$19 billion, which has plummeted twice since then. The Senate is using a number of nearly \$17.9 billion. Even if the 6.25% sales tax is approved, they still have a structural deficit of well over \$1.5 billion; therefore, there will not be a lot of amendments that add money to the budget.

One thing that stood out in the Governor's actions of last week was a raid on the Convention Authority for \$50 million. There is always a chance that the state may take a run at the MWRA. The Watershed Trust and a few other areas could impact the MWRA's bottom line.

With the Trust, another issue has arisen. The state is having all of its non-union managers take furloughs. The watershed budget has long been a staple issue for the Advisory Board. If the MWRA, through the Trust, is paying the bills, the Trust should be making the decisions. The state, as part of its furlough program, is furloughing non-union employees of the Watershed Division. The Watershed Division is off budget; it is not in the general fund at all and the MWRA reimburses the Commonwealth for the costs. It is not an issue of having a furlough or not, it is an issue of who makes that decision when the department is not on the state budget. It is not a huge issue dollar-wise but it sets a precedent.

Chairman Dunphy said the whole point of the Trust was to protect the water quality and the water supply from not having enough people to do the work in downturns. The issue then was hiring freezes and elimination of overtime. This is a different approach but it is still a problem because it might set a precedent that they may do other things in the future.

III. Discussion: Continued Membership in the Massachusetts Coalition for Water Resources Stewardship

Mr. Favaloro said last year Robert Moylan of the City of Worcester came in to talk about the Coalition for Water Resources Stewardship, which has been a fervent supporter of the communities and authorities on issues that are related to EPA and water resources.

The Advisory Board voted unanimously last spring to join the Coalition and the Authority is also a member. The Coalition is now asking individuals and entities to pay dues to maintain membership in the organization. Though they support what the Coalition is attempting to do, MWRA Chief Operating Officer Michael Hornbrook and Mr. Favaloro concur that it is almost impossible to justify putting forward membership dues at this time when so many other things are falling by the wayside.

Ed Sullivan asked if the Coalition has a budget. How would they spend the dues money? Mr. Favaloro said he has not seen their budget; thus far, Regina Villa, a public relations company, has handled the administrative work and has seeded the expenses for a little less than a year. The dues would provide Regina Villa and others some payment for services they render. If the Executive Committee wants to pay the dues, staff can get a copy of the budget. Dues are usually calculated based on population served; given that equation, the MWRA would be the largest contributor.

Chairman Dunphy asked how much the Advisory Board's dues would be. Mr. Favaloro said there was some discussion that if the Authority pays \$12,500 in dues, the Advisory Board could go under the Authority's membership dues.

Jay Fink asked if the Advisory Board has ever gotten minutes of the Coalition's meetings. Is there an Executive Board of this organization? Mr. Favaloro said staff receives regular correspondence from Kate Barrett, the staffer from Regina Villa. The Coalition seems to be meeting about every four months. The Advisory Board has been provided, principally through emails, with updates on what is going on.

John Sullivan commented that the Authority sees itself as a leader; however, under the guise of "we've got no money", they are hiding under a rock and resting on laurels. You have to keep moving forward with these things to network and educate people. The Authority doesn't send anybody out to other organizations and has pulled its funding from the Water Environment

Research Foundation (WERF); they have also pulled their waterworks funding. These entities exist because people are smart enough and have the foresight to pay in good times and bad. The Authority doesn't necessarily have to pay the full freight, but they should continue to participate. They are curtailing all the stuff that stops us dead. Leadership has to look forward five years. The Authority is a \$600 million business and every penny counts, but you have to keep moving forward. The Authority should be a leader. The deal could be that the Authority gives partial dues this year and the Advisory Board goes under its membership – take it or leave it. The Coalition should be smart enough to take it.

Chairman Dunphy said currently nothing is happening on the NPDES permit but someday DEP will get its act together and come back to the Authority. Mr. Sullivan agreed. The Authority should remain a member as the entity that receives the permit but we should also encourage the Authority to lower the dues number.

Mr. Favaloro said he would put the topic back on the agenda for June or September when he has a better idea on what the Coalition's budget looks like. Additionally, he will have further discussion with Mike Hornbrook to share with him the consensus of the Committee and its desire to keep a relationship with the Coalition and to try to work out some finances.

IV. Action Item: MWRA Advisory Board FY10 Operating Budget

Mr. Favaloro stated that the Advisory Board's Proposed FY10 Operating Budget has been updated from last month with a small alteration. The Advisory Board is currently at 99.8% of its budget. The Public Meetings line item has been spent significantly beyond its budget. For next year staff made a further tweak of an additional \$1,200. In April the number provided was \$8,100; today the number is \$9,300 bringing the total budget to \$474,212; however, the request from the Authority will be \$453,212.

Because of staggering step increases for staff, the largest line item (Wages and Salaries) only goes up 1.3%; this will mitigate most of the increase for FY10 but it puts the increase for FY11 significantly higher.

A Motion was made **TO APPROVE THE MWRA ADVISORY BOARD FY09 OPERATING BUDGET IN THE AMOUNT OF \$474,212, WITH AN OVERALL REQUEST OF THE MASSACHUSETTS WATER RESOURCES AUTHORITY OF \$453,212.** It was seconded and passed by unanimous vote.

V. Action Item: MWRA Advisory Board Integrated Comments and Recommendations on the MWRA's Proposed FY10 Capital Improvement Program (CIP) and Current Expense Budget (CEB)

Matt Romero said Advisory Board staff wants to hammer home the fact that the world has changed. As staff gets information from the State House News about revised downward estimates of state revenues, etc., staff continues to update its integrated document; the language continues to change and gets worse.

The document speaks to all the things that the world has endured during the last eighteen months, such as the sub-prime mortgage crisis and the DOW plunging 40% over the course of one year, from October to October; AIG, Fannie Mae and Freddie Mac received unprecedented government support and bailout action. Lehman Brothers and Chrysler went bankrupt.

The Senate Ways and Means Summary of the budget projected \$21.2 billion for state revenue at the beginning of FY09; by October, the projection dropped to \$20.1 billion; in January, it was further revised to \$19.45 billion; currently, it is projected to be \$18.44 billion for FY09. FY10 is now projected to have \$17.9 billion in revenue. At the state level, they are hurting on the capital side as well. Two days ago the Governor announced that he has cut \$675 million from the capital budget and is planning a second cut in the five-year capital plan. The state is facing dire circumstances and is taking much the same actions that the Advisory Board is recommending that the Authority take.

The Advisory Board's recommendations are:

1a) Upon accounting for the addition of I/I Program Phase VII costs (which are being proposed to be put back into the CIP), lower further capital spending by no less than \$100 million over the next four years.

1b) Further reduce new borrowing by amount of stimulus funding received during the cap period.

2a) Reduce the rate revenue requirement by no less than \$100 million over the next four years (FY10-13).

2b) Regardless of levels of DSA in FY10, MWRA final assessments can be no higher than the preliminary assessments. Should the \$7 million of DSA that is being included in the Authority's proposed budget not come through, Advisory Board staff wants to be on record that the rate revenue requirement should not be the source of making up those funds.

The Advisory Board has provided a series of tools that Authority staff can use to achieve these recommendations over the course of the four years. It is time for the Authority to take a look at the times that they are living in and pass onto the ratepayers the same kinds of tightening of the belt that everybody is trying to do. The way to do that is to cut the Capital Improvement Program and Current Expense Budget.

There is not one magic silver bullet that will get the Authority out of these woes for four years but there are a significant number of areas that staff can look at. As an exercise for this meeting, Mr. Favaloro asked staff to put together an estimate of on what could be realized if everything magically fell into place. Cornelia Potter said if everything magically fell into place, there are hundreds of millions of dollars of options out there. Staff provided a package of tools that could provide at least \$130 million. If all the other sources of revenue came into play, the Authority could add another \$500 million. Over \$600 million is potentially out there if the Authority chooses to pursue the options or tools provided by the Advisory Board.

An important feature is that these are multi-year recommendations; by setting a larger than expected goal than its normal comments, this sets the Authority staff on the path of looking long and broad for a range of things rather than saying it can't be done by the June final budget.

Mr. Romero said the document's overview mentions all of the steps the Authority has taken to date. All of the news that is coming out of the state and all of the other authorities (Turnpike, MBTA) is about the difficult decisions on what services to cut and what kinds of steps to take to make ends meet; the Authority has not done that. It continues to revise downward its staffing needs even as it has continued to increase its number of facilities and service functions that it performs. The MWRA has done a good job in trying to manage itself. Now it is time for the

Authority to be a proactive entity and take a forward step in addressing the financial crisis in which it finds itself and to pass onto the ratepayers those kinds of savings.

Andrew Pappastergion said it would be extremely helpful for the Board members if the Advisory Board staff could expand on the description and even attach Cornelia's "back-of-the-envelope ballpark estimate". Ms. Potter said the comments themselves have a "toolbox" section and each one of these things is in a toolbox associated with maintenance or services or revenue or whatever the category is.

Mr. Favaloro added that this approach wants people to look at the bigger picture. Staff will gladly provide potential values but does not want to provide specific dollar amounts that might limit the cuts the Authority staff will make. Ms. Potter said each toolbox gives a sense of value.

Mr. Romero noted that Advisory Board staff added in language to its "toolbox" that would allow the Authority to release reserves earlier. If the reserves could be utilized in FY14, or even FY13, that would help the Authority to plan its long-term issues out even better. Hopefully staff can maximize the use of those three tools in order to get that release of reserves earlier and give us more of a comfort factor with those out-years.

Chairman Dunphy said going from two separate documents to one was an ambitious project with a very impressive result. It is useful to see just what the capital program does to the future operating costs. Chairman Dunphy thanked Cornelia and Matt and all of the staff in the office for the extra work that they have done to make this transition. Mr. Pappastergion added that he would agree with that; it is a much better document.

Mr. Favaloro said he has already had conversations with Fred Laskey and Rachel Madden, which lead him to believe that the Authority's response will be "it is a daunting challenge, one that we are up to, and we will support working toward meeting the \$100 million in both budgets." The Advisory Board also plans to have in place by next Thursday a full press strategy around the two recommendations of reducing the rate revenue requirement by \$100 million and reducing the CIP by \$100 million over the cap period.

Ms. Potter added that staff is trying to help the Authority staff understand that we don't expect them to issue a budget for next year that incorporates these numbers in full. This is a gradual unfolding of a series of ideas, some of which they can show. For example, the bond defeasance approved on Wednesday that included \$10 million for FY11 is a piece of it – \$10 million; they are ten percent there with that one action. They don't have to take \$100 million out of their CIP right now; they don't have to revise their projections for the next ten years to show how they are going to get \$100 million out of the CEB. The Advisory Board is trying to get the MWRA staff to stop and think about what can be incorporated into their projections for FY11 to go toward the \$100 million; they are having a hard time understanding that they don't have to do it all at once, it can unfold over time.

Mr. Favaloro said the assumption going into the June 4th meeting will be that there is no DSA. As part of our recommendation, regardless of the levels of DSA, the final assessments cannot be higher than the preliminary assessments. Right out of the gate they have to find \$7 million to replace the \$7 million for DSA that they included in their proposed budget.

Mr. Pappastergion stated that he has taken the tack that when he goes to vote on a budget if DSA is not there, he will not vote a budget that shows it. Mr. Favaloro said by the Board

Meeting in June, staff will have a decent indicator. Ms. Potter said staff is already updating the proposed budget assuming that DSA won't materialize.

Ms. Potter noted that the lion's share of the tools are not Direct Expenses. An important part of the Advisory Board's message in providing the toolbox is to show where the big money is; it is Debt Service and GASB. Most of the staff will look to Directs when they have an assignment in front of them because they understand vehicles and overtime; the Authority has already cut that down.

Lou Taverna asked for an update on the potential Water Meter Modernization Grant Program. Mr. Favaloro said there hasn't been a word. The state filed legislation to make the necessary changes to make the state language compatible with the federal language, which has not yet passed the legislature.

Mr. Pappastergion said the reality on the DEP Meter Modernization Grant Program was to get the Board to vote to spend \$3.5 million to put the odor control facility underground. Chairman Dunphy added that the newspaper has stated that Corcoran is about to lose the property. Mr. Pappastergion said we told the Board that if they had the patience to wait one more month, it could have saved \$3.5 million.

A Motion was made **TO APPROVE THE MWRA ADVISORY BOARD INTEGRATED COMMENTS AND RECOMMENDATIONS ON THE MWRA'S PROPOSED FY10 CAPITAL IMPROVEMENT PROGRAM AND CURRENT EXPENSE BUDGET.** It was seconded and passed by unanimous vote.

VI. Action Item: Interview/Nomination for MWRA Advisory Board Representative to the MWRA Board of Directors

Mr. Pappastergion said since 1985 he has served with the Advisory Board, including stints as the Vice Chair of Operations and Chairman of the Advisory Board during a tumultuous time when the Advisory Board was trying to deal with the sewer rate methodology question, which pitted community against community; it was a difficult time.

Mr. Pappastergion said that this is his twelfth year on the Board of Directors and that he works well with Board Members John Carroll and Joe Foti. The history of the votes will show that these three Board members work as a team. Mr. Pappastergion said we have to fight longer and harder now to get our opinion out there. Things aren't getting easier, they are getting harder. Because of that, it is important to continue the teamwork that we have there now.

A Motion was made **TO NOMINATE ANDREW PAPPASTERGION TO SERVE AS AN ADVISORY BOARD REPRESENTATIVE ON THE MWRA BOARD OF DIRECTORS FROM JULY 1, 2009 TO JUNE 30, 2012.** It was seconded and passed by unanimous vote.

Mr. Pappastergion expressed his thanks.

VII. Annual Evaluation of Advisory Board Executive Director

Chairman Dunphy stated if the Executive Director gets a satisfactory or greater recommendation, the Committee can make a recommendation on salary for the present year because Mr. Favaloro has not received an increase since the first of the fiscal year. Additionally, the Committee can vote to roll over his contract for another year so that he would have a total of three years.

Mr. Favaloro provided a package to members that included some of the accomplishments of the Advisory Board over the past year, as well as a copy of the Executive Director's Employment Agreement. Mr. Favaloro said he was grateful to participate in some really important projects and situations, from the cleaning of the harbor, to filtration avoidance, to working with communities on I/I programs and water pipeline programs.

Jay Fink made a motion **TO GIVE JOSEPH FAVALORO, THE ADVISORY BOARD'S EXECUTIVE DIRECTOR, A RATING OF EXCELLENT.** It was seconded and passed by unanimous vote.

A motion was made **TO EXTEND THE TERM OF THE CONTRACT OF JOSEPH FAVALORO, JR., AS EXECUTIVE DIRECTOR OF THE MWRA ADVISORY BOARD FROM JUNE 30, 2011 TO JUNE 30, 2012.** It was seconded and passed by unanimous vote.

Chairman Dunphy noted that Mr. Favaloro's request was to not receive an increase in compensation for the current fiscal year ending June 30, 2009. He has built into the budget a step increase for FY10, which would be staggered to the last quarter upon next year's evaluation. Mr. Favaloro said it is not assumed, but it is in there. In FY10, if the Executive Committee so agreed, it would be triggered there and it would not be retroactive.

Mr. Favaloro stated that a decision had been made to amend the Advisory Board's budget in November or January and we reduced our line items by approximately \$7,000; part of the amendment was the value of a step increase. When the Authority had a \$20 million surplus, staff decided it was crazy to refund the \$7,000. However, upon further reflection, staff will be providing the Authority with a check for the value of the step increase.

Mr. Hadley said he would like the minutes to acknowledge the outstanding evaluation and, that understanding the financial situation in the Commonwealth of Massachusetts, the Executive Committee recommends no pay increase for FY09 as recommended by the Executive Director.

VIII. Approval of the Advisory Board Agenda for May 21, 2009

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE MAY 21, 2009 MEETING.** It was seconded and passed by unanimous vote.

IX. Other

Christine Hevelone-Byler stated that the Advisory Board's video project is well underway. Two rounds of filming have been completed, one at the Advisory Board meeting last month and another at the State House. Chairman Dunphy, the Advisory Board's MWRA Board Members and the Executive Director have been interviewed and featured in it, as well as Legislative Caucus Chair, Ron Mariano.

One more filming is scheduled for the end of this month in the City of Somerville, featuring Mayor Curtatone and Senator Petrucci. Filming is almost wrapped; we are working on other components of the project such as the slides and the message that is going to be intertwined with the video and we are planning to unveil the project at the June Advisory Board meeting at the Boston Water and Sewer Commission.

Mr. Favaloro added, for full disclosure, staff had planned on two filming sessions, one at the State House and the other in Canton; unfortunately Senator Petrucci and Mayor Curtatone

had changes to their schedules that didn't fit so we had to add a third filming, which added additional costs of \$400 to \$500.

X. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 9:48 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary