

**EXECUTIVE COMMITTEE MEETING  
FRIDAY, JUNE 12, 2009  
ADVISORY BOARD OFFICE**

**Minutes Approved at the September 11, 2009 Meeting**

Present: John Sullivan, BOSTON; Katherine Haynes Dunphy, MILTON; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; 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. Welcome**

Chairman Katherine Haynes Dunphy called the meeting to order at 8:38 a.m.

**II. Budget Review Update/Implications for FY10 Community Assessments**

MWRA Advisory Board Executive Director Joseph Favaloro reported that MWRA Board Member Jay MacRitchie has stated that the Authority should not be reducing its capital budget in these times but rather should be spending more to get better prices. His argument is that it will cost more for projects down the road. On the CIP side, not only is the Board not embracing the \$100 million cut over four years that the Advisory Board recommended, they may actually be looking to accelerate some projects (Spot Pond being one of them, which not only costs more but also has been moved up by three years in the cash flows).

Chairman Dunphy noted that one of the Board members requested that staff show that the "spend now to get low prices" issue is real.

John Sullivan said you can get savings if you need to do the work in a timely fashion; however, the need to move up a project is often left out of the formula. For example, if we have pipes that are good for another 25 years, but we can do them for a cheap price now, it would only start their new life earlier; you are not supposed to do that, you are supposed to extend the life of things as far out as you can. The question is when do we need to do them?

Mr. Pappastergion noted that there are cheap bid prices now, but contractors are not letting things slide like they used to. There are more requests for extra change orders. Mr. Sullivan said they can't let them slide because when they go to bid, in order to become the low bidder, they have to not put the cost of replacement of vehicles in the bid, etc. They are just securing a legal, binding contract and use chapter 30-39 to obtain the rest of the money.

Cornelia Potter stated on the capital side, staff had recommended that the Authority find a way to reduce, reschedule or shift capital spending during the cap period by \$100 million. What the Authority has done is to actually reduce the CSO Program by \$46 million and anticipated claims payment for the Braintree-Weymouth project by \$4 million totaling \$50 million of that \$100 million; but in the meantime they pushed the Spot Pond project forward, adding another \$30+ million to the cap period; they added another \$10 million or so to the new phase of the I/I program and shifted some additional work for Deer Island into the cap period. At the end of the day, they have increased spending during the cap period by a total of \$5 million, totally erasing that CSO and Braintree-Weymouth cost update. Matthew Romero noted that the odor control facility was added as well.

Advisory Board staff focused on decreasing the cap by \$100 million over the four years remaining in the current cap period; however, the Authority has increased it by \$5.5 million. Authority staff has indicated that projects have to go forward and has not really responded to the Advisory Board's efforts to think about rescheduling and reshaping the CIP to reduce spending by less than 10% of what they were planning to do.

Mr. Pappastergion asked if the Board gave staff any direction to come back with reports for the meeting on the 24<sup>th</sup>. Mr. Favaloro said on the CIP side, if he were Authority staff, he would believe that not only should we not be cutting \$100 million over the four years, we should be looking to spend as much money as we possibly can.

Mr. Favaloro said on the CEB side, staff came up with an overall recommendation and provided a "toolbox" of items to evaluate ways to reduce the rate revenue requirement over the next four years. Some of the items would work now, some would work later; some may not work at all. The concern from the Board and MWRA staff seemed to be that even if they came up with \$99 million in cuts, they failed because they didn't reach \$100 million. No matter what they do or how hard they try, they will be evaluated off a number that they don't think they can reach. The Board's perspective was to tell staff to go back and see what they can do. Chairman Dunphy added that Mr. Laskey felt to meet this recommendation that the MWRA must reduce \$25 million from this year's budget. Mr. Mannering requested staff to come back with scenarios that showed various deductions.

Ms. Potter said the whole point was that these ideas take a while to put into place so the Advisory Board recognized and repeatedly said this is a gradual process; the Authority may find some things to revise for the final FY10 budget but the following year and especially years three and four are where you will see the benefits of going down the road that the Advisory Board recommended, using these various tools. Instead the Authority is approaching this with a \$25 million reduction per year – it is like pulling the emergency brake and still trying to go forward.

Between the proposed budget and the final budget, the Authority's first goal was to make up for the \$7 million in Debt Service Assistance (DSA) that had been assumed in the proposed budget. Currently, \$2 million will come from Direct Expenses, which is mostly utility pricing now that the Authority has the new Deer Island electricity contract; \$1 million in Indirect Expenses from three places, the Other Post-Employment Benefits line item has been reduced by \$600,000, additions to reserves have been shifted down by \$300,000 and insurance has been shifted down by \$100,000 based on a new contract bid that recently came in; debt service was reduced by \$3.5 million and they increased revenue by \$300,000. The rate increase is still at 4.8%.

Mr. Favaloro said in reality, MWRA staff will likely bring back to the Board at its next meeting a range that will be no higher than 4.3% and more than likely no lower than 3.9% because they are trying to keep it under the rate of inflation, which is assumed at a rate of 4.4%. Some of the Board members felt the rate increase should be 4.3%.

An interesting component that was asked is whether the MWRA has talked to its unions. In the case of the Authority, in FY09 they had some tough negotiations with the unions and a pretty fair agreement was reached. There aren't any outlandish increases at the Authority. FY10 is the last of the 3% cost of living increases. Most employees at the Authority, unless they are at their highest step, get their cost of living adjustment (COLA) increase and their step. Board members suggested that staff talk to the unions about foregoing the COLA increase. The value of that isn't earth shattering but every dollar does count; it is in the range of \$2.5 million, which, for purposes of setting assessments for communities, would be slightly less than 0.5%. The Authority's unions have been cooperative and understanding and have been willing to work with the Authority.

Mr. Pappastergion said the rate increase should be as low as possible; this is a tough year. If the Authority can get the rate increase down to 3.9% that is what he will vote for.

Mr. Favaloro said he is not looking for a "slam dunk" on the Advisory Board's approach to its recommendations; at this point, there will likely be a rejection on the CIP side. On the CEB side, it is a work in progress. Staff needs to work with each and every tool to see when and how and if they may be applicable over the next four years, along with the goal to get to \$100 million. It is okay to fail as long as the end result is less money. If they cut their budget by \$72 million that is a huge win. The failure is if they don't try.

Ms. Potter said staff's concern is that the Authority took all the tools and wrote responses to each one even though staff told them it was not necessary. These were not specific recommendations. Each response seemed to indicate that this tool is interesting, but we can't do that now. The whole point is to give it a try. Push it forward to see if they can make it work in year three or four.

### **III. Recent Developments Regarding Spot Pond Covered Storage**

Mr. Favaloro provided members with a history of Spot Pond including MEPA letters, letters to the Inspector General, MWRA's staff summary, etc. This project was being discussed around the same time that the Blue Hills project was being discussed. Because of all of the difficulties dealing with the Friends of the Blue Hills and other entities and how long it took to get the Blue Hills project going, the Authority pulled the Spot Pond Covered Storage project off the table.

The Spot Pond project is now back on the table for low service covered storage. The MWRA had six potential sites, five of them either parkland or watershed protection land under the purview of DCR or the state, which would need Article 97 approval and all other legislative approvals. The sixth site is the old hospital site across the street that has been mired in legal problems with the state and the local communities in the area, referred to as the Guitierrez site. There has been a lot of discussion in Executive Session on the pros and cons and the best approach to take. The Board determined that they want to use the Guitierrez site, which means that the Authority has to purchase the site at a cost of just under \$6 million. Now that they are buying the land, they have accelerated the project by three-plus years, adding \$30+ million into this cap period to accomplish covered storage on the low service side of the system.

Much of the argument that surrounded why the Guitierrez site should be chosen centered on MEPA involvement. MEPA was actively pushing Guitierrez on traffic issues for that area. Stoneham, Melrose and their legislators also raised concerns. Mr. Guitierrez purchased the hospital site to build condominiums, which could cause traffic issues for the surrounding communities. MEPA and Mr. Guitierrez have been embroiled in some kind of legal activity.

MWRA Executive Director Fred Laskey met with Stoneham Town Manager David Ragucci who objected to the MWRA taking this valuable land off the tax rolls and Mr. Ragucci is requesting payments in lieu of taxes (PILOTs). Mr. Laskey has held his ground and has made it clear that it is a non-starter and he not going to go in that direction.

Staff's position is that the MWRA should not be buying land when they have access to free land across the street; it makes no sense. In these difficult times, why is the MWRA accelerating a project by three to four years and adding \$30+ million in the CIP.

If the Authority decides to buy the land and accelerate the project, they should not open "Pandora's box" and start paying PILOTs. Every community that hosts an MWRA facility will be requesting PILOT.

John Carroll stated that he and Andy Pappastergion are ambivalent about the project on whether it needs to be done at this time. Mr. Favaloro said unfortunately the Advisory Board only has three votes on the Board. There is a strong indication that the Guitierrez site is the direction they are heading.

Staff will continue to push for "no" on the land, "no" on acceleration of the project and absolutely "no" on the PILOT payments.

Chairman Dunphy said if the PILOT payments seem to be moving ahead, there has been discussion that this land would be open for recreation and an addition to the state parklands. If anyone should be making PILOT payments, it should be the state.

#### **IV. State Legislative Conference Committee Update**

Mr. Favaloro stated that the House and Senate versions of the FY10 State Budget are currently in Conference Committee. Last week the Governor provided an amended budget of his own, which does not call for any increases to revenue, includes further reductions and stimulus money and less rainy day funds. The House version included Debt Service Assistance (DSA) and embraced an increase to sales tax, but assumes a revenue number that is at least \$1.5 billion off from reality. The Senate version had an increase to sales tax and reduced revenue numbers (under \$18 billion). On Wednesday of this week, House Ways and Means Chairman Murphy sent a letter to the rank-and-file members that said they would accede to everything in the Senate because the House numbers just do not work, according to the State House News. There is no DSA on the Senate side.

Steve Crosby, who was the head of Administration and Finance in the Swift Administration, is working on a report on quasi-authorities and what their issues are and what could make them better. The report will also look at compensation at the quasi-authorities. In fairness to the Authority, on a list, the Authority's salaries would be, if not the bottom, close to the bottom. The Authority's salaries are not low; however, the other quasi-authorities are significantly higher. Mr. Favaloro noted that one of the big Steve Crosby mantras, when he was in A & F, was privatization.

The Lt. Governor is scheduled to speak at the next Advisory Board meeting to talk about stimulus funding.

John Sullivan asked what happened to the \$10 million Water Meter Grant Program. Mr. Favaloro said Advisory Board staff met with MWRA budget staff this week and they said on the wastewater side the Authority will likely be eligible for 11 to 13%, or around \$25 million. On the water side, currently it looks like \$4 million available for the water SRF; based on what the total pot ends up and the total number of applications, the Authority will get a piece of all of their eligible projects so the \$4 million is more than likely going to go up. Staff asked about the meters, which are in the energy pot of money. There is still a belief that the money is going to be available.

John Carroll asked how the meter money stimulates the economy and creates jobs. Mr. Favaloro said in many ways the whole purpose of the stimulus has really altered. A good portion of stimulus money is going toward meeting the operating budget for the FY10 state budget. How does that stimulate the economy? The answer is it doesn't allow further reductions in force. At least it stabilizes a work force for one year that would have been dramatically cut.

EPA, nationally, has waived the "buy American" provision. For some, that could have been a problem. The 60 miles of chain required for the Authority's clarifiers are made with a high quality stainless steel that was going to be purchased overseas; that would make this project eligible for the stimulus funds.

**V. Advisory Board Monthly Meeting Schedule for FY10 – "June 17<sup>th</sup>"**

Mr. Favaloro said the tentative Advisory Board schedule includes a meeting on June 17, which for six communities is a holiday (Bunker Hill Day); however, the Advisory Board's office is open. Should the date be changed? The sense of the Committee was to leave the June 17 meeting on the schedule.

**VI. MWRA Advisory Board August Field Trip**

Mr. Favaloro said the Advisory Board field trip gives the cities and towns a chance to see what the Authority is doing. However, it must be interesting enough that people want to see it. Last year the field trip was to the Blue Hills Covered Storage active construction site. Blue Hills is an option because in August there will be a nearly finished facility, less landscaping. That is a possibility. The Deer Island wind turbines could be of some interest, which could be combined with a tour of the ongoing sixty miles of stainless steel chain project.

John Carroll suggested a tour of the pelletizing plant and Mr. Pappastergion suggested having lunch at Nut Island.

**VII. Approval of the Advisory Board Agenda for June 18, 2009**

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE JUNE 18, 2009 MEETING**. It was seconded and passed by unanimous vote.

**VIII. Adjournment**

A Motion was made **TO ADJOURN THE MEETING AT 9:51 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary