EXECUTIVE COMMITTEE MEETING
FRIDAY, JUNE 10, 2011
ADVISORY BOARD OFFICE
MINUTES APPROVED AT THE SEPTEMBER 9, 2011 MEETING

Present: John Sullivan, BOSTON; John Sanchez, BURLINGTON; Andrew DeSantis, CHELSEA; William Hadley, LEXINGTON; Katherine Dunphy, MILTON; Wiff Peterson, NATICK; Lou Taverna, NEWTON; Bernie Cooper, NORWOOD; John DeAmicis, STONEHAM; Carol Antonelli, WAKEFIELD; Zig Peret, WILBRAHAM.

Also in attendance, John Carroll, Andrew Pappastergion and Joseph Foti, MWRA BOARD OF DIRECTORS; Joseph Favaloro, Matthew Romero, Maggie Atanasov and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF; Cornelia Potter, MWRA ADVISORY BOARD CONSULTANT.

I. Welcome

Chairman Katherine Haynes Dunphy called the meeting to order at 8:32 a.m.

Mr. Favaloro informed the members of a special symposium being held by The Boston Harbor Association the following week on June 14 and 15 that would feature speakers discussing the past 25 years. Mr. Favaloro also noted that there would be an official ribbon-cutting ceremony for the North Dorchester Bay CSO project on June 23. Many dignitaries will be there and the proceedings will be followed by a luncheon held by Save The Harbor/Save The Bay.

II. Status: Budget Review

Mr. Favaloro hoped that the formal *Integrated Comments and Recommendations* that members received met expectations and thanked Mr. Romero and Ms. Potter for their diligence in producing the document. He believed the message was conveyed appropriately, which led to the discussions held at the first June meeting of the MWRA Board of Directors. He believed the meeting went as well as could be expected. He thanked Chairman Dunphy, Ms. Antonelli, and Mr. Stinson for attending the hearing. Mr. Favaloro believed that the Advisory Board's presentation helped to set the tone for the day, which sent a strong message and began discussions for the day. Discussion centered on the mid- and long-term outlook. There wasn't a major debate between the Authority's proposed 3.93% increase and the Advisory Board's proposed 3.49% increase; most of the discussion seems to accept that general range. Mr. Favaloro noted that over the years the budget discussion at the Board level has moved from line-item specific recommendations to a higher-level discussion of the more global policy issues facing the Authority.

He reminded members that the Advisory Board's comments had discussed the so-called "Three Headed Monster" facing the Authority: debt, other post-employment benefits (OPEB), and pension expense. He noted that while the Authority had already committed to over $28 million toward defeasing debt, there was currently projected an additional $5 million in surplus for FY11. There was a significant amount of discussion about what to do with this additional surplus. Authority staff had laid out a proposal to put it into the pension. Mr. Favaloro and Mr. Pappastergion met with Authority staff prior to the Board meeting to "blow up" that approach and replace it with a proposal to defease additional debt, particularly in FY15. He noted that the Authority already has a very aggressive funding schedule for the pension, with full funding scheduled by 2024. The Advisory Board's position has been to maintain this aggressive schedule, but not to make additional payments to the retirement fund; instead, these funds would be better served by reducing rates in the near future. There was a good discussion about OPEB as well. Mr. Favaloro was hopeful that the Board was beginning to buy into the Advisory Board's approach of not funding this liability at this time. Chairman Dunphy remarked that Ms. Rachel Madden, Director of Finance and Administration, had recommended funding OPEB; however, she frequently interacts with the bond rating agencies, so that influenced her recommendation. Chairman Dunphy opined that as far as the ratepayers were concerned, it's the debt that should be paid off as rapidly as possible. Mr. Favaloro explained that between now and the next Board of Directors meeting on June 29 staff would have a better idea of what the rate revenue requirement would be.

He highlighted one outstanding discussion that may occur moving forward regarding OPEB. He explained that while he believed the Advisory Board had won the point of not funding OPEB with the $1.9 million in the Authority's Proposed FY12 Current Expense Budget (CEB), there was still a question of what they would do with those funds. It might be used to further reduce the use of rate stabilization funds in FY12 or toward some other use; however, he was reasonably sure that there would be no direct payment toward the OPEB line item. Mr. DeAmicis stated that the Advisory Board's recommendation was to reduce the rate revenue requirement to 3.9% largely through the elimination of the $1.9 million allotted to OPEB. He said it sounded like the Authority was planning on maintaining the 3.9% increase while redirecting the $1.9 million to another line item. Mr. Favaloro acknowledged that while that was a possibility, there were other possibilities as well. He reminded the committee that the Advisory Board had identified well in excess of the amount needed to achieve a 3.49% rate increase, so they could conceivably still meet the Advisory Board's recommendation while reallocating the $1.9 million toward another use. Mr. Romero noted that the Advisory Board's recommendations specifically suggested that any reductions beyond those necessary to achieve a 3.49% increase be offset by backing out of the use of rate stabilization funds in FY12, and any reductions beyond that should be moved into rate stabilization funds for the purpose of defeasing future debt service. Mr. Favaloro noted that there were a number of factors potentially in play beyond the Advisory Board's recommendations. Notably, the inclusion of Debt Service Assistance (DSA) by both the House and Senate would provide $350,000 for the Authority if the Governor did not veto the funds. Additionally, there would be some incremental benefit in FY12 related

to the additional $5 million of defeasance targeting FY15. Given these factors, Mr. Favaloro believed that the Authority would likely end up closer to 3.49% than the proposed 3.93%.

Mr. Romero also noted that staff observed the beginning of what might be a strategy implemented by the Authority moving forward related to the OPEB; namely, that Authority staff had indicated their preference to leave the $1.9 million in the OPEB line item for the final budget, but would seek a vote of the Board to determine its actual usage in FY12. He likened this strategy to the legislative strategy the Advisory Board and Authority implement with regard to DSA: even if the item is not funded in the end, having some number in play during the budget process keeps the issue on the table moving forward.

Chairman Dunphy thought it might help Authority staff when approaching the rating agencies to say they recommended funding OPEB, but the Board of Directors recommended making an alternative responsible choice to expend the funds. Mr. Favaloro felt that the Advisory Board's point that the issue was not a $1.9 million contribution to OPEB, but rather a potential $36 million contribution over the next 10 years.

Mr. Romero pointed out that in recent years the Authority had proposed an additional payment to the pension beyond the annual required contribution (ARC) to meet its aggressive funding schedule, but due to the financial downtown had removed the additional payment to avoid a mid-year rate increase. Not following through on this proposed additional payment led to the Authority being placed on negative watch by Moody's. Mr. Romero discussed what would happen if the Authority were actively funding its pension beyond the ARC and then had to cease the additional funding due to future financial hardships, opining that the situation was setting the Authority up to being placed on negative watch or even potentially downgraded. Once additional funding begins, the Authority will be expected to maintain additional funding with serious repercussions if they fail to do so.

In response to a question from Mr. DeAmicis, Mr. Favaloro and Mr. Romero clarified that while the Final FY12 CEB might contain funds in the OPEB line item, Authority staff had committed to obtaining a Board vote to decide how to spend those funds. Mr. Romero believed that the discussion heard at the Board meeting was leading to potentially redirecting the $1.9 million from OPEB toward the pension.

Chairman Dunphy and Mr. Favaloro reiterated the Advisory Board's position to treat the pension and OPEB liabilities as one total liability, continue on the current aggressive funding schedule to fund the pension by 2024 and then to address the OPEB liability at that time. Mr. Favaloro emphasized that the rating agencies were more concerned with having a policy or plan in place and adhering to it. It sounds like the Board is moving in this direction; however, if staff begins to hear otherwise, this office will be actively involved in those conversations. The Advisory Board is in a better strategic position than it was a month ago, and could very well achieve its aims, with the caveat being the $1.9 million in

the OPEB line item, which could be moved into pension. Mr. Romero stressed this point as the difference between Authority staff's position and the Advisory Board's position. Authority staff would prefer using the $1.9 million as an additional payment to the pension fund, where the Advisory Board would prefer to preserve the $1.9 million to defease future debt service.

Chairman Dunphy pointed out that the discussion about how to allocate the additional $5 million surplus for FY11 was not a unanimous vote to defease debt. Indeed, there were three members of the Board of Directors who would have used the funds for pension or OPEB. This indicates that the $1.9 million for FY12 could end up being moved toward the pension.

Mr. Favaloro maintained the position that in an ideal world the Authority should be funding its OPEB liability; however, considering the high costs to the ratepayers to do so and in the context of the other challenges facing the Authority, now is not the time to be funding OPEB. He also reminded the committee that the amount of the liability would change as the current system changes, which is likely during the long-term horizon.

III. Discussion: Saugus Water Pipeline Loan Availability

Mr. Favaloro noted that this issue had been ongoing for over 7 years. Route 1 is a continual source of water main breaks, most recently on the weekend before Memorial Day when it was backed up to the Mystic River Bridge. There is a joint MWRA/Saugus project where Saugus paid for its share of the costs associated with their pipes, and the MWRA doing its pipeline to Lynnfield to provide water service. This project is working out well, but Route 1 for Saugus is a much bigger project than this portion. They have continually tried legislatively and otherwise to fund this project. The Advisory Board has taken the lead to ensuring those funds do not come from the MWRA or ratepayers. Recently, Mr. Fred Laskey, MWRA Executive Director, Mr. Favaloro, and Ms. Atanasov attended a committee meeting recently with senators, representatives, Saugus town officials, and again they attempted to get grant money from the MWRA. Saugus attempted to get additional loans. They attempted to get longer terms on their Local Pipeline Assistance Program loans. Advisory Board staff prevented any of these measures from occurring. Saugus currently has $600 thousand per year in this program over the next ten years for a total of $6 million. Mr. Favaloro told them that if they presented a formal request, he would present to the Executive Committee an option to expedite approximately $3.5 million of their loans to make them available sooner. They would not get anything they are not already entitled to, but would be able to draw on it faster than would normally be the case. Because the program is not being drawn upon as quickly as originally projected, there would be room within spending projections to allow for this accelerated draw-down.

In response to a question from Mr. Joseph Foti, Mr. Favaloro clarified that this $3.5 million was separate from the joint project currently being undertaken by the Town of Saugus and the MWRA. Saugus's share of the joint project is $2.4 million.

The only issue with this proposal would be expediting how much of the loans, which they are already entitled to, that they could draw down in any one year.

Mr. Sullivan asked what the recourse would be if they borrowed the funds and didn't make their payment, and Mr. Favaloro confirmed that it would become a local aid intercept issue.

The sense of the committee was to continue discussions with Saugus to allow them to expedite the draw-down of their Local Water System Assistance Program loans up front.

IV. Discussion: Moving Forward with System Expansion

Mr. Favaloro noted that it had been three or four months ago that the Executive Committee had expressed interest in reopening the system expansion discussion. He referenced a packet providing background information with regard to this topic. He noted that a lot of the language in the *Integrated Comments and Recommendations* for FY11 had been "taken off the table" to allow for the discussion as indicated by the Executive Committee. He noted that discussion at the state level included smart growth concepts as part of the process. Much of those discussions have diminished and the focus has shifted toward limiting withdrawals from stressed basins.

With regard to discussions on the entrance fee, staff's offer for "flexibility but never forgiveness" has been effective. It's no longer a "yes" or "no" discussion but rather a global one figuring out how it can be modified so it doesn't impact communities to the point where the entrance fee becomes a barrier to a community interested in joining the MWRA system. Most of these discussions are occurring staff-to-staff and are moving closer to a streamlined expansion policy. EOEEA is beginning to realize that they cannot have a five-year process in the context of a stressed basin scenario. Mr. Favaloro referenced the packet again, noting that it included information about who had paid and continues to pay entrance fees. Mr. Favaloro believed that when the stressed basin issue comes to a head in the fall, there will likely be even greater interest in approaching the MWRA to join the water system.

The two components of system expansion are spreading the base by adding users, and the entrance fee. Undeniably, spreading the base will be critical, although the costs are a zero sum game throughout the system. The entrance fee, however would recover the "sunk costs" that the existing members have already paid, adjusted for depreciation over time.

Mr. Peterson asked if the entrance fee was dedicated to defeasing debt, and Mr. Favaloro affirmed that it did. Mr. Peterson felt that the simpler the process for a community the better. Chairman Dunphy noted that some communities want to pay the total up front, while others want to pay it over time, and if the state paid the entrance fee that would be fine, but she believed there should be an entrance fee. People and communities should

recognize that there is value and existing investment into the system that provides high quality drinking water and it shouldn't be free. Mr. Peterson stated that if the useful life of the assets was the same as the term of the bond, in essence it's being covered every year, so in essence the entrance fee would be double-charging for the asset. Chairman Dunphy reminded that the entrance fee accounted for asset depreciation. It is in the interest of existing users for new users to share in the costs that were already paid. Chairman Dunphy also pointed out that many of the environmental groups do not want the communities to join the MWRA because they don't want the growth and want to see continued reduction in usage. Mr. Favaloro stated that he believed the Advisory Board's role was to focus more on the ratepayer versus the environmental aspect of the issue. The approach should be "ratepayer equitable and environmentally sound."

Mr. Cooper didn't believe the entrance fee was a stumbling block for most communities, and that many didn't have a choice. Mr. Peterson felt that it was in the communities' best interest to make joining the system as easy as possible. Mr. Favaloro pointed out that the dynamic was changing with the discussions around stressed basins. The MWRA system has water; they need water more than the MWRA needs them to spread the base. Therefore, it wouldn't make sense to waive the entrance fee in the context of that discussion. Mr. Peterson felt that the combination of communities reducing unaccounted for water use by fixing their pipes and projected increase of precipitation meant the MWRA had a limited window of opportunity to get communities into the system now before it no longer became as necessary for them to do so. Mr. Sullivan asked if we would then have to rebate all of the communities who had joined the system in the last five years and paid or continued to pay entrance fees. Mr. Sullivan stressed that it would be an inevitable battle and a very difficult one to fight if different communities were treated differently. Mr. Peterson agreed, suggesting that the Advisory Board look into every option short of waiving entrance fees.

Mr. Cooper asked if there would be any further movement within the next six months. Mr. Favaloro responded that the issue would continue to climb in importance, and he believed that the first step would be taken in the fall when the Commonwealth released its position on stressed basins. Mr. Favaloro stated that by continuing internal discussions with an approach that says "forgiveness never, flexibility always" toward the entrance fees gives the Authority and the Advisory Board a good strategic bargaining position. He acknowledged that the Advisory Board may have been the catalyst for the entrance fee discussion when it had voted to change the policy requiring that entrance fees be paid up front. It could be paid over time, but the community would also be charged interest.

Mr. Peret noted that it was relatively simple from a capitalist point of view. He noted that when one car model was in demand they paid more, and when another company couldn't sell cars they gave rebates. He felt flexibility was the right answer to keep focus on the customer to see what their needs were so you didn't lose them to another provider. Mr. Romero agreed, qualifying, however, that no matter what, the companies never give the car away, but always recover their costs.

Mr. Favaloro said he would continue to work with Authority staff to reach out to the Tri-Town communities to see what could be attained. However, he felt that Braintree was going to be the deciding member on the issue. He felt that the economics were such that Braintree was getting a better financial deal in its current situation rather than joining the MWRA. He suggested not using Tri-Town as the decider of new policy. Mr. Carroll felt that the Authority should ask Braintree to put forward a scenario that they would join the system, even if it was outrageous. Perhaps their offer could be brought closer to the Authority's position. Mr. Favaloro cautioned against creating a deal for Tri-Town that would be the benchmark for future situations.

Mr. Peterson asked if there was a marketing department at the MWRA, and Mr. Favaloro explained there were staff members dedicated to the issue of system expansion, but not necessarily a marketing department as such. Mr. Favaloro noted that they would continue to work with these staff members to see if there was any future with Tri-Town for system expansion within the context of the Executive Committee's discussion.

V. Legislative Update

Mr. Favaloro informed the committee that the Senate and the House budgets matched contributions for Debt Service Assistance (DSA) for $500 thousand total, of which the Authority would likely get about $350 thousand. Mr. Favaloro reminded them of the strategy Advisory Board and Authority staff used to assist in these negotiations. The MWRA offered to change the language on the fringe rate calculation for the Division of Water Supply Protection to ensure the Authority pays its fair share moving forward. In exchange, the Authority would be able to keep the past two years' worth of fringe rate monies (about $5 million) that it had been accruing to use toward watershed-related activities, and the Senate would match the House's number for DSA. It still needs to be approved by the Governor. Additionally, by using the funds creatively, the Authority will be able to receive benefits in both the Current Expense Budget and Capital Improvement Program.

VI. Executive Director Annual Evaluation

In the interest of disclosure, one of the major selling points for the move to Charlestown was the parking lot next door, which the Executive Committee can use for its meetings. Bob Kenney has always said that they had development rights for that site; however, it had not been developed in 20 years. He said we could use it until it was developed. When the Committee next meets in September, there is a chance construction of residential housing may be underway on that site. We have begun discussions for validated garage parking.

A Motion was made **TO GIVE EXECUTIVE DIRECTOR JOSEPH FAVALORO A SATISFACTORY OR HIGHER RATING.** It was seconded and passed by unanimous vote.

Chairman Dunphy stated further, Joe has not taken a step increase in various years. He has offered to not take the increase for FY12 until the middle of the year. Chairman Dunphy said she would propose, in recognition that last year and at other times he has not taken an increase, that he would have an increase of approximately 3% that would not take effect until the beginning of 2012 so the impact on the budget would be half of that percentage.

Bill Hadley made a motion **THAT THE EXECUTIVE DIRECTOR RECIEVE A 3% SALARY INCREASE EFFECTIVE JANUARY 1, 2012** with the thanks of the Committee. It was seconded and passed by unanimous vote.

VII. Approval of the Advisory Board Agenda for June 16, 2011

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE JUNE 16, 2011 MEETING.** It was seconded and passed by unanimous vote.

Mr. Laskey typically presents to the Advisory Board in June giving an overview of the year in review and a look at the challenges ahead. In September, Mr. Laskey will give a preview of the continuing challenges for FY12. Tentatively, the Secretary of EOEEA is scheduled to come to the fall meeting as well. He told the Executive Committee that the Bradley Estate was no longer going to be a viable option for the Canton meetings due to an increase in cost. However, he and Ms. McClellan would be looking at an alternative location in Canton, Pequitside Farm.

Mr. Favaloro noted that there would be a formal presentation on the findings of the independent panel related to the Shaft 5A water main break at the full Advisory Board meeting.

VIII. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 10:07A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Lou Taverna, Secretary