EXECUTIVE COMMITTEE MEETING
FRIDAY, MAY 11, 2012
ADVISORY BOARD OFFICE

MINUTES APPROVED AT THE SEPTEMBER 14, 2012 MEETING

Present: 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 and Joseph Foti, MWRA BOARD OF DIRECTORS; Joseph Favaloro, Matthew Romero, Maggie Atanasov, Mary Ann McClellan and Cornelia Potter, MWRA ADVISORY BOARD STAFF.

I. Welcome

Chairman Katherine Haynes Dunphy called the meeting to order at 8:40 a.m.

II. Update: Staffing Study

MWRA Executive Director Joseph Favaloro said in regard to the staffing study, there has been a "back and forth" with the consultant in terms of comparison between the MWRA and other utilities. It is a difficult task to ensure an "apple to apple" comparison between organizations.

A draft report was circulated to the working committee three weeks ago. Mr. Favaloro said he made it clear to the consultant that he wasn't happy with the report. To the Authority's credit, the report was given back for a re-draft. He stated that he felt strongly that the role of the consultant is not to give an exact number and validate it; it was to give a range between the quartiles and so that the agency can determine, based on its needs, where it wants to be. Do you want to be the best in class, in the middle of the pack or do you want to be way out there in left field? Drafts with ranges are now being circulated at the MWRA.

Under any scenario, be it one that gives a specific number or one that gives a range of numbers, there is an opportunity for the MWRA to reduce personnel, though not by dramatic numbers. The range will be between 30 and 50 individuals over the course of five years. Not surprisingly, much of the reduction is in Management Information Services (MIS). In the changing world of information technology (IT), a different mix of players will be needed to make the IT department work well.

At this point, the study is still with the working committee and is not public. It may or may not go to the Board of Directors on Wednesday.

Joseph E. Favaloro, Executive Director
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Wiff Peterson said the range that is now being given is 30 to 50 but where was the consultant's number originally? Mr. Favaloro said the number of individuals hasn't changed but rather how it is portrayed. If you put it in the different quartiles, those numbers could decrease. Remember, the MWRA would be making the choice of where it wants to be in terms of the quartile; whereas, what the consultant did, for example, is in Public Affairs the number of full-time equivalents (FTEs) was 12.9. The low end of the range was 12.9 and the high end of the range was 12.9. Mr. Favaloro said with this type of study, this would mean that the MWRA has an organization that is perfect. Why don't they give the people that are going to make the choice on this the quartiles? Is the low end 8 and the high end 16? If the Authority is at 12.9, a choice has to be made whether 12.9 is the right number for the Authority. Do we want 11.5 or 15? Why would you ever want a report that ties your hands at any specific number?

Mr. Peterson said let's say they are able to get you those demographics and they get the most efficient quartile from 50% to 25%. Where would the Authority be aiming and where would the Advisory Board want them to be aiming? Mr. Favaloro said most of them are between the first and second quartile. Mr. Peterson said do we want them to be in the first quartile or do we want them to be average. I'm curious as a matter of strategy. Mr. Favaloro said that would go from department to department and division by division; but that is what should be kept open. By giving the quartiles, you have the opportunity to determine what you want to be, not only in 2012 but beyond. If you are honed in and focused just on a number, it doesn't allow that discussion to occur.

Mr. Peterson said usually the way these things are done is that the organization will be aiming to get to a certain place, net, rather than by department. They are looking to get the organization as a whole to a certain point that reflects a nice balance between being efficient and being comfortable.

Joseph Foti added that the consultant has had difficulty in finding comparable facilities. It is not like comparing Somerville Public Works to Chelsea Public Works. Nothing is exactly alike when it comes to this type of work. There is no right or wrong answer; it's going to be based on an opinion of where the organization should be. The information that will be provided will help educate the people that have to make the decision on where they think the MWRA should be.

Mr. Peterson said he thinks the MWRA is in good shape in terms of the direct activities, stating that he believes the opportunities for efficiencies are in the indirect, or support staff, costs. In looking at the support staff overhead structure, the place to find opportunities for improvement would be the legal, human resource and finance people.

Mr. Foti said it is a "double-edged sword." You have to be careful because you are going to throw some numbers out there as a recommendation and in some departments you are not at that number and now there is a union looking at it and saying based on your recommendation or your consultant's expertise, it says we should be at 35 and we are only at 28, who is handling all that work? Be careful of what you wish for.

Mr. Peterson said I would say the MWRA is in the top 5% in that characteristic. Mr. Foti said right, but you can't use it only when we are at 35 and they say we should be at 28. Mr. Peterson said that is why you have to look at it in the aggregate. You can't get hung up on detailed departments, you have to look at it and say did you get there at the end. Mr. Foti said he agreed; but if you have 1,200 employees, you want those 1,200 employees to be put in the most efficient places. You don't want to say I don't care where you are as long as you have 1,200 employees. It may be efficient salary-wise; but you are not efficient operation-wise.

Mr. Peterson said I am looking at this mountain of debt. If you act early, it is much easier to manage the mountain. I don't want to be sitting here five years from now and saying maybe we should have done better with this staffing study when we had the opportunity. Now is the time to get control of that mountain and try to bring those rates down to where they need to be.

Mr. Foti said as far as rates go, he agrees; but as far as staffing goes, it isn't a mountain; a mountain was eight to ten years ago. Mr. Foti said he is not so sure that the MWRA isn't already where it needs to be as far as the total number of people, but perhaps department-wise, they may need to look at that. The MWRA has done a good job in reducing the numbers over the last few years and their efficiency is quite good.

Mr. DeAmicis said the conclusion of the study is that there are too many people. Mr. Favaloro said the conclusion of the study is to say that within many of the divisions the Authority is where it should be. It will show that for the future years that positions (some in MIS and others scattered throughout), with efficiencies, could be reduced by 5%. When you add all of those pieces together, that number is around 36, which doesn't mean that 36 people will be out the door tomorrow.

Mr. DeAmicis said the study could have come back and said the Authority had too few people as well. Mr. Favaloro said the study said in the aggregate, the Authority could reduce the number of employees.

Chairman Dunphy noted another issue is that there are a number of MWRA employees who are reaching retirement age. That is a good opportunity to reduce numbers of personnel in departments without making it a big issue. As each person comes up, you look at the job and think about whether this is an opportunity to reduce the numbers.

Mr. Favaloro said the other thing that has come to light is that the average age of MWRA employees is 52. What is the succession planning like? What do you do to get yourself ready for that next generation? It doesn't matter what the level of the number of employees is going to be, but more have you worked your organization through and are there people ready to replace the Mike Hornbrooks and the Rick Trubianos and all of the other seasoned employees. Some of the MWRA employees are coming up on 25+ years. The Authority has to be ready for the next generation. They need to be sure that they provide all of the tools and techniques to be sure that the new individuals know where everything is. This will play a role in this year's comments and will likely play a bigger role in future comments.

III. Update: Long-Term Rates Management Committee

Mr. Favaloro stated that Advisory Board staff, Katherine Dunphy and John DeAmicis were at the first meeting of the Long-Term Rates Management Committee. The Committee was created at the request of the Advisory Board. A second meeting is tentatively scheduled for next Wednesday after the Board meeting.

Chairman Dunphy said the Authority is proposing, as the reserves are released, that the funds would be used to pay off the pension fund and then the amount they are putting in to get to the fully-funded pension would be switched to Other Post-Employment Benefits (OPEB). The Chairman said she believes that some of the reserves, especially the Community Obligation and Revenue Enhancement (CORE) fund from the communities and other monies put away for rate stabilization, should be used in a way to give the benefits to the ratepayers. If funding OPEB is best for the ratepayers, that is okay; however, the Chairman said she is not convinced of that; more time is needed.

Mr. DeAmicis said MWRA staff pointed out that at one point 11% rate increases were expected but they are now down to 6%. Mr. DeAmicis said, in his opinion, 6% is still too much. Mr. Favaloro said everyone would agree that the meeting was good because it put a lot of information on the table and some alternatives were thrown out but no decisions are ready to be made. There is no great rush to make a decision in two meetings. There is nothing more important than how we manage rates. As empowered as Chairman Dunphy and Mr. DeAmicis are in their positions on this Committee, Mr. Favaloro said he doesn't think it is right to sign off on anything until the whole Advisory Board has had the opportunity to see it, digest it and then decide what they want to do. Under this scenario, a decision wouldn't be made until fall at the earliest.

As far as alternatives go, the Authority has laid out how to pay down the debt and how to use the reserves. One option that was intriguing centered on using those reserves to get the Pension fully funded through a one-time payment. The only reason that worked is because an 8% return on the money can still be assumed on monies put toward the Pension, which gives a value for the payments into the pension system. Advisory Board staff has already asked for all of the backup pages that go to each of the alternatives that MWRA staff has provided.

IV. Action Item: MWRA Advisory Board FY13 Operating Budget

Mr. Favaloro said there has been no change in the budget from what was presented last month. The request to the MWRA will be $450,251, which is an increase over last year of 3.7%; however, the overall budget will go up 2.9% when using unused revenues from FY12, plus interest income.

A motion was made **TO APPROVE THE MWRA ADVISORY BOARD'S FY13 OPERATING BUDGET OF $450,251.** It was seconded and approved by unanimous vote.

V. Action Item: Advisory Board's Integrated Comments and Recommendations on the MWRA's Proposed FY13 CIP and CEB

Mr. Favaloro noted that there have been dramatic changes to the Advisory Board's *Integrated Comments and Recommendations*. The latest version of the document relies on the use of color in its charts. From paragraphs to bullets to graphics, there have been numerous changes. Staff plans for the color draft to go out to all members today. The draft will state that it is a draft as of 3 p.m. on May 10, 2012. Any changes and recommendations made today by the Executive Committee will immediately be incorporated and put into the draft that will be online. If we waited until after this meeting, there is no way the document would have been able to go out. It clearly states "draft" and will be updated further based on what is said here today.

The look of the document has taken a 180 degree turn.

Matthew Romero said the document is continually evolving and is being updated, highlighting what has been added. Mr. Romero said the structure of the comments in the past had been paragraph intense with the use of some graphics. The changes are designed to make the document more practical and more tabular so that it is more of a reference document. The document is more concise and simpler to read.

Additionally, in paragraph form the document would focus often on what the change was from the previous year's budget to the proposed budget. Why is it going up? The new document graphically begins to show so the reader can visually grasp immediately that chemical costs increased by a total of $1.3 million for example, but it is never just everything goes up; some things go down. For example, hydro-fluosilic acid is being reduced because the federal requirements for fluoride are being reduced, so that goes down but now you can see which pieces are going up as well. The call-out boxes flag the main points.

Staff likes to show the increase from year-to-year in dollars. That steady climb makes all the increments from year to year, it is a dramatic climb from 1996 up to 2022, but the graph in dollars really shows and indicates what the real impact is on the ratepayers and highlights the volatility.

Finance staff and budget staff get no benefit for taking risk in their assumptions. If you were told that your FY15 rate increase is going to be $35 million then the next year you were told it is going to be $55 million, staff would be criticized. It works much better to say we are going to need a $55 million increase but then staff got you down to $35 million. The Authority's budget assumptions for the out-years are very conservative and one of the things Advisory Board staff is pushing for the Long-Term Rates Management Committee to do is to take a look at what rates really will be. The Advisory Board doesn't want to see what the conservative budget assumptions are, but rather what those rate increases really will be.

For this year, the rate revenue requirement increase recommendation is that it should be no higher than 3% and the second recommendation is that it should be no lower than 3%. Instead of going back and forth, the Advisory Board wants to emphasize to the Board of Directors that the Advisory Board's position is that this is what the rate increase should be. Also, it is as much to guard against the argument that they are going to pose, which is if they reduce the increase this year, it will just make it that much higher next year. The Advisory Board understands that; however, staff feels that a 3.9% increase is not where the Authority needs to be.

On the CIP side, staff showed a graphic image of what the impact would have been of removing the local financial assistance programs from the budget. MWRA staff is constantly saying they are under-spent and it is hard for them to predict what/when the communities are going to borrow. Advisory Board staff took a look at the original cap and subtracted the assistance programs to see what the impact would have been when they first set their cap. From year to year, it is not a major difference. Basically it would lower the cap on average by $6.7 million per year. Staff has advocated and made the recommendation that the local programs be removed from the cap calculation beginning in FY14.

As CSOs diminish in the capital program, the Authority staff should have a much better handle on its costs and can no longer hide behind the shield of "programs not within our control." Even with the local programs removed, the cap is set too high. The Authority needs to challenge itself to work to a lower number. Staff is recommending that the FY14 to FY18 cap be set no higher than $800 million. This is a chance for the Advisory Board to weigh in before the Authority begins to set its new cap. The Authority needs to set its cap at a tighter or lower level so that it actually is a budget management tool.

Bernie Cooper said it is hard to disagree with the conclusion that the cap needs to be reexamined. When the current cap was prepared, it was before the economic collapse. Mr. Cooper asked if the Authority, to some extent, is the beneficiary of better rates on construction projects? Mr. Romero said this cap was constructed after the big financial crisis but their assumptions within the cap were probably conservative enough that they did not anticipate that they were going to get the bid prices that they have been getting.

Mr. Cooper said he was just curious how much of it reflects the changed environment or is that really not an issue? Mr. Favaloro said the Authority has gained some benefit from better bid prices but it is not the driving force of the underspending.

Cornelia Potter added that the West Roxbury Tunnel was part of the original cap, which went away; and the headworks projects have grown and will spread into the next cap period.

Chairman Dunphy also noted that the MWRA is updating its Master Plan so there may be some changes in the timing of the projects; what we are projecting now may not be the recommendation for next year.

Mr. Favaloro said in regard to the West Roxbury Tunnel, it was this office that weighed in during the beginning discussions on that project and posed the question, "why do you need to do an entire West Roxbury Tunnel?" There were pieces of that tunnel that looked like they needed work but there were sections of it that looked fine. Their answer was that it made more sense to do the whole tunnel. Seven years later, the project is not being done because it didn't need to be done. That is an example of the role of this office, be it in digesters many years ago at Deer Island, be it the West Roxbury Tunnel or many other projects.

Mr. Romero said there has been a lot of positive feedback on the effect that system expansion had on Stoughton but there are no quantifiable numbers that staff can point to; therefore, staff is recommending that the Authority participate in a formal study so that actual numbers can be quantified so that when a request is made of the legislature asking for $100 million for economic development, there will be valid numbers to apply to these projects in terms of benefits such as job creation and tax revenues, etc. Mr. Favaloro said come early fall, it is likely that staff will come to the Executive Committee to ask for permission to use consultant funding so that the Advisory Board can be the "driving engine" that runs the economic development study.

Mr. Romero said the 9 MGD exemption was arrived at by taking a look at the water needs of Tri-Town (Braintree, Holbrook and Randolph), Ashland and North Reading. It would cover all of the communities that are interested in joining the system at this point. It asks the Authority to pursue an official exemption from the regulatory process because if the Advisory Board is able to secure $100 million through legislation, the worst thing in the world would be to have it be unusable because it takes the communities five to seven years to get through the cumbersome regulatory process.

Mr. Romero said depending on how much it rains there may be some communities that are in need at the local level for water that might be interested in knowing how to draw water from the MWRA. Mr. Favaloro noted that the MWRA, from September 7 to last month, sent 21 billion gallons of water over the spillway into the river.

Carol Antonelli noted that the meetings have been getting longer. The meetings used to run from 8:30 a.m. to 10:00 or 10:15 a.m. For the last three meetings, Ms. Antonelli said she didn't get back to her office until after 11:00 a.m. Are the meetings going to continue to be this lengthy? Mr. Favaloro said staff would pick up the speed on the remaining agenda items.

Mr. Romero said the Advisory Board would like the MWRA to participate in a community task force to discuss police details. The fact is, if police details cost double to the MWRA, it also costs double to the ratepayer. It is incumbent upon the Advisory Board to try to bring the parties to the table to discuss that issue.

A motion was made **TO APPROVE THE ADVISORY BOARD'S INTEGRATED COMMENTS AND RECOMMENDATIONS ON THE MWRA'S PROPOSED FY13 CIP AND CEB, INCLUDING A RECOMMENDATION OF A 3.0% INCREASE TO THE RATE REVENUE REQUIREMENT.** It was seconded and passed by unanimous vote.

VI. Action Item: Interviews and Nomination of Candidates to Serve as an Advisory Board Representative on the MWRA Board of Directors

Mr. Favaloro noted that Andrew Pappastergion had a personal matter that he had to attend to and could not make the meeting. He is the only person running for the seat that he has now held for fifteen years.

A motion was made **TO NOMINATE ANDREW PAPPASTERGION TO SERVE AS AN ADVISORY BOARD REPRESENTATIVE ON THE MWRA BOARD OF DIRECTORS FROM JULY 1, 2012 TO JUNE 30, 2015.** It was seconded and passed by unanimous vote.

VII. Update: Tri-Town

Mr. Favaloro said there was a good discussion last month related to the combination of redundancy and a plan for Tri-Town. Mr. Favaloro said that he and Fred Laskey have met with each of the communities. All that was presented to them was well received; they had a lot of questions. Authority staff was able to develop a new scheme, which reduced Tri-Town's cost from $12 to $14 million down to $6 million. This plan allows the MWRA to forget about the most costly option. The Authority can go to the less costly redundancy plan so ratepayers system-wide save $35 million in potential capital costs and Tri-Town is able to come in at less cost. That seems to be the approach that has gained support.

There has been positive feedback. MWRA staff has put in a lot of work on this system expansion possibility.

VIII. Approval of the Advisory Board Agenda for May 17, 2012

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE MAY 17, 2012 MEETING.** It was seconded and passed by unanimous vote.

IX. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 10:30 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Lou Taverna

Lou Taverna, Secretary