EXECUTIVE COMMITTEE MEETING
MARCH 10, 2006
Minutes Approved at the April 21, 2006 Meeting

Present: John Sullivan, BOSTON; Timothy MacDonald, CAMBRIDGE; Katherine Haynes Dunphy, MILTON; Ted McIntire, READING.

Also in attendance, Andrew Pappastergion, MWRA BOARD OF DIRECTORS; Joseph Favaloro, Cornelia Potter, Ryan Ferrara, Rachael Dane 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. Legislative Update

MWRA Executive Director Joseph Favaloro introduced the Advisory Board's new Government/Media Coordinator Rachael Dane who joined the staff last week.

The second phase of the Advisory Board's approach to get increased Debt Service Assistance (DSA) on the legislators' radar screen occurred this week. Staff sent another letter to MWRA area legislators, along with individual community resolutions containing signatures from their chief elected officials. The Chairman of Ways and Means is in the process of doing one-on-one interviews with the Representatives and Advisory Board staff has scheduled meetings with the Representatives before they meet with Chairman DeLeo.

The House Budget is scheduled to be released around April 15. The amount included in the House Budget for DSA will likely be the amount in the Final State Budget; therefore, staff has been focusing its efforts to get the House to include at least $25 million for DSA.

Staff is drafting a letter to the four major gubernatorial candidates along with a questionnaire seeking the candidates' stance on funding sources. The questionnaire will outline the Sewer Rate Relief Fund and other programs, including grants for water and wastewater programs, and ask the candidates for their position on these programs. Staff plans to invite Lt. Governor Healy and Attorney General Riley to the May Advisory Board meeting at the State House and Candidates Mihos and Patrick to the June Advisory Board meeting in Wellesley. [An invitation was also extended to Candidate Gabrieli after he declared his intention to run for Governor.]

Through the years the Authority has done structural repairs on Echo Bridge in Newton. Although the bridge belongs to the State, it is in the care and custody of the Authority because the MWRA water line goes under this bridge. The railings of the bridge are in disrepair, making it unsafe for pedestrians; the Authority has put fences on either side eliminating public access to the bridge. Staff believes it won't be long before area legislators mandate that the bridge has to be fixed at a cost in the $600,000 to $1 million range to replace the side rails on each side of the bridge to match its historical appearance. The Advisory Board feels that the historic preservation of the bridge is not the Authority's responsibility. Last year the State Capital Budget authorized $250,000 for repairs to Echo Bridge but the money was never appropriated.

Mr. Favaloro stated that the next meeting of the System Expansion Committee is scheduled for early April and provided an update on the last Operations Committee meeting.

Senior Program Manager Carl Leone of the MWRA's Planning Department attended the Operations Committee meeting to give an update on the Local Pipeline Assistance and I/I Financial Assistance Programs.

Mr. Leone noted the Technical Assistance Grants the Authority provides for uni-directional flushing, etc. have been ongoing for six years. The Technical Assistance contract expires at the end of March and staff does not plan to renew the contract but will extend it until June 30, 2006 so communities can finish their work. The Operations Committee supported this decision.

III. Action Item: MWRA Advisory Board Comments and Recommendations on the MWRA's Proposed FY07 Capital Improvement Program

Cornelia Potter stated the Authority is proposing a budget that includes about $1.15 billion in spending for the next ten years, of which 58% is for wastewater system improvements; of that 58%, 38% is for Combined Sewer Overflows (CSO) projects. Waterworks system improvements comprise about 40%, or $420 million, of the proposed budget and business and operations support account for 2%, or just under $20 million, of the $1.15 billion projected spending.

Active projects in the budget total over $3.6 billion, including contingency fund allowances. Over 70% of that amount, or $2.5 billion, will have been spent through this year, with $1.1 billion left for FY07 going forward.

Two-thirds ($720 million) of all planned spending ($1.1 billion) is to be spent over the next three years, primarily being pushed by the schedule for the CSO program. Spending ranges between $230 to $250 million for each of the next three years and then drops down to $160 million by 2010. Spending drops to $80 million in 2011, $75 million in 2012 and 2013, $30 million by FY14 and $15 million in FY15. Despite the fact it is supposed to be a ten-year program and budget, the Authority's vision of the latter years of the decade tends never to be fully flushed out. Total spending for the 30-year period is nearly $8 billion, of which $6.7 billion will have been spent through FY06.

From FY09 forward there is a dramatic difference between the Final FY05 Budget and the Final FY06 budget to the proposed FY07 budget. That gap represents reductions in capital spending of more than $400 million, which was in the FY05 budget and has been removed. Additionally, more than $300 million in projects have not made it into the Authority's budget meaning some $770 million in water and wastewater capital needs have been identified but are not in the budget. Staff continues to emphasize the importance of the master planning process for this reason. The Master Plan is a place to put those ideas so concepts can be documented and prioritized; together, with budget realities, the Master Plan will guide the selection of those projects for future capital budgets.

Demands to maintain the Authority's system are very large and collide with the reality of its financial condition. The Authority is particularly concerned about the affordability of its rates as summarized in the affordability study conducted through the CSO program one and one half years ago and the concern about ratepayers facing a significant economic burden having to do with increased capital spending.

Maintenance as a portion of the CEB is rising; next year it is in the $24 million range as compared to this year's $20 million. That is higher than MWRA projects to spend on the wastewater system in the capital program.

The North Dorchester Bay Tunnel contract is going out for bid this spring. Authority staff anticipate award by the Board of Directors in June. The value of that contract, at nearly $164 million, is virtually the same as the total of all the projects with a notice to proceed date in FY07 of $1 million or more. The tunnel project dwarfs all other FY07 capital initiatives.

Advisory Board staff has acknowledged in its recommendations that a CSO variance agreement has been reached and filings will be made next week, the culmination of years of discussion. There is over $780 million in the proposed capital budget to cover the now 27 projects that are in the revised CSO plan.

The Authority has attempted to argue, as part of the negotiation, that higher levels of CSO control (mainly a possible storage tank at Cottage Farm), at great additional cost, would not provide additional water quality improvement or additional protection of uses. The Advisory Board recommends that the Authority ensure that there will be no changes in the future to the scope and levels of the CSO control agreed to in the joint motion and the second stipulation. Staff wants to be on the record that the Advisory Board is aware that there is still the potential for cost changes and it should not happen.

The Authority, in agreeing to the three Charles River CSO projects that are included in the revised CSO Control Plan, has gone some $21 million over the ten-year spending plan as calculated by the cap rules. The Advisory Board acknowledges that the $21 million has been assented to but any additional CSO costs must be within the cap.

Mr. Sullivan said MWRA has an agreement with BWSC that Boston will undertake the work; there is no cap on the agreement. Mr. Favaloro said the Advisory Board has agreed to an exemption of $21 million; if the projects cost $26 million, the Authority must find $5 million within the cap.

Three additional recommendations have been added to the draft. Negotiations with Modern Continental, the construction contractor for the tunnel that carries wastewater flow from the Intermediate Pump Station in North Weymouth to the Nut Island Headworks and on to the Boston Harbor Tunnel, resulted in an additional $0.449 million savings to the Authority, which the Advisory Board recommends be applied to reduce this proposed budget.

Staff has also recommended that an operating agreement for the Union Park Pump Station between the Authority and BWSC must carefully delineate responsibilities and protect system-wide ratepayer interests.

Sewer separation charges are being carried out locally by developers and contractors in areas undergoing change and development; staff included a generic recommendation that recognizes the more the contractors do, the less the Authority's costs will be.

Monetary recommendations include a number of updated projects totaling $7.9 million, with 10% contingency calculations attached, bringing the total to $8.7 million. Further, any non-CSO modifications made to the budget should be reserved for other non-CSO capital initiatives.

Mr. Sullivan asked if MWRA staff will be working on the Blue Hills Covered Storage project. Ryan Ferrara said the pacing of the Southern Spine Project has been reworked, which leaves a window of opportunity for staff to do work on the Blue Hills Covered Storage Tank; when that is finished, staff will do the inspection on the Southern Spine.

Chairman Dunphy stated her understanding that MWRA cannot do the Southern Spine work until the Blue Hills Covered Storage facility is online. It is too risky to try to supply Quincy through the marsh when that pipe is not reliable.

A Motion was made **TO APPROVE THE MWRA ADVISORY BOARD COMMENTS AND RECOMMENDATIONS ON THE MWRA'S PROPOSED FY07 CAPITAL IMPROVEMENT PROGRAM.** It was seconded and passed by unanimous vote.

Ms. Potter noted there have been changes in the Budget Department in the Finance Division. The Chief Financial Officer resigned in the last ten days and has been replaced in an acting capacity by Patricia Filippone who had previously held the position of Treasurer of the Finance Division.

The position of Budget Director had not been filled after Carl Erickson left. The Authority has announced the selection of Rachel Madden, who comes from the Registry of Motor Vehicles. These are two very important financial positions for the Authority.

Mr. Favaloro noted, as part of the CIP and CEB comments, staff has recommended there be a process to fill a position as significant as the Chief Financial Officer of an entity the size of the MWRA. The Advisory Board encourages internal candidates to apply.

IV. Developing a Strategy for the FY07 Current Expense Budget Review

Mr. Favaloro said on March 20 staff will receive the FY07 CEB from the MWRA and that will begin the 60-day review period. This year staff wanted to share its thoughts and ideas on the direction it is heading and get feedback from the Executive Committee.

Staff expects the proposed CEB document will have a rate revenue requirement that translates into an overall 9.8% increase. Because staff is looking at rates in a multi-year context, it would be staff's approach to use any monetary findings from its review to reduce the use of rate stabilization and bond redemption funds, which are dwindling. If it wasn't for the nearly $36 million of rate stabilization monies allocated to the FY07 budget, the rate revenue requirement would have been 17.4%.

Because this is a multi-year problem, staff will not reduce the 9.8% increase, but rather reduce the use of rate stabilization. However, any DSA received will be applied to the proposed increase.

The key is to get DSA back on the legislative radar screen and then back to the formula. To be successful, MWRA needs that progression.

Ms. Potter said the Authority's projections used to be conservative. In the last couple of years the Authority has assumed a 2.5% growth for direct expenses, which is far too low, particularly as pressure coming from external sources such as electricity, diesel fuel and health insurance increases.

Between the planning projections developed for the Final FY06 budget in June and the proposed FY07 budget in the last month, MWRA has added $90 million to direct expenses for just the next five years (FY07-FY11) to "correct for underestimates". Advisory Board staff is concerned that direct expenses are still too low. MWRA has not modified its capital financing expenses either and is still assuming 4% for existing variable rate debt. The general consensus is that the short-term federal fund rate will go to 4.75%. Staff is concerned that these projections are low.

MWRA has a total of $108 million in rate stabilization reserves assumed for this current fiscal year and beyond, which was just increased by $25 million because of a bond deal last week, of which $60 million is being used this year and next. This will leave $48 million for FY08 to FY10, at which time the Authority assumes the funds will be fully utilized.

Mr. Favaloro said there is a potential range of solutions that need to be addressed. The first is to get the interest of the state back on track. Staff is working toward getting the Legislature to ratchet up the Sewer Rate Relief Fund each year to get toward the formula based methodology so real dollars will be coming in to offset expenses.

Second, the Authority may have some restructuring opportunities. The Advisory Board supports the Authority's desire to get to a point of paying off more principal than it is borrowing, but the ratepayers need help now. There may be a menu of other ideas that can be incorporated into a long-range rate strategy that the Advisory Board could present to the MWRA.

Ms. Potter said there was discussion this fall about the potential for modifying the bond covenants that govern the issue of each borrowing, particularly to modify the reserve balance requirements that were put into place during the most conservative period of the Authority's history, which was the beginning of the big borrowing era.

Authority staff developed some potential changes and carried those ideas forward in an initial discussion with the rating agencies. Staff reported that the rating agencies were hesitant at best, negative at worst, threatening to downgrade the MWRA. Mr. Pappastergion said the Board has asked staff to get a dollar value; it may be worth the downgrade.

Ms. Potter said, with regular bond issues, it will take eight to ten years to reach the magic two-thirds of all outstanding debt at which point the revised covenants would be operative. Every year that goes by is a missed opportunity. The Authority just issued nearly $500 million in new and refunded debt last week that could have been under the provisions of the new covenants.

Once the covenants go into place, depending on how quickly the Authority finances or refinances existing debt, it could contribute released funds from some of the reserves, most notably the Debt Service Reserve. The Operating and Insurance Reserves are proposed to be reconfigured and resized and could provide $10 to $15 million. Together with rising DSA, this could help ease the projected rate increases.

V. Status: CSO Variance

Mr. Favaloro stated Advisory Board staff has been pushing for closure on CSO projects for all the basins. The Authority has begun to expand on the North Dorchester Bay projects. About a year ago, Advisory Board staff and Board representatives, along with Chairman Dunphy, met with EPA Regional Administrator Robert Varney to make the Advisory Board's case about the importance of the CSO variance. From the Advisory Board's perspective, these negotiations have moved painfully slow.

At long last, the MWRA Board of Directors voted to support the filing of a joint MWRA/EPA/DEP motion by next Wednesday that speaks to the creation of a series of five three-year variances for all the basins for CSO control and a second stipulation that would turn CSO outfalls back to the communities after an extended review following the variance period. This brings the communities back into the CSO picture. This is a huge step forward.

Ms. Potter added, given the history of this extended negotiation, it was important to come to closure. There are two places for additional maneuvering: 1) the three CSO projects that were added to the proposed budget having to do with additional controls at Cottage Farm, the Bulfinch Triangle Sewer Separation and a project in Brookline. As part of those projects, there is a requirement for an additional assessment following completion in 2008 or 2009 to see if there are other opportunities to optimize, particularly in the Cottage Farm area; and 2) following the end of the five three-year variances, an assessment report is required after 2015, due in 2020, which refers to the potential for additional projects or actions to ensure that the levels of control and treatment have been met for the remaining CSO discharges that have not been eliminated.

Mr. Sullivan said the good news is that 2020 is far enough away that, in between, Boston will be doing another $100 million in additional sewer separation on its own. There is an excellent chance that by 2020 these goals can be met.

Ms. Potter said throughout this discussion the Authority continued to acquiesce to larger levels of spending and increased projects, thereby continuing to increase the overall projected cost of the control program. MWRA staff have argued that the negotiations have resulted in a package of projects that is still lower than where it might have gone, making particular reference to the potential for a $100 million storage tank at Magazine Beach near Cottage Farm; that project did not come to be, although the Authority did two things as an alternative: 1) greatly expanded the size and cost of the South Boston Tunnel system with the latest projects and 2) adding the $20+ million for the three Charles River CSO Control Plan projects.

Mr. Sullivan said the East Boston Project could have grown tremendously. Although it is higher than it was predicted before, it is now set at $74 million; Mr. Sullivan had envisioned $120 million.

VI. Initial Review: Fringe Rate Costs Versus Actual Health Insurance Costs for Water Supply Protection Trust Employees

Mr. Favaloro stated that the health insurance piece of the fringe rate fee overcharge is between $175,000 to $275,000 per year. In the dimension of the Authority's multi-million dollar projects, this savings will not have a significant impact, but it is a considerable amount of money to be overcharged.

Chairman Dunphy asked if DCR is amenable to making changes to cut this number. Mr. Favaloro said in fairness to DCR, this number is determined by the Comptroller and it goes into the Commonwealth's General Fund.

VII. Approval of the Advisory Board Agenda for March 16, 2006

A Motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE MARCH 16, 2006 MEETING.** It was seconded and passed by unanimous vote.

VIII. Adjournment

A Motion was made **TO ADJOURN THE MEETING AT 10:11 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary