Town of Reading
Meeting Minutes

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Board - Committee - Commission - Council:

RMLD Board of Commissioners

Date: 2018-03-12 | Time: 07:30 PM

Building: Reading Municipal Light Building | Location: Winfred Spurr Audio Visual Room

Address: 230 Ash Street | Session: Open Session

Purpose: General Business | Version: Final

Attendees:

Members - Present:

Philip B. Pacino, Chair
David Hennessy, Vice Chair
Tom O'Rourke, Commissioner
John Stempeck, Commissioner
Dave Talbot, Commissioner

Members - Not Present:

Others Present:

RMLD Staff:
Coleen O'Brien, General Manager
Hamid Jaffari, Director of Engineering and Operations
Jane Parenteau, Director of Integrated Resources
Wendy Markiewicz, Director of Business, Finance, and Technology
Joyce Mulvaney, Communications Manager
Tracy Schultz, Executive Assistant

Citizens' Advisory Board:
George Hooper, Chair

Public:
Dan Ensminger, Secretary, Reading Board of Selectmen
Neil Cohen, Member, Citizens' Advisory Board
Chris Pollart, KP Law, PC

Minutes Respectfully Submitted By: Philip B. Pacino, Secretary Pro Tem

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Topics of Discussion:

Call Meeting to Order
Chair Pacino called the meeting to order and announced that there is only one item on the Agenda and stated that all the members had not seen the proposal that was presented earlier in the evening; he had been misinformed. Chair Pacino then opened the floor to Commissioner comments.

Discussion of Return on Investment to the Town of Reading
Mr. O'Rourke stated that his current assessment is that he is not prepared to vote. While looking at the Town payment, is was discovered a few things along the way. One of these is the

outcome of the White Paper, which clarifies what RMLD's obligations are. Secondly, when looking at the financials that were prepared in advance of an offer to the Town, there are several areas of concern. One of these is declining revenues. Mr. O'Rourke stated that he is concerned if RMLD can't afford to pay Reading, giving more to the other Towns isn't going to help matters. Mr. O'Rourke stated he wants to go on record as saying he's not against doing something; he wants to clearly think the matter through. The fundamental issue is the payment to the Town is a significant amount of money. Mr. O'Rourke stated that as a Reading resident he understands Reading's needs but would like to understand the motivation for the money better. Is it for a particular purpose? Want to do what's right for Reading, but as Commissioners responsible for doing the right thing for the ratepayers, and the ratepayers include three other communities. It's a complicated issue. Mr. O'Rourke stated that he knows some of us feel obligated to push this through because we've been portrayed as being unresponsive. Mr. O'Rourke applauded Chair Pacino and Mr. Stempeck for all the work they've done, but stated this issue needs the input of all the Commissioners.

Mr. O'Rourke stated that as a Commissioner, he's concerned that they don't know what the Town is looking for. Are they looking for payment because it's an entitlement or because they feel that we should help them in time of need? That need must be quantified. The Board Members are commissioned to do the right thing by the ratepayers. The profit and loss for the Light Department is enviable; anything that changes that should not be done. Tough times are ahead; revenue is declining, and the Board has an obligation to protect the RMLD. Mr. O'Rourke asked that the Board not vote tonight.

Chair Pacino asked if there were other comments.

Mr. Stempeck stated that part of the issue is the process. Having the Sub-Committee Meeting and then the Board Meeting has not given enough time for discussion without a potential violation of Open Meeting Laws. Mr. Stempeck stated that he sees this as a narrative process. RMLD came up with trial balloon tonight. The Town will respond, and it will go back and forth. Mr. Stempeck said that he agrees with Mr. O'Rourke, that they want to understand what the money is for and why those needs are there. The Board commissioned the White Paper-it lays out what a complicated situation was created. RMLD is a very economically conservative organization that services four towns. The White Paper makes it clear that selling the RMLD is not a possibility. There are too many complications because of existing partnerships and the assets are not what you think they are.

Vice Chair Hennessy stated that he has a son in the school system and understands the financial pressure that Reading is under. Vice chair Hennessy stated that he would like to see an option that is a function of RMLD's operating profit, rather than the CPI.

Mr. Talbot clarified that members of the Sub-Committee introduced a trial balloon as a viable contribution to the discussion. The Sub-Committee hasn't voted. One of RMLD's values is economic development due to its low electricity rates. Wilmington is trying to grow its industrial zone and is responsible for 56 percent of RMLD's electricity sales. Mr. Talbot stated that RMLD doesn't want to hurt the region's economic attractiveness with higher rates. Mr. Talbot then expressed his interest in what Mr. Hooper's views are.

Mr. Hooper future growth of Wilmington. The Town has great exposure off 93 and having low utility costs helps a lot. Mr. Hooper doesn't want to see anything negatively impact rate payers. Mr. Talbot asked if Mr. Hooper had any thoughts on the trial balloon? Mr. Hooper responded that the Sub-Committee still needs to do some work. It's a starting point.

Chair Pacino stated yes, this is a starting point, but he is committed to moving this forward. What was presented is fair. Hear what the Commissioners are saying; that they want to think about this. Don't want to drag this on forever. Mr. O'Rourke stated that it would be useful to hear back from the Town before a vote.

Discussion of Return on Investment to the Town of Reading
Chair Pacino stated that a proposal was put forward tonight. At the next meeting, the Board of Selectmen will say whether they agree or disagree, and whether they have any changes. Hopefully, the Sub-Committee will have a meeting of the minds and a final proposal that can go forward.

Mr. Ensminger stated that the next scheduled Board of Selectmen meeting is March 27th. The next Sub-Committee meeting will happen before the Selectmen will have had a chance to meet. However, three members attended the Sub-Committee meeting earlier in the evening, and Mr. Ensminger is sure they'll have some thoughts.

Mr. O'Rourke expressed concern that the offer will be taken as official; Commission hasn't voted on it. Mr. O'Rourke stated that if you look at RMLD's financials, it gives an idea of what we're up against. Per the White Paper, we're not required by law to give more. What is the specific need for the money? What makes this so compelling?

Mr. Ensminger stated that this was due to an Instructional Motion; would have to ask the maker of the motion what he or she had in mind. We're the agent to carry out the Motion. Chair Pacino suggested assembling the Sub-Committee. Mr. Ensminger said that he can't really answer beyond what was said at Town Meeting.

Mr. O'Rourke stated he hopes the Board of Selectmen will read the White Paper.

There was discussion of forming another sub-committee because Ms. O'Brien's meeting one-on-one with the Commissioners was time consuming and only provided the input of one person. Mr. Talbot stated the Commission should stick with public meetings and that it's better to discuss in open session from this point forward. Mr. Stempeck brought up the idea of a discussion document that is put out before a Commission meeting but is only for deliberation at the meeting. All agreed to continue as a group.

Adjournment
Mr. O'Rourke made a motion, seconded by Mr. Stempeck, to adjourn the Regular Session.
5:0:0.
Motion Carried.

A true copy of the RMLD Board of Commissioners minutes
as approved by a majority of the Commission.

Philip B. Pacino, Secretary Pro Tem
RMLD Board of Commissioners

RMLD voluntary below the line PILOT payment to the Town of Reading

March 12, 2018

RMLD – Governing Law

- The RMLD is a Municipal Light Plant (MLP) Quasi commercial entity subject to regulation and oversight by the Department of Public Utilities
- Rates are governed by MGL Chapter 164 S 58 and must be cost based
- Can earn up to a maximum of 8% of net plant. *See* DPU 85-121
- Special Legislation from 1990 authorized RMLD to move from below the line to above the line, certain voluntary PILOT payments to all four towns at 2% of net plant. Above the line PILOT payments are an expense obligation as a cost of production.
- The same Special Legislation did not preclude voluntary below the line PILOTS from being made from unappropriated earned surplus.
- DPU and SJC state that MLPs are not tax collecting devices and they have no legal obligation to make payments of in lieu of taxes (PILOT)

The 20 Year Agreement Benefits

- The RMLD is a municipal light plant with a multi-town service territory.
- Ability to capture potential economies of scale through bulk power purchase
- Ability to capture economies of scope by leveraging a fixed cost operation whose services are spread across multiple towns
- Load shaping through the blending of customer classes across the service territory for cost savings… meaning more usage over a longer period of time from commercial industrial areas blended over residential usage

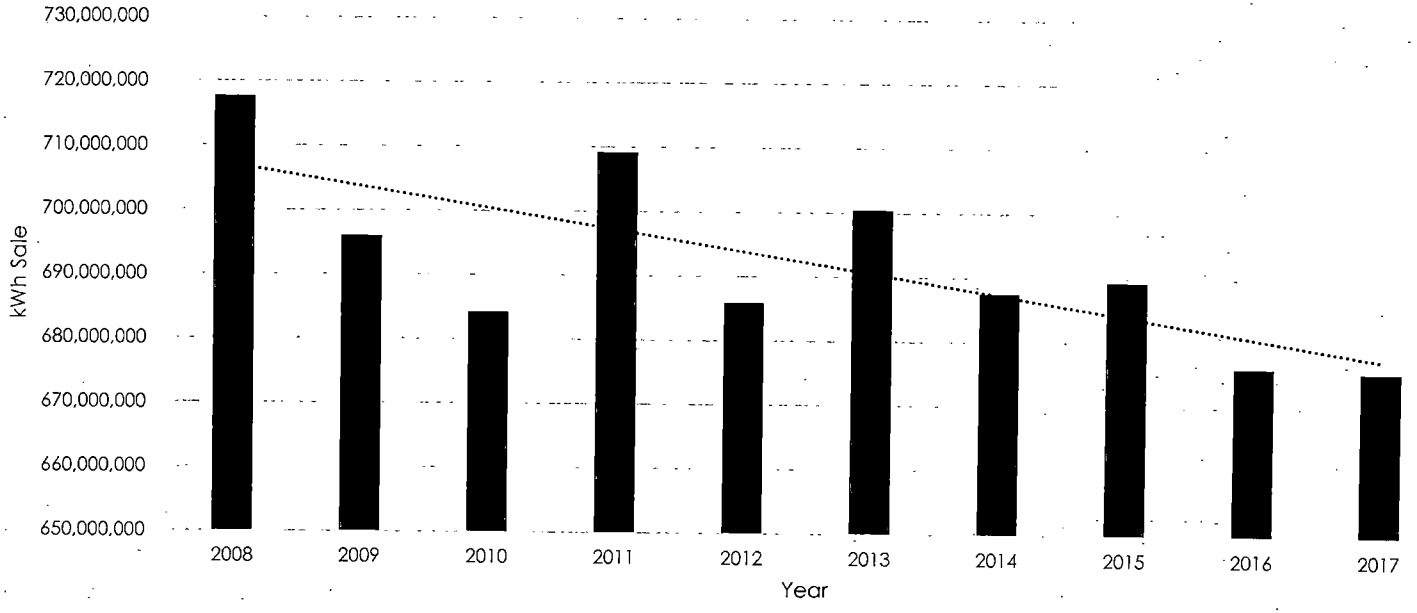
RMLD – Financials and Operation

- The RMLD is a financially secure and conservative organization
- Utility financial standards as supported by the auditor; the RMLD should have approximately operating cash of 2-3 months of operating expenses. The RMLD pays its accounts payable at approximately $7M - $10M per month. A combination of the operating fund, the rate stabilization fund and the reserve fuel fund, would help support some major catastrophic events such as the loss of the largest customers, and critical system infrastructure failures, with the exception of the loss of a main substation.
- Capital infrastructure is funded by the annual 3% depreciation expense (regulated by the DPU) in addition to a transfer of operating funds to the construction fund. Long term strategic system planning forms the basis for short, medium and long term capital outlay.

Revenue Decline

- Sales are projected to continue to decline at a rate of 1% per year.
- Decline can be attributed to the installation of energy efficiency measures by the customer, predominately commercial as the greatest impact
- A 2.5MW natural gas fired unit and a soon-to-be 5MW battery storage unit will help mitigate costs associated with peak energy pricing.
- New revenue seeking programs such as electrical vehicle charging stations, etc. have been promoted, but penetration has been slow by the consumer. Heat pump conversions and other avenues are being evaluated.
- The service territory is considered fairly saturated with only several viable pockets within each service town.

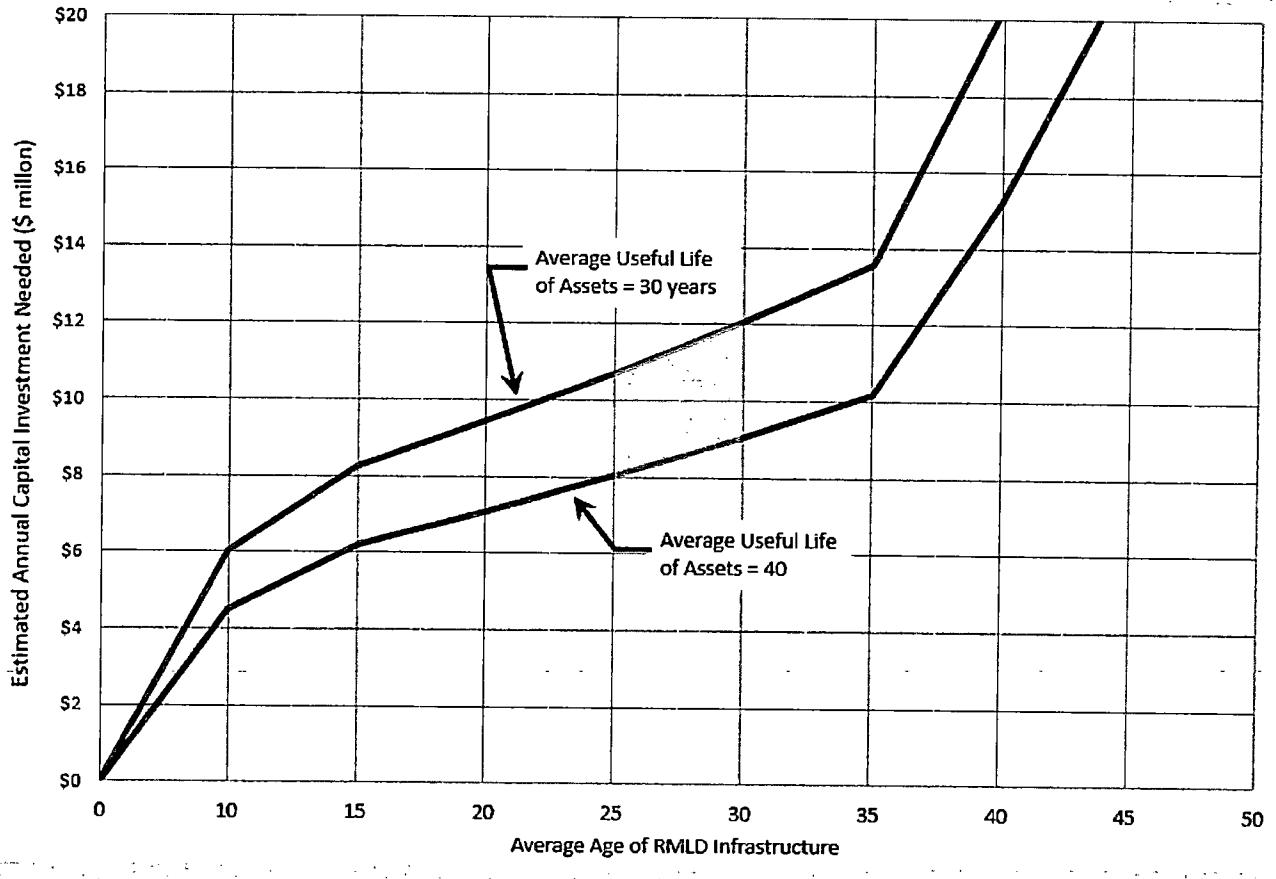
FY 2008-2017 kWh Sales



RMLD – Capital Outlay

- In 2013 the RMLD assessed its system and found significant deficiencies in maintenance and infrastructure.
- A formal Reliability Study was performed by Booth and Associates.
- The Study called for a GIS system infrastructure collection, an outage management system, a work order and asset management system.
- The GIS data collection unveiled failure rates of assets at a magnitude beyond the original projection increasing the capital outlay.
- Based on a preliminary study by economist at Jacobs, and based on the GIS data, including age, and condition, and for the size of the RMLD service territory, the RMLD should utilize a $8M capital investment per year plan.
- The RMLD in its strategic planning increased its rate of return from 5 to 7.75% of net plant for a short term to increase the construction fund to avoid bonding and to target the 6 year capital outlay plan.

Estimated Annual Capital Investment Needs



2% of Net Plant, above the line PILOT payments to all four towns 2013-2017

	Reading	North Reading	Lynnfield	Wilmington	Total 4 Towns
2013	$ 287,132.00	$ 253,834.00	$ 88,936.00	$ 767,132.00	$ 1,397,034.00
NET PLANT UTILITY	$ 69,851,692.00				
2% DISTRIBUTION	$ 1,397,034.00				
KWH SALES	142,052,218	125,578,270	43,998,847	379,520,541	691,149,876
KWH% OF TOTAL SALES	20.553%	18.169%	6.366%	54.911%	100.000%
2014	$ 287,368.00	$ 253,164.00	$ 91,112.00	$ 765,863.00	$ 1,397,507.00
NET PLANT UTILITY	$ 69,875,363.00				
2% DISTRIBUTION	$ 1,397,507.00				
KWH SALES	143,225,697	126,177,717	45,410,596	381,708,768	696,522,778
KWH% OF TOTAL SALES	20.563%	18.115%	6.520%	54.802%	100.000%
2015	$ 288,256.00	$ 254,610.18	$ 90,330.06	$ 760,752.55	$ 1,393,949.00
NET PLANT UTILITY	$ 69,697,353.00				
2% DISTRIBUTION	$ 1,393,947.00				
KWH SALES	141,114,831	124,643,049	44,220,762	372,423,010	682,401,652
KWH% OF TOTAL SALES	20.679%	18.265%	6.480%	54.575%	100.000%
2016	$ 291,901.00	$ 256,089.00	$ 91,389.00	$ 767,367.00	$ 1,406,746.00
NET PLANT UTILITY	$ 70,337,310.00				
2% DISTRIBUTION	$ 1,406,746.00				
KWH SALES	143,716,794	126,085,135	44,995,350	377,811,691	692,608,970
KWH% OF TOTAL SALES	20.750%	18.204%	6.497%	54.549%	100.000%
2017	$ 298,673.00	$ 266,071.00	$ 95,345.00	$ 799,451.00	$ 1,459,540.00
NET PLANT UTILITY	$ 72,977,009.00				
2% DISTRIBUTION	$ 1,459,540.00				
KWH SALES	138,206,363	123,120,767	44,119,595	369,935,097	675,381,822
KWH% OF TOTAL SALES	20.463%	18.230%	6.533%	54.774%	100.000%

Town Payments of Municipal Electric Utilities

- Based on a study performed on annual town PILOT payments from area Mass Municipal Electric Utilities, on a total and unit cost basis, RMLD pays 539% higher than the average for just the below the line voluntary PILOT for Reading, and more than 856% higher than the average when you combine the below the line with the above the line town payments as a total PILOT.

Town Payments of Municipal Electric Utilities

2016 study data

Town	Payment	Unit Cost
Rowley	$30,074	$0.0007
Groton	$32,000	$0.0005
Merrimac	$34,122	$0.0013
Sterling	$100,000	$0.0017
Hudson	$142,496	$0.0014
Shrewsbury	$237,569	$0.0008
Holden	$270,000	$0.0008
N. Attleboro	$300,000	$0.0014
Ipswich	$326,727	$0.0029
Concord	$465,000	$0.0028
Hingham	$500,000	$0.0025
Westfield	$500,000	$0.0013
Belmont	$650,000	$0.0052
Holyoke	$675,000	$0.0030
Middleboro	$702,593	$0.0027
Littleton	$760,000	$0.0026
Danvers	$800,616	$0.0028
Wakefield	$825,000	$0.0044
Braintree	$1,000,000	$0.0042
Reading - All Town payments	$3,764,394	$0.0055

History of voluntary below the line PILOT Payments to the Town of Reading Since 1998 inflated at CPI, which fluctuates

Calendar Year	CPI	% Change	Year Paid	Payment
1997	167.900			
1998	171.100	2.26%	FY99	$ 1,560,414
1999	176.000	2.50%	FY00	$ 1,595,680
2000	183.600	4.32%	FY01	$ 1,635,572
2001	191.500	4.30%	FY02	$ 1,706,229
2002	196.500	2.61%	FY03	$ 1,779,597
2003	203.900	3.77%	FY04	$ 1,826,062
2004	209.500	2.75%	FY05	$ 1,894,829
2005	216.400	3.29%	FY06	$ 1,946,870
2006	223.100	3.10%	FY07	$ 2,010,991
2007	227.409	1.90%	FY08	$ 2,073,332
2008	235.370	3.50%	FY09	$ 2,112,725
2009	233.778	-0.68%	FY10	$ 2,186,670
2010	237.446	1.57%	FY11	$ 2,171,880
2011	243.881	2.70%	FY12	$ 2,205,957
2012	247.733	1.58%	FY13	$ 2,265,427
2013	251.139	1.38%	FY14	$ 2,301,221
2014	255.185	1.61%	FY15	$ 2,332,863
2015	256.716	0.60%	FY16	$ 2,370,445
2016	260.496	1.47%	FY17	$ 2,384,668
2017	267.003	2.51%	FY18	$ 2,419,770
			FY19	$ 2,480,506
	Average	**2.35%**		

History of voluntary below the line payments to the Town of Reading Since 1998 inflated at a flat 2.5% (approximate average)

Calendar Year	CPI	% Change	Year Paid	Payment
1997	167.900			
1998	171.100	2.50%	FY99	$ 1,560,414
1999	176.000	2.50%	FY00	$ 1,599,424
2000	183.600	2.50%	FY01	$ 1,639,410
2001	191.500	2.50%	FY02	$ 1,680,395
2002	196.500	2.50%	FY03	$ 1,722,405
2003	203.900	2.50%	FY04	$ 1,765,465
2004	209.500	2.50%	FY05	$ 1,809,602
2005	216.400	2.50%	FY06	$ 1,854,842
2006	223.100	2.50%	FY07	$ 1,901,213
2007	227.409	2.50%	FY08	$ 1,948,743
2008	235.370	2.50%	FY09	$ 1,997,462
2009	233.778	2.50%	FY10	$ 2,047,398
2010	237.446	2.50%	FY11	$ 2,098,583
2011	243.881	2.50%	FY12	$ 2,151,048
2012	247.733	2.50%	FY13	$ 2,204,824
2013	251.139	2.50%	FY14	$ 2,259,945
2014	255.185	2.50%	FY15	$ 2,316,443
2015	256.716	2.50%	FY16	$ 2,374,354
2016	260.496	2.50%	FY17	$ 2,433,713
2017	267.003	2.50%	FY18	$ 2,494,556
			FY19	$ 2,556,920

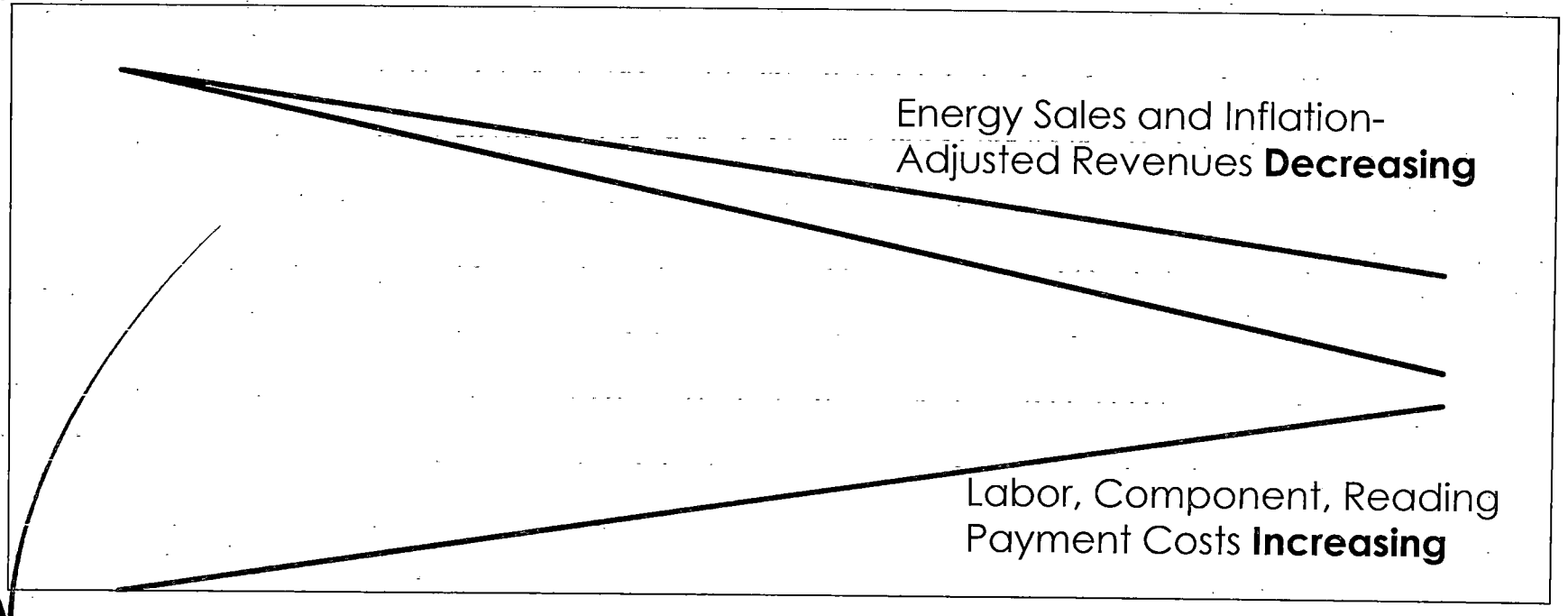
Difference

Calendar Year	Actual Payment	Payment at 2.5%	Δ
1998	$ 1,560,414.00	$ 1,560,414.00	$ -
1999	$ 1,595,680.00	$ 1,599,424.00	$ (3,744.00)
2000	$ 1,635,572.00	$ 1,639,410.00	$ (3,838.00)
2001	$ 1,706,229.00	$ 1,680,395.00	$ 25,834.00
2002	$ 1,779,597.00	$ 1,722,405.00	$ 57,192.00
2003	$ 1,826,062.00	$ 1,765,465.00	$ 60,597.00
2004	$ 1,894,829.00	$ 1,809,602.00	$ 85,227.00
2005	$ 1,946,870.00	$ 1,854,842.00	$ 92,028.00
2006	$ 2,010,991.00	$ 1,901,213.00	$ 109,778.00
2007	$ 2,073,332.00	$ 1,948,743.00	$ 124,589.00
2008	$ 2,112,725.00	$ 1,997,462.00	$ 115,263.00
2009	$ 2,186,670.00	$ 2,047,398.00	$ 139,272.00
2010	$ 2,171,880.00	$ 2,098,583.00	$ 73,297.00
2011	$ 2,205,957.00	$ 2,151,048.00	$ 54,909.00
2012	$ 2,265,427.00	$ 2,204,824.00	$ 60,603.00
2013	$ 2,301,221.00	$ 2,259,945.00	$ 41,276.00
2014	$ 2,332,863.00	$ 2,316,443.00	$ 16,420.00
2015	$ 2,370,445.00	$ 2,374,354.00	$ (3,909.00)
2016	$ 2,384,668.00	$ 2,433,713.00	$ (49,045.00)
2017	$ 2,419,770.00	$ 2,494,556.00	$ (74,786.00)
2018	$ 2,480,506.00	$ 2,556,920.00	$ (76,414.00)
	$ 43,261,708.00	$ 42,417,159.00	$ 844,549.00

RMLD Operations Summary

- Revenues are declining due to reduced energy usage, energy efficiency measures, adjustable frequency drives, batteries, etc. Expenses are increasing such as labor, electric system equipment, etc.
- RMLD operating revenue is quickly converging with PILOT payments.
- Plant value is increasing at a fairly steady pace from 2014 to 2024 and then should level off, to bring the system into balance for loading, capacity, safety code construction, and to achieve a proactive cyclic maintenance plan; approximately $8 million per year is earmarked long term for capital outlay.
- Voluntary below the line PILOT payments are increasing and represent more than 39% of operating income. Combined with the above the line, the total payments made represent 60.6% of operating income.
- The convergence of the below the line payment with the current track for reduction in revenue is an issue in which the RMLD must take action to study and strategize going forward.

RMLD Financial Trend – Revenue/Sales Decreasing, Costs Increasing



—Energy Sales —Inflation-Adjusted Revenue —Costs

		FY 2018	
FORECASTED kWh SALES		668,775,921	
OPERATING REVENUE:			
SALES OF ELEC - BASE	$	26,337,621	
SALES OF ELEC - BASE CAPACITY		24,476,160	
SALES OF ELEC - BASE TRANSMISSION		13,612,815	
SALES OF ELEC - FUEL			32,491,810
NYPA		(1,200,000)	
FORFEITED DISCOUNTS			800,000
ENERGY CONSERVATION			675,000
TOTAL OPERATING REVENUE	$	97,193,406	
OPERATING EXPENSES:			
PURCHASED POWER - BASE CAPACITY	$	24,476,160	
PURCHASED POWER - BASE TRANSMISSION		13,612,815	
PURCHASED POWER - FUEL		31,291,810	
OPERATING & MAINTENANCE EXPENSE			5,941,700
GENERAL & ADMINISTRATIVE EXPENSE			10,361,361
DEPRECIATION EXPENSE			4,306,000
TOWN PAYMENTS			1,552,300
TOTAL OPERATING EXPENSES	$	91,542,146	
TOTAL OPERATING INCOME	$	5,651,260	
ADD: OTHER NON-OPERATING REVENUE (EXPENSES)	$	487,500	
TOTAL CASH AVAILABLE FROM OPERATIONS	$	6,138,760	
LESS: ROI TOWN OF READING PAYMENT			(2,419,770)
LESS: .5% NET PLANT - 4 TOWNS			(392,447)
LESS: PENSION CONTRIBUTION TRANSFER			(500,000)
LESS: OPEB CONTRIBUTION TRANSFER			(500,000)
LESS: CAPITAL FUNDS TRANSFER			(3,900,000)
TOTAL CASH BENEFIT/(DEFICIT)	$	(1,573,457)	
CASH - OPERATING FUND	$	13,945,858	
CASH-DEPRECIATION FUND	$	2,448,661	
CASH-CONSTRUCTION FUND		3,900,000	
TOTAL CAPITAL FUNDS	$	6,348,661	
Adjusted Net Income for ROR	$	6,138,760	
NET PLANT at END of FY	$	79,119,000	
Allowable 8%	$	6,329,520	
RATE OF RETURN			7.76%

This table is from the preliminary FY19 unapproved budget, illustrating the RMLD utilizing more than its operating income by over $1.57M to cover the below the line payment to Reading, pension & OPEB unfunded liability gap(in addition to above the line liability OPEB and pension payment obligations)and the scheduled transfer to the construction/capital fund.

RMLD proposal

NOTA BENE: THIS PROPOSAL WAS PART OF A TOWN OF READING PAYMENT- SUBCOMMITTEE MEETING DISCUSSION AND WAS NOT VOTED ON BY THE SUBCOMMITTEE. PROPOSALS WOULD NEED TO BE VOTED BY THE SUBCOMMITTEE, BE RECOMMENDED BY THE SUBCOMMITTEE TO THE SELECTMEN AND RECOMMENDED BY THE SUBCOMMITTEE AND THE CAB TO THE BOARD OF COMMISSIONERS.

- ADVANCE THE TOWN OF READING, UP TO ONE YEAR OF A BELOW THE LINE PILOT PAYMENT AT LOW INTEREST FOR 5 YEARS. Subject to discussion, analysis, written contract of terms and payment schedule.
- THREE YEARS: FLAT PAYMENT OF 2.5% INCREASE PER YEAR, OR CPI, WHICHEVER IS GREATER, A CEILING OF 5%, commencing in FY18
- THREE YEARS: ADDITIONAL .5% BELOW THE LINE PAYMENT TO ALL 4 TOWNS BASED ON ABOVE THE LINE 2.0% NET PLANT, commencing in FY18
- FORMAL STUDY WILL BE PERFORMED IN CY2019 ADDRESSING THE VOLUNTARY PILOT PAYMENTS TO THE TOWN OF READING AS AN INTEGRAL PART OF AN COMPREHENSIVE STUDY THAT EVALUATES THE LONG TERM REVENUE/ FINANCIAL PLAN AND PROJECTIONS OF THE RMLD

Projected Impact

	FY 2018	FY 2019	FY 2020
Reading Above the Line Payment	$311,797	$328,254	$344,045
Reading Below the Line Payment at 2.5%	$2,444,285 Increase of $24,515	$2,505,392 Increase Compounded	$2,568,027 Increase Compounded
Additional Below the Line 0.5%	$77,949	$82,064	$86,011
Sub-Total Reading	**$2,834,031**	**$2,915,710**	**$2,998,083**
Other Towns Above the Line Payment	$1,257,992	$1,272,986	$1,334,225
Additional 0.5%	$314,498	$318,246	$333,558
Sub-Total Other Towns	**$1,572,490**	**$1,591,232**	**$1,667,783**
Total All Payments	**$4,406,521**	**$4,506,942**	**$4,665,866**
% of Operating Revenue	4.53%	4.59%	4.83%

NOTA BENE: THIS PROPOSAL WAS PART OF A TOWN OF READING PAYMENT SUBCOMMITTEE MEETING DISCUSSION AND WAS NOT VOTED ON BY THE SUBCOMMITTEE. PROPOSALS WOULD NEED TO BE VOTED BY THE SUBCOMMITTEE, BE RECOMMENDED BY THE SUBCOMMITTEE TO THE SELECTMEN AND RECOMMENDED BY THE SUBCOMMITTEE AND THE CAB TO THE BOARD OF COMMISSIONERS.