



Advisory Board Meeting

Thursday, April 20, 2017
11:30 AM

BOSTON WATER AND SEWER COMMISSION
980 HARRISON AVENUE
BOSTON, MA 02119

Attendees (Voting Members)

Michael Rademacher	Arlington	Elena Proakis Ellis	Melrose
David Manugian	Bedford	Lou Taverna	Newton
Patrick Brown	BWSC	Bernie Cooper	Norwood
John Sanchez	Burlington	Jeff Zager	Reading
Tim MacDonald	Cambridge	Rob King	Somerville
Bob Higgins	Hingham	John DeAmicis	Stoneham
Ralph Pecora	Lexington	Carol Antonelli	Wakefield
James Finegan	Lynnfield Water District	Joe Lobao	Wilmington
Amy McHugh	Marblehead	J.R. Greene	Quabbin-Ware River Watersheds
Cassandra Koutalidis	Medford		

Other Attendees

Ernie Lariviere	Everett	Louise Miller	MWRA
John Carroll	MWRA Board of Directors	Sean Navin	MWRA
Joe Foti	MWRA Board of Directors	Kathy Soni	MWRA
Andrew Pappastergion	MWRA Board of Directors	Lexi Dewey	WSCAC
Elaine Donahue	MWRA	Andreae Downs	WAC
Kristen Hall	MWRA	Joe Favaloro	Advisory Board Staff
Tom Durkin	MWRA	Matt Romero	Advisory Board Staff
Matt Horan	MWRA	James Guiod	Advisory Board Staff
Mike Hornbrook	MWRA	Lenna Ostrodka	Advisory Board Staff
Carl Leone	MWRA	Cornelia Potter	Advisory Board Staff

39 people were in attendance, including 19 voting members.

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Draft Minutes

The Chairman called the meeting to order at 11:42 am.

A. APPROVAL OF ADVISORY BOARD MEETING MINUTES FOR MARCH 16, 2017

A motion to approve the minutes for the meeting of the Advisory Board for March 16, 2017, was made and seconded. The motion was approved and the motion carried.

B. REPORT OF THE EXECUTIVE DIRECTOR

Mr. Favaloro opened the report with a reminder that the next meeting of the Advisory Board includes the election of a member of the Board of Directors; John Carroll is up for re-election and has expressed interest in running for the position. The position is open for those who may be interested up until the next meeting of the Executive Committee on May 12. He reminded the membership that the vote is the one item on an agenda that calls for a one community, one vote (as compared to the weighted vote for all other formal actions of the Advisory Board) for a candidate and therefore a quorum of 33 member communities is required.

C. PRESENTATION OF THE ADVISORY BOARD COMMENTS AND RECOMMENDATIONS ON THE MWRA'S PROPOSED CAPITAL IMPROVEMENT PROGRAM AND CURRENT EXPENSE BUDGET FOR FY 2018

Mr. Romero opened the presentation, noting that the remarks at the meeting set the stage for the more complete set of *Comments and Recommendations* to the Advisory Board in May for approval. The proposed FY18 operating budget calls for a wholesale rate revenue increase of 3.79%. The Advisory Board staff is proposing that the evolving budget should move under a 3.5% level. At the same time, there are some pretty big moving pieces to this upcoming year's budget, including significant increases and reductions. There are certain categories that the review always addresses, such as the fringe benefits numbers, the vacancy rate, and staffing assumptions as they relate to the amount of personnel-related spending assumed.

Mr. Romero noted that the Authority's proposed rate revenue requirement, at just under 3.8%, comes in below the previously recommended guideline from the Advisory Board's previous recommendations of "Four No More." At the same time, the Advisory Board's proposed direction for the recommendations on this year's budget, at about 3.5%, keeps us in line with the more recent thinking of "Four No More... No More," meaning under 4% is a great place to start, but not where we'll end. This sets the stage for planning where we reasonably take the reductions beyond that point, while keeping an eye on the multi-year challenges ahead.

Turning to this year's challenges of "managing risks," this begins with financial risks, starting with variable rate debt. Mr. Romero noted the historical perspective showing actual variable rate debt, together with the SIFMA 20-year average (the index used to track variable rate debt) and the budgeted assumptions for variable rate interest rates. While variable rates have been below the budgeted amounts, the actual rates have more recently begun to trend upward. These trends are now reflected in the proposed FY18 budget with the increase by 25 basis points in the variable rate debt expense assumptions. (Every 0.25% increase in the variable rate is equivalent to \$1.25 million.) Thus, the proposed budget for FY18 increases previous variable rate assumptions from 3.25% to 3.5%. The strategy of conservative budgeting for this category of debt service expense has contributed to use of defeasance of existing debt service payments, which the Advisory Board has been supportive of. He highlighted some of the year-to-year impacts on reduced debt service that have resulted from the annual defeasance transactions. For the proposed budget, it is assumed that there will be a defeasance transaction of \$20 million. The amount is a placeholder, and it is anticipated that the amount will be higher.

As variable interest rates rise, there can be expected to be a benefit for investment income. A \$2.6 million increase to investment income has been factored in to the proposed budget.

Mr. Romero also noted that the \$10.9 million that is budgeted for an optional pre-payment of debt could alternatively be redirected if needed for another purpose. In addition, there remain \$62 million in reserve funds that are currently projected for use in future years. So, while variable rates may continue to rise, the risk associated with the interest rate assumption is far less than some of the other risks the Authority is addressing as part of the budget process.

Regarding the subjects of pension and OPEB, the two have been treated as two sides of the same coin: one, total unfunded liability. The approach has been to make sure to get the pension to full funding (or virtual full funding), and then after that, pay 50% of the actuarial calculated contribution (or ACC, as distinct from the pension fund calculation which is an annual required contribution, or ARC). OPEB is not required to be funded. Those funds can be used for something else, if need be. On the pension side, there have not been the returns that had been hoped for in the last couple of years, so the proposed FY18 budget includes an additional \$1.8 million in an optional payment to the pension fund. So full funding is still maintained. The negative returns on the pension fund have not taken it beyond (or below) that virtual full funding “band.” So the question becomes, why not fund the \$1.8 million for the pension fund from the increase to the OPEB account? Thus, take the existing pie and shift the balance. The risk factor of meeting their obligations is met without going beyond those requirements. And, this is not as great a risk factor as some of the other topics the Authority is addressing.

With regard to funding for the costs of meeting the anticipated updated NPDES permit for Deer Island to treat wastewater for enterococcus, staff has prepared a video which will be released today. The video will address the science behind the anticipated treatment requirement and poses a recommendation for the Authority’s consideration. The proposed FY18 budget includes funding for six months of treatment, or \$600,000. A full year of year of treatment is estimated at up to \$1.3 million if this is required, and it would become an annual cost should the permit include enterococcus treatment.

The biggest risk factor facing the Authority has become the cross-harbor cable that brings electric power to the Deer Island treatment plant. The costs that the Authority may be facing from the actual protection of the cable could be \$40 million or so. The cost estimates to the Authority continue to go up and up and up. Several scenarios have been developed. The proposed budget includes \$4.4 million for FY18 related costs. Two additional scenarios pose additional funding of \$5.5 million or, alternatively, \$27.6 million more than the original estimate of \$4.4 million in the proposed budget. These kinds of increases would dramatically increase anticipated sewer rates for the immediate year ahead (as much as an 11.3% increase for wholesale sewer related costs in FY18 and additional increases in FY19). So, addressing this topic is key to reaching a recommendation for the FY18 rate revenue requirement.

Mr. Favaloro emphasized that the Advisory Board has a responsibility to explain what the impacts might be. Realistically, the worst case scenario for rate increases is not going to happen. But this is the information that is available as of now. By May, hopefully, the scenarios described today will be totally off the table and that there will be another set of solutions. Essentially, today’s presentation can be called “due diligence.” Mr. Taverna noted that the communities are setting their water and sewer rates now for the year ahead, and the increases currently described would be unacceptable to his community. He cautioned that we need to be very careful with this issue. Mr. Favaloro reemphasized that the Authority is doing so, and the Advisory Board is involved and is part of this discussion. Mr. Romero noted that there are a lot of moving pieces, with many discussions both internally and externally to see if there are other ways of approaching the situation and mitigating those costs.

Regarding NPDES primacy, there will be a recommendation regarding funding. In previous discussions, the Advisory Board has cautioned relying on funding through the state budget alone. Some form of fee, in addition to funds from the state, should be considered to provide some stakeholder funding. Given that flow is a large factor, the Authority will be a large contributor to funding the program. The program will include not only wastewater, but stormwater as well. In addition, septic systems should also be factored in. Also, Massachusetts DEP and EPA should be taking some part in this, whether is includes in-kind services or financial remuneration. Cities and towns and industrial POTWs should be included as well. Also under consideration is three-year averaging as it relates to flow components. Also for inclusion should a benefit for “good behavior” for those entities that are meeting the requirement of their NPDES permits; in addition, there should some penalty for entities that are not.

There are reports that some kind of infrastructure bill may be proposed in Washington, D.C. A list of shovel-ready projects should be developed to maximize the amount of funding available to the MWRA when the bill is proposed. To be considered is a program proposal, such as the metropolitan redundancy program, which would group a number of projects together. The program at hundreds of millions, even billions of dollars, would gain some attention at the federal level and could potentially gain additional support for funding in any infrastructure bill that comes forward. [Mr. Favaloro will speak separately about watershed protection and potential language for a recommendation on that subject.]

Regarding a timeline for the *Advisory Board's Comments*, today's presentation serves as a preview for member comments at this time. In May there will be the final *Comments and Recommendations* for a vote; the next step will be transmittal to the Authority which will put together responses. In June, the MWRA Board of Directors meets twice. At the first meeting in June, the Advisory Board makes a presentation to the Board; at the second meeting in June is when the Board of Directors votes and sets the final FY18 CEB and CIP and the final assessments for communities. In response to a question from the Chairman regarding "pay-go" spending, Mr. Romero stated that for FY18, the amount has increased by \$1 million over the FY17 budgeted amount, as compared to the previous year's proposed measurable increase in the amount; this is more of an incremental increase for FY18.

D. ADDITION OF PHASE III OF THE LWSAP AT \$292 MILLION

Mr. Sanchez, Chairman of the Operations Committee, reported that the Committee had met on March 28 to discuss Phase III of the Local Water System Assistance Program as well as the metering upgrade program. There was good attendance and a couple of recommendations that are up for a vote. Mr. Leone, Senior Program Manager of the MWRA Community Support Program, reported that the Committee talked in somewhat more detail on the water loan program. He referred to the community support program and introduced staff members from the Authority who support program implementation. He also noted the availability of additional information [online for the wastewater program](#).

The goal of the water loan program is most notably reducing and eliminating unlined cast iron pipe and replacing it with cement lined, ductile lined pipe. The program also includes tank projects. The Phase I program was completed in FY13 with \$222 million distributed for 287 projects with ten-year loans. The program is now in the middle of Phase II, covering a broader definition of funded projects – local water system, rather than pipeline projects -- due to additional eligibility added to the second phase. The total is now \$210 million, of which \$114 million has been distributed, with \$96 million remaining, with available funding currently through FY 2020. Under the Phase III program, some additional years are proposed to be added to allow more time for communities to utilize that money. There are ten-year interest-free loans. He described a pie chart with over 6,600 miles of community-owned water pipe. Over 1,800 miles of unlined pipe remains to be addressed, supporting the need for ongoing aid through the MWRA.

For the proposed Phase III, the proposed CIP for FY18 includes \$210 million in order to generate discussion. These would be ten-year interest-free loans. The distribution amounts are budgeted for FY18 through FY30. The funding is now proposed to be escalated using the ENR index, bringing the total to \$292 million, with \$278 million allocated among the metropolitan water communities and \$14 million among the CVA communities using the allocation methodology similar to Phase II.

So, the recommendation called for three items: (1) fund Phase III of the assistance program at \$292 million (\$278 million for the metropolitan area communities and \$14 million for the CVA communities); (2) continue as a ten-year interest-free loan program (with no grants); (3) extend the current Phase II to FY 2023. Mr. Favaloro clarified the \$292 million level of funding for Phase III as not an increase in funding but the application of an inflation index to provide continued funding at the effective level as previous funding levels. The Committee meeting had been well-attended and there had been unanimous support for these recommendations. The motion carried.

E. ADVISORY BOARD OPERATING BUDGET FOR FY18

Mr. Favaloro highlighted key elements of the proposed operating Advisory Board budget for FY18. The budget increases by 1.8% (approximately \$9,000). There are to be some additional lease costs for future leases for some of the iPads because they get outdated so quickly; a lease arrangement will allow for changing out the iPads (rather than purchasing new ones). Beyond that, the budget represents a relatively small increase. For the year to date, spending is running nearly \$30,000 below budget due to filling a position later in the fiscal year than had been assumed in the FY17 budget and to a different approach to hiring the payroll and accounts payable staff which was significantly less expensive than had been assumed in the budget. The surplus will be used to fund new staff computers (to be funded through the capital budget) and the transfer of some of the funds into the legal fund in anticipation of the need for legal services in connection with the potential for EPA's issuance of an updated NPDES permit. The need to have these funds available has been made all the more important by the issue of the cross-harbor cable and the Authority's responsibility for paying for the cable-related dredging, which was linked to the MWRA's inclusion as a co-permittee on the original permit for installing the cable years ago. Use of funds in the Advisory Board's legal fund will be at the discretion of the Executive Committee.

A vote on the Advisory Board's budget for FY 2018 will be at the May meeting.

F. UPDATE ON WATERSHED PROTECTION

The Division of Watershed Protection's periodic report on protection of the watersheds has cited the lack of protection on trespassing in the watershed and has cited DCR in the last two recent reports. In recent weeks, there have been discussions with the Advisory Board's Chairman, Mr. Favaloro, the Advisory Board's three members on the MWRA Board of Directors, Secretary of Energy and Environmental Affairs Beaton, and some of his staff on what should be done next. There is agreement on continuing to talk. Ideas for Advisory Board recommendations on the topic could be in reference to a recently-issued report from the environmental community referring to the need for better efforts on the part of the state to improve water quality and water protection. In such circumstances, when there is a need to protect our water supply, to engage in a discussion about creating more recreational opportunities in the watershed does not seem to be the best approach. Under consideration is a recommendation to conduct an independent study (with funding from the MWRA, the Commonwealth, and perhaps the Advisory Board) to analyze the issues and impacts. In the meantime, the Advisory Board has pushed for suspension of purchases of watershed lands in the Ware River Watershed and put a hold on a capital program for the watershed. The specifics of the recommendation will be included in the Advisory Board's recommendations in May.

G. WASTEWATER METERING PROGRAM

Mr. Sanchez spoke about a presentation on the wastewater metering program at the recent meeting of the committee on March 28th. During the time when the meters are being installed, the meter will not be put into use until all the meters are installed, expected to be a period of one year. During the period, an average of past wastewater flows will be used. Also, for all the areas that are not currently sewered, there will be some temporary metering to assess the sewer flows. There will be updates on this at the next few meetings. A contract award is expected for this coming summer. Mr. Favaloro suggested that the Operations Committee reconvene at that time to include the contractor.

H. VIDEO ON ENTEROCOCCUS TREATMENT

The new video on costs and related issues relating to the potential requirement for treatment of enterococcus at Deer Island was shown.

I. ADJOURNMENT

A MOTION WAS MADE TO ADJOURN THE MEETING AT 12:59 pm. It was seconded and passed by unanimous vote.

Respectfully submitted,

Michael W. Rademacher, Secretary